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BOARD OF DIRECTORS

Ashok M Advani

Executive Chairman
(w.e.f. July 1, 2009)

Suneel M Advani

Vice Chairman & Managing Director

Satish Jamdar

Managing Director
(w.e.f. July 1, 2009)

T Gouri Sankara Babu

Deputy Managing Director

Shailesh Haribhakti

Pradeep Mallick

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani

Executive Chairman
(w.e.f. July 1, 2009)

Suneel M Advani

Vice Chairman & Managing Director

Satish Jamdar

Managing Director
(w.e.f. July 1, 2009)

T Gouri Sankara Babu

Deputy Managing Director

Vir S Advani

President - Corporate Affairs & Special Projects
(w.e.f. July 1, 2009)

Avinash Pandit

President - Electro Mechanical Projects Group

B Thiagarajan

President - Channel Business Group
(w.e.f. July 1, 2009)

J M Bhambure

Executive Vice President - R&D and Manufacturing

Manek Kalyaniwala

Executive Vice President - Finance

Arun Khorana

Executive Vice President
- Professional Electronics & Industrial Systems Division

R Aravindan

Vice President - Packaged Airconditioning Division

Sumanta Chaudhuri

Vice President - Electrical Projects Division

R G Devnani

Vice President - Dadra & Bharuch Plant

Harish Govind

Vice President - Human Resources and Administration

A Rakesh Rao

Vice President - Airconditioning & Projects Division (North)

P Venkat Rao

Vice President - Room Airconditioners & Refrigeration Products Division

D P Singh

Vice President - Infrastructure Projects Division

K P Sukumar

Vice President - Airconditioning & Refrigeration Service 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

Sharp & Tannan, Chennai

Mohinder Puri & Company, New Delhi

REGISTRARS & SHARE TRANSFER AGENTS

Link Intime India Pvt 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

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Letter from the Chairman

DEAR SHAREHOLDER,

2008-09 was a year of radical change for Blue Star. The year started well, but by the end of Quarter 1 (Q1), the sudden drop in product sales made it evident that the business slowdown had begun. Deteriorating market conditions required quick decisions and adjustments to cope with a new emerging reality. That we successfully faced the business challenges and ended a difficult year on a positive note is an achievement that I would like to explain more fully.



Ashok M Advani

The attached Annexure summarises the financial performance and key ratios for 2008-09 in comparison with the previous year. The effect of the slowdown is clearly visible with Total Income growth reducing from 41% to 13%. When one recalls that 2007-08 had set records for growth with performance ratios reflecting excellent financial results, it is gratifying that the Company was able to maintain a similar high level of financial performance under adverse business conditions.

Operating Profit grew by 16% to Rs. 272.71 crores, with the Operating Margin actually improving to 10.6%. Profitability ratios remained high while the Balance Sheet continued to reflect a solid financial position.

The financial results might imply that 2008-09 was another year of business as usual; the reality was very different. Economic uncertainty and unprecedented volatility in markets increased the financial risks of even normal business activities like demand forecasting, material planning and procurement, and cash management.

In such an unpredictable scenario, Blue Star's approach was prompt, flexible and prudent. Early in Q2, we decided on an aggressive plan to cut costs and maintain liquidity. There were many areas that needed attention including:

- Control of employee costs (by restricting recruitment even for vacancies caused by attrition).
- Cut in operating and discretionary expenses.
- Restricted capital expenditure (except for essential and on-going projects).
- A major corporate-wide profit improvement plan with the involvement of international consultants.
- Cash collections and inventory control to ensure liquidity and lower interest costs.
- Pursuit of selected growth segments in an otherwise slowing economy.

These decisions came into effect from August '08. Sales had already started reflecting the decelerating trend in top line growth. However, due to a time lag, the cost reduction and profit improvement measures took a while to begin working. So Q2 and Q3 was a worrying and stressful period for the entire organisation because profit was under pressure. But by Q4, the cumulative effects of months of dedicated and focused efforts, aided by a favourable trend in raw material costs, became evident: The year ended well on the profit front.

BUSINESS SEGMENTS

All 3 lines of business felt the impact of the economic slowdown. Revenue growth ranged between 13% and 21%, substantially lower than the previous year. In spite of the business downturn, all 3 posted reasonable profit results with increases ranging from 12% to 29%. The Company's diversified business activities brought a reassuring balance and stability to the overall financial performance. While there were no stars, neither were there any losers that could be a serious drag on the Company.

Electro Mechanical Projects and Packaged Airconditioning Systems accounted for 70% of total revenues. Billings grew 15%, while segment results increased by 12%. Growth was affected by the slowdown in construction, retail and information technology segments. This was cushioned by the newly acquired electrical projects business that picked up momentum. Large infrastructure projects and growth in healthcare, hotels and education segments also offered attractive business potential.

Cooling Products achieved reasonable sales especially in the expanding split airconditioner market. Overall sales growth was 13%, while segment results increased by 29%. A feature of this segment is the strategy of avoiding commoditised businesses through a policy of differentiation that permits better pricing. A trained, dealerised network improves market coverage to deliver profits in a highly competitive business.

Professional Electronics and Industrial Systems was able to minimise the effects of the slowdown by focusing on specialised projects, systems design and integration, and technical services. Business grew 21%, while segment results were up 25%.

BLUE STAR'S FINANCIAL MODEL

Electro Mechanical Projects and the Cooling Products business are both mature, competitive markets. Yet, in recent years, Blue Star has demonstrated a track record of sustained profitable growth while maintaining a lean balance sheet. The financial model that enables this happy state of affairs has a couple of key features:

- Keep annual growth in operating expenses lower than the growth in gross margin to achieve higher profits.
- Avoid capital intensive activities and focus on efficient use of working capital to achieve healthy cash flow.

Increasing profits when income and gross margin are growing fast does not take great skill. It is when business growth slows that profitability comes under pressure. Clearly, in such a situation, costs have to be brought in line with gross margin if profit is to be maintained.

As I explained earlier, our cost control drive last year progressively reduced the total expense growth rate for the year down to about the growth rate of gross margin. This ensured that profit was sustained for the year. In fact, by Q4, total expenses dropped to the level of 2007-08 Q4, whereas gross margin actually grew by 13%. This resulted in a healthy 35% boost to Profit Before Tax (excluding exceptional items) for the quarter.

The second aspect of our financial model is to maintain a lean balance sheet with low debt. Last year, by focusing on profits and maintaining tight inventory control, we generated a record operating cash flow of Rs. 169.72 crores, even

though the credit squeeze made collection of sundry debtors very difficult. This enabled the Company to end the year with borrowings of only Rs. 23.60 crores and debt/equity of 0.06, both lower than the previous year.

The financial strength that high profit and low financial leverage provide is a confirmation that they are important performance drivers of the business. Even in the current economic slowdown, the Company has the cash flow to pay a generous dividend, fund capital expenditure, finance moderate business acquisitions and handle additional working capital needs without resorting to excessive debt. In short, we have a self-sustaining and robust financial model that has demonstrated its relevance under a variety of business situations over a number of years.

CORPORATE REORGANISATION

With 2008-09 successfully behind us, it was time to take up the important matter of organisational development and succession planning at the top management level. Accordingly, at its meeting on May 15, 2009, the Board of Directors considered and approved the following changes with effect from July 1, 2009:

- I will be redesignated Executive Chairman
- Satish Jamdar will be promoted as Managing Director

Below Board level, 3 Presidents and 3 Executive Vice Presidents will be responsible for major businesses groups and support activities each under a working director. More information on the individuals and their responsibilities are provided in the listing under Corporate Management at the beginning of this Annual Report.

Essentially, the reorganisation is part of the process of the Chairman and Vice Chairman progressively handing over operating responsibility to a younger team of capable professional managers. As 'Promoters', my brother, Suneel and I intend to remain active in planning and guiding the future of the Company, organisational development, evaluating business opportunities, allocating resources and monitoring business performance.

At this time, Blue Star is in a sound financial position. Our people have demonstrated discipline and agility in quickly adapting to an uncertain economic environment. So it is a good opportunity to address the future. We have great confidence in the competence of Satish Jamdar and the new top management team to take on the challenge. As the economy revives, I am sure that our strong position in the market will see us back on the high growth path.

ASHOK M ADVANI

Mumbai : May 29, 2009

Chairman & Managing Director

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

| | 2008-09 Audited | 2007-08 Audited |
|--|--------------------|--------------------|
| Total Income | 2574.04 | 2270.09 |
| Growth over Previous Year | +13% | +41% |
| Operating Profit (PBDITA) excl. Non-Operating Income | 272.71 | 234.49 |
| Growth over Previous Year | +16% | +100% |
| Profit Before Tax | 238.22 | 242.02 |
| Growth over Previous Year | - 2% | +161% |
| Profit After Tax | 180.29 | 174.09 |
| Growth over Previous Year | +4% | +145% |
| Shareholders' Funds | 367.13 | 263.55 |
| Borrowings | 23.60 | 36.54 |
| Capital Employed | 391.34 | 303.67 |
| Operating Cash Flow | 169.72 | 133.78 |

Key Ratios

| | 2008-09 Audited | 2007-08 Audited |
|---|--------------------|--------------------|
| Gross Margin (excl. Non-Operating Income) | 24.1% | 24.3% |
| Operating Margin (excl. Non-Operating Income) | 10.6% | 10.5% |
| Return on Capital Employed | 61.0% | 81.4% |
| Return on Shareholders' Funds | 49.1% | 66.1% |
| Earnings Per Share (Rs.) | 20.04 | 19.36 |
| Dividend Per Share (Rs.) | 7.00 | 7.00 |
| Capital Turnover | 6.56 | 7.48 |
| Debt/Equity | 0.06 | 0.14 |
| Inventory Turnover | 9.40 | 6.18 |
| Receivables (Days Billings Outstanding) | 92 | 79 |

Board of Directors



Ashok M Advani, Executive Chairman (*w.e.f. July 1, 2009*)

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 and Executive Chairman with effect from July 1, 2009. As Executive Chairman, he oversees Corporate Strategy, Corporate Governance, Investor Relations and Corporate Social Responsibility.

Ashok is the Vice Chairman of Blue Star Infotech Limited and on the Board of Alfa Laval (India) Limited. He 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.



Suneel M Advani, Vice 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. As Vice Chairman & Managing Director, he oversees the Electro Mechanical Projects Group, Corporate Communications & Marketing and Public Relations.

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. Suneel is a Member of the CII National Council, the apex governing body of CII. Besides, he is also associated with other trade associations and was the President of the Refrigeration and Airconditioning Manufacturers' Association (RAMA).



Satish Jamdar, Managing Director (*w.e.f. July 1, 2009*)

Satish Jamdar is a Mechanical Engineering graduate from IIT Bombay 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 35 years of experience in manufacturing, materials 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 facility at Dadra in 1997, at Himachal Plant in 2005 and at Wada in 2008. He was promoted as Executive Director in 2003 and Deputy Managing Director in 2007 prior to his current appointment as Managing Director. As Managing Director, Satish is responsible for all the Company's operations and support activities except those reporting to the Executive Chairman and Vice Chairman & Managing Director.



T Gouri Sankara Babu, Deputy Managing Director

T Gouri Sankara 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.

Babu was promoted to Executive Director in 2000 and Deputy Managing Director in 2007. He oversaw the channel business activities of the Company including packaged airconditioning, room airconditioners, commercial refrigeration products and systems as well as human resources. With effect from July 1, 2009, he has relinquished his operating role and is responsible for special corporate developmental assignments.

T Gouri Sankara Babu has been the President of RAMA and is actively involved in other trade associations.



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 Boards of several leading companies such as Ambuja Cement, Akruti, 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 Engineering & Technology, London. Pradeep was the Managing Director of Wartsila India Limited from 1988 to 2003, prior to which he worked with several leading companies in the field of electrical power transmission and distribution. He joined the Board of Blue Star in 2003.

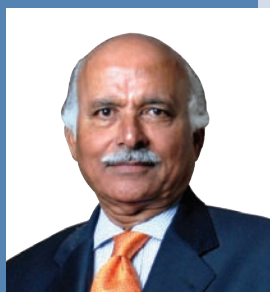
Pradeep is also on the Boards of several other leading companies including Elantas Beck India, ESAB India, Mount Everest Mineral Water and Tube Investments of India. In addition, he is associated with Industry Associations such as Confederation of Indian Industry, Bombay Chamber of Commerce & Industry 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 Limited 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 Boards of Halonix, Perfect Circle and Technova India.



Suresh N Talwar, Director

Suresh N 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 Boards of several leading companies such as Merck, Cadbury India, Larsen & Toubro, Greaves Cotton, Sandvik Asia, ESAB India, Johnson & Johnson, Uhde India and Wyeth amongst others.

Corporate Management

DIRECTORS



Ashok M Advani
Executive Chairman
(w.e.f. July 1, 2009)



Suneel M Advani
Vice Chairman & Managing Director



Satish Jamdar
Managing Director
(w.e.f. July 1, 2009)



T Gouri Sankara Babu
Deputy Managing Director

PRESIDENTS



Vir S Advani
President - Corporate Affairs & Special Projects
(w.e.f. July 1, 2009)



Avinash Pandit
President - Electro Mechanical Projects Group



B Thiagarajan
President - Channel Business Group
(w.e.f. July 1, 2009)

EXECUTIVE VICE PRESIDENTS



J M Bhambure
*Executive Vice President - R&D and
Manufacturing*



Manek Kalyaniwala
Executive Vice President - Finance



Arun Khorana
*Executive Vice President - Professional Electronics &
Industrial Systems Division*

VICE PRESIDENTS



R Aravindan
*Vice President - Packaged
Airconditioning Division*



Sumanta Chaudhuri
*Vice President - Electrical
Projects Division*



R G Devnani
*Vice President - Dadra &
Bharuch Plant*



Harish Govind
*Vice President - Human Resources &
Administration*



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



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



D P Singh
*Vice President - Infrastructure Projects
Division*



K P Sukumar
*Vice President - Airconditioning &
Refrigeration Service Division*

Directors' Report

The Directors are pleased to present their 61st Annual Report and the Audited Accounts for the year ended March 31, 2009.

HIGHLIGHTS OF 2008-09

- Total Income grew by 13% to Rs. 2574.04 crores.
- Profit After Tax increased moderately by 4% to Rs.180.29 crores because last year included a non-recurring boost due to exceptional income of Rs. 35.32 crores.
- Earnings per share were Rs. 20.04 (face value of Rs. 2.00) compared to Rs. 19.36 in the previous year.
- A dividend of Rs. 7.00 per share (same as last year) has been recommended.
- Good cash flow reduced borrowings for the second year in succession to Rs. 23.60 crores at year-end from Rs. 36.54 crores in the previous year.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

| | April 2008 - March 2009 | April 2007 - March 2008 |
|---|----------------------------|----------------------------|
| Total Income | 2574.04 | 2270.09 |
| Profit before interest, depreciation and taxation | 277.65 | 271.55 |
| Interest | 13.55 | 7.56 |
| Depreciation | 25.88 | 21.97 |
| Profit before tax | 238.22 | 242.02 |
| Provision for taxation | 60.90 | 70.85 |
| Add/(Less): Deferred Tax | 2.97 | 2.93 |
| Profit after tax | 180.29 | 174.10 |
| Add: Balance brought forward | 119.22 | 43.78 |
| Total available for appropriation | 299.51 | 217.88 |
| Less: General Reserve | 60.00 | 25.00 |
| Proposed Dividend | 62.95 | 62.96 |
| Corporate Dividend Tax | 10.70 | 10.70 |
| Balance carried forward | 165.86 | 119.22 |

DIVIDEND

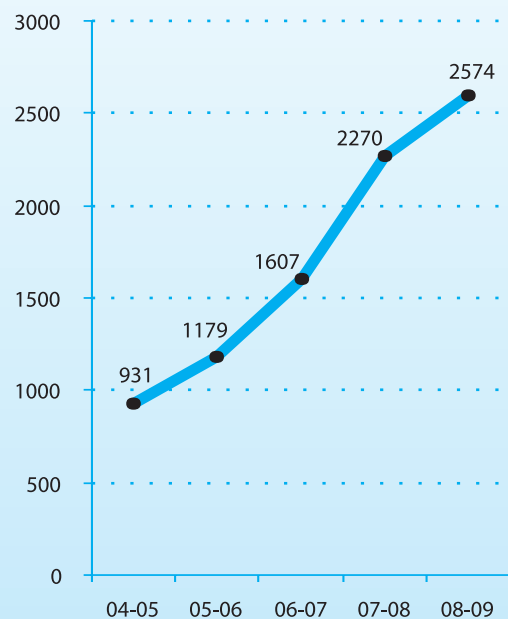
The Directors have proposed a dividend of Rs. 7.00 per equity share. The dividend will absorb Rs. 73.65 crores including Corporate Dividend Tax.

OPERATING PERFORMANCE

After several successive years of rapid growth of the Indian economy, the global slowdown adversely affected India. The Company felt the impact by the end of the first quarter. Total Income nevertheless grew by 13% for the year to Rs. 2574.04 crores. All 3 business segments recorded moderate growth between 13% and 21% due to slowing demand. Segment results also showed slower increases between 12% and 29%. These figures could be regarded as reasonable in the difficult economic scene.

