



BLUE STAR



BLUE STAR LIMITED
Annual Report 2006 - 2007

The Corporate Purpose

We are a leading Indian engineering company with substantial competence in, and revenues from 3 streams of businesses:

- Airconditioning
- Commercial Refrigeration
- Professional Electronics and Applied Industrial Systems

As of now, our footprint is mainly Indian. However, we wish to progressively build a sizeable presence in chosen international markets over the next few years.

We are a customer-focused organisation, deliberately tuned to deliver a world-class experience to corporate and commercial customers. As specialists, we serve our customers with differentiated products, expert solutions and value-added services.

Technical, engineering and contracting expertise give us our competitive edge, and technical manpower constitutes our key resource. We will continue to recruit and retain employees and business partners who relate to our customer-oriented, specialist/expert culture. We will make Blue Star the employer of choice in our industry for we recognise that happy employees make happy customers.

A set of 12 Guiding Corporate Values and Beliefs defines our responsibilities to our stakeholders: customers, employees, shareholders, business partners and society. Delivering a world-class experience and adhering to our Corporate Values constitute the two pillars of the Blue Star Way. We will make conscious efforts to align our employees and business partners with this Blue Star Way.

We will strive to win the trust and admiration of all our stakeholders by sharing with them the fruits of business success.

BOARD OF DIRECTORS

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T G S Babu
Deputy Managing Director
(w.e.f. July 1, 2007)

Satish Jamdar
Deputy Managing Director
(w.e.f. July 1, 2007)

Shailesh Haribhakti

Pradeep Mallick

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T G S Babu
Deputy Managing Director
(w.e.f. July 1, 2007)

Satish Jamdar
Deputy Managing Director
(w.e.f. July 1, 2007)

Arun Khorana
Executive Vice President

Avinash Pandit
Executive Vice President

H Rajaram
Executive Vice President

B Thiagarajan
Executive Vice President

R Aravindan
Vice President - Packaged Airconditioning Division

J M Bhambure
Vice President - R&D

R G Devnani
Vice President - Dadra Plant

Michael Fernandes
Vice President - Human Resources & Quality

A Rakesh Rao
Vice President - Airconditioning & Projects Division (North)

P Venkat Rao
Vice President - Room Airconditioners & Refrigeration Products Division

COMPANY SECRETARY

K P T Kutty

BANKERS

The Hongkong & Shanghai Banking Corporation Ltd
State Bank of India
Oriental Bank of Commerce
ABN - AMRO Bank
BNP Paribas

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata
Fraser & Ross, Chennai
Mohinder Puri & Company, New Delhi

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd
C-13, Pannalal Silk Mills Compound
L B S Marg, Bhandup (West)
Mumbai 400 078.
Telephone: 91-22-2596 3838
Fax: 91-22-2594 6969

REGISTERED OFFICE

Kasturi Buildings
Mohan T Advani Chowk
Jamshedji Tata Road
Mumbai 400 020.
Telephone: 91-22-6665 4000
Fax: 91-22-6665 4151
www.bluestarindia.com



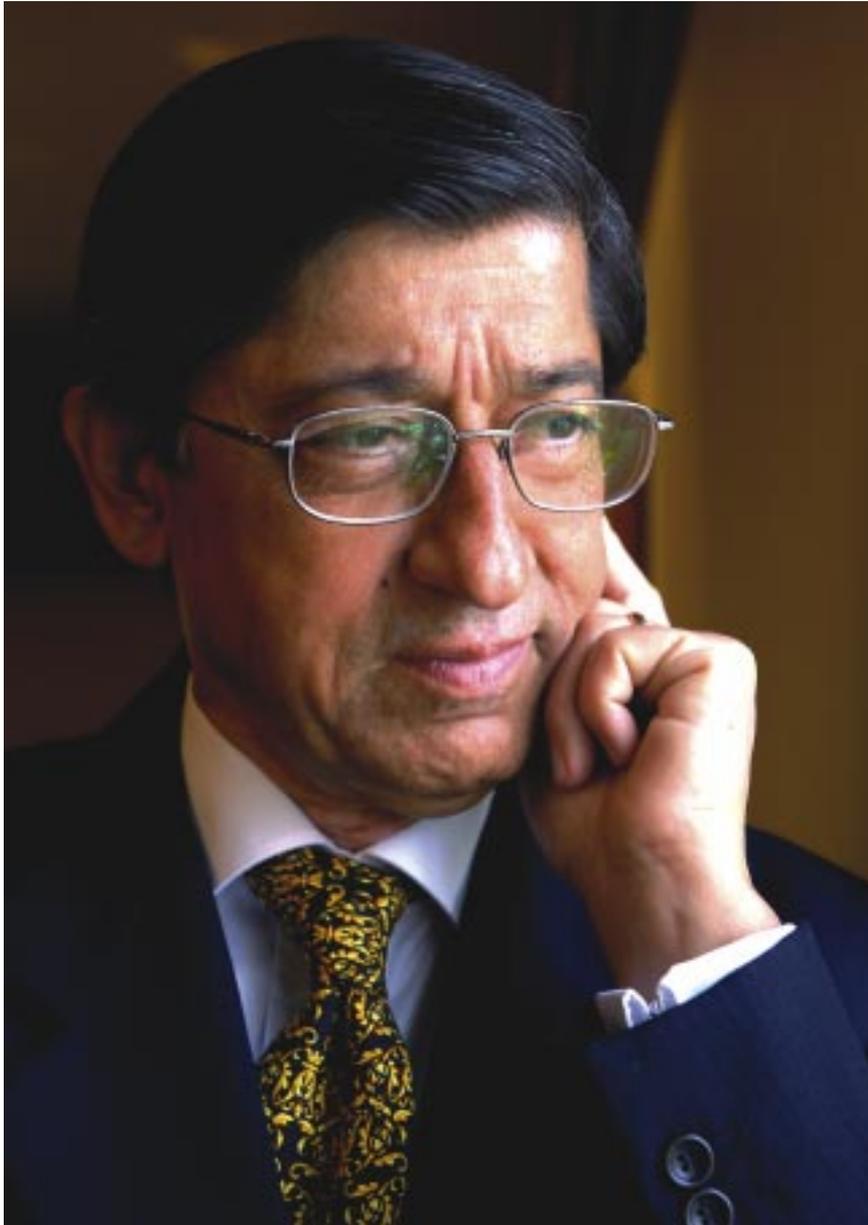
Guiding Values and Beliefs of Blue Star

- Pursue the Corporate Vision: Provide a world-class customer experience.
- Focus on profitable Company growth.
- Be a company that is a pleasure to do business with.
- Work in a boundary-less manner between divisions to provide the best solutions to customers.
- Win our people's hearts and minds.
- Place the Company's interests above one's own.
- Encourage innovation, creativity and experimentation in what we do.
- Build an extended organization of committed business partners.
- Be a good corporate citizen.
- Honour all personal and corporate commitments.
- Maintain personal integrity.
- Ensure high standards of corporate governance.

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Letter from the Chairman



Ashok M Advani, *Chairman & Managing Director*

DEAR SHAREHOLDER,

2006-07 was the fourth successive year of exceptional growth for Blue Star. With a strong leadership position in most of our core businesses, we were well positioned to capitalise on rapidly expanding market opportunities. The overall

results were impressive: a 36% increase in Total Income and a 46% jump in Profit After Tax. These growth rates have set new records for the Company and are comparable to those in the booming information technology industry.

The financial performance of the Company is summarized in the Annexure to this letter. Most growth and profitability ratios showed a healthy improvement from levels that were already good in the previous year. One cause for some concern was a small reduction in gross margin due to the sharp increase in input costs like copper and steel. This could have been worse but the impact of inflationary cost increases was softened by a concerted value engineering drive coupled with limited price increases.

A deeper analysis of the financial performance needs some explanation. The audited accounts for the year were prepared after adopting the revision in the Accounting Standard on "Employee Benefits" as explained in the Other Notes to the Accounts. This one time accounting changeover had a major financial impact that increased the expenditure on Employee Remuneration & Benefits by Rs.14.86 crores (See Note 9). As a result, the Operating Profit reduced by the same amount. This, in turn, adversely affected other financial and profitability ratios. Therefore, the Audited figures present a view that is not really comparable with the previous year's figures which were in accordance with the accounting standard requirements that existed earlier.

Had the Audited Accounts been prepared on the same basis as the previous year, the financial performance would have been significantly better. The third column, "2006-07 Restated" has been added to provide such a like-to-like comparison. This reveals a very gratifying picture. Restated profit growth was even higher than the Audited Accounts indicate, while the restated Operating Margin actually improved perceptibly instead of showing a marginal decline.

Restating the figures may seem to be a somewhat

academic exercise but it serves two useful purposes: It makes possible a meaningful comparison of last year's performance vis-à-vis the previous year; and it provides useful information to discerning investors that even though there was a one-time accounting 'hit' in the year of transition, the Company absorbed the impact comfortably and still reported very good results. This is a reassuring confirmation that in the current year, when no such non-recurring charge is expected, we are well positioned in terms of cost structure and financial capability, to maintain our profitable growth path.

Turning to the business segmentwise performance, once again, all 3 segments showed very good revenue growth: 37% each in Central Airconditioning Systems and Cooling Products and 30% in Professional Electronics & Industrial Systems. Business growth was evenly distributed across the segments and was at least as good as the overall market growth. Clearly, the Blue Star brand continues to enjoy a strong customer preference in markets that we operate in.

The audited profitability increase in Central Airconditioning was 28%, a big 78% in Cooling Products and 35% in Professional Electronics. And these results have been achieved despite the adverse impact of the accounting changes discussed above.

Historically, Blue Star's growth has usually been financed by a combination of internally generated funds and proportional borrowings. This approach worked well in the era of moderate growth even permitting a generous dividend policy while maintaining a strong balance sheet without excessive borrowings. Since our business does not require large investments in fixed assets, one of the keys to good financial performance is efficient use of

working capital. Last year, we turned over the total capital 5.32 times which is very good and required only a modest increase in borrowings.

How sustainable is this when business growth has accelerated? The last few years of high growth have required substantially more funds to run the business. Working capital needs have been growing fast. Manufacturing capacity has also been expanding rapidly while simultaneously being upgraded. Last year, our financial model delivered the resources reasonably well; availability of funds was not a constraint and the debt/equity ratio actually improved slightly. Yet we cannot afford to be complacent. We will continue to keep a firm grip on the balance sheet.

Another crucial test to judge overall financial performance is profitability measured in terms of Return on Capital Employed and Return on Shareholders' Funds. Both these ratios look very healthy at 32.1% and 33.4% respectively. And this is despite a moderate operating margin. I have often said that Blue Star is not a company that is easy to understand. We are different from most other companies

so we do not fit a more conventional business model. Despite low margins that are inherent in the highly competitive central airconditioning business, we have devised a successful financial structure that produces excellent profitability through efficient use of capital.

Blue Star has reached a very interesting and challenging stage in its corporate development. The achievements of the last few years have built a feeling of pride in the Company and a degree of confidence throughout the organisation. In that spirit, we have developed aggressive plans to sustain the high levels of profitable growth over the next few years.

Of course, much depends on external macro-economic developments and the overall business environment. So far this year, business conditions continue to look very positive. While there is no guarantee on how long this favourable trend will continue, I am confident that regardless of external developments, Blue Star will be ready.

ASHOK M ADVANI

Mumbai : May 19, 2007 Chairman & Managing Director

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2006-07 Restated	2006-07 Audited	2005-06 Audited
Total Income	1607.41	1607.41	1178.62
Growth over Previous Year	+ 36%	+ 36%	+ 27%
Operating Profit (PBDITA) excl. Non-Operating Income	131.78	116.92	86.68
Growth over Previous Year	+ 52%	+ 35%	+ 50%
Profit Before Tax	107.46	92.60	69.09
Growth over Previous Year	+ 56%	+ 34%	+ 32%
Profit After Tax	81.04	71.18	48.90
Growth over Previous Year	+ 66%	+ 46%	+ 25%
Shareholders' Funds	222.83	212.97	172.71
Borrowings	89.05	89.05	75.87
Capital Employed	311.88	302.02	248.58
Operating Cash Flow	60.12	60.12	18.36

KEY RATIOS

	2006-07 Restated	2006-07 Audited	2005-06 Audited
Gross Margin (excl. Non-Operating Income)	22.4%	22.4%	22.8%
Operating Margin (excl. Non-Operating Income)	8.2%	7.3%	7.4%
Return on Capital Employed	35.8%	32.1%	30.1%
Return on Shareholders' Funds	36.4%	33.4%	28.3%
Earnings Per Share (Rs.)	9.01	7.91	5.44
Dividend Per Share (Rs.)	3.00	3.00	2.40
Capital Turnover	5.11	5.32	4.74
Debt/Equity	0.40	0.42	0.44
Inventory Turnover	6.61	6.61	6.06
Receivables (Days Billings Outstanding)	80	80	74



Board of Directors

| T G S Babu

| Gurdeep Singh

| Shailesh Haribhakti

| Ashok M Advani



| Suneel M Advani

| Pradeep Mallick

| Satish Jamdar

| Suresh N Talwar

Board of Directors



Ashok M Advani is an MBA from the Harvard Graduate School of Business Administration, an Electrical Engineer from MIT, USA and a B Sc (Honours) from Mumbai University.

He joined Blue Star in 1969 and held a variety of senior positions in manufacturing and finance in the Company before he took over the Company's affairs as Chairman & Chief Executive in 1984. He was redesignated as Chairman & Managing Director in 2005. Ashok is also the Vice Chairman of Blue Star Infotech Limited and on the board of Alfa Laval (India) Limited.

Ashok has been a member of the Local Advisory Board of The Chase Manhattan Bank and a past President of the Bombay Chamber of Commerce and Industry.

Ashok M Advani, *Chairman & Managing Director*



Suneel M Advani is a double graduate in Electrical Engineering and Economics from MIT, USA. He also holds a degree in Law from Mumbai University.

He joined Blue Star in 1969 as a Management Trainee and moved up steadily by holding responsible positions before he was elevated to the position of President and Vice Chairman in 1984. He was redesignated as Vice Chairman & Managing Director in 2005. Suneel is also the Chairman & Managing Director of Blue Star Infotech Limited, Chairman of Blue Star Design & Engineering Limited, Blue Star Infotech (UK) Limited and Blue Star Infotech America, Inc., apart from being on the board of Blue Star M&E Engineering (Sdn) Bhd.

Suneel has been the President of the Refrigeration and Airconditioning Manufacturers' Association (RAMA) and is actively involved in CII and other trade associations.

Suneel M Advani, *Vice Chairman & Managing Director*



T G S Babu is an Engineering Graduate from IIT, Madras and has done his MBA from IIM, Ahmedabad. He has been working with Blue Star from 1977 in various positions, except for a four-year period when he worked with MRF Ltd as GM Sales.

Prior to his current appointment, T G S Babu was Executive Director. T G S Babu oversees the channel business activities of the Company including packaged airconditioning, room airconditioners and commercial refrigeration products and systems. Under his strong leadership, Blue Star's channel business has been performing extremely well.

T G S Babu is the current President of RAMA and is actively involved in other trade associations.

T G S Babu, *Deputy Managing Director (w.e.f. July 1, 2007)*



Satish Jamdar is a Mechanical Engineering graduate from IIT Powai and also qualified in Systems Management from NIIT and Management Studies from UK and USA. He joined Blue Star in 1996 as Vice President - Manufacturing and has over 30 years of experience in manufacturing, material management and IT projects having worked for companies such as Siemens, BPL-Sanyo and Alstom.

Satish spearheaded the establishment of Blue Star's modern state-of-the-art manufacturing facilities at Dadra in 1997 and at Kala Amb in 2005. Prior to his current appointment, Satish was Executive Director. Under his able and competent leadership, the productivity and product development capabilities of all four factories of Blue Star has substantially increased. Satish currently oversees manufacturing, international sales and material management apart from airconditioning and refrigeration service business.

Satish Jamdar, *Deputy Managing Director (w.e.f. July 1, 2007)*



Shailesh Haribhakti, *Director*

Shailesh Haribhakti is a Fellow member of the Institute of Chartered Accountants of India. He is also a Graduate Cost Accountant, Certified Internal Auditor, Certified Fraud Examiner and Certified Financial Planner. He joined M/s. Haribhakti & Co, Chartered Accountants, Mumbai as Deputy Managing Partner in 1978 and is currently its Managing Partner.

Shailesh joined the Board of Blue Star in 2005. In addition to Blue Star, he is also on the board of several leading companies such as Gujarat Ambuja Cement, IPCL, ACC and Pantaloon amongst others. He has been associated with several institutions and trade associations such as Indian Merchants' Chamber, Institute of Internal Auditors, Bombay Management Association, ASSOCHAM, Western India Regional Council of ICA and NMIMS. In addition, he is empanelled as an Arbitrator by the Indian Council of Arbitration.



Pradeep Mallick, *Director*

Pradeep Mallick is a B.Tech from IIT, Madras and Diploma holder in Business Management from UK. He is also a Chartered Engineer and Fellow of the Institution of Electrical Engineers, London. Pradeep was the Managing Director of Wartsila India Limited from 1988 to 2003. Before joining Wartsila India Limited as its Managing Director, he worked with several leading companies such as Crompton Greaves, Tata Exports and Genelec, to name a few. He joined the Board of Blue Star in 2003.

Pradeep is also on the board of several other leading companies including Esab India, Beck India and Avaya Global Connect. In addition, he is associated with several industrial associations such as Confederation of Indian Industry, Bombay Chamber of Commerce & Industry and social organizations like Population First.



Gurdeep Singh, *Director*

Gurdeep Singh is a Chemical Engineering Graduate from IIT, Delhi. After his graduation, he joined Hindustan Lever Ltd as a Management Trainee. He held various responsible positions in the Company before he was expatriated to Brazil as Technical Director of Unilever Detergents business.

In 1998, Gurdeep returned to Hindustan Lever as the Director - Human Resources and Corporate Affairs. He retired as Senior Vice President - Corporate Affairs in April 2006. He joined the Board of Blue Star in 2003. He is also on the board of Phoenix Lamps, Perfect Circle and Technova India.



Suresh N Talwar, *Director*

Suresh Talwar is a Commerce & Law Graduate and a solicitor and Partner of M/s Talwar, Thakore & Associates, Mumbai. Before setting up this firm in April 2007, he was the Senior Partner of Crawford Bayley & Company.

He joined the Board of Blue Star in 1986. In addition to Blue Star, he is also on the board of several leading companies such as Merk, Cadbury India, Larsen & Toubro, Greaves Cotton, Sandvik Asia, Esab India, Johnson & Johnson, Uhde India and Wyeth amongst others.

Corporate Management

EXECUTIVE COMMITTEE



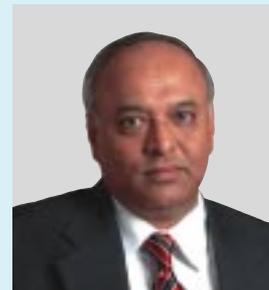
Ashok M Advani
Chairman & Managing Director



Suneel M Advani
Vice Chairman & Managing Director



T G S Babu
Deputy Managing Director
(w.e.f. July 1, 2007)



Satish Jamdar
Deputy Managing Director
(w.e.f. July 1, 2007)



Arun Khorana
Executive Vice President



Avinash Pandit
Executive Vice President



H Rajaram
Executive Vice President



B Thiagarajan
Executive Vice President

VICE PRESIDENTS



R Aravindan
Vice President
Packaged Airconditioning Division



J M Bhambure
Vice President
R & D



R G Devnani
Vice President
Dadra Plant



Michael Fernandes
Vice President
Human Resources & Quality



A Rakesh Rao
Vice President
Airconditioning & Projects Division (North)



P Venkat Rao
Vice President - Room Airconditioners &
Refrigeration Products Division

Directors' Report

The Directors are pleased to present their 59th Annual Report and the Audited Accounts for the year ended March 31, 2007.

HIGHLIGHTS OF 2006-07

- Total Income reached Rs.1607.41 crores, a major growth of 36% over the previous year.
- Profit Before Tax rose to Rs.92.60 crores from Rs.69.09 crores, while Profit After Tax jumped by 46% to Rs.71.18 crores.
- Earnings per share climbed to Rs.7.91 on the face value of Rs.2/- per share compared to Rs.5.44 in the previous year.
- The Directors have recommended a final dividend of Rs.0.60 per share of Rs.2/- each, in addition to the interim dividend of Rs.2.40 per share.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

	April 2006 - March 2007	April 2005 - March 2006
Total Income	1607.41	1178.62
Profit before interest, depreciation and taxation	123.05	90.74
Interest	9.55	5.72
Depreciation	20.90	15.93
Profit before tax	92.60	69.09
Provision for taxation	23.96	19.42
Add/(Less): Deferred Tax	2.54	(0.77)
Profit after tax	71.18	48.90
Add: Balance brought forward	26.03	19.73
Total available for appropriation	97.21	68.63
Less: General Reserve	22.50	18.00
Interim Dividend Paid	21.58	0.00
Corporate Dividend Tax Paid	3.02	0.00
Final Dividend (Proposed)	5.40	21.58
Corporate Dividend Tax	0.92	3.02
Balance carried forward	43.78	26.03

DIVIDEND

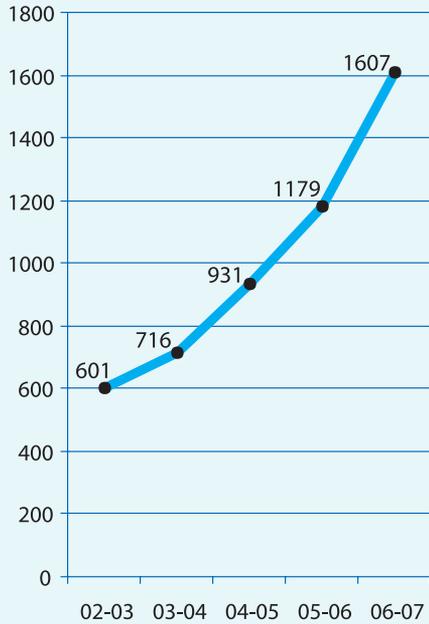
The Company declared and paid an interim dividend of Rs.2.40 per equity share of Rs.2/- each (120%) amounting to Rs.24.60 crores including Corporate Dividend Tax for the financial year ended March 31, 2007. The Directors have now proposed a final dividend of Rs.0.60 per equity share of Rs.2/- each (30%). The final dividend will absorb Rs.6.32 crores including Corporate Dividend Tax.

