

Working to add value to our customer



Annual Report 2005-06

GATI!
LIMITED

| GATI AT A GLANCE



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Gati Limited is a leader in the Express Cargo movement and a pioneer in Express Distribution and Supply Chain Solutions in India since 1989. Today our turnover is Rs.4577 million, thanks to the strong team of 6400 dedicated professionals. We presently have the largest fleet with over 2000 vehicles on road, with an extensive network and reach of 594 out of 602 districts in India. Supporting this is a well-structured multi-modal service system and a 10 lakh sq. ft. mechanized warehousing facility.

We also have a strategic tie-up with Indian Airlines, which provides us an unmatched advantage to reach out better. Our international wing, Gati International, takes care of the Asia Pacific region countries and the SAARC with a highly specialised India-centric perspective.

Our services are customized for corporates, SME markets, cluster markets, wholesale markets and individuals. We offer customer-centric solutions. Gati stands committed towards integrity and goodwill to both its customers and industry by providing services that are path breaking, essential to the customers business, cost-effective and flexible.



| OUR VISION



- 
- A vertical photograph on the left side of the page shows a landscape with a road, fields, and a cloudy sky.
- Be the leader in Asia Pacific and a globally preferred provider of India-centric Supply Chain services and Solutions
 - Delight the customer with quality service by setting new trends through innovation and technology
 - Be the most preferred organization for all it's stakeholders
 - Be a responsible corporate citizen with unwavering commitment to environmental protection and conservation

OUR BUSINESS



**Express Distribution &
Supply Chain Solutions**



Gati is the only Cargo Management organisation in India to make an effective use of multi-modal connectivity. Our services include:

Express (Surface)

Today, Gati has become the face of Retail Express Cargo. Providing quality service and value for money. Over the years Gati has gained expertise in handling various industry verticals-healthcare/clothing/white goods/electronics/engineering/IT/Telcom/high-value cargo, etc. Gati has more than 2,000 vehicles at its disposal which cover 3,20,000 kms. per day.

Priority (Air)

Gati Priority is the result of an exclusive tie-up with Indian Airlines, the largest airline network in India.

Warehousing

Experience world-class warehousing with state-of-the-art warehouses with APL racking and handling equipment. Gati presently has over 10 lakh sq.ft. of mechanronic warehouse space in metros and state capitals. Mechanronic Warehousing and Inventory Control comes with web-enabled warehouse management system.

Supply Chain Management

Gati's focus today is on providing effective SCM solutions for all businesses. Gati provides customised solutions by integrating all the four stages of business - Procurement, Production, Distribution, After Sales Service & Reverse Logistics.

International

Gati has now extended its horizons in the Asia-Pacific & SAARC countries. Gati has opened offices in Singapore, Hong Kong, China, Sri Lanka, Nepal and Mynamar to strategically focus on India-centric business.

Coast to Coast

Coast to Coast offers the most economical mode of transportation and the best multi-modal customised solutions, Coast to Coast now has 4 cellular container vessels providing services from Chennai to Andamans, Yangon and Colombo.

Zipp

Go beyond the normal courier service with Zipp. You can have your choice of price and transit time options.

Gati Saver

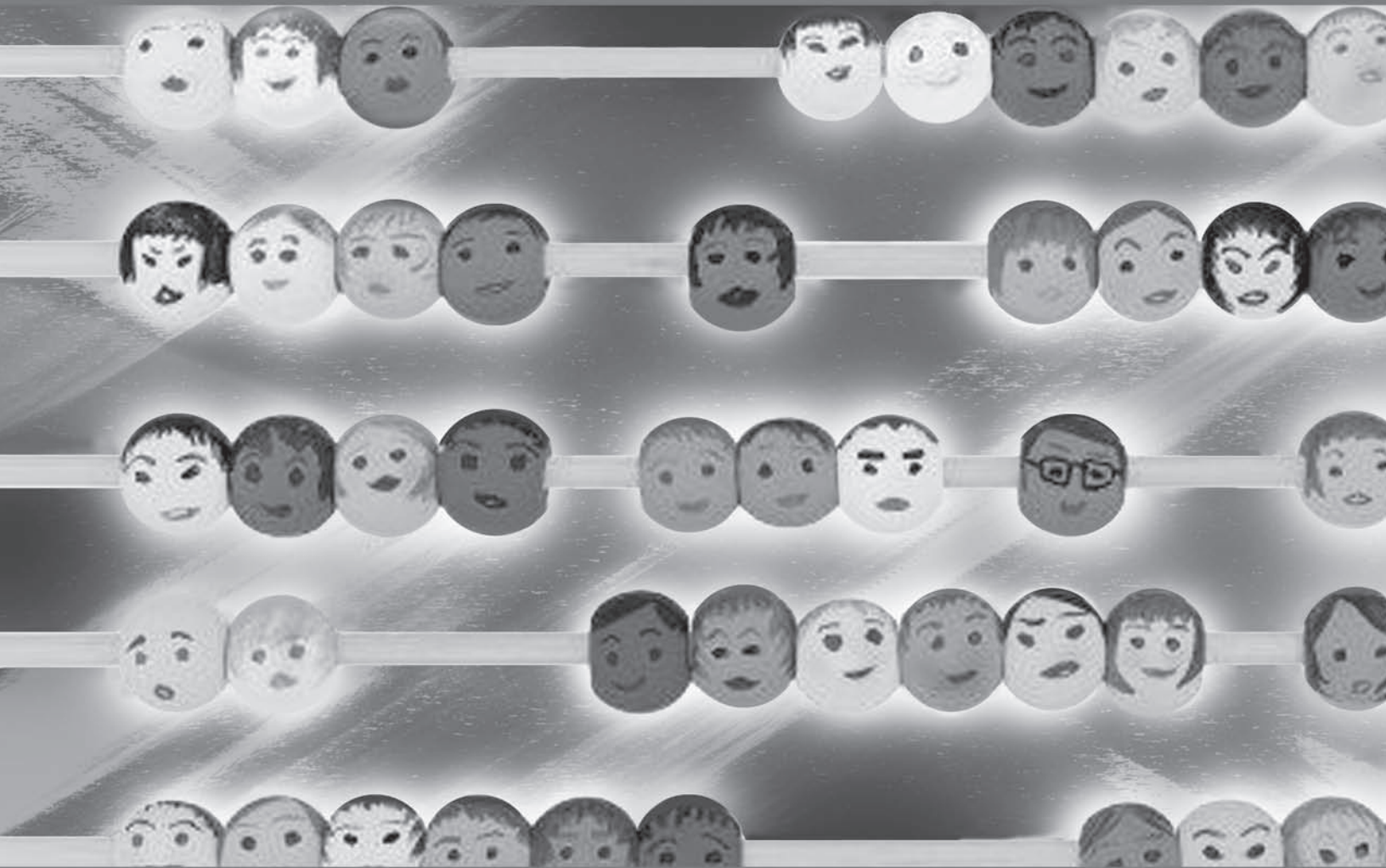
An affordable surface product especially designed for your non-commercial packages. Flat rate of Rs. 90 per package (up to 4 kgs) and ideal for samples, gifts, study materials & printed material


Value Added Services

Gati's bouquet of value added services are designed to take care of your business needs which includes Freight-on-delivery, Cash-on-delivery, Draft/Cheque-on-delivery, Inbound Rate Agreement, Documentation Assistance, Holiday & Sunday Pick-up/Delivery, Octroi Clearing Facility, Tamper-proof Packing, Fragile Goods Packaging besides others



OUR PEOPLE





In order to realize the HR Vision of making Gati, a learning Organization by providing opportunities to continually learn new capabilities a number of initiatives have been taken. All Gati'ites are put through various training programmes for improved effectiveness. The top management is specially put through the mechanism of 360 degrees feedback to facilitate continuous improvement in areas such as selection, career planning, goal setting, reward scheme and culture. HR Meets are also conducted every three months to take decisions on the strategy to implement different initiatives.

The total strength of manpower now stands at 2442 regular employees and 526 trainees, i.e. 2968 across all levels. A major thrust has been given on recruitment from tier 3 cities, thus giving tremendous opportunities to young and talented professionals in every part of the country.

To maintain work-life balance, Gati'ites are being encouraged to spend quality time with their family. An Annual picnic is organized between January to March all over India where Gati'ites along with their families are invited.



| OUR PARTNERS





In this day and age of operational excellence, the customer's experience assumes greater significance. It is not only important to deliver on time and intact but also focus on the way we deliver.

Hence our vision of excellent customer service is not confined only to Gati'ites, but also percolate down to approximately 3000 business partners Vendors, Drivers, GAs and Handlers. To this extent Gati has embarked upon a strong 'policy of inclusion' of business partners.

Last year for the first time Gati did the performance evaluation of all GAs & vendors and recognised their efforts. We have also custom designed insurance policy (Sankat Mochan Policy) for all our biz partners. We have started constructing drivers' and vendors rooms at each of the transit centers so that they are able to get well deserved rest before they again start their work resulting into enhanced delivery quality.



OUR CORPORATE SOCIAL RESPONSIBILITY



At Gati, social initiatives represent an integral component of Corporate Social Responsibility. Gati has contributed to several social welfare causes such as community development programmes, and donated generously to many a worthy cause.

Gati spreads literacy

Gati has donated 20 personal computers (PCs) to the ICFAI Republic school (IRS). The PCs will facilitate computer education for about 100 students of the school. IRS has so far admitted over 800 children from low-income families who receive free textbooks, notebooks, uniforms and mid-day meal in addition to free tuition. Providing them with computer education will make a great difference to the lives of these students.

For over 3 years, Gati has been supporting a Government school in Hyderabad and continues to manage the housekeeping and security of the school. Today the school has a strength of over 900 children from the neighbouring area. To motivate students to excel in academics and extracurricular activities, all major events such as Republic Day, Independence Day, Children's Day are celebrated, and prizes such as Best Student or Best Dressed are distributed to the children.

At the village adopted by Gati in Nagapattinam, Tamil Nadu, construction at the school for the children who survived Tsunami in December 2004 has been completed. Almost a year after the devastating tidal wave, a drawing competition was conducted where the students of the school were asked to draw their impressions of the dreadful Tsunami and its after math. Prizes were given out and more importantly some of these drawings were used in Gati's 2006 calendar.



| AWARDS AND ACHIEVEMENTS



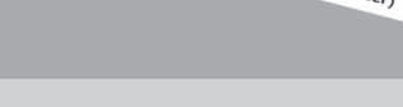
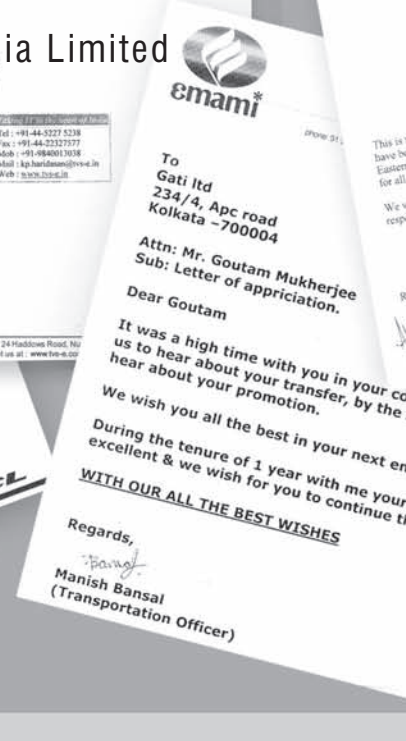
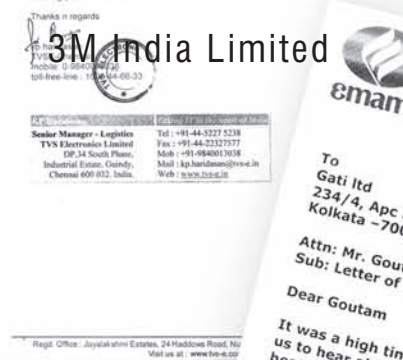
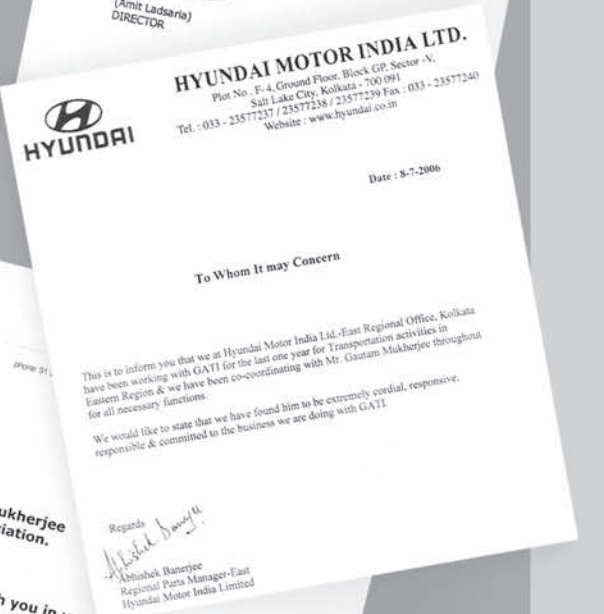
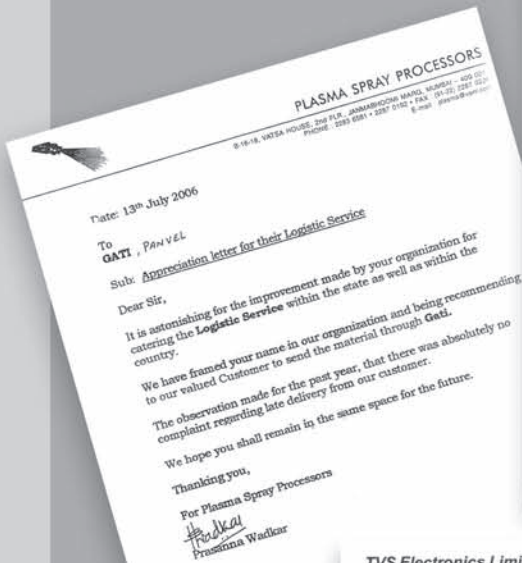
- “Consumer Superbrand” Award in 2006 on “Logistics Category” given by Superbrands
- Award for “Best HR Practices” in the Service Industry given by Amity International in 2005
- CIO of the year Award for less than 1000 crore company in 2005

GATI SELECTED CONSUMER SUPERBRAND 2006-07 UNDER LOGISTICS CATEGORY

Gati is pleased to announce that it recently attained the Consumer Superbrand status in the logistics category for 2006-2007. Voted by consumers and an independent Council made up of eminent figures from the world of business, design, marketing and PR, Gati was one of few companies recognised from a list of 1699 brands. To reach Superbrand status, a product has to consistently deliver on a range of qualities, and this survey truly reflects Gati's outstanding brand performance in providing innovative and cost effective logistics and supply chain solutions to our customer's.



OUR CUSTOMERS



A FEW OF OUR CUSTOMERS

3M India Ltd.

Adidas India Marketing Pvt. Ltd.

CIPLA Ltd.

Cummins Diesel

D-Link (India) Ltd.

Dr. Reddy Laboratories Ltd.

Eicher Motors Ltd.

FORD India Pvt. Ltd.

Havell's India Ltd

HCL Infosystems Ltd.

Hero Honda Motors Ltd.

Hewlett - Packard India Sales Pvt. Ltd.

Hitachi Home & Life Solutions (India) Ltd.

Honda Motorcycle & Scooter India Ltd.

LG Electronics India Pvt. Ltd.

MICO Ltd.

MIRC Electronics Limited.

NCR Corporation India Pvt. Ltd.

Nicholas Piramal India Ltd.

Nokia India Private Limited.

Paharpur 3P

Reebok India Company

Samsung India Electronics Ltd.

Schneider Electric India Pvt. Ltd.

Siemens Ltd.

Sony India Pvt. Ltd.

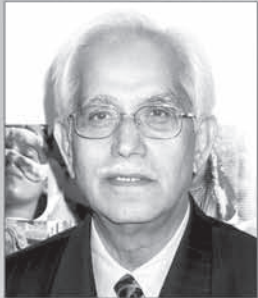
Tata Motors Ltd

Titan Industries Ltd.

Wipro Limited.

Zenith Computers Ltd.

BOARD OF DIRECTORS



K L Chugh
Chairman



Mahendra Agarwal
Managing Director



Dr Ram S Tarneja
Director



Dr P Sudhakar Reddy
Director



N Srinivasan
Director



T S Rao
Director



Sunil Kumar Alagh
Director



Krishan Sehgal
Director

MANAGEMENT TEAM

Mahendra Agarwal

Chief Executive Officer

Arthur Simon Bertie

Chief Business Chain Officer

T Kumaran

Chief, Coast-to-Coast

G S Ravikumar

Chief Information & Technology Officer

Brad Jeffreys

Vice President, International Business

Suresh Prasad Newatia

Chief-Strategic Products

M Maheen Kannu

Head, Retail Business

Yogesh V Khamar

Head, Facilities Management

Supratim Ganguly

Head, Retention Business Development

Nirmal Kumar Pandey

Chief Law Officer

Rajeev Chopra

Country Manager, International Business

Manoj Agarwal

Head, Marketing Services & Brand Communication

Chief Finance Officer & Company Secretary

A.S. Sandhu

Auditors

M/s R.S. Agarwala & Co.,
Chartered Accountants

Legal Advisors

M/s Kanga & Co., Mumbai

Bankers

State Bank of India, ICICI Bank, UTI Bank



FINANCIAL HIGHLIGHTS

Particulars		2005 - 06	2004 - 05	2003 - 04
Sales	Rs / lakhs	45612	35919	30615
Total Income	Rs / lakhs	45772	36127	30919
Gross Profit Before Interest, Depreciation & Tax	Rs / lakhs	4033	2761	2187
Interest (Net)	Rs / lakhs	422	473	568
Depreciation	Rs / lakhs	865	730	781
Profit Before Tax & Extraordinary item	Rs / lakhs	2746	1559	838
Income Tax	Rs / lakhs	739	522	283
Profit After Tax & before Extraordinary item	Rs / lakhs	2007	1037	555
Extraordinary Item (reversal of deferred tax due to Tonnage Tax Option)	Rs / lakhs	-	412	-
Profit After Extraordinary item	Rs / lakhs	2007	1449	555
Equity Dividend	%	35	30	27
Dividend Payout	Rs / lakhs	496	251	226
Equity Share Capital	Rs / lakhs	1417	836	836
Reserves & Surplus (Excl.Revaluation Reserves)	Rs / lakhs	13825	4225	3047
Net Worth	Rs / lakhs	15242	5061	3883
Gross Block	Rs / lakhs	13859	9433	8317
Net Block	Rs / lakhs	14296	7767	6726
Loans	Rs / lakhs	7160	6389	5603

KEY INDICATORS

Particulars		2005 - 06	2004 - 05	2003 - 04
Equity Share Capital	Rs / lakhs	1417	836	836
Earning Per Share	Rs.	3.28	2.64	1.33
Cash Earning Per Share	Rs.	4.70	3.97	3.20
Sales Per Share	Rs.	74.61	85.97	73.27
Book Value Per Share	Rs.	24.93	12.11	9.21
Debt : Equity Ratio		0.47	1.26	1.44
PBDIT / Sales	%	8.84	7.69	7.14
Net Profit Margin	%	4.38	4.01	1.80
Return on Networth	%	19.22	28.64	14.30
Return on Capital Employed	%	14.38	15.65	10.98

Note:

- 1) EPS for 2004-05 restated in view of Right Issue (as per accounting standard)
- 2) Cash EPS for 2004-05 restated in view of Right Issue (as per accounting standard)
- 3) Figures restated due to sub division of equity share into 5 equity shares of Rs. 2/- each

NOTICE TO SHAREHOLDERS

NOTICE

Notice is hereby given that the Eleventh Annual General Meeting of the shareholders of the Company will be held on Wednesday the 11th October, 2006 at 10.30 A.M at Novotel & HICC Complex (Near Hitech City), P.O. Bag 1101, Cyberabad Post Office, Hyderabad-500 081 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at June 30, 2006, the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To declare a Dividend on Equity Shares.
3. To appoint a Director in place of Mr K L Chugh who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Dr P Sudhakar Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Statutory and Branch Auditors to hold office from conclusion of this meeting until the conclusion of next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS:

6. To consider and if thought fit to pass with or without modification(s), the following resolution as an Ordinary Resolution:

“RESOLVED that in accordance with the provisions of sections 198, 269, 309 read with Schedule XIII and all other applicable provisions, if any of the Companies Act, 1956 including any statutory modification or re-enactment thereof and subject to such consent and approvals as may be necessary, the company hereby approves the terms of re-appointment of and remuneration payable to Mr Mahendra Agarwal as Managing Director of the Company for a period of Five years with effect from 1st August, 2006 on terms set out in the explanatory statement with liberty to the Board of Directors (hereinafter referred to as “the Board” which term shall be deemed to include any committee which the Board may constitute to exercise powers, including the powers conferred by this resolution) to alter and vary the terms and conditions of re-appointment and/ or remuneration so as not to exceed overall ceiling as stipulated in sections 198, 309 and 310 of the Companies Act, 1956 as may be agreed to between the Board and Mr Mahendra Agarwal.”

“RESOLVED further that wherein any financial year, the Company has no profits or its profits are inadequate, the Company do pay to Mr Mahendra Agarwal, Managing Director of the Company, remuneration by way of salary, perquisites and allowances not exceeding the ceiling limit specified under Schedule XIII to the Companies Act, 1956.”

“RESOLVED further that the Board be and is hereby authorised to take all such steps as may be necessary, proper or expedient to give effect to this resolution.”

7. To consider and if thought fit to pass with or without modification(s), the following resolution as a Special Resolution:

“RESOLVED THAT in accordance with the provisions contained in the Articles of Association and Sections 81 and all other applicable provisions of the Companies Act, 1956 (herein after referred to as “the Act”) and the provisions contained in the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as “the SEBI Guidelines”) (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall be deemed to include any Committee including Compensation Committee which the Board may constitute to exercise its powers, including the powers conferred by this resolution), consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot at any time to or for the benefit of such person(s) who are in employment of the Company, including Directors of the Company, whether whole time Directors or otherwise whether working in India or out of India, under a Scheme titled “Employee Stock Option Scheme 2006” (hereinafter referred to as the “ESOS” or “Scheme”) up to 1782500 number of equity shares of Rs. 2/- each (i.e, approximate 2.52% of the issued and paid up Equity Share Capital of the Company as on 30th June 2006) of the Company, in one or more tranches and on such terms and conditions as may be fixed or determined by the Board in accordance with the Guidelines or other provisions of the law as may be prevailing at that time.

“RESOLVED FURTHER THAT the new Equity Shares to be issued and allotted by the Company in the manner aforesaid shall rank pari passu in all respects with the then exist Equity Shares of the Company.

“RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue, allotment or listing of Securities, the Board be and is hereby authorised on behalf of the Company to evolve, decide upon and bring in to effect the Scheme and make any modifications,



NOTICE TO SHAREHOLDERS

changes, variations, alterations or revisions in the said Scheme from time to time or to suspend, withdraw or revive the Scheme from time to time as may be specified by any statutory authority and to do all such acts, deeds, matters and things as it may in its absolute discretion deem fit or necessary or desirable for such purpose and with power on behalf of the Company to settle any questions, difficulties, or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the members of the Company.”