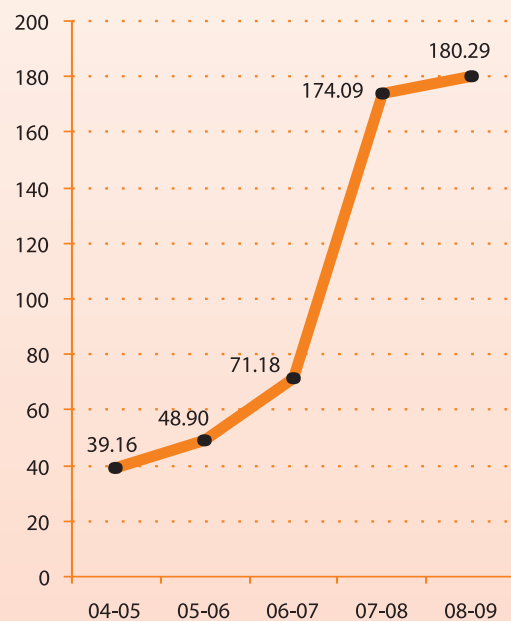
TOTAL INCOME

(Rs.in crores)



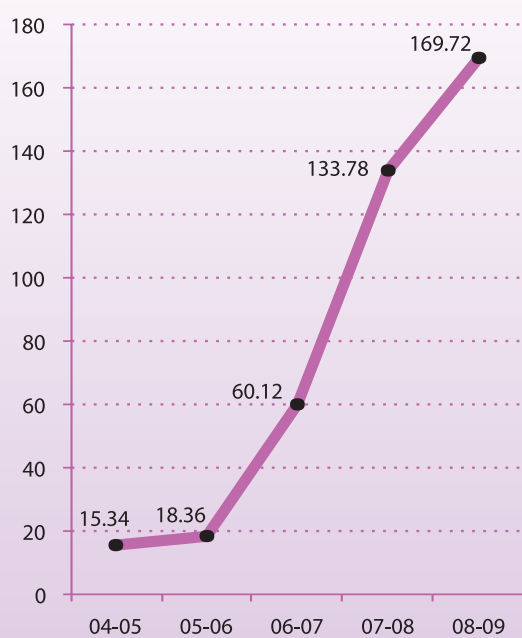
PROFIT AFTER TAX

(Rs.in crores)

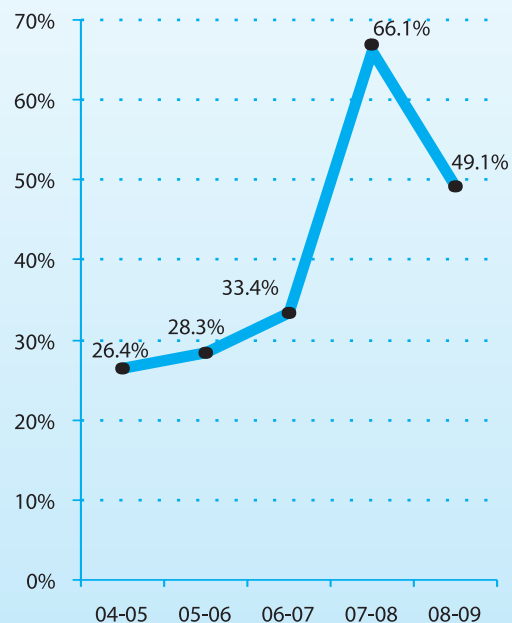


OPERATING CASH FLOW

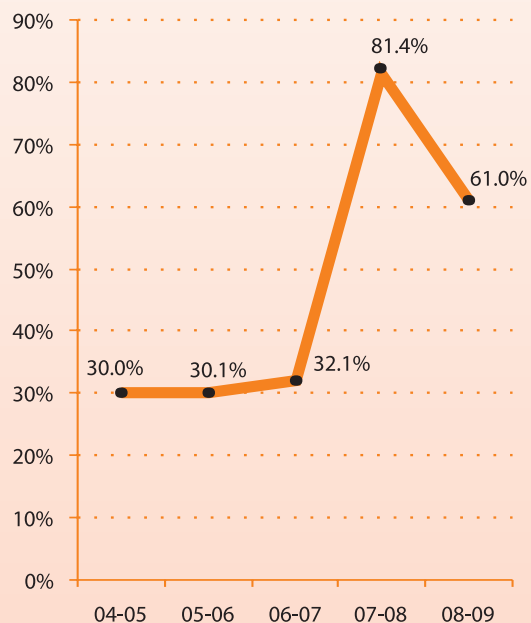
(Rs.in crores)



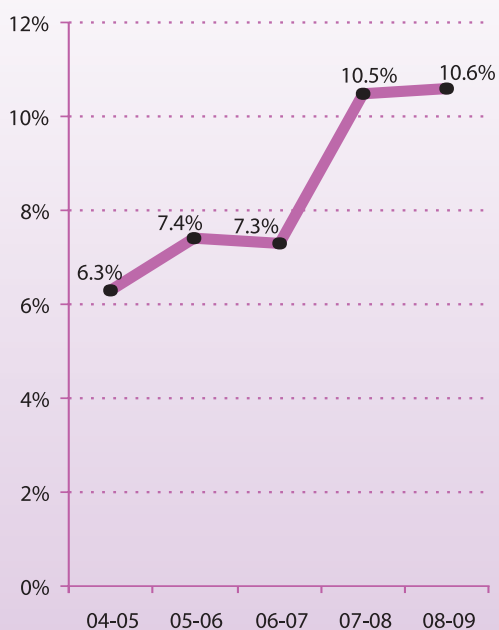
RETURN ON SHAREHOLDERS' FUNDS



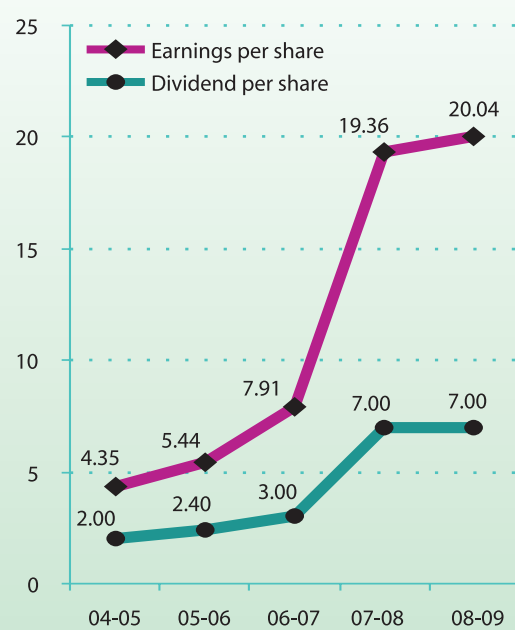
RETURN ON CAPITAL EMPLOYED



OPERATING (EBIDTA) MARGIN



EARNINGS PER SHARE & DIVIDEND PER SHARE (Rs.)



FINANCIAL PERFORMANCE

Despite inflationary increases in the cost of raw materials in the first half of the year, effective cost control measures and selective price increases enabled the Company to keep overall gross margins steady for the year as a whole. In fact in the 4th quarter, the lower input costs on imported material and substantial savings due to value engineering and design changes brought about a big reduction in cost of sales. Operating expenses were also under tight control. As a result of all these measures, operating margin improved substantially in the 4th quarter.

Due to higher borrowings and rise in interest rates caused by the credit squeeze during the second and third quarters, the interest cost for the year increased sharply from Rs. 7.56 crores to Rs. 13.55 crores. Liquidation of excess inventories and emphasis on cash management brought borrowings and interest costs sharply down in the second half. Overall, the year saw healthy net cash generation from operations of Rs.169.72 crores compared to Rs. 133.78 crores in the previous year, despite the increase in Sundry Debtors. This reduced year-end borrowings to only Rs. 23.60 crores. The balance sheet as on March 31, 2009 shows a strong, stable financial position with a negligible debt/equity ratio of 0.06.

The Company made additional investments in fixed assets amounting to Rs. 80.06 crores during the year which was financed entirely out of internal resources.

EXPORT & FOREIGN EXCHANGE EARNINGS

Income from product exports increased by 40% to Rs. 200.94 crores and commission income by 49% to Rs. 28.02 crores. Project exports were not significant during the year. Total foreign exchange earnings increased by 42% to Rs. 233.98 crores. Foreign exchange outflow during the year was Rs. 510.45 crores.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors would like to inform the members that the Audited Accounts for the financial year ended March 31, 2009 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 Satish Jamdar and Mr Pradeep Mallick will retire from the Board by rotation and being eligible, offer themselves for re-election.

EMPLOYEES

The emphasis on people development continued during the year with special attention to the technical skills of the Company's dealers and business associates. About 5000 mandays of technical training were delivered. Training in behavioural skills for Blue Star employees was maintained and several new training programmes were introduced.

A Corporate Safety Policy was issued along with extensive training programmes on safety. Safety audits were also initiated to ensure compliance with safety standards.

The employee relations scenario continued to be harmonious and congenial. This resulted in greater worker involvement thereby improving productivity and quality.

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 15, 2009

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 manufacturing facilities is not a major cost factor. Moreover, the Company is committed to maximize energy savings. The platform for developing new products is on energy efficiency. Further, the Company has an Energy Management team, comprising over 30 BEE certified energy auditors who carry out energy audits and conserve energy for the Company's customers. The Energy Management team also regularly audits the Company's manufacturing facilities and offers advice on the ways and means to reduce energy consumption.

While energy conservation at the manufacturing facilities is an ongoing process, during the year under review, several initiatives were undertaken by the facilities to reduce energy consumption. Some of these include maintaining the power factor close to unity by strengthening the capacitor banks and installation of various energy saving devices such as variable frequency drives in energy consuming equipment. The manufacturing facilities are also in the process of changing over to CFL lighting from conventional lighting which will help in substantial reduction of the lighting load. Installation of solar water heaters, direct liquid heating system for process equipment and judicious operation of airconditioning equipment were other energy saving techniques adopted. These dedicated efforts helped the minimal use of energy during the review period. The facilities have also adopted efficient water recycling systems to conserve water.

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

Installation of energy saver on machines on the shop floor, nitrogen generation plant for in-house consumption and use of solar energy for hot water and street lighting are some of the proposals for reduction of energy consumption at Wada.

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:

With unprecedented increase in the raw material costs, the focus was on design optimisation and adoption of alternate technologies and raw materials. This approach helped in cost reduction and increased profitability. A performance test lab was set up at the Himachal plant, for validating performance of star rated products. The CFD Analysis software purchased earlier was used to optimise the designs. A Product Data Management license was purchased, which is useful for managing data for a vast variety of products. Various steps were taken to restructure the R&D set-up in order to meet the requirements for the future.

Some of the new products developed during the year were :

1. Emergency free cooling systems for telecom cooling solutions.
2. Complete range of high efficiency precision control packaged units, both DX and chilled water types.
3. Battery chillers as a unique solution to improve energy efficiency of telecom shelter cooling equipment.
4. Fresh air handling units and energy recovery ventilators for the exports market.

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

Value engineering and design changes brought about a significant reduction in cost of production. Introduction of new products resulted in improving value addition and providing complete solutions to meet customers' needs. Development of new products also helped in retaining/improving market share.

c) Future plan of action:

Future plans include further strengthening of R&D facilities, developing new products, upgrading technologies and introduction of new technologies wherever required.

d) Expenditure on R&D:*(Rs. in lakhs)*

| | 2008-09 | 2007-08 |
|---|---------|---------|
| a) Capital | 9.46 | 28.50 |
| b) Recurring | 191.86 | 218.39 |
| Total | 201.32 | 246.89 |
| Total R&D expenditure as a percentage of total turnover | 0.08% | 0.11% |

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 reduce cost of production and provide a comprehensive range of products to suit the market 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:

No technologies were imported during the past five financial years.

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)*

| | 2008-09 | 2007-08 |
|-------------------------------|----------|----------|
| Total foreign exchange used | 51045.80 | 30379.58 |
| Total foreign exchange earned | 23397.57 | 16515.93 |

For and on behalf of the Board

ASHOK M ADVANI

Chairman & Managing Director

Mumbai: May 15, 2009.

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, 2008 TO MARCH 31, 2009

| Name | Age (Yrs) | Designation & nature of duties | Remuneration (Rupees) | Qualification | Experience (Yrs) | Date of Joining Blue Star | Employer | Details of Last Employment Designation | Period |
|---|-----------|-----------------------------------|-----------------------|-----------------------|------------------|---------------------------|------------------------------------|--|---------|
| Employed for the whole of the year | | | | | | | | | |
| Advani A M | 67 | Chairman & Managing Director | 35788318 | B.Sc, SB, MBA | 43 | 1-Jul-69 | RCA Inc., USA | Information Systems Project Specialist | 1968-69 |
| Advani S M | 65 | Vice Chairman & Managing Director | 34513989 | SB, SB, LLB | 40 | 17-Mar-69 | - | - | - |
| Babu T G S | 55 | Deputy Managing Director | 20537586 | B.Tech, MBA | 33 | 1-Nov-95 | MRF Ltd., Chennai | General Manager | 1991-95 |
| Jamdar S | 57 | Deputy Managing Director | 20278186 | B.Tech, BM | 35 | 2-May-96 | Real Value, Mumbai | Vice President | 1995-96 |
| Pandit A | 56 | President | 7546948 | B.E (Mechanical) | 32 | 18-Feb-82 | Otis Elevators | Executive | 1981-82 |
| Khorana A | 59 | Executive Vice President | 6086328 | B.Sc. (Engineering) | 38 | 1-Feb-73 | Motwani Pvt. Ltd. | Sales Engineer | 1972-73 |
| Thiagarajan B | 52 | Executive Vice President | 6235294 | B.E. | 29 | 18-May-98 | Voltas Ltd. | Divisional Manager | 1990-98 |
| Bhambure J M | 51 | Executive Vice President | 4797510 | B.E., DMS | 29 | 15-Nov-92 | HMP Engineers Ltd. | Prod Dev Manager | 1979-92 |
| Advani Vir S | 33 | Executive Vice President | 4581215 | BS, BA | 10 | 28-Aug-07 | Blue Star Design & Engg | Chief Executive Officer | 2004-07 |
| Kalyaniwala Manek J | 55 | Executive Vice President | 3979203 | B.Com, ACA | 31 | 1-Feb-08 | Wartsila India Ltd. | Head - Finance, Secretarial & Admin | 2004-07 |
| Aravindan R | 44 | Vice President | 4249283 | B.E. | 23 | 11-Apr-88 | Fedders Lloyd | Marketing Officer | 1986-88 |
| Venkat Rao P | 45 | Vice President | 4595994 | B.E, MBA, PGDPM | 24 | 21-Mar-96 | Carrier Aircon | Manager | 1995-96 |
| Devnani R G | 50 | Vice President | 4311644 | B.E, MMS | 27 | 4-Feb-94 | Pam Pharmaceuticals | Production Manager | 1993-94 |
| Rakesh Rao A | 51 | Vice President | 4089143 | B.E. | 28 | 18-Aug-81 | - | - | - |
| Sukumar K P | 47 | Vice President | 3880367 | DMT | 25 | 19-May-95 | Audco India | Supervisor | 1984-95 |
| Singh D P | 52 | Vice President | 3421663 | B.E. | 28 | 28-Jun-80 | - | - | - |
| Menezes Sean | 43 | Senior General Manager | 3344509 | B.Com | 22 | 9-Sep-02 | Amtrex Hitachi App. Ltd. | Head - National Sales | 1992-02 |
| Mehta Rahul | 52 | Senior General Manager | 3178019 | B.Sc, B.Textile Tech | 30 | 3-Oct-00 | United Phosphorus Ltd. | General Manager - IT | 1998-00 |
| Anandkumar G | 51 | Senior General Manager | 3225167 | B.E. | 30 | 28-Jun-82 | Hyderabad Asbestos Cement | Engineer | 1981-82 |
| Bhat Ashok | 50 | Senior General Manager | 2734760 | B.E. (Elec & Comm) | 28 | 9-Mar-81 | Weston Electronics | Trainee Engineer | - |
| Roy D H | 44 | Senior General Manager | 3313133 | B.E. (Mech) | 22 | 11-Aug-97 | Siel Aircon Ltd. | Sr Manager - Projects | 1995-97 |
| Iyengar R M | 58 | Senior General Manager | 3053819 | B.E. | 39 | 1-Mar-96 | Southern Group Industries | Dy. General Manager | 1995-96 |
| Sudeshkumar B | 52 | Senior General Manager | 2983720 | D.M.E. | 30 | 20-Jul-83 | ITC Bangalore | Machinist | 1980-83 |
| Radha J | 42 | Senior General Manager | 2970117 | B.Com, ACA | 18 | 3-Apr-03 | Thomson Multimedia India Pvt. Ltd. | Sr. Mgr - Commercial | 2000-03 |
| Lakshmanan K S | 50 | Senior General Manager | 2948941 | B.E, PGDMSM | 28 | 3-Jun-82 | Precision Screws Ltd. | Sales Engineer | 1981-82 |
| Verma Rajendra | 48 | Senior General Manager | 2933828 | B.E. (Mech) | 27 | 17-Feb-03 | Bem Co. Bahrain | Sr. Mgr - Projects | 1998-03 |
| Ramesh N K | 50 | Senior General Manager | 2856575 | B.E. (Electrcs) | 28 | 29-Oct-80 | - | - | - |
| Krishnan R | 55 | Senior General Manager | 2616596 | B.E, DFM | 31 | 6-Aug-04 | Fedders Lloyd Corporation | Chief Executive Officer | 2002-04 |
| Mitra Parthopratin | 48 | General Manager | 2815139 | B.Sc, DME | 21 | 6-Jan-88 | TSC Instrumentation (P) Ltd. | Senior Sales Engineer | 1987-88 |
| Chaina A | 47 | General Manager | 2721459 | B.Com, CA, CS, LLB | 28 | 11-Mar-96 | Colour Cartons Ltd. | Asst. Manager - Fin & Sec | 1991-96 |
| Viswanathan G | 39 | General Manager | 2658896 | B.E, PGDFT | 18 | 7-Aug-90 | - | - | - |
| Kutty K P T | 59 | Company Secretary | 2661135 | B.Com, LLB, ACS | 38 | 1-Apr-80 | Reserve Bank of India | Gen Clerk | 1973-80 |
| Employed for the part of the year | | | | | | | | | |
| Govind Harish | 46 | Vice President | 1560916 | B.Sc, MA (PM & IR) | 23 | 20-Oct-08 | Blue Star Infotech Ltd. | Vice President - HR | 2000-08 |
| Fernandes Michael C | 50 | Vice President | 628256 | B. Com, LLB, ACS, MLS | 30 | 1-Feb-07 | ITD Cementation | Vice President | 2000-07 |

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, Mr Suneel M Advani and Mr Vir S Advani are relatives.

Report of the Directors on Corporate Governance

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Blue Star has clearly spelt out a set of 12 Guiding Values and Beliefs that enunciate its basic business philosophy and its responsibilities to all stakeholders: customers, shareholders, employees, business partners and society. Ensuring high standards of corporate governance is one of the core values.

Blue Star aggressively pursues profitable business growth. While it participates in a competitive and demanding market, the Blue Star Way provides a code of conduct for its employees that requires strict adherence to the Corporate Values while delivering a world-class customer experience. The Company makes conscious efforts to align employees and business partners with the Blue Star Way.

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

Five Board Meetings were held during the Financial Year 2008-09 i.e., on May 12, 2008; July 28, 2008; October 27, 2008; January 27, 2009 and February 9, 2009. The Company had its Annual General Meeting on July 28, 2008.