OPERATING PERFORMANCE

Your Company continued its impressive growth in revenue and profits for the fourth year in succession. Each of the three business segments performed well. The Central Airconditioning Systems, which provided 70% of the total revenue, recorded a growth of 37% in revenue and 28% in profits. Cooling Products sales also grew by 37% while profits shot up by 78% despite severe competition. Professional Electronics & Industrial Systems showed revenue growth of 30% and profit increase of 35%.

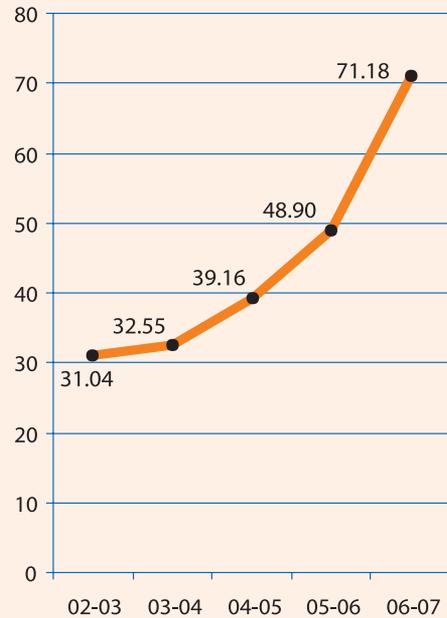
TOTAL INCOME

(Rs. in crores)



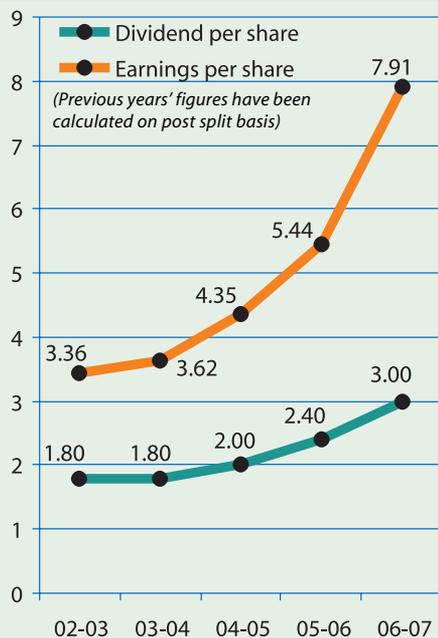
PROFIT AFTER TAX

(Rs. in crores)

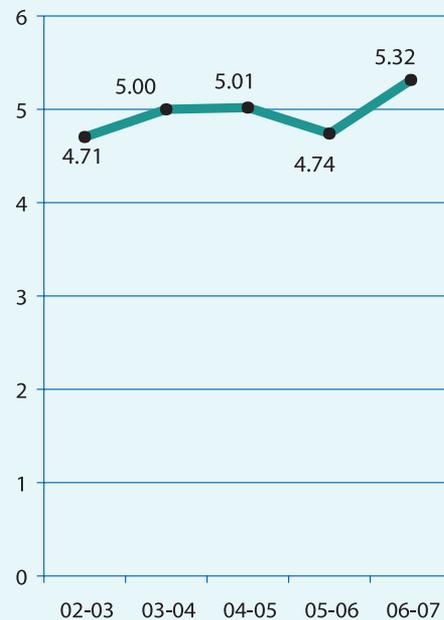


EARNINGS PER SHARE & DIVIDEND PER SHARE

(Rs.)



CAPITAL TURNOVER



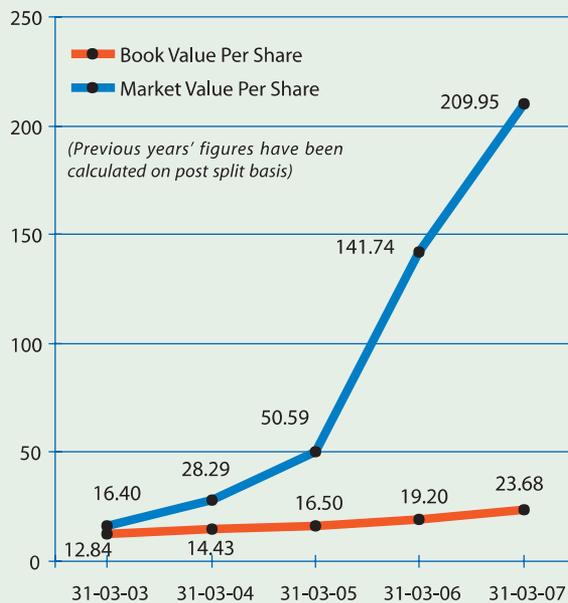
RETURN ON SHAREHOLDERS' FUNDS



RETURN ON CAPITAL EMPLOYED



BOOK VALUE PER SHARE & MARKET VALUE PER SHARE
(Rs.)



All the four manufacturing plants increased production substantially. In order to continue to meet the rapidly growing demand, your Company decided to set up a fifth plant in Wada, Maharashtra. A large plot of land admeasuring about 14 hectares (35 acres) was acquired and construction work is ready to start. The first phase would be ready for commercial production before the end of the current financial year.

FINANCIAL PERFORMANCE

Despite inflationary increase in input costs and higher interest rates, your Company was able to restrict the erosion in gross margin and operating margin to a relatively modest figure. This was mainly due to determined efforts in cost control and value engineering combined with selective price increases. The result was a healthy increase in profits. Profit After Tax climbed by 46% to Rs.71.18 crores.

Tight funds management also helped to mitigate the impact of higher interest rates. Operating cash flow improved significantly to Rs.60.12 crores. The Debt/Equity Ratio remained comfortable at 0.42 despite the substantial growth in business volume and investments in manufacturing and other facilities.

EXPORT & FOREIGN EXCHANGE EARNINGS

Income from product exports increased by 40% to Rs.88.05 crores while commission income grew by 73% to Rs.21.37 crores. Project exports remained modest. Total foreign exchange earnings climbed by 38% to Rs.113.84 crores. Total foreign exchange outflow during the year was Rs.210.62 crores.

SUB-DIVISION OF EQUITY SHARES

The Shareholders, at the Annual General Meeting held on August 4, 2006, had approved the sub-division of equity share of Rs.10/- into five equity shares of Rs.2/- each. Accordingly equity shares were sub-divided effective September 27, 2006, being the record date fixed for that purpose. The number of equity shares, therefore, increased from 1,79,87,221 equity shares of Rs.10/- each to 8,99,36,105 equity shares of Rs.2/- each.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors would like to inform the members that the Audited Accounts for the financial year ended March 31, 2007 are in full conformity with the requirement of the Companies Act, 1956. These financial results have been audited by the statutory auditors M/s K.S. Aiyar & Company. The Directors further confirm that:

- 1) In the preparation of the Annual Accounts, the applicable accounting standards have been followed.
- 2) The accounting policies are consistently applied and reasonable, prudent judgment and estimates are made 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 profits of the Company for that period.
- 3) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for providing and detecting fraud and other irregularities.
- 4) The Directors have prepared the Annual Accounts on a going concern basis.

DIRECTORS

Mr T G S Babu and Mr Suresh N Talwar will retire from the Board by rotation and being eligible, offer themselves for re-election.

EMPLOYEES

The focus on employee training and development continued during the year. Apart from a number of in-house technical and behavioural training programmes, a customized management development programme was organised for middle level managers. Significant investments were also made in training and developing the technical skills of dealers and business associates. The Company also provides financial assistance to the employees' family members for education and medical treatment through employee welfare trusts setup for the benefit of employees.

The employee relations scenario continued to be harmonious and congenial. This paved the way for successfully signing the pending settlements in Eastern, Northern and Southern regions.

CORPORATE SOCIAL RESPONSIBILITY

The Company has been conscious of its responsibilities to society for many years. 'Blue Star Foundation', a charitable trust set up by the Company, gives financial support to institutions providing service in areas such as health, education, technical training and rural development.

In addition, the Company donated Rs.25 lakhs towards setting up of a college for Scheduled Class, Scheduled Tribes and Other Backward Class youth in Silvassa and Rs.6.50 lakhs to Madras Diabetes Research Foundation during the year.

Besides charitable donations, the Company has been pursuing activities in the field of environmental protection. Realizing the need for conserving energy, it has been investing in technology upgradation and R&D activities to develop energy efficient equipment and the use of new generation ozone friendly refrigerants. These efforts continue.

DISCLOSURE OF PARTICULARS

Information as per Section 217(1)(e) and 217(2A) of the Companies Act, 1956, read with the rules made thereunder relating to conservation of energy, technology absorption, foreign exchange earnings and outgo and particulars of employees respectively, are given in Annexures A and B forming part of this report. A Management Discussion and Analysis Report, as required under Clause 49 of the Listing Agreement is published separately in this Annual Report.

For and on behalf of the Board

ASHOK M ADVANI

Chairman & Managing Director

Mumbai: May 9, 2007.

Annexure to Directors' Report - A

Information pursuant to Companies (Disclosure of particulars in the Report of the Board of Directors), Rules 1988.

CONSERVATION OF ENERGY

a) Energy conservation measures taken

Energy consumption in the Company's factories is not a major cost factor. However, following measures have been taken to conserve energy:

THANE

Variable Frequency Drives (VFDs) were connected to packaged airconditioners in offices, thereby giving substantial saving in electricity. A number of old light fittings were replaced by new energy efficient light fittings in the new layout.

DADRA

By redistributing the load requirements on main air compressor and transferring the extra load on another small capacity LP compressor, the factory could fetch a substantial saving. Installation of automatic voltage regulator for lighting load helped to save energy. Addition of capacitor bank at R&D helped to increase the power factor and energy savings.

BHARUCH

Energy savings achieved through use of metal halide lamps for portion of plant and street lighting that allowed higher lumens at same wattage consumption. Maintained power factor near to unity through continuous monitoring and installation of 30 KVAR power capacitor bank in cold room plant.

KALA AMB

Conventional transformer was replaced by transformer with automatic voltage regulator resulting in power saving and also protection to equipment from voltage fluctuation. Optimization of raw water pumping system gave 20% saving. In vertical expander, air-cooled heat exchanger was replaced by water cooled heat exchanger resulting in efficiency enhancement and saving of energy. Recip air compressor was replaced with screw compressor with loading/unloading controlled by algorithm microprocessor resulting in 10% power saving. Unit power factor maintained throughout the year resulted in energy saving.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy

Energy meter will be provided at various sections to monitor and control energy usage. MCBs will be installed with timers on switchboards to switch off lights and airconditioning as required. Energy efficient equipment will replace old ones in a phased manner.

c) Impact of measures taken

There was reduction in electrical and fuel consumption, improved power factor and saving in cost of production.

RESEARCH AND DEVELOPMENT

a) Specific areas in which R & D carried out by the Company

Psychrometric Lab 0-3 TR capacity was set up in Kala Amb. New product development, extension of the existing product range, product design and process engineering activities were continued by the R&D Department.

The following were some of the new products developed during the year:

1. Water cooled energy efficient screw chillers with R134A refrigerant.
2. Extension of the range of precision control packaged airconditioners (PCPA) upto 120KW.
3. Extension of the range of variable refrigerant flow (VRF) systems upto 24HP, in both cooling and heating.
4. Addition of flexi-duct systems for small commercial application.
5. Extension of the range of process chillers.
6. Extension of the range of ductable split systems upto 22TR, and complete range of energy efficient Hi-Per packaged airconditioners upto 16.5TR.
7. Complete range of fan coil units for district cooling application for export market.

8. Extension of the range of telepacs with emergency free cooling.

9. Fresh air handling units for export market.

b) **Benefits derived as a result of the above R&D**

Introduction of new products resulted in improving value addition and providing complete solution to meet customers' needs. Products like fan coil units, fresh air handling units and R-134a chillers, helped the Company to expand its product offering for local and export market. Development of new products has helped in retaining/improving the market share.

c) **Future plan of action**

Future plans involve further strengthening of R&D facilities, developing new product range, upgrading technologies and introduction of new technologies wherever required.

d) **Expenditure on R&D**

(Rs. in lakhs)

	2006-07	2005-06
i) Capital	23.19	74.05
ii) Recurring	172.83	148.28
Total	196.02	222.33
Total R&D expenditure as a percentage of total turnover	0.12%	0.19%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

a) **Efforts made towards technology absorption, adaptation and innovation**

Efforts continued in strengthening the R&D facilities in order to provide wider range of products to suit the customer needs. This also enabled provision of energy efficient equipment, widening the export opportunities, import substitution and adaptation of imported technology to suit the Indian market. Training was imparted to the technical staff as an ongoing process.

b) **Benefits derived as a result of the above efforts**

Availability of energy efficient, environment friendly airconditioning systems and equipment, wider range of products, increased exports, improved quality and product designs and cost reduction were amongst the benefits derived.

c) **Information regarding imported technology**

The following technologies were imported during the years mentioned in brackets: Precision airconditioning systems (2002) and INVICTA PAC (IPAC) range of airconditioning units and condensers (2003).

Significant progress has been made in absorbing the technologies.

MAJOR ITEMS OF FOREIGN EXCHANGE EARNINGS AND OUTGO

a) **Activities relating to exports, initiatives taken to increase exports, developments of new export markets for products and services and export plans**

Discussed in detail in the "Management Discussion and Analysis" Report.

b) **Total foreign exchange used and earned:**

(Rs. in lakhs)

	2006-07	2005-06
Total foreign exchange used	21062.31	12414.49
Total foreign exchange earned	11384.39	8247.32

For and on behalf of the Board

ASHOK M ADVANI

Chairman & Managing Director

Mumbai: May 9, 2007.

Annexure to Directors' Report - B

INFORMATION UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE PERIOD APRIL 1, 2006 TO MARCH 31, 2007

Name	Age (Yrs)	Designation & nature of duties	Remuneration (Rupees)	Qualification	Experience (Yrs)	Date of Joining Blue Star	Details of Last Employment		
							Employer	Designation	Period
Employed for the whole of the year									
Advani A M	65	Chairman & Managing Director	16271355	B.Sc., SB, MBA	41	1-Jul-69	RCA Inc., USA	Information Systems Project Specialist	1968-69
Advani S M	63	Vice Chairman & Managing Director	16801466	SB, SB, LL.B.	38	17-Mar-69	-	-	-
Babu T G S	53	Executive Director	9942746	B.Tech., MBA	31	1-Nov-95	MRF Ltd, Chennai	General Manager	1991-95
Jamdar S	55	Executive Director	9205223	B.Tech, BM	33	2-May-96	Real Value, Mumbai	Vice President	1995-96
Rajaram H	50	Executive Vice President	4451436	B.Com, ACA, ACS	24	4-Mar-96	Raymond Ltd	Gen Manager (Fin) & Co. Secretary	1994-96
Pandit A	54	Executive Vice President	4476304	B.E. (Mechanical)	30	18-Feb-82	Otis Elevators	Executive	1981-82
Khorana A	57	Executive Vice President	4225564	B.Sc. (Engineering)	36	1-Feb-73	Motwani Pvt Ltd	Sales Engineer	1972-73
Thiagarajan B	50	Executive Vice President	3497272	B.E.	27	18-May-98	Voltas Ltd	Divisional Manager	1990-98
Majumdar R	60	Vice President	3846636	B.Sc., B.Tech	38	16-Sep-68	-	-	-
Bhambure J M	49	Vice President	3021493	B.E., DMS	27	15-Nov-92	HMP Engineers Ltd	Prod Dev Manager	1979-92
Devnani R G	48	Vice President	2646970	B.E., MMS	25	4-Feb-94	Pam Pharmaceuticals	Production Manager	1993-94
Aravindan R	42	Vice President	2978426	B.E.	21	11-Apr-88	Fedders Lloyd	Marketing Officer	1986-88
Venkat Rao P	43	Vice President	2824209	B.E., MBA, PGDPM	22	21-Mar-96	Carrier Aircon	Manager	1995-96
Rakesh Rao A	49	Vice President	2774561	B.E.	26	18-Aug-81	-	-	-
Employed for the part of the year									
Sivasankaran N	60	Vice President	3610082	B.Sc. (Engineering)	36	19-Nov-69	-	-	-
Sankaran S	60	Vice President	3465890	B.E, PGDBA	36	20-Nov-69	-	-	-

1. Remuneration for the purpose of this statement includes all expenses incurred by the Company in providing any benefit or amenity to the employee as per CLB's circular No. 23/76 dated 6.8.1976 which is independent of the perquisite valuation under the Income Tax Act, 1961.
2. The nature of employment in all cases is contractual.
3. Relatives of Directors: Mr Ashok M Advani and Mr Suneel M Advani are relatives.

Report of the Directors on Corporate Governance

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Company has been following the principles of good corporate governance through transparency, accountability, fair dealings and mutual trust. It strives to create a win-win situation for all its stakeholders including its customers, shareholders, business partners, employees and society. It believes that, in order to sustain and grow in the present competitive environment and to become a global player, it needs to consistently invest in superior talent, new and improved technologies, good processes, procedures and practices, thereby providing a world-class customer experience.

The Corporate Values and Beliefs, introduced some years ago, have become a way of life in the Company and each employee of the Company is responsible for its strict adherence. The Company has a history of fair, transparent and ethical business practices and strives to continue this tradition that is now enshrined in its Code of Conduct and its Corporate Values and Beliefs. The Company will continue to pursue its business goals while respecting the Corporate Values and Beliefs.

BOARD OF DIRECTORS

The Board consists of eight Directors – Four Wholtime Directors and four Non-Executive Directors. Out of eight Directors, four Directors are independent Directors.

BOARD MEETINGS

Six Board Meetings were held during the Financial Year 2006-07 i.e., on May 12, 2006; June 13, 2006; July 25, 2006; October 30, 2006; January 29, 2007 and March 16, 2007. The Company had its Annual General Meeting on August 4, 2006.

The particulars of Directors, their attendance and other Directorships, Memberships/Chairmanships of Committees for the financial year 2006-07 are given below:

Name	Category	Attendance		*Particulars of other Directorships, Committee Memberships/Chairmanships		
		Board Mtg.	Last AGM	Directorship	Committee Membership	Committee Chairmanship
Ashok M Advani	Promoter Executive	6	Yes	2	2	Nil
Suneel M Advani	Promoter Executive	6	Yes	2	1	Nil
T G S Babu	Non-Promoter Executive	6	Yes	Nil	Nil	Nil
Satish Jamdar	Non-Promoter Executive	6	Yes	Nil	Nil	Nil
Shailesh Haribhakti	Independent Non-Executive	5	Yes	14	9	5
Pradeep Mallick	Independent Non-Executive	6	Yes	4	6	2
Gurdeep Singh	Independent Non-Executive	6	Yes	2	2	Nil
Suresh Talwar	Independent Non-Executive	5	Yes	13	8	3

Note:- Alternate Directorships, Directorships in Private Companies and Membership in Governing Councils, Chambers and other bodies not included.

AUDIT COMMITTEE

The Audit Committee comprises three independent Non-Executive Directors. The members consist of Mr Suresh N Talwar, Mr Pradeep Mallick and Mr Shailesh Haribhakti with Mr Suresh N Talwar as the Chairman. The Committee met on April 17, 2006; May 12, 2006; July 25, 2006; October 30, 2006 and January 29, 2007. The Directors attended all the five Committee Meetings.

The terms of reference of the Committee include review of Company's financial reporting process and disclosure of its financial information; recommending the appointment and removal of external auditors and fixation of audit fees; review of periodical and annual financial statements, related party transactions, risk assessment and minimization procedure, adequacy of internal control systems, performance of statutory and internal auditors and adequacy of internal audit system and structure of internal audit department; looking into the reasons for substantial default in payments to depositors, shareholders, creditors etc and review of the appointment, removal and remuneration of Chief Internal Auditor.

REMUNERATION POLICY

The Managing Directors' and Wholetime Directors' remuneration is recorded in a service agreement with the Company, the terms of which are approved by the Board of Directors and shareholders. Notice period for termination is 6 months on either side and no severance compensation is payable on termination.