8. To consider and if thought fit to pass with or without modification(s), the following resolution as a Special Resolution:

“RESOLVED THAT in accordance with the provisions contained in the Articles of Association and Sections 81 and all other applicable provisions of the Companies Act, 1956 (hereinafter referred to as “the Act”) and the provisions contained in the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as “the SEBI Guidelines”) (including any statutory modification(s) or re-enactment of the Act or the SEBI Guidelines, for the time being in force) and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall be deemed to include any Committee including Compensation Committee which the Board may constitute to exercise its powers, including the powers conferred by this resolution) consent of the Company be and is hereby accorded to the Board to extend the benefits of Employees Stock Option Scheme proposed in the earlier resolution in this Notice to the eligible employees/ directors of the subsidiary companies, and/or to such other persons, as may from time to time be allowed under prevailing laws, rules and regulations, and/or amendments thereto from time to time, on such terms and conditions as may be decided by the Board.

RESOLVED FURTHER THAT for the purpose of giving effect to any creation, offer, issue, allotment or listing of Securities, the Board be and is hereby authorised on behalf of the Company to evolve, decide upon and bring in to effect the Scheme and make any modifications, changes, variations, alterations or revisions in the said Scheme from time to time or to suspend, withdraw or revive the Scheme from time to time as may be specified by any statutory authority and to do all such acts, deeds, matters and things as it may in its absolute discretion deem fit or necessary or desirable for such purpose and with power on behalf of the Company to settle any questions, difficulties, or doubts that may arise in this regard without requiring the Board to secure any further consent or approval of the members of the Company.”

9. To consider and if thought fit to pass with or without modification(s), the following resolution as a Special Resolution:

RESOLVED that pursuant to section 31 and other applicable provisions, if any, of the Companies Act, 1956, and the provisions of other statutes as applicable and subject to such approvals as may be necessary, the Articles of Association of the Company be and is hereby altered in the following manner

1. The existing Article 1 shall be replaced with the following:

“ 1. The regulations contained in Table A of schedule 1 to the Companies Act, 1956 or any statutory modification thereof from time to time, shall apply in so far as and to the extent they are not inconsistent with any of the provisions in these Articles. The rights and privileges granted to The Infrastructure Fund of India (TIFOI) pursuant to these Articles shall continue until the same are terminated by written consent or agreement of TIFOI or otherwise or TIFOI ceases to be member of the Company.”

2. The following clause shall be inserted in Article 2 as:

“Group

e1. “Group” in relation to any person means its subsidiaries, its holding companies, and any subsidiaries of such holding companies and a “member of a Group” shall mean any one of them”

“Investor Director

e2. “Investor Director” means the TIFOI Designated Director and the Promoters Designated Director appointed from time to time to the Board of the Company in accordance with these Articles or their respective alternates appointed in accordance with the Articles and an “Investor Director” means any one of them”

“Liquidity Event

e3. “Liquidity Event” shall mean the occurrence of any of the following:

(a) The lapse of a period of five years from 21st February 2006 or

(b) The shareholding of TIFOI in the Company falling to a level below 5% of the total issued and paid up equity share capital of the Company.”

NOTICE TO SHAREHOLDERS

“Listing Agreement

- e4. “Listing Agreement” means the listing agreement in force from time to time between the Company and any stock exchange in India”

“Clause 49 of the Listing Agreement

- e5. “Clause 49 of the Listing Agreement” shall refer to the provisions of Clause 49 of the Listing Agreement between the Company and the Bombay Stock Exchange Limited, Hyderabad Stock Exchange, National Stock Exchange and Securities Exchange Board of India from time to time (including any amendment and replacement thereto) and any equivalent provision in any other Listing Agreement”

“Permitted Transfers

- f1. “Permitted Transfers” has the meaning given to it under Article 62A.3”

“Promoters

- f2. “Promoters” shall mean Mr. Mahendra Agrawal, Dhruv Agarwal Benefit Trust, Manish Agarwal Benefit Trust, Mahendra Kumar Agarwal(HUF), Mahendra Investment Advisors Private Limited, Bunny Investments & Finance Private Limited, TCI Finance Limited, Jubilee Commercial & Trading Private Limited and such other companies and trusts established either one or more of them in the future.”

“Promoters Designated Director

- f3. “Promoters Designated Director” means the director nominated to the Board by the Promoters (other than the Independent Directors as defined in Clause 49 of the Listing Agreement and the TIFOI Designated Director,) or any alternate of such directors appointed pursuant to the Articles and a “Promoters Designated Director” shall mean any one of them”

“SEBI

- h1. “SEBI” means the Securities and Exchange Board of India ”

“Shareholder

- h2. “Shareholders” means the Promoters (taken as a whole) and TIFOI and a “Shareholder” shall mean either of them (provided that for the purposes of Articles 62A, (where the context so admits) a reference to a Shareholder shall include each of the Promoters or TIFOI (as the case may be)”

“Shareholder Reserved Matter

- h3. “Shareholder Reserved Matter” has the meaning given to it in Article 136A and a “Shareholder Reserve Matter” shall mean any one of them.”

“Takeover Code

- h4. “Takeover Code means” the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations 1997”

“TIFOI

- h5. “TIFOI” shall mean The Infrastructure Fund of India, a limited liability company incorporated under the laws of Mauritius having its registered office at IFS Court Twenty Eight Cybercity, Ebene, Mauritius.”

“TIFOI Designated Director

- h6. “TIFOI Designated Director” means the directors nominated from time to time to the Board pursuant to the Article 109A by TIFOI in accordance with Article 113(2) or any alternate of such director appointed in accordance with the Articles and a “TIFOI Designated Director” shall mean any one of them”

3. The existing Article 58 shall be replaced with the following“

58. Subject to the provisions of the Act and Article 62A the Company shall incur no liability or responsibility whatsoever in consequence of its registering or giving effect to any transfer of shares made or purporting to be made by any apparent legal owner thereof (as shown or appearing in the Register of Member) to the prejudice of persons having or claiming any equitable right title or interest to or in the said shares notwithstanding that the company may have been made notice of such equitable right, title or interest or notice prohibiting registration of such transfer, and may have entered such notice, or referred thereto, in any book of the



NOTICE TO SHAREHOLDERS

Company, and the Company shall not be bound or required to regard or attend or give effect to any notice which may be given to or of any equitable right, title or interest, or be under any liability whatsoever for refusing or neglecting to do so, though it may have been entered in or referred to in some book of the Company but the Company shall, nevertheless, be at liberty to regard and attend to any such notice, and give effect thereto if the Board of Directors shall so think fit.

4. The following shall be inserted after Article 62

- 62A.1 Notwithstanding Article 62, save as expressly provided in Clause 62A.2, no Shareholder may transfer, charge, pledge, grant options or third party rights over or otherwise encumber ("transfer") any interest in any of their shares other than in accordance with the Articles.
- 62A.2 Notwithstanding anything contained above, the provisions of clause 62A.1 shall not prevent:
- 62A.2.1 The Company from allotting shares to a strategic or financial investor, provided however that none of the rights granted to TIFOI under these Articles are diluted without the written permission of TIFOI and that share capital of the Company post such allotment does not exceed Rupees Twenty five crores.
- 62A.2.2 The Promoters from granting any new pledge in respect of its shares for the purposes of securing any indebtedness advanced to it by a lender. Provided that any notice of default received by such Shareholder in respect of any such pledge shall be forthwith notified to TIFOI. Provided further that a minimum of twenty six (26) per cent of the Promoters shareholding shall remain unencumbered at all times till the occurrence of a Liquidity Event.
- 62A.2.3 The Promoters from acquiring such number of further shares in the Company pursuant to which the share capital of the Company post such acquisition does not exceed Rupees Twenty five crores.
- 62A.2.4 The Company from issuing or allotting any shares to employees and non promoter Directors of the company in accordance with any employee stock option scheme or employee stock purchase plan currently being implemented or which may in the future be implemented by the Company as an incentive for its employees and non promoter Directors, subject however to the condition that the total shares issued to the employees non promoter Directors under such scheme or plan do not exceed seventy five lakhs shares of the face value of Rs.2/- each.
- 62A.2.5 Provided however that in case shares or warrants issued to the Promoters or to a strategic or financial investor as per Article 62A.2.1 above is at a price lower than the price at which the shares or warrants were issued to TIFOI then the Promoters and the Company shall ensure that such number of shares or warrants are also offered to TIFOI and/ or Promoters, as the case may be as are required to ensure the same level of shareholding of TIFOI and Promoters in the Company before such issue. These additional warrants / shares shall be issued to TIFOI and Promoters at a price in accordance with the applicable law and SEBI regulations.

Permitted Transfers

- 62A.3 Nothing in these Articles shall prevent:
- 62A.3.1 Any transfer by a Shareholder where the other Shareholder gives his/its prior written consent.
- 62A.3.2 A Shareholder who is a corporate entity transferring its shares to any member of its Group, provided that, in the event that such transferee ceases to be a member of its Group it shall, prior to such event, transfer it back to another member of its Group;
- 62A.3.3 A Shareholder who is an individual transferring shares to his relatives;
- 62A.3.4 A trustee of a family trust transferring its shares to any replacement trustee of such trust or to any beneficiary of such trust.
- 62A.4 No transfer in accordance with these Articles shall be made by a Shareholder to any person unless the transferee has executed a deed of adherence and further in the case of a permitted transfer under Article 62A.3 Clause above, it has notified the Company of the identity of such party.
- 62A.5 Notwithstanding anything to the contrary in this clause, no sale in accordance with applicable law by TIFOI of the shares and the warrants (or the shares as a result of the conversion of such warrants) held by it, to an entity engaged in a business which is directly or indirectly in competition with the business shall be made without the prior written consent of the Promoters.
- 62B.1 Until such time as a Liquidity Event has occurred, in the event of any proposed transfer by Promoter to a third party in accordance with these Articles as a result of which the total shareholding of the Promoters in the Company reduces to a level below 26% of the issued and paid up equity share capital of the Company; or the Promoters transfer the management and control in the Company to a third party, irrespective of the level of shareholding of the Promoters in the Company, the

NOTICE TO SHAREHOLDERS

Promoters, as a condition of the transfer, shall procure that the purchaser shall offer, by a written notice ("the Co Sale Notice") to be delivered to TIFOI, to acquire all the shares held by TIFOI at the same price and on the same conditions as those offered to the Promoters. TIFOI may accept this offer at any time within 20 (twenty) business days of receipt of the Co Sale Notice, after which time the offer shall lapse.

5. The following shall be inserted after Article 108

"Number of Promoter Designated Directors

108A. The number of directors nominated to the Board by the Promoters (other than the Independent Directors as defined in Clause 49 of the Listing Agreement and the TIFOI Designated Director,) or any alternate of such directors appointed pursuant to the Articles shall not constitute more than 50 percent of the Board."

6. The following shall be inserted after Article 109:

"TIFOI Designated Director

109A. The Board shall always consist of one TIFOI Designated Director, till the occurrence of a Liquidity Event. The TIFOI Designated Director shall not be required to retire by rotation. The Company shall procure that the TIFOI Designated Director is not declared, identified or designated as an "occupier" of any factory in relation to the Company, or as an "employer" of any employees of the Company."

7. The following shall be inserted after Article 112:

"Investor Directors

112A. Each of the Shareholders shall be entitled to nominate and remove their respective Investor Directors to the Board at their sole discretion. Each Shareholder shall, as far as practicable, endeavour to consult with the other prior to any removal or new nomination. Neither the Promoters (nor any of its Investor Directors) may seek to remove the TIFOI Investor Director except with the consent of TIFOI and the Promoters shall vote (either at a meeting of the Shareholders or through its Investor Directors at a meeting of the Board) at the direction of TIFOI to procure the replacement or appointment of the TIFOI Directors."

8. The following shall be inserted after Article 113 (1)

"2. Each of the Investor Directors shall be entitled in their sole discretion to nominate an appropriately qualified alternate director, subject to reasonable consultation with the other Shareholder. Each of the Shareholders shall also be entitled at any time by notice to be served by such Shareholder in writing upon the Company to require that any of their respective Investor Directors be appointed to or removed from any committee of the Board or any corporate governance committee."

9. The following shall be included as Article 136A

"Shareholder Reserved Matters

136A. Notwithstanding any other provision of these Articles, no decision shall be taken at a meeting of the Board, by the Shareholders or otherwise on the matters set out in this Article without the prior written consent of TIFOI or the TIFOI Designated Director. This clause shall lapse on the happening of a Liquidity Event.

1. Any material change in the rights attached to the shares.
2. Merger or sale of the Company
3. Acquisition of another company or business by the Company.
4. Amendment to the Memorandum or Articles of Association, authorizing additional shares or stock or affecting the investors' rights in any manner.
5. Issuance of any shares or any security convertible into shares that is senior to the shares held by TIFOI.
6. Liquidation or reorganization of the Company.
7. Borrowings in excess of Rs. 50 crore (fifty crores) within a financial year other than the FCCB issue for US\$ 20 million and for purchase of ships and air freighters.
8. Creation of obligation in favour of an affiliate, parent or insider other than on arms length basis.
9. Issuance, of shares or instruments convertible into shares beyond a level where the fully diluted share capital of the Company is Rs. Twenty Five Crores.



NOTICE TO SHAREHOLDERS

10. Any buy-back of shares by the Company which could result in the shares held by TIFOI being 15% or more of the fully diluted share capital and/or triggers the Takeover Regulations.”

10. The following shall be inserted after Article 132 as under:

“Notice to TIFOI

- 132A. In the event that the draft board agenda contains any business which, if transacted, would constitute a Shareholder Reserved Matter, each of the Shareholders shall procure that the TIFOI Designated Directors are afforded sufficient opportunity to evaluate, consider and, if agreement can be reached, agree a common decision in respect of such Shareholder Reserved Matter prior to the Board meeting of the Company to which such item of business relates.

The Shareholders and TIFOI shall procure that no action shall be taken by the Company’s Board, nor shall the Company or the Shareholders permit or acquiesce in the taking of any action with respect to any Shareholder Reserved Matter unless such Shareholder Reserved Matter has been approved in accordance with Article 136A which approval will not be unreasonably withheld.”

10. To consider and if thought fit to pass with or without modification(s), the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to provisions of Section 81 (1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including statutory modification(s), amendments or re-enactment(s) thereof for the time being in force) and in accordance with the provisions of the Articles of Association of the Company, the Listing Agreement entered into between the Company and the various Stock Exchanges, the subsisting guidelines and clarifications issued by the Government of India / Reserve Bank of India (RBI) / Securities and Exchange Board of India (SEBI) or any other relevant authority and subject to such approvals, consents, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company, consent of the company be and is hereby accorded to the Board of Directors of the company and/ or a duly authorized Committee thereof for the time being exercising the powers conferred by the Board of Directors (hereinafter referred to as “the Board”) in its absolute discretion, to offer / issue and allot not more than 10,50,000 warrants, convertible, at the option of the warrant holder(s) within an aggregate time period of 18 months from the date of allotment of the warrants, into 10,50,000 Equity shares of Rs.2/- each, at a premium of Rs. 88/- per share for cash, as determined in accordance with the relevant SEBI Guidelines, to Infrastructure Fund of India LLC (hereinafter referred to as “TIFOI”), on a preferential basis, as the Board may in its absolute discretion decide, in one or more tranches and on such terms and conditions, as the Board considers fit, subject to the following:

- the Warrants and the equity shares to be offered and allotted upon conversion shall be subject to the provisions of the Memorandum and Articles of Association of the Company in all respects.
- the relevant date within the meaning of the Explanation to Clause 13.1.1.1 of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 for the purpose of determination of applicable price for the issue of above mentioned warrants / equity shares is 11th September, 2006.
- the equity shares to be allotted on conversion of the warrants shall rank pari passu with the existing equity shares of the company in all respects.
- an amount equal to 10% of the price fixed under Clause 13.1.1.1 of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 in relation to each of the warrant shall be paid upfront by the person to whom the allotment is being made, at the time of allotment of the warrant, and the same shall be adjusted against the price payable for the subsequent allotment of equity shares against the warrants. Further, in the event the option of conversion of warrant into equity share is not exercised by the warrant holder, in terms of this resolution the upfront payment of 10% shall stand forfeited.

“FURTHER RESOLVED THAT for the purpose of giving effect to this resolution, the Board/ Committee be and is hereby authorized to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer/ issue, allotment and utilization of the proceeds and further to do all such acts, deeds, matters and things and to finalize and execute all documents and writings as any be necessary, proper, desirable or expedient as it may deem fit.”

“RESOLVED FURTHER that the Board be and is hereby authorized to delegate all or any of the powers to any Committee of Directors of the Company to give effect to the above resolution.”

11. To consider and if thought fit to pass with or without modification(s), the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to provisions of Section 81 (1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including statutory modification(s), amendments or re-enactment(s) thereof for the time being in force) and in accordance with the provisions of the Articles of Association of the Company, the Listing Agreement entered into between the Company and the various Stock Exchanges, the subsisting guidelines and clarifications issued by the Government of India / Reserve Bank of India (RBI) / Securities and Exchange Board

NOTICE TO SHAREHOLDERS

of India (SEBI) or any other relevant authority and subject to such approvals, consents, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company, consent of the company be and is hereby accorded to the Board of Directors of the company and/ or a duly authorized Committee thereof for the time being exercising the powers conferred by the Board of Directors (hereinafter referred to as "the Board") in its absolute discretion, to offer / issue and allot not more than 1,04,50,000 warrants, convertible, at the option of the warrant holder(s) within an aggregate time period of 18 months from the date of allotment of the warrants, into 1,04,50,000 Equity shares of Rs.2/- each, at a premium of Rs.88/- per share for cash, as determined in accordance with the relevant SEBI Guidelines, to the Promoters / Promoters Group viz., Mahendra Investment Advisors Private Limited and Mr. Mahendra Agarwal, on a preferential basis, as the Board may in its absolute discretion decide, in one or more tranches and on such terms and conditions, as the Board considers fit, subject to the following:

- a. the Warrants and the equity shares to be offered and allotted upon conversion shall be subject to the provisions of the Memorandum and Articles of Association of the Company in all respects.
- b. the relevant date within the meaning of the Explanation to Clause 13.1.1.1 of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 for the purpose of determination of applicable price for the issue of above mentioned warrants / equity shares is 11th September, 2006.
- c. the equity shares to be allotted on conversion of the warrants shall rank pari passu with the existing equity shares of the company in all respects.
- d. an amount equal to 10% of the price fixed under Clause 13.1.1.1 of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 in relation to each of the warrant shall be paid upfront by the person to whom the allotment is being made, at the time of allotment of the warrant, and the same shall be adjusted against the price payable for the subsequent allotment of equity shares against the warrants. Further, in the event the option of conversion of warrant into equity share is not exercised by the warrant holder, in terms of this resolution the upfront payment of 10% shall stand forfeited.

"FURTHER RESOLVED THAT for the purpose of giving effect to this resolution, the Board/ Committee be and is hereby authorized to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer/ issue, allotment and utilization of the proceeds and further to do all such acts, deeds, matters and things and to finalize and execute all documents and writings as any be necessary, proper, desirable or expedient as it may deem fit."

"RESOLVED FURTHER that the Board be and is hereby authorized to delegate all or any of the powers to any Committee of Directors of the Company to give effect to the above resolution."

Registered Office:
1-7-293, M G Road,
Secunderabad - 500 003.

By order of the Board
for **GATI LIMITED**

September 11, 2006

A S SANDHU
Chief Finance Officer & Company Secretary

NOTES:

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself. The instrument appointing proxy should, however, be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
2. The relative Explanatory Statements pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business is annexed hereto.
3. Shareholders are requested to bring their copy of Annual Report to the meeting.
4. The Company has already notified closure of Register of Members and the Transfer Books from 10th October, 2006 to 11th October, 2006 (both days inclusive) for payment of dividend on Equity Shares. In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as per details furnished by the Depositories for this purpose.
5. Pursuant to the provision of Section 205A of the Companies Act, 1956 as amended, dividend for the financial year ended 30th June, 1999, and thereafter, which remain unpaid or unclaimed for a period of seven years will be transferred to the Investor Education and Protection Fund of the Central Government. Shareholders who have not encashed the dividend warrant(s) so far for the financial year ended 30th June, 1999 or any subsequent financial years are requested to make their claim to the Office of the Registrar and Transfer



NOTICE TO SHAREHOLDERS

Agents, M/s Karvy Computershare Private Limited. It may also be noted that once the unclaimed dividend is transferred to the Central Government, as above, no claim shall lie in respect thereof.

6. a) The members who are holding shares in physical form are requested to intimate any change in their address with pincode immediately either to the Company or to the Registrar & Transfer Agent and quote folio number in all correspondence.
- b) The members who are holding shares in demat form are requested to intimate any change in their address with pincode immediately to the Depository Participant.
7. Shareholders holding shares in electronic form may kindly note that their Bank Account details as furnished by their Depositories to the Company will be printed on their Dividend Warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such shareholders for deletion of/change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. Shareholders who wish to change such Bank Account details are therefore requested to advise their depository Participants about such change with complete details of Bank Account.
8. The members who have not surrendered their old share certificates (Issued by the then M/s. Transport Corporation of India Limited, now known as TCI Industries Ltd., the transferor Company, under the Scheme of Arrangement) are requested to surrender their old share certificates to M/s. TCI Industries Limited, Mukesh Textile Mills, N A Sawant Marg, Colaba, Mumbai – 400 005 to obtain their new share certificates of 4 Companies including this Company.
9. The shares of the Company are at present listed at Bombay Stock Exchange Limited and The Hyderabad Stock Exchange Limited. The shares of the Company has voluntarily delisted from The Calcutta Stock Exchange Association Limited during the year.
10. The shares of the company have been compulsorily dematerialised with effect from 28.08.2000 and to give effect to the same, the Company has entered into a tripartite agreement with NSDL and CDSL. M/s. Karvy Computershare Private Limited, Karvy House, 46, Avenue No.4, Street No.1, Banjara Hills, Hyderabad – 500 034 are Registrar and Share Transfer Agents for electronic connectivity.
11. Members are requested to utilise the Electronic Clearing System (ECS) for receiving dividend and may accordingly advise the Company/ their Depository Participants in case of their holding in physical/ electronic form alongwith relevant particulars.
12. At the ensuing Annual General Meeting Mr K L Chugh and Dr P Sudhakar Reddy retire by rotation and being eligible offer themselves for re-appointment. Mr Mahendra Agarwal is proposed to be reappointed as Managing Director by the shareholders at the ensuing Annual General Meeting. The information or details pertaining to these directors to be provided in terms of Clause 49 of the listing agreement with the stock exchanges are furnished in the statement on Corporate Governance published in this Annual Report.

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

SPECIAL BUSINESS

Item No.6

The present terms of office of Mr Mahendra Agarwal as Managing Director has expired on 31st July, 2006. Subject to shareholders' approval, the Board of Directors, at their meeting held on 02.08.2006 have re-appointed the aforesaid director for a further period of 5 years from 1st August, 2006 on the following remuneration recommended by the Compensation Committee of the Board of Directors.

A. Basic Salary

Rs.4,00,000/- per month in the pay scale of Rs.4,00,000 – 10,00,000 with authority to the Board to sanction increment within the scale.