The particulars of Directors, their attendance and other Directorships, Memberships/Chairmanships of Committees for the financial year 2008-09 are given below:

| Name | Category | Attendance | | *Particulars of other Directorships, Committee Memberships/Chairmanships | | |
|----------------------|---------------------------|------------|----------|--|-----------------------|-------------------------|
| | | Board Mtg. | Last AGM | Directorships | Committee Memberships | Committee Chairmanships |
| Ashok M Advani | Promoter Executive | 5 | Yes | 2 | 2 | Nil |
| Suneel M Advani | Promoter Executive | 5 | Yes | 2 | 1 | Nil |
| T Gouri Sankara Babu | Non-Promoter Executive | 5 | Yes | Nil | Nil | Nil |
| Satish Jamdar | Non-Promoter Executive | 5 | Yes | Nil | Nil | Nil |
| Shailesh Haribhakti | Independent Non-Executive | 5 | Yes | 14 | 9 | 5 |
| Pradeep Mallick | Independent Non-Executive | 5 | Yes | 5 | 7 | 1 |
| Gurdeep Singh | Independent Non-Executive | 4 | Yes | 3 | 3 | Nil |
| Suresh N Talwar | Independent Non-Executive | 5 | Yes | 14 | 9 | 3 |

Note:- Alternate Directorships, Directorships in Private Companies and Memberships 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 May 12, 2008; July 28, 2008; October 27, 2008 and January 27, 2009. The Members attended all the four 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 Deputy Managing 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 and commission for the Managing Directors and Deputy Managing Directors and the commission for the Non-Executive Directors within the limits approved by the shareholders are determined by the Board of Directors. 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 Deputy Managing 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 | 47.40 | 94.80 | 233.00 | - | 375.20 |
| Suneel M Advani | 47.40 | 83.80 | 233.00 | - | 364.20 |
| T Gouri Sankara Babu | 31.35 | 62.70 | 117.00 | - | 211.05 |
| Satish Jamdar | 31.35 | 62.70 | 117.00 | - | 211.05 |
| Shailesh Haribhakti | - | - | 10.80 | 1.80 | 12.60 |
| Pradeep Mallick | - | - | 16.80 | 1.80 | 18.60 |
| Gurdeep Singh | - | - | 9.00 | 0.80 | 9.80 |
| Suresh N Talwar | - | - | 11.00 | 1.80 | 12.80 |

Note:

1. Commission shown above are amounts actually paid for the year 2008-09 and hence differ from the provisions made in the accounts for the year ended March 31, 2009.
2. Mr Suresh N Talwar holds 71500 equity shares and Mr Shailesh Haribhakti holds 100 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 27, 2009 and reviewed the status of shareholders' grievances.

The Board has authorised 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 396 letters of which 323 letters were requests for various actions such as change of address, dividend mandate, nominations, etc., and 73 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 2 valid transfers pending as on March 31, 2009 for 2745 shares, which were approved and sent to the transferees within the prescribed time.

ANNUAL GENERAL MEETINGS

| Financial Year | Date | Location of Meeting | Time |
|----------------|----------------|---|-----------|
| 2005-2006 | August 4, 2006 | Jai Hind College Hall, Sitaram Deora Marg ('A' Road), Churchgate, Mumbai 400 020. | 3.00 p.m. |
| 2006-2007 | August 3, 2007 | -do- | 3.00 p.m. |
| 2007-2008 | July 28, 2008 | -do- | 3.30 p.m. |

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

| Subject | Date of Meeting |
|--|-----------------|
| Alteration of Articles of Association | August 4, 2006 |
| Appointment of Mr Vir S Advani (the relative of a Director) as Vice President of the Company | August 3, 2007 |

No special resolution was passed through postal ballot during the year 2008-09 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 14 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 were published in 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 did not have any meetings with the analysts/investors during the year 2008-09. Management Discussion and Analysis form part of the Annual Report.

SHAREHOLDERS' INFORMATION

Annual General Meeting

| | |
|-------|--|
| Date | : July 27, 2009 |
| Time | : 2.30 p.m. |
| Venue | : Jai Hind College Hall 23-24, Sitaram Deora Marg ('A' Road) Churchgate, Mumbai 400 020. |

FINANCIAL CALENDAR (PROVISIONAL)

| | |
|--|---|
| Unaudited results for the quarter ending June 30, 2009 | : July 27, 2009 |
| Unaudited results for the quarter ending Sept 30, 2009 | : October 26, 2009 |
| Unaudited results for the quarter ending Dec 31, 2009 | : January 25, 2010 |
| Audited results for the year ending March 31, 2010 | : May 2010 |
| Date of Book Closure | : Wednesday, July 15, 2009 to Wednesday, July 22, 2009 |
| Dividend Payment Date | : July 30, 2009 onwards |

LISTING ON STOCK EXCHANGES

: Bombay Stock Exchange
National Stock Exchange

STOCK CODE

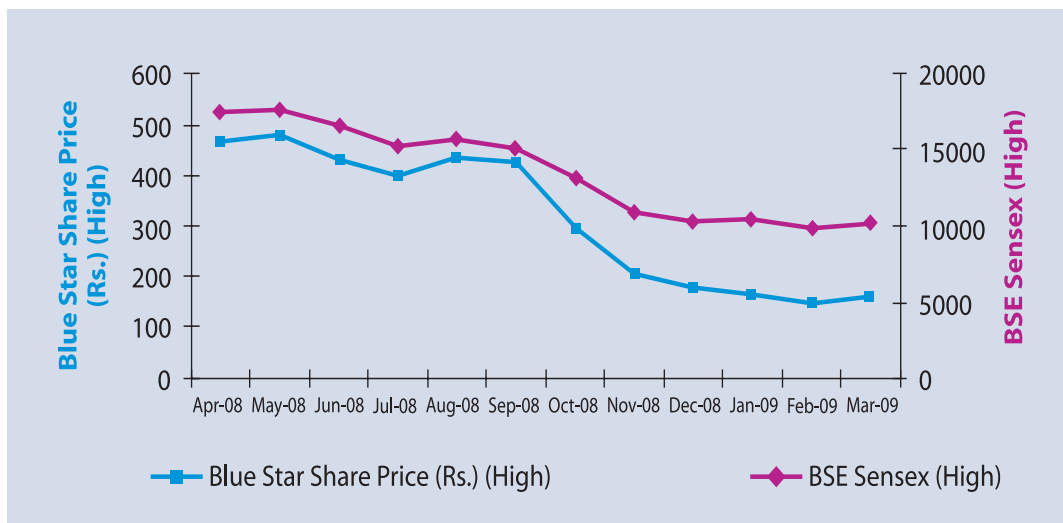
: Bombay Stock Exchange - 500067
National Stock Exchange-BLUESTARCO
NSDL/CDSL-ISIN-INE 472A01039

MARKET PRICE DATA

(Rs. per share)

| | Bombay Stock Exchange | | National Stock Exchange | |
|-------------|-----------------------|--------|-------------------------|--------|
| | High | Low | High | Low |
| 2008 | | | | |
| April | 463.95 | 400.00 | 469.95 | 374.55 |
| May | 478.80 | 416.25 | 479.90 | 415.10 |
| June | 427.95 | 360.05 | 430.00 | 361.05 |
| July | 398.00 | 308.05 | 389.95 | 305.10 |
| August | 433.95 | 365.10 | 449.60 | 370.00 |
| September | 424.00 | 269.50 | 425.00 | 262.00 |
| October | 294.00 | 162.00 | 295.00 | 160.05 |
| November | 203.65 | 130.00 | 216.95 | 146.00 |
| December | 179.90 | 122.05 | 179.00 | 124.00 |
| 2009 | | | | |
| January | 168.15 | 138.00 | 169.00 | 135.25 |
| February | 149.50 | 125.50 | 147.00 | 125.15 |
| March | 160.90 | 124.60 | 162.90 | 122.75 |

PERFORMANCE – COMPARISON WITH BSE SENSEX



REGISTRAR & SHARE TRANSFER AGENTS

Link Intime India Pvt Ltd
C-13, Pannalal Silk Mills Compound
L B S Marg, Bhandup (West)
Mumbai 400 078.

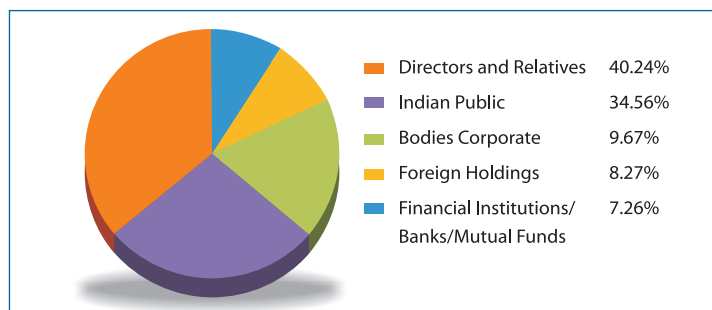
SHARE TRANSFER SYSTEM

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 authorised Mr K P T Kutty, Company Secretary, to approve the transfer of shares.

DISTRIBUTION OF SHAREHOLDING AS ON MARCH 31, 2009

| No. of equity shares held | No. of Shareholders | Percentage of Shareholders | Total No. of shares held | Percentage of shares held |
|---------------------------|---------------------|----------------------------|--------------------------|---------------------------|
| 1 - 5000 | 18180 | 88.81 | 8200133 | 9.12 |
| 5001 - 10000 | 1156 | 5.65 | 4166835 | 4.63 |
| 10001 - 20000 | 639 | 3.12 | 4488485 | 4.99 |
| 20001 - 30000 | 176 | 0.86 | 2163745 | 2.40 |
| 30001 - 40000 | 74 | 0.36 | 1296643 | 1.44 |
| 40001 - 50000 | 40 | 0.20 | 915403 | 1.02 |
| 50001 - 100000 | 78 | 0.38 | 2757433 | 3.07 |
| 100001 - and above | 127 | 0.62 | 65947428 | 73.33 |
| TOTAL | 20470 | 100.00 | 89936105 | 100.00 |

CATEGORIES OF SHAREHOLDERS AS ON MARCH 31, 2009



DEMATERIALISATION OF SHARES & LIQUIDITY

About 94% of the equity shares have been dematerialized by about 81% of the total shareholders as on March 31, 2009. 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 35% 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
Union Territory of
Dadra & Nagar Haveli
396 193.

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

Blue Star Limited
Village: Vasuri Khurd
Khanivali Road
PO: Khupari
Taluka: Wada
Dist: Thane
421 312.

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, 2009.

For **BLUE STAR LIMITED**

Mumbai: May 15, 2009.

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, 2009, 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: May 18, 2009

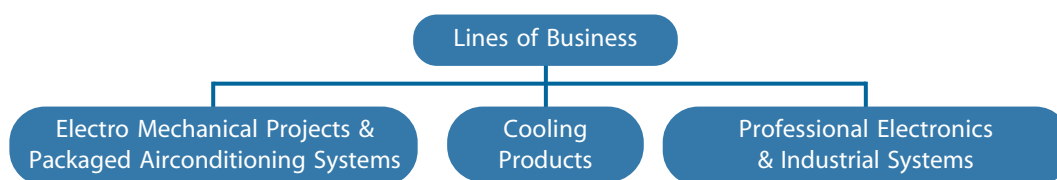
Management Discussion and Analysis

INTRODUCTION

Blue Star is India's leading central airconditioning and commercial refrigeration company, fulfilling the cooling requirements of a large number of corporate and commercial customers. Another significant area of business interest for Blue Star is distribution and maintenance of imported professional electronics and industrial systems.

Blue Star's business model of providing end-to-end solutions as a manufacturer, contractor and after-sales service provider coupled with differentiated products and customised solutions have contributed to sustained growth and leadership.

LINES OF BUSINESS



Blue Star primarily focuses on corporate, commercial and institutional customers. These include service, industrial and government organisations as well as commercial entities such as builders, offices, showrooms, restaurants, banks, hotels, multiplexes and hospitals. The lines of business of Blue Star can be segmented as follows:

ELECTRO MECHANICAL PROJECTS AND PACKAGED AIRCONDITIONING SYSTEMS

This business segment covers the design, manufacturing, installation, commissioning and maintenance of central airconditioning plants and packaged/ducted systems, as well as contracting services in building electrification and plumbing and fire-fighting. It also includes after-sales service as a business.

COOLING PRODUCTS

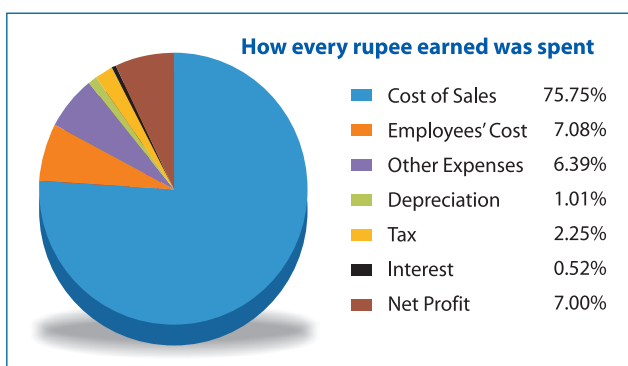
Blue Star offers a wide variety of contemporary room airconditioners, specifically targeted at corporate and commercial establishments. It also manufactures and markets a comprehensive range of commercial refrigeration products and cold chain equipment.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL SYSTEMS

For over five decades, Blue Star 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 established profitable businesses for itself in most of the specialised markets it operates in.

FINANCIAL HIGHLIGHTS

Despite a challenging year, the Company performed reasonably well, thanks to its initiatives in value engineering coupled with tight control of operating costs and efficient working capital management. Total Income for the year grew 13% to reach Rs. 2574.04 crores. Operating Profit (PBDITA excluding Non-Operating Income) for the year grew 16% to Rs. 272.71 crores. Operating Margin was maintained at 10.6% compared to 10.5% in FY08. Net Profit at Rs. 180.29 crores registered a marginal increase of 4% because last year included a non-recurring boost due to exceptional income of Rs. 35.32 crores. Earnings per share for FY09 (Face value of Rs. 2.00) stood at Rs. 20.04 vis-à-vis Rs. 19.36 in the previous year. Return on Capital Employed (ROCE) declined to 61.0% from 81.4%, while Return on Shareholders' Funds was 49.1% compared to last year's figure of 66.1%.

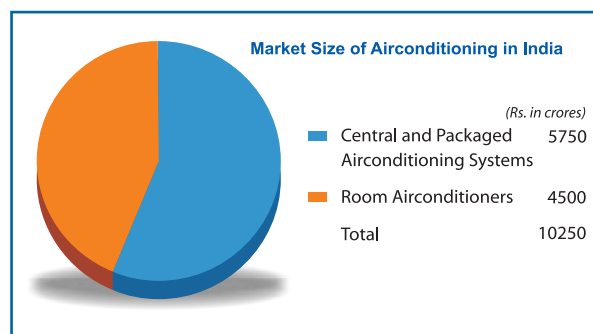


INDUSTRY STRUCTURE AND DEVELOPMENTS

AIRCONDITIONING

In 2008-09, the estimated total market size for airconditioning in India was around Rs. 10,250 crores. Of this, the market for central airconditioning, including central plants, packaged/ducted systems and VRF systems was about Rs. 5750 crores, while the market for room airconditioners comprised the balance Rs. 4500 crores. The commercial airconditioning segment catering to corporate and commercial customers amounted to around Rs. 8000 crores.

During the year, the economic slowdown coupled with the liquidity squeeze affected certain segments such as retail and builders. Project expansion plans in the IT/ITES segment were also delayed mainly due to the uncertain impact of the US recession on this segment. However, the airconditioning market witnessed significant growth in segments such as hospitality, healthcare and education. In addition, infrastructure segments such as airports, power plants and metro rail were unaffected by the economic downturn and project plans were on track.



COMMERCIAL REFRIGERATION

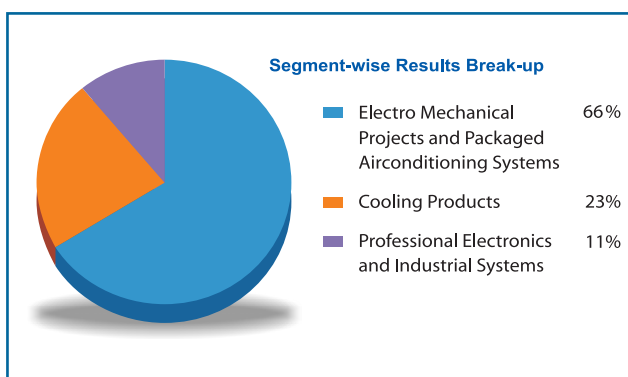
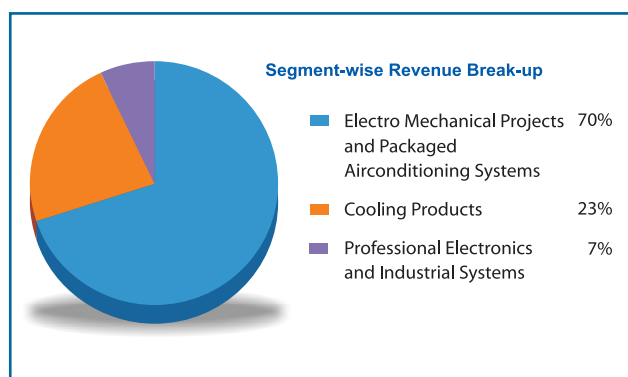
The market for commercial refrigeration equipment and systems was estimated at around Rs. 2000 crores. The commercial refrigeration segment includes a wide range of products such as cold storages, supermarket refrigeration equipment, water coolers, bottled water dispensers, deep freezers, milk coolers, bottle coolers and ice cubers.

In the present scenario, the cold chain infrastructure is characterised by long and fragmented supply lines leading to high wastage. The major constraints on the development of the cold chain industry are high capital cost and electricity bills coupled with low rental revenues and inadequate availability of concessional finance.

Based on the recommendations of 'Cold Chain Summit 2007' organised at New Delhi by the Confederation of Indian Industry jointly with the Department of Agriculture and Co-operation (Government of India), a task force was constituted for creating a road map for cold chain development in this country. The task force proposed creation of a 'National Green Grid' to develop a seamless cold chain network to balance demand and supply issues with remunerative price to farmers and to deliver quality produce in the hands of consumers. The task force initiatives are at an advanced stage and with the introduction of structured fiscal incentives and fast track clearance for economically viable proposals, the size of the cold chain industry will increase substantially in the next few years.

SEGMENT-WISE ANALYSIS

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



ELECTRO MECHANICAL PROJECTS AND PACKAGED AIRCONDITIONING SYSTEMS

The electro mechanical projects and packaged airconditioning business was the largest segment contributing to 70% of the Company's Total Segment Revenue. Blue Star's strong credentials and impressive track-record coupled with energy-efficient and differentiated products helped maintain its leadership position in central and packaged/ducted airconditioning systems market. The year under review witnessed significant demand from the infrastructure segment including airports, power plants and metro rail. Healthcare, education and hospitality also contributed to overall growth.

In the central plant equipment segment, the Company offers a range of chillers, air handling units and fan coil units. The year under review saw the full scale production of the Company's eco-friendly, next-generation and ASHRAE/ECBC-compliant range of screw chillers incorporating R134A refrigerant. These chillers met with tremendous success despite the presence of several existing multinational brands. The Company recorded the highest ever sale of these chillers as well as double skin air handling units, during the year.