The annual increment for the Managing Directors and Wholetime Directors and the commission to the Non-Executive Directors within the limits approved by the shareholders are determined by the Board of Directors. The commission payable to Managing Directors and Wholetime Directors is based on a fixed percentage of the net profits of the Company as approved by the shareholders. Since the remuneration of Directors is determined by the Board of Directors within the limits approved by the shareholders, no separate remuneration committee has been constituted. The Managing Directors and Wholetime Directors are paid by way of salary, perquisites and commission based on their agreements with the Company. Non-Executive Directors are, in addition to sitting fees, paid a commission based on the net profits of the Company, partly by way of a fixed amount and partly based on the number of Meetings attended by them. The details of amount paid/provided towards Directors' remuneration are as follows:

(Rs. in lakhs)

Name	Salary	Perquisites	Commission	Sitting Fees	Total
Ashok M Advani	26.40	52.80	94.12	-	173.32
Suneel M Advani	26.40	52.80	94.12	-	173.32
T G S Babu	17.17	34.34	47.06	-	98.57
Satish Jamdar	16.20	32.40	47.06	-	95.66
Shailesh Haribhakti	-	-	7.00	2.00	9.00
Pradeep Mallick	-	-	7.35	2.20	9.55
Gurdeep Singh	-	-	6.45	1.20	7.65
Suresh N Talwar	-	-	7.25	2.00	9.25

Note:

- Commission shown above are amounts actually paid for the year 2006-07 and hence differ from the provisions made in the accounts for the year ended March 31, 2007.
- Mr Suresh N Talwar holds 71,125 equity shares in the Company. None of the other Non-Executive Directors hold any shares in the Company.

SHAREHOLDERS' GRIEVANCE COMMITTEE

The Shareholders' Grievance Committee comprises Mr Ashok M Advani, Mr Suneel M Advani and Mr Gurdeep Singh. Mr Gurdeep Singh, who is a Non-Executive Director, is the Chairman of the Committee. The Committee met on January 29, 2007 and reviewed the status of shareholders' grievances.

The Board has authorized Mr K P T Kutty, Company Secretary, to approve the transfer of shares and attend to other related matters and has been designated as the Compliance Officer.

During the year, the Company's Registrars received 1213 letters of which 1060 letters were requests for various actions such as change of address, dividend mandate, nominations, etc., and 153 letters were complaints for non-receipt of share certificates, dividend, demat credit, etc. All requests/complaints were attended to promptly and resolved to the satisfaction of the shareholders. There were 3 valid transfers pending as on March 31, 2007 for 7880 shares, which were approved and sent to the transferees within the prescribed time.

GENERAL BODY MEETINGS

Financial Year	AGM/EGM	Date	Location of Meetings	Time
2003-2004	AGM	July 26, 2004	Jai Hind College Hall, Sitaram Deora Marg ('A' Road), Churchgate, Mumbai 400 020.	2.30 p.m.
2004-2005	AGM	July 27, 2005	-do-	2.30 p.m.
2005-2006	AGM	August 4, 2006	-do-	3.00 p.m.

Following special resolutions were passed in the previous three Annual General Meetings:

Subject	Date of Meeting
Commission to Non-Executive Directors	July 26, 2004
Alteration of Articles of Association	August 4, 2006

No special resolution was passed through postal ballot during the year 2006-07 and no special resolution is proposed to be passed by postal ballot at the forthcoming Annual General Meeting.

DISCLOSURES

- The details of transactions with related parties are given in Clause 13 of the Notes Forming Part of the Accounts (Other Notes). There were no transactions with related parties, which are likely to have potential conflict with the interests of the Company at large.
- The Company has complied with the requirements of regulatory authorities on capital markets, and no penalties/strictures have been imposed against it.
- The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement. However, it has not adopted the non-mandatory requirements of the said Clause.

MEANS OF COMMUNICATIONS

The Company published its quarterly and half yearly results in the prescribed form within the prescribed time. The results were forthwith sent to the Stock Exchanges where shares are listed and the same was published in The Economic Times and Maharashtra Times. The Financial Results were also displayed on the website of the Company www.bluestarindia.com. Official press releases are also displayed on the website. The Company made a presentation to the institutional investors and analysts on May 26, 2006 about the company, its performance during the year 2005-06, and its future prospects. Management Discussion and Analysis form part of the Annual Report.

SHAREHOLDERS' INFORMATION

Annual General Meeting

Date	: August 3, 2007
Time	: 3.00 p.m.
Venue	: Jai Hind College Hall 23-24, Sitaram Deora Marg ('A' Road), Churchgate, Mumbai 400 020.

FINANCIAL CALENDAR (PROVISIONAL)

Unaudited results for quarter ending June 30, 2007	: July 25, 2007
Unaudited results for quarter ending Sept 30, 2007	: October 24, 2007
Unaudited results for quarter ending Dec 31, 2007	: Last week of January 2008
Audited results for the year ending March 31, 2008	: May 2008
Date of Book Closure	: Wednesday, July 25, 2007 to Wednesday, August 1, 2007
Dividend Payment Date	: August 8, 2007 onwards

LISTING ON STOCK EXCHANGES

: The Stock Exchange, Mumbai
National Stock Exchange

STOCK CODE

: The Stock Exchange, Mumbai - 500067
National Stock Exchange-BLUESTARCO
NSDL/CDSL-ISIN-INE 472A01039

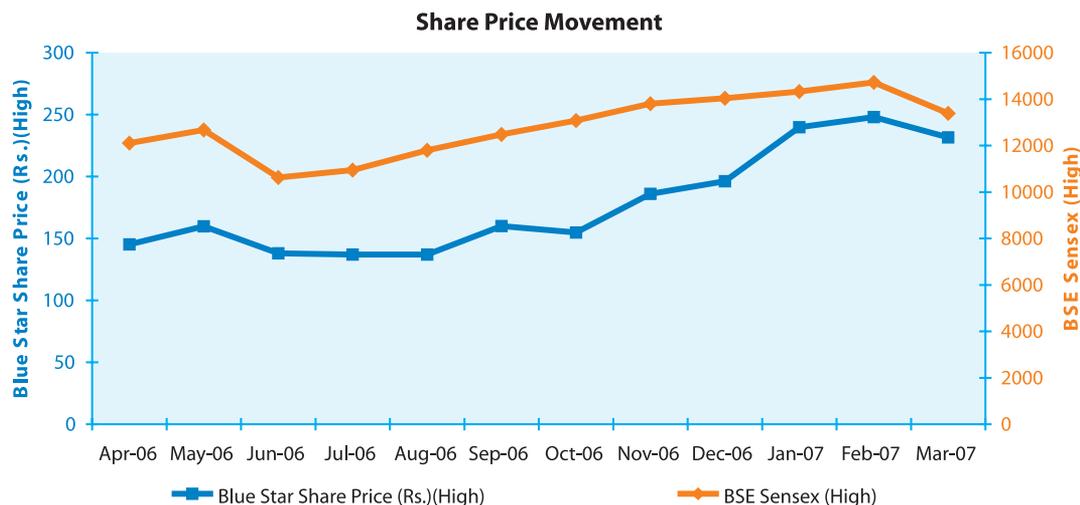
MARKET PRICE DATA *

(Rs. per share)

	The Stock Exchange, Mumbai		National Stock Exchange	
	High	Low	High	Low
2006				
April	145.20	135.40	144.40	124.00
May	159.80	103.00	162.80	110.20
June	138.00	96.00	136.80	95.00
July	137.00	116.00	138.00	118.00
August	137.00	119.00	140.00	112.70
September	160.00	130.10	160.60	130.40
October	154.90	132.50	155.20	132.00
November	186.00	150.00	186.00	150.00
December	196.25	167.00	196.40	167.00
2007				
January	239.90	186.00	239.90	187.30
February	248.00	196.25	248.70	197.00
March	231.60	180.25	220.00	181.00

* The Equity Share of Rs.10/- each of the Company was sub-divided into five Equity Shares of Rs.2/- each with effect from September 27, 2006. For the sake of comparison, the quotations prior to the sub-division have been re-calculated on the basis of Rs.2/- per share.

PERFORMANCE – COMPARISON WITH BSE SENSEX



REGISTRAR & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd
 C-13, Pannalal Silk Mills Compound
 L B S Marg, Bhandup (West)
 Mumbai 400 070.

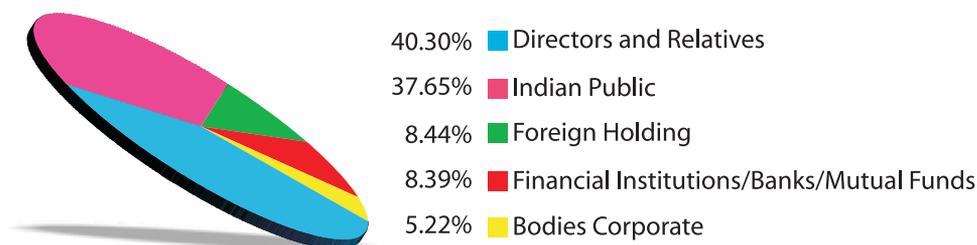
SHARE TRANSFER SYSTEM

The Company's shares are traded in the Stock Exchanges in demat mode. These transfers are effected through NSDL & CDSL. Most of the transfers of shares take place in this form. Transfer of shares in the physical form is processed and approved weekly and the certificates are returned to the shareholders within 15 days from the date of receipt, subject to documents being valid and complete in all respects. The Board has authorized Mr K P T Kutty, Company Secretary, to approve the transfer of shares.

DISTRIBUTION OF SHAREHOLDING AS ON MARCH 31, 2007

No. of equity shares held	No. of Shareholders	Percentage of Shareholders	Total No. of shares held	Percentage of shares held
1 - 500	15535	86.00	8920746	9.92
501 - 1000	1292	7.15	4704906	5.23
1001 - 2000	688	3.81	4787596	5.32
2001 - 3000	212	1.17	2607996	2.90
3001 - 4000	78	0.43	1381548	1.54
4001 - 5000	44	0.24	974796	1.08
5001 - 10000	86	0.48	3037712	3.38
10001 - and above	130	0.72	63520805	70.63
TOTAL	18065	100.00	89936105	100.00

CATEGORIES OF SHAREHOLDERS AS ON MARCH 31, 2007



DEMATERIALISATION OF SHARES & LIQUIDITY

About 93% of the equity shares have been dematerialized by about 75% of the total shareholders as on March 31, 2007. The Company's shares can be traded only in dematerialized form as per SEBI notification. The Company has entered into agreements with NSDL & CDSL whereby shareholders have the option to dematerialize their shares with either of the Depositories. About 38% of the equity shares are held by public and the shares are actively traded in BSE and NSE.

PLANT LOCATIONS

Blue Star Limited
IInd Pokhran Road
Majiwada
Thane 400 601.

Blue Star Limited
Plot Nos. 4 & 5
GIDC Indl Estate
Bharuch 392 015.

Blue Star Limited
Survey No. 265/2
Demni Road
U.T. of Dadra
& Nagar Haveli.

Blue Star Limited
Nahan Road
Rampur Jattan
Kala Amb, Dist: Sirmour
Himachal Pradesh 173 030.

COMPLIANCE OFFICER

K P T Kutty
Company Secretary
Tel: 022 6665 4040 Fax: 022 6665 4151
Email: kptkutty@bluestarindia.com

ADDRESS FOR CORRESPONDENCE

Blue Star Limited
Kasturi Buildings, 4th floor
Mohan T Advani Chowk
Jamshedji Tata Road
Mumbai 400 020.

Declaration

As provided under Clause 49 of the Listing Agreement with the Stock Exchanges, the Directors and the Senior Management Personnel have confirmed compliance with the Code of Conduct during the financial year ended March 31, 2007.

For **BLUE STAR LIMITED**

Mumbai: May 9, 2007.

ASHOK M ADVANI
Chairman & Managing Director

Auditors' Certificate

The Board of Directors,
Blue Star Limited,
Mumbai 400 020.

We have examined the compliance of conditions of Corporate Governance by Blue Star Limited for the financial year ended March 31, 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchange(s).

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. 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 we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that as per the records maintained by the Share Transfer Agents on behalf of the Company, there were no investors grievances remaining unattended / pending for more than 30 days.

We further 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 **K. S. Aiyar & Co.,**
Chartered Accountants

Raghuvir M Aiyar
Partner
Membership No. 38128

Mumbai: June 14, 2007

Management Discussion and Analysis

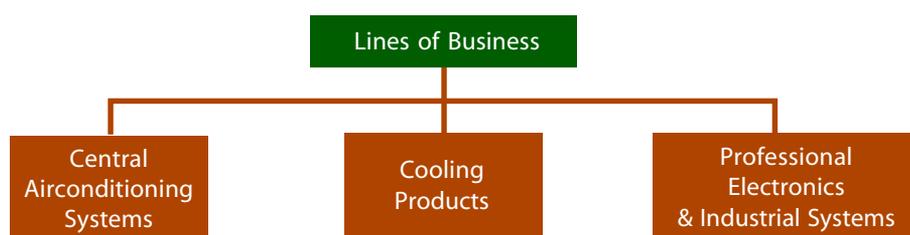
INTRODUCTION

Blue Star is India's largest and most preferred central airconditioning and commercial refrigeration company, fulfilling the needs of a large number of corporate and commercial customers. With over six decades of experience in providing expert cooling solutions, Blue Star has been associated with the most prestigious projects and installations in the country.

Another significant area of business interest to Blue Star is distribution and maintenance of imported professional electronic and industrial systems. These include turnkey engineered solutions in the areas of manufacturing, telecom, healthcare, defence, pharmaceuticals, banking and R&D.

Blue Star's strong credentials and reputation coupled with its engineering expertise and ethical business practices have contributed to sustained growth and leadership. Blue Star achieved leadership status in most of its chosen markets over a decade ago, and it continues to maintain and strengthen its position, despite stiff global competition.

LINES OF BUSINESS



Blue Star primarily focuses on the corporate and commercial markets. These include institutional, industrial and government organizations as well as commercial establishments such as malls, multiplexes, showrooms, restaurants, banks, hospitals, and boutiques. In accordance with the nature of products and markets, business drivers, and competitive positioning, the lines of business of Blue Star can be segmented as follows:

CENTRAL AIRCONDITIONING SYSTEMS

This business includes the design, engineering, manufacturing, installation, commissioning and support of central airconditioning plants and ducted systems. It also promotes after-sales service as a business, by offering several value added services in the areas of upgrades and enhancements, air management, water management and energy management.

COOLING PRODUCTS

Blue Star offers a wide range of contemporary window and split airconditioners. The Company also manufactures and markets a comprehensive range of commercial refrigeration products and services that cater to the industrial, commercial and hospitality sectors. These include cold chain equipment such as pack houses, customized cold storages, bulk cold storages and supermarket refrigeration equipment. In addition, Blue Star also offers water coolers, bottled water dispensers, deep freezers, milk coolers, bottle coolers and ice cube machines.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL SYSTEMS

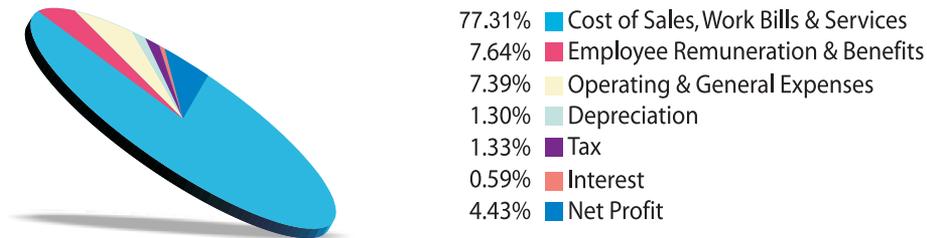
For over five decades, the Electronics Division has been the exclusive distributor in India for many internationally renowned manufacturers of hi-tech professional electronic equipment and services, as well as industrial products and systems. The Company has carved out profitable niches for itself in most of the specialized markets it operates in, such as analytical instruments, medical electronics, data communication products, industrial systems, material testing, and test and measuring instruments.

FINANCIAL HIGHLIGHTS

In 2006-07, the Company sustained its record of growth and profitability. The Company's focus on profitable growth in its core businesses as well as the buoyancy in the economic environment contributed to its impressive financial performance. For the year ended March 31, 2007, Net Sales grew 36% to reach Rs.1601.28 crores. Net Profit grew 46% to Rs.71.18 crores, while Earnings Per Share increased to Rs.7.91 from Rs.5.44 (face value of Rs.2.00). Total Income for the year stood at Rs.1607.41 crores, representing a 36% growth over the previous year.

Operating profit (PBDIT excluding Other Income) for the year at Rs.116.92 cores grew 35% compared to Rs.86.68 crores earned in the previous year. While Return on Capital Employed (ROCE) grew from 30.1% to 32.1%, Return on Shareholders' Funds improved to 33.4% from last year's figure of 28.3%.

How every rupee earned was spent



INDUSTRY STRUCTURE AND DEVELOPMENTS

AIRCONDITIONING

The market size for airconditioning in India is estimated to be around Rs.7500 crores. Of this, the market for central airconditioning, including central plants and ducted systems, is estimated to be around Rs.3700 crores, whilst the market for window and split airconditioners comprises the balance Rs.3800 crores.

The commercial airconditioning market catering to corporate and commercial establishments is projected to be around Rs.5000 crores. Segments such as IT/ITES, retail, industrial, entertainment, pharma, healthcare, hospitality, telecom and banking fuelled the growth of the commercial airconditioning industry. With continued investments in infrastructure and a buoyant economic environment, the commercial airconditioning industry is expected to grow in excess of 25% over the next few years.

Market size of Airconditioning in India



COMMERCIAL REFRIGERATION

The market for commercial refrigeration equipment and systems is estimated to be around Rs.1500 crores. The commercial refrigeration segment includes a wide range of products such as cold storages, supermarket refrigeration equipment, water coolers, bottled water dispensers, deep freezers, milk coolers, bottle coolers and ice cubers.

Considering the huge potential of the country for production and distribution of perishable commodities such as fruits and vegetables, milk, fish and poultry products, the current cold chain infrastructure in the country is totally inadequate. Further, the country suffers huge post-harvest losses worth thousands of crores. The need today is for perishables to be supported right from the farm end to the retail end by the use of cold storages involving conventional, controlled and modified atmospheres.

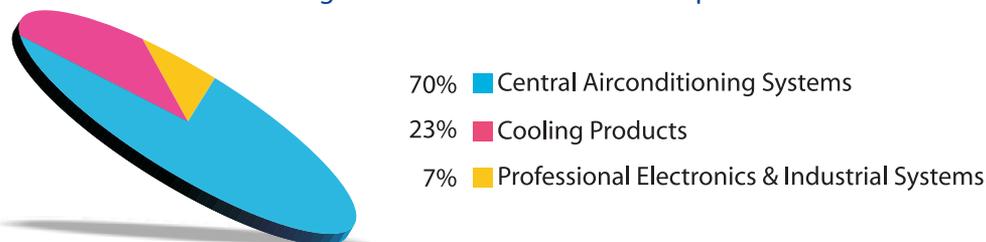
Recognizing this vital need, the Central Government is taking action to improve the cold chain infrastructure. Their intention to enhance production and export of vegetables and fruits thereby raising agricultural income has resulted in large business houses announcing plans and embarking on contract farming and branded exports. The cold chain will require pre-coolers, bulk cold storages, transport refrigeration and perishable cargo complexes.

Further, retailing of agricultural produce- both raw and processed is undergoing a massive transformation in the big cities with the emergence of supermarket chains. These high quality supermarkets, regardless of size, require a lot of refrigeration equipment for storing and showcasing food produce. New retail players are continuously entering the fray to take part in this Indian retail explosion. These players need to build a scaleable model across regions to reduce the cost of their operations, since they will have to be price competitive to attract public consumption. This will result in a huge demand for cold chain equipment including bulk cold storages.

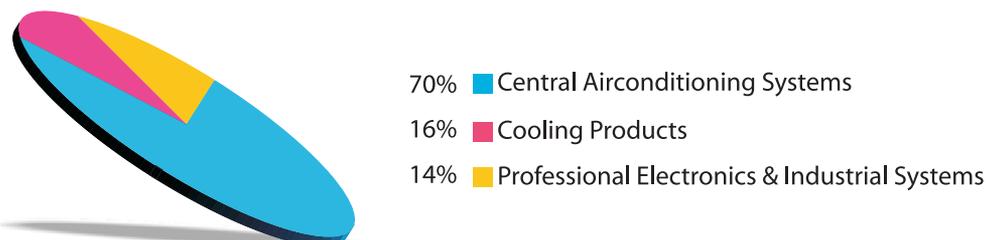
SEGMENT-WISE ANALYSIS

The revenue and results break-up in terms of business segments were as follows:

Segment-wise Revenue break-up



Segment-wise Results break-up



CENTRAL AIRCONDITIONING SYSTEMS

The central airconditioning business continues to be the key growth driver for Blue Star's revenues. Blue Star remains the undisputed market leader in this segment with a market share of 30%. This line of business registered an impressive billing growth of 37% over last year and contributed to over 70% of the Company's Total Segment Revenue. The IT/ITES and Retail segments fuelled the demand for central airconditioning during the year contributing to over 60% of the sales.

In the central airconditioning business, Blue Star is a manufacturer, contractor and after-sales service provider, enjoying a preferred partnership status in most of the new growth segments. Blue Star's strong credentials coupled with its energy-efficient superior products, exemplary project management skills, and track record of on-time delivery, helped the Company sustain its leadership position. Further, customers appreciate the fact that Blue Star offers solutions and partners with them throughout the life cycle of the system.

The central airconditioning business primarily comprises two segments viz central plant projects and ducted systems.