B. Perquisites and Allowances

1. Furnished accommodation or House Rent Allowance in lieu thereof at the rate of 50% of his salary, reimbursement of expenses incurred on utilities such as gas, electricity, water, furnishings, repairs, etc.,
2. Reimbursement of actual medical expenses incurred for self and family.
3. Leave Travel Concession / Allowance for self and family, in accordance with the rules of the Company.
4. Fees of Clubs.
5. Personal Accident Insurance Premium as per the rules of the Company.
6. Chauffeur driven Company Car and Telephone at residence and use of mobile cell phone. Long distance personal calls will be reimbursed to the Company by the Managing Director.

NOTICE TO SHAREHOLDERS

7. Company's Contribution to Provident Fund and Superannuation Fund and Gratuity which shall not be included in the computation of limits for remuneration or perquisites.
8. Leave with full pay and allowances and right to accumulate and encashment as per the rules of the Company.

For the purpose of calculating the above ceiling perquisites and allowances shall be evaluated as per the Income Tax Rules wherever applicable.

Commission

In addition to salary, allowances and perquisites, he will be entitled to a commission the amount whereof to be decided by the Compensation & HR Committee each year, subject to the provisions of the Companies Act, 1956 and/or any other regulations.

General

- i) He shall not be paid any sitting fee for attending meeting of the Board or Committee(s) thereof.
- ii) Subject to the superintendence, control and direction of the Board, he shall exercise substantial managerial powers in general and specific powers as may from time to time be lawfully entrusted to and conferred upon him by the Board.
- iii) Basic Salary or part thereof shall be paid directly to him, after all statutory deductions, in India or abroad as required to meet his personal maintenance expenses. This will be done as per due approval under Foreign Exchange Management Act, 1999 and its regulations, notifications etc.
- iv) The appointment is terminable by either party giving the other six months notice in writing without assigning any reason and without liability to pay any compensation.

Mr Mahendra Agarwal is interested in the resolution as it relates to his own appointment.

No other Director of the Company is, in any way, concerned or interested in the resolution.

The Board of Directors of your company recommends this resolution for your approval.

Item no.7

To attract talented employees / Directors, it is necessary to provide incentive to the employees to remain with the company and to reward them with the opportunities to have a share in the success of the company. To achieve this objective, it is proposed to grant an option to the employees to subscribe to the shares of the company.

The SEBI Guidelines have provided a conducive environment for the implementation of an Employee Stock Option Scheme. The Company proposes to introduce the following Stock Option Scheme for the benefit of employees of the Company, its Directors, and such other persons / entities as may be prescribed by SEBI from time to time, and in accordance with the provisions of prevailing regulations.

Employee Stock Option Scheme 2006

Under this scheme, employees will be granted an option to acquire a certain number of equity shares at a Price as mentioned hereinafter.

The broad terms and conditions of the Scheme are as under:

The Company's Compensation Committee, which is a committee of the Board of Directors, and consisting of a majority of independent Directors, will be responsible for administration and superintendence of the ESOS. The Compensation Committee will formulate the detailed terms and conditions of the ESOS; Compensation Committee will specify, inter alia, the following.

1. Quantum of options to be granted under the Scheme per employee.
2. Conditions under which options vested in employees may lapse in case of termination of employment for misconduct.
3. Time period within which an employee may exercise vested options in the event of termination or resignation.
4. The exercise period within which the employee should exercise the options and that option would lapse on failure to exercise the options within the exercise period.
5. Rights of employees to exercise all the vested options at one time or at various points of time.
6. Procedure for making a fair and reasonable adjustment to the number of options and to the exercise period, in case of rights issues, bonus issues, other corporate actions, or otherwise.
7. Lock-in period for the shares issued pursuant to exercise of the options, if any.
8. Any other related or incidental matters.

The following is the explanatory statement, which sets out the various disclosures as required by clause 6 of the SEBI Guidelines.



NOTICE TO SHAREHOLDERS

The salient features of the Scheme are as under:

1. The total number of option to be granted

The total number of option to be granted under this scheme cannot exceed 1782500 i.e., 2.52% of the issued equity share capital of the Company as on 30th June 2006 or such additional quantity as may be required on account of Corporate Action. The options which lapse/expire or are forfeited will be available for grant to the eligible employees.

2. Identification of classes of employees entitled to participate in the ESOS

Employees entitled to participate in the ESOS are “employees” of the company including director (whether full time or not), as defined in the ESOS Guidelines (including any statutory modification (s) or re-enactment of the Act of the Guidelines, for the time being in force), and as may be decided by the Compensation Committee, from time to time. Under the prevailing regulations, an employee who is a promoter or belongs to the promoter group will not be eligible to participate in the ESOS, Identification of employees eligible to participate in the ESOS and Grant of options to identified employees will be based on such parameters such as length of service, grade, performance, technical knowledge, leadership qualities, merit, contribution and conduct, future potential etc., and such other factors as may be appropriate as may be decided by the Compensation Committee, in its discretion, from time to time. The options granted to an employee will not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

3. Requirements of vesting, period of vesting and Maximum period of vesting

There shall be a minimum period of two years between the grant of options and vesting of options. The maximum vesting period may extend up to five years from the date of grant of options, unless otherwise decided by the Committee. The vesting shall happen in one or more tranches as may be decided by Committee.

The options may vest in tranches subject to the terms and conditions as may be stipulated by the Committee, which may include satisfactory performance of the Employee/Directors and their continued employment with the company, as the case may be, unless such employment is discontinued on account of death, permanent/total disability or on retirement.

If the employee/Director voluntarily terminates employment with the Company, the options to the extent not vested shall lapse/expire and be forfeited forthwith. However, this shall not be applicable to the employee/Director (including whole time Director) of the company who has resigned or who may resign from time to time to join in the subsidiary companies or as approved by the Committee.

4. Exercise price or pricing formula

The exercise price for the purposes of the grant of options will be computed at discount of 25% to the average of four weeks high and low of the closing prices preceding the date of grant of options for the Company's Equity Shares quoted either on The Bombay Stock Exchange Limited or on National Stock Exchange, where the higher volume of shares traded, which is however, subject to adjustments, if any, that may be required on account of Corporate Action.

5. Exercise period and the process of Exercise

The exercise period shall commence from the date of vesting, and will expire not later than two months from the date of vesting or such period as may be decided by the Compensation Committee. The options will be exercisable by the Employees by a written application to the Committee to exercise the options, in such manner, and on execution of such documents, in such manner, as may be prescribed by the Compensation Committee from time to time. The options will lapse if not exercised within the specified exercise period.

6. Process for determining the eligibility of employees to ESOS

The process for determining the eligibility of the employee and directors (including whole time Directors) will be specified by the Compensation committee, and will be based on, such criteria such as length of service, grade, performance, technical knowledge, leadership qualities, merit, contribution and conduct, future potential., etc., and such other factors as may be appropriate as may be decided by the Compensation Committee, in its discretion, from time to time.

7. Maximum number of options to be issued per employee and in aggregate

The maximum number of options granted per employee, per director will not exceed 150000 Shares and 75000 shares respectively (i.e approx., 0.21% and 0.11% respectively of the issued and outstanding Equity Shares of the Company as on June 30, 2006).

8. Accounting Policy

The Company will conform to the accounting policies specified in Clause 13.1 of the SEBI Guidelines and/or such other guidelines as may be applicable, from time to time.

NOTICE TO SHAREHOLDERS

9. Method of Valuating the Options

The company will adopt the intrinsic value method to value the options granted under the Scheme.

10. Disclosure in Director's Report

The Company calculates the Employee Compensation cost using the intrinsic value of the Stock Options, the difference between the employee compensation cost so computed and the employee compensation cost that would have been recognized if it had used the fair value of the options and its impact on the profits and earnings per shares would be disclosed in the Directors' Report. The fair value method would be determined using the Black Scholes Model.

As the Scheme will entail further shares to be offered to persons other than existing shareholders of the company, consent of the members is sought pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Act, and as per the requirement of clause 6 of the SEBI Guidelines.

The Options to be granted under the Plan shall not be treated as an offer or an invitation made to public for subscription in the securities of the company.

The Board accordingly commends the resolution for approval of the members as a special resolution.

The Directors other than i) Promoter Director and (ii) those directors if any, holding directly or indirectly more than 10% of the outstanding equity shares of the company, shall be deemed to be interested or concerned in passing of this resolution to the extent of benefit they may derive under the Scheme.

None of the Directors of the Company is, in any way concerned or interested in the resolution, except to the extent of the Equity Shares that may be offered to them under the Scheme.

Your directors, therefore, recommend the resolution to be passed as a Special Resolution by the members.

Item No.8

As per clause 6.3 of the SEBI Guidelines, a separate resolution is required to be passed to authorise the Board to extend the benefits of ESOS to employees of subsidiary or holding companies. This separate resolution is being proposed accordingly to cover those employees, and / or such other persons as may be permitted from time to time, under prevailing laws, rules and regulations, and/or amendments thereto from time to time. This may be read with explanatory statement of the aforesaid resolution. The Board accordingly commends the resolution for approval of the Members as a special resolution.

The Directors other than i) Promoter Director and (ii) those directors if any, holding directly or indirectly more than 10% of the outstanding equity shares of the company, shall be deemed to be interested or concerned in passing of this resolution to the extent of benefit they may derive under the Scheme.

None of the Directors of the Company is, in any way concerned or interested in the resolution, except to the extent of the Equity Shares that may be offered to them under the Scheme.

Your directors, therefore, recommend the resolution to be passed as a Special Resolution by the members.

Item No.9

At the Extra-ordinary General Meeting of the Company held on 25.02.2006, the Members had approved the Preferential Issue of 16,00,000 Equity Shares of Rs.10/- each and Warrants convertible into 4,00,000 Equity Shares of Rs.10/- each at a price not below Rs.423/- to The Infrastructure Fund of India (TIFOI). The members of the Company had also authorised the Board of the Company to accept and agree to such terms and conditions in this regard. Pursuant thereto a Subscription Agreement dated 23.02.2006 between and a Shareholders Agreement dated 23.02.2006 between The Infrastructure Fund of India (TIFOI), Mr.Mahendra Agarwal and the Company were entered into. The company has allotted 1571187 Equity Shares of Rs.10/- each (since subdivided into 7855935 Equity Shares of Rs. 2/- each) and 314237 Convertible Warrants on Preferential basis to TIFOI.

The amendments to the Articles of Association of the Company seek to incorporate some of the provisions of the aforesaid Shareholders Agreement, inter-alia relating to the right to transfer the Equity Shares of the company as well as certain matters relating to the management of the company.

Further, as per the aforesaid Shareholders Agreement, it has been agreed that the Articles of Association of the company shall be amended to include some of the provisions of the said agreement.

In the light of the above and the extant law, the following resolution is placed before the members for approval.



NOTICE TO SHAREHOLDERS

Item No.10 & 11

With a view to raise additional funds for expansion of domestic and international business of the Company and capital investment in warehousing, building, infrastructure, to meet working capital requirement, other related capital expenditure and general corporate purposes, the company proposes to make Preferential Issue of Convertible Warrants to a) TIFOI and b) Promoters/Promoter Group on the terms and conditions as stated in the Resolution proposed respectively under Item No.10 & 11 of the Notice of the Meeting.

The Company has been unable to allot the warrants in pursuance of the resolution passed at the extra ordinary general meeting held on 25th February 2006 for issue of convertible warrants to the Promoters, pending vacation of the stay by the Company Law Board, Southern Region Bench, Chennai in a connected matter.

The proposed allotment on preferential basis of the warrants convertible into equity shares to TIFOI and the Promoters, would not result in any change of control / management of the company.

The warrants and the equity shares allotted upon conversion of warrants, to the Promoters and to TIFOI shall be subject to lock-in for such period as stipulated under the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

The certificate of the statutory auditors to the effect that the issue of warrants as well as the issue of equity shares on preferential basis under Item Nos.10 & 11 to the Promoters and to TIFOI respectively is in accordance with SEBI (Disclosure and Investor Protection) Guidelines, 2000 shall be placed before the Members at the ensuing Annual General Meeting and shall be available for inspection of the Members thereat.

Disclosure Pursuant to Clause 13.1A of the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

Object of the Issue:

1. To infuse further funds for meeting in part capital expenditure for expansion of infrastructure facilities, warehousing, building, to meet working capital requirement, other related capital expenditure and general corporate purposes, it is proposed to issue warrants, convertible into equity shares of Rs. 2/- each at a premium to the Promoters and to TIFOI as stated aforesaid.
2. The Promoters and TIFOI have expressed their intention to subscribe to warrants proposed to be issued to them.
3. The pattern of shareholding before and after the issue of warrants to TIFOI and the Promoters would be as under

Category	Pre-Issue		After the conversion of Preferential Warrants by Financial Investors and Promoters, approved by shareholders on 25th February 2006		After conversion of warrants, pursuant to the Resolution approved at this Meeting	
	No. of equity shares held	% of holding	No. of equity shares held	% of holding	No. of equity shares held	% of holding
Promoter Group	35234955	49.72	37734955	50.35	48184955	54.98
NRI's / OCB's	330856	0.47	330856	0.44	330856	0.38
Private Bodies Corporate	6549939	9.24	6549939	8.74	6549939	7.47
General Public	20899060	29.49	20899060	27.89	22105440	25.22
TIFOI	7855935	11.08	9427120	12.58	10477120	11.95
Total	70870745	100.00	74941930	100.00	87648310	100.00

NOTICE TO SHAREHOLDERS

The Promoter Group shall exercise their right on the warrants within the stipulated period of 18 months for conversion into equity shares in the manner and to the extent entitled as set forth in the resolution covered under Item No. 11, consistent with the requirements set forth including the limits of 5% per financial year and aggregate limit of 55% under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 including any amendments thereto.

The identity of the proposed allottees, their shareholding pre issue and post issue of equity shares and after conversion of the warrants is as indicated below:

Category	Pre-Issue		After the conversion of Preferential Warrants by Financial Investors and Promoters, approved by shareholders on 25th February 2006		After conversion of warrants, pursuant to the Resolution approved at this Meeting	
	No. of equity shares held	% of holding	No. of equity shares held	% of holding	No. of equity shares held	% of holding
The Infrastructure Fund of India LLC:	7855935	11.08	9427120	12.58	10477120	11.95
<u>Promoter Group:</u>						
Mahendra Investment Advisors Pvt.Ltd.	3089760	4.36	5589760	7.46	12589760	14.36
Mr. Mahendra Agarwal	1606875	2.27	1606875	2.14	5056875	5.77
Total:	12552570	17.71	16623755	22.18	28123755	32.08

TIFOI shall not be Persons acting in Concert within the meaning of the term as defined under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 in respect of the equity shares to be allotted to them upon conversion of the warrants issued to them pursuant to the resolution under Item No.10 of the Notice.

The proposed issue and allotment of the warrants shall be completed within a period of 15 days from the date of approval of the issue by the shareholders of the company at the ensuing Annual General Meeting or where any approval is required from regulatory authorities or the Central Government 15 days from the date of receipt of such approval, whichever is later. The exercise of the option for conversion of the warrants into equity shares shall have to be completed within a period of 18 months from the date of allotment of the warrants.

The Board of Directors of your Company commends the resolutions under Item No.10 and 11 of the Notice for approval of the members.

None of the Directors other than Mr Krishan Sehgal may be deemed to be concerned or interested in the aforesaid item of business relating to issue and allotment of warrants to TIFOI.

None of the Directors other than Mr Mahendra Agarwal may be deemed to be concerned or interested in the afore stated Items of business of issue and allotment of warrants to the Promoters.

Registered Office:
1-7-293, M G Road,
Secunderabad - 500 003.

September 11, 2006

By order of the Board
for **GATI LIMITED**

A S SANDHU
Chief Finance Officer & Company Secretary



DIRECTORS' REPORT

Your directors take pleasure in presenting their Report for the year ended 30th June, 2006.

Financial Results	Rs. in lakhs	
	2005-06	2004-05
Income	45772	36127
Profit before interest, depreciation and taxation	4033	2761
Interest	422	472
Depreciation	865	730
Profit before tax & Extraordinary Item	2746	1559
Provision for tax	739	522
Profit after tax & before Extraordinary Item	2007	1037
Extraordinary Item (Reversal of deferred tax due to Tonnage Tax Option)	---	412
Profit after Extraordinary item	2007	1449
Balance brought forward from previous year	336	224
Balance available for appropriation	2343	1673
Appropriations		
Proposed dividend	496	251
Tax on dividend	70	35
Tonnage Tax Reserve	162	41
General reserve	1200	1010
Balance carried forward	415	336
	2343	1673

Dividend

Your Directors have recommended payment of dividend of 35% on enhanced paid up capital for the year ended 30th June, 2006 as against 30% for the year ended 30th June, 2005. The dividend will absorb a sum of Rs.566 Lakhs (Rs.286 Lakhs previous year) including tax on dividend of Rs.70 Lakhs (Rs.35 Lakhs previous year).

Review of Operations

During the year under review, your company achieved a turnover of Rs.45772 lakhs, as against Rs.36127 lakhs in the previous year, registering a growth of 27%. The Net Profit after Tax has grown to Rs. 2007 lakhs as against Rs.1037 lakhs in the previous year, excluding the Extraordinary Item of Rs. 412 Lakhs being the reversal of Deferred Tax liability reversal, registering a growth of 94%.

The rapid economic growth is expected to lead increased demand of logistic and warehouses services. Initiative taken by your company in last year to build state of the art modern warehouses equipped with all facilities has progressed satisfactorily. In short period, company has established ten such warehouses across India in Jaipur, Indore, Ludhiana, Ambala, Gurgaon, Mumbai, Pondicherry, Coimbatore, Kolkata & Guwahati. Your Company is in process of setting-up additional warehouses. The benefit of Value Added Tax (VAT) to the customer is expected to lead to increased outsourcing of warehouses and distribution to 3PL.

During the year, company has strengthened its Coast to Coast division by adding two new ships – One on outright purchase viz., “Gati Zipp” and one on time Charter viz., “Clarissa”.

Your board has decided to de-merge the Fuel Station Division from its core business and has approved a Scheme of Arrangement to de-merge the Fuel Station to Wholly Owned Subsidiaries, subject to approval of the shareholders and sanction of Hon'ble Court of Andhra Pradesh. For this purpose, your company has incorporated four subsidiary companies in the month of May'06 viz. M/s Trymbak Commercial & Trading Pvt.Ltd., M/s Newatia Commercial & Trading Pvt.Ltd., M/s Ocimum Commercial & Trading Pvt.Ltd., and M/s Sumeru Commercial & Trading Pvt.Ltd. The transfer of the division to the aforesaid subsidiaries will be made after receipt of approval of the Hon'ble High Court of Andhra Pradesh to the Scheme of Arrangement.

Subsidiaries & International Business

With a vision to position the company as number one India centric, Globally preferred Supply Chain Services and Solution provider in Asia Pacific, your company has established wholly owned subsidiary namely M/s Gati Holdings Limited at Mauritius which has established further three step-down subsidiaries Gati Asia Pacific Pte Ltd. at Singapore, Gati Hongkong Ltd. at Hongkong & Gati China Holdings Ltd. at Mauritius. During the year under review the above startup subsidiary companies have made marginal losses.

The Company has obtained permission from the Central Government under Section 212(8) of the Companies Act, 1956 and accordingly the individual Annual Accounts of the above mentioned subsidiaries for the year ended 30th June, 2006 have not been attached to the Annual Report. Copies of these Accounts will be made available to any member upon request.

DIRECTORS' REPORT

Your Company's international business operations are keeping pace with the changing market trends and international division is expected to contribute significantly to the profit in the coming years.

IT Initiatives

During the year the Company launched the following major IT Solutions:

Disaster Recovery

To provide business continuity, multi level Disaster Recovery solution was implemented to supplement the Company's Central Servers at its Head Office. This solution comprises of one local set of alternate servers at the Head Office and a set of servers at remote location, Data Center, Tidal Park, Chennai. Three times full fledged test drives at national level were conducted during the year to check the smooth transition from primary to secondary servers (DR Servers at Chennai) and continuity of work and operation found satisfactory.

Portal

Gati.net an Oracle based Portal was launched for the Gati'ites. It includes a single sign-on and a secured Identity Management solution. This means that all Gati'ites will have access to multiple applications through Gati.net based on their roles and rights.

Vehicle Tracking System

Vehicle tracking system for 50 vehicles as Phase-I was launched. This solution gives real time information using GPS/GPRS. The Vehicle Tracking System also has the facility for the driver to have a hands free voice communication with Central Monitoring Cell and vice- versa.

Video Conferencing

Video Conferencing solution has been implemented between all Gati Zonal Office, Head Office and Corporate Office at Singapore enabling the top management to have a better interaction.

All the above initiative will help company to address & meet customer's requirements, to improve productivity, quality and service to the customers.

Future Prospectus

Realising the importance of logistics in the overall growth of the economy, Government of India (GOI) has been giving thrust on building and improving basic infrastructure in the country. GOI is investing in highway projects, privatizing ports, streamlining customs and excise procedures, improving rail network by commencing services to new locations and has undertaken restructuring and modernisation of the airports to improve trade. In Budget 2006-07, roadmap announced for the completion of Golden Quadrilateral and N-S-E-W corridor projects, separate allotment towards rural road infrastructure covered under 'Bharat Nirman', increase in the allocation to National Highways Development Programme and announcement of new expressway projects shows the seriousness of the Govt. for improving its road infrastructure as the same would, inter-alia, speed up the surface transportation of goods. This is a major driver for the smooth functioning of the logistics industry as around 40% of the cost is on transportation alone. (source: "www.care.com – Report on Logistic sector)

GOI's efforts to make India a manufacturing hub in various sectors such as textiles, automobiles, steel, metals and petroleum products would positively impact the logistics industry. Overall cut in the peak customs duty along with other sector-specific positives may increase the manufacturing and trade activities leading to more requirement of logistics services.

GOI has also rationalised the tax structure, introduced tonnage tax and has moved to a uniform Value Added Tax (VAT) scenario that are expected to lead to increased outsourcing of warehousing and distribution to 3PL providers. However, the industry is sensitive to fuel prices, as the sector is dependent on transportation via Land, Air and Water networks.

India's entry into the WTO and its signing of several Asean Free Trade Agreements (AFTA) and Bi-lateral FTAs will provide more exchange of goods and services which is a major driver for the logistics sector. Further, the impact of globalization, improvement in world economy is proving beneficial to logistics companies.

All the above positive developments will lead to increased outsourcing of warehousing and distribution to specialised 3PL and 4PL service providers.

Your company is in the process of acquiring a modern and customized fleet of unique containers suited for Indian terrain to re-engineer and revamp its network to the international standards. These containers are designed to increase the space utilisation as well as for storage of odd sized materials with different dimensions, which will help in improving productivity and efficiency.

Your Company's strategy to focus on establishing State-of-the-art Warehouses, Providing quality value added service, Adoption of latest cutting edge Information Technology, Continuous process improvement, Strict cost management etc. will position your company very favourably in the years ahead to capture the growth in logistic sectors.

Fixed Deposits

Fixed Deposits from the public stood at Rs.1178.95 lakhs at the end of the year. There were no overdue deposits. However, there were 98 unclaimed deposits of Rs. 32.94 lakhs as at 30th June, 2006. Out of these 40 unclaimed deposits aggregating to Rs. 16.46 lakhs were renewed/ repaid till the date of this report. Reminders have been sent to those depositors who have not yet claimed their deposits.