During the review period, Blue Star booked the single largest order in its history from Delhi Metro Rail Corporation Limited (DMRC), valued at Rs. 104 crores for the total airconditioning works including Environmental Control System and Building Management System for 7 metro stations and associated tunnel sections of Phase II of the Delhi MTRS Project. Blue Star had successfully executed the airconditioning projects of 3 stations in Phase I. Blue Star's expertise and competence in project execution and on-time delivery coupled with the positive experience that DMRC had on the previous projects, helped the Company win this landmark order. The project is scheduled to be completed by January 2011.

Blue Star also won orders for airconditioning three more airports during the year -Pune, Aurangabad and Raipur, thereby taking the tally of the total number of airports airconditioned by the Company in the last few years to 16. The Company also booked some notable orders from power sector majors such as NTPC (Jhajhar, Sipat) and BHEL, Bellary. Other prestigious business booked by the Company during the year included orders from Volkswagen, Pune; Moser Baer, Greater Noida; Infosys, Pune; DLF, Gurgaon; Wipro, Bhubaneswar/Hyderabad; Cisco Systems, Bangalore; Columbia Asia Hospital, Patiala; JK Education Foundation, Gurgaon; Apollo Hospital, Bhubaneswar; Hindustan Unilever, Mumbai; Novartis Health, Hyderabad; JW Marriott, Chennai; Hilton, Chennai; Accenture, Pune/Chennai; Viceroy Renaissance Hotel, Bangalore; MIMS Hospital, Hyderabad; Suzlon, Coimbatore; Arvind Eye Hospital, Madurai; Future Group, Kolkata and many more.

Considering the liquidity crunch prevailing in the market, the Company chose to aggressively pursue business from the Government of India which was unaffected by the slowdown. This focus resulted in several orders from Government agencies for the airconditioning of various stadiums coming up in New Delhi for the Commonwealth Games scheduled in 2010. In addition, the Company also booked prestigious Government orders for HVAC works of Gautam Buddha University, Greater Noida; Central Drugs Research Centre, Lucknow; Jawaharlal Nehru Bhawan, New Delhi; CIDCO, Mumbai; DRDO, Pune; New India Insurance Co., Mumbai and Bank of Baroda, Mumbai, amongst several others.

Blue Star's ducted systems range includes floor and ceiling mounted packaged airconditioners as well as ducted split airconditioners. The Company also offers Variable Refrigerant Flow (VRF) systems; 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 range, and meets every conceivable customer requirement. During the review period, while segments such as IT/ITES and retail curtailed their investment plans, traditional segments such as offices, manufacturing and educational institutions contributed to a significant slice of the ducted/packaged systems business.

The Company strengthened its foothold in the high technology VRF airconditioning systems business, during the year. It launched a new range of eco-friendly VRF Systems which met with tremendous response from the market. Blue Star is India's first and only manufacturer of VRF systems and has significant advantages over its foreign counterparts. The Company registered a growth of 70% during the year in this product category driven by demand from premium residences, offices, hotels and hospitals.

Blue Star's Precision Control Packaged Airconditioners (PCPA) have also been well accepted with fast growing demand from data centres, banking and telecom segments. During the review period, the Company booked large data centre

SOME PRESTIGIOUS INSTALLATIONS

South Block, New Delhi



Chhatrapati Shivaji International Airport, Mumbai



Delhi Metro



Kokilaben Dhirubhai Ambani Hospital, Mumbai



Titan Showroom, Chennai



DLF Place, New Delhi



SOME OF OUR PRODUCTS



Hi Performance Packaged AC



VRF Airconditioning System



Water Cooled Screw Chiller



Air Handling Unit



Bulk Milk Cooler

jobs from Sify and IBM for PCPAs. The Company sustained its leadership position in the telecom segment with its customised array of telepac airconditioners, especially designed for the telecom industry. Blue Star offers a complete range of telecom airconditioning solutions including twin circuit telepacs, EFC telepacs and battery coolers. The Company has supplied equipment to all major telecom service providers such as Vodafone, Airtel, Idea, Reliance Telecom, BSNL and Aircel. Blue Star is also the leading supplier to passive infrastructure and tower companies like Indus, WTTIL, Bharti Infratel, Tower Vision and GTL.

The newly formed electrical projects business performed very well by cross-selling its services to existing HVAC customers and rolling out operations in other regions of the country. The Company booked several combined airconditioning and electrical orders including two Rs. 40-crore orders each from HCL Technologies for their Chennai and Bangalore facilities, Rs. 37-crore order from Fortis Healthcare, Gurgaon and a Rs. 19-crore order from Nokia Siemens, Bangalore apart from an integrated Mechanical, Electrical & Plumbing (MEP) order from Sea Valley Resorts for their upcoming 5-star hotel and entertainment Centre at Visakhapatnam valued at Rs. 21 crores. In addition, the electrical business booked several standalone orders including orders from Bell Ceramics, Bangalore; K Raheja Mindspace, Hyderabad; Ramky Infrastructures, Hyderabad and Wipro, Mysore, amongst others.

COOLING PRODUCTS

This business segment includes room airconditioners apart from commercial refrigeration products and systems.

The Company has a comprehensive range of room airconditioners targeted at the corporate and commercial segment. These include star-rated split airconditioners which provide enormous power savings, aesthetically appealing cassette airconditioners, mega split airconditioners with a powerful air throw for commercial spaces and vertical floor-standing split airconditioners for spaces where there is no false ceiling. Owing to its differentiated offering, the room airconditioners business has been outperforming market growth over the past few quarters. Further, price realisations and margins are higher, since customers are willing to pay a premium for products that are designed for commercial applications. In addition, the market's growing preference for split airconditioners vis-à-vis window airconditioners has also provided a boost for this business. Blue Star sold around 150,000 room airconditioners during FY09, with more than 75% of the sales coming from split airconditioners. Blue Star is now the fifth largest player in the overall room airconditioners business, despite the fact that it does not use the retail home appliances channel.

During the year, the Company set up a new National Accounts Management Cell for the room airconditioners and refrigeration products business in order to provide a single point contact and enhance business amongst large nationwide players. This move has paid rich dividends, with several national account customers placing substantial orders including Bata, Titan Eye Plus, Future Axiom Telecom, Religare Securities, Bajaj Auto, Max New York and Universal Sompco.

In the commercial refrigeration products segment, sales of chest freezers grew well with enhanced demand from ice cream manufacturers and unorganised grocery stores. Bottled water dispenser sales recorded high growth driven by demand from small offices, shops and residential customers. Business for premium products, ice machines and refrigerated display cabinets from ISA, Italy were adversely affected due to the meltdown in the organised retail segments.

For the cold chain, Blue Star offers equipment covering the entire range from pack houses at the farm end to supermarket refrigeration equipment for retail outlets. During the year, Blue Star successfully completed installations of perishable cargo centres at three airports viz. Nasik, Goa and Bagdogra. It also booked prestigious orders from Gujarat Agro Industries Corpn Ltd. for an integrated pack house at Ahmedabad and for a perishable cargo centre at Ahmedabad International Airport. During the year, the Company also supplied specialised precision controlled seed storage equipment to Sungro Seeds, Ambala.

The task force, constituted by CII and Department of Agriculture and Co-operation, where Blue Star is also an active participant, is working on creating an economically sustainable cold chain model through Government subsidy in the areas of integrated pack houses, ripening chambers, bulk cold storages, controlled atmosphere chambers and transport refrigeration. The task force has recommended creation of 'National Centre of Cold Chain Development' (NCCD), as a dedicated institution for cold chain development to be managed by professionals and experts from various sectors like

horticulture, technology, IT, logistics, banking etc. NCCD will address the needs of the industry to facilitate the process of cold chain movement. Blue Star is gearing up to support the cold chain movement in this country as a route to reward farmers and to meet the food security concerns of the world.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL SYSTEMS

Over the years, the Company has changed its business model from being only a distributor of leading global manufacturers to that of a system integrator and value added reseller, thereby moving up the value chain. In 2008-09, the Division continued to contribute significantly to the overall performance of the Company. The Division has six strategic business units (SBUs) – Material Testing Equipment and Systems, Data Communication Products & Services, Test and Measuring Instruments, Analytical Instruments, Industrial Products & Projects and Medical Diagnostic Equipment.

During the year, Non Destructive Testing performed extremely well in Automated Test Systems. After initial success with ordnance factory systems to test gun shells, the business did well in pipe weld inspections. Inspection services have expanded its applications coverage from longitudinal welds to Spiral and ERW welds. The latest application is Rail Wheel Test System to be supplied at the upcoming rail wheel project in Bihar. The Destructive Testing business which mainly caters to the automobile and construction industry witnessed a slowdown in its standard products. However, the Environmental Simulated Test Chambers and Growth Chambers segments did extremely well. The Division has expanded its range of products by tying up with specialized companies.

The Industrial Projects business had a relatively slow year. However, the Company won prestigious orders from Vizag Steel Plant and Tata Blue Scope. The Medical Diagnostic Equipment business did reasonably well, especially in products marketed through channel partners including patient monitors and ultrasound systems.

CUSTOMISED OEM BUSINESS

The OEM business currently offers process chillers for special process applications in the medical, food and plastics industries. It also offers OEM branded water coolers and specialized MIL graded airconditioners for defense, and bulk milk coolers for the dairy industry with a tie-up with Packo, Belgium. During the review period, the OEM business booked various prestigious projects for Indian Railways as well as MES including orders from Manekshaw Centre of Indian Army; Baroda House, Northern Railway HQ of Indian Railways and North West Railway HQ at Jaipur. The bulk milk cooler business also performed well with several orders from Amul, Sahayadri Agro, Supreme Agro, GSK Glaxo, ABT Industries, Dinshaws and KMF, amongst others.

EXPORTS

On the product exports front, the Company offers products such as 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, enjoy a good reputation in the Middle East market.

The product exports business saw an increase in revenues during the year despite the slack in demand. The global economic slowdown adversely affected Dubai and several other Middle East nations, with the real estate business severely impacted due to the credit squeeze. However, towards the end of the year, there was a slow recovery in some segments. The export business registered an overall increase in profitability due to the appreciation of the dollar and decrease in the raw material input cost. The export focus is now on emerging markets such as Abu Dhabi, Qatar, Saudi Arabia & Africa, which are expected to offer better opportunities.

As far as international projects are concerned, the Company has joint ventures in Qatar as well as in Malaysia. During the year, the Company continued to be selective in pursuing only projects with reasonable margins.

AIRCONDITIONING AND REFRIGERATION SERVICE

Blue Star retains the eminent position in the market place as a superior value added service provider. The total tonnage maintained under various categories of after-sales solutions is over 1.75 million TR, making the Company the largest after-sales service provider in the country. Apart from the customary warranty and annual maintenance services, the

Company offers a variety of value added services in the areas of Energy, Air and Water management, in addition to Green Building certification consultancy and associated services.

As a fall-out of Blue Star's Energy Audit recommendations – carried out by a strong 30-member team of BEE accredited Energy Auditors and Managers, many customers are opting for revamp or retrofit solutions and upgrading to more energy efficient systems. Green Building consultancy services are offered for both new construction and existing buildings. The team comprises 3 US Green Building Council (USGBC) certified Leadership in Energy and Environmental Design (LEED) Accredited Professionals.

The Company continued to focus on enhancing the quality of service delivery, during the year. Towards this end, several developmental programmes were implemented including certification and training of dealers and business associates; monitoring of service delivery quality through a Service Quality Assurance Group; and the handling of high-end technical problems through a Service Specialists' Group.

The Commissioning Services Group which was constituted to handle commissioning services in line with international practices resulted in higher customer satisfaction and lower warranty expenses. The Company's business foray into Genuine Parts and Accessories maintained its pace of handsome growth with the extension of the parts distribution channels.

MANUFACTURING FACILITIES

Blue Star has five modern, state-of-the-art manufacturing facilities at Thane, Bharuch, Dadra, Himachal and recently, Wada. Thane, which is the oldest manufacturing facility in Blue Star, primarily manufactures a range of screw and scroll chillers. It also manufactures special chillers for the process industry. During the year, the emphasis was mainly on improving processes to enhance productivity and quality. Specific value engineering and Total Productive Maintenance (TPM) initiatives implemented during the year helped in maintaining margins in spite of cost pressures.

The Dadra plant is regarded as one of the best manufacturing facilities in the country for high quality airconditioning products for domestic as well as export markets. The product range includes packaged/ducted split airconditioners, VRF systems and telepacs for the telecom sector. The Plant registered a significant improvement in profitability due to stringent measures taken in controlling operating expenses, during the review period. The focus was on raw material yield improvement and on energy management. Six sigma & TPM initiatives are actively practiced at the plant.

Over the last few years, the Bharuch plant has been focusing on the cold chain business and has invested in developing modern manufacturing facilities for polyurethane sandwich panels. These investments have helped in the doubling of the capacity of panel manufacturing. With efforts on value engineering, effective sourcing and commodity price reduction coupled with productivity improvement, expense control and substantial inventory reduction, the margins saw a significant increase. Several safety initiatives during the year helped the plant receive an award for 'Executing Excellent Safety Measures at Gas intake' by Gujarat Gas Ltd. On the compliance front, the Plant was awarded as the Best Assessee (Central Excise) in the category of 'Best Compliance Records' by Central Excise Dept.

This was the fourth year of operation for Himachal Plant which caters mainly to window and split airconditioners. During the year, the focus was on robust quality systems and improvement in productivity. New initiatives like ISO 9001, Six sigma and TPM were adopted in full swing. Another notable addition was the implementation of a fully integrated bar code tracking system which has played an important role in managing warranty claims.

This was the first full year of operation of Blue Star's latest state-of-the-art manufacturing facility at Wada. Spanning over an area of 36 acres, this unit is planned to eventually be Blue Star's biggest manufacturing facility including an EOU set-up to cater to specific requirements of the export and deemed export market. The plant is equipped with modern manufacturing facilities with complete vertical integration. Products manufactured during the year included telecom equipment as well as all types of air handling units. The emphasis in its first year was on maximising resource utilisation and value addition, as well as introducing new initiatives such as Kaizen and TPM.

RESEARCH & DEVELOPMENT

Blue Star invested Rs. 201 lakhs on research and development during the year. The Company has invested in modern

product development facilities as well as sophisticated test laboratories.

The year under review saw the development and launch of several new products as well as entire product lines. These included a new range of energy efficient Precision Control Packaged Units, apart from extending its range up to 120 KW. Precision Control Packaged Units with chilled water systems were also introduced. In telecom airconditioning, the range of Emergency Free Cooling systems and Battery Chillers were enhanced. Further, a new range of eco-friendly VRF systems incorporating R410A refrigerant were launched successfully. A new range of wall mounted units and high efficiency chillers for data centre applications were also introduced.

SUPPLY CHAIN MANAGEMENT

With a significant amount being spent on outside goods, the Company has an agile and adaptable supply chain incorporating modern procurement practices such as long term contracts, e-procurement, time-based competition, hedging and managing risk. The Company deployed a combination of central and regional procurement teams for superior sourcing and speedy order fulfillment. During the year, the Company also introduced a sales and operations planning process for better inventory management at the field and factories, which significantly helped in reducing inventory carrying costs.

CHANNEL DEVELOPMENT

The Company has a Channel Management Centre, which is the overall custodian of Blue Star channel partners and a single point contact for all channel development and channel conflict resolution initiatives. Blue Star has around 210 systems dealers who exclusively deal in the Company's systems businesses comprising packaged airconditioning and cold rooms and approximately 700 dealers to sell room airconditioners and refrigeration products.

On the channel development area, the Company implemented a number of initiatives which were meticulously planned and executed. With the overall objective of standardising appearance of premises, infrastructure, organisation structure and HR practices of Blue Star airconditioning systems dealers, the Channel Management Centre implemented the Dealer Process Standardisation (DPS) programme. Another important initiative last year was the launch of a dealer portal www.bluestarchannel.com which provides information about the Company, its policies, product literature, technical bulletins, price lists, dealer newsletters, training calendar, dealer schemes, dealer awards etc. The website also has a personalised mailbox which the Company has made mandatory for all dealers to use for their customer and corporate communications.

The Company put up 3 more Product Display Areas (PDAs) in association with its leading dealers during the year, taking the total number of PDAs in the country to over 40. The PDAs aim to provide customers with a pleasant, standardised shopping experience, apart from the comprehensive product information that Blue Star dealers are known for.

FINANCIAL PERFORMANCE

The analysis of the financial year performance for the year ended March 31, 2009 in comparison to the previous year is as under:

1. INCOME

Total Income for the year at Rs. 2574.04 crores increased by 13% over the Total Income of Rs. 2270.09 crores in the previous year. The Total Income of the previous year included a profit of Rs. 35.32 crores on sale of shares held in Rolastar Pvt Ltd. Excluding this profit, the Net Income from sales, work bills, service and commission increased by 15% from Rs. 2221.58 crores in the previous year to Rs. 2552.28 crores in 2008-09.

2. COST OF SALES, WORK BILLS AND SERVICES

The cost of sales, work bills and services during the year was Rs. 1949.73 crores and was 76.4% of the revenue from sales, work bills and commission as compared to 76.1% in the previous year. Despite a significant increase in the cost of materials primarily due to depreciation of the Rupee and higher commodity prices for part of the year, the increase in the cost of sales for the year was contained due to significant savings as a result of value engineering as well as appropriate revision in sale prices.

3. EMPLOYEE REMUNERATION AND BENEFITS

Employee cost increased by 18% from Rs. 154.41 crores to Rs. 182.25 crores, including salaries of Rs. 3 crores for the newly-formed Electrical Projects Division (Previous year Rs. 0.5 crores), which includes the business acquired from Naseer Electricals Pvt Ltd and provision of Rs.3 crores for employee benefits for Sick Leave for earlier years, as required under Accounting Standard 15 "Retirement Benefits". The employee cost was 7.1% of the Total Income as compared to 6.8% for the previous year.

4. OPERATING AND GENERAL EXPENSES

Operating and general expenses amounted to Rs. 164.39 crores, increasing by 7.3% over the previous year. As a percentage of Total Income, the Operating and General expenses for the year were lower at 6.4% as compared to 6.7% in the previous year.

5. INTEREST

Interest cost at Rs. 13.55 crores for the year was significantly higher than the interest cost of Rs. 7.56 crores in the previous year primarily due to an increase in borrowings during July to December 2008 and sharp increase in bank interest rates during the third quarter. However, due to concerted efforts to reduce capital employed and monitoring of cash flows, the interest cost was brought down in the last quarter. Interest cost for the year was 0.52% of the Total Income as compared to 0.33% in the previous year.

