

BOARD OF DIRECTORS

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

Pradeep Mallick

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

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

Manek Kalyaniwala
Executive Vice President

Arun Khorana
Executive Vice President

Avinash Pandit
Executive Vice President

B Thiagarajan
Executive Vice President

Vir S Advani
Vice President - Corporate Affairs

R Aravindan
Vice President - Packaged Airconditioning Division

J M Bhambure
Vice President - R&D

R G Devnani
Vice President - Dadra & Bharuch Plant

Michael Fernandes
Vice President - Human Resources & Quality

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

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

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

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

REGISTERED OFFICE

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

Blue Star Establishments



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Letter from the Chairman



Ashok M Advani, *Chairman & Managing Director*

DEAR SHAREHOLDER,

2007-08 was, by far, the best year in Blue Star's Corporate history. Total revenues grew by a record 41% and Profit After Tax was up by a remarkable 145% over the previous year. These growth figures would be creditable for smaller companies in rapidly expanding new markets; for a 65 year old Company like Blue Star, in a mature, competitive industry, it is not an exaggeration to say that 2007-08 was an exceptional year.

A more detailed analysis of last year's financial performance is summarised in the attached Annexure. Virtually all key growth figures and financial ratios improved significantly. The substantial 1.9% increase in Gross Margin was the result of cost savings due to a number of factors: economies of scale, value engineering efforts, better material sourcing and procurement, and the stronger rupee that helped to reduce the cost of imports.

Blue Star's Operating Margin (PBDITA/Sales) and Profit Margin (PBT/Sales) have historically been relatively low because of a number of reasons. We were determined to bring them up to acceptable levels. I have already explained how we tackled low Gross Margin that directly impacts Operating Margin and Profit Margin. But that was only part of the solution. We also addressed total expenses: employee costs especially headcount, operating and general expenses, depreciation and interest. Actually, we have been successful in controlling expenses for a number of years with a conceptually simple yet effective approach. Basically, we ensure that the increase in total expenses is significantly less than the increase in Gross Margin. Blue Star's operating managers are well versed in a culture of accountability and cost consciousness and are entrusted to deliver business results while managing costs and cash flow. They did an excellent job last year. For example, with Operating Income up by 39% and Gross Margin by 51%, total expenses grew by only 24%. The difference flowed straight down to Profit Before Tax which grew by 137% (excluding Non-Operating Income). The mathematics is simple, but the results are dramatic.

BUSINESS SEGMENTS

Once again, all the business segments performed well.

Central and Packaged Airconditioning Systems, where we remain a market leader, grew by a robust 38% and profits showed a big increase of 84%. The segment produced 70% of Blue Star's revenues, with the Company offering the widest range of airconditioning solutions in the country. In view of the rapidly evolving market, the Company made an entry into the emerging mechanical,

electrical and plumbing (MEP) contracting sector through a strategic acquisition late in the year. The result of this move will become noticeable in the current year.

The Cooling Products segment had another excellent year with room airconditioners and commercial refrigeration products, in particular, contributing to 43% sales growth and a 128% spurt in profits. Blue Star's increasing market share and financial success has been sustained over 4 consecutive years. It is clearly the result of careful market positioning in the corporate and commercial sectors and some unique strengths that differentiate us from a multitude of competitors: value added products and services, a trusted brand and a capable and committed dealer network.

Professional Electronics and Industrial Systems once again delivered solid revenue growth of 38% with profits climbing by 50%. The increasing thrust on designing and delivering complex engineered systems for special customer applications has yielded very good results.

FINANCIAL MANAGEMENT

Last year, I had highlighted Blue Star's approach to financial management and funding of business growth. Basically, we rely on a combination of internal cash flow supplemented, if necessary, with moderate borrowings. This requires efficient working capital management to prevent excessive reliance on borrowings, and has worked well in times of moderate growth. But I had also expressed concern last year that the robustness of this financial model may be severely tested during a period of accelerated growth that would demand substantially

higher working capital leading to a disproportionate increase in borrowings.

My apprehensions were misplaced. In spite of record business growth in 2007-08, additional funding requirements were comfortably met out of Rs.240 crores of cash from sharply higher operating profits that took care of working capital, taxes and interest, paid for purchase of fixed assets and financed a new business acquisition. To some extent, the disposal of an investment in an associate company supplemented overall cash flow by Rs.28 crores after tax, but even without this capital infusion, borrowings would have remained moderate.

Capital turnover improved dramatically from 5.32 to 7.48. Year-end borrowings reduced from Rs.89 crores to Rs.37 crores and the debt/equity ratio reduced from 0.42 to only 0.14. This was a very encouraging development because we clearly have a proven self-financing business model. At a time when capital and credit is likely to become scarce and more expensive, it is reassuring to have good internal cash generation and a strong balance sheet.