DIRECTORS' REPORT

Equity Share Capital

Your Company has made the following allotment of shares during the year:

- a) 41,77,492 Equity Shares of Rs.10/- each for cash at a premium of Rs.44/- per share aggregating to Rs.2256 lakhs on "Rights" basis to the existing Equity Shareholders/ Beneficial Owners of Equity Shares of the Company in the ratio of one Equity Share for every two Equity Shares held as on July 4, 2005 i.e the record date.
- b) 68,970 Equity Shares of Rs.10/- each to the Employees of the Company under Employee Stock Option Scheme at Rs. 35.50/- each at a cash premium of Rs. 25.50/-.
- c) 15,71,187 Equity Shares of Rs.10/- each to The Infrastructure Fund of India LLC on Preferential basis, at Rs.423/- each at a cash premium of Rs.413/-.
- d) 3,14,237 Convertible warrants to The Infrastructure Fund of India LLC convertible at the option of the warrant holder within a aggregate period of 18 months from the date of Allotment of Warrants, at Rs.423/- each at a cash premium of Rs.413/-.

The Equity Share of Rs.10/- each has been subdivided into 5 Equity Shares of Rs.2/- each pursuant to the resolution passed by the shareholders at their Extraordinary General Meeting held on 25th February, 2006. Currently the Company has share capital of Rs. 1417.41 Lakhs comprising of 708,70,745 equity shares of Rs. 2/- each fully paid up.

Utilisation of Proceeds of Rights Issue

Funds raised through Right Issue for warehousing projects at Guwahati, Nagpur, Ahmedabad & Pune could not be invested, fully or partly, to the extent of Rs. 452.85 Lakhs due to non availability of land at suitable place, higher land prices and other external & commercial reasons. To build the infrastructure and support the growth of business, company plans to invest the aforesaid funds towards construction of warehouse and other related infrastructure i.e, warehousing racking and handling equipments etc., being setup at Bangalore and Hyderabad.

Directors

Mr K L Chugh and Dr P Sudhakar Reddy retire by rotation at the conclusion of this Annual General Meeting and being eligible offer themselves for reappointment.

The tenure of appointment of Mr Mahendra Agarwal as Managing Director expired on 31st July 2006. The Board of Directors re-appointed him for a period of five years with effect from 1st August, 2006. The appointment of and remuneration are subject to the approval of shareholders.

Mr Krishan Sehgal has been appointed as a non rotational Director as nominee of The Infrastructure Fund of India LLC.

Mr Manoj Todi, Director- Infrastructure expired on 3rd April, 2006. Your Board place on record its appreciation of valuable contribution made by Mr. Manoj Todi to the Company during his tenure of office.

Delisting

During the year, the Company's Equity Shares were delisted from the Calcutta Stock Exchange Association Limited (CSE). The Company's Equity Shares continue to remain listed on Bombay Stock Exchange Limited (BSE) and The Hyderabad Stock Exchange Limited (HSE).

Transfer of Unclaimed Dividend

Pursuant to the provisions of section 205A(5) of the Companies Act, 1956, the unclaimed dividend amount for the year 1996-97 (declared in the year 1998) and 1997-98 were transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government and the unclaimed dividend for the year 1998-99 is due for transfer in November, 2006. The dividend once transferred to Investor Education and Protection Fund cannot be claimed.

Directors' Responsibility Statement

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956 with respect to the Directors' Responsibility Statement, it is hereby confirmed:

1. That in the preparation of the Accounts for the Financial Year ended 30th June, 2006, the applicable accounting standards have been followed.
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for the year under review;
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. That the Directors have prepared the accounts for the financial year ended 30th June, 2006 on 'going concern' basis.

DIRECTORS' REPORT

Auditors

The Auditors M/s R.S.Agarwala & Co., Chartered Accountants, hold office until the conclusion of this Annual General Meeting and are eligible for re-appointment.

Energy, Technology and Foreign Exchange

The information required under the Companies Act (Disclosure of particulars in the report of Board of Directors) Rules, 1988 is given in the Annexure – I.

Personnel

Particulars of employees required under section 217(2A) of the Companies Act, 1956 are set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the accounts are being sent to all shareholders of the company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

Employee Stock Option Scheme

During the year, the Company has allotted 68970 Equity Shares of Rs.10/- on exercise of options vested on 20th October, 2005. Your Company has also granted 327050 options of Rs.10/- each to the Employees of the Company during the year. The full material particulars of the Scheme are given in Annexure-II.

Corporate Governance

Pursuant to Clause 49 of the Listing Agreement, a report on corporate governance and Management Discussions and Analysis is given in Annexure – III.

Acknowledgment

Your directors would like to place on record their grateful appreciation for the wholehearted and cooperation your company has received from the customers, banks, government authorities, fixed depositors, TIFOI and other shareholders. Your directors also wish to place on record their deep sense of appreciation for the devoted service of the management team, Employees and Associates of the company.

For and on behalf of the Board

New Delhi
September 11, 2006

K. L. Chugh
Chairman

ANNEXURE – I

In accordance with the requirement of Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, particulars regarding conservation of Energy, Technology Absorption and Foreign Exchange Earning and Outgo are given hereunder:

A) Conservation of Energy

All Company owned and managed vessels runs on high calorific value fuel under optimum speed for better fuel consumption. Also all vessels dry docking are carried out on time to avoid drag on the hull. The planned maintenance of plant and machinery are carried out as per the manufacturer's guidelines to avoid break down and maintain efficiency.

In the Express Distribution and Supply Chain Division, the following measures are taken:

1. Vehicles are replaced to improve efficiency ensure pollution is under control and to optimize fuel consumption.
2. Vehicles are selected carefully in compliance with all updated regulations relating to pollution control and Euro norms.
3. Drivers' training programmes are being conducted periodically to improve their operating skills and to minimise fuel consumption and wear-and-tear.

B) Foreign Exchange earning and outgo

The particulars of earning and expenditure in foreign exchange during the year are given as additional information in Schedule 23 to Notes on Accounts.



DIRECTORS' REPORT

Annexure - II

Details of Stock Options Pursuant to
SEBI guidelines on Stock Options:
GATI Employee Stock Option Scheme

S.No	Description		Plan 2003	
1	No. of shares available under GATI ESOS (as on 29th Sept 2005)		15,56,000	
2	Total No. of options granted During the year		14,73,250	
3	Pricing formula		At a discount of 25% on the average of the weekly high and low of the closing prices for the Company's Equity Shares quoted on the Bombay stock Exchange and/or National Stock Exchange during the four weeks preceding the date of grant of the options	
4	Options vested during FY 2005-06		3,44,850	
5	Options exercised during FY 2005-06		3,44,850	
6	Options lapsed during FY 2005-06		1,48,500	
7	Variation of terms of options		Not Applicable	
8	Money realised by exercise of options		Not Applicable	
9	Grant price (on 29th Sept 2005) ***		Rs. 31.20	
10	Total No. of options in force as on 30th June 2006 (includes 400000 options granted to Non Promoter Directors)		26,41,400	
11	Grant details to members of Senior Management Team during the year VT Pawar G S Ravi Kumar		25000 50000	
12	No. of associates holding 5% or more of the total number of options granted during the year		Nil	
13	No. of associates with 1 % or more of paid up capital		Nil	
14	Diluted EPS as per Accounting Standard 20		3.02	
15	i) Method of calculation of employee compensation cost		The company has calculated the employee compensation cost using the intrinsic value of the stock options	
	ii) Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognised if it had used the fair value of the options		Rs. 3,27,811/-	
	iii) The impact of this difference on profits and on EPS of the company		Profit after Tax (PAT) Rs. 20,06,63,322/- Less: Additional employee compensation cost based on fair value Rs. 3,27,811/- Adjusted PAT Rs. 20,03,35,511/- Adjusted EPS Rs. 3.28	
	iv) Weighted average exercise price and fair value of Stock Options granted:			
	Stock Options granted on	Weighted average exercise price (in Rs.)	Weighted average Fair value (in Rs.)	Closing market price at BSE on the date of grant (in Rs.)
	29.09.2005	41.62	42.26	47.20

DIRECTORS' REPORT

	v) Description of the method and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information	The Black Scholes option-pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since option-pricing models require use of substantive assumptions, changes therein can materially affect fair value of options. The option pricing models do not necessarily provide a reliable measure of fair value of options.
	vi) The main assumptions used in the Black Scholes option-pricing model during the year were as follows: Risk free interest rate Expected life of options from the date(s) of grant Expected volatility Dividend yield	7% 4 years 15.01% 2.67%

Note: *** Equity Shares of the Company with face value of Rs.10/- has been subdivided into 5 Equity Shares of Rs.2/- each on 29.03.2006. Therefore, the corporate action adjustments has been effected on the Quantity and Price of the options in line with the split of shares.

For and on behalf of the Board

New Delhi
September 11, 2006

K.L. Chugh
Chairman



REPORT ON CORPORATE GOVERNANCE

ANNEXURE-III

COMPANY'S PHILOSOPHY

Gati's Philosophy on corporate governance envisages the attainment of the highest standards of Corporate Governance by transparency, accountability, ethics and equity with management flexibility, empowerment and responsiveness in the interest of Shareholders, Customers, Employees, Business Associates and the Society at large.

BOARD OF DIRECTORS

The Board of Directors comprises of 8 directors.

Composition and category of Directors

Director	Category	Designation
Mr. K L Chugh	Independent Non-Executive Director	Chairman
Mr. Mahendra Agarwal	Promoter and Executive Director	Managing Director
Dr. Ram S Tarneja	Independent Non-Executive Director	Director
Mr. N Srinivasan	Independent Non-Executive Director	Director
Dr. P Sudhakar Reddy	Independent Non-Executive Director	Director
Mr. T S Rao	Independent Non-Executive Director	Director
Mr Sunil Kumar Alagh	Independent Non-Executive Director	Director
Mr. Krishan Sehgal*	Nominated by The Infrastructure Fund of India LLC	Director

* Appointed as Director with effect from 28th April, 2006 as nominee of The Infrastructure Fund of India LLC.

Mr R K Pitamber an Independent Director and Mr Manoj Todi, Director- Infrastructure expired on 20th August, 2005 and 3rd April, 2006 respectively. Mr S Bhattacharya, an Independent Director retired on 22nd September, 2005.

Attendance of each Director at the Board Meetings, last Annual General Meeting and Number of other Directorship and Chairmanship/ Membership of Committees in various companies:

Director	Attendance particulars membership/chairmanship		Nos. of their other directorships and committee		
	Board AGM	Last Directorships	Other Memberships	Committee Chairmanships	Committee
Mr. K L Chugh	7	yes	2	None	None
Mr. Mahendra Agarwal	7	yes	2	None	None
Dr. Ram S Tarneja	5	yes	14	5	4
Mr. N Srinivasan	6	yes	12	4	4
Dr. P.S.Reddy	5	yes	1	None	None
Mr. T S Rao	7	yes	None	None	None
Mr Sunil Kumar Alagh	6	yes	2	1	None
Mr.Krishan Sehgal	1	No	5	None	None

Number of Board Meetings held and the dates on which held

During the financial year 2005-06, the Board of Directors met 7 times on the following dates: 2nd August 05, 22nd September 05, 27th October 05, 26th January 06, 27th January 06, 10th March 06 and 28th April 06.

The maximum time gap between the meetings was not more than four calendar months.

REPORT ON CORPORATE GOVERNANCE

Brief Resume of the Directors seeking re-appointment

Mr. K.L. Chugh, Mechanical Engineer from Delhi University had been the Chairman of ITC Group from November 1991 to December 1995. On his retirement he was honored with the title of Chairman Emeritus - ITC.

Prior to joining ITC in 1971, Mr. Chugh worked for 10 years with India's largest Engineering Enterprise, the Public Sector Heavy Engineering Corporation, Ranchi, achieving valuable experience in Heavy Industry & large projects.

Mr. Chugh set up the ITC Bhadrachalam Paperboards Limited in Tribal Area of Andhra Pradesh. Leading a young team, Mr. Chugh implemented this large Project in record time with no cost over-run. The Company has since received numerous awards in recognition of its excellent working & has grown to become India's largest company. Mr. Chugh has authored Clonal Plantation Technology in Bhadrachalam, which has helped rapid growth of Indian Paper Industry.

In 1989, Mr. Chugh came back to ITC as Vice Chairman and took over as Chairman in 1991. During the stewardship of Mr. Chugh, ITC had become one of the India's leading Private Sector Corporations in turnover, profit, market capitalization and the country's largest exporter and the prestigious Super Star Trading House. During Mr. Chugh's tenure of 4 years as Chairman, ITC grew more than two fold in turnover and almost four times in profit. For two consecutive years ITC emerged as India's No.1 Company based on a number of criteria - growth, profit, return to shareholders and market capitalization. In the early days of economic liberalization, Mr. Chugh re-engineered ITC to develop as India's Multinational. He was the First Indian CEO to talk about "Creating India's Multinationals" & encouraged Global Competitiveness.

Mr. Chugh was appointed Director on the Central Board of Reserve Bank of India, Shipping Credit and Investment Company of India Ltd., Tourism Finance Corporation of India & National Housing Bank of India and Member, Board of Governors, National Council of Applied Economic Research, IIM Kolkata, Administrative Staff College of India, President AIMA. Mr. Chugh was elected Financial World's International 1994 CEO of the Year Asia & in 1993 was adjudged amongst the Top 2 Best Indian Chief Executives. He was elected one of five 'Tobacco Men of the Year' by the World Tobacco International, USA & the Most Distinguished Alumni of the Delhi College of Engineering.

He is presently Chairman, Gati Ltd., Director Sandhar Auto Industries, Urban Mass Transit Co., Fozal Small Hydro Power, Spice Telecom & Member Board of Governors of the Indian Institute of Management, Bangalore & Population Foundation of India.

Mr. Chugh's current interests are Management Consulting, Renewable Energy & Education.

Mr.Chugh holds 84205 Equity Shares of Rs.2/- each in the Company as on 30th June, 2006.

Dr. P.Sudhakar Reddy is a Director of the Company since 1995. He is a professor of Cardiology at University of Pittsburgh and founder of Medicity Hospitals. He was appointed as a full time faculty member of University of Pittsburgh in 1971. He was a Director of Cardiac Angle Laboratories from 1972 to 1993 at Presbyterian University Hospital. He has published more than 100 articles in American journals. He has been awarded many honours including FRCP of Edinburgh and Honorary Doctorate of MGR Medical university, Chennai. He founded non-profit organisations like Share (USA), Share India and Share Medical Care, which have established medicity Hospital in Hyderabad. He is Chairman of Share Medical Care, Medicity Hospital, Hyderabad and Share (USA). He is on the Board of Boruka Textiles Ltd.

Mr.P Sudhakar Reddy is not holding any share in the Company as on 30th June, 2006.

Mr.Mahendra Agarwal is on the Board of the Company since 1995. The present terms of office of Mr.Mahendra Agarwal as Managing Director has expired on 31st July, 2006. He was reappointed as Managing Director of the company with effect from on 01st August, 2003 for the period of 3 years. He is Bachelor of Engineering (Mech) from Bangalore University and MBA from USA. Mr.Mahendra Agarwal is associated with Transport and Express Cargo Industry for about 31 years. He is on the board of TCI Finance Ltd., and TCI Industries Ltd. He is also member of Remuneration Committee of TCI Finance Ltd.

Mr.Mahendra Agarwal is the promoter director and holds 1606875 Equity Shares of Rs.2/- each in the company as on 30th June, 2006.

CODE OF CONDUCT

The Board of Directors of the Company has laid down a code of conduct for all Board Members and designated Senior Management of the Company. The code of conduct is available on the website of the Company www.gati.com. All Board members and senior management personnel have affirmed compliance with the code of conduct. A declaration signed by the Managing Director to this effect is enclosed at the end of this report.

AUDIT COMMITTEE:

The Board of Directors has constituted the Audit Committee to assist the Board in discharging its responsibilities effectively. The constitution of the Audit Committee also meets with the requirements of section 292A of the Companies Act, 1956.



REPORT ON CORPORATE GOVERNANCE

Composition and Terms of Reference

The Board has constituted Audit Committee comprising three independent Non Executive Directors namely Mr. N. Srinivasan (Chairman), Mr. T S Rao and Dr.Ram S Tarneja. Dr P S Reddy, an independent Director has been appointed as a member of Audit Committee with effect from 22.09.2005. Dr P S Reddy has resigned from the Audit Committee with effect from 1st January, 2006. The composition of the Audit Committee meets the requirements of section 292A of the Companies Act, 1956.

The Committee deals accounting matters, financial reporting and internal controls. Terms of reference of Audit Committee specified by the Board are as contained in section 292A of the Companies Act, 1956 and clause 49 of the Listing Agreement with Stock Exchanges.

Meetings and attendance during the year

During the year under review, the Audit Committee met six times on 01st August, 2005, 25th October, 2005, 23rd December, 2005, 27th January, 2006, 27th April, 2006 and 17th June, 2006. Mr N Srinivasan and Mr T S Rao were present at all the meetings. Dr.Ram S Tarneja and Dr.P.S.Reddy who were appointed as members during the year attended 2 meetings held after their appointment.

COMPENSATION & HR COMMITTEE:

Composition and other details

The Board has constituted Compensation & HR Committee comprising four independent directors non executive directors namely, Mr. K L Chugh (Chairman), Dr Ram S Tarneja, Dr.P.S.Reddy and Mr.Sunil Alagh.

Terms of reference

The Committee will evaluate compensation and benefits for Executive Director(s) and to frame policies and systems of the Employee Stock Option Scheme and to look after the issues relating to major HR policies .

Attendance during the year

During the year the Committee met three times on 27th July, 2005, 29th September, 2005 and 18th January, 2006. Mr.K.L.Chugh was present at one meeting, Dr.Ram S. Tarneja was present on all the meetings and Mr.Alagh was present at two meetings.

Details of Remuneration paid to all the Directors for the year

a) Executive Directors

Mr. Mahendra Agarwal, Managing Director

Particulars	Rs. in lakhs
Salary	49.38
Commission	16.50
PF Contribution	3.93
Rent-free accommodation/perks	1.75
Superannuation	4.91
TOTAL	76.47

Mr. Manoj Todi, Director (Infrastructure)

Particulars	Rs. in lakhs
Salary	9.49
PF Contribution	0.81
Rent-free accommodation/perks	-
Superannuation	0.82
TOTAL	11.12

REPORT ON CORPORATE GOVERNANCE

b) Non-Executive Directors:

The sitting fee paid for the year ended 30th June, 2006 to the Directors, including Committee Meetings is as follows:

Name	Amount (Rs.)	Name	Amount (Rs.)
Mr. K L Chugh	65,000	Mr. T S Rao	1,35,000
Dr. Ram S Tarneja	85,000	Dr. P Sudhakar Reddy	75,000
Mr. N Srinivasan	1,20,000	Mr Sunil Kumar Alagh	70,000
Mr. Krishan Sehgal	10,000	Mr S Bhattacharya	10,000

The Commission paid for the year ended 30th June, 2005 to the Directors is as follows:

Name	Amount (Rs.)	Name	Amount (Rs.)
Mr. K L Chugh	2,00,000	Dr. P Sudhakar Reddy	1,20,000
Dr. Ram S Tarneja	1,20,000	Mr.S.Bhattacharya	1,20,000
Mr. N Srinivasan	1,50,000	Mr.Sunil Kumar Alagh	1,20,000
Mr. T S Rao	1,20,000	Mr. R.K. Pitamber	1,20,000

The Company has made provision of Rs.17.20 lakhs for commission payable to all the Non-Executive Directors for the year ended 30th June, 2006.

INVESTORS' GRIEVANCE COMMITTEE:

As a measure of good Corporate Governance and focusing on strengthening the relation with the stakeholders, the Board has formed an Investors' Grievance Committee.

Constitution and Composition

The Committee was constituted comprising of the following directors as members: Mr.T S Rao (Chairman), Mr. Mahendra Agarwal and Dr. P Sudhakar Reddy

Compliance Officer

Mr. A S Sandhu, Chief Finance Officer & Company Secretary

Terms of Reference

The Committee was constituted to look into the Investors' complaints and to redress the same expeditiously. The Committee meets as and when there are any complaints from investors. The Company Secretary of the Company is the Compliance Officer.

In order to expedite the process of share transfers, the Board has delegated the powers to officers of the Company. The delegated authority is attending to share transfer formalities at least once a fortnight, as required.

Details of complaints for the year 2005-06

S.No.	Nature of complaint	Received	Disposed	Pending
1	Non receipt of dividend warrants	41	41	Nil
2	Non receipt of share certificates after transfer/split/consolidation	31	31	Nil
3	Non receipt of bonus shares	34	34	Nil
4	Non receipt of Annual Report	24	24	Nil
5	Non receipt of refund orders	25	25	Nil

Two requests for transfers were pending for approval as on 30th June 2006 which were dealt with by 7th July, 2006. No requests for dematerialisation were pending as on 30th June 2006.



REPORT ON CORPORATE GOVERNANCE

GENERAL BODY MEETINGS

Location and time for the General Body Meetings held in last the three financial years:

Year	AGM/ EGM	Date	Venue	Time
2002 - 2003	AGM	20th October, 2003	ITC Hotel Kakatiya Sheraton & Towers, Begumpet, Hyderabad - 500 016	10.30 A.M
2003 - 2004	AGM	19th October, 2004	ITC Hotel Kakatiya Sheraton & Towers, Begumpet, Hyderabad - 500 016	10.30 A.M
2004 - 2005	AGM	22nd September, 2005	Hotel Taj Residency, Road No.1, Banjara Hills, Hyderabad – 500 034	11.00 A.M

Details of Postal Ballot

No postal ballots were used/invited for voting at these meetings in respect of special resolution passed.

DISCLOSURES

Disclosures on materially significant related party transactions, i.e. transactions of the Company of material nature, with its promoters, the Directors or the Management, their subsidiaries or relatives, etc., that may have potential conflict with the interest of the Company at large.

None

Details of non-compliance by the Company, penalties, strictures imposed on the company by the Stock Exchanges or SEBI, or any statutory authority, on any matter related to capital markets, during the last three years.

None.

MEANS OF COMMUNICATION

Results

The quarterly, half-yearly un-audited and annual results are published in national level English newspaper(s) as well as regional language newspaper circulating in Andhra Pradesh. The results are also displayed on the Company's website www.gati.com

Management Discussion and Analysis Report

Management Discussion and Analysis Report forms part of the Annual Report.

GENERAL INFORMATION FOR SHAREHOLDERS

Date, Time and Venue of : 11th October, 2006 at 10.30 .a.m

Annual General Meeting : Novotel & HICC Complex (Near Hitech City), P.O. Bag 1101, Cyberabad Post Office, Hyderabad-500 081

Financial Calendar for 2006-2007 (tentative)

Annual General Meeting : 11th October, 2006

Results for the quarter ended 30 September, 2006 : Last week of October, 2006

Results for the quarter ended 31 December, 2006 : Last week of January, 2007

Results for the quarter ended 31 March, 2007 : Last week of April, 2007

Book Closure dates

From 10th October, 2006 to 11th October, 2006 (both days inclusive) for the purpose of the Annual General Meeting and payment of dividend, if approved by the members.

Dividend Payment Date

The dividend if approved by the members will be paid within the statutory time limit.

REPORT ON CORPORATE GOVERNANCE

Listing on stock exchanges

The Company's Shares are listed on Bombay Stock Exchange Limited and The Hyderabad Stock Exchange Limited.