6. DEPRECIATION

Depreciation charge for the year was significantly higher at Rs. 25.88 crores compared to Rs. 21.97 crores in the previous year, mainly due to additional set-up at the manufacturing facility at Wada.

7. TAXATION

Provision for taxation for the year was Rs. 57.93 crores which is 24.3% of the Profit before tax, as compared to 28.1% in the previous year. The decrease was mainly due to higher tax depreciation on account of significantly higher additions of fixed assets during the year and the increase in the quantum of profits of the Himachal factory which are eligible for tax holiday.

8. NET PROFIT

Net profit for the year was Rs. 180.29 crores as compared to Rs. 174.09 crores in the previous year, representing an increase of 4%. Excluding the previous year's exceptional item of profit on the sale of shares (net of tax thereon) amounting to Rs. 27.32 crores, the Net Profit increased by 23%. Profit before Tax for the year stood at Rs. 238.22 crores, a growth of 15% excluding the same exceptional item.

9. CAPITAL EXPENDITURE

During the year, the Company incurred capital expenditure of Rs. 80.06 crores as compared to Rs. 47.66 crores in the previous year. This includes capital expenditure incurred for the Company's fifth manufacturing facility at Wada.

10. ADJUSTMENT OF EARNOUT AND FEES AGAINST GENERAL RESERVE ON ACQUISITION OF THE ELECTRICAL CONTRACTING BUSINESS OF NASEER ELECTRICALS PRIVATE LIMITED

During the year, the Company adjusted against General Reserve an amount of Rs. 3.70 crores paid towards earnout bonus and professional fees arising out of the business purchase agreement with Naseer Electricals Private Limited as per the accounting treatment prescribed in the Scheme of Arrangement approved by the shareholders and sanctioned by the Hon'ble High Court. Further, a sum of Rs. 0.35 crores earlier forming part of the goodwill which had been written off against the General Reserve of the Company in the year ended March 2008, was written back as the liability is no longer payable.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has a proper and adequate system of internal controls commensurate with its size and nature of operations.

These controls are designed to provide reliable financial and operational information, ensure compliance of corporate policies and applicable statutory regulations and safeguard company assets.

The in-house Internal Audit Department, which is ISO 9001:2000 certified, carries out internal audits covering all significant areas of the Company's operations as per the annual Internal Audit plan which is reviewed by the Audit Committee. The Internal Audit Department is supported and supplemented by external firms for audit at the regional level. The Audit Committee of the Board periodically meets the Internal Auditors and reviews the internal audit reports, auditee responses and remedial action taken.

To further strengthen its systems, the Company is implementing SAP, a highly integrated ERP system that will lead to more effective and efficient reporting and more robust controls.

RISKS AND CONCERNS

RISKS

The Company has in place an effective Risk Management framework under which all internal and external risks across the various businesses and functions are periodically identified, assessed and acted upon by the risk owners to minimise and mitigate their impact. These processes are also periodically reviewed to ensure their effectiveness.

The Company continues to satisfactorily address the various financial risks relating to interest rates, exchange rates and credit risks as well as operating risks arising out of high input costs, changes in technology, customer preferences, increasing size and complexity of contracts and competitive pressures.

CONCERNS

While the strong fundamentals of the Company and its sound financial base have placed it in a strong position to face the vagaries of the market, the overall uncertain economic scenario and recession in the economy could impact the growth of the Company to some extent in the coming year. The Company will continue to remain vigilant and will proactively take steps to mitigate the adverse impact, if any, arising out of these concerns.

HUMAN RESOURCES

During the review period, the Company increased its total head count marginally from 2566 as on March 31, 2008 to 2620 on March 31, 2009. With a focus on people development, about 80% of the Management staff attended at least one Development Program, while the average was over 4 mandays of training per person. In order to sustain the positive culture of the Company, the Corporate programme called 'The Blue Star Way' which creates awareness about and strengthens the Blue Star way of working was imparted to over 90% of the Management staff.

A Central Technical Training Organisation (CTTO) was formed in November 2008 to handle all the technical trainings for the Company's AC&R businesses. Training centres at Chennai and Noida were extensively upgraded. In all, the CTTO delivered about 5000 mandays of training, during the year.

During the year, the Company issued a Safety Policy and created the EHS (Environment, Health & Safety) department. Safety standards were established and workshops conducted to sensitise all employees and business partners on the EHS norms to be followed in the course of business. This brought about an enhanced awareness among employees and business associates. The Company also strengthened the EHS function by recruiting additional resources to conduct safety audits at factories and project sites.

INFORMATION TECHNOLOGY

Continuing with the focus on adapting new technologies to improve efficiencies across financial, human capital and operational processes, the year saw the Company purchasing and preparing to roll out the SAP ECC 6.0 solution across all business divisions and all locations. As a precursor to this implementation, business process re-engineering was done in many areas to simplify internal processes as well as to make them more customer-centric. The SAP project then began in June 2008 with a dedicated team of 100 professionals, drawn from the various businesses of the Company. The preparatory work was completed in a record time of 9 months and the system went live effective April

2009 in a 'Big Bang' spanning all business divisions and locations. This project is, by far, the largest IT project implementation in the Company.

The SAP system will help the Company in automating and streamlining operational processes; increasing productivity in operations with a role-based solution and centralized information; extending collaboration to all value chain partners; and improving operations performance with strategic business insight.

BRAND EQUITY

The Company has made substantial investments in building brand equity over the last few years. During the year under review, as a measure of economy, there was a moderate reduction in advertising. Within the lower advertising budget, the value proposition of Blue Star as 'Experts in cooling', the corporate image building campaign, the room airconditioners and refrigeration products campaign, as well as a packaged airconditioning capabilities campaign all continued.

Apart from the mass media, the Company also made affordable investments in field marketing. These included 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 have gone a long way in complementing mass media campaigns and strengthening brand equity.

CORPORATE SOCIAL RESPONSIBILITY

Blue Star's Corporate Social Responsibility (CSR) philosophy is built on three pillars namely Environment protection, Energy conservation and Community development around its facilities.

The Company is highly committed to the cause of protecting the environment. Energy efficiency of its products remains a corner-stone of its research and development efforts. Air, water and energy management services as well as LEED (Leadership in Energy and Environmental Design) consultancy for Green Buildings have been part of its business and practices. The Company has also been contributing in the technical domain in the use of eco-friendly refrigerants in its products.

Energy Conservation goes beyond using efficient products. A huge amount of energy is wasted nationally due to sheer ignorance and lack of awareness. The Company decided to help deserving institutions such as hospitals and colleges to save power by conducting free walk-through energy audits. During the year, the Company conducted several such audits with energy recommendations for Jai Hind College, St Xavier's College, Nirmala Niketan College of Social Work, National Association for the Blind (NAB), Bombay Natural History Society (BNHS), JJ School of Architecture and Dilkhush Special School, amongst others.

In its efforts towards community development around the Company's facilities, the Company initiated and sponsored a study in the villages around its Wada Plant to understand the immediate needs. Vocational training and health emerged as pressing needs in this underdeveloped region. Blue Star sponsored the vocational training courses offered by an NGO, Kherwadi Social Welfare Association (KSWA) in Wada. This centre was set up to support a vocational training initiative for school and college dropouts to make them employable contributing members of their families and communities. Regular visits by the Company's employees have aided in technical support to KSWA for conducting the courses.

In addition to the above CSR efforts, the Company continued to sponsor various philanthropic activities through its Trust, Blue Star Foundation, which has been supporting several activities in the areas of children education and healthcare apart from relief measures in national calamities.

CORPORATE OUTLOOK

Though the carry forward order book continues to be healthy, the economic downturn has led to delays in project execution in certain segments. However, other segments such as infrastructure, telecom, healthcare and hospitality contributed significantly to overall revenues. The Company strengthened its foothold in these segments and expects them to contribute to future growth. After-Sales Service also offers attractive business opportunities. In addition, Blue Star continues to focus on cost control, managing working capital efficiently and controlling operating costs. On the whole, while the economic outlook appears to be uncertain over the next few quarters, Blue Star's expertise, experience and credentials will hold it in good stead for the future.

The Dynamics of Blue Star's Growth

10 YEAR FINANCIAL HIGHLIGHTS

| | | 2008-09 | 2007-08 | 2006-07 | 2005-06 |
|---|--------------|---------|---------|---------|---------|
| OPERATING RESULTS | | | | | |
| Total Income | Rs.in Crores | 2574.04 | 2270.09 | 1607.41 | 1178.62 |
| Profit before Tax | " | 238.22 | 242.02 | 92.60 | 69.09 |
| Tax | " | 57.93 | 67.92 | 21.42 | 19.42 |
| Profit after Tax | " | 180.29 | 174.10 | 71.18 | 48.90 |
| Dividend (including Corporate Dividend tax) | " | 73.65 | 73.65 | 30.93 | 24.61 |
| Retained Profit | " | 106.64 | 100.45 | 40.26 | 24.29 |
| FINANCIAL POSITION | | | | | |
| Paid up Capital | Rs.in Crores | 17.99 | 17.99 | 17.99 | 17.99 |
| Reserves | " | 349.15 | 245.56 | 194.98 | 154.72 |
| Shareholders' Funds | " | 367.13 | 263.54 | 212.97 | 172.71 |
| Borrowings | " | 23.60 | 36.54 | 89.05 | 75.87 |
| Total Funds Employed | " | 390.73 | 300.08 | 302.02 | 248.58 |
| Net Fixed Assets & Investments | Rs.in Crores | 216.76 | 160.39 | 121.79 | 113.04 |
| Net Working Capital | " | 173.99 | 141.86 | 184.49 | 141.33 |
| Debt Equity Ratio | Ratio | 0.06 | 0.14 | 0.42 | 0.44 |
| Book Value per Equity Share | Rs. | 40.82 | 29.30 | 23.68 | 19.20 |
| OTHER INFORMATION | | | | | |
| Number of Shareholders | Nos. | 20470 | 19096 | 18065 | 15609 |
| Number of Employees | " | 2620 | 2566 | 2181 | 1999 |
| PERFORMANCE INDICATORS | | | | | |
| Earnings per Share | Rs. | 20.04 | 19.36 | 7.91 | 5.44 |
| Dividend per Share | Rs. | # 7.00 | 7.00 | 3.00 | 2.40 |
| Return on Shareholders' Funds | % | 49.10 | 66.10 | 33.40 | 28.30 |
| Return on Capital Employed | % | 61.00 | 81.40 | 32.10 | 30.10 |

| 2004-05 | 2003-04 | 2002-03 | 2001-02 | 2000-01 | 1999-00 |
|---------|---------|---------|---------|---------|---------|
| 930.92 | 716.06 | 601.06 | 517.32 | 509.82 | 480.94 |
| 52.44 | 46.59 | 40.18 | 27.33 | 25.57 | 25.20 |
| 13.71 | 11.88 | 9.57 | 2.28 | 2.03 | 1.96 |
| 39.16 | 32.55 | 31.04 | 27.45 | 23.54 | 23.24 |
| 20.55 | 18.26 | 18.26 | 12.55 | 12.32 | 11.39 |
| 18.61 | 14.29 | 12.78 | 14.90 | 11.22 | 11.85 |
| 17.99 | 17.99 | 17.99 | 19.30 | 20.32 | 27.10 |
| 130.43 | 111.82 | 97.53 | 92.10 | 89.72 | 97.67 |
| 148.42 | 129.81 | 115.52 | 111.40 | 110.04 | 124.77 |
| 37.28 | 13.35 | 12.05 | 12.09 | 57.35 | 64.04 |
| 185.70 | 143.15 | 127.57 | 123.49 | 167.39 | 188.81 |
| 89.03 | 70.41 | 59.79 | 68.41 | 94.11 | 105.25 |
| 100.53 | 77.17 | 67.84 | 54.09 | 67.43 | 78.68 |
| 0.25 | 0.10 | 0.10 | 0.11 | 0.52 | 0.51 |
| 16.50 | 14.43 | 12.84 | 11.54 | 10.83 | 9.21 |
| 17187 | 19422 | 22000 | 24878 | 26094 | 27399 |
| 1868 | 1798 | 1808 | 1825 | 2084 | 2489 |
| 4.35 | 3.62 | 3.45 | 2.84 | 2.32 | 1.72 |
| 2.00 | 1.80 | 1.80 | 1.30 | 1.10 | 1.00 |
| 26.40 | 25.10 | 26.90 | 24.60 | 21.40 | 19.80 |
| 30.00 | 33.80 | 33.30 | 26.70 | 20.50 | 19.10 |

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, 2009, 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 Reports 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 read together with Note No.8 of Schedule N-II, giving effect to the High Court order approving the Scheme of Arrangement between the Company, its Shareholders and Creditors, for reorganization of Reserves and Valuation of Assets of the Company.
 - (v) On the basis of written representations received from the directors, as on 31st March 2009, which are taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2009 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, 2009;
 - (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, 18th May 2009

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) (a) The Company has granted unsecured loans to one company covered in the register maintained, under section 301 of the Companies Act, 1956 wherein the balance recoverable as at the year end is Rs.704 Lacs (Maximum balance during the year Rs. 710 Lacs).
- (b) In our opinion, the rate of interest and other terms and conditions of loans given by the Company, secured or unsecured, to the parties listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
- (c) In respect of the above loans granted, receipt/renewal of the principal amount and interest were regular, as stipulated.
- (d) There is no overdue amount of more than rupees one lakh of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.

The Company has not taken any loans, secured or unsecured from Companies, firms or other parties covered in the register maintained under section 301 of the Act. Hence the provisions of paragraph 4(iii) (e, f and g) 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 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, 2009 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and as per the records of Company, income tax, sales tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited on account of dispute given are 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 | 140.23 (166.28) | 1990-01, 1992-93, 2000-01 to 2006-07 | Sale Tax Officer / Deputy / Asst. Commissioner |
| | Claim of Sale in the course of imports rejected | 1.92 (1.92) | 1972 to 1975 | High Court |
| | Factory direct sale treated as Local branch sale | 128.68 (133.69) | 2002-03 & 2003-04 | DC - (Appeals) |
| | Work Contract Tax on interstate purchase | 33.67 (33.67) | 1990-91 | DC - (Appeals) |
| | Additional demand/ disallowances on works contracts | 10.18 (11.78) | 1984-85 to 1991-92, 1994-95, 2001-02 to 2003-04 | Sales Tax Appellate Tribunal, High Court |
| | Additional sale tax on works contracts | 80.71 (148.74) | 2000-01, 2001-02 | High Court |
| | Show cause notice received from CTO, Hyderabad treating works contract sales as product sales. * Excluding the amount of penalty of Rs.150/- per day from due to the date of the payment which is not quantifiable | 3139.62 (2025.57) | 2001-02 to 2007-08 | Supreme Court / High Court of Andhra Pradesh |
| | Sales Tax demand on assessment | 459.73 (196.25) | 2002-03 to 2005-06 | DC - (Appeals) |
| Entry Tax | On factory direct sales | 3.61 (0.87) | 2001-02 to 2003-04 | Asst. Commissioner |
| ESIC | Additional Demand | 0.88 | 2001-02 | ESIC |
| Service Tax | Service tax demand on composite contracts | 3509.36 (-) | 2004-05 to 2007-08 | CESTAT/Commissioner (Appeals) |
| Central Excise | Excise Duty | 11.53 (11.53) | 1986-1990 | Central Excise Commissioner |
| | | 2.77 (2.77) | 1980-81 | CESTAT |
| | Excise duty | 10.00 (10.00) | 1981-86 | Penalty levied by High Court stayed by Supreme Court |
| | Excise duty | 28.00 (-) | 1990-94 | Penalty levied by Commissioner. Appeal to be filed before CESTAT |

| Name of Statute | Nature of the Dues | Amount (Rs in lakhs) | Period to which it relates | Forum where dispute is pending |
|-----------------|--------------------|----------------------|----------------------------|--------------------------------|
| Income Tax | Income Tax | (-) (231.55) | A.Y. 1996-97 | CIT - (Appeals) |
| | Income Tax | 85.27 (85.27) | A.Y. 2004-05 | ITAT |
| | Income Tax | 62.36 | A.Y. 2006-07 | CIT - (Appeals) |

- (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 (Auditors' 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 does not 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 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 share 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.
- (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, 18th May 2009

Balance Sheet as at March 31, 2009

(Rs. in lakhs)

| | | As at March 31 | |
|--|----------|----------------|-------------|
| | Schedule | 2009 | 2008 |
| SOURCES OF FUNDS | | | |
| Share Capital | A | 17,98.72 | 17,98.72 |
| Reserves & Surplus | B | 3,49,14.22 | 2,45,55.90 |
| SHAREHOLDERS' FUNDS | | 3,67,12.94 | 2,63,54.62 |
| Secured Loans | C | 22,51.91 | 36,29.20 |
| Unsecured Loans | D | 1,07.83 | 24.56 |
| LOAN FUNDS | | 23,59.74 | 36,53.76 |
| Net Deferred Tax Liability (See Note 17) | | 61.71 | 3,58.78 |
| TOTAL | | 3,91,34.39 | 3,03,67.16 |
| APPLICATION OF FUNDS | | | |
| FIXED ASSETS | | | |
| Gross Block | | 3,32,51.22 | 2,72,57.34 |
| Depreciation | | 1,44,92.44 | 1,34,84.06 |
| Net Block | E | 1,87,58.78 | 1,37,73.28 |
| Capital Work-in-Progress | | 24,78.89 | 18,09.30 |
| Investments | F | 4,38.23 | 4,56.79 |
| FIXED ASSETS & INVESTMENTS | | 2,16,75.90 | 1,60,39.37 |
| Inventories | | 2,07,30.27 | 2,73,49.15 |
| Sundry Debtors | | 6,43,07.62 | 4,83,73.98 |
| Cash & Bank Balances | | 5,64.84 | 2,67.24 |
| Loans & Advances | | 2,92,68.49 | 2,57,48.83 |
| TOTAL CURRENT ASSETS, LOANS & ADVANCES | G | 11,48,71.22 | 10,17,39.20 |
| Current Liabilities | | 6,72,35.29 | 6,34,66.66 |
| Provisions | | 3,02,37.35 | 2,40,86.54 |
| Less : TOTAL CURRENT LIABILITIES & PROVISIONS | H | 9,74,72.64 | 8,75,53.20 |
| NET CURRENT ASSETS | | 1,73,98.58 | 1,41,86.00 |
| MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted) (See Note 5) | | 59.91 | 1,41.79 |
| TOTAL | | 3,91,34.39 | 3,03,67.16 |
| Notes forming part of the Accounts | N | | |