In the central plant projects segment, the Company offers a range of chillers including screw, reciprocating and scroll as well as a wide array of airside products such as air handling units and fan coil units. Blue Star has a deep understanding of new specialized technologies emerging in the airconditioning industry. In order to provide optimum cooling solutions to customers, the Company has been increasing its focus on critical parameters such as indoor air quality, energy efficiency and uniform cooling.

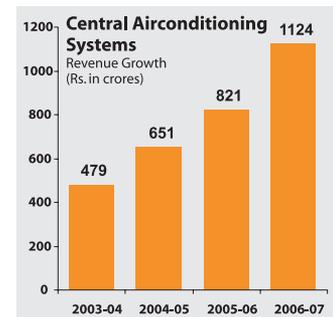
In 2004-05, Blue Star had launched energy efficient air cooled screw chillers, manufactured at its plant at Thane. During the year under review, the Company did exceptionally well in this product category booking over 200 screw chillers totaling to over 50,000 tons. This is a commendable achievement considering that just a couple of years back, Blue Star could only offer imported screw chillers to its customers. During the year, the Company also introduced these chillers with the eco-friendly R 134A refrigerant. With the full scale production of these eco-friendly chillers planned in FY08, the Company is confident of further increasing market share in this product segment.

During the review period, the Company won a number of prestigious airconditioning orders including Megapolis Mall, Thane; Ascendas International Tech Park, Chennai; Franklin Templeton, Secunderabad; Infinity Benchmark, Kolkata; Kokilaben Dhirubhai Ambani Hospital, Mumbai; Accenture, Mumbai; CISCO, Bangalore; NTPC, Barh; Jaipur, Nagpur & Amritsar Airports; Hexaware, Chennai; Great Eastern Hotel, Kolkata; Galaxy Mercantiles, New Delhi; & Net Net Ventures, Secunderabad.

Blue Star's track record of successful execution of fast-paced and technically challenging airconditioning projects ensured that it received continued patronage from existing customers. The Company bagged several repeat orders from customers like Infosys, Satyam, Microsoft, DLF, RMZ, Moser Baer and L'Oréal.

Blue Star's ducted systems range includes floor and ceiling mounted packaged airconditioners as well as ducted split airconditioners. The Company also offers precision control packaged airconditioners for applications where accurate control of temperature is critical as well as telepacs for telecom applications. Thus, Blue Star provides the widest possible range, and meets every conceivable requirement of customers.

During the year under review, the Company further strengthened its leadership position in ducted systems with growth of over 35%. IT/ITES and retail continued to drive growth with builders/promoters playing an important role catering to these segments. The Company bagged several prestigious orders including orders from Intelenet (Chennai, Mumbai, Delhi); D-Mart (Mumbai, Ahmedabad); Star City Mall, Delhi; Iskon Mall, Surat; Satyam Computers (Chennai, Bangalore, Secunderabad); HCL Technologies, Chennai and Monday-Sunday, Bangalore.



Some Prestigious Installations



▲ MICROSOFT, SECUNDERABAD

SATYAM COMPUTERS, SECUNDERABAD ▼





▲ ICICI PRUDENTIAL, MUMBAI

WEIKFIELD IT CITY, PUNE ▼





▲ HSBC GLOBAL TECH CENTRE, PUNE

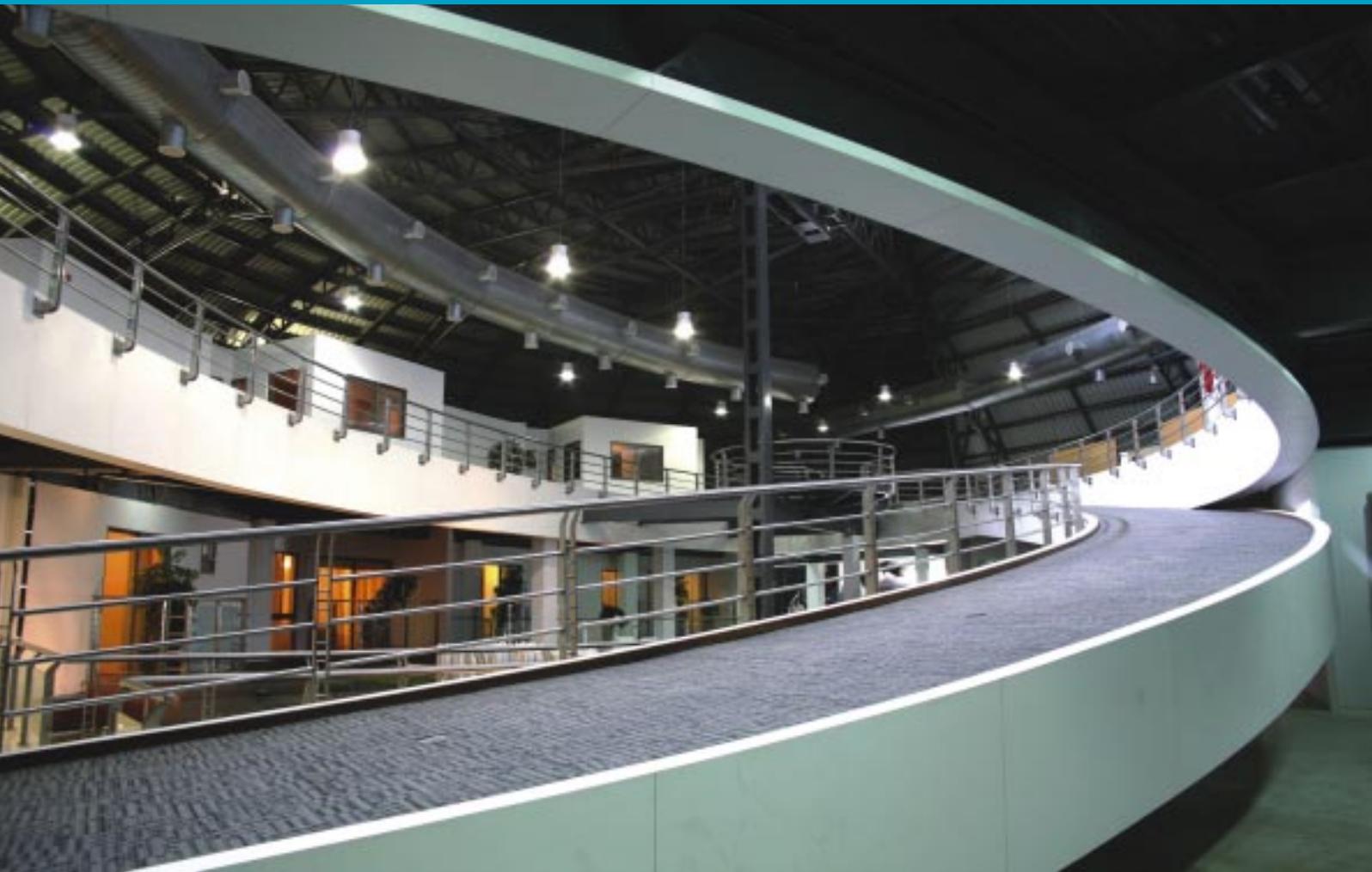
LIFESTYLE, PUNE ▼





▲ MARIPLEX, PUNE

OZONE, CHENNAI ▼





▲ SUNCITY WORLD SCHOOL, GURGAON

AMERICAN EXPRESS, GURGAON ▼





▲ ASHOK LEYLAND CORPORATE OFFICE, GURGAON



▲ E PARK, GURGAON

TECHNOLIS IT PARK, KOLKATA ▼





▲ CAFÉ COFFEE DAY, MUMBAI

SAMRAT, MUMBAI ▼



Blue Star has cultivated a large number of national account customers. A separate National Accounts Department is a competency that the Company has built over the last five years. This portfolio is expected to provide increasing business with each passing year since this is a service that large customers appreciate.

The Company also strengthened its foothold in the high technology Variable Refrigerant Flow airconditioning systems business. Blue Star is the first airconditioning company in India to manufacture these sophisticated systems indigenously. These systems have inherent advantages over their imported counterparts, as they can handle ambient temperatures of upto 52°C and have a voltage fluctuation resistant system to overcome erratic power supply. Further, these systems have a lead time of just 6 weeks compared to longer lead times sought by foreign brands.

During the year, Blue Star executed several prestigious VRF orders, including ICICI Prudential, TCS, Bharti Airtel, APL Logistics, Zaveri Mall and Eon. The Company is already the second largest player in the VRF segment with a 20% market share and is confident of becoming a formidable player over the next few years.

Blue Star has also become the dominant player in the telecom segment. Blue Star offers a complete range of telecom airconditioning solutions which incorporate microprocessor based controllers, thereby enabling remote monitoring and control of unmanned telecom shelters scattered all across the country from a central monitoring station.

Blue Star has supplied these specialized packaged airconditioners to major telecom service providers such as Hutch, Airtel, BSNL, TTSL, Spice Telecom and Essar as well as to other passive infrastructure providers like GTL, Quipo, TVS and Tower Vision. Owing to its deep understanding of the telecom business, the Company enjoys a market share of over 50% in this segment. With the cellular subscriber base in India expected to double over the next three years, the requirement of cell sites will also double. The Company is confident of leveraging its leadership position in this segment to capitalize on the enormous opportunities available.

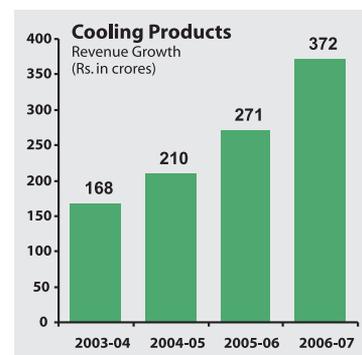
COOLING PRODUCTS

This business segment includes window and split airconditioners apart from commercial refrigeration products and systems. Over the last few years, the Company has established leadership in commercial refrigeration products. Blue Star has also become a respected split airconditioner brand amongst the corporate and commercial buyers.

The Cooling Products segment performed exceedingly well in 2006-07 registering a growth of 37%. The growth was driven by increased sales of split airconditioners as well as refrigeration products and systems such as deep freezers, water coolers and cold storages. Segment profit increased by a healthy 78% in the year.

The room airconditioner market size for 2006-07 was around 1.8 million units. This field is characterized by intense competition amongst many players and is dominated by multi national brands. Despite this scenario, Blue Star's room airconditioner sales recorded perhaps the highest growth rate in the industry for the third year in a row, mainly due to the shift in the market preference from window to split airconditioners. The differentiated range of Blue Star's split airconditioners comprising specialized products such as hiper splits, mega splits and cassette airconditioners contributed to the impressive performance of this line. While the window airconditioners volume of Blue Star grew a modest 12%, split airconditioners volume grew by over 75%. Blue Star sold around 90,000 units, with more than 70% of the sales coming from split airconditioners. Further, the Company also improved profitability because of higher volume and lower cost supplies from the Himachal Plant.

In the refrigeration products business, the Company did well across product lines. The Company retained its leadership



position in the water cooler segment. Blue Star's deep freezers and bottle coolers also continued to perform well, recording a growth of over 20%, while the sales of ice-cube machines doubled. The Company has also made inroads into the eateries segment with its new range of gelato dispensing machines and vertical showcases from ISA, Italy.

The cold chain business in the country is heading for a radical transformation in the next few years. The Central Government's intention to enhance production and export of vegetables and fruits in order to raise agricultural income coupled with the emergence of supermarkets will present huge business opportunities for the Company in providing a modern cold chain infrastructure.

During the year, the Company tied-up with ISA, Italy to provide refrigeration technologies and solutions to the emerging retailing and supermarket segments in India. Many industrial houses with big plans have already evinced interest in Blue Star solutions, as a fall-out of this tie-up. The Company has created a key national account cell to focus on supermarket customers, who have both back-end and supermarket display requirements. With expertise in back-end cold storages and the tie-up with ISA, Italy for aesthetically appealing supermarket display equipment, the Company is confident of becoming a significant player in the sunrise supermarket segment. The Company has already bagged orders from A V Birla Retail, Foodland, Spencers, Food World, Vishal Mega Mart, amongst others.

During the year, the Company also booked orders for pack houses at the farm end from Heritage Foods and Tanflora. Further, the Company bagged prestigious orders from Reliance Retail for cold storages worth Rs.30 crores. This includes ripening chambers, cut vegetable rooms, frozen food rooms and dairy rooms.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL SYSTEMS

For over five decades, Blue Star has been consistently providing its customers with a wide range of products, systems and value-added services in the field of professional electronics and industrial systems. The Division's strength is the intellectual capital of its employees who keep abreast of the constant global changes in the world of technology, and upgrade their knowledge and skills to constantly innovate and exploit new business opportunities.

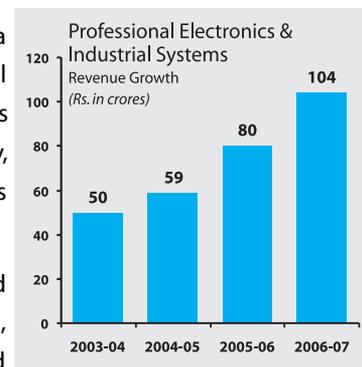
The Division represents in India leading global manufacturers including Hitachi and JEOL from Japan, Thales e-security from UK, Yxlon from Germany, Mindray from China, Techcomp from Hong Kong, Olympus NDT from Canada and Aeroflex, Panametrics and Molecular Devices from USA, to name a few.

In 2006-07, the Division continued to contribute significantly to the overall performance of the Company, with segment profits going up by 35% over the previous year. For the future, the Division anticipates big opportunities by expanding into industrial projects and services as well as system integration as a value added reseller.

The Division has six strategic business units (SBUs), and all of them continued to contribute significantly to its overall growth. The performance of each SBU is enlisted below:

Material Testing Equipment and Systems

With the Indian manufacturing industry becoming extremely sensitive about quality, the demand for material testing equipment and systems has increased significantly. During the review period, the Company continued to perform well in the eddy current, ultrasound and industrial x-ray product lines. It has tied up with Panametrics of USA and Olympus NDT of Canada for these products. Focus on high-end phased array and Time of Flight Diffraction (TOFD) ultrasound systems enabled the Company to book prestigious orders from L&T, Reliance Industries and Essar.



Considering that the pipe industry is growing substantially, pipe testing offers significant business opportunities. Recognizing this, the Company moved up the value chain - from a product supplier to a system integrator - by developing competence to create a complete system for pipe testing applications rather than only supply of individual products. This helped the Company execute turnkey orders from Jindal Saw for its operations in India and Texas apart from orders from Pratibha Industries and Man Industries.

The Company continues to dominate the market for destructive testing products with equipment supplied by FIE, India including universal testing machines and hardness testing. The Company also has tie-ups with Hung Ta Instruments, Taiwan for universal testing machines and Thermal Product Solutions, USA for environmental chambers.

Data Communication Products and Services

This Department is primarily involved in providing solutions in the areas of data and transaction security, networking, RF data communication and managed network solutions. These solutions are based on state-of-the-art technology products from well-renowned manufacturers such as Thales e-Security, UK for data security and encryption; Motorola for wireless networking; LXE, USA for RF data terminals, and channel partnerships with various leading suppliers of networking equipment for system integration.

The Department maintained its strong position in the host security modules business during the review period with major orders from SBI, IndusInd, BOB and ICICI, amongst others. Smaller/co-operative banks are now going in for National Financial Switch connectivity, for which host security modules are necessary. This is expected to increase sales volumes over the next few years.

The Department booked a prestigious order from JNPT Container Port Terminal – Phase II of the Nava Sheva port for establishing the RF wireless infrastructure network and for supply of data terminals. The Department also executed a major security project for the Central Ministry for supply and integration of Public Key Identification systems as part of the National Citizen ID project.

Test and Measuring Instruments

In the field of test and measuring instruments, the Company represents world-renowned manufacturers including Aeroflex, USA; Navtel, Canada; Promax, Spain; dBm Corp, USA and NEC SAN-EI, Japan offering a wide range of test and measuring instruments, recorders, protocol analysers, noise generators and satellite link emulators. The major market segments addressed include space, defence, paramilitary, cable broadcast and telecommunications.

During the year, this business performed well. The Department booked major orders for supply of RF test equipment from HAL. The Ministry of Home Affairs, Delhi also placed orders for radio test sets. Another breakthrough order was from Tata Sky for supply of 1400 Satellite Hunters, a dish alignment tool for DTH Operations.

Analytical Instruments

Blue Star represents reputed players such as JEOL, Japan and Molecular Devices, USA in the field of analytical instruments. The Company has partnered with Techcomp Ltd, Hong Kong to provide professional consultation for design, build and maintenance of prefabricated Bio Safety Level-3 (P3) containment labs on a turnkey basis. P3 labs are used primarily for containment of dangerous pathogens from virus and bacteria that are harmful to humans and animals.

During the year, the Company did well in specialised equipment such as electron microscopes for nano-technology applications. The Company also booked an order for two P3 labs from ICMR, Delhi.

Industrial Products

Blue Star has been engaged in marketing and support of high technology process instruments and capital equipment to

meet the diverse needs of the core sector such as oil and gas, petrochemical, pulp and paper, minerals and mining, and power industries.

The year witnessed an impressive performance in both product sales and the projects business. The Department did well in the special pumps business and booked major orders from the oil, gas and power sector. It also secured orders from the petrochemical and fertilizer industry for fully automated bagging systems. Orders were also booked from Tata Steel for overhead yard utility pipeline, oxygen pressure reducing stations and LD gas mixing stations valued at Rs.31 crores during the year.

Medical Diagnostic Equipment

The Company continued to represent Hitachi Medical Corpn., Japan for the sale of MRI scanners, CT scanners and ultrasound systems. The Company has also partnered with Mindray of China for the distribution of patient monitoring systems and with Rogan Delft of Netherlands for Picture Archiving and Communication Systems (PACS). During the year, the Department performed extremely well in the sale of MRI systems. It also did well in patient monitoring systems and bone densitometers.

MANUFACTURING FACILITIES

Blue Star currently has four modern, state-of-the-art manufacturing facilities at Thane, Bharuch, Dadra and Kala Amb, Himachal Pradesh. To cater to the fast growing demand, the Company is in the process of setting up a fifth manufacturing facility at Wada (Thane District) in Maharashtra. The site is located over an area of around 14 hectares (35 acres) and the plant will manufacture both airconditioning and refrigeration equipment for the domestic and the international markets. Phase I of the plant will be completed by March 2008, although partial production will begin earlier. The Company plans to invest about Rs.35 crores in Phase I.

Research & Development

In its thrust towards enhanced new product development, Blue Star continuously upgrades and expands its product development facilities with substantial investments in setting up sophisticated test laboratories.

During the year under review, the Company launched a host of new products and models. The new products include flooded water cooled screw chillers with eco-friendly R134A refrigerant, modified designs of air handling units, a new range of precision control packaged airconditioners and extended range of VRF Systems with Digital Scrolls. The Company also introduced Emergency Free Cooling (EFC) packaged airconditioners for the fast-growing telecom segment.

During the year, the Company upgraded several labs. These included labs for chiller testing and FCU testing at Thane, the lab at HP Plant and labs at Dadra. The Company also added a lab for reliability testing at all plants. Work was initiated on R410A refrigerant systems, high efficiency heat exchangers, and high efficiency system to meet the Star Rating Programme requirements for window and split airconditioners.

Dadra Plant

Blue Star's Dadra plant continues to be regarded as one of the best manufacturing facilities in the country for manufacturing high quality products for domestic markets as well as for exports. The product range manufactured at this plant includes packaged airconditioners, ducted split airconditioners, precision control packaged airconditioners (PCPA), telepacs for telecom applications, VRF systems, room airconditioners and heat pumps.

During the review period, Dadra plant recorded growth of 21% over previous year. Capacity was created for new products such as VRF, PCPA, telepacs and export products. To combat increase in prices of raw material, a lot of initiatives were undertaken for value engineering resulting in significant savings. More assembly lines were installed to cater to

New Products



PROCESS CHILLER



SCREWLESS AIR HANDLING UNIT



MODULAR SCROLL CHILLER



FLOODED R134A WATER COOLED SCREW CHILLER

FLEXIDUCT SPLIT AIRCONDITIONER



FAN COIL UNIT FOR DISTRICT COOLING



increased requirements along with an additional coil expander. There was special emphasis on improving material handling systems and layouts.

A separate reliability lab was set up to check every new component for life cycle testing. The Dadra plant has embarked on improving quality further by launching a 500 PPM programme, which will yield results in years to come.

Thane Plant

The Thane plant manufactures a range of chillers – reciprocating, scroll and screw for central airconditioning applications as well as airside products such as air handling units and fan coil units. Process chillers are also manufactured for customized requirements.

During the review period, emphasis was on improving production capacity through re-layouts, process/method improvements and small automation projects. With these efforts, production capacity of screw chillers and air handling units almost doubled during the last quarter of the year. Value engineering and cost reduction projects were implemented in the area of screw chillers, scroll chillers and air handling units to counter the steep price rise in raw material such as copper, aluminum and steel.

The manufacturing facilities were upgraded to increase in-house value addition and enhance capacity in feeder shop such as coil shop, fabrication and cooler/condenser shop. Capital expenditure included a variety of new equipment to increase productivity such as fin press and conveyor line for screw chillers and ceiling suspended air handling units.