The listing fee for the year 2006-07 has been paid to all the above stock exchanges.

Stock Code

- a) Trading Scrip code Bombay Stock Exchange : 32345
- Trading Scrip ID Bombay Stock Exchange : GATICOR
- Trading Scrip code Bombay Stock Exchange (Demat Segment) : 532345
- Trading Scrip ID Bombay Stock Exchange (Demat Segment) : GATIDM
- b) Demat ISIN Numbers in NSDL & CDSL for Equity Shares : INE 152B01027

Monthly high / low stock quotations at Bombay Stock Exchange (BSE)

(Rupees)

Month	High	Low
July 2005	211.00	177.00
August 2005	228.00	190.00
September 2005	260.35	177.00
October 2005	252.00	187.50
November 2005	344.95	210.00
December 2005	495.00	331.00
January 2006	497.00	395.00
February 2006	460.00	390.00
March 2006	98.40	95.65
April 2006	125.45	101.00
May 2006	119.95	74.20
June 2006	86.90	63.25

Upto February, 2006 the shares price quoted at BSE is for the shares with the face value of Rs.10/- each. From March, 2006 the price quoted is for the shares with the face value of Rs.2/-each.

Share price performance in comparison to broad based indices - BSE Sensex

Particulars	Gati Share Price v/s BSE	
	Share Price (Rs.)	BSE Sensex
As on 1st July, 2005	38.76*	7165.45
As on 30th June, 2006	78.00	10626.84
% Change	101.24	48.31

* On 29th March, 2006 the Equity Shares with the face value of Rs.10/- each has been subdivided into 5 Equity Shares of Rs.2/- each. The price of the shares of the Company quoted at BSE on 1st July 2005 was Rs.193.80 for the shares with the face value of Rs.10 - each. For comparison the share price of Rs.193.80 subdivided into 5 and the subdivided price is Rs.38.76 for the shares with the face value of Rs.2/-.



REPORT ON CORPORATE GOVERNANCE

Registrar and Share Transfer Agents

M/s Karvy Computershare Private Limited
(Unit: Gati Limited)
46, Avenue 4, Street No.1, Banjara Hills
Hyderabad - 500 034
E-mail : mohsin@karvy.com

Share transfer system

The Company has a Registrar and Share Transfer Agent. Share transfers, where documents are found to be in order, are registered and returned in the normal course within two weeks from the date of receipt of the documents. Request for dematerialisation of shares are processed and confirmation given to the respective depositories i.e, National Securities Depositories Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within seven days.

Distribution Schedule as on 30th June, 2006

No. of Shares Shareholders	No. of Shareholders	% of total Shareholders	No. of Shares	% to Total Shares
Upto 5000	21574	98	4054157	5.72
5001 10000	191	0.87	700237	0.99
10001 20000	95	0.43	727900	1.03
20001 30000	30	0.14	377289	0.53
30001 40000	25	0.11	435365	0.62
40001 50000	17	0.08	403945	0.57
50001 100000	41	0.19	1498251	2.11
100001 and above	40	0.18	62673601	88.43
TOTAL	22013	100.00	70870745	100.00

Distribution of Shareholding as on 30th June, 2006

Category	No. of shares held	% Shareholding
Financial Institutions & Banks	58815	0.08
Foreign Institutional Investors	2566321	3.62
Non-Resident Indians	345383	0.49
Bodies Corporate	28181962	39.77
Directors and Relatives	14020535	19.78
General Public	25697729	36.26
TOTAL	70870745	100.00

Dematerialisation of shares

Over 85.91% of the total shares have been dematerialised upto 30th June 2006. Trading in Equity Shares of the Company is permitted only in dematerialised form w.e.f. 28th August 2000, as per notification issued by the Securities and Exchange Board of India (SEBI).

Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on equity

The Company has allotted 314237 Convertible Warrants on 2nd March, 2006, convertible at the option of the warrant holder(s) within an aggregate time period of 18 months from the date of allotment of the warrants into 314237 Equity Shares of Rs.10/- each and at a premium of Rs.413/- per share for cash, to The Infrastructure Fund of India LLC. managed by AMP Capital Investors.

Plant Locations

Not Applicable

REPORT ON CORPORATE GOVERNANCE

Investor Correspondence

For Shares held in physical & Demat form

Karvy Computershare Pvt. Ltd.
(Unit: Gati Limited)
46, Avenue 4, Street No.1,
Banjara Hills, Hyderabad 500 034
Tel: 040- 23312454
Email : madhusudhan@karvy.com & mohsin@karvy.com

Any Query on Annual Report

Gati Limited
Secretarial Department
1-7-293, M G Road, Secunderabad - 500 003
Tel Nos. 040 - 27844284 / 27843788
Email: com_sec_dept_ho@gati.com

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of Gati Limited.

We have reviewed the compliance of the conditions of Corporate Governance by Gati Limited for the year ended June 30, 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination has been limited to a review of the procedures and implementation thereof, adopted by the Company for ensuring compliance with the conditions of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the Financial Statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, and based on the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

for **R.S. Agarwala & Co.**
Chartered Accountants

Kolkata
September 11, 2006

R.S. Agarwala
Partner
Membership No.F-5534

DECLARATION

September 11, 2006

As provided under clause 49 of the Listing Agreement with the Stock Exchanges, the Board Members and the Senior management Personnel have confirmed compliance with the Code of Conduct for Board of Directors and Senior Management for the year ended 30th June, 2006

for GATI LIMITED

Mahendra Agarwal
Managing Director



MANAGEMENT DISCUSSION & ANALYSIS

Industry Structure & Development

Logistic industry in India is a highly fragmented industry and broadly covers freight transportation, warehousing, packaging, customs clearing and forwarding, inventory management, labeling and order processing. Logistic service providers allow companies to focus on their core competence and free them from the worry of getting materials on time or distributing their products within and outside the country. The infrastructure required for moving goods from one place to another involves the active roles of Roads, Railways, Ports & Shipping, Airlines and Express Cargo / Courier companies.

The Indian logistic market was valued at USD 14.31 billion (INR 645 billion) in 2004 and is expected to grow to USD 19.54 billion (INR 880 billion) by 2009 at CAGR of 6.4%. The demand for logistics services is largely driven by the Indian economy, which recorded a remarkable growth of 8.40% in 2005-06 and is expected to grow by 8% approx in 2006-07. (Source: www.careratings.com & www.crisil.com)

The global supply chain and logistic market is around USD 3 trillion, of which the market size for supply chain (logistics spent) in India is a mere USD 50 billion per year. India spends 13% approx of its GDP on logistics compared to the global benchmark of 10-11%. Worldwide, better supply chain management has reduced logistics costs by nearly 1% over the last 10 years. The Indian industry is increasingly looking at this improvement in the supply chain and logistics activities as a means to gain the competitive edge by adopting logistics and Supply Chain Management (SCM) concepts & practices. (source :www.careratings.com)

The major sectors contributing to the logistics market include the Pharma & Chemicals, Automotives, Auto Spares, Computer Peripherals, fast moving consumer goods (FMCG), Engineering products, Machinery, Spares, retail and healthcare sectors. These sectors are also opting to outsource their logistics requirements to specialized service providers, also called Third Party Logistics (3PL) service providers. Of late the concept of Fourth Party Logistics (4PL) service providers that act as a single interface between the client and multiple logistics services providers has started gaining popularity among large Indian firms.

Opportunities

Realising the importance of logistics in the overall growth of the economy, Government of India (GOI) has been giving thrust on building and improving basic infrastructure in the country. GOI is investing in highway projects, privatizing ports, streamlining customs and excise procedures, improving rail network by commencing services to new locations and has undertaken restructuring and modernisation of the airports to improve trade. In Budget 2006-07, roadmap announced for the completion of Golden Quadrilateral and N-S-E-W corridor projects, separate allotment towards rural road infrastructure covered under 'Bharat Nirman', increase in the allocation to National Highways Development Programme and announcement of new expressway projects shows the seriousness of the Govt. for improving its road infrastructure as the same would, inter-alia, speed up the surface transportation of goods. This is a major driver for the smooth functioning of the logistics industry, as around 40% of the cost is on transportation alone.

GOI's efforts to make India a manufacturing hub in various sectors such as textiles, automobiles, steel, metals and petroleum products would positively impact the logistics industry. Overall cut in the peak customs duty along with other sector-specific positives moves may increase the manufacturing and trade activities leading to more requirement of logistics services.

GOI has also rationalised the tax structure, introduced tonnage tax and has moved to a uniform Value Added Tax (VAT) scenario that are expected to lead to increased outsourcing of warehousing and distribution to 3PL providers. However, the industry is sensitive to fuel prices, as the sector is dependent on transportation via Land, Air and Water networks.

India's entry into the WTO and its signing of several Asean Free Trade Agreements (AFTA) and Bi-lateral FTAs will provide more exchange of goods and services which is a major driver for the logistics sector. Further, the impact of globalization, improvement in world economy is proving beneficial to logistics companies.

All the above positive developments will lead to increased outsourcing of warehousing and distribution to specialised 3PL and 4PL service providers.

Your Company's strategy to focus on establishing State-of-the-art Warehouses, Providing quality value added service, Adoption of latest cutting edge Information Technology, Continuous process improvement, Strict cost management etc. will position itself very favourably in the years ahead to capture the growth in logistic sectors.

Threats, Risks and Concern

Gati faces market competition from both Indian as well as international companies. Gati's wide reach and competitive cost positions has enabled it to retain its leadership position. Gati's high level of integration and presence in Asia-Pacific and domestic leadership position has helped in mitigating the adverse impact of generic industry risk factors.

Foreign exchange rate volatility has an impact on the business and on the foreign currency debt. However, the Company has vast experience in the field to mitigate the risk considerably.

MANAGEMENT DISCUSSION & ANALYSIS

The proposed “Indian Postal Act” amendment may have adverse impact on the Indian courier industry. However, your Company has limited operation in courier business, which is less than 1% percent of its total operational income, therefore, it will have marginal impact on the company.

Increasing fuel prices in the recent years have been a matter of concern for the express distribution and supply chain companies. However, the Company has well defined diesel price/ATF index to mitigate the impact of fluctuations in fuel prices to a large extent.

Business Overview

During the year, Income from operations recorded Rs 45772 Lakhs (previous year Rs. 36127 Lakhs) registering the growth of over 27 percent. Profit before interest, depreciation and tax amounted to Rs. 4033 Lakhs (previous year Rs.2761 Lakhs) rising over 46 percent. EBITDA margin, increased, standing at 8.81 percent during the year, up from 7.64 percent from the previous year. Net Profit after Tax amounted to Rs. 2007 Lakhs for the year ended 30th June, 2006, against Rs. 1037 Lakhs for the previous year, excluding Rs. 412 Lakhs in respect of Deferred Tax liability reversal, registering a growth of over 94%.

The following are the segment wise Revenue figures of the Company for the year under review:

(Rs. in Lakhs)		
Division	2005-06	2004-05
Express Distribution & Supply Chain	32557	25914
Coast-to-Coast (Shipping)	4907	2713
Fuel Stations	8148	7292
Other Income	160	208
Total	45772	36127

Operational Performance

Gati widened its reach to 594 districts in India (out of 602 districts) from 580 districts (out of 590) during the year. The Company established modern warehouses at various strategic places with multi-level stacking to position itself firmly on express cargo and 3PL segment.

During the year, various IT initiatives such as setting up of ‘Disaster Recovery’ solutions, portal and single sign on and vehicle tracking system were taken. These initiatives are to bring operational efficiencies and meet customer’s requirements.

During the year, the Company acquired a vessel “MV Gati Zipp” (DWT of 6779) and taken a vessel “MV Clarissa” on time– charter basis to provide better coastal shipping services in Bay of Bengal. The Company’s vessel during the year, started going to Yangoon Port (Myanmar) which increased the capacity utilization of the vessels.

The Company is transferring its fuel stations division to its subsidiaries from the next financial year to concentrate on core business.

With a vision to position the company as number one India centric, Globally preferred Supply Chain Services and Solution provider in Asia Pacific, your company has established 100% wholly owned subsidiary namely M/s Gati Holdings Limited at Mauritius. The Holding company has established further three step-down subsidiaries namely M/s Gati Asia Pacific Pte Ltd. at Singapore, M/s Gati Hongkong Ltd. at Hongkong & M/s Gati China Holdings Ltd. at Mauritius. Your Company’s international business operations are keeping pace with the changing market trends and international division is expected to contribute significantly in the coming years.

Outlook and Future Strategies

The Company continues to be driven by its vision of becoming the leader in Asia Pacific and a globally preferred provider of India-centric supply chain services and solutions. The Company’s future strategies are focused on development of both domestics and international business through process improvement, better cost management, innovative products and services and establishment of state-of-the-art warehouses. The major thrust will be also on providing better quality services to its customers.

Vision

Gati shall:

- Be the leader in Asia-Pacific and a globally preferred provider of India-centric supply chain services and solutions.
- Delight the customers with quality services by setting new trends through innovation and technology.
- Be the most preferred organization for all its stake holders.
- Be a responsible corporate citizen with unwavering commitment to environmental protection and conservation.



MANAGEMENT DISCUSSION & ANALYSIS

Core Values

- To be ethical, integral and transparent in our leadership.
- To respect and treat the value the enquiries of others.
- To be caring and abundant in giving support and services to others.
- To balance the body and mind, and 'people serve people' in good spirit.
- To approach life holistically and elegantly with empathy.
- In keeping with Indian culture and attitude, never say 'no' to servicing a customer.
- To be a responsible corporate citizen and remain committed to the cause of environmental protection and conservation.

Key Success Factors

Gati is always focussed on the following Key Success Factors:

- Customers / Partners / Gati'ites satisfaction.
- Organization effectiveness and flexibility.
- Quality and value-added services.
- Dependability and trust.
- The Gati'ites' culture of services.

Internal Management Control Systems & their Adequacy

Gati has well defined organization structure, documented policy guidelines, pre-defined authority levels, and an internal system commensurate with its size and nature of business to meet the following objective:

- Optimal utilization and protection of the Company's resources.
- Safeguarding and protecting the interests of the Company.
- Compliance with internal policies and procedures.
- Effective monitoring and compliance with the applicable laws, rules and regulations.
- Completeness, accuracy and generation of reports for all transactions of the Company in time.

Gati has an internal audit function empowered to examine the adequacy, relevance and effectiveness of control systems, compliance with policies, plans and statutory requirements.

Human Resources

Gati family as on 30th June, 2006 was 2968. Customised training programs that enhance both personal as well as career growth of employees are carried out almost round the year. The programs have equipped its executives with better professional as well as personal life.

Quality and Customer Service

Gati continues to take quality improvement measures and strengthen quality management systems at all its locations. Gati regularly conducts ISO audit to see that the process flow in the company is following the laid set of Standard Operating Process. Your company's brand is selected as "Super brand" award in logistic segment.

Corporate Social Responsibility

Gati is committed to community assistance and social development, since it believes that the organisational growth is always linked with overall development of the society and the community at large. Gati & its employees have always come together to support for any social cause by contributing one day equivalent salary for Tsunami hit. The Company has made donation towards construction of a school at Nagapantam village, which is ready for inauguration.

AUDITORS' REPORT

TO THE MEMBERS OF GATI LTD.

We have audited the attached Balance Sheet of Gati Ltd. as at 30th June, 2006, the annexed Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, in which are incorporated the audited accounts of the Coast-to Coast Division and the branches in Nepal, Singapore and China as audited by other auditors.

1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of audit, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 & 5 of the said Order.
4. Further to our comments in the Annexure, referred to in paragraph 3 above, we report that:
 - i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - ii) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purpose of our audit have been received from the branches not visited by us. The Branch Auditor's Reports have been forwarded to us and appropriately dealt with.
 - iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account and returns from the branches.
 - iv) In our opinion, the Profit and Loss Account, the Balance Sheet and the Cash Flow statement comply with the accounting standards referred to in section 211 (3C) of the Companies Act, 1956.
 - v) On the basis of written representations received from the directors as on 30th June, 2006 and taken on record by the Board of Directors none of the directors is disqualified as on 30th June 2006 from being appointed as a director under section 274(1) (g) of the Companies Act, 1956.
 - vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes and accounting policies thereon give the information required by the companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a) In the case of Balance Sheet of the state of affairs of the Company as at 30th June, 2006.
 - b) In the case of Profit and Loss Account, of the profit of the Company for the year ended on that date and
 - c) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

for **R S Agarwala & Co**
Chartered Accountants

Camp: Secunderabad
August 2, 2006

R S Agarwala
Partner
Membership No. F-5534



AUDITORS' REPORT

Annexure to Auditors' Report

referred to in paragraph 3 of our report of even date.

1. The Company has maintained records showing full particulars including quantitative details and situation of fixed assets like land, buildings, vehicles, plant and machinery, computers etc. We are informed that a test physical verification of these assets was carried out by the management during the year and no material discrepancies were noticed. The management has informed us that in respect of other fixed assets like furniture and fittings, office equipments, having regard to their numbers and the numerous locations where these exist, maintenance of detailed records and reconciliation of their value in general ledger is not feasible.
2. During the year the Company has not disposed off a substantial part of its fixed assets.
3. Physically verification was conducted by the management in respect of inventories at reasonable intervals. The Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification. The procedures followed by the management for such physical verification are in our opinion, reasonable and adequate in relation to the size of the Company and the nature of its business.
4.
 - (a) The Company has granted unsecured loans to a Company covered in the register maintained under Section 301 of the Act. The maximum amount involved and the year end balance of such loans during the year aggregates to Rs.200 lakhs. which was fully outstanding as at the balance sheet date.
 - (b) In our opinion, the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Company.
 - (c) There are no stipulations as to the dates for repayment of principal and / or interest.
 - (d) The Company has not taken any loans secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
5. There is an adequate internal control system commensurate with the size and nature of the Company's business for the purchase of inventories, fixed assets and for the sale of goods and services. During the course of our audit no major weakness has been noticed in the internal control system, nor we have been informed of any such instance.
6.
 - (a) To the best of our knowledge and belief and according to the information and explanations given to us, the particulars of contracts or arrangements that need to be entered into the register in pursuance of Section 301 of the Act, have been so entered.
 - (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered into the register in pursuance of Section 301 of the Act and exceeding the value of Rupees Five lakhs in respect of any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
7. The Company has complied with the provisions of Sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the rules framed thereunder with regard to deposits accepted from the public.
8. The Company has appointed firms of Chartered Accountants at certain places to do the Internal audit regularly. The in-house internal audit department of the company conducts internal audit at other places. The internal audit system is commensurate with the size and nature of Company's business.
9. The Central Government has not prescribed the maintenance of Cost records under section 209 (1)(d) of the Companies Act, 1956 in respect of any activities of the Company.
10.
 - (a) According to the information and explanations given to us and the records of the Company examined by us in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees state insurance, income-tax, sales tax, wealth tax, service tax, customs duty and other material statutory dues as applicable with the appropriate authorities.

AUDITORS' REPORT

- (b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of income-tax as at June 30, 2006 which have not been deposited on account of a dispute are as under:

Nature of Dues	Amount (Rs. In Lakhs)	Forum where pending
Income Tax	41.65	Commissioner (Appeals)
Nepal Income Tax	3.96	Revenue Tribunal ,Nepal

11. The Company has no accumulated losses as at June 30, 2006 and has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
12. According to the records of the Company examined by us and the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.
13. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
14. The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.
15. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments. The investment in shares, securities, debentures etc are held by the Company in its own name.
16. In our opinion, and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantee for loans taken by others from banks or financial institutions, are not prima facie prejudicial to the interest of the Company.
17. In our opinion, and according to the information and explanations given to us, on an overall basis the term loans have been applied for the purposes for which they were obtained.
18. On the basis of an over all examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, funds raised on short-term basis, have not been used for long-term investment.
19. The Company has made preferential allotment of shares during the year and in our opinion the price at which preferential shares have been issued are not prima facie prejudicial to the interest of the company.
20. There are no debentures outstanding at the year-end.
21. We have verified the end use of money raised by right issue and the same has been disclosed in the notes to the financial statement.
22. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud on or by the Company, noticed or reported during the year, nor we have been informed of such cases by the management.

for R S Agarwala & Co
Chartered Accountants

R S Agarwala
Partner
Membership No. F-5534

Camp: Secunderabad
August 2, 2006



BALANCE SHEET AS AT 30TH JUNE, 2006

(Amount in Rs. Lakhs)

	Schedule	30th June, 2006	30th June, 2005
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	1,417.41	835.65
Reserves & Surplus	2	14,520.33	4,921.91
		15,937.74	5,757.56
Loan Funds			
Secured Loans	3	4,136.24	4,284.20
Unsecured Loans	4	3,023.37	2,104.42
		7,159.61	6,388.62
Deferred Tax Liability	5	582.37	552.37
Total Funds Employed		23,679.72	12,698.55
APPLICATION OF FUNDS			
Fixed Assets			
	6		
Gross Block		13,859.17	9,432.85
Less: Depreciation		3,722.30	2,917.76
Net Block		10,136.87	6,515.09
Capital-Work-in-Progress		4,159.04	1,251.66
		14,295.91	7,766.75
Investments	7	1,991.61	418.11
Current Assets, Loans and Advances			
Inventories	8	203.45	106.96
Sundry Debtors	9	5,432.15	4,194.79
Cash and Bank Balances	10	1,311.61	743.14
Loans and Advances	11	2,950.98	1,494.55
		9,898.19	6,539.44
Less: Current Liabilities and Provisions			
Liabilities	12	1,771.94	1,493.70
Provisions	13	734.05	532.05
		2,505.99	2,025.75
Net Current Assets		7,392.20	4,513.69
Total Assets (Net)		23,679.72	12,698.55
Notes on Accounts	22		

Schedules 1 to 13 and Schedule 22 referred to above form part of the Balance Sheet

In terms of our Report of even date attached

For and on behalf of the Board

For **R. S. Agarwala & Co.**
Chartered Accountants

A S Sandhu
Chief Finance Officer & Company Secretary

K.L. Chugh
Chairman

Mahendra Agarwal
Managing Director

R. S. Agarwala
Partner

N Srinivasan
Director

Camp: Secunderabad
August 2, 2006

Secunderabad
August 2, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2006

(Amount in Rs. Lakhs)

Particulars	Schedule	30th June, 2006	30th June, 2005
INCOME			
Freight & Warehousing	14	37,463.64	28,626.76
Sales		8,148.22	7,291.99
Other Income	15	160.43	208.04
TOTAL		45,772.29	36,126.79
EXPENDITURE			
Cost of Sales	16	8,019.82	7172.17
Operating Expenses	17	23,982.69	18,080.35
Personnel Expenses	18	4,901.35	3,965.41
Administrative Expenses	19	4,447.51	3,703.86
Repairs & Maintenance Expenses	20	387.92	443.59
Interest (Net)	21	422.11	472.59
Depreciation (Net - Note 2)		865.26	729.67
TOTAL		43,026.66	34,567.64
Profit Before Tax		2,745.63	1,559.15
Provision for Tax			
Current Tax		630.00	467.00
Deferred Tax		30.00	42.00
Fringe Benefit Tax		79.00	13.00
Reversal of Deferred Tax		-	(412.24)
Profit after Tax		2,006.63	1,449.39
Balance Brought Forward From Previous Year		336.41	223.87
Balance Available for Appropriation		2,343.04	1,673.26
APPROPRIATIONS			
Proposed Dividend		496.09	250.69
Tax on Dividend		69.58	35.16
Tonnage Tax Reserve		162.00	41.00
General Reserve		1,200.00	1,010.00
Balance Carried to Balance Sheet		415.37	336.41
		2,343.04	1,673.26
Earning per Share		3.28	2.64
Notes on Accounts	22		

Schedules 14 to 22 referred to above form part of the Profit and Loss Account

In terms of our Report of even date attached

For and on behalf of the Board

For **R. S. Agarwala & Co.**
Chartered Accountants

A S Sandhu
Chief Finance Officer & Company Secretary

K.L. Chugh
Chairman

Mahendra Agarwal
Managing Director

R. S. Agarwala
Partner

N Srinivasan
Director

Camp: Secunderabad
August 2, 2006

Secunderabad
August 2, 2006



SCHEDULES TO THE ACCOUNTS

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
(1) SHARE CAPITAL		
Authorised		
100,000,000 Equity Shares of Rs.2/- each (Previous year Rs.10/- each)	2,000.00	2,000.00
10,00,000 Redeemable Preference Shares of Rs.100/- each	1,000.00	1,000.00
	3,000.00	3,000.00

Issued,Subscribed and Paid-up:

708,70,745 Equity Shares of Rs.2/- each fully paid up : (Previous year Rs.10/- each)	1,417.41	835.65
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Of the above:

125,09,495 Shares were allotted for consideration other than cash as per the Scheme of Arrangement.