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

RAGHUVIR M AIYAR
Partner

Mumbai: May 18, 2009

Ashok M Advani
Suneel M Advani

T Gouri Sankara Babu
Satish Jamdar

Shailesh Haribhakti
Pradeep Mallick
Gurdeep Singh
Suresh N Talwar

Manek Kalyaniwala
K P T Kutty

Chairman & Managing Director
Vice Chairman & Managing Director

Deputy Managing Director
Deputy Managing Director

Director
Director
Director
Director

Executive Vice President
Company Secretary

Mumbai: May 15, 2009

Profit & Loss Account for the year ended March 31, 2009

(Rs. in lakhs)

| | Schedule | Year ended March 31 | |
|---|----------|---------------------|--------------------|
| | | 2009 | 2008 |
| INCOME | | | |
| Sales, Work Bills & Services (See note 1 & 4) | | 25,23,17.13 | 21,96,72.20 |
| Commission | | 29,11.60 | 24,86.47 |
| Other Income | I | 21,75.11 | 48,50.65 |
| | | 25,74,03.84 | 22,70,09.32 |
| EXPENDITURE | | | |
| Cost of Sales, Work Bills & Services | J | 19,49,73.44 | 16,90,92.87 |
| Employee Remuneration & Benefits | K | 1,82,25.58 | 1,54,40.64 |
| Operating & General Expenses | L | 1,64,38.93 | 1,53,20.73 |
| Depreciation | M | 25,88.32 | 21,96.62 |
| Interest | | 13,55.29 | 7,56.49 |
| | | 23,35,81.56 | 20,28,07.35 |
| PROFIT | | | |
| PROFIT BEFORE TAXATION | | 2,38,22.28 | 2,42,01.97 |
| Provision for Income Tax | | 58,54.18 | 66,14.00 |
| Short Provision for Income tax in respect of earlier year | | - | 1,81.10 |
| Provision for Wealth Tax | | 6.31 | 5.06 |
| Provision for Fringe Benefit Tax | | 2,30.00 | 2,85.00 |
| | | 60,90.49 | 70,85.16 |
| Deferred Tax (Asset)/Liability(See note no.17) | | (2,97.07) | (2,92.66) |
| PROFIT AFTER TAXATION | | 1,80,28.86 | 1,74,09.47 |
| Add: Balance brought forward | | 1,19,22.31 | 43,78.29 |
| PROFIT AVAILABLE FOR APPROPRIATION | | 2,99,51.17 | 2,17,87.76 |
| APPROPRIATIONS | | | |
| Transfer to General Reserve | | 60,00.00 | 25,00.00 |
| Proposed Dividend | | 62,95.53 | 62,95.53 |
| Corporate Dividend Tax | | 10,69.92 | 10,69.92 |
| | | 73,65.45 | 73,65.45 |
| Balance carried forward | | 1,65,85.72 | 1,19,22.31 |
| Basic & Diluted Earnings Per Share (See note 15) | | Rs. 20.04 | Rs. 19.36 |
| Notes forming part of the Accounts | N | | |

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

RAGHUVIR M AIYAR
Partner

Mumbai: May 18, 2009

Ashok M Advani
Suneel M Advani

T Gouri Sankara Babu
Satish Jamdar

Shailesh Haribhakti
Pradeep Mallick
Gurdeep Singh
Suresh N Talwar

Manek Kalyaniwala
K P T Kutty

Chairman & Managing Director
Vice Chairman & Managing Director

Deputy Managing Director
Deputy Managing Director

Director
Director
Director
Director

Executive Vice President
Company Secretary

Mumbai: May 15, 2009

Schedules Forming Part of The Balance Sheet

As At March 31, 2009

(Rs. in lakhs)

| | | As at March 31 | |
|--|--|-------------------|-------------------|
| | | 2009 | 2008 |
| 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 | 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 |
| | | 17,98.72 | 17,98.72 |
| Subscribed & Paid Up (See note 7) | | | |
| | Equity Shares of Rs.2 each | | |
| 2,33,91,015 | Shares fully paid in cash | 4,67.82 | 4,67.82 |
| 4,645 | Shares allotted as fully paid pursuant to a contract without payment being received in cash | 0.09 | 0.09 |
| 6,65,26,340 | Shares allotted as fully paidup Bonus shares by Capitalisation of Reserves and Share Premium | 13,30.53 | 13,30.53 |
| 14,105 | 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 | | 17,98.72 | 17,98.72 |
| B. RESERVES & SURPLUS | | | |
| General Reserve | | | |
| Balance as on April 1, 2008 | | 1,24,00.03 | 1,48,86.07 |
| Less: Adjusted per contra against Fixed Assets - Intangibles | | - | 49,50.94 |
| Less: Adjusted as per scheme of arrangement (See note 8) | | 3,35.09 | - |
| Less: Adjusted loss on sale of Investment | | - | 35.10 |
| | | 1,20,64.94 | 99,00.03 |
| Add: Transfer from Profit & Loss Account | | 60,00.00 | 25,00.00 |
| | | 1,80,64.94 | 1,24,00.03 |
| Capital Redemption Reserve | | | |
| Balance as on April 1, 2008 | | 2,33.56 | 2,33.56 |
| | | 2,33.56 | 2,33.56 |
| Capital Subsidy from Government | | | |
| Received during the year (see note 10) | | 30.00 | - |
| | | 30.00 | - |
| Profit & Loss Account | | | |
| Balance carried forward | | 1,65,85.72 | 1,19,22.31 |
| | | 3,49,14.22 | 2,45,55.90 |

(Rs. in lakhs)

| | As at March 31 | |
|---|-----------------|-----------------|
| | 2009 | 2008 |
| C. SECURED LOANS | | |
| From Banks, secured by hypothecation of stock-in-trade and book debts | 22,51.91 | 36,29.20 |
| | 22,51.91 | 36,29.20 |
| D. UNSECURED LOANS | | |
| Others | 1,07.83 | 24.56 |
| | 1,07.83 | 24.56 |
| | 23,59.74 | 36,53.76 |

E. FIXED ASSETS

(Rs. in lakhs)

| | Gross Block | | | | Depreciation | | | | Net Block | |
|--|-------------------|-----------------|-----------------|--------------------|-------------------|-----------------|-----------------|--------------------|--------------------|--------------------|
| | As on 1.4.2008 | Additions | Deletions | As on 31.3.2009 | As on 1.4.2008 | Additions | Deletions | As on 31.3.2009 | As on 31.3.2009 | As on 31.3.2008 |
| Land - Freehold | 4,66.35 | 7.15 | - | 4,73.50 | - | - | - | - | 4,73.50 | 4,66.35 |
| Land - Leasehold | 7.94 | - | - | 7.94 | 1.89 | 0.26 | - | 2.15 | 5.79 | 6.05 |
| Building Sheds and Road | 66,09.44 | 31,31.13 | 1.10 | 97,39.47 | 21,98.07 | 5,09.70 | 0.67 | 27,07.10 | 70,32.37 | 44,11.37 |
| Plant and Machinery | 1,31,41.01 | 34,40.40 | 10,76.25 | 1,55,05.16 | 64,84.73 | 12,87.00 | 8,44.80 | 69,26.93 | 85,78.23 | 65,80.91 |
| Furniture, Fittings & Equipments | 25,98.20 | 6,27.28 | 3,01.08 | 29,24.40 | 13,30.58 | 2,88.91 | 2,04.49 | 14,15.00 | 15,09.40 | 13,42.98 |
| Vehicles | 4,07.76 | 4,58.19 | 2,18.62 | 6,47.33 | 2,35.98 | 1,10.94 | 1,33.71 | 2,13.21 | 4,34.12 | 1,71.78 |
| Computers | 25,31.58 | 3,41.86 | 4,15.08 | 24,58.36 | 19,81.17 | 2,96.65 | 3,96.27 | 18,81.55 | 5,76.81 | 5,50.41 |
| Intangible Assets | | | | | | | | | | |
| - BAAN SYSTEM | 15,31.30 | - | - | 15,31.30 | 12,73.77 | 97.80 | - | 13,71.57 | 1,59.73 | 2,57.53 |
| Sub Total | 2,72,93.58 | 80,06.01 | 20,12.13 | 3,32,87.46 | 1,35,06.19 | 25,91.26 | 15,79.94 | 1,45,17.51 | 1,87,69.95 | 1,37,87.39 |
| Less: Capital Reserve - Grant received from UNIDO | 36.24 | - | - | 36.24 | 22.13 | 2.94 | - | 25.07 | 11.17 | 14.11 |
| Total 31.3.2009 | 2,72,57.34 | 80,06.01 | 20,12.13 | 3,32,51.22 | 1,34,84.06 | 25,88.32 | 15,79.94 | 1,44,92.44 | 1,87,58.78 | 1,37,73.28 |
| Total 31.3.2008 | 2,30,80.85 | 97,16.31 | 55,39.82 | 2,72,57.34 | 1,16,73.16 | 21,96.62 | 3,85.72 | 1,34,84.06 | 1,37,73.28 | 1,14,07.69 |

(Rs. in lakhs)

| | As at March 31 | |
|--|----------------|----------------|
| | 2009 | 2008 |
| F. LONG TERM INVESTMENTS | | |
| In 18,755 Unit 6.75 % Bonds of Unit Trust of India (Face Value Rs.18.56 lakh) (Redeemed during the year) | - | 18.56 |
| UNQUOTED: TRADE INVESTMENTS | | |
| 2,400 Fully paid Equity Shares of Rs.100 each in Ashok Sunil & Company Private Ltd(See note 9) | - | 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 |
| 1,17,600 Fully paid Equity Shares of Rs.10 each in Rolastar Private Limited | 11.76 | 11.76 |
| 5,85,000 Fully paid Equity shares of Rs. 10 each in Blue Star Design and Engineering Ltd. | 58.50 | 58.50 |
| 98,000 Fully Paid Equity shares of Rs. 10 each in Blue Star Qatar(LLC) | 12.11 | 12.11 |
| QUOTED: OTHER INVESTMENTS | | |
| 30,98,025 (29,25,725) Fully Paid Equity shares of Rs.10 each in Blue Star Infotech Ltd. (See Note 9) (Aggregate Market Value Rs.15,14.93 lakh; 2007-08 Rs 17,27.64 lakh) | 2,98.21 | 2,92.57 |
| | 4,38.23 | 4,56.79 |

(Rs. in lakhs)

| | As at March 31 | |
|--|--------------------|--------------------|
| | 2009 | 2008 |
| G. CURRENT ASSETS, LOANS & ADVANCES | | |
| (a) INVENTORIES (At lower of Cost and Net realisable value) | | |
| Raw Materials, Stores & Components | 82,27.26 | 91,36.14 |
| Work-in-Progress | 92,90.89 | 1,03,82.03 |
| Less: Advance received thereagainst | 20,22.64 | 16,29.87 |
| | 72,68.25 | 87,52.16 |
| Finished Goods | 40,81.16 | 55,32.25 |
| Goods in Transit | 11,17.88 | 38,98.48 |
| Tools, Cylinders & Consumable Stores | 30.69 | 25.10 |
| Units, Bonds & Shares in hand (See Note 20) | 5.03 | 5.03 |
| | 2,07,30.27 | 2,73,49.15 |
| (b) SUNDRY DEBTORS (Unsecured) | | |
| Considered Good | | |
| Over six months | 1,61,42.32 | 86,54.61 |
| Others | 4,85,40.41 | 3,99,30.78 |
| Less: Amounts due to Customer | 3,75.11 | 2,11.41 |
| | 6,43,07.62 | 4,83,73.98 |
| (c) CASH & BANK BALANCES | | |
| Cash on hand | 34.83 | 70.97 |
| With Scheduled Banks: | | |
| Current Account | 3,15.89 | 22.85 |
| Unclaimed Dividend Account | 1,29.20 | 97.11 |
| Deposit Account | 84.92 | 76.31 |
| | 5,64.84 | 2,67.24 |
| (d) LOANS & ADVANCES | | |
| Unsecured and considered good | | |
| Advance recoverable in cash or in kind or for value to be received | 71,80.66 | 90,70.91 |
| Advance Tax paid | 1,94,40.85 | 1,42,37.89 |
| Deposits with Government and other bodies | 26,46.98 | 24,40.03 |
| | 2,92,68.49 | 2,57,48.83 |
| | 11,48,71.22 | 10,17,39.20 |

(Rs. in lakhs)

| | As at March 31 | |
|--|-------------------|-------------------|
| | 2009 | 2008 |
| H. CURRENT LIABILITIES & PROVISIONS | | |
| Sundry Creditors- Micro, Small Medium Enterprises (See note 11) | 3,07.64 | 43.15 |
| Sundry Creditors- Others | 3,32,83.77 | 2,88,17.05 |
| Acceptances | 20,23.63 | 37,27.14 |
| Other Liabilities | 2,31,75.36 | 2,19,50.44 |
| Advances against Contracts | 82,98.83 | 88,20.32 |
| Investor Protection Fund: | | |
| - Unclaimed Dividends | 1,29.20 | 97.11 |
| - Unclaimed Fixed Deposits | 0.45 | 2.58 |
| Interest accrued but not due | 16.41 | 8.87 |
| Current Liabilities | 6,72,35.29 | 6,34,66.66 |
| Provision for Employee Benefits (See note 6) | 14,76.70 | 7,06.02 |
| Provision for Warranty (see note 6) | 11,95.20 | 7,86.40 |
| Provision for taxes | 2,02,00.00 | 1,52,28.67 |
| Proposed Dividend | 62,95.53 | 6,295.53 |
| Corporate Dividend Tax | 10,69.92 | 10,69.92 |
| Provisions | 3,02,37.35 | 2,40,86.54 |
| | 9,74,72.64 | 8,75,53.20 |

Schedules Forming Part of Profit & Loss Account

For The Year Ended March 31, 2009

(Rs. in lakhs)

| | Year ended March 31 | |
|---|---------------------|--------------------|
| | 2009 | 2008 |
| I. OTHER INCOME | | |
| Profit on Sale of Assets | 23.45 | 7.09 |
| Interest (Gross) (Including tax deducted at source nil 2007-08; Rs.9.64 lakh) | 1,41.68 | 99.74 |
| Provisions & Liabilities no longer required | 8,95.03 | 1,95.58 |
| Dividends (Gross) (Including tax deducted at source Rs.54.58 lakhs; 2007-08: Nil) | 3,37.89 | 66.19 |
| Profit on sale of Investment | - | 35,32.17 |
| Exchange gain (net) | - | 3,18.62 |
| Miscellaneous | 7,77.06 | 6,31.26 |
| | 21,75.11 | 48,50.65 |
| J. COST OF SALES, WORK BILLS & SERVICES | | |
| Stock at commencement | | |
| Raw Materials, Stores & Components | 91,36.14 | 64,61.54 |
| Work-in-Progress | 1,03,82.03 | 1,06,76.21 |
| Finished Goods 55,32.25 | 25,84.10 | |
| Units, Bonds and Shares in hand (See note 20) | 5.03 | 5.03 |
| Purchases & Expenses (See note 16) | 19,15,22.33 | 17,44,21.44 |
| | 21,65,77.78 | 19,41,48.32 |
| Less: Stock at Close | | |
| Raw Materials, Stores & Components | 82,27.26 | 91,36.14 |
| Work-in-Progress | 92,90.89 | 1,03,82.03 |
| Finished Goods 40,81.16 | 55,32.25 | |
| Units, Bonds and Shares in hand (See note 20) | 5.03 | 5.03 |
| | 2,16,04.34 | 2,50,55.45 |
| | 19,49,73.44 | 16,90,92.87 |
| K. EMPLOYEE REMUNERATION & BENEFITS (See Note 12) | | |
| Salaries, Wages & Bonus | 1,41,42.62 | 1,21,19.78 |
| Contribution to Provident Fund, Superannuation, Gratuity Fund and Leave Encashment | 18,66.08 | 14,82.47 |
| Welfare & Training Expenses | 22,16.88 | 18,38.39 |
| | 1,82,25.58 | 1,54,40.64 |

**Schedules Forming Part of Profit & Loss Account
For The Year Ended March 31, 2009**

(Rs. in lakhs)

| | Year Ended March 31 | |
|--|---------------------|-------------------|
| | 2009 | 2008 |
| L. OPERATING & GENERAL EXPENSES | | |
| Rent | 10,45.96 | 9,01.17 |
| Rates & Taxes | 30.70 | 28.25 |
| Power | 7,42.93 | 7,04.09 |
| Insurance | 1,53.54 | 1,22.14 |
| Repairs & Maintenance | | |
| - Premises | 6,44.81 | 5,49.07 |
| - Machinery | 2,31.32 | 2,19.44 |
| - Others | 2,20.90 | 1,99.15 |
| Payment to Auditors (including payment to Branch Auditors) | | |
| - Audit Fees | 47.10 | 28.34 |
| - Other Services (Including for Tax Audit Fees Rs.8.45 lakh; 2007-08: Rs.6.30 lakh) | 31.81 | 12.09 |
| - Reimbursement of Expenses | 3.23 | 2.86 |
| Directors' Fees | 6.20 | 7.20 |
| Non Executive Directors Commission | 47.60 | 40.00 |
| Donations | 23.36 | 60.39 |
| Commission on Sales (other than salesmen) | 23,89.59 | 20,02.33 |
| Advertising & Publicity | 18,83.20 | 22,00.88 |
| Transport & Travelling | 24,78.07 | 27,95.72 |
| Stationery & Printing | 3,11.08 | 3,10.71 |
| Other expenses 38,35.90 | 37,70.39 | |
| Exchange Rate Difference | 5,18.73 | - |
| Non Recoverable Debts Written-off | 14,67.98 | 12,34.96 |
| Loss on assets sold or discarded | 2,87.16 | 74.78 |
| Loss on sale of Investment | - | 35.10 |
| Less: Adjusted per Contra from General Reserve | - | 35.10 |
| Research & Development | 37.76 | 56.77 |
| | 1,64,38.93 | 1,53,20.73 |
| M. DEPRECIATION | | |
| Depreciation on Fixed Assets | 25,91.27 | 22,00.35 |
| Less: Transferred from Grant Received | 2.95 | 3.73 |
| Depreciation charged to Profit and Loss Account | 25,88.32 | 21,96.62 |

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 WIP and will be treated in the accounts appropriately on completion of the project.

3. Revenue Recognition

- a. On construction contracts entered into before 1.8.2006 -

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.

- b. 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

- c. Provision is made for expected warranty liability on account of projects and products as per the estimates based on past experience.
- d. Service income is recognised on accrual basis.
- e. Claims recoverable are accrued only to the extent admitted by the parties.
- f. Export benefits are accrued only after the claims are lodged with the appropriate authorities, due to uncertainty involved in collecting necessary support documents from customer, banks etc.