Bharuch Plant

In 2006-07, the Bharuch plant recorded a growth of 38% over the previous year with increased demand mainly for cold chain products. The rapidly growing market for cold chain equipment necessitated full utilization of manufacturing capacity for polyurethane sandwich panels and cooling units. Considering the need to double the capacity, the plant initiated further investments in the latest polyurethane sandwich panel foaming plant using CFC-free technology apart from imported hydraulic presses and automated sheet metal lines. This new manufacturing facility is expected to be in production from Q2 of the current year and will provide substantial benefits from both the additional supplies as well as fulfilling the market expectations in terms of quality and delivery.

Over the last couple of years, Bharuch plant has focused on expanding the product portfolio to cover the entire range of cold chain equipment. Bharuch plant now manufactures all the refrigeration products including water coolers, deep freezers, cold storages, cooling and freezing units, PU sandwich panels, reach-in coolers, mortuary chambers and bulk milk coolers, amongst others.

With a thrust on automation, value engineering and competitive sourcing, margins were maintained despite raw material price increases during the year.

Himachal Plant

The Himachal Plant which began production in 2005-06 is now fully operational and shipped out 90,000 units in the year under review - its first full year of operation. The plant manufactures window and split airconditioners for the domestic as well as international markets. In addition, products such as fan coil units and flexiducts are also being manufactured.

Considering the substantial growth in the Company's room airconditioners business, the present installed capacity of 1,50,000 units is being enhanced to 2,00,000 units. The state-of-the-art facility has three assembly lines for window and split airconditioners, out of which one is completely automated. As part of vertical integration, a coil manufacturing facility has been created to manufacture both 9.5 as well as 7.0 mm coils with a capacity of 1000 coils per day. A



▲ SPLIT AC ASSEMBLY LINE AT HIMACHAL PLANT

PAINT SHOP AT DADRA PLANT ▼





▲ TESTING FACILITIES AT THANE PLANT

REMOTE MONITORING AT SERVICE SPECIALISTS' CENTRE, THANE ▼



sophisticated R&D and reliability lab too has been put up in this new plant for testing and product development. Plans are on the anvil to fully automate the second assembly line as well as to incorporate another coil line.

CUSTOMISED OEM BUSINESS

Having been in the business of HVAC for several decades, Blue Star has entered into a new area of customized cooling solutions for special industrial, process and other non-comfort cooling applications. With wide experience in cooling solutions coupled with a large pool of qualified R&D engineers, Blue Star is in an unparalleled position to meet the demands of various customers for customised cooling solutions.

The OEM business currently offers process chillers for critical process applications such as the medical, food and plastic industry. It also offers bulk milk coolers for the dairy industry with a tie-up from Packo, Belgium. The revenues of the business doubled during the year under review. Though on a small base, this is indicative of the potential of the market for customized solutions.

EXPORTS

On the product export front, the Company continued to make good progress especially in the Middle East. Product Exports grew by a healthy 40% to Rs.88.05 crores. Blue Star began offering products like chillers, air handling units, fan coil units and roof top units apart from traditional cooling products like water coolers, ducted systems and room airconditioners. These products, which compete with global brands, have been very well received in the market place and resulted in a significant rise in the Company's exports during the year.

The Company booked orders for 7000 fan coil units from Qatar and UAE for district cooling applications. A beginning was made in the export of screw chillers – a creditable achievement considering that until a couple of years back, Blue Star was dependant on imported chillers, even for the domestic segment. A number of factory visits were organized for consultants and customers for formal approval of the manufacturing facilities and products. In addition to UAE, Qatar and Oman where distributors already existed, the Company established a presence in new markets like Kuwait and Iran. The Company also secured orders for specialized products like precision control packaged airconditioners and telepacs.

During the year, the Company participated in the Big 5 exhibition in Dubai showcasing a comprehensive range of products. It also hosted several customer events in Dubai, Doha and Bahrain.

During the last quarter of 2006-07, the Company entered into a Joint Venture in Doha to handle the requirements of both international projects as well as products from the region.

AIRCONDITIONING AND REFRIGERATION SERVICE

The installed population of airconditioning and refrigeration equipment has been growing rapidly in recent times, and this has created faster growth opportunities for after-sales service as well. Blue Star is well-known in the market place as a superior value added service provider, and it maintains over 1.2 million TR of airconditioning and refrigeration systems. This tonnage is even larger when one accounts for various other services that are rendered.

The Company had anticipated the changes that are happening in the market place, and recognized the need to develop new service products and competencies. Apart from comprehensive annual maintenance contracts, Blue Star's service offerings were expanded to include energy management, air management, water management, product upgrades and enhancements, and revamping and retrofitting solutions. In each of the above areas, the Company is also in the process of acquiring the required accreditation and several of its executives and managers are qualified energy auditors or

energy managers certified by the Bureau of Energy Efficiency. The Company is also a certified member of National Air Duct Cleaners Association (NADCA), USA.

Distribution agreements have been signed with global leaders such as Danfoss, Denmark for distribution of variable frequency drives; Ecospec, Singapore for water treatment systems and Steril Aire, USA for UV emitters. Blue Star has also introduced customized service solutions for various customer segments depending on their needs, giving customers a choice from a basket of available options.

During the year, the Company continued to focus on enhancing the quality of service delivery, and towards this end, several developmental programmes continued including certification and a training programme for channel partners and business associates; monitoring of service quality through Service Quality Assurance Group; and handling of high-end technical problems through Service Specialists Group.

SUPPLY CHAIN MANAGEMENT

Growth of all the segments of the Company's business necessitated fine tuning the manner in which its supply chain operates. This meant going beyond the traditional approach of low cost sourcing of materials, lean inventory and cost optimized distribution of end products. As a consequence, the Company focused on both the efficiency and responsiveness of all aspects of supply chain by improving all round execution capability. This enabled the Company to adequately meet the increased demand of the market place while sustaining greater channel success.

CHANNEL DEVELOPMENT

During the review period, a turnover of close to Rs.600 crores was achieved through channel driven businesses i.e. small central plants, packaged airconditioners, room airconditioners, refrigeration products, and standard cold rooms. Blue Star has around 160 systems dealers who exclusively deal in the Company's systems businesses consisting of packaged airconditioning and cold rooms. These dealers are provided technical expertise, installation and service competence of a higher order.

On the other hand, room airconditioners and refrigeration products, which are simple to install products, are sold through a larger network of approximately 600 dealers. Most of them deal exclusively with Blue Star products in the HVAC domain. Some of them are multi-brand, multi-product dealers.

The Company has established a Channel Management Centre to oversee the policy framework, certification and development of dealers and also put in place a Training Department for training channel partners.

During the year, the Company implemented a number of initiatives in order to strengthen the competence of the channels and make them more robust. The Management Development Program (MDP) for systems dealers was held in June 2006, for the second year running. The MDP sought to widen the horizons of dealers, by imparting to them the essentials of running a business professionally. Moreover, systems dealers were put through a Sales Management training programme in order to enhance their sales competence.

The Company put up 12 more Product Display Areas (PDAs) in association with its leading dealers. The PDAs aim to provide customers with a pleasant, standardized shopping experience, apart from the comprehensive product information that Blue Star dealers are known for. PDAs have enhanced the visibility of the Blue Star brand and have attracted more footfalls for the dealers.

Award schemes consisting of a mix of prize money, citations and trips to foreign locations motivated dealers to improve their performance and instilled a sense of healthy competition among them. PULSE - the magazine for dealers, continued

to act as the medium of communication between the Company and its channels. The magazine continues to be well read by dealers.

Over and above these special initiatives, the Company imparted expertise to its dealers on the technical aspects of products, installation and service.

FINANCIAL PERFORMANCE

The analysis for the 12-month period ended March 31, 2007 in comparison with the corresponding figures for the 12-month period ended March 31, 2006 is as follows:

1. INCOME

Total Income grew 36% from Rs.1178.62 crores to Rs.1607.41 crores. The Company increased its revenue of sales, work bills, service and commission to Rs.1594.58 crores, an increase of Rs.423.91 crores over the previous year. Other income of Rs.12.82 crores comprised mainly dividend income, interest income and profit from sale of fixed assets.

2. COST OF SALES, WORK BILLS AND SERVICES

The cost of sales, work bills and services during the year stood at Rs.1242.69 crores. This represents 77.3 % of the Total Income, a marginal increase over the previous year. Because of the increase in the cost of inputs and cost of transportation and freight, there was an erosion of 0.4% in gross margins.

3. EMPLOYEE REMUNERATION AND BENEFITS

There was a disproportionate increase in employee costs by 39%, mainly due to additional charge on account of incentive provision of Rs.11.65 crores and incremental liability for gratuity and leave encashment of Rs.3.21 crores on implementation of Revised Accounting standard 15 on Employee Benefits. In addition, there were normal increases in salaries, training and welfare expenses. Employee remuneration and benefit costs for the year under review stood at Rs.122.86 crores. This represents 7.6% of the Total Income compared with 7.5% of the previous year.

4. OPERATING AND GENERAL EXPENSES

Operating and general expenses increased by 27.3% mainly due to increase in advertising and publicity expenses and commission to dealers, amongst others. Operating and general expenses for the year under review amounted to Rs.118.81 crores, representing 7.4% of the Total Income compared to a corresponding figure of 7.9% in the previous year.

5. INTEREST

Interest costs during the year rose to Rs.9.5 crores compared to the previous year's figure of Rs.5.7 crores representing 0.59% of the Total Income compared to a corresponding figure of 0.49% in the previous year.

6. DEPRECIATION

Depreciation charge for the year under review was Rs.20.90 crores compared to Rs.15.92 crores in the previous year.

7. TAXATION

Provision for taxation increased from Rs.16.41 crores to Rs.21.40 crores. In addition, the Fringe Benefit tax provision was Rs.2.55 crores compared to Rs.3.00 crores in the previous year.

8. NET PROFIT

Net profit increased to Rs.71.18 crores compared to Rs.48.90 crores in the previous year, representing an increase of 46%. Profit before Tax stood at Rs.92.60 crores, a rise of 34% from previous year's figure.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Blue Star has a reasonably sound internal process control mechanism that provides assurance on the reliability of financial reporting, effectiveness and efficiency of its operations and compliance with applicable laws and regulations. Last year, frequent internal audit checks helped the Company in toning up compliance to higher levels. Besides, Blue Star also has a rigorous business planning system focusing on expense, capital and manpower budgeting and monitoring of progress against the targets. A good management information system lends support to bringing in effective controls and better decision making.

RISKS AND CONCERNS

RISKS

The Company has put in place an effective Risk Management Policy which provides for identification of risks and all resultant activities including its review by the management. The policy is reviewed by the risk owners from time to time and the results notified. This process also includes identification of new risks perceived, consistent with prevailing business realities.

During the year, operating risks which includes risks of uncompetitive prices, high cost of inputs, poor commercial terms etc have been dealt with successfully without any adverse impact on the financials of the Company. Similarly, financial risks entailing interest rates, credit risks, foreign exchange risks etc have been satisfactorily dealt with.

CONCERNS

The Company has no serious limitations on the financial aspects as the Company enjoys a sound financial base and its fundamentals are quite strong. However, following are some of the limiting factors as perceived by the Company which could slow down growth:

- Unbundling of turn-key projects
- Lack of MEP capabilities
- Complex international business environment
- Availability of capable/good quality managers and engineers

The management is seized of these and is actively involved in taking appropriate derisking measures.

HUMAN RESOURCES

The Management of Blue Star takes pride in the fact that the technical and business knowledge it has acquired in over six decades as an organization in the field of airconditioning and refrigeration is perhaps the richest in the country, and is invaluable.

During the review period, with the substantial increase in the business volume, the Company increased its total head count to 2181 as on March 31, 2007, an increase of 9% over the previous year.

The focus on people development was maintained with special attention to developing the skills of technicians working with dealers and business associates. Training in soft skills for Blue Star employees continued and workshops were conducted to encourage a culture of innovation. In an effort to enhance managerial effectiveness, a select group of Managers attended a customized Management Development Programme conducted by IIM, Ahmedabad and two workshops were also organized on "Leadership Grid" programme to sensitize Senior Managers to a higher focus on people orientation in their jobs.

Awareness programmes on Corporate Values and Beliefs continued during the year. It was also integrated as a part of the Corporate Induction Programme for new employees. A 360-degree feedback system was used to measure behaviour of Senior Managers pertaining to Corporate Values.

An Employee Satisfaction Survey was conducted to understand the perception of employees about the Company, its Management, work environment and practices. The findings of the survey were encouraging. The findings were also analyzed and discussed with each Division with a view to work out plans for enhancing employee engagement.

In order to standardize and streamline the employee documentation and employee information system, a Centralized Personnel Back Office System was implemented. This has brought about an improvement in quality and accuracy of routine personnel activities as also uniformity in HR processes.

The welfare initiatives of providing life insurance cover to all employees through the HDFC Standard Life Insurance continued during the year. Annual medical check-up for employees above the age of 40 years also continued and employees were extended the benefit of the Company bearing 50% of medical insurance premium for dependent parents. The Mohan T Advani Education Trust disbursed scholarships to employees' children pursuing higher professional education while Blue Star Sahayata Foundation extended financial assistance to a number of deserving cases for mitigating emergency medical expenses.

As a culmination of continuous improvement in industrial relations, settlements were signed with the Blue Star Workers' Union in Eastern, Northern and Southern Regions and some long pending court cases were also settled. Harmonious and constructive relations between the Management and workmen helped to achieve business growth.

INFORMATION TECHNOLOGY

Over the last few years, Blue Star has made substantial investments in IT and communication infrastructure, as well as in advanced state-of-the-art software. The year 2006-07 saw the Company optimizing the IT and communication infrastructure propagated over the last few years. The focus was on optimal usage of the capacity deployed and augmenting the security, apart from the launch of a few new services.

The BaaN ERP implementation which is now stabilized in the Western region was taken up for upgradation to the latest version. This is expected to be rolled out in FY08.

Operations for the Network Operations Center or NOC were optimized during the year, with the team involved in proactive monitoring of all WAN links, servers as well as email application; thereby resulting in minimal downtime and better quality. A new bandwidth shaper was implemented which will allow on-demand segregation of traffic on the WAN based on predefined priorities. Centralization of internet access saw increased control on content monitoring and filtering, as well as reduced virus/spam attacks.

A number of security enhancement measures were implemented in the day-to-day operations. As a step towards single log-on, active directory and domain logging was implemented. This enables effective deployment of security policies from a central node. As a step towards client data security, the Company is embarking on an initiative for automated backups for desktop data. Another initiative on the anvil is the rollout of patch-management services, independent of the desktop user.

The Company has an intranet called "Infovine", which facilitates knowledge sharing amongst Blue Star employees, who are geographically dispersed all over the country. Employees are constantly updated on the latest happenings and this platform helps to enhance customer relationship management, collaboration between employees, as well as increase productivity.

BRAND EQUITY

The Company has been making substantial investments in building brand equity over the last few years. These investments have gone a long way in building the Blue Star Brand, and have substantially increased visibility of the brand. Blue Star is now a well-recognized name amongst its target group of corporate and commercial customers.

To enhance brand equity and recognition, the Company has invested not only in mass media channels of print and television, but also in field marketing which involves creating leaflets and literature, participation in exhibitions and events and relationship programmes, amongst others. Since Blue Star is not a major consumer durables player, in order to effectively target its core market of corporate and commercial customers, the Company has arrived at an optimum media mix.

During the year, the Company launched a television campaign aimed at decision makers of central airconditioning. This campaign comprising three TV commercials focused on common issues such as uniform cooling, energy efficiency and indoor air quality. The TV commercials were well appreciated by different stakeholders and will help in strengthening the Company's value proposition of "Experts in cooling". The Company also plans to release a fourth TV commercial to enhance its equity in commercial refrigeration.

Apart from the mass media, the Company also made significant investments in field marketing. These include participation in trade exhibitions, IDEAC (Interior Designers, Architects and Consultants) relationship management, customer events and public relations through the Press. These field activities are critical and go a long way in complementing mass media campaigns and strengthening brand equity.

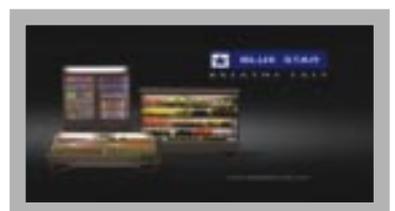
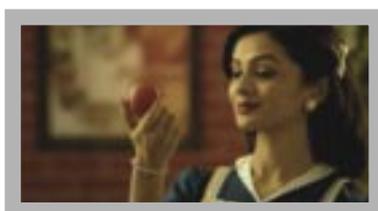
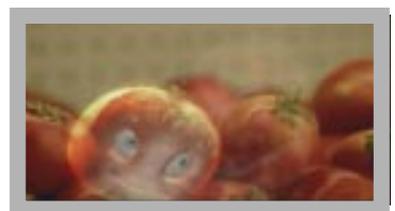
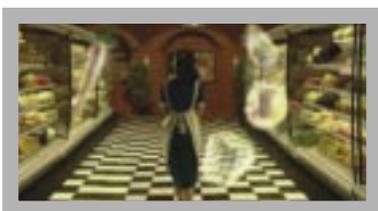
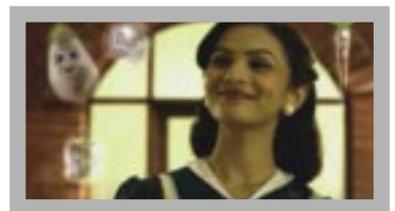
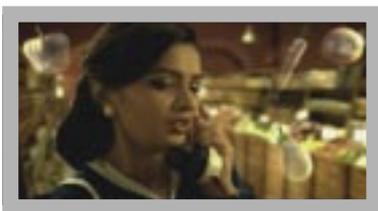
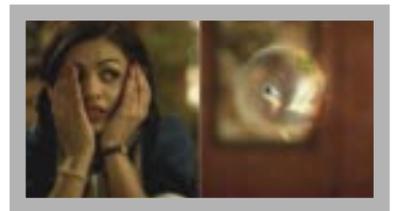
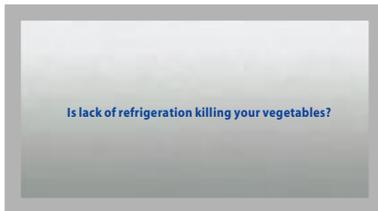
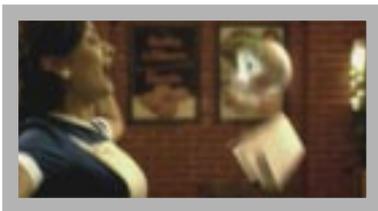
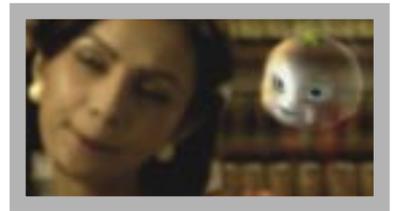
OUTLOOK

The central airconditioning business has the largest share of the Company's revenue and is expected to be the biggest growth driver of the Company in the coming quarters of the year as well. Blue Star's strengths in manufacturing, contracting and after-sales service coupled with strong credentials and a substantial pool of talented engineers will help the Company in sustaining market leadership.

The Company also expects the cooling products business to contribute substantially to the overall growth and profitability. The cooling products business performed well in FY07 with impressive growth in profits. Blue Star has become a significant player in the split airconditioner segment owing to an innovative range of products. The Company is also well positioned to leverage on the impending boom in cold chain infrastructure.

The outlook for the Professional Electronics business continues to be promising. Its growth pattern in the last few years has been solid. The Division has forayed into several new high growth niche segments with additional product lines, and is optimistic about its prospects in this business.