PROFITABLE GROWTH

The Company's unwavering focus on profitable growth has clearly produced excellent results. A noteworthy development over the years has been an accelerating rate of growth. The 5-year Total Income and Profit After Tax charts (page 15) illustrate this accelerating trend graphically. This achievement did not just happen. It required good strategy implemented with great commitment and competence by the entire Blue Star organisation.

Obviously, there would be some practical limit to future growth rates. A number of factors, both external and internal, would eventually become constraints. At this stage, though, we do not seem to have reached these limits. I remain positive about the external factors: future business opportunities and growth potential. And to minimise internal constraints, we continue to invest in upgrading and expanding Blue Star's capabilities and, above all, those of our people.

ASHOK M ADVANI

Mumbai : May 26, 2008 Chairman & Managing Director

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2007-08 Audited	2006-07 Audited
Total Income	2270.09	1607.41
Growth over Previous Year	+41%	+36%
Operating Profit (PBDITA) excl. Non-Operating Income	234.49	116.92
Growth over Previous Year	+100%	+35%
Profit Before Tax	242.02	92.60
Growth over Previous Year	+161%	+34%
Profit After Tax	174.09	71.18
Growth over Previous Year	+145%	+46%
Shareholders' Funds	263.55	212.97
Borrowings	36.54	89.05
Capital Employed	303.67	302.02
Operating Cash Flow	133.78	60.12

Key Ratios

	2007-08 Audited	2006-07 Audited
Gross Margin (excl. Non-Operating Income)	24.3%	22.4%
Operating Margin (excl. Non-Operating Income)	10.5%	7.3%
Return on Capital Employed	81.4%	32.1%
Return on Shareholders' Funds	66.1%	33.4%
Earnings Per Share (Rs.)	19.36	7.91
Dividend Per Share (Rs.)	7.00	3.00
Capital Turnover	7.48	5.32
Debt/Equity	0.14	0.42
Inventory Turnover	6.18	6.61
Receivables (Days Billings Outstanding)	79	80



Board of Directors | T Gouri Sankara Babu

| Gurdeep Singh

| Shailesh Haribhakti

| Ashok M Advani



| Suneel M Advani

| Pradeep Mallick

| Satish Jamdar

| Suresh N Talwar

Board of Directors



Ashok M Advani, Chairman & Managing Director

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

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

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



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. Suneel is also the Chairman & Managing Director of Blue Star Infotech Limited, Chairman of Blue Star Design & Engineering Limited, Blue Star Infotech (UK) Limited and Blue Star Infotech America, Inc., apart from being on the board of Blue Star M&E Engineering (Sdn) Bhd.

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



T Gouri Sankara Babu, Deputy Managing Director

T Gouri Sankara Babu is an Engineering graduate from IIT, Chennai 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 Limited as GM Sales.

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

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



Satish Jamdar, Deputy Managing Director

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

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



Shailesh Haribhakti, Director

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

Shailesh joined the Board of Blue Star in 2005. In addition to Blue Star, he is also on the board of several leading companies such as 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, Chennai and Diploma holder in Business Management from UK. He is also a Chartered Engineer and Fellow of the Institution of Electrical Engineers, London. Pradeep was the Managing Director of Wartsila India Limited from 1988 to 2003. Before joining Wartsila India Limited as its Managing Director, he worked with several leading companies such as Crompton Greaves, Tata Exports and Genelec, to name a few. He joined the Board of Blue Star in 2003.

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



Gurdeep Singh, Director

Gurdeep Singh is a Chemical Engineering graduate from IIT, Delhi. After his graduation, he joined Hindustan Lever 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 board of Phoenix Lamps, 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 board of several leading companies such as Merk, Cadbury India, Larsen & Toubro, Greaves Cotton, Sandvik Asia, Esab India, Johnson & Johnson, Uhde India and Wyeth amongst others.

Corporate Management

EXECUTIVE COMMITTEE



Ashok M Advani
Chairman & Managing Director



Suneel M Advani
Vice Chairman & Managing Director



T Gouri Sankara Babu
Deputy Managing Director



Satish Jamdar
Deputy Managing Director



Manek Kalyaniwala
Executive Vice President



Arun Khorana
Executive Vice President



Avinash Pandit
Executive Vice President



B Thiagarajan
Executive Vice President

VICE PRESIDENTS



Vir S Advani
Vice President - Corporate Affairs



R Aravindan
Vice President - Packaged Airconditioning Division



J M Bhambure
Vice President - R & D



R G Devnani
Vice President - Dadra & Bharuch Plant



Michael Fernandes
Vice President - Human Resources & Quality



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



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



K P Sukumar
Vice President - Airconditioning & Refrigeration Service Division

Directors' Report

The Directors are pleased to present their 60th Annual Report and the Audited Accounts for the year ended March 31, 2008.