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. Cost of leasehold land is amortised over the period of lease.
- c. 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 from 1.4.2003, Contract Work-in-Progress is stated at cost.
 - iv) Finished goods are valued at lower of cost and net realisable value.
 - v) Goods-in-transit are valued at lower of cost and net realisable value.
 - vi) Tools, Cylinders and consumable stores are valued at lower of cost and net realisable value.
 - vii) 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 off 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 charged off to Profit and loss account.

8. Employee Benefits

- a.** Defined Contribution Plan

The Company's liability towards Employee's Provident Fund and Superannuation scheme administered through the Trust maintained by the Company, are considered as Defined Contribution Plans. The Company's contributions paid/payable towards these defined contribution plans are recognised as expense in the Profit and Loss Account during the period in which the employee renders the related service. The interest rate payable by the trust to the beneficiaries every year is being notified by the government. The Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the notified interest rate.

b. Defined Benefit Plan

Company's liabilities towards gratuity and leave encashment benefits are considered as Defined Benefit Plans. The present value of the obligations towards Gratuity, leave encashment, sick leave and additional gratuity are determined based on actuarial valuation using the projected unit credit method. The obligation is measured at the present value of estimated future cash flows using a discount rate that is determined by reference to market yields at the balance sheet date on Government securities. Actuarial gains/losses are taken to profit and loss account and are not deferred.

c. Voluntary Retirement Scheme

Payments made under the Voluntary Retirement Scheme are deferred and amortised over 2 years. The balance amount is carried forward as "Miscellaneous Expenditure (to the extent not written off or adjusted).

9. 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.

10. 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 off.
- 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.

11. Investments

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

12. Contingent Liabilities

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

II. OTHER NOTES**1. 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 :***(Rs. in lakhs)*

| | 2008-09 | 2007-08 |
|--|------------|------------|
| i Contract revenue recognised as revenue in the period | 6,97,66.39 | 5,97,85.85 |
| ii For Contracts that are in progress as on 31.3.2009 | | |
| A Contract costs incurred and recognized profits (Less Recognised losses) up to the reporting date. | 7,98,54.27 | 6,87,83.61 |
| B Advances received | 45,04.00 | 43,11.33 |
| C Gross amount due from customers for contract work | 86,46.85 | 1,31,37.66 |
| D Gross amount due to customers for Contract work | 65,52.42 | 11,50.46 |

2. A. Contingent Liabilities other than those disclosed in 2B :*(Rs. in lakhs)*

| | 31.03.2009 | 31.03.2008 |
|---|------------|------------|
| i) Claims against the Company not acknowledged as debts | 86.74 | 1,28.42 |
| ii) Sales Tax demands under appeal | 1,44.74 | 1,11.23 |
| iii) Excise duty claims under appeal | 1,34.92 | 1,95.92 |
| iv) Service Tax - show cause notice | 1,02.98 | - |
| v) Income Tax demands under appeal | 7,26.09 | 5,92.65 |
| vi) Corporate Guarantee given on behalf of Associates and other Companies | 32,09.50 | 54,62.36 |

2. 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 | 140.23 (166.28) | 1990-01,1992-93, 2000-01 to 2006-07 | 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 | 128.68 (133.69) | 2002-03 & 2003-04 | DC (Appeals) |
| | Work Contract Tax on interstate purchase | 33.67 (33.67) | 1990-91 | DC (Appeals) |
| | Additional demand/ disallowances on works contracts | 10.18 (11.78) | 1984-85 to 91-92, 94-95, 01-02, 02-03, 03-04 | Sales Tax Appellate Tribunal, High Court |
| | Additional sale tax on works contracts | 80.71 (148.74) | 2000 to 2002 | High Court |
| | Show cause notice received from CTO, Hyderabad treating works contract sales as product sales. | 3139.62 (2025.57) | 2001-02 to 07-08 2003-04/04-05 | High Court / Supreme Court |
| | Tax demand on assessment | 459.73 (196.25) | 2002-03 to 05-06 | Appeal filed before DC(Appeals) |
| Entry tax | On factory direct sales | 3.61 (0.87) | 2001 to 2004 | Asst. Commissioner |
| Service tax | Service tax demand on composite contracts | 3509.36 (Nil) | 2004-05 to 07-08 | CESTAT/Commissioner (Appeals) |
| Central Excise | Excise Duty | 11.53 (11.53) | 1987-2004 | Central Excise Commissioner |
| | Excise duty | 2.77 (2.77) | 2000-03 | Central Excise Commissioner (Appeals) |
| | Excise duty | 28.00 (nil) | 1990-94 | Penalty levied by Commissioner. Appeal to be filed before CEGAT |
| | Excise duty | 10.00 (10.00) | 1981-86 | Penalty levied by High Court stayed by Supreme Court |
| Income tax | Tax demand | 147.63 (316.82) | 2004-05/2006-07 | ITAT/ 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.

3. Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.3,64.96 lakhs (2007-08: Rs. 27,60.53 lakhs).
4. 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.
5. In accordance with Accounting Policy No.8 regarding Early Voluntary Retirement Scheme an amount of Rs.59.91 lakhs (2007-08: Rs. 1,41.79 lakhs) is carried forward under the head "Miscellaneous Expenditure (to the extent not written off or adjusted)".
6. As per the requirements of Accounting standard 29 on Provisions, Contingent Liabilities and Contingent Assets, the details of provisions are as under:

(Rs. in lakhs)

| Particulars | Opening balance | Additions during the year | Amounts paid / Adjusted during the year | Closing Balance |
|--------------------------------------|-----------------|---------------------------|---|-----------------|
| Employee benefits | 7,06.02 | 8,70.42 | 99.74 | 14,76.70 |
| Warranty including extended warranty | 7,86.40 | 9,81.40 | 5,72.60 | 11,95.20 |

7.
 - a. Pursuant to receipt of the sanction order from the Hon'ble High Court at Bombay and as approved by the shareholders at the Extra-ordinary General Meeting held on March 4, 2008, the Arrangements embodied in the Scheme of Amalgamation of Admo Holdings Pvt Ltd., Sunag Investments Pvt Ltd., Sunashad Investments Pvt. Ltd. and Mohan T. Advani Finance Pvt. Ltd. with the company have been given effect to in the books of account of the company. There is no impact on the financial statements of the company.
 - b. In terms of the above approved scheme, the company has issued and allotted 78,99,381 fully paid up equity shares of Rs. 2/- each to the shareholders of the transferor companies and upon this allotment the share certificates in relation to the shares earlier held by the transferor companies have been cancelled and extinguished and be of no effect.
8. As per the Scheme of Arrangement approved by the shareholders and the Hon'ble High Court at Bombay, the fees and bonus payable to the consultants in accordance with the Business Purchase Agreement and its Annexure thereof, entered into with Naseer Electrials Pvt Ltd (NEPL) for the acquisition of its electrical contracting business needs to be adjusted against the General Reserves of the Company. Accordingly, an amount of Rs.3,35.09 lakhs is adjusted to the General Reserve of the company as detailed hereunder:
 - a. Earn out bonus paid of Rs.2,70 lakhs, and the retainership fees of Rs.1,00 lakhs paid as per the annexure to the business purchase agreement with NEPL.
 - b. Current liability of Rs.34.91 lakhs earlier forming part of the goodwill has been written back as no longer required.
9. Pursuant to the Scheme of Arrangement of merger of Ashok Sunil & Co. Pvt. Ltd. with Blue Star Infotech Ltd., the company has received 1,72,300 fully paid equity shares of Rs.10 each in lieu of 2,400 fully paid equity shares of Rs.100 each held by the Company in Ashok Sunil & Co Pvt. Ltd.
10. During the year the company has received a sum of Rs.30 lakhs as subsidy from Government of Himachal Pradesh for setting up of the plant at Kalamb, Himachal Pradesh.
11. As per requirement of Section 22 of Micro, Small & Medium Enterprises Development Act, 2006 following information is disclosed:

(Rs. in lakhs)

| | |
|---|---------|
| (a) (i) The principal amount remaining unpaid to any supplier at the end of accounting year | 7,36.55 |
| (ii) The interest due on above | 2.81 |
| Total of (i) and (ii) above | 7,39.36 |
| (b) Amount of interest paid by the buyer in terms of section 18 of the Act. | 6.36 |
| (c) The amounts of payment made to the supplier beyond the due date. | 8,78.95 |
| (d) The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the due date during the year) but without adding the interest specified under this Act. | 2.95 |

12. Disclosure pursuant to the Accounting Standard AS-15 (Revised 2005) on "Employee Benefits" is as under:

(Figures in Italics pertain to Previous year)

(Rs. in lakhs)

| Sr No. | Gratuity Funded | Other Employee benefits |
|---|-------------------------------|--------------------------------|
| I Expense recognised in the Statement of Profit & Loss for the year ended 31st March 2009 | | |
| 1 Current Service Cost | 2,21.44 <i>1,76.85</i> | 6,15.67 <i>3,36.19</i> |
| 2 Interest Cost | 1,64.30 <i>1,16.64</i> | 52.49 <i>20.89</i> |
| 3 Expected return on plan assets | (1,86.05) <i>(1,41.29)</i> | NA |
| 4 Net Actuarial (Gains)/Losses | 3,43.58 <i>4,63.40</i> | 2,02.24 <i>1,52.77</i> |
| 5 Total Expense | 5,43.27 <i>6,15.61</i> | 8,70.40 <i>5,09.86</i> |
| II Net Assets/(Liability) recognised in the Balance Sheet as at 31st March 2009 | | |
| 1 Present Value of Defined Obligation as at 31 st March 2009 | 26,82.89 <i>21,33.84</i> | 14,76.69 <i>7,06.02</i> |
| 2 Fair Value of plan assets as at 31 st March 2009 | 26,83.19 <i>21,34.00</i> | NA |
| 3 Funded Status [Surplus/(Deficit)] | 0.30 <i>0.16</i> | (14,76.69) <i>(7,06.02)</i> |
| 4 Net Assets/(liability) as at 31 st March 2009 | 0.30 <i>0.16</i> | (14,76.69) <i>(7,06.02)</i> |

(Figures in Italics pertain to Previous year)

(Rs. in lakhs)

| Sr No. | | Gratuity Funded | Other Employee benefits |
|--|--|--------------------------------|-----------------------------------|
| III Change in Obligation during the Year ended 31st March 2009 | | | |
| 1 | Present value of defined Benefit Obligation at the beginning of the year | 21,33.84 <i>15,41.58</i> | 7,06.02 <i>3,26.16</i> |
| 2 | Current Service Cost | 2,21.45 <i>1,76.85</i> | 6,15.67 <i>3,36.19</i> |
| 3 | Interest Cost | 1,64.30 <i>1,16.64</i> | 52.49 <i>20.89</i> |
| 4 | Actuarial (Gains)/Losses | 3,23.54 <i>4,65.98</i> | 2,02.24 <i>1,52.77</i> |
| 5 | Benefits Payments | (1,60.23) <i>(1,67.21)</i> | (99.74) <i>(1,30.00)</i> |
| 6 | Present value of Defined Benefit Obligation at the end of the year | 26,82.89 <i>21,33.84</i> | 14,76.69 <i>7,06.02</i> |
| IV Change in the Assets during the year ended 31st March 2009 | | | |
| 1 | Fair Value of Plan Assets at the beginning of the year | 21,34.00 | NA |
| 2 | Expected return on Plan assets | 1,86.05 <i>1,41.29</i> | NA |
| 3 | Contribution by Employer | 5,43.40 <i>6,15.35</i> | 99.74 <i>1,30.00</i> |
| 4 | Actual benefits paid | (1,60.23) <i>(1,67.21)</i> | (99.74) <i>(1,30.00)</i> |
| 5 | Actuarial Gains / (losses) on Plan Assets | (20.03) <i>2.57</i> | NA |
| 6 | Fair Value of Plan Assets at the end of the year | 26,83.19 <i>21,34.00</i> | NA |
| V Balance Sheet Reconciliation | | | |
| | Opening Net Liability | (0.17) <i>0.42</i> | 7,06.02 <i>3,26.16</i> |
| | Expenses as above | 5,43.27 <i>6,15.61</i> | 8,70.40 <i>5,09.86</i> |
| | Employers Contribution | (5,43.40) <i>(6,15.35)</i> | (99.74) <i>(1,30.00)</i> |
| | Amount Recognised in Balance Sheet | (0.30) (0.16) | 14,76.69 7,06.02 |

VI Actuarial Assumptions

| | As at March 31, 2009 | As at March 31, 2008 |
|---|-------------------------|-------------------------|
| Discount rate | 7 % | 8% |
| Rate of return on Plan Assets | 7 % | 8% |
| Salary escalation rate (Management-Staff-Directors) | 7%, 2%, 12% | 8%, 2%, 12% |
| Attrition rate | 1% throughout | 1% throughout |

13. Segment Information

A. Primary Segment Reporting (by Business Segment):

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

- a. Electro Mechanical Projects and Packaged Airconditioning Systems includes central airconditioning projects and packaged airconditioning businesses including manufacturing and after sales service and also includes the newly acquired Electrical Contracting business.
- 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.

Segment Revenues, Results and Other Information

(Rs. in lakhs)

| Description | Year ended March 31 | |
|---|---------------------|--------------------|
| | 2009 | 2008 |
| I. SEGMENT REVENUE | | |
| i. Electro Mechanical Projects & Packaged Airconditioning Systems | 1,79,091.11 | 1,55,629.16 |
| ii. Cooling Products | 6,03,86.75 | 5,32,41.99 |
| iii. Professional Electronics and Industrial Systems | 1,74,07.88 | 1,44,33.10 |
| TOTAL SEGMENT REVENUE | 25,68,85.74 | 22,33,04.25 |
| Add: Other Un-allocable Income | 5,18.10 | 37,05.07 |
| TOTAL INCOME | 25,74,03.84 | 22,70,09.32 |
| II. SEGMENT RESULT | | |
| i. Electro Mechanical Projects & Packaged Airconditioning Systems | 2,13,11.76 | 1,89,69.81 |
| ii. Cooling Products | 74,85.57 | 58,06.56 |
| iii. Professional Electronics and Industrial Systems | 36,02.76 | 28,92.09 |
| TOTAL SEGMENT RESULT | 3,24,00.09 | 2,76,68.46 |
| Less: i. Interest paid | 13,55.29 | 7,56.49 |
| ii. Other un-allocable Expenditure Net of un-allocable Income | 72,22.52 | 27,10.00 |
| TOTAL PROFIT BEFORE TAX | 2,38,22.28 | 2,42,01.97 |
| Less: Provision for Tax | 58,54.18 | 66,14.00 |
| Short Provision for Income tax in respect of earlier year | - | 1,81.10 |
| Provision for Wealth Tax | 6.31 | 5.06 |
| Fringe Benefit Tax | 2,30.00 | 2,85.00 |
| Less: Deferred Tax Liability/(Asset) | (2,97.07) | (2,92.66) |
| NET PROFIT AFTER TAX | 1,80,28.86 | 1,74,09.47 |

Segment Revenues, Results and Other Information (Contd.)

(Rs. in lakhs)

| Description | As at March 31 | |
|--|--------------------|--------------------|
| | 2009 | 2008 |
| III. OTHER INFORMATION: | | |
| a. SEGMENT ASSETS | | |
| i. Electro Mechanical Projects & Packaged Air-conditioning Systems | 8,23,10.53 | 6,65,47.28 |
| ii. Cooling Products | 2,33,03.86 | 2,74,86.40 |
| iii. Professional Electronics and Industrial Systems | 67,40.10 | 64,02.56 |
| TOTAL SEGMENT ASSETS | 11,23,54.49 | 10,04,36.24 |
| Add: Un-allocable Corporate Assets | 2,42,52.54 | 1,74,84.12 |
| TOTAL ASSETS | 1,36,607.03 | 1,17,920.36 |
| b. SEGMENT LIABILITIES | | |
| i. Electro Mechanical Projects & Packaged Air-conditioning Systems | 5,06,97.72 | 4,62,38.29 |
| ii. Cooling Products | 1,16,28.46 | 1,27,65.17 |
| iii. Professional Electronics and Industrial Systems | 36,60.53 | 31,58.94 |
| TOTAL SEGMENT LIABILITIES | 6,59,86.71 | 6,21,62.40 |
| Add: Un-allocable Corporate Liabilities | 3,14,85.94 | 1,80,25.35 |
| TOTAL LIABILITIES | 9,74,72.65 | 8,01,87.75 |
| c. CAPITAL EXPENDITURE | | |
| i. Electro Mechanical Projects & Packaged Air-conditioning Systems | 67,96.12 | 76,56.05 |
| ii. Cooling Products | 6,73.07 | 19,01.81 |
| iii. Professional Electronics and Industrial Systems | 1,54.54 | 56.83 |
| iv. Other Un-allocable | 3,82.28 | 1,01.62 |
| TOTAL | 80,06.01 | 97,16.31 |
| d. DEPRECIATION | | |
| i. Electro Mechanical Projects & Packaged Air-conditioning Systems | 13,86.28 | 10,52.19 |
| ii. Cooling Products | 8,89.86 | 7,84.07 |
| iii. Professional Electronics and Industrial Systems | 26.64 | 62.20 |
| iv. Other Un-allocable | 2,85.54 | 2,98.16 |
| TOTAL | 25,88.32 | 21,96.62 |
| e. NON CASH EXPENSES OTHER THAN DEPRECIATION | | |
| i. Electro Mechanical Projects & Packaged Air-conditioning Systems | 6,94.50 | 8,48.40 |
| ii. Cooling Products | 1,66.64 | 2,26.95 |
| iii. Professional Electronics and Industrial Systems | 1,36.44 | 1,01.04 |
| iv. Other Un-allocable | 4,70.40 | 58.57 |
| TOTAL | 14,67.98 | 12,34.96 |

B. Secondary Segment Information :

The Company predominantly caters to the needs of Indian market. Since the export turnover constitutes 7.8% (2007-08 : 6.6%) of the total turnover of the Company, there are no reportable geographical segments.

14. Related Party Disclosure

a. Related party and their relationship

Associates

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

Enterprises in which key management personnel & their relatives are interested

Synergy Realtors and Services Private Limited

Directors

Mr Ashok M Advani
 Mr Suneel M Advani
 Mr T Gouri Sankara Babu
 Mr Satish Jamdar

Relative of Directors

Nargis Advani
 Vir Advani

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

(Rs. in lakhs)

| Name of Related Party / Transaction | 2008-09 | | 2007-08 | |
|--|------------|---------------------|------------|---------------------|
| | Volume Rs. | Balance O/S DR/(CR) | Volume Rs. | Balance O/S DR/(CR) |
| Blue Star M & E Engineering (Sdn) Bhd | | 26.05 | | 18.38 |
| Consultancy services received | 2,28.07 | | 1,70.61 | |
| Blue Star Infotech Ltd. | | (95.06) | | 4.57 |
| Sales | 16.58 | | - | |
| IT Services | 5,58.92 | | 5,65.09 | |
| Rent paid for Premises | - | | 33.18 | |
| Purchase of Fixed Assets | - | | 23.51 | |
| Reimbursement of Expenses | 6.25 | | 55.33 | |
| Recovery of expenses | 5.88 | | | |
| Received for Services/AMC | 84.11 | | 4,18.58 | |
| Rent Received | 15.00 | | | |
| Rent Deposit Received | 1,00.00 | | | |
| Blue Star Qatar LLC. | | 1,03.70 | | 73.99 |
| Reimbursement of Expenses | 29.71 | | 61.25 | |
| Corporate guarantee | 5,04.66 | | 27,00.00 | |

b. Transactions during the period with Related Parties are as under (contd.)