Latest TV Commercial



The Dynamics of Blue Star's Growth

10 YEAR FINANCIAL HIGHLIGHTS

		2006-07	2005-06	2004-05
OPERATING RESULTS				
Total Income	Rs.in Crores	1607.41	1178.62	930.92
Profit before Tax	"	92.60	69.09	52.44
Tax	"	21.42	19.42	13.71
Profit after Tax	"	71.18	48.90	39.16
Dividend (including Corporate Dividend tax)	"	30.93	24.61	20.55
Retained Profit	"	40.26	24.29	18.61
FINANCIAL POSITION				
Paid up Capital	Rs.in Crores	17.99	17.99	17.99
Reserves	"	194.98	154.72	130.43
Shareholders' Funds	"	212.97	172.71	148.42
Borrowings	"	89.05	75.87	37.28
Total Funds Employed	"	302.02	248.58	185.70
Net Fixed Assets & Investments	Rs.in Crores	121.79	113.04	89.03
Net Working Capital	"	184.49	141.33	100.53
Debt Equity Ratio	Ratio	0.42	0.44	0.25
Book Value per Equity Share **	Rs.	23.68	19.20	16.50
OTHER INFORMATION				
Number of Shareholders	Nos.	18065	15609	17187
Number of Employees	"	2181	1999	1868
PERFORMANCE INDICATORS				
Earnings per Share **	Rs.	7.91	5.44	4.35
Interim Dividend per share	Rs.	2.40		
Dividend per Share **	Rs.	# 0.60	2.40	2.00
Return on Shareholders' Funds	%	33.4	28.3	26.4
Return on Capital Employed	%	32.1	30.1	30.0

Proposed Dividend

** Previous years figures have been calculated on post split basis

2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
716.06	601.06	517.32	509.82	480.94	476.49	452.77
46.59	40.18	27.33	25.57	25.20	18.12	18.04
11.88	9.57	2.28	2.03	1.96	1.85	2.53
32.55	31.04	27.45	23.54	23.24	16.27	15.51
18.26	18.26	12.55	12.32	11.39	10.53	10.43
14.29	12.78	14.90	11.22	11.85	5.74	5.08
17.99	17.99	19.30	20.32	27.10	27.10	27.10
111.82	97.53	92.10	89.72	97.67	85.95	80.37
129.81	115.52	111.40	110.04	124.77	113.05	107.47
13.35	12.05	12.09	57.35	64.04	82.49	60.43
143.15	127.57	123.49	167.39	188.81	195.54	167.90
70.41	59.79	68.41	94.11	105.25	99.93	97.05
77.17	67.84	54.09	67.43	78.68	88.18	67.44
0.10	0.10	0.11	0.52	0.51	0.73	0.56
14.43	12.84	10.72	10.25	8.85	7.80	7.68
19422	22000	24878	26094	27399	23963	23318
1798	1808	1825	2084	2489	2504	2619
3.62	3.36	2.70	2.32	1.72	1.20	1.14
1.80	1.80	1.30	1.10	1.00	0.70	0.70
25.1	26.9	24.6	21.4	19.8	15.4	15.5
33.8	33.3	26.7	20.5	19.1	14.9	14.7

Auditors' Report

To the Members of **BLUE STAR LIMITED**

1. We have audited the attached balance sheet of Blue Star Limited, as at 31st March, 2007, the profit and loss account and also cash flow statement, wherein are incorporated the locally audited returns from the branches 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.
2. We conducted our audit in accordance with the 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 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to 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 purposes of our audit.
 - (ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us. The Branch Auditor's Report have been forwarded to us and have been 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 with the locally audited returns from the branches.
 - (iv) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
 - (v) On the basis of written representations received from the Directors, as on 31st March 2007, which are taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2007 from being appointed as a Director in terms of clause (g) of sub-section (1) of section 274 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 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 the balance sheet, of the state of affairs of the Company as at 31st March, 2007;
 - (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For K. S. AIYAR & Co.
Chartered Accountants

RAGHUVIR M AIYAR
Partner
Membership No. 38128

Mumbai: May 14, 2007

Annexure to the Auditors' Report

Referred to in paragraph 3 of our report of even date,

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The Fixed Assets have been physically verified by the management in accordance with regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets. Discrepancies have been appropriately dealt with in the books of account.
- (c) In our opinion no substantial part of the fixed assets has been disposed off during the year.
- (ii) (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the records of inventory, we are of the opinion that the Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured from Companies, firms or other parties covered in the register maintained under section 301 of the Act. Hence the provisions of paragraph 4(iii) are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for purchases of inventory and fixed assets and for the sale of goods and services. During the course of our audit we have not come across any continuing failure to correct major weaknesses in internal control system.
- (v) (a) The particulars of contracts or arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits during the year. The Company has repaid certain old unpaid deposits during the year. Therefore, in our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A, 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) The Central Government under Section 209(1)(d) of the Companies Act, 1956, has prescribed the maintenance of cost records in respect of certain products manufactured by the Company. We have broadly reviewed such books of account relating to materials, labour and other items of cost and are of opinion that prima facie the prescribed accounts and records have been made and maintained.
- (ix) (a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it. According to the information and explanations given to us, no undisputed amounts payable in respect of such statutory dues were in arrears, as at 31st March, 2007 for a period of more than six months from the date they became payable.

(b) According to the information and explanation given to us and as per the records of Company, income tax, sale tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited on account of dispute are given below:

(Figures in bracket are for previous year)

Name of Statute	Nature of the Dues	Amount (Rs in lakhs)	Period to which it relates	Forum where dispute is pending
Sales Tax	Non-submission of forms	129.79 (101.05)	1992-93,1995-96, 2001-04	Sale Tax Officer / Deputy / Asst. Commissioner
	Claim of Sale in the course of imports rejected	1.92 (1.92)	1972-75	High Court
	Factory direct sale treated as local branch sale	148.69 (165.20)	2002-03 & 2003-04	High Court
	Work Contract Tax on interstate purchase	41.79 (41.88)	1990-91	High Court, JC Appeals, Asst. Commissioner
	Additional demand/ disallowances	10.09 (27.53)	1984-85,1994-95, 2002-03	Sales Tax Appellate Tribunal / Appellate Asst. Commissioner
	Claim of Additional turnover	- (53.63)	2002-03	AC sales tax
	Ex-parte assessment	68.53 (68.53)	2001-03	D. C. Appeals
	Tax demand on factory products, enhancement in turnover	104.62 (-)	2002-04	Appeal filed before AC (Appeals)
	Sales Tax	1024.54 (-)	2003-04 to 2004-05	High Court of Andhra Pradesh
Entry Tax	On import of Chillers	- (37.22)	2003-04	High Court
	On Factory direct sales	32.96 (32.96)	2003-04	Deputy Excise & Tax Commissioner
Service Tax	Service Tax demand on composite contracts	*2118.79 (128.81)	2004-2005	CESTAT / Commissioner (Appeals)
Central Excise	Excise Duty	11.53 (11.53)	1987-2004	Central Excise Commissioner
	Excise Duty	2.77 (17.44)	2000-2003	Central Excise Commissioner (Appeals)
	Excise Duty	356.05 (356.05)	1991-92, 1996-2003	CESTAT
	Excise Duty	10.00 (10.00)	1981-86	Penalty levied by High Court stayed by Supreme Court
Income Tax	Income Tax	224.00 (-)	Ass.Yr. 2004-2005	CIT (Appeals)

* Excluding the amount of penalty of Rs.150/- per day from due to the date of payment which is not quantifiable.

- (x) The Company does not have any accumulated losses. The Company has not incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
- (xii) The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or other similar securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4 (xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- (xiv) During the year, no transactions were entered into by the Company in respect of investments held as stock-in-trade and hence the question of maintaining proper records of transactions and contracts and timely entries therein doesn't arise. The investments held as stock-in-trade by the Company are held in its own name.
- (xv) In our opinion, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the Company.
- (xvi) According to records of the Company no term loans have been raised during the year by the Company.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act.
- (xix) There are no debentures issued by the Company during the year that require creation of security or charge and therefore the requirement is not applicable.
- (xx) According to the information and explanations given to us, no public issues have been made during the year.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For K. S. AIYAR & Co.
Chartered Accountants

RAGHUVIR M AIYAR
Partner
Membership No. 38128

Mumbai: May 14, 2007

Balance Sheet as at March 31, 2007

(Rs. in lakhs)

	Schedule	As at March 31	
		2007	2006
SOURCES OF FUNDS			
Share Capital	A	17,98.72	17,98.72
Reserves & Surplus	B	1,94,97.92	1,54,72.34
Shareholders' Funds		2,12,96.64	1,72,71.06
Secured Loans	C	39,04.96	40,57.48
Unsecured Loans	D	50,00.00	35,29.65
Loan Funds		89,04.96	75,87.13
Net Deferred Tax Liability (See note 16)		6,51.44	9,05.31
TOTAL		3,08,53.04	2,57,63.50
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block		2,30,80.85	1,97,72.76
Depreciation		1,16,73.16	1,00,95.35
Net Block	E	1,14,07.69	96,77.41
Capital Work-in-Progress		2,41.29	11,08.91
Investments	F	5,29.88	5,17.77
Fixed Assets & Investments		1,21,78.86	1,13,04.09
Inventories		1,88,08.03	1,49,83.99
Sundry Debtors		3,50,68.38	2,38,84.51
Cash & Bank Balances		4,60.73	2,36.80
Loans & Advances		85,64.88	90,64.74
Total Current Assets, Loans & Advances	G	6,29,02.02	4,81,70.04
Current Liabilities		4,29,10.50	3,12,32.42
Provisions		15,42.29	28,04.35
Less: Total Current Liabilities & Provisions	H	4,44,52.79	3,40,36.77
Net Current Assets		1,84,49.23	1,41,33.27
Miscellaneous Expenditure (to the extent not written off or adjusted) (See note 6)		2,24.95	3,26.14
TOTAL		3,08,53.04	2,57,63.50
Notes forming part of the Accounts	N		

As per our Report
For **K. S. AIYAR & Co.**
Chartered Accountants

RAGHUVIR M AIYAR
Partner

Mumbai: May 14, 2007

Ashok M Advani Chairman & Managing Director
Suneel M Advani Vice Chairman & Managing Director
T G S Babu Executive Director
Satish Jamdar Executive Director
Shailesh Haribhakti Director
Pradeep Mallick Director
Gurdeep Singh Director
Suresh N Talwar Director
H Rajaram Executive Vice President
K P T Kutty Company Secretary
Mumbai: May 9, 2007

Profit & Loss Account for the year ended March 31, 2007

(Rs. in lakhs)

	Schedule	Year ended March 31	
		2007	2006
INCOME			
Sales, Work Bills & Services (See note 1, 2 & 5)		15,71,63.42	11,52,06.00
Commission		22,94.82	18,61.43
Other Income	I	12,82.45	7,94.87
		16,07,40.69	11,78,62.30
EXPENDITURE			
Cost of Sales, Work Bills & Services	J	12,42,69.10	9,06,25.39
Employee Remuneration & Benefits	K	1,22,86.12	88,27.50
Operating & General Expenses	L	1,18,80.70	93,35.40
Depreciation	M	20,90.12	15,92.56
Interest		9,54.93	5,71.98
		15,14,80.97	11,09,52.83
PROFIT			
PROFIT BEFORE TAXATION		92,59.72	69,09.47
Provision for Income Tax		21,35.50	16,35.81
Provision for Wealth Tax		5.00	6.00
Provision for Fringe Benefit Tax		2,55.00	3,00.00
		23,95.50	19,41.81
Deferred Tax (Asset)/Liability (See note 16)		(2,53.88)	77.22
PROFIT AFTER TAXATION		71,18.10	48,90.44
Add: Balance brought forward		26,02.71	19,73.46
PROFIT AVAILABLE FOR APPROPRIATION		97,20.81	68,63.90
APPROPRIATIONS			
Transfer to General Reserve		22,50.00	18,00.00
Proposed Dividend		5,39.62	21,58.47
Interim Dividend		21,58.47	-
Corporate Dividend Tax		3,94.43	3,02.72
		30,92.52	24,61.19
Balance carried forward		43,78.29	26,02.71
Basic & Diluted Earnings Per Share (Face Value Rs. 2/-) (See note 14)		Rs. 7.91	Rs. 5.44
Notes forming part of the Accounts	N		

As per our Report
For **K. S. AIYAR & Co.**
Chartered Accountants

RAGHUVIR M AIYAR
Partner

Mumbai: May 14, 2007

Ashok M Advani Chairman & Managing Director
Suneel M Advani Vice Chairman & Managing Director
T G S Babu Executive Director
Satish Jamdar Executive Director
Shailesh Haribhakti Director
Pradeep Mallick Director
Gurdeep Singh Director
Suresh N Talwar Director
H Rajaram Executive Vice President
K P T Kutty Company Secretary
Mumbai: May 9, 2007

Schedules Forming Part of The Balance Sheet

As At March 31, 2007

(Rs. in lakhs)

		As at March 31	
		2007	2006
A. SHARE CAPITAL			
Authorised			
10,000	7.8% Cumulative Preference Shares of Rs.100 each	10.00	10.00
14,87,00,000	Equity Shares of Rs.2 each (2005-06 : Face value Rs.10 each)	29,74.00	29,74.00
16,000	Unclassified Shares of Rs.100 each	16.00	16.00
		30,00.00	30,00.00
Issued			
8,99,36,105	Equity Shares of Rs.2 each	17,98.72	17,98.72
(1,79,87,221)	(2005-06 : Face value Rs.10 each)	17,98.72	17,98.72
Subscribed & Paid Up			
	Equity Shares of Rs.2 each (See note 8) (2005-06 : Face value Rs.10 each)		
2,33,91,015 (46,78,203)	Shares fully paid in cash	4,67.82	4,67.82
4,645 (929)	Shares allotted as fully paid pursuant to a contract without payment being received in cash	0.09	0.09
6,65,26,340 (1,33,05,268)	Shares allotted as fully paidup Bonus shares by Capitalisation of Reserves and Share Premium	13,30.53	13,30.53
14,105 (2,821)	Shares allotted as fully paid shares on conversion of 425 - 7.8% Cumulative Preference Shares of Rs.100 each as per terms of the prospectus dated June 24, 1969	0.28	0.28
8,99,36,105 (1,79,87,221)		17,98.72	17,98.72
B. RESERVES & SURPLUS			
General Reserve			
	Balance as on April 1, 2006	1,26,36.07	1,08,36.07
	Add: Transfer from Profit & Loss Account	22,50.00	18,00.00
		1,48,86.07	1,26,36.07
Capital Redemption Reserve			
	Balance as on April 1, 2006	2,33.56	2,33.56
		2,33.56	2,33.56
Profit & Loss Account			
	Balance carried forward	43,78.29	26,02.71
		1,94,97.92	1,54,72.34

(Rs. in lakhs)

	As at March 31	
	2007	2006
C. SECURED LOANS		
Term Loan from Bank		
From Banque Nationale Paris	-	15,00.00
From Banks, secured by hypothecation of stock-in-trade and book debts	39,04.96	25,57.48
	39,04.96	40,57.48
D. UNSECURED LOANS		
Non Convertible Debentures (Due within 1 year Rs.50,00 lakhs) (2005-06 Rs.35,00 lakhs)	50,00.00	35,00.00
From Banks	-	23.65
Others	-	6.00
	50,00.00	35,29.65
	89,04.96	75,87.13

E. FIXED ASSETS

(Rs. in lakhs)

	Gross Block				Depreciation				Net Block	
	As on 1.4.2006	Additions	Deletions	As on 31.3.2007	As on 1.4.2006	Additions	Deletions	As on 31.3.2007	As on 31.3.2007	As on 31.3.2006
Land - Freehold	1,64.26	2,78.48	-	4,42.74	-	-	-	-	4,42.74	1,64.26
Land - Leasehold	18.18	-	10.24	7.94	3.89	0.15	2.21	1.83	6.11	14.29
Building Sheds and Road	44,91.84	13,76.62	69.92	57,98.54	16,50.08	2,86.53	57.95	18,78.66	39,19.87	28,41.75
Plant and Machinery	90,58.79	16,91.82	2,51.60	1,04,99.01	47,41.74	10,17.69	2,27.79	55,31.64	49,67.40	43,17.08
Furniture, Fittings & Equipments	19,78.74	3,43.13	1,48.36	21,73.51	10,71.63	1,99.57	1,17.23	11,53.97	10,19.54	9,07.11
Vehicles	4,17.03	0.05	67.91	3,49.17	2,17.26	48.30	45.09	2,20.47	1,28.69	1,99.76
Computers	21,48.85	2,30.29	64.27	23,14.87	16,08.50	2,56.43	62.04	18,02.90	5,11.96	5,40.34
Intangible Assets - BaaN SYSTEM	15,31.31	-	-	15,31.31	8,15.95	2,86.14	-	11,02.09	4,29.21	7,15.35
Sub Total 31.3.2007	1,98,09.00	39,20.39	6,12.30	2,31,17.09	1,01,09.05	20,94.82	5,12.31	1,16,91.56	1,14,25.52	96,99.94
Capital reserve Less: Grant received from UNIDO	36.24	-	-	36.24	13.70	4.70	-	18.40	17.83	22.53
Total 31.3.2007	1,97,72.76	39,20.39	6,12.30	2,30,80.85	1,00,95.35	20,90.12	5,12.31	1,16,73.16	1,14,07.69	96,77.41
Total 31.3.2006	1,63,85.02	36,93.05	3,05.31	1,97,72.76	87,27.54	15,92.56	2,29.15	1,00,95.35	96,77.41	-

(Rs. in lakhs)

	As at March 31	
	2007	2006
F LONG TERM INVESTMENTS		
18,755 Units 6.75% Bonds of Unit Trust of India (Face Value Rs.18.56 lakhs)	18.56	18.56
UNQUOTED: TRADE INVESTMENTS		
2,400 Fully paid Equity Shares of Rs.100 each in Ashok Sunil & Company Private Ltd	5.64	5.64
76,790 Fully paid Equity Shares of Rs.10 each in Ravistar India Private Ltd	7.68	7.68
3,67,500 Fully paid Equity Shares of MR 1 each in Blue Star M & E Engineering (Sdn) Bhd	49.97	49.97
2,94,000 Fully paid Equity Shares of Rs.10 each in Rolastar Private Limited	29.40	29.40
9,75,000 Fully paid Equity Shares of Rs.10 each in Blue Star Design and Engineering Ltd.	97.50	97.50
98,000 Fully paid Equity Shares of Rs.10 each in Blue Star Qatar (LLC) (See note 10) (Invested during the year)	12.11	-
QUOTED: OTHER INVESTMENTS		
29,25,725 Fully paid Equity Shares of Rs.10 each in Blue Star Infotech Ltd (Aggregate Market Value Rs.26,81.43 lakhs; 2005-06 Rs.31,30.52 lakhs)	2,92.57	2,92.57
329 Fully paid secured & redeemable Bonds of Rs.5000 each in Krishna Bhagya Jala Nigam Ltd (Aggregate Market Value Rs.18.26 lakhs; 2005-06 Rs.17.08 lakhs)	16.45	16.45
	5,29.88	5,17.77

(Rs. in lakhs)

	As at March 31	
	2007	2006
G. CURRENT ASSETS, LOANS & ADVANCES		
(a) INVENTORIES (At lower of Cost and Net realisable value)		
Raw Materials, Stores & Components	64,61.54	48,77.21
Work-in-Progress	1,06,76.21	79,85.34
Work-in-Progress (at contract value)	-	20.80
	1,06,76.21	80,06.14
Less: Advance received thereagainst	20,51.41	14,97.25
	86,24.80	65,08.89
Finished Goods	25,84.10	25,89.51
Goods in Transit	11,21.39	9,94.99
Tools, Cylinders & Consumable Stores	11.17	8.35
Units, Bonds & Shares in hand (See Note 19)	5.03	5.03
	1,88,08.03	1,49,83.99
(b) SUNDRY DEBTORS (Unsecured)		
Considered Good		
Over six months	58,66.22	50,90.08
Others	2,96,70.97	1,87,94.43
Less: Amounts due to Customer	4,68.81	-
Considered Doubtful		
Over six months	-	5.75
Less: Provided	-	5.75
	3,50,68.38	2,38,84.51
(c) CASH & BANK BALANCES		
Cash on hand	29.67	32.04
With Scheduled Banks		
Current Account	81.61	94.55
Unclaimed Dividend Account	2,69.40	80.78
Deposit Account	79.94	29.32
With Unscheduled Banks		
Abu Dhabi Commercial Bank Ltd. A/c (Maximum balance during the year Rs.0.11 lakhs; 2005-06 : Rs.0.11 lakhs)	0.11	0.11
	4,60.73	2,36.80
(d) LOANS & ADVANCES		
Unsecured and considered good:		
Advance recoverable in cash or in kind or for value to be received	52,91.71	58,75.97
Advance Tax paid (net of Provision for taxes)	10,90.43	14,37.89
Deposits with Government and other bodies	21,82.74	17,50.88
	85,64.88	90,64.74
	6,29,02.02	4,81,70.04

(Rs. in lakhs)

	As at March 31	
	2007	2006
H. CURRENT LIABILITIES & PROVISIONS		
Sundry Creditors- Small Scale Units (See note 11)	8,03.46	5,36.79
Sundry Creditors - Others	1,72,39.43	1,33,68.81
Acceptances	9,18.02	14,08.60
Other Liabilities	1,55,81.31	1,10,10.32
Advances against Contracts	80,89.72	48,21.38
Investor Protection Fund:		
Unclaimed Dividends	2,69.40	80.78
Unclaimed Fixed Deposits	2.83	3.08
Interest accrued but not due	6.34	2.66
Current Liabilities	4,29,10.50	3,12,32.42
Provision for Leave encashment	3,26.16	1,60.16
Provision for Warranty (See note 7)	5,84.80	1,83.00
Proposed Dividend	5,39.62	21,58.47
Corporate Dividend Tax	91.71	302.72
	6,31.33	24,61.19
Provisions	15,42.29	28,04.35
	4,44,52.79	3,40,36.77

Schedules Forming Part of Profit & Loss Account For The Year Ended March 31, 2007

(Rs. in lakhs)

	As at March 31	
	2007	2006
I. OTHER INCOME		
Export Incentives	-	77.00
Profit on Sale of Assets	2,02.99	5.75
Interest (Gross) (Including tax deducted at source Rs.10.93 lakhs 2005-06: Nil)	78.88	88.20
Provisions & Liabilities no longer required	41.59	3.49
Dividends (Gross) (Including tax deducted at source Rs. 24.65 lakhs; 2005-06: Rs.24.87 lakhs)	3,31.08	3,12.52
Exchange gain	82.40	-
Miscellaneous	5,45.51	3,07.91
	12,82.45	7,94.87
J. COST OF SALES, WORK BILLS & SERVICES		
Stock at commencement		
Raw Materials, Stores & Components	48,77.21	32,75.25
Work-in-Progress	79,85.34	63,04.78
Finished Goods	25,89.51	14,09.89
Units, Bonds and Shares in hand (See note 19)	5.03	5.03
Purchases & Expenses (See note 15)	12,85,38.89	9,50,87.54
	14,39,95.98	10,60,82.48
Less: Stock at Close		
Raw Materials, Stores & Components	64,61.54	48,77.21
Work-in-Progress	1,06,76.21	79,85.34
Finished Goods	25,84.10	25,89.51
Units, Bonds and Shares in hand (See note 19)	5.03	5.03
	1,97,26.88	1,54,57.09
	12,42,69.10	9,06,25.39
K. EMPLOYEE REMUNERATION & BENEFITS (See Note 9)		
Salaries, Wages & Bonus	95,58.21	66,39.83
Contribution to Provident Fund, Superannuation, Gratuity Fund and Leave Encashment	13,86.01	10,31.03
Welfare & Training Expenses	13,41.90	11,56.64
	1,22,86.12	88,27.50

Schedules Forming Part of Profit & Loss Account
For The Year Ended March 31, 2007

(Rs. in lakhs)

	As at March 31	
	2007	2006
L. OPERATING & GENERAL EXPENSES		
Rent	6,96.82	7,24.05
Rates & Taxes	21.61	29.84
Power	5,82.62	4,51.43
Insurance	1,30.68	1,01.16
Repairs & Maintenance		
- Premises	3,39.99	3,27.53
- Machinery	2,37.23	1,59.08
- Others	1,50.69	1,47.09
Payment to Auditors (including payment to Branch Auditors)		
- Audit Fees	18.05	13.65
- Other Services (Including Tax Audit Fees Rs. 4.73 lakhs; 2005-06 Rs. 3.60 lakhs)	16.64	14.27
- Reimbursement of Expenses	2.50	0.52
Directors' Fees	7.40	5.00
Non Executive Directors' Commission	30.00	22.80
Donations	32.25	-
Commission on Sales (other than salesmen)	16,84.63	11,30.69
Advertising & Publicity	17,73.49	13,98.88
Transport & Travelling	22,84.90	18,65.83
Stationery & Printing	2,45.49	2,21.06
Other expenses	28,12.63	22,31.12
Exchange Rate Difference	-	33.97
Non Recoverable Debts Written-off	7,14.14	3,75.16
Loss on assets sold or discarded	43.67	42.88
Research & Development	55.27	39.39
	1,18,80.70	93,35.40
M. DEPRECIATION		
Depreciation on Fixed Assets	20,94.82	15,98.50
Less: Transferred from Grant Received	4.70	5.94
Depreciation charged to Profit and Loss Account	20,90.12	15,92.56

Notes Forming Part of The Accounts

N. NOTES FORMING PART OF THE ACCOUNTS

I SIGNIFICANT ACCOUNTING POLICIES

1. The Company follows the historical cost convention in the preparation of Accounts.

2. Fixed Assets and Capital W.I.P.

- a. Fixed Assets are stated at cost.
- b. Expenditure (including interest) incurred during the construction period is included in Capital W.I.P. and the same is allocated to respective fixed assets on completion of the construction.
- c. Expenditure incurred up to the date of final implementation of the ERP project, is included in Capital W.I.P. and will be treated in the accounts appropriately on completion of the project.