139,27,500 shares were issued as fully paid bonus shares by capitalisation of Share premium.

During the year following shares were issued:

208,87,460 shares on rights basis

3,44,850 shares on vesting of Employees Stock Options

78,55,935 shares on preferential basis

The Equity Shares of Rs.10/- each have been sub-divided into 5 Equity Shares of Rs.2/- each pursuant to the resolution passed by the Shareholders at their Extra-Ordinary General Meeting held on 25th February, 2006.

The Company has granted Options under the Companies Employees Stock Options Scheme and 496080 options (including 80000 options to non-promoter directors) are outstanding as at 30th June, 2006. Of this 84452 options will vest in 2006- 07, 202163 options in 2007-08, 129980 options in 2008-09 and 79485 options in 2009-10.

	Balance on 1st July 2005	Additions	Deductions	30th June 2006	30th June 2005
(2) RESERVES & SURPLUS					
Capital Reserves:					
Revaluation Reserve	697.06	-	1.27 (a)	695.79	697.06
Share Premium	73.31	8122.63 (b)	-	8,195.94	73.31
Employees' Stock Option	22.88	45.13 (c)	9.03 (d)	58.98	22.88
Others	1.25	-	-	1.25	1.25
				8,951.96	794.50
Revenue Reserves:					
General Reserve	3,400.00	1200.00 (e)	-	4,600.00	3,400.00
Shipping Business Reserve (utilised)	350.00	-	-	350.00	350.00
Tonnage Tax Reserve	41.00	162.00 (e)	-	203.00	41.00
Profit and Loss Account				415.37	336.41
				5,568.37	4,127.41
				14,520.33	4,921.91

(a) Transferred to Profit and Loss Account being depreciation provided on revalued amount.

(b) Received on issue of shares during the year net of issue expenses of Rs.231.09 Lakhs.

(c) In respect of options granted under the Companies Stock Options Scheme and in accordance with the guidelines issued by Securities and Exchange Board of India the accounting value of options (based on market value of share on the date of grant of options minus the option price) is accounted as deferred employees compensation which is amortised on a straight line basis over the vesting year. Consequently salaries, wages and bonus includes Rs.45.13 Lakhs (Previous Year Rs. 14.19 Lakhs), being amortisation of deferred employee compensation after adjusting for reversal on account of options left

(d) Transferred to Share Premium on vesting of 344850 options during the year.

(e) Transferred from Profit and Loss Account

SCHEDULES TO THE ACCOUNTS

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005		
(3) SECURED LOANS				
TERM LOANS:				
FROM BANKS				
Against first charge by way of Mortgage/ Hypothecation of specified fixed assets and other assets acquired there against (Repayable within one year Rs.1224.62 lakhs , Previous year Rs.1492.65 lakhs)	2,817.11	2,355.58		
Secured by hypothecation of Motor Trucks, Motor Cars and Computer equipments acquired there against (Repayable within one year Rs.179.90 lakhs, Previous year Rs. 185.37 lakhs)	438.26	321.05		
FROM OTHERS				
Secured by hypothecation of specified immovable asset (Repayable within one year Rs.5.84 lakhs, Previous year Rs. Nil)	97.78	-		
WORKING CAPITAL LOANS				
From Banks	783.09	1,607.57		
Secured against first charge by way of hypothecation of all current assets including book debts, stocks and equitable mortgage of specified immovable assets of the Company and of third parties				
	4,136.24	4,284.20		
In addition, loans to the extent of Rs.3241 lakhs are also guaranteed by the Managing Director (Promoter)				
(4) UNSECURED LOANS				
Fixed Deposits	1,178.95	1,144.42		
Advances against Convertible Warrants	344.42	-		
Short Term Loans and Advances				
From Banks (a)	1,500.00	-		
Commercial Paper	-	960.00		
(a) Guaranteed by the Managing Director (Promoter)				
	3023.37	2104.42		
(5) DEFERRED TAX LIABILITY				
	At Ist July 2005	Current Year	30th June, 2006	30th June, 2005
Difference between book and Tax Depreciation	552.37	30.00	582.37	552.37



SCHEDULES TO THE ACCOUNTS

(6) FIXED ASSETS

(Amount in Rs. Lakhs)

Description	At Cost or Valuation				Depreciation & Amortisation			Net Block	
	As At 01.07.2005	Additions During the Year	Deductions During the Year	Balance As At 30.06.2006	Up to 01.07.2005	For the Year	Adjustment On Deductions	Balance As at 30.06.2006	30th June 2005
<u>Tangible Assets</u>									
Land	1,105.84	446.20	-	1,552.04	-	-	-	-	1,105.84
Buildings	980.23	397.30	-	1,377.53	77.06	22.27	-	99.33	903.17
Vehicles	1,012.92	428.59	106.48	1,335.03	564.87	124.37	51.23	638.01	448.05
Plant & Machinery	797.28	1,270.44	1.20	2,066.52	65.75	78.40	0.54	143.61	731.53
Computers	2,070.54	357.66	9.44	2,418.76	1,324.11	283.09	5.82	1,601.38	746.43
Ships	1,419.36	1,356.01	-	2,775.37	191.69	97.53	-	289.22	1,227.67
Furniture & Fittings	615.62	184.01	1.98	797.65	259.26	57.89	1.33	315.82	356.36
Office Equipments	396.53	50.89	7.60	439.82	109.37	26.90	3.07	133.20	287.16
	8,398.32	4,491.10	126.70	12,762.72	2,592.11	690.45	61.99	3,220.57	5,806.21
<u>Intangible Assets</u>									
Computer Software	1034.53	61.92	-	1096.45	325.65	176.08	-	501.73	708.88
	1034.53	61.92	-	1096.45	325.65	176.08	-	501.73	708.88
Total	9,432.85	4,553.02	126.70	13,859.17	2,917.76	866.53	61.99	3,722.30	6,515.09
Previous Year	8,316.71	1,315.57	199.43	9,432.85	2,313.77	730.94	126.95	2,917.76	6,515.09
Capital Work-in-Progress								4,159.04	1,251.66
Total								14,295.91	7,766.75

a) A part of Land & Buildings were revalued on 31st December, 1997, 29th June, 1999 and 31st March, 2000 and the resultant increase in the value of assets by Rs. 45.96 Lakhs, Rs. 141.31 Lakhs and Rs. 148.35 Lakhs respectively and aggregating to Rs. 335.62 Lakhs was transferred to Revaluation Reserve.

b) Capital Work-in-Progress includes Capital Advances of Rs. 2586.38 Lakhs

c) Depreciation for the Year includes Rs. 1.27 Lakhs in respect of the above revaluations.

SCHEDULES TO THE ACCOUNTS

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
(7) INVESTMENTS (At Cost)		
Long term - Non-trade		
Fully Paid-up Equity Shares		
Quoted		
16,00,300 of TCI Finance Ltd. of Rs.10/- each.	143.89	143.89
Unquoted		
1,62,50,000 of Gati Infrastructure Ltd. of Rs.10/- each. (Allotted during the year)	1,625.00	-
Subsidiaries		
(Allotted during the year)		
4,33,545 of Gati Holdings Ltd. of USD 1/- each	195.92	-
10,000 of Trymbak Commercial & Trading Pvt. Ltd. of Rs.10/- each	1.00	-
10,000 of Ocimum Commercial & Trading Pvt. Ltd. of Rs.10/- each	1.00	-
10,000 of Sumeru Commercial & Trading Pvt. Ltd. of Rs.10/- each	1.00	-
10,000 of Newatia Commercial & Trading Pvt. Ltd. of Rs.10/- each	1.00	-
	199.92	-
Government Securities		
1 11% PSIDC Bond of Rs.1 lakh each	1.00	1.00
3 11.50% PSEB-2010 Bonds of Rs. 5 lakhs each	15.74	15.74
5 12.20% HPRIDC Bonds of Rs.1 lakh each	3.09	4.51
3 11% GEB Bonds of Rs.1 lakh each	2.97	2.97
	22.80	24.22
Share Application Money	-	250.00
	1,991.61	418.11
Market Value of Quoted Investments	305.66	323.26
(8) INVENTORIES		
(As taken, valued and certified by the Management)		
Diesel, Petrol etc. (at lower of cost and net realisable value)	52.37	50.93
Stores & Spare Parts (at cost)	151.08	56.03
	203.45	106.96
(9) SUNDRY DEBTORS		
(Unsecured - Considered Good)		
Outstanding for more than six months	170.88	47.72
Others	5,261.27	4,147.07
	5,432.15	4,194.79
(10) CASH AND BANK BALANCES		
Cash in Hand	77.53	60.76
Cheques in Hand	576.47	309.79
Remittance in Transit	92.90	52.74
With Scheduled Banks:		
In Current Accounts	142.76	99.21
In Deposit Accounts (a)	392.84	130.65
In Unpaid Dividends Accounts	28.77	89.75
With Non-Scheduled Banks	0.34	0.24
Bhutan National Bank - Rs. 0.05 Lakhs (Maximum balance Rs.1.26 Lakhs)		
Everest Bank Limited - Rs.0.29 Lakhs (Maximum balance Rs.4.66 Lakhs)		
	1,311.61	743.14
a) Some of the Fixed Deposit Receipts are deposited with banks against guarantees issued		
(11) LOANS AND ADVANCES		
(Unsecured - Considered Good)		
Loans	1,200.00	-
Advances Recoverable in Cash or in Kind or for Value to be Received (a)	849.62	826.96
Advances and Deposits	701.93	384.55
Tax Deducted at Source	199.43	283.04
	2,950.98	1,494.55
(a) Includes Rs.30.68 Lakhs due from Subsidiary Companies		



SCHEDULES TO THE ACCOUNTS

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
(12) LIABILITIES		
Sundry Creditors	428.75	369.02
Subsidiary Companies	41.66	-
Other Liabilities	908.72	755.93
Interest Accrued on Loans	49.78	42.84
Security Deposits	314.26	236.16
Unpaid/Unclaimed Dividends	28.77	89.75
	1,771.94	1,493.70
There are no amounts pending to be transferred to Investor Education and Protection Fund.		
(13) PROVISIONS		
Taxation (Net of Payments)	116.91	215.03
Gratuity and Leave Encashment	51.47	31.17
Proposed Dividend	496.09	250.69
Tax on Dividend	69.58	35.16
	734.05	532.05
(14) FREIGHT & WAREHOUSING		
Freight, Miscellaneous charges etc (a)	32,120.14	25,561.56
(Tax deducted Rs.39.10 Lakhs , Previous Year Rs.24.29 Lakhs)		
Warehousing Charges	436.57	352.04
(Tax deducted Rs.12.19 Lakhs, Previous Year Rs.36.67 Lakhs)		
Shipping Freight, Charter Hire, Miscellaneous charges (a)	4,906.93	2,713.16
(Tax deducted Rs.0.59 Lakhs, Previous Year Rs.Nil)		
(a) Includes Demurrage of Rs.220.49 Lakhs, Previous Year Rs.160.61 Lakhs)		
	37,463.64	28,626.76
(15) OTHER INCOME		
Rent	11.35	6.24
(Tax deducted Rs.1.38 Lakhs, Previous Year Rs.0.79 Lakhs)		
Miscellaneous Income	131.31	192.83
Difference in Exchange (Net)	17.77	8.97
	160.43	208.04
(16) COST OF SALES		
Opening Stock	50.93	41.49
Purchases	8,021.26	7,181.61
	8,072.19	7,223.10
Less : Closing Stock	52.37	50.93
	8,019.82	7,172.17
(17) OPERATING EXPENSES		
Freight	19,508.50	15,177.22
Vehicles' Trip Expenses	544.87	470.91
Tyres & Tubes	18.77	16.57
Other Operating Expenses	1,017.45	738.73
Claims for Loss & Damages (Net)	95.56	49.71
Commission	15.32	25.76
Vehicles' Taxes	29.48	19.46
Vehicles' and Ships Insurance	60.08	77.07
Power, Fuel and Water Expenses	893.09	551.82
Stores & Spare Parts Consumed	128.16	108.29
Port & Survey Expenses	1,671.41	844.81
	23,982.69	18,080.35

SCHEDULES TO THE ACCOUNTS

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
(18) PERSONNEL EXPENSES		
Salaries, Wages & Bonus	4,290.98	3,418.53
Gratuity	65.14	29.93
Contribution to Provident & Other Funds	195.00	169.40
Contribution to Employees' State Insurance	37.44	37.83
Other Personnel Expenses	312.79	309.72
	4,901.35	3,965.41
(19) ADMINISTRATIVE EXPENSES		
Rent	744.33	569.52
Rates and Taxes	16.91	12.91
Insurance (includes Rs. 20 Lakhs towards Keyman Insurance Policy)	109.79	47.01
Telephone Expenses	274.17	291.29
Printing and Stationery	288.88	303.18
Travelling Expenses	546.25	438.76
Legal Expenses	44.65	36.91
Advertisement Expenses	478.74	412.09
Office Maintenance and Repairs	494.25	354.88
Miscellaneous Expenses	1,233.50	898.22
Remuneration to Directors:		
Salaries & Allowances	58.87	55.67
Commission	33.70	10.70
Fees	5.70	5.10
Remuneration to Auditors:		
For Audit	6.99	4.07
For Tax Audit	1.78	1.25
For Certification	1.00	1.00
Bad Debts and irrecoverable Balances Written Off (Net)	30.96	191.45
Charity & Donations	39.78	43.55
Loss on redemption of Investment in Government Securities	-	0.14
Loss on sale of Fixed Assets (Net)	37.26	26.16
	4,447.51	3,703.86
(20) REPAIRS & MAINTENANCE EXPENSES		
Motor Trucks	96.90	64.26
Other Vehicles	69.82	57.68
Plant & Machinery	24.41	13.88
Buildings	30.62	8.33
Computers	110.06	96.73
Ships	56.11	113.78
Dry Docking Expenses	-	88.93
	387.92	443.59
(21) INTEREST		
Fixed Loans	363.32	323.44
Fixed Deposits	106.78	102.00
Others	39.60	65.74
	509.70	491.18
Less: Interest Received (a)	87.59	18.59
(Tax Deducted Rs.15.48 lakhs, Previous Year Rs.1.95 lakhs)	422.11	472.59
(a) Includes Rs.2.66 lakhs from Investments in Government Securities, Previous Year Rs.3.52 lakhs)		



SCHEDULES TO THE ACCOUNTS

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
(22) NOTES ON ACCOUNTS		
1. REMUNERATION TO DIRECTORS		
Managing Director		
Salaries & Allowances	49.38	46.67
Commission	16.50	-
Money value of Perquisites	1.75	1.61
Contribution to Provident / Superannuation Funds	8.84	8.10
Wholetime Director		
Salaries & Allowances	9.49	9.00
Medical Reimbursement	-	2.21
Contribution to Provident / Superannuation Funds	1.63	1.62
Other Directors		
Commission	17.20	10.70
Fees	5.70	5.10
	110.49	85.01
Computation of net profit in accordance with Section 309(5) of the Companies Act, 1956		
Profit before Tax	2,745.63	1,559.15
Add :		
Depreciation as per accounts	865.26	729.67
Loss on redemption of investment in government securities	-	0.14
Directors' Remuneration/Commission	110.49	85.01
Sub-total	3,721.38	2,373.97
Less :		
Profit on sale of assets	-	1.11
Depreciation under Section 350	865.26	729.67
Net profit computed in accordance with Section 309(5)	2,856.12	1,643.19
Commission payable to Directors - 1%	28.56	16.43
Restricted to	17.20	10.70
The above does not include contribution to Gratuity Fund and provision for encashable leave which is actuarially calculated on an overall basis.		
2. THE NET DEPRECIATION CHARGED FOR THE YEAR IS ARRIVED AT AS FOLLOWS:		
Depreciation for the year	866.53	730.94
Deduct : Transfer from Revaluation Reserve being depreciation provided on revalued amount	1.27	1.27
Net Depreciation charged in Profit and Loss Account	865.26	729.67
3. Tax provision in these accounts has been made considering the working results for the year ended 30th June, 2006. The actual tax liability will be determined on the basis of tax accounting year ended 31st March, 2006 (Assessment Year 2006-07).		
4. The Company has on 2nd March, 2006 issued 314237 Convertible Warrants of Rs.423/- per warrant on preferential basis to The Infrastructure Fund of India LLC., convertible at the option of the warrant-holder within an aggregate time period of 18 months from the date of allotment into 314237 Equity Shares of Rs.10/- each at a premium of Rs.413/- per share (since sub-divided into 1571185 Equity Shares of Rs.2/- each).		
5. Earning per shares		
No of equity shares outstanding (Nos in Lakhs)	708.71	417.83
Net profit after tax available for equity shareholders (Rs. in Lakhs)	2,006.63	1,449.39
Basic earnings per share of Rs. 2/- each (Rs.)	3.28	2.64
Diluted earnings per share of Rs. 2/- each (Rs.)	3.02	2.58
The Equity Shares of Rs.10/- each have been sub-divided into 5 Equity Shares of Rs.2/- each pursuant to the resolution passed by the Shareholders at their Extra-Ordinary General Meeting held on 25th February, 2006.		

SCHEDULES TO THE ACCOUNTS

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
6.Capital work in Progress includes advances given in earlier years to Associate Companies namely Giri Roadlines & Commercial Trading Pvt. Ltd Rs. 400 lakhs. (Maximum balance Rs.400 lakhs) and to TCI Industries Ltd. Rs.61 lakhs paid during the year (Maximum balance Rs.126 lakhs)		
7.Loans & Advances includes advance given to Associate Companies namely Gati Infrastructure Ltd. Rs.249.34 lakhs (Maximum balance Rs.249.34 lakhs) and TCI Finance Ltd Rs.3.37 lakhs (Maximum balance Rs.3.37 lakhs).		
8.Estimated amount of contracts remaining to be executed on capital account and not provided for	5,771.55	147.06
9.Previous year's figures have been regrouped/rearranged wherever necessary.		
10.Contingent Liability not provided for in respect of		
Income Tax demands under dispute	76.98	28.80
Guarantees and Counter Guarantees outstanding	495.61	351.40
11.Related Party Disclosures		
Related parties with whom transactions have taken place during the year		
i Directors/Key Management Personnel:		
Mr. Mahendra Agarwal (Managing Director)		
Mr. Manoj Todi (Wholetime Director - till 3rd April, 2006)		
ii Associates		
TCI Finance Ltd.		
Giri Roadlines & Commercial Trading Pvt. Ltd.		
Jubilee Commercials & Trading Pvt. Ltd.		
Gati Infrastructure Ltd.		
Gati Shipping Ltd.		
Gati Cargo Management Services Ltd.		
TCI Hi-ways Pvt. Ltd.		
TCI Industries Ltd.		
Mahendra Kumar Agarwal & Sons		
Subsidiaries		
Gati Holdings Ltd		
Gati Asia Pacific Pte Ltd		
Gati Hong Kong Ltd		
Gati China Holdings Ltd		
Newatia Commercial & Trading Pvt. Ltd		
Trymbak Commercial & Trading Pvt. Ltd		
Ocimum Commercial & Trading Pvt. Ltd		
Sumeru Commercial & Trading Pvt. Ltd		

SL	Nature of Transaction	July-June 2006	July-June 2005
A	Expenditure		
i	Associates		
	Rent	8.51	9.03
	Freight & Other Charges	531.12	468.43
	Port Expenses	90.75	56.24
ii	Key Management Personnel		
	Remuneration	87.59	69.20
B	Receipts		
	Associates		
	Freight	49.28	-
	Interest	5.38	3.32
	Other Charges	183.76	63.10
C	Finance & Investment		
	Associates		
	Advances towards Fixed Assets - Given	66.50	22.00
	Advances towards Fixed Assets - Repaid	126.00	-
	Investments	1574.92	-
	Share Application Money	-	250.00
	Loans - Repaid	-	65.20
	Loans - Given	200.00	65.20



SCHEDULES TO THE ACCOUNTS

22 NOTES ON ACCOUNTS (contd...)

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
D Balance at the year end		
Associates		
Investments	1968.81	143.89
Share Application Money	-	250.00
Sundry Debtors	38.08	-
Loans and Advances	282.72	-
Sundry Creditors	41.66	-
Advances towards Fixed Assets	461.00	520.50
Corporate Guarantees	495.61	351.40

12 Segment Information

Primary Business Segment

Express Distribution & Supply Chain : Covers integrated cargo services – Road, Rail & Air Transportation.

Coast-to-Coast (Shipping) : Covers Sea Transportation

Fuel Stations : Covers fuel stations dealing in petrol, diesel and lubricants etc.

(Amount in Rs. Lakhs)

	30th June, 2006	30th June, 2005
1. Segment Revenue (net sale/income)		
a) Express Distribution & Supply Chain	32,557	25,914
b) Coast-to-Coast (Shipping)	4,942	2,741
c) Fuel Stations	8,148	7,292
Total	45,647	35,947
Less: Inter-Segment Revenue	35	28
Net sales/income from operations	45,612	35,919
2. Segment Results		
Profit before tax and interest from each Segment		
a) Express Distribution & Supply Chain	3,174	2,497
b) Coast-to-Coast (Shipping)	939	273
c) Fuel Stations	77	68
Total	4,190	2,838
Less : i Interest (Net of Income)	422	472
ii Other un-allocable expenditure net of un-allocable income	1,022	807
Total Profit Before Tax	2,746	1,559
3. Other Information		
Segment Assets		
a) Express Distribution & Supply Chain	16,524	11,521
b) Coast-to-Coast (Shipping)	6,190	2,577
c) Fuel Stations	280	208
Unallocated Corporate Assets	3,192	418
Total Assets	26,186	14,724
Segment Liabilities		
a) Express Distribution & Supply Chain	7,388	7,827
b) Coast-to-Coast (Shipping)	2,794	1,126
c) Fuel Stations	66	14
Total Liabilities	10,248	8,967

The company operates mainly in India and therefore there are no separate geographical segments.