HIGHLIGHTS OF 2007-08

- Total Income climbed to Rs.2270.09 crores, recording a growth of 41% over the previous year.
- Profit Before Tax increased substantially to Rs.242.02 crores from Rs.92.60 crores, while Profit After Tax grew by 145% to Rs.174.10 crores.
- Earnings per share were Rs.19.36 (face value of Rs.2.00) compared to Rs.7.91 in the previous year.
- A dividend of Rs.7.00 per share has been recommended.
- Borrowings reduced to Rs.36.54 crores at year-end from Rs.89.05 crores in the previous year.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

	April 2007 - March 2008	April 2006 - March 2007
Total Income	2270.09	1607.41
Profit before interest, depreciation and taxation	271.55	123.05
Interest	7.56	9.55
Depreciation	21.97	20.90
Profit before tax	242.02	92.60
Provision for taxation	70.85	23.96
Add/(Less): Deferred Tax	2.93	2.54
Profit after tax	174.10	71.18
Add: Balance brought forward	43.78	26.03
Total available for appropriation	217.88	97.21
Less: General Reserve	25.00	22.50
Proposed Dividend	62.96	26.98
Corporate Dividend Tax	10.70	3.94
Balance carried forward	119.22	43.78

DIVIDEND

In view of the healthy financial performance, the Directors have proposed a dividend of Rs.7.00 per equity share including a special dividend of Re.1.00 per share. The dividend and Corporate Dividend Tax will absorb Rs.73.66 crores.

OPERATING PERFORMANCE

Your Company recorded another year of excellent growth with all the business segments performing well. In Central and Packaged Airconditioning Systems, which is the major business contributing 70% of the operating revenue, income grew by 38% and profits by 84%. Cooling Products provided an increase of 43% in revenue and 128% in profits. Professional Electronics and Industrial Systems revenue recorded a growth of 38% while profits were up by 50%.

All four manufacturing units performed well during the year. The fifth plant being set up in Wada, Maharashtra completed its first phase of construction and commenced commercial production in the last quarter of the financial year.

FINANCIAL PERFORMANCE

With good all round sales performance, Total Income grew by 41% to Rs.2270.09 crores. This includes Other Income of Rs.35.32 crores from sale of 60% of the equity shares held by the Company in Rolastar Private Limited. A tight focus on costs and operating expenses along with effective financial control resulted in a significant increase in profitability. Profit Before Tax climbed by 161% to Rs.242.02 crores while Profit After Tax grew from Rs.71.18 crores to Rs.174.10 crores.

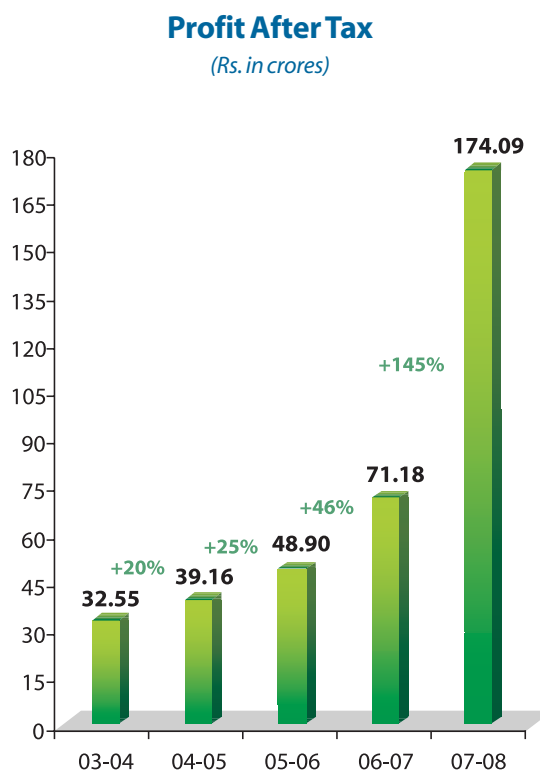
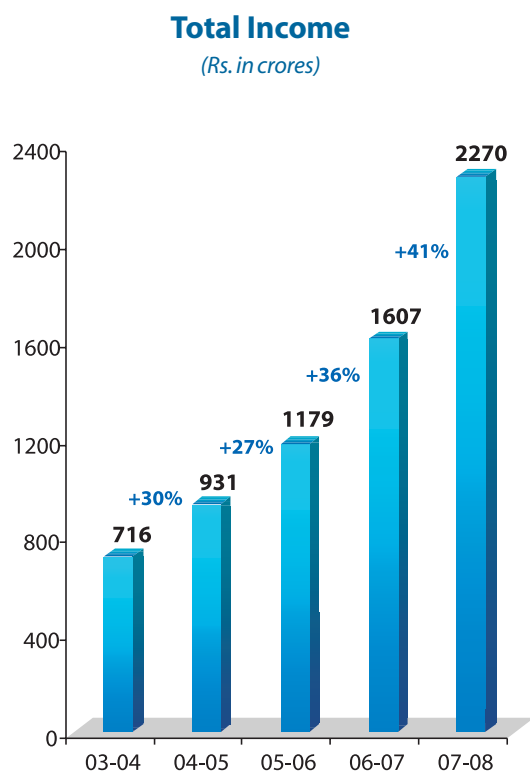
Good working capital management and higher operating profits generated a healthy cash flow. Cash flow from operating activities more than doubled to Rs.133.78 crores. Borrowings came down from Rs.89.05 crores to Rs.36.54 crores inspite of substantial capital expenditure and cost of acquisition of a new business. Debt/Equity was a comfortable 0.14 at year end, even lower than 0.42 in the previous year.