3. Revenue Recognition

- a. On construction contracts entered into before 1.4.2003
 - i. In respect of divisible contracts, revenue is recognised in respect of supplies as and when supplies are completed and in respect of erection and commissioning, on the Percentage Completion Method.
 - ii. In respect of indivisible contracts, revenue is recognised on the Percentage Completion Method, based on the billing schedules agreed with the customers. The relevant cost is recognised in accounts in the year of recognition of the revenue. Profit so recognised is adjusted to ensure that it does not exceed the estimated overall contract margin. If there is a loss on contract, then the same is provided fully. The total costs of the contract are estimated, based on technical and other estimates.
- b. On construction contracts entered into after 1.4.2003

In respect of all such contracts, revenue is recognised on the Percentage Completion Method, in respect of specific supplies to the project as and when supplies are effected and in respect of installation and commissioning based on measurement of actual work done.
- c. On construction contracts entered into after 1.8.2006

In respect of all such contracts, the revenue recognition is based on the stage of completion which is determined in proportion to the contract costs incurred for work performed up to the reporting date bear to the estimated total contract costs. If there is a loss on contract, then the same is provided fully. The total costs of the contracts are estimated based on technical and other estimates.
- d. Provision is made for expected warranty liability on account of projects and products as per the estimates based on past experience.
- e. Service income is recognised on accrual basis.
- f. Claims recoverable are accrued only to the extent admitted by the parties.
- g. Export benefits are accrued only after the claims are lodged with the appropriate authorities.

4. Depreciation/Amortisation

- a. Depreciation is charged on all assets at rates applicable under Schedule XIV of Companies Act, 1956, on written down value of assets.
- b. Intangible Assets - BaaN system is amortised at the rate applicable to computers under Schedule XIV of Companies Act, 1956, on written down value of assets.

5. Inventory Valuation and Treatment of Costs

- a. All inventories are valued at lower of cost and net realisable value.
 - i) Raw materials, stores, components at factories are valued at weighted average rate and at marketing units on first in first out basis (FIFO), net of Value Added Tax / CENVAT input credit and after providing for requisite diminution in the value due to obsolescence.
 - ii) Work-In-Progress relating to manufacturing activity is valued at lower of cost and net realisable value.
 - iii) In case of construction contracts entered prior to 1.4.2003, contract work-in-progress awaiting customer acceptance is valued at proportionate contract value and the balance work-in-progress is valued at cost.
 - iv) In case of construction contracts entered from 1.4.2003, contract work-in-progress is stated at cost.
 - v) Finished Goods are valued at lower of cost and net realisable value.
 - vi) Goods-in-Transit are valued at lower of cost and net realisable value.
 - vii) Tools, Cylinders and Consumable Stores are valued at lower of cost and net realisable value.
 - viii) Bonds, Units & Shares held as stock-in-trade are valued at lower of cost and net realisable value.
- b. Basis of Allocation of Expenditure and Determination of Cost.
 - i) Direct expenses identifiable to jobs are allocated to the jobs. Indirect expenses are charged as period cost in the year they are incurred.
 - ii) Depreciation on assets used specifically and exclusively for a job is charged to the respective job and finally absorbed as cost of sales.

6. R & D Expenditure

Revenue expenses are charged of in the year of expenditure and capital expenses are capitalised.

7. Foreign Exchange Transactions

- a. Income and expenses in foreign exchange are accounted at the average rate prevailing during the month of transaction.
- b. Income and expenses on foreign projects are accounted at average rate for the year.
- c. Assets purchased are capitalised at rates prevailing on date of purchase.
- d. Balances in foreign bank accounts, Exchange Earners' Foreign Currency Account and Current Assets and Current Liabilities in respect of foreign projects are translated into Indian Rupees at rates prevailing at the year end.
- e. Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted to the carrying amount of such fixed assets.

8. Deferred Revenue Expenditure

Payment of compensation to employees, who have retired under Early Voluntary Retirement Scheme, is amortised over a period of 4 years. The balance amount is carried forward as 'Miscellaneous Expenditure (to the extent not written off or adjusted)':

9. Employee Benefits

Liabilities of the Company on account of gratuity and leave encashment benefits, on retirement of employees are ascertained by actuarial valuation. The amount of Gratuity liability so ascertained is paid to the Gratuity Fund and necessary provision made towards leave encashment liability.

10. Excise/Customs Duty

- a. Excise Duty liability on closing stock of finished goods lying at the manufacturing units is accounted based on the estimated duty payable as at the close of the year.
- b. Customs Duty is accounted in the year the goods are cleared from Customs Bonded Warehouse.

11. Taxes on Income

- a. Provision for taxation is made at the effective rate of tax as applicable for the income of the previous year as defined under the Income Tax Act, 1961.
- b. The Company has the policy of reviewing and passing proper adjustment entries for Income Tax paid, provision for Income Tax made and excess/short tax provision for the year after receiving orders from the CIT Appeals. The Company also makes a fair estimate of the Income Tax liability for the said year and gives effect to it in the books of Account.

In respect of Income Tax matters disputed and in appeals, the Company has the policy of accounting for such transactions only after the disputes are settled and the appeals disposed of.

- c. In accordance with Accounting Standard 22 – 'Accounting for Taxes on Income', the Company has recognised Deferred Tax arising out of timing differences between taxable income and accounting income.

12. Investments

Long-term investments are valued at cost subject to reduction made for diminution in value that is other than temporary in nature.

13. Contingent Liabilities

Contingent liabilities are disclosed after a careful evaluation of facts and their legal aspects.

II. OTHER NOTES

1. Sales/Work bills include:

A portion of Work-in-Progress in respect of contracts entered into prior to 1.4.2003 is continued to be valued at contract values as detailed below:

	<i>(Rs. in lakhs)</i>	
	2006-07	2005-06
Work done to be billed		
- At close	-	20.80
Less: At commencement	20.80	1,65.40
	(20.80)	(1,44.60)

2. A. Disclosure in terms of revised Accounting Standard 7 on the Accounting of Construction Contracts entered into w.e.f. 1.4. 2003 is as under:

	<i>(Rs. in lakhs)</i>	
	2006-07	2005-06
i Contract revenue recognised as revenue in the period	4,70,38.31	3,81,41.83
ii For Contracts that are in progress as on 31.3.2007		
a. Contract costs incurred and recognised profits (Less Recognised losses) up to the reporting date	4,60,06.80	3,54,88.96
b. Advances received	53,43.92	28,02.36
c. Retention amount	-	-
d. Gross amount due from customers for contract work	64,39.21	47,02.09
e. Gross amount due to customers for contract work	1,22.10	27.52

B. During the year, construction contracts entered into after 01-08-2006, the revenue recognition (in respect of both divisible and indivisible contracts) is based on the stage of completion which is determined in proportion to the contract costs incurred for work performed up to the reporting date, as against the method hitherto employed of determining the stage of completion with reference to the completion of a physical proportion of the contract work. However, this refinement does not have any material impact on the financial statements of the Company for the year.

3 A. Contingent Liabilities other than those disclosed in 3B:

	<i>(Rs. in lakhs)</i>	
	2006-07	2005-06
i. Claims against the Company not acknowledged as debts	3,34.61	2,34.36
ii. Sales Tax demands under appeal	1,05.85	1,34.64
iii. Showcause notice received from CTO Hyderabad - Stay obtained from AP High Court. #	10,24.54	-
iv. Excise duty claims not acknowledged as debts	1,34.92	1,46.14
v. Income Tax demands under appeal	5,33.41	5,33.41
vi. Corporate Guarantee given on behalf of Associates and other Companies	3,853.30	34,15.91

The amount represents receipt of a show cause notice without any commensurate demand as on the Balance Sheet date. In the opinion of the management this cannot be strictly categorized as contingent liability.

3. B. Contingent Liabilities for Companies (Auditor's Report) Order, 2003 purpose:*(Figures in bracket are for previous year)*

Name of Statute	Nature of the Dues	Amount (Rs in lakhs)	Period to which it relates	Forum where dispute is pending
Sales Tax	Non-submission of forms	129.79 (101.05)	1992-93,1995-96, 2001-04	Sale Tax Officer / Deputy / Asst. Commissioner
	Claim of Sale in the course of imports rejected	1.92 (1.92)	1972-75	High Court
	Factory direct sale treated as local branch sale	148.69 (165.20)	2002-03 & 2003-04	High Court
	Work Contract Tax on interstate purchase	41.79 (41.88)	1990-91	High Court, JC Appeals, Asst. Commissioner
	Additional demand/ disallowances	10.09 (27.53)	1984-85,1994-95, 2002-03	Sales Tax Appellate Tribunal / Appellate Asst. Commissioner
	Claim of Additional turnover	- (53.63)	2002-03	AC sales tax
	Ex-parte assessment	68.53 (68.53)	2001-03	D.C. Appeals
	Tax demand on factory products, enhancement in turnover	104.62 (-)	2002-04	Appeal filed before AC (Appeals)
Entry Tax	On import of Chillers	- (37.22)	2003-04	High Court
	On Factory direct sales	32.96 (32.96)	2003-04	Deputy Excise & Tax Commissioner
Service Tax	Service Tax demand on composite contracts	2118.79 (128.81)	2004-2005	CESTAT / Commissioner (Appeals)
Central Excise	Excise Duty	11.53 (11.53)	1987-2004	Central Excise Commissioner
	Excise Duty	2.77 (17.44)	2000-2003	Central Excise Commissioner (Appeals)
	Excise Duty	356.05 (356.05)	1991-92, 1996-2003	CESTAT
	Excise Duty	10.00 (10.00)	1981-86	Penalty levied by High Court stayed by Supreme Court
Income Tax	Income Tax	224.00 (-)	2003-04	CIT (Appeals)

Consequent to the fire at our Mount Road office, Chennai, in January 2002, the Commercial Tax Officer (CTO) has issued a notice proposing best judgment assessment for the years 1995-96 to 2000-2001. The Company has filed Miscellaneous Writ Petition with the High Court of Madras contesting the action of the CTO. In view of the matter being sub-judice, no liability is ascertainable at the moment.

4. Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.6,05.33 lakhs (2005-06 : Rs. 4,74.23 lakhs).
5. As per the requirements of Accounting Standard 9 on Revenue Recognition, the sales figures are required to be reported net of excise duty. Due to the interwoven nature of the business of the Company segregating the excise duty paid on product sales is difficult.
6. In accordance with Accounting Policy No.8 regarding Early Voluntary Retirement Scheme an amount of Rs.2,24.95 lakhs (2005-06 : Rs.3,26.14 lakhs) is carried forward under the head "Miscellaneous Expenditure (to the extent not written off or adjusted)".
7. As per the requirements of Accounting Standard 29 on Provisions, Contingent Liabilities and Contingent Assets, a provision of Rs.5,84.80 lakhs (2005-06 : Rs.1,83.00 lakhs) has been provided for expected warranty claims on products/projects, sold/commissioned during the financial year.
8. During the year the equity share of Rs. 10 each of the Company has been subdivided into five equity shares of Rs.2 each pursuant to the approval of the Board of Directors and the shareholders' at the Annual General Meeting held on August 4, 2006. Accordingly, the total number of fully paid equity shares has increased to 8,99,36,105 from 1,79,87,221 shares.
9. In accordance with the Accounting Standard 15 (Revised 2005) on Employee Benefits issued by the ICAI, the Company has re-assessed its liability towards employee benefits covered by the Standard. The additional charge for gratuity and leave encashment for the year ended March 31, 2007 is estimated at Rs. 321 lakhs and the same has been charged to the Profit and Loss account. Further, in accordance with the said Standard a provision amounting to Rs. 1165 lakhs has been made towards performance incentive payments due within next one year.
10. During the year, the Company has set up a Joint Venture Company at Doha Qatar namely, Blue Star Qatar (LLC) with M/s Al Malki Trading, Doha Qatar as the Joint Venture partner for execution of mechanical, electrical, plumbing and air-conditioning projects. The Company has subscribed 98,000 Qatari Riyals towards 49% holding in the Joint Venture Company.
11. a. There is no amount remaining unpaid to Small Scale Suppliers within the meaning of "The Interest on Delayed Payments to Small Scale & Ancillary Undertakings Act".
- b. The small scale undertakings to which the Company owes amounts outstanding for more than 30 days are as stated below:

Advance Valve Co.	J K Insulation	Proton
Advance Valves (P) Ltd	K C Industries & Fabricators	Prejai Heat Exchange
Air Bow Systems	K C Fixture	Rapid Control Pvt Ltd
Anergy Instruments Pvt Ltd	Malde Paper Box Industries	R T Engineering
Airtech	Mihir Engineers Ltd	Royal Engineering
Amruta Presscomp	Mangal Murti Engineering	Subham Engineering
Aiutocom	Mahalakxmi Fabricators	Seven Star Aircon Ancillaries
Beardsell Ltd	Navtech Enterprises Pvt Ltd	Saroj Engineering & Udyog
Caryaire Equipments	Narendra Engineering.	Samcon
Cori Engineers	Nutech Construction	System Automation
Comfort Cooling Solution	Paras Motors	Quality Thermo Pack & Insu.
C S Componates	Pars Pumps	

- c. The above parties have been identified as small scale and ancillary undertakings on the basis of information available with the Company.

12. Segment Information

A. Primary Segment Reporting (by Business Segment)

The Company's business segments are organised around product lines as under:

- a. Central Air-conditioning and Systems includes i) central air-conditioning projects and ii) packaged air-conditioning businesses including manufacturing and after sales service.
- b. Cooling Products includes cooling appliances, cold storage products, including manufacturing and after sales service.
- c. Professional Electronics and Industrial Systems includes trading and services for testing machines, medical, analytical, test & measuring, data communications, industrial products and systems.
- d. Residual includes discontinued business.

Segment Revenues, Results and Other Information:

(Rs. in lakhs)

Description	As at March 31	
	2007	2006
I. SEGMENT REVENUE		
i. Central Air-conditioning Systems	11,24,27.25	8,21,29.63
ii. Cooling Products	3,72,77.89	2,71,20.92
iii. Professional Electronics and Industrial Systems	1,04,22.74	80,35.56
iv. Residual	-	1,70.38
TOTAL SEGMENT REVENUE	16,01,27.88	11,74,56.50
Add: Other Un-allocable Income	6,13.03	4,05.79
TOTAL INCOME	16,07,40.91	11,78,62.30
II. SEGMENT RESULT		
i. Central Air-conditioning Systems	1,02,69.89	80,02.51
ii. Cooling Products	23,45.75	13,16.89
iii. Professional Electronics and Industrial Systems	20,61.53	15,27.51
iv. Residual	-	(79.66)
TOTAL SEGMENT RESULT	1,46,77.17	1,07,67.25
Less: i. Interest paid	9,54.93	5,71.98
ii. Other un-allocable Expenditure Net of un-allocable Income	44,62.52	32,85.80
TOTAL PROFIT BEFORE TAX	92,59.72	69,09.47
Less: Provision for Tax	21,35.50	16,35.81
Provision for Wealth Tax	5.00	6.00
Fringe Benefit Tax	2,55.00	3,00.00
Less: Deferred Tax Liability/ (Asset)	(2,53.88)	77.22
NET PROFIT AFTER TAX	71,18.10	48,90.44

Segment Revenues, Results and Other Information (Contd.)

(Rs. in lakhs)

Description	As at March 31	
	2007	2006
III. OTHER INFORMATION:		
a. SEGMENT ASSETS		
i. Central Air-conditioning Systems	4,64,63.81	3,45,53.12
ii. Cooling Products	2,00,16.03	1,66,14.43
iii. Professional Electronics and Industrial Systems	48,53.84	36,87.99
TOTAL SEGMENT ASSETS	7,13,33.68	5,48,55.54
Add: Un-allocable Corporate Assets	39,72.14	49,44.74
TOTAL ASSETS	7,53,05.84	5,98,00.28
b. SEGMENT LIABILITIES		
i. Central Air-conditioning Systems	3,10,72.44	2,14,43.40
ii. Cooling Products	86,32.58	79,28.12
iii. Professional Electronics and Industrial Systems	18,48.22	16,42.20
TOTAL SEGMENT LIABILITIES	4,15,53.24	3,10,13.72
Add: Un-allocable Corporate Liabilities	28,99.56	39,28.37
TOTAL LIABILITIES	4,44,52.80	3,49,42.09
c. CAPITAL EXPENDITURE		
i. Central Air-conditioning Systems	13,31.38	8,60.87
ii. Cooling Products	24,62.68	2,31.94
iii. Professional Electronics and Industrial Systems	26.41	17.46
iv. Residual	-	-
v. Other Un-allocable	99.90	4,95.34
TOTAL	39,20.37	36,93.04
d. DEPRECIATION		
i. Central Air-conditioning Systems	9,36.89	6,90.77
ii. Cooling Products	6,47.30	4,08.27
iii. Professional Electronics and Industrial Systems	53.16	49.36
iv. Residual	-	2.85
v. Other Un-allocable	4,52.76	4,41.30
TOTAL	20,90.11	15,92.56
e. NON CASH EXPENSES OTHER THAN DEPRECIATION		
i. Central Air-conditioning Systems	4,13.36	1,62.26
ii. Cooling Products	2,08.38	60.10
iii. Professional Electronics and Industrial Systems	60.16	44.80
iv. Residual	-	1,08.00
v. Other Un-allocable	32.24	-
TOTAL	7,14.14	3,75.16

B. Secondary Segment Information:

The Company predominantly caters to the need of Indian market. Since the export turnover constitutes 5.7% (2005-06: 5.9%) of the total turnover of the Company, there are no reportable geographical segments.