SCHEDULES TO THE ACCOUNTS

22 NOTES ON ACCOUNTS (contd...)

(Amount in Rs. Lakhs)

	30th June, 2006			30th June, 2005	
13. Additional Information pursuant to the Provisions of Paragraphs 3 & 4 of Part II of Schedule VI to the Companies Act, 1956					
	Unit	Quantity	Rs. in Lakhs	Quantity	Rs. in Lakhs
I. Sales					
Diesel & Petrol	KL	22241	8,008.65	24052	7,236.77
Motor Parts and Lubricants		-	139.57	-	55.22
			8,148.22		7,291.99
II. Purchases					
Diesel & Petrol	KL	22244	7,896.44	24078	7,135.75
Motor Parts and Lubricants			124.82	-	45.86
			8,021.26		7,181.61
III. Opening Stock					
Diesel & Petrol	KL	107	35.69	99	27.68
Motor Parts and Lubricants		-	15.24	-	13.81
			50.93		41.49
IV. Closing Stock					
Diesel & Petrol	KL	77	31.75	107	35.69
Motor Parts and Lubricants			20.62	-	15.24
			52.37		50.93
V. Value of Imported and Indigeneous Stores & Spare Parts Consumed during the year					
		%	Rs. in Lakhs	%	Rs. in Lakhs
Imported		44.00	56.39	69.27	75.01
Indigeneous		56.00	71.77	30.73	33.28
		100.00	128.16	100.00	108.29
VI. Expenditure in Foreign Currency					
Travelling Expenses			120.36		92.25
P & I Insurance			28.53		56.78
Port Expenses			1,027.54		428.89
Charter Hire			241.38		-
Repairs			6.82		0.43
Professional Fee			28.63		-
Interest			16.90		-
Miscellaneous			600.04		258.67
VII. Value of Imports on C.I.F. Basis					
Spare Parts			56.39		75.01
Capital Goods			1,806.83		11.53
VIII. Earnings in Foreign Currency					
Freight			2,750.47		1,260.06

14. Right issue proceeds

Out of the proceeds of the right issue an amount of Rs.452.85 lakhs is yet to be applied towards the objective of the issue and is invested in working capital temporarily.



SCHEDULES TO THE ACCOUNTS

22 NOTES ON ACCOUNTS (contd...)

15. ACCOUNTING POLICIES

Recognition of Income & Expenditure

- Income and expenditure are generally recognised on accrual basis in accordance with the applicable accounting standards and provision is made for all known losses and liabilities.
- In Express Distribution & Supply Chain Division, Freight Income is accounted when goods are delivered by the Company to customers. In Coast-to-Coast Division, Freight Income is accounted when ships sail.
- Freight expenses are accounted when hired vehicles deliver goods to the Company at destination.
- Having regard to the size of operations and the nature and complexities of the company's business, freight received/paid in advance is accounted as income/expenses on payment and inter-divisional transfers are eliminated.
- Year-end liability in respect of claims for loss and damages is provided as calculated by claims recovery agents.

Gratuity

A provision for gratuity liability to employees is made on the basis of actuarial valuation and paid to the approved Gratuity Fund

Provident Fund

Provident fund contribution is remitted to appropriate authority.

Superannuation Fund

Superannuation fund contribution is remitted to approved trust fund.

Fixed Assets

- Fixed assets are stated at cost and / or at revaluation.
- Dry docking and other expenses at the time of acquisition of ships are capitalised.
- Depreciation on the amount added to Fixed Assets on revaluation is adjusted by transfer of equivalent amount from revaluation reserve created on revaluation of Fixed Assets to Profit and Loss Account.

Intangible Assets

Intangible Assets comprising of computer software is stated at cost less accumulated amortisation. Computer Software is amortised over a period of six years.

Depreciation

Depreciation is provided on straight line method at rates specified in Schedule XIV to the Companies Act, 1956. Depreciation on addition/deductions is calculated prorata from/to the date of addition/deduction.

Investments

Investments are stated at cost.

Inventories

Petroleum products are valued at lower of cost and net realisable value. Stores & Spare parts are valued at cost.

Foreign Exchange Transaction

Foreign currency transactions are recorded at the average rate for the month. Any exchange difference in foreign currency transaction is adjusted to the cost of fixed assets where applicable. Period end balances of monetary foreign currency assets and liabilities are restated at the closing rate. The exchange difference arising from restatement or settlement is recognised in the Profit & Loss Account.

Taxation

Income Tax

Provision for tax is made for both current and deferred taxes. Provision for current income tax is made on the current tax rates based on the working results of the year. The company provides for deferred tax based on the tax effect of timing differences resulting from the recognition of items in the accounts and in estimating its current tax provision. The effect on deferred taxes of a change in tax rate is recognised in the year in which the change is effected. Fringe benefit tax is provided in accordance with the Income Tax Act, 1961.

Impairment of Assets

Impairment of assets are assessed at each balance sheet date and loss is recognised whenever the recoverable amount of an asset is less than its carrying amount.

Signatures to Schedules "1" to "22"

In terms of our Report of even date attached

For and on behalf of the Board

For **R. S. Agarwala & Co.**

Chartered Accountants

R. S. Agarwala

Partner

Camp: Secunderabad

August 2, 2006

A S Sandhu

Chief Finance Officer & Company Secretary

Secunderabad

August 2, 2006

K.L. Chugh

Chairman

Mahendra Agarwal

Managing Director

N Srinivasan

Director

CASH FLOW STATEMENT

(Amount in Rs. Lakhs)

For the year ended	30th June, 2006	30th June, 2005
A. Cash Flow from Operating Activities :		
Net Profit before Tax	2,745.63	1559.16
Depreciation	865.26	729.67
Loss on redemption of Investments in Government Securities	-	0.14
Loss on Sale of Fixed Assets	37.26	26.15
Effect of exchange difference	(17.77)	(10.20)
Interest Payments	509.70	491.17
Interest Received	(87.59)	(18.58)
Operating Profit before Working Capital Changes	4,052.49	2,777.51
Adjustment for:		
Increase/Decrease in Trade and other Receivables	(1,237.36)	(133.25)
Increase/Decrease in Trade Payables and other Liabilities	298.54	(79.67)
Increase/Decrease in Inventories	(96.49)	(32.72)
Loans & Advances	(1,456.42)	(120.21)
Interest on Borrowings	(509.70)	(491.17)
Tax Paid	(807.12)	(393.05)
Net Cash from Operating Activities	243.94	1,527.44
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets (Including Capital Advances)	(7,460.41)	(2,836.83)
Sale of Assets	27.44	1,039.07
Increase in Investments	(1,574.92)	(250.00)
Redemption of Investments in Government Securities	1.42	3.71
Interest Received	87.59	18.58
Net Cash from Investing Activities	(8,918.88)	(2,025.47)
C. Cash Flow from Financing Activities		
Receipt/Repayment of Secured Loans	(147.96)	274.37
Receipt/repayment of Short term Unsecured Loans	918.95	510.85
Increase in Employee Stock Option	36.10	14.19
Increase in Equity	8,704.40	-
Dividend Paid (Including Tax)	(285.85)	(255.11)
Net Cash from Financing Activities	9,225.64	544.30
Effect of exchange difference	17.77	10.20
Net Increase in Cash & Cash Equivalent (A+B+C)	568.47	56.47
Cash & Cash Equivalent - Opening Balance	743.14	686.67
Cash & Cash Equivalent - Closing Balance	1,311.61	743.14

This is the Consolidated Cash Flow Statement referred to in my report of even date.

In terms of our Report of even date attached

For and on behalf of the Board

For **R. S. Agarwala & Co.**

Chartered Accountants

A S Sandhu

Chief Finance Officer & Company Secretary

K.L. Chugh

Chairman

Mahendra Agarwal

Managing Director

R. S. Agarwala

Partner

N Srinivasan

Director

Camp: Secunderabad

August 2, 2006

Secunderabad

August 2, 2006



Balance Sheet Abstract and Company's General Business Profile

As per Part IV, Schedule VI of Companies Act, 1956

I. Registration Details

Registration No.

			2	0	1	2	1
--	--	--	---	---	---	---	---

Balance Sheet Date

3	0	0	6	2	0	0	6
---	---	---	---	---	---	---	---

Date Month Year

State Code

						0	1
--	--	--	--	--	--	---	---

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue

					N	I	L
--	--	--	--	--	---	---	---

Bonus Issue

					N	I	L
--	--	--	--	--	---	---	---

Right Issue

		2	2	5	5	8	4
--	--	---	---	---	---	---	---

Private Placement

		6	6	4	6	1	2
--	--	---	---	---	---	---	---

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities

	2	3	6	7	9	7	2
--	---	---	---	---	---	---	---

Total Assets

	2	3	6	7	9	7	2
--	---	---	---	---	---	---	---

Sources of Funds

Paid-up Capital

		1	4	1	7	4	1
--	--	---	---	---	---	---	---

Secured Loans

		4	1	3	6	2	4
--	--	---	---	---	---	---	---

Deferred Tax Liability

			5	8	2	3	7
--	--	--	---	---	---	---	---

Reserves & Surplus

	1	4	5	2	0	3	3
--	---	---	---	---	---	---	---

Unsecured Loans

		3	0	2	3	3	7
--	--	---	---	---	---	---	---

Application of Funds

Net Fixed Assets

	1	4	2	9	5	9	1
--	---	---	---	---	---	---	---

Net Current Assets

		7	3	9	2	2	0
--	--	---	---	---	---	---	---

Accumulated Losses

					N	I	L
--	--	--	--	--	---	---	---

Investments

		1	9	9	1	6	1
--	--	---	---	---	---	---	---

Misc. Expenditure

					N	I	L
--	--	--	--	--	---	---	---

IV. Performance of the Company (Amount in Rs. Thousands)

Turnover*

	4	5	7	7	2	2	9
--	---	---	---	---	---	---	---

(*includes other income)

+ - Profit before Tax

+	
---	--

	2	7	4	5	6	3
--	---	---	---	---	---	---

Total Expenditure

	4	3	0	2	6	6	6
--	---	---	---	---	---	---	---

+ - Profit after Tax

+	
---	--

	2	0	0	6	6	3
--	---	---	---	---	---	---

Earnings Per Share in Rs. (Annualised)

				3	.	2	8
--	--	--	--	---	---	---	---

Dividend Rate %

						3	5
--	--	--	--	--	--	---	---

V. Generic Name of Three Principal Products / Services of the Company

Item Code No. (ITC Code) N I L

Production Description Express Distribution & Supply chain and Shipping Services

In terms of our Report of even date attached

For and on behalf of the Board

For **R. S. Agarwala & Co.**
Chartered Accountants

A S Sandhu
Chief Finance Officer & Company Secretary

K.L. Chugh
Chairman

Mahendra Agarwal
Managing Director

R. S. Agarwala
Partner

N Srinivasan
Director

Camp: Secunderabad
August 2, 2006

Secunderabad
August 2, 2006

STATEMENT PURSUANT TO SECTION 212 (e) OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANIES

S.No	Name of Subsidiary Company	Financial year of Subsidiary ended on	Number of equity shares held by Gati Limited and / or its subsidiaries	Extent of interest of Gati Limited in the capital of the subsidiary	Net aggregate amount of profits or losses of the subsidiary so far as it concerns the members of Gati Limited dealt with in the accounts of Gati Limited	Net aggregate amount of profits or losses of the subsidiary so far as it concerns the members of Gati Limited and is not dealt with in the accounts of Gati Limited
					For the financial year ended on 30th June 2006	
1	Gati Holdings Ltd	June 30, 2006	433545 shares of USD 1 each	100% held by Gati Ltd	Nil	Loss of USD 0.009 Mn
2	Gati Asia Pacific Pte Ltd	June 30, 2006	327660 shares of SGD 1 each	100% held by Gati Holdings Ltd	Nil	Loss of SGD 0.25 Mn
3	Gati Hong Kong Ltd	June 30, 2006	1076410 shares of HKD 1 each	100% held by Gati Holdings Ltd	Nil	Loss of HKD 1.21 Mn
4	Gati China Holdings Ltd	June 30, 2006	23600 shares of USD 1 each	100% held by Gati Holdings Ltd	Nil	Loss of USD 0.001 Mn
5	Newatia Commercial & Trading Pvt. Ltd	June 30, 2006	10000 shares of Rs.10 each	100% held by Gati Ltd	Nil	Nil
6	Trymbak Commercial & Trading Pvt. Ltd	June 30, 2006	10000 shares of Rs.10 each	100% held by Gati Ltd	Nil	Nil
7	Oclimum Commercial & Trading Pvt. Ltd	June 30, 2006	10000 shares of Rs.10 each	100% held by Gati Ltd	Nil	Nil
8	Sumeru Commercial & Trading Pvt. Ltd	June 30, 2006	10000 shares of Rs.10 each	100% held by Gati Ltd	Nil	Nil

STATEMENT RELATING TO SUBSIDIARY COMPANIES AS AT 30TH JUNE, 2006

(Amount in Rs. Lakhs)

S.No	Name of Subsidiary Company	Issued and Subscribed Share Capital	Reserves	Total Assets	Total Liabilities	Investments	Turnover	Profit / Loss before Taxation	Provision for Taxation	Profit / Loss after Taxation	Proposed Dividend
1	Gati Holdings Ltd *	201.24	(4.11)	197.93	197.93	# 192.45	-	(4.11)	-	(4.11)	-
2	Gati Asia Pacific Pte Ltd **	118.36	(73.88)	44.48	44.48	-	283.23	(73.88)	-	(73.88)	-
3	Gati Hong Kong Ltd ***	64.33	(72.14)	(7.82)	(7.82)	-	114.27	(72.14)	-	(72.14)	-
4	Gati China Holdings Ltd *	10.95	(0.69)	10.91	10.91	-	-	(0.69)	-	(0.69)	-
5	Newatia Commercial & Trading Pvt. Ltd	1.00	-	1.00	1.00	-	-	-	-	-	-
6	Trymbak Commercial & Trading Pvt. Ltd	1.00	-	1.00	1.00	-	-	-	-	-	-
7	Ocymum Commercial & Trading Pvt. Ltd	1.00	-	1.00	1.00	-	-	-	-	-	-
8	Sumeru Commercial & Trading Pvt. Ltd	1.00	-	1.00	1.00	-	-	-	-	-	-

* Converted into Indian Rupees at the exchange rate 1 USD = INR 46.4176

** Converted into Indian Rupees at the exchange rate 1 SGD = INR 29.0637

*** Converted into Indian Rupees at the exchange rate 1 HKD = INR 5.9759

Investments in Gati Asia Pacific Pte Ltd, Gati Hong Kong Ltd and Gati China Holdings Ltd.



AUDITORS' REPORT

TO THE MEMBERS OF GATI LTD.

We have audited the attached Consolidated Balance Sheet of Gati Limited (the Parent Company) and its subsidiary companies (collectively called 'the Gati Group' as at June 30, 2006, the Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
2. The financial statements of the Subsidiary Companies have been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the reports so furnished.
3. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of the Accounting Standards (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

Based on our audit and on consideration of reports of other auditors on separate financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached Consolidated Financial Statements, read together with paragraph 2 above, give a true and fair view in conformity with the accounting principle generally accepted in India:

- a) In the case of Consolidated Balance Sheet of the state of affairs of the Gati Group as at 30th June, 2006.
- b) In the case of Consolidated Profit and Loss Account, of the profit of the Gati Group for the year ended on that date and
- c) In the case of Consolidated Cash Flow Statement, of the cash flows of the Gati Group for the year ended on that date.

for R S Agarwala & Co
Chartered Accountants

Camp: Secunderabad
August 2, 2006

R S Agarwala
Partner
Membership No. F-5534



CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE, 2006

	Schedule	(Amount in Rs. Lakhs) 30th June, 2006
SOURCES OF FUNDS		
Shareholders' Funds		
Share Capital	1	1,417.41
Reserves & Surplus	2	14,436.47
		15,853.88
Loan Funds		
Secured Loans	3	4,170.36
Unsecured Loans	4	3,023.37
		7,193.73
Deferred Tax Liability	5	582.37
Total Funds Employed		23,629.98
APPLICATION OF FUNDS		
Fixed Assets	6	
Gross Block		13,913.88
Less: Depreciation		3,725.16
Net Block		10,188.72
Capital-Work-in-Progress		4,159.04
		14,347.76
Investments	7	1,791.69
Current Assets, Loans and Advances		
Inventories	8	203.45
Sundry Debtors	9	5,558.31
Cash and Bank Balances	10	1,336.85
Loans and Advances	11	2,897.74
		9,996.35
Less: Current Liabilities and Provisions		
Liabilities	12	1,828.71
Provisions	13	734.05
		2,562.76
Net Current Assets		7,433.59
Translation Asset		56.94
Total Assets (Net)		23,629.98
Notes on Accounts	22	

Schedules 1 to 13 and Schedule 22 referred to above form part of the Consolidated Balance Sheet

In terms of our Report of even date attached For and on behalf of the Board

For **R. S. Agarwala & Co.**
Chartered Accountants

A S Sandhu
Chief Finance Officer & Company Secretary

K.L. Chugh
Chairman

Mahendra Agarwal
Managing Director

R. S. Agarwala
Partner

N Srinivasan
Director

Camp: Secunderabad
August 2, 2006

Secunderabad
August 2, 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2006

(Amount in Rs. Lakhs)

Particulars	Schedule	30th June, 2006
INCOME		
Freight & Warehousing	14	37,841.26
Sales		8,148.22
Other Income	15	163.24
TOTAL		46,152.72
EXPENDITURE		
Cost Of Sales	16	8,019.82
Operating Expenses	17	24,254.32
Personnel Expenses	18	5,015.63
Administrative Expenses	19	4,528.41
Repairs & Maintenance Expenses	20	387.92
Interest (Net)	21	422.20
Depreciation (Net - Note 1)		867.97
TOTAL		43,496.27
Profit Before Tax		2,656.45
Provision for Tax		
Current Tax		630.00
Deferred Tax		30.00
Fringe Benefit Tax		79.00
Profit after Tax		1,917.45
Balance Brought Forward From Previous Year		336.41
Balance Available for Appropriation		2,253.86
APPROPRIATIONS		
Proposed Dividend		496.09
Tax on Dividend		69.58
Tonnage Tax Reserve		162.00
General Reserve		1,200.00
Balance Carried to Balance Sheet		326.19
		2,253.86
Earning per Share		3.14
Notes on Accounts	22	

Schedules 14 to 22 referred to above form part of the Consolidated Profit and Loss Account

In terms of our Report of even date attached

For and on behalf of the Board

For **R. S. Agarwala & Co.**
Chartered Accountants

A S Sandhu
Chief Finance Officer & Company Secretary

K.L. Chugh
Chairman

Mahendra Agarwal
Managing Director

R. S. Agarwala
Partner

N Srinivasan
Director

Camp: Secunderabad
August 2, 2006

Secunderabad
August 2, 2006



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs. Lakhs)

30th June, 2006

(1) SHARE CAPITAL

Authorised

100,000,000 Equity Shares of Rs.2/- each (Previous year Rs.10/- each)	2,000.00
10,00,000 Redeemable Preference Shares of Rs.100/- each	1,000.00
	3,000.00

Issued, Subscribed and Paid-up:

708,70,745 Equity Shares of Rs.2/- each fully paid up : (Previous year Rs.10/- each)	1,417.41
---	-----------------

Of the above :

125,09,495 Shares were allotted for consideration other than cash as per the Scheme of Arrangement.

139,27,500 shares were issued as fully paid bonus shares by capitalisation of Share premium.

During the year following shares were issued:

208,87,460 shares on rights basis

3,44,850 shares on vesting of Employees Stock Options

78,55,935 shares on preferential basis

The Equity Shares of Rs.10/- each have been sub-divided into 5 Equity Shares of Rs.2/- each pursuant to the resolution passed by the Shareholders at their Extra-Ordinary General Meeting held on 25th February, 2006.

The Company has granted Options under the Companies Employees Stock Options Scheme and 496080 options (including 80000 options to non-promoter directors) are outstanding as at 30th June, 2006. Of this 84452 options will vest in 2006-07, 202163 options in 2007-08, 129980 options in 2008-09 and 79485 options in 2009-10.

	Balance on 1st July 2005	Additions	Deductions	30th June, 2006
(2) RESERVES & SURPLUS				
Capital Reserves :				
Revaluation Reserve	697.06	-	1.27 (a)	695.79
Share Premium (Note 3)	73.31	8122.63 (b)	-	8,195.94
Employees' Stock Option	22.88	45.13 (c)	9.03 (d)	58.98
Capital Reserve for holding in Gati Holdings Ltd.				5.32
Others	1.25	-	-	1.25
				8,957.28
Revenue Reserves :				
General Reserve	3,400.00	1200.00 (e)	-	4,600.00
Shipping Business Reserve (utilised)	350.00	-	-	350.00
Tonnage Tax Reserve	41.00	162.00 (e)		203.00
Profit and Loss Account				326.19
				5,479.19
				14,436.47

(a) Transferred to Profit and Loss Account being depreciation provided on revalued amount.

(b) Received on issue of shares during the year net of issue expenses of Rs.231.09 Lakhs

(c) In respect of options granted under the Companies Stock Options Scheme and in accordance with the guidelines issued by Securities and Exchange Board of India the accounting value of options (based on market value of share on the date of grant of options minus the option price) is accounted as deferred employees compensation which is amortised on a straight line basis over the vesting year. Consequently salaries, wages and bonus includes Rs.45.13 Lakhs (Previous Year Rs. 14.19 Lakhs), being amortisation of deferred employee compensation after adjusting for reversal on account of options left

(d) Transferred to Share Premium on vesting of 344850 options during the year.