(Rs. in lakhs)

| Name of Related Party / Transaction | 2008-09 | | 2007-08 | |
|--|---------------|------------------------|---------------|------------------------|
| | Volume Rs. | Balance O/S DR/(CR) | Volume Rs. | Balance O/S DR/(CR) |
| Blue Star Design & Engineering | | 8,27.37 | | 6,91.53 |
| Sales | 1.47 | | | |
| Consultancy service | 78.40 | | - | |
| Loan given | 55.00 | | 3,26.00 | |
| Loan repaid | 6.00 | | 37.00 | |
| Interest received/ receivable | 70.36 | | 42.94 | |
| Corporate guarantee | 4,81.55 | | 4,55.24 | |
| Guarantee Commission | 5.00 | | 7.67 | |
| Purchase of Fixed Assets | 83.78 | | 32.26 | |
| Reimbursement of Expenses | 3.42 | | 31.35 | |
| Ravistar Pvt. Ltd. | | 1,85.28 | | 21.42 |
| Purchase of goods | 24,28.81 | | 21,46.95 | |
| Corporate guarantee | 25.17 | | 25.04 | |
| Guarantee Commission | 0.90 | | 0.90 | |
| Reimbursement of Expenses | 19.16 | | - | |
| Synergy Realtors & Services Pvt. Ltd. | | 5,03.77 | | 4,88.66 |
| Corporate guarantee | 21,98.13 | | 14,82.08 | |
| Rent paid for Premises | 7,12.95 | | 7,00.08 | |
| Guarantee Commission | 12.50 | | 14.75 | |
| Rent deposit | 48.92 | | - | |
| Reimbursement of Expenses | 0.49 | | - | |
| Directors | | | | |
| Managerial remuneration | 5,15.03 | | 9,72.48 | |
| Housing loan | | 2.74 | | 4.42 |
| Services | 0.30 | | | |
| Relative of Directors | | 70.10 | | 70.00 |
| Rent Deposit | | | 70.00 | |
| Rent paid | 1.20 | | - | |
| Salary | 39.95 | | 17.32 | |

15. Earning Per Share

| | | 2008-09 | 2007-08 |
|---|----------------|--------------|--------------|
| Profit after taxation as per Profit and Loss Account | (Rs. in lakhs) | 1,80,28.86 | 174,09.47 |
| Weighted average number of Equity Shares Outstanding | Nos. | 8,99,36,105 | 8,99,36,105 |
| Basic and diluted Earnings per share (Face Value Rs.2 per share) | Rs. | 20.04 | 19.36 |

16. Amounts debited during the year to Work-in-Progress which are / to be transferred to Cost of Sales include the following:

(Rs. in lakhs)

| | 2008-09 | 2007-08 |
|-------------------------|----------|----------|
| Salaries, Wages & Bonus | 68.37 | 84.82 |
| Rent | 0.53 | 5.33 |
| Power | 6.42 | 4.78 |
| Insurance | 3,77.72 | 3,93.34 |
| Transport & Travelling | 1,78.04 | 1,88.65 |
| Stationery & Printing | 20.60 | 20.69 |
| Other Expenses | 24,04.55 | 26,63.58 |

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

(Rs. in lakhs)

| | As at March 31, 2009 | | As at March 31, 2008 | |
|---|----------------------|------------------------|----------------------|------------------------|
| | 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 | | 25,61.36 | | 25,76.21 |
| Provision of Doubtful Debts, Advances & Inventories | 7,08.11 | | 5,60.67 | |
| Leave Encashment Provision, Other Current Liabilities | 16,71.70 | | 9,60.03 | |
| Total | 23,79.81 | 25,61.36 | 15,20.70 | 25,76.21 |
| Net Timing Differences | 1,81.55 | | 10,55.51 | |
| Deferred Tax Liability (Net) | 61.71 | | 3,58.78 | |

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

(Rs. in lakhs)

| | 2008-09 | 2007-08 |
|---|-----------------|----------------|
| a) Salaries | 4,04.36 | 3,02.01 |
| b) Commission | 7,00.00 | 6,05.00 |
| c) Contribution to Provident Fund & Superannuation Scheme | 42.52 | 30.34 |
| d) Other Perquisites | 57.14 | 35.13 |
| Total | 12,04.02 | 9,72.48 |

19. Computation of Directors' Commission

(Rs. in lakhs)

| | 2008-09 | 2007-08 |
|---|------------|------------|
| Profit before tax as per Profit and Loss Account | 2,38,22.28 | 2,42,01.97 |
| Add: Directors' Remuneration | 12,51.62 | 10,12.48 |
| Loss on Fixed Assets sold/Discarded | 2,87.16 | 74.78 |
| Less: Amortisation of Intangible Assets @ | 9,90.19 | 9,90.19 |
| Less: Amount adjusted against General Reserves | 3,35.09 | - |
| Less: Profit on sale of Fixed Assets/Investments | 23.45 | 35,39.25 |
| Net Profit for the purpose of Directors' Commission | 2,40,12.33 | 2,07,59.77 |
| Maximum Remuneration payable up to 10% of the above to Whole-time Directors | 24,01.23 | 20,75.98 |
| Commission payable to the Whole-time Directors as per contract of service | 7,00.00 | 6,05.00 |
| Maximum commission payable up to 1% of the above | 2,40.12 | 2,07.60 |
| Net Profits to the Non-Executive Directors | 2,40.12 | 2,07.60 |
| Commission payable to Non-Executive Directors | 47.60 | 40.00 |

@ Goodwill and other Intangible assets of Rs. 4,950.14 lakhs acquired from NEPL are amortised over a period of 5 years for the purpose of computation of profit u/s 349 of the Companies Act, 1956, although, the same have been adjusted against General Reserve as per the accounting treatment prescribed in the Scheme of Arrangement sanctioned by the Hon'ble High Court at Bombay.

20. 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 |

21. 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. | 692750 (476250) | 277383 (312514) | 31765 (13287) | 5485.43 (2324.17) | 18556 (31765) | 3487.92 (5485.43) |
| Packaged air-conditioning | Nos. | 112500 (112500) | 25516 (38286) | 261 (701) | 168.53 (299.42) | 409 (261) | 146.96 (168.53) |
| Industrial packaged chillers | Nos. | 1500 (1450) | 1134 (1454) | 18 (11) | 146.26 (98.84) | 9 (18) | 72.36 (146.26) |
| Shell & tube condensers & Coolers | Nos. | 50 (-) | 35 (741) | 4 (3) | 5.90 (2.00) | 3 (4) | 8.36 (5.90) |
| Air handling units | Nos. | 17500 (15500) | 7743 (4852) | 193 (66) | 33.00 (55.02) | 224 (193) | 95.12 (33.00) |
| Finned condensers & evaporators | Nos. | 30000 (10780) | 20380 (8651) | 61 (-) | 12.66 (-) | 1204 (61) | 36.49 (12.66) |

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. | 24640 (7790) | 4269.23 (1512.93) | 213762 (199861) | 48808.01 (43406.31) | 18764 (24640) | 3313.86 (4269.23) | 219638 (183011) | 59070.41 (47976.02) |
| Central Air-conditioning Plant (Sales Contract) | Worth | - (-) | 98.66 (95.30) | - (-) | 6242.02 (5401.24) | - (-) | 83.37 (98.66) | - (-) | 7557.46 (6233.58) |
| Electronics & Other Appliances, Equipment, Instruments Etc. | Nos. | 371 (492) | 243.02 (400.67) | 61920 (19774) | 5257.84 (3374.97) | 364 (371) | 147.40 (243.02) | 62952 (19895) | 1025.00 (5092.89) |
| Spares & Components | Worth | - (-) | 1304.25 (919.73) | - (-) | 10064.22 (7086.16) | - (-) | 1454.75 (1304.25) | - (-) | 12768.55 (9243.78) |
| Others | Nos. | - (3) | - (1.72) | - (-) | - (-) | - (-) | - (-) | - (3) | - (1.89) |
| Total | | | 5,915.16 (2930.35) | | 70,372.09 (59268.68) | | 4,999.38 (5915.15) | | 86,409.24 (68548.17) |

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)

| | 2008-09 | 2007-08 |
|---|-------------------|-------------------|
| C. GROSS INCOME FROM SERVICES RENDERED | 2,26,86.85 | 1,84,82.12 |

D. PARTICULARS OF RAW MATERIALS & COMPONENTS CONSUMED

a) Raw Materials Consumed

| | Units | 2008-09 | | 2007-08 | |
|--|--------|----------------|-------------------|----------|-------------------|
| | | Quantity | Rs. in lakhs | Quantity | Rs. in lakhs |
| Non-Ferrous Metals | Tonne | 3463.81 | 1,05,75.50 | 3704 | 1,15,02.57 |
| Ferrous Metals | Tonne | 9243.71 | 53,10.96 | 8495 | 53,62.08 |
| Compressors | Number | 271803 | 1,69,66.13 | 315972 | 1,74,41.76 |
| Others (items individually not exceeding 10% of total) | Worth | | 4,90,63.52 | | 4,27,61.56 |
| Total | | | 8,19,16.11 | | 7,70,67.97 |

b) Raw Materials & Components Consumed

| | 2008-09 | | 2007-08 | |
|---------------------------|------------------------|-----------------------|------------------------|-----------------------|
| | % of Total Consumption | Value Rs. in lakhs | % of Total Consumption | Value Rs. in lakhs |
| Imported (at landed cost) | 49.25 | 4,03,41.22 | 38.26 | 2,94,83.26 |
| Indigenous | 50.75 | 4,15,74.90 | 61.74 | 4,75,84.71 |
| Total | 100.00 | 8,19,16.11 | 100.00 | 7,70,67.97 |

E. VALUE OF IMPORTS ON CIF BASIS

(Rs. in lakhs)

| | 2008-09 | 2007-08 |
|--------------------|-------------------|-------------------|
| (a) Raw Materials | 2,59,48.68 | 2,04,79.43 |
| (b) Components | 1,35,00.42 | 30,16.50 |
| (c) Capital Goods | 15,58.34 | 8,18.89 |
| (d) Sample for R&D | 23.78 | 5.86 |
| (e) Spares | 50,93.79 | 15,11.39 |
| (f) Finished Goods | 44,09.44 | 41,92.55 |
| Total | 5,05,34.45 | 3,00,24.63 |

F. EXPENDITURE INCURRED IN FOREIGN EXCHANGE

(Rs. in lakhs)

| | 2008-09 | 2007-08 |
|------------------------|----------------|----------------|
| (a) Project Exports | 60.28 | 1,18.00 |
| (b) Royalty & Know-how | 14.60 | 22.67 |
| (c) Others | 4,36.47 | 2,14.27 |
| Total | 5,11.35 | 3,54.95 |

G. EARNINGS IN FOREIGN EXCHANGE

(Rs. in lakhs)

| | 2008-09 | 2007-08 |
|--|-------------------|-------------------|
| (a) Export of goods on F.O.B. basis | 2,00,93.78 | 1,43,67.94 |
| (b) Project Exports | 23.30 | 50.14 |
| (c) Royalty, Know-how, Professional & Consultation fees | 2,28.07 | 1,70.61 |
| (d) Other Income: | | |
| Commission | 28,02.19 | 18,80.01 |
| Others | 2,50.23 | 47.23 |
| Total | 2,33,97.57 | 1,65,15.93 |

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

I. Registration Details

Registration No.

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

Balance Sheet Date

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3 | 1 | 0 | 3 | 2 | 0 | 0 | 9 |
|---|---|---|---|---|---|---|---|

Date Month Year

State Code

| | | | | | | | |
|--|--|--|--|--|--|---|---|
| | | | | | | 1 | 1 |
|--|--|--|--|--|--|---|---|

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

Public Issue

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

Bonus Issue

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

Rights Issue

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

Private Placement

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

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

Total Liabilities

| | | | | | | | |
|--|---|---|---|---|---|---|---|
| | 3 | 9 | 1 | 3 | 4 | 3 | 9 |
|--|---|---|---|---|---|---|---|

Sources of Funds

Paid-up Capital

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

Secured Loans

| | | | | | | | |
|--|--|---|---|---|---|---|---|
| | | 2 | 2 | 5 | 1 | 9 | 1 |
|--|--|---|---|---|---|---|---|

Applications of Funds

Net Fixed Assets (incl Capital WIP)

| | | | | | | | |
|--|---|---|---|---|---|---|---|
| | 2 | 1 | 2 | 3 | 7 | 6 | 7 |
|--|---|---|---|---|---|---|---|

Net Current Assets

| | | | | | | | |
|--|---|---|---|---|---|---|---|
| | 1 | 7 | 3 | 9 | 8 | 5 | 8 |
|--|---|---|---|---|---|---|---|

Deferred Tax Liability

| | | | | | | | |
|--|--|--|--|---|---|---|---|
| | | | | 6 | 1 | 7 | 1 |
|--|--|--|--|---|---|---|---|

Total Assets (Net of Current Liabilities)

| | | | | | | | |
|--|---|---|---|---|---|---|---|
| | 3 | 9 | 1 | 3 | 4 | 3 | 9 |
|--|---|---|---|---|---|---|---|

Reserves & Surplus

| | | | | | | | |
|--|---|---|---|---|---|---|---|
| | 3 | 4 | 9 | 1 | 4 | 2 | 2 |
|--|---|---|---|---|---|---|---|

Unsecured Loans

| | | | | | | | |
|--|--|--|---|---|---|---|---|
| | | | 1 | 0 | 7 | 8 | 3 |
|--|--|--|---|---|---|---|---|

Investments

| | | | | | | | |
|--|--|--|---|---|---|---|---|
| | | | 4 | 3 | 8 | 2 | 3 |
|--|--|--|---|---|---|---|---|

Misc. Expenditure

| | | | | | | | |
|--|--|--|--|---|---|---|---|
| | | | | 5 | 9 | 9 | 1 |
|--|--|--|--|---|---|---|---|

IV. Performance of Company (Amount in Rs Thousands)

Turnover

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2 | 5 | 7 | 4 | 0 | 3 | 8 | 4 |
|---|---|---|---|---|---|---|---|

Profit/Loss Before Tax

| | | | | | | | |
|-----|---|---|---|---|---|---|---|
| (+) | 2 | 3 | 8 | 2 | 2 | 3 | 0 |
|-----|---|---|---|---|---|---|---|

Earning Per Share (in Rs.)

| | | | | | | | |
|--|--|--|---|---|---|---|---|
| | | | 2 | 0 | . | 0 | 4 |
|--|--|--|---|---|---|---|---|

Total Expenditure

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2 | 3 | 3 | 5 | 8 | 1 | 5 | 4 |
|---|---|---|---|---|---|---|---|

Profit/Loss After Tax

| | | | | | | | |
|-----|---|---|---|---|---|---|---|
| (+) | 1 | 8 | 0 | 2 | 8 | 8 | 6 |
|-----|---|---|---|---|---|---|---|

Dividend rate %

| | | | | | | | |
|--|--|--|--|--|---|---|---|
| | | | | | 3 | 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, 2009
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

| | Year ended March 31 | |
|---|---------------------|-------------------|
| | 2009 | 2008 |
| [A] CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Profit Before Tax | 2,38,22.28 | 2,42,01.97 |
| Depreciation | 25,88.32 | 21,96.62 |
| Foreign Exchange | (3,26.84) | (2,33.42) |
| Investments/Others | 11,90.01 | (27,99.85) |
| Interest/Dividend | (4,79.57) | (1,65.93) |
| Interest charged | 13,55.26 | 7,56.49 |
| | 43,27.19 | (2,46.09) |
| Operating profit before working capital changes | 2,81,49.47 | 2,39,55.88 |
| Adjustment for : | | |
| Trade and other receivables | (1,38,57.26) | (1,69,19.59) |
| Inventories | 66,18.89 | (85,41.12) |
| Trade payables | 37,31.13 | 2,08,22.17 |
| | (35,07.24) | (46,38.54) |
| Cash generated from operations | 2,46,42.23 | 1,93,17.34 |
| Direct taxes paid | (63,22.12) | (51,85.10) |
| Interest paid | (13,47.72) | (7,53.96) |
| | 1,69,72.38 | 1,33,78.28 |
| NET CASH FROM OPERATING ACTIVITIES | 1,69,72.38 | 1,33,78.28 |
| [B] CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of Fixed Assets | (86,75.63) | (1,12,84.32) |
| Sale of Fixed Assets | 1,68.48 | 39.06 |
| Sale of Investments | 18.56 | 35,70.16 |
| Interest received | 75.44 | 92.20 |
| Dividend received | 3,37.89 | 66.19 |
| NET CASH USED IN INVESTING ACTIVITIES | (80,75.26) | (75,16.71) |
| Balance Carried Forward | 88,97.12 | 58,61.57 |

(Rs. in lakhs)

| | Year ended March 31 | |
|--|---------------------|-------------------|
| | 2009 | 2008 |
| Balance Brought Forward | 88,97.12 | 58,61.57 |
| [C] CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from Share Capital | - | - |
| Subsidy from Government (See note 10) | 30.00 | - |
| Repayment of Borrowings | (12,94.03) | (52,51.20) |
| Dividend Paid | (73,35.49) | (8,03.86) |
| NET CASH FROM FINANCING ACTIVITIES | (85,99.52) | (60,55.06) |
| NET INCREASE IN CASH & CASH EQUIVALENTS | 2,97.60 | (1,93.49) |
| CASH & CASH EQUIVALENTS - OPENING BALANCE | 2,67.24 | 4,60.73 |
| CASH & CASH EQUIVALENTS - CLOSING BALANCE | 5,64.84 | 267.24 |

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T Gouri Sankara Babu Deputy Managing Director
Satish Jamdar Deputy Managing Director

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

Manek Kalyaniwala Executive Vice President
K P T Kutty Company Secretary

Mumbai: May 15, 2009

Mumbai: May 15, 2009

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

Link Intime India Pvt 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

Link Intime India Pvt 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, 2009, the Company has 20470 registered shareholders. Approximately 35 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

Bombay Stock Exchange
National Stock Exchange

Blue Star Establishments