13. Related Party Disclosure

a. Related party and their relationship

Associates

Rolastar Private Limited
 Ravistar Private Limited
 Blue Star M & E Engineering (Sdn) Bhd
 Blue Star Infotech Limited
 Blue Star Design and Engineering Limited
 Blue Star Qatar - (LLC)

Enterprises in which key management personnel & their relatives are interested

Synergy Realtors and Services Private Limited
 Mohan T. Advani and Co. (AOP)
 Ashok Sunil & Co. Private Limited

Directors

Mr Ashok M Advani
 Mr Suneel M Advani
 Mr T G S Babu
 Mr Satish Jamdar

b. Transactions during the period with Related Parties are as under:

(Rs. in lakhs)

Name of Related Party / Transaction	2006-07		2005-06	
	Volume Rs.	Balance O/S DR/(CR)	Volume Rs.	Balance O/S DR/(CR)
Rolastar Pvt. Ltd.		(68.19)		(1,13.25)
Purchase of materials	15,11.91		6,74.38	
Fabrication charges	1,60.17		2,51.15	
Corporate guarantee	2,27.10		1,81.24	
Guarantee Commission	3.22		2.45	
Ravistar Pvt. Ltd.		(1,60.52)		19.28
Purchase of goods	14,86.20		9,38.69	
Corporate guarantee	72.36		12.25	
Blue Star M & E Engineering (Sdn) Bhd		10.64		9.45
Consultancy services received	1,56.03		1,00.39	
Blue Star Infotech Ltd.		(19.62)		19.26
Sales	21.37		7.60	
IT Services	4,80.37		3,93.73	
Rent paid for Premises	55.86		32.55	
Purchase of Fixed Assets	-		8.50	
Reimbursement of Expenses	12.72		-	
Blue Star Qatar (LLC)		12.75		-
Purchase of Investment	12.11		-	
Reimbursement of Expenses	12.75		-	

b. Transactions during the period with Related Parties are as under (contd.)*(Rs. in lakhs)*

Name of Related Party / Transaction	2006-07		2005-06	
	Volume Rs.	Balance O/S DR/(CR)	Volume Rs.	Balance O/S DR/(CR)
Blue Star Design & Engineering Ltd.		3,96.35		7,11.63
Consultancy service	1.67		0.05	
Rent paid for Premises	0.12		0.54	
Loan	7.50		3,88.50	
Interest	52.11		37.39	
Corporate guarantee	5,00.00		-	
Purchase of Fixed Assets	0.64		-	
Synergy Realtors & Services Pvt. Ltd.		-		0.55
Sale of Goods	-		0.92	
Consultancy Charges	0.68		0.45	
Corporate guarantee	30,53.84		32,22.42	
Rent paid for Premises	3,61.85		3,89.89	
Directors				
Managerial remuneration	5,64.14		3,33.19	
Housing loan		6.10		7.78

14. Earning Per Share

		2006-07	2005-06
Profit after taxation as per Profit & Loss Account.	Rs. in lakhs	71,18.10	48,90.44
Weighted average number of Equity Shares Outstanding.	Nos.	8,99,36,105	1,79,87,221
Basic and diluted Earnings per share (Face Value Rs.2 per share)	Rs.	7.91	5.44

15. Amounts debited during the year to Work-in-Progress which are / to be transferred to Cost of Sales include the following*(Rs. in lakhs)*

	2006-07	2005-06
Salaries, Wages & Bonus	45.12	30.14
Rent	5.87	3.21
Power	50.23	12.24
Insurance	5,64.07	1,13.11
Transport & Travelling	3,46.55	1,79.16
Stationery & Printing	13.01	14.43
Other Expenses	19,21.90	17,43.71

16. The breakup of Net Deferred Tax Liability is as under

(Rs. in lakhs)

	As at March 31, 2007		As at March 31, 2006	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
Timing differences on account of :				
Difference in book and Income tax				
Depreciation under IT Act, 1961		27,91.62		31,26.09
Provision of Doubtful Debts, Advances & Inventories	1,15.00		2,76.33	
Leave Encashment Provision & Other Current Liabilities	7,41.29		1,60.16	
Total	8,56.29	27,91.62	4,36.49	31,26.09
Net Timing Differences	19,35.33		26,89.60	
Deferred Tax Liability (Net)	6,51.44		9,05.31	

17. Managerial Remuneration to Whole-time Directors included in the Profit & Loss Account

(Rs. in lakhs)

	2006-07	2005-06
a. Salaries	2,23.94	71.51
b. Commission	2,82.37	2,19.10
c. Contribution to Provident Fund & Superannuation Scheme	23.26	19.50
d. Other Perquisites	34.57	23.08
Total	5,64.14	3,33.19

18. Computation of Directors' Commission

(Rs. in lakhs)

	2006-07	2005-06
Profit before tax as per Profit and Loss Account	92,59.72	69,09.47
Add: Directors' Remuneration	5,64.14	3,55.99
Loss on Fixed Assets sold/Discarded	43.67	42.88
Less: Profit on sale of Fixed Assets	2,02.99	5.75
Net Profit for the purpose of Directors' Commission	96,94.54	73,02.59
Maximum Remuneration payable up to 10% of the above to the Whole-time Directors	9,69.45	7,30.26
Commission payable to the Whole-time Directors as per contract of service	2,82.37	2,19.10
Maximum commission payable up to 1% of the above		
Net Profits to the Non-Executive Directors	96.94	73.02
Commission payable to Non-Executive Directors	30.00	22.80

19. Statement showing investment held as stock-in-trade

Investments	Type of security	Opening Balance		Closing Balance	
		Nos.	Value (Rs in lakhs)	Nos.	Value (Rs in lakhs)
Master Gain 92	Mutual Fund units	3,600	0.35	3,600	0.35
Master Plus	Mutual Fund units	38,200	4.68	38,200	4.68
Total		41,800	5.03	41,800	5.03

20. The figures of the previous year have been regrouped / rearranged wherever necessary to conform to the current year's grouping.

ADDITIONAL INFORMATION PURSUANT TO THE PROVISION OF PARAGRAPHS 3 & 4 OF PART II OF SCHEDULE VI OF COMPANIES ACT, 1956.

A. PARTICULARS IN RESPECT OF EACH CLASS OF GOODS MANUFACTURED

(Figures in brackets refer to previous year)

Class of goods	Unit	Installed Capacity	Actual Production	Opening stock		Closing stock	
				Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)
Refrigeration & air conditioning equipment.	Nos.	356250.00 (246730.00)	154760.00 (124192.00)	16015.00 (5442.00)	3104.51 (851.43)	13287.00 (16015.00)	2324.17 (3104.51)
Packaged air-conditioning	Nos.	112500.00 (18000.00)	67975.00 (16559.00)	177.00 (125.00)	226.76 (75.06)	701.00 (177.00)	299.42 (226.76)
Industrial packaged chillers	Nos.	1450.00 (1450.00)	1204.00 (1057.00)	10.00 (-)	194.29 (-)	11.00 (10.00)	98.84 (194.29)
Shell & tube condensers & Coolers	Nos.	- (-)	1861.00 (-)	- (3.00)	- (5.07)	3.00 (-)	2.00 (-)
Air handling units	Nos.	15500.00 (15500.00)	9635.00 (10280.00)	210.00 (11.00)	67.38 (2.97)	66.00 (210.00)	55.02 (67.38)
Finned condensers & evaporators	Nos.	10780.00 (10780.00)	6685.00 (-)	- (-)	- (-)	- (-)	- (-)

Note: Plant & Machinery installed is for general purpose and not meant exclusively for any particular product group.

B. PARTICULARS IN RESPECT OF GOODS TRADED*(Figures in brackets refer to previous year)*

Class of goods	Unit	Opening stock		Purchases		Closing stock		Sales	
		Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)
Air-conditioning & Refrigeration Equipment	Nos.	10015 (6641)	1556.34 (1022.63)	120892 (88098)	26069.44 (18135.65)	7790 (10015)	1512.93 (1556.34)	123112 (84002)	30370.68 (19498.09)
Central Air-conditioning Plant (Sales Contract)	Worth	- -	4.82 (46.61)	- (-)	2902.16 (1782.29)	- -	95.30 (4.82)	- (-)	3449.32 (1888.00)
Electronics & Other Appliances, Equipment, Instruments etc.	Nos.	160 (584)	251.60 (109.91)	1464 (777)	4504.19 (2386.41)	492 (160)	400.67 (251.60)	1148 (768)	5309.68 (2605.16)
Spares & Components	Worth	- -	863.90 (673.09)	- -	6179.84 (2826.84)	- -	919.73 (863.90)	- -	8411.56 (3265.12)
Others	Nos.	1 (1)	0.59 (0.77)	35 (13)	22.68 (6.50)	3 (1)	1.72 (0.59)	33 (13)	21.56 (6.68)
Total			2677.24 (1853.01)		39678.32 (25137.70)		2930.35 (2677.24)		47562.80 (27263.05)

Notes:

(i) Purchases are inclusive of own products.

(ii) Value of spares and components used for work bills and services are not included in purchases.

*(Rs. in lakhs)***C. GROSS INCOME FROM SERVICES RENDERED**

2006-07	2005-06
1,60,79.50	1,33,97.18

D. PARTICULARS OF RAW MATERIALS & COMPONENTS CONSUMED**a) Raw Materials Consumed**

	Units	2006-07		2005-06	
		Quantity	Rs. in lakhs	Quantity	Rs. in lakhs
Non-Ferrous Metals	Tonne	2596	82,45.74	1792	39,82.80
Ferrous Metals	Tonne	8899	41,71.63	6021	31,33.17
Compressors	Number	208715	1,25,13.53	156227	83,06.47
Others (items individually not exceeding 10% of total)	Worth		3,26,67.42		2,23,27.07
Total			5,75,98.32		3,77,49.51

b) Raw Materials & Components Consumed

	2006-07		2005-06	
	% of Total Consumption	Value Rs. in lakhs	% of Total Consumption	Value Rs. in lakhs
Imported (at landed cost)	33.67	1,93,94.01	29.85	1,12,68.86
Indigenous	66.33	3,82,04.31	70.15	2,64,80.65
Total	100.00	5,75,98.32	100.00	3,77,49.51

E. VALUE OF IMPORTS ON CIF BASIS*(Rs. in lakhs)*

	2006-07	2005-06
(a) Raw Materials	76,25.01	22,29.65
(b) Components	87,72.00	70,72.99
(c) Capital Goods	3,56.16	4,44.59
(d) Spares	9,80.66	2,16.55
(e) Finished Goods	28,77.44	19,15.93
Total	2,06,11.28	1,18,79.71

F. EXPENDITURE INCURRED IN FOREIGN EXCHANGE*(Rs. in lakhs)*

	2006-07	2005-06
(a) Project Exports	1,90.32	2,82.81
(b) Royalty & Know-how	30.10	3.77
(c) Others	2,30.61	2,48.20
Total	4,51.03	5,34.78

G. EARNINGS IN FOREIGN EXCHANGE*(Rs. in lakhs)*

	2006-07	2005-06
(a) Export of goods on F.O.B. basis	88,05.27	63,11.02
(b) Project Exports	1,94.35	5,04.92
(c) Royalty, Know-how, Professional & Consultation fees	1,56.03	1,00.39
(d) Other Income:		
Commission	21,37.44	12,37.11
Others	91.30	93.88
Total	1,13,84.39	82,47.32

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE - PART IV

I. Registration Details

Registration No.

		0	0	6	8	7	0
--	--	---	---	---	---	---	---

State Code

						1	1
--	--	--	--	--	--	---	---

Balance Sheet Date

3	1	0	3	2	0	0	7
---	---	---	---	---	---	---	---

Date Month Year

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

Public Issue

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

Rights Issue

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

Bonus Issue

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

Private Placement

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

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

Total Liabilities (Incl. Deferred Tax Liabilities)

	3	0	8	5	3	0	4
--	---	---	---	---	---	---	---

Total Assets (Net of Current Liabilities)

	3	0	8	5	3	0	4
--	---	---	---	---	---	---	---

Sources of Funds

Paid-up Capital

		1	7	9	8	7	2
--	--	---	---	---	---	---	---

Reserves & Surplus

	1	9	4	9	7	9	2
--	---	---	---	---	---	---	---

Secured Loans

		3	9	0	4	9	6
--	--	---	---	---	---	---	---

Unsecured Loans

		5	0	0	0	0	0
--	--	---	---	---	---	---	---

Deferred Tax Liability

			6	5	1	4	4
--	--	--	---	---	---	---	---

Applications of Funds

Net Fixed Assets (incl Capital WIP)

	1	1	6	4	8	9	8
--	---	---	---	---	---	---	---

Investments

			5	2	9	8	8
--	--	--	---	---	---	---	---

Net Current Assets

	1	8	4	4	9	2	3
--	---	---	---	---	---	---	---

Misc. Expenditure

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

Accumulated Losses

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

IV. Performance of Company (Amount in Rs Thousands)

Turnover

1	6	0	7	4	0	6	9
---	---	---	---	---	---	---	---

Total Expenditure

1	5	1	4	8	0	9	7
---	---	---	---	---	---	---	---

Profit/Loss Before Tax

	(+)	9	2	5	9	7	2
--	-----	---	---	---	---	---	---

Profit/Loss After Tax

	(+)	7	1	1	8	1	0
--	-----	---	---	---	---	---	---

Earning Per Share (in Rs.)

			7	.	9	1
--	--	--	---	---	---	---

Dividend rate %

					1	5	0
--	--	--	--	--	---	---	---

V. Generic Names of Two Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC CODE)

		8	4	1	5	0	0
--	--	---	---	---	---	---	---

Product Description

A	I	R	C	O	N	D	I	T	I	O	N	I	N	G	M	A	C	H	I	N	E	S
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

Item Code No. (ITC CODE)

		8	4	1	8	0	0
--	--	---	---	---	---	---	---

Product Description

R	E	F	R	I	G	E	R	A	T	I	O	N	E	Q	U	I	P	M	E	N	T
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

Cash Flow Statement

For The Year Ended March 31, 2007
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2007	2006
[A] CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit Before Tax & Capital Receipts	92,59.72	69,09.47
Depreciation	20,90.12	15,92.56
Foreign Exchange	(87.70)	38.57
Investments/Others	5,09.70	3,53.59
Interest/Dividend	(4,09.95)	(4,00.72)
Interest charged	9,54.93	5,71.98
	<u>30,57.10</u>	<u>21,55.98</u>
Operating profit before working capital changes	1,23,16.82	90,65.45
Adjustment for :		
Trade and other receivables	(1,21,55.83)	(72,38.70)
Inventories	(38,24.03)	(47,17.56)
Trade payables	1,14,85.78	64,80.79
	<u>(44,94.08)</u>	<u>(54,75.47)</u>
Cash generated from operations	78,22.74	35,89.98
Direct taxes paid	(8,59.23)	(11,85.00)
Interest paid	(9,51.25)	(5,69.33)
	<u>(18,10.48)</u>	<u>(17,54.33)</u>
NET CASH FROM OPERATING ACTIVITIES	60,12.26	18,35.65
[B] CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(30,52.76)	(40,74.47)
Sale of Fixed Assets	2,59.28	47.58
Purchase of Investments	(12.11)	-
Interest received	1,02.12	50.81
Dividend received	3,31.08	3,12.52
NET CASH USED IN INVESTING ACTIVITIES	(23,72.39)	(36,63.56)
Balance carried forward	36,39.87	(18,27.91)

Cash Flow Statement For The Year Ended March 31, 2007
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2007	2006
Balance brought forward	36,39.87	(18,27.91)
[C] CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Long Term Borrowings	13,17.82	38,59.30
Dividend Paid	(47,33.76)	(20,42.40)
Net Cash from Financing Activities	(34,15.94)	18,16.90
NET INCREASE IN CASH & CASH EQUIVALENTS	2,23.93	(11.01)
CASH & CASH EQUIVALENTS - OPENING BALANCE	2,36.80	2,47.81
CASH & CASH EQUIVALENTS - CLOSING BALANCE	4,60.73	2,36.80

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T G S Babu *Executive Director*
Satish Jamdar *Executive Director*

Shailesh Haribhakti *Director*
Pradeep Mallick *Director*
Gurdeep Singh *Director*
Suresh N Talwar *Director*

H Rajaram *Executive Vice President*
K P T Kutty *Company Secretary*

Mumbai: May 9, 2007

Mumbai: May 9, 2007

Investor and Shareholder Information

SHAREHOLDER INQUIRIES

Questions concerning your folio, share certificates, dividend, address changes (for physical shares only), consolidation of certificates, lost certificates and related matters should be addressed to Blue Star Limited, directly or their share transfer agents. Address changes in respect of Demat shares should be intimated to the concerned Depository Participant.

BLUE STAR LIMITED
Kasturi Buildings
Mohan T Advani Chowk
Jamshedji Tata Road
Mumbai 400 020.
Tel : 91-22-6665 4000
Fax: 91-22-6665 4151
www.bluestarindia.com

Compliance Officer
Mr K P T Kutty,
Company Secretary
E-mail: kptkutty@bluestarindia.com

Intime Spectrum Registry Ltd
C-13, Pannalal Silk Mills Compound
L B S Marg, Bhandup (West)
Mumbai 400 078.
Tel : 91-22-2596 3838
Fax: 91-22-2594 6969

Share transfer documents will also be accepted at

Intime Spectrum Registry Ltd.
203 Dawar House, 2nd floor
Next to Central Camera Building
197 D N Road
Fort, Mumbai 400 001.
Tel : 91-22-2269 4127

DEMATERIALISATION

The Company has made arrangements for dematerialisation of its shares through National Securities Depositories Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Since the Company shares are traded in Demat mode, the shareholders are requested to dematerialise their shareholding.

INVESTOR RELATIONS PROGRAMME

Blue Star Limited has an active investor relations programme directed to both individual and institutional investors. The Company's investor relations mission is to maintain an ongoing awareness of the Company's performance among its shareholders and the financial community. The Company welcomes inquiries from its investors, large or small, as well as from members of the financial community.

For further information, please contact Blue Star's Investor Relations Department at the above address.

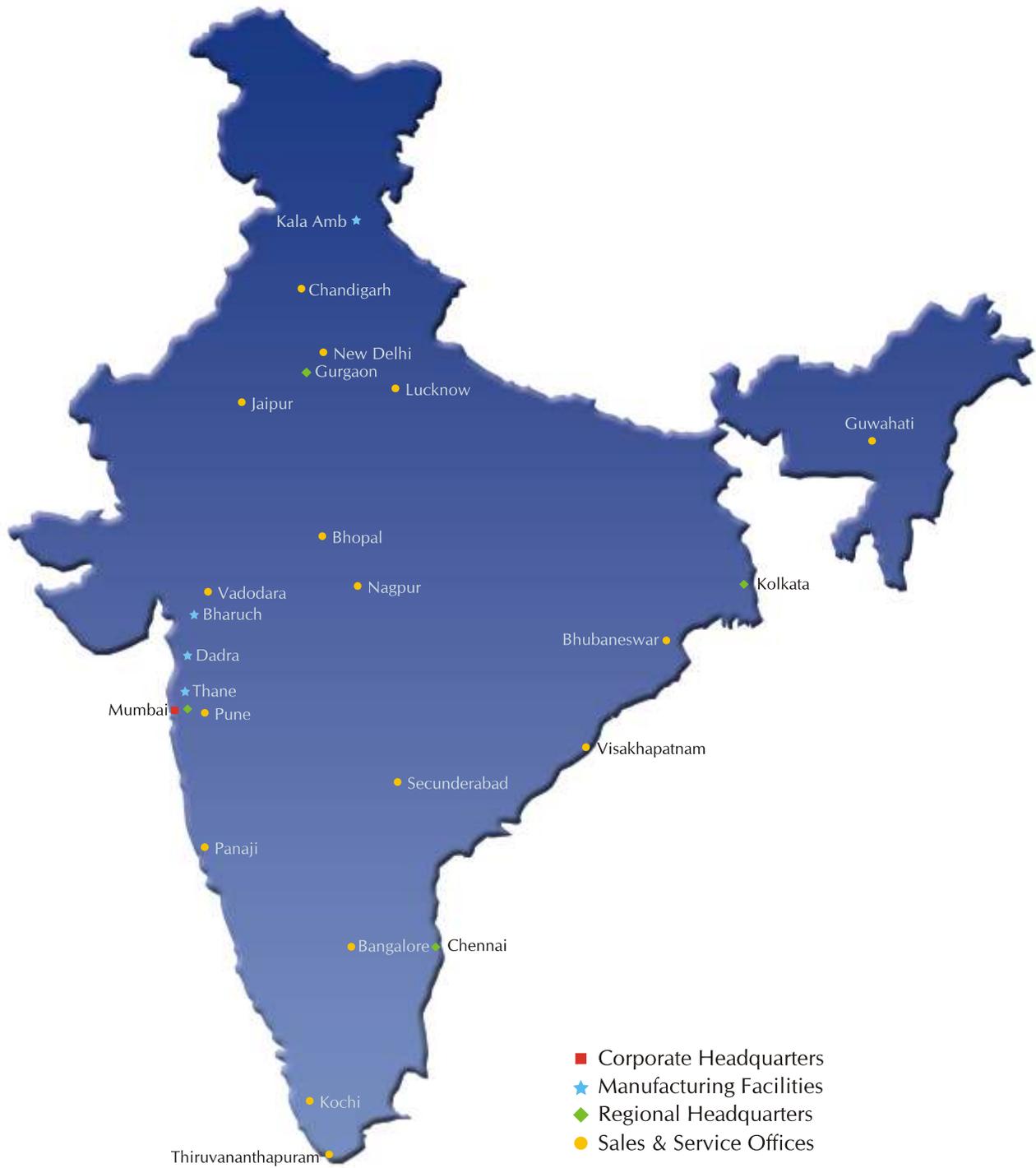
BLUE STAR SHAREHOLDERS

As of March 31, 2007, the Company has 18065 registered shareholders. Approximately 38 per cent of the Company's shares are held by individual investors. The Promoters hold approximately 40 per cent of the shares while Foreign Investors, Institutions and Body Corporate hold the balance shares.

STOCK EXCHANGE LISTINGS

The Stock Exchange, Mumbai
National Stock Exchange

Blue Star Establishments





BLUE STAR

B R E A T H E E A S Y