(e) Transferred from Profit and Loss Account

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs Lakhs)
30th June, 2006

(3) SECURED LOANS

TERM LOANS :

FROM BANKS

Against first charge by way of Mortgage/ Hypothecation of specified fixed assets and other assets acquired there against 2,817.11
(Repayable within one year Rs.1224.62 Lakhs , Previous year Rs.1492.65 Lakhs)

Secured by hypothecation of Motor Trucks, Motor Cars and Computer equipments acquired there against 477.06
(Repayable within one year Rs.185.58 Lakhs, Previous year Rs. 185.37 Lakhs)

FROM OTHERS

Secured by hypothecation of specified immovable asset 97.78
(Repayable within one year Rs.5.84 Lakhs, Previous year Rs. Nil)

WORKING CAPITAL LOANS

From Banks 778.41

Secured against first charge by way of hypothecation of all current assets including book debts, stocks and equitable mortgage of specified immovable assets of the Company and of third parties

4,170.36

In addition, loans to the extent of Rs.3241 Lakhs are also guaranteed by the Managing Director (Promoter)

(4) UNSECURED LOANS

Fixed Deposits 1,178.95

Advances against Convertible Warrants 344.42

Short Term Loans and Advances

From Banks (a) 1,500.00

(a) Guaranteed by the Managing Director (Promoter)

3,023.37

(5) DEFERRED TAX LIABILITY

	At Ist July 2005	Current Year	30th June, 2006
Difference between book and Tax Depreciation	552.37	30.00	582.37

(6) FIXED ASSETS

(Amount in Rs. Lakhs)

	At Cost or Valuation				Depreciation & Amortisation			Net Block	
Description	As At 01.07.2005	Additions During the Year	Deductions During the Year	Balance As At 30.06.2006	Up to 01.07.2005	For the Year	Adjustment On Deductions	Balance As at 30.06.2006	30th June 2006
<u>Tangible Assets</u>									
Land	1,105.84	446.20	-	1,552.04	-	-	-	-	1,552.04
Buildings	980.23	397.30	-	1,377.53	77.06	22.27	-	99.33	1,278.20
Vehicles	1,012.92	476.56	106.48	1,383.00	564.87	125.51	51.23	639.15	743.85
Plant & Machinery	797.28	1,270.44	1.20	2,066.52	65.75	78.40	0.54	143.61	1,922.91
Computers	2,070.54	360.71	9.44	2,421.81	1,324.11	284.03	5.82	1,602.32	819.49
Ships	1,419.36	1,356.01	-	2,775.37	191.69	97.53	-	289.22	2,486.15
Furniture & Fittings	615.62	185.11	1.98	798.75	259.26	58.24	1.33	316.17	482.58
Office Equipments	396.53	53.48	7.60	442.41	109.37	27.33	3.07	133.63	308.78
	8,398.32	4,545.81	126.70	12,817.43	2,592.11	693.31	61.99	3,223.43	9,594.00
<u>Intangible Assets</u>									
Computer Software	1,034.53	61.92	-	1,096.45	325.65	176.08	-	501.73	594.72
	1,034.53	61.92	-	1,096.45	325.65	176.08	-	501.73	594.72
Total	9,432.85	4,607.73	126.70	13,913.88	2,917.76	869.39	61.99	3,725.16	10,188.72
Capital Work-in-Progress									4,159.04
Total									14,347.76

- a) A part of Land & Buildings were revalued on 31st December, 1997, 29th June, 1999, and 31st March, 2000 and the resultant increase in the value of assets by Rs. 45.96 Lakhs, Rs. 141.31 Lakhs, and Rs. 148.35 Lakhs respectively and aggregating to Rs. 335.62 lakhs was transferred to Revaluation Reserve.
- b) Capital Work-in-Progress includes Capital Advances of Rs.2586.38 Lakhs
- c) Depreciation for the Year includes Rs.1.27 Lakhs in respect of the above revaluations.



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs Lakhs)

30th June, 2006

(7) INVESTMENTS (At Cost)	
Long term - Non-trade	
Fully Paid-up Equity Shares	
Quoted	
16,00,300 of TCI Finance Ltd. of Rs.10/- each.	143.89
Unquoted	
1,62,50,000 of Gati Infrastructure Ltd. of Rs.10/- each. (Allotted during the year)	1,625.00
Government Securities	
1 11% PSIDC Bond of Rs.1 Lakh each	1.00
3 11.50% PSEB-2010 Bonds of Rs. 5 Lakhs each	15.74
5 12.20% HPRIDC Bonds of Rs.1 Lakh each	3.09
3 11% GEB Bonds of Rs.1 Lakh each	2.97
	22.80
	1,791.69
Market Value of Quoted Investments	305.66
(8) INVENTORIES	
(As taken, valued and certified by the Management)	
Diesel, Petrol etc. (at lower of cost and net realisable value)	52.37
Stores & Spare Parts (at cost)	151.08
	203.45
(9) SUNDRY DEBTORS	
(Unsecured - Considered Good)	
Outstanding for more than six months	170.88
Others	5,387.43
	5,558.31
(10) CASH AND BANK BALANCES	
Cash in Hand	77.91
Cheques in Hand	576.47
Remittance in Transit	92.90
With Scheduled Banks:	
In Current Accounts	167.62
In Deposit Accounts (a)	392.84
In Unpaid Dividends Accounts	28.77
With Non-Scheduled Banks	0.34
Bhutan National Bank - Rs.0.05 Lakhs (Maximum balance Rs.1.26 Lakhs)	
Everest Bank Limited - Rs.0.29 Lakhs (Maximum balance Rs.4.66 Lakhs)	
	1,336.85
a) Some of the Fixed Deposit Receipts are deposited with banks against guarantees issued	
(11) LOANS AND ADVANCES	
(Unsecured - Considered Good)	
Loans	1,200.00
Advances Recoverable in Cash or in Kind or for Value to be Received	778.95
Advances and Deposits	719.36
Tax Deducted at Source	199.43
	2,897.74



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs Lakhs)

30th June, 2006

(12) LIABILITIES

Sundry Creditors	499.51
Other Liabilities	936.39
Interest Accrued on Loans	49.78
Security Deposits	314.26
Unpaid/Unclaimed Dividends	28.77
	1,828.71

There are no amounts pending to be transferred to Investor Education and Protection Fund.

(13) PROVISIONS

Taxation (Net of Payments)	116.91
Gratuity and Leave Encashment	51.47
Proposed Dividend	496.09
Tax on Dividend	69.58
	734.05

(14) FREIGHT & WAREHOUSING

Freight, Miscellaneous charges etc (a) (Tax deducted Rs.39.10 Lakhs, Previous Year Rs.24.29 Lakhs)	32,497.76
Warehousing Charges (Tax deducted Rs.12.19 Lakhs, Previous Year Rs.36.67 Lakhs)	436.57
Shipping Freight, Charter Hire, Miscellaneous charges (a) (Tax deducted Rs.0.59 Lakhs, Previous Year Rs.Nil)	4,906.93
(a) Includes Demurrage of Rs.220.49 Lakhs, Previous Year Rs.160.61 Lakhs,)	
	37,841.26

(15) OTHER INCOME

Rent (Tax deducted Rs.1.38 Lakhs, Previous Year Rs.0.79 Lakhs)	11.35
Miscellaneous Income	130.25
Difference in Exchange (Net)	21.64
	163.24

(16) COST OF SALES

Opening Stock	50.93
Purchases	8,021.26
	8,072.19
Less : Closing Stock	52.37
	8,019.82

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs Lakhs)

30th June, 2006

(17) OPERATING EXPENSES

Freight	19,726.59
Vehicles' Trip Expenses	544.87
Tyres & Tubes	18.77
Other Operating Expenses	1,070.99
Claims for Loss & Damages (Net)	95.56
Commission	15.32
Vehicles' Taxes	29.48
Vehicles' and Ships Insurance	60.08
Power, Fuel and Water Expenses	893.09
Stores & Spare Parts Consumed	128.16
Port & Survey Expenses	1,671.41
	24,254.32

(18) PERSONNEL EXPENSES

Salaries, Wages & Bonus	4,392.32
Gratuity	65.14
Contribution to Provident & Other Funds	203.64
Contribution to Employees' State Insurance	37.44
Other Personnel Expenses	317.09
	5,015.63

(19) ADMINISTRATIVE EXPENSES

Rent	764.37
Rates and Taxes	16.91
Insurance (includes Rs. 20 Lakhs towards Keyman Insurance Policy)	110.53
Telephone Expenses	283.24
Printing and Stationery	290.47
Travelling Expenses	546.13
Legal Expenses	47.57
Advertisement Expenses	480.73
Office Maintenance and Repairs	517.77
Miscellaneous Expenses	1,251.58
Remuneration to Directors:	
Salaries & Allowances	58.87
Commission	33.70
Fees	5.70
Remuneration to Auditors:	
For Audit	10.06
For Tax Audit	1.78
For Certification	1.00
Bad Debts and irrecoverable Balances Written Off (Net)	30.96
Charity & Donations	39.78
Loss on sale of Fixed Assets (Net)	37.26
	4,528.41



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs. Lakhs)

30th June, 2006

(20) REPAIRS & MAINTENANCE EXPENSES

Motor Trucks	96.90
Other Vehicles	69.82
Plant & Machinery	24.41
Buildings	30.62
Computers	110.06
Ships	56.11
	387.92

(21) INTEREST

Fixed Loans	363.32
Fixed Deposits	106.78
Others	39.69
	509.79

Less: Interest Received (a) 87.59

(Tax Deducted Rs.15.48 Lakhs, Previous Year Rs.1.95 Lakhs) **422.20**

(a) Includes Rs.2.66 Lakhs from Investments in Government Securities, Previous Year Rs.3.52 Lakhs)

(22) NOTES ON ACCOUNTS

1. THE NET DEPRECIATION CHARGED FOR THE YEAR IS ARRIVED AT AS FOLLOWS:

Depreciation for the year	869.39
Deduct : Transfer from Revaluation Reserve being depreciation provided on revalued amount	1.27
Transfer to Exchange Gain / Loss	0.15
Net Depreciation charged in Profit and Loss Account	867.97

2. Tax provision in these accounts has been made considering the working results for the year ended 30th June, 2006. The actual tax liability will be determined on the basis of tax accounting year ended 31st March, 2006 (Assessment Year 2006-07).

3. The Company has on 2nd March, 2006 issued 314237 Convertible Warrants of Rs.423/- per warrant on preferential basis to The Infrastructure Fund of India LLC., convertible at the option of the warrant-holder within an aggregate time period of 18 months from the date of allotment into 314237 Equity Shares of Rs.10/- each at a premium of Rs.413/- per share (since sub-divided into 1571185 Equity Shares of Rs.2/- each).

4 Earning per shares

No of equity shares outstanding (Nos. in Lakhs.)	708.71
Net profit after tax available for equity shareholders (Rs in Lakhs)	1,917.45
Basic earnings per share of Rs. 2/- each (Rs.)	3.14
Diluted earnings per share of Rs. 2/- each (Rs.)	2.88
The Equity Shares of Rs.10/- each have been sub-divided into 5 Equity Shares of Rs.2/- each pursuant to the resolution passed by the Shareholders at their Extra-Ordinary General Meeting held on 25th February, 2006.	

5. Capital work in Progress includes advances given in earlier years to Associate Companies namely Giri Roadlines & Commercial Trading Pvt. Ltd Rs. 400 Lakhs. (Maximum balance Rs.400 Lakhs) and to TCI Industries Ltd. Rs.61 Lakhs paid during the year (Maximum balance Rs.126 Lakhs)

6. Loans & Advances includes advance given to Associate Companies namely Gati Infrastructure Ltd. Rs.249.34 Lakhs (Maximum balance Rs.249.34 Lakhs) and TCI Finance Ltd Rs.3.37 Lakhs (Maximum balance Rs.3.37 Lakhs).

7. Estimated amount of contracts remaining to be executed on capital account and not provided for 5,771.55

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs. Lakhs)

30th June, 2006

8.	This is the first year of Subsidiary Companies operations, comparative previous year's figures have not been given.	
9	Contingent Liability not provided for in respect of Income Tax demands under dispute	76.98
	Guarantees and Counter Guarantees outstanding	495.61
10.	Related Party Disclosures	
	Related parties with whom transactions have taken place during the year	
i	Directors/Key Management Personnel:	
	Mr. Mahendra Agarwal (Managing Director)	
	Mr. Manoj Todi (Wholetime Director - till 3rd April, 2006)	
ii	Associates	
	TCI Finance Ltd.	
	Giri Roadlines & Commercial Trading Pvt. Ltd.	
	Jubilee Commercials & Trading Pvt. Ltd.	
	Gati Infrastructure Ltd.	
	Gati Shipping Ltd.	
	Gati Cargo Management Services Ltd.	
	TCI Hi-ways Pvt. Ltd.	
	TCI Industries Ltd.	
	Mahendra Kumar Agarwal & Sons	
SL	Nature of Transaction	July-June 2006
A	Expenditure	
i	Associates	
	Rent	8.51
	Freight & Other Charges	519.35
	Port Expenses	90.75
ii	Key Management Personnel	
	Remuneration	87.59
B	Receipts	
	Associates	
	Interest	5.38
	Other Charges	183.76
C	Finance & Investment	
	Associates	
	Advances towards Fixed Assets - Given	66.50
	Advances towards Fixed Assets - Repaid	126.00
	Investments	1375.00
	Loans - Given	200.00
D	Balance at the year end	
	Associates	
	Investments	1768.89
	Loans and Advances	252.71
	Advances towards Fixed Assets	461.00
	Corporate Guarantees	495.61



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs. Lakhs)

30th June, 2006

11. Segment Information

Primary Business Segment

Express Distribution & Supply Chain : Covers integrated cargo services – Road, Rail & Air Transportation.

Coast-to-Coast (Shipping) : Covers Sea Transportation

Fuel Stations : Covers fuel stations dealing in petrol, diesel and lubricants etc.

1. Segment Revenue (net sale/income)

a) Express Distribution & Supply Chain	32,934
b) Coast-to-Coast (A division of Parent Company)	4,942
c) Fuel Stations (A division of Parent Company)	8,148
Total	46,024
Less: Inter-Segment Revenue	35
Net sales/income from operations	45,989

2. Segment Results

Profit before tax and interest from each Segment

a) Express Distribution & Supply Chain	3,084
b) Coast-to-Coast (A division of Parent Company)	939
c) Fuel Stations (A division of Parent Company)	77
Total	4,100
Less : i Interest (Net of Income)	422
ii Other un-allocable expenditure net of un-allocable income	1,022
Total Profit Before Tax	2,656

3. Other Information

Segment Assets

a) Express Distribution & Supply Chain	16,674
b) Coast-to-Coast (A division of Parent Company)	6,190
c) Fuel Stations (A division of Parent Company)	280
Unallocated Corporate Assets	3,049
Total Assets	26,193

Segment Liabilities

a) Express Distribution & Supply Chain	7,479
b) Coast-to-Coast (A division of Parent Company)	2,794
c) Fuel Stations (A division of Parent Company)	66
Total Liabilities	10,339

Secondary Business Segment

India - Covers Indian operations

International - Covers operations of subsidiaries outside India.

1. Segment Revenue (net sale/income)

a) India	45,612
b) International	392
Total	46,004
Less: Inter-Segment Revenue	15
Net sales/income from operations	45,989

2. Segment Results

Profit before tax and interest from each Segment

a) India	4,234
b) International	(134)
Total	4,100
Less: i Interest (Net of Income)	422
ii Other un-allocable expenditure net of un-allocable income	1,022
Total Profit Before Tax	2,656

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

(Amount in Rs.Lakhs)

30th June, 2006

3. Other Information

Segment Assets	
a) India	22,885
b) International	259
Unallocated Corporate Assets	3,049
Total Assets	26,193
Segment Liabilities	
a) India	10,132
b) International	207
Total Liabilities	10,339

12. ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the financial statements of Gati Ltd., and all its subsidiaries, which are wholly owned or controlled and have been prepared in accordance with the consolidation procedures laid down in Accounting Standard 21- 'Consolidated Financial Statements' issued by ICAI.

The consolidated financial statements have been prepared on the following basis:

The financial statements of the parent and the subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances / transactions and resulting profits in full. Unrealised losses resulting from intra-group transactions has also been eliminated except to the extent that recoverable value of related assets is lower than their cost to the Group.

The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements.

The consolidated financial statements are prepared using uniform accounting policies across the Group.

Capital Reserve arising on Consolidation

The excess of cost to the parent of its investment in subsidiaries over its portion of equity in the subsidiaries at the respective dates on which investment in subsidiaries was made is recognised in the financial statements as capital reserve.

Members of the Group

Gati Ltd. subsidiaries and step down subsidiaries are listed below:

Entity	Date of Incorporation	Country of Incorporation	Percentage of holding
Gati Holdings Ltd	14-Oct-05	Mauritius	100% held by Parent
Gati Asia Pacific Pte Ltd	23-Sep-05	Singapore	100% held by Gati Holdings Ltd
Gati Hong Kong Ltd	12-Apr-05	Hong Kong	100% held by Gati Holdings Ltd
Gati China Holdings Ltd	23-Dec-05	Mauritius	100% held by Gati Holdings Ltd
Newatia Commercial & Trading Pvt. Ltd	25-May-06	India	100% held by Parent
Trymbak Commercial & Trading Pvt. Ltd	29-May-06	India	100% held by Parent
Ocimum Commercial & Trading Pvt. Ltd	31-May-06	India	100% held by Parent
Sumeru Commercial & Trading Pvt. Ltd	15-May-06	India	100% held by Parent



SCHEDULES TO THE CONSOLIDATED ACCOUNTS

Recognition of Income & Expenditure

- a) Income and expenditure are generally recognised on accrual basis in accordance with the applicable accounting standards and provision is made for all known losses and liabilities.
- b) In Express Distribution & Supply Chain Division, Freight Income is accounted when goods are delivered by the Company to customers. In Coast-to-Coast Division, Freight Income is accounted when ships sail.
- c) Freight expenses are accounted when hired vehicles deliver goods to the Company at destination.
- d) Having regard to the size of operations and the nature and complexities of the company's business, freight received / paid in advance is accounted as income/expenses on payment and interdivisional transfers are eliminated
- e) Year-end liability in respect of claims for loss and damages is provided as calculated by claims recovery agents.

Gratuity

A provision for gratuity liability to employees is made on the basis of actuarial valuation and paid to the approved Gratuity Fund

Provident Fund

Provident fund contribution is remitted to appropriate authority.

Superannuation Fund

Superannuation fund contribution is remitted to approved trust fund.

Fixed Assets

- a) Fixed assets are stated at cost and / or at revaluation.
- b) Dry docking and other expenses at the time of acquisition of ships are capitalised.
- c) Depreciation on the amount added to Fixed Assets on revaluation is adjusted by transfer of equivalent amount from revaluation reserve created on revaluation of Fixed Assets to Profit and Loss Account.

Intangible Assets

Intangible Assets comprising of Computer Software is stated at cost less accumulated amortisation. Computer Software is amortised over a period of six years.

Depreciation

Depreciation is provided on straight line method at rates specified in Schedule XIV to the Companies Act, 1956. in the case of Gati Ltd (Parent) assets and in the case of Gati Holdings Ltd Motor Vehicles depreciated for a period of seven years and other assets depreciated for a period of three years.

Depreciation on addition/deductions is calculated prorata from/to the date of addition/deduction in the case of Gati Ltd (Parent)

Investments

Investments are stated at cost.

Inventories

Petroleum products are valued at lower of cost and net realisable value. Stores & Spare parts are valued at cost.

Foreign Exchange Transaction

Transactions in foreign currency are recorded at average rate for the month. Assets and liabilities denominated in foreign currency are translated at the exchange rate prevalent at the date of the Balance Sheet. The resultant gain / loss is recognised in the Profit & Loss Account.

SCHEDULES TO THE CONSOLIDATED ACCOUNTS

All the activities of the foreign subsidiaries are carried out with a significant degree of autonomy from those of the Parent. Accordingly, as per the provisions of AS - 11 "Effect of changes in foreign exchange rates", these operations have been classified as 'Non integral operations' and therefore all assets and liabilities, both monetary and non monetary, are translated at the closing rate while the income and expenses are translated at the average rate for the year. The resulting exchange differences are accumulated in the foreign currency translation reserve / asset except those arising on account of net current assets, which are recognised as income or expense in the profit and loss account for the year.

Taxation

Provision for tax is made for both current and deferred taxes. Provision for current income tax is made on the current tax rates based on the working results of the year. The company provides for deferred tax based on the tax effect of timing differences resulting from the recognition of items in the accounts and in estimating its current tax provision. The effect on deferred taxes of a change in tax rate is recognised in the year in which the change is effected. Fringe benefit tax is provided in accordance with the Income Tax Act, 1961.

Impairment of Assets

Impairment of Assets are assessed at each Balance Sheet date and loss is recognised whenever the recoverable amount of an assets is less than its carrying amount.

Signatures to Schedules "1" to "22"

In terms of our Report of even date attached

For and on behalf of the Board

For R. S. Agarwala & Co.

Chartered Accountants

A S Sandhu

Chief Finance Officer & Company Secretary

K.L. Chugh

Chairman

Mahendra Agarwal

Managing Director

R. S. Agarwala

Partner

N Srinivasan

Director

Camp: Secunderabad
August 2, 2006

Secunderabad
August 2, 2006



CONSOLIDATED CASH FLOW STATEMENT

(Amount in Rs. Lakhs)

For the year ended	30th June, 2006
A. Cash Flow from Operating Activities :	
Net Profit before Tax	2,656.45
Depreciation	867.97
Loss on Sale of Fixed Assets	37.26
Effect of exchange difference	(21.64)
Interest Payments	509.79
Interest Received	(87.59)
Operating Profit before Working Capital Changes	3,962.24
Adjustment for :	
Increase/Decrease in Trade and other Receivables	(1,363.51)
Increase/Decrease in Trade Payables and other Liabilities	355.31
Increase/Decrease in Inventories	(96.49)
Loans & Advances	(1,403.19)
Interest on Borrowings	(509.79)
Tax Paid	(807.12)
Net Cash from Operating Activities	137.45
B. Cash Flow from Investing Activities	
Purchase of Fixed Assets (Including Capital Advances)	(7,515.13)
Sale of Assets	27.44
Increase in Investments	(1,375.00)
Redemption of Investments in Government Securities	1.43
Interest Received	87.59
Net Cash from Investing Activities	(8,773.67)
C. Cash Flow from Financing Activities	
Receipt/Repayment of Secured Loans	(113.84)
Receipt/repayment of Short term Unsecured Loans	918.95
Increase in Employee Stock Option	36.10
Increase in Equity	8,704.40
Dividend Paid (Including Tax)	(285.85)
Net Cash from Financing Activities	9,259.76
Effect of exchange difference	(29.83)
Net Increase in Cash & Cash Equivalent (A+B+C)	593.71
Cash & Cash Equivalent - Opening Balance	743.14
Cash & Cash Equivalent - Closing Balance	1,336.85

This is the Consolidated Cash Flow Statement referred to in my report of even date

In terms of our Report of even date attached

For and on behalf of the Board

For **R. S. Agarwala & Co.**
Chartered Accountants

A S Sandhu
Chief Finance Officer & Company Secretary

K.L. Chugh
Chairman

Mahendra Agarwal
Managing Director

R. S. Agarwala
Partner

N Srinivasan
Director

Camp: Secunderabad
August 2, 2006

Secunderabad
August 2, 2006

**ATTENDANCE SLIP****Registered Office**

1-7-293, M.G. Road, Secunderabad - 500 003

DP ID* Folio Number Client ID*

Name (in BLOCK letters) :

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company. I hereby record my presence at the 11th Annual General Meeting of the Company to be held at Novotel & HICC Complex (Near Hitech City), P.O. Bag 1101, Cyberabad Post Office, Hyderabad-500 081 on Wednesday 11th October, 2006 at 10.30 a.m.

Members / Proxy name in
BLOCK LETTERS

Signature of the Shareholder /Authorized Representative/Proxy

Note : Please fill in this attendance slip and hand it over at the ENTRANCE OF THE HALL.

**PROXY FORM****Registered Office**

1-7-293, M.G. Road, Secunderabad - 500 003

DP ID* Folio Number Client ID*

I/we _____ of _____ in the district of _____
being a member/members of Gati Limited, hereby appoint Ms./Mr. _____
of _____ in the district of _____ or failing her/
him Ms./Mr. _____ of _____ in the district of _____
_____ as my/our proxy to attend and vote for me/us and on my/our behalf at the 11th Annual General Meeting of the Company
to be held on Wednesday, the 11th October, 2006 at 10.30 a.m. and at any adjournment thereof.

Signed this _____ day of _____, 2006.

Signature _____

Affix
Re 1.00
Revenue
Stamp

Note: A Proxy need not be a member. The Proxy in order to be effective should be duly stamped, completed, signed and deposited at the Registered Office of the Company not less than **48 HOURS** before the commencement of the meeting.

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