EXPORT & FOREIGN EXCHANGE EARNINGS

Income from product exports increased by 63% to Rs.143.68 crores. Project exports and commission income decreased modestly. Total foreign exchange earnings increased by 45% to Rs.165.16 crores. Total foreign exchange outflow during the year was Rs.303.80 crores.

ELECTRICAL CONTRACTING BUSINESS

Your Company recognized the growing strategic opportunity to provide composite solutions in electro mechanical projects. In order to build competencies in electrical contracting, the Company acquired the business of Naseer Electricals Private Limited, a leading electrical contracting company in the South. The process of assimilating the business and extending the electrical contracting activities to other regions began by the year end.



A Scheme of Arrangement between the Company and its Shareholders was approved by the Shareholders at the Extra-ordinary General Meeting held on March 4, 2008 and sanctioned by the Hon'ble High Court of Bombay on April 11, 2008. The Scheme enabled the Company to write off certain intangible assets and expenses arising out of the acquisition of the electrical contracting business as well as other non recurring losses against the General Reserves. The effects have been given in the Accounts.

SCHEME OF AMALGAMATION

At the Extra-ordinary General Meeting held on March 4, 2008, the Shareholders had approved a Scheme for Amalgamation of four private investment companies belonging to the promoter group into the Company. Those investment companies held only Blue Star shares and no other assets. Pursuant to the Scheme, those shares will be cancelled and an equivalent number of fresh shares will be allotted to the Shareholders of the investment companies. Even though the Scheme has been sanctioned by the Hon'ble High Court of Bombay on May 2, 2008, the order has not yet been issued by the Court. The effects of the Scheme will therefore be given in 2008-09. The Scheme will not have any financial implication for the Company.

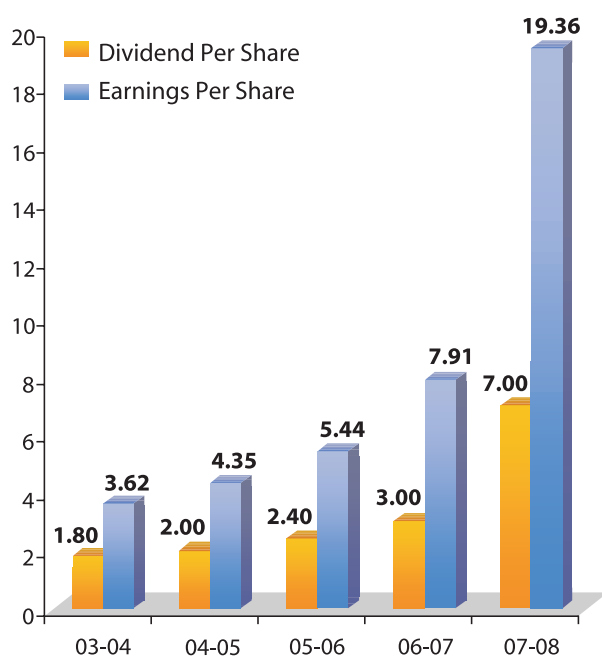
DIRECTORS' RESPONSIBILITY STATEMENT

The Directors would like to inform the members that the Audited Accounts for the financial year ended March 31, 2008 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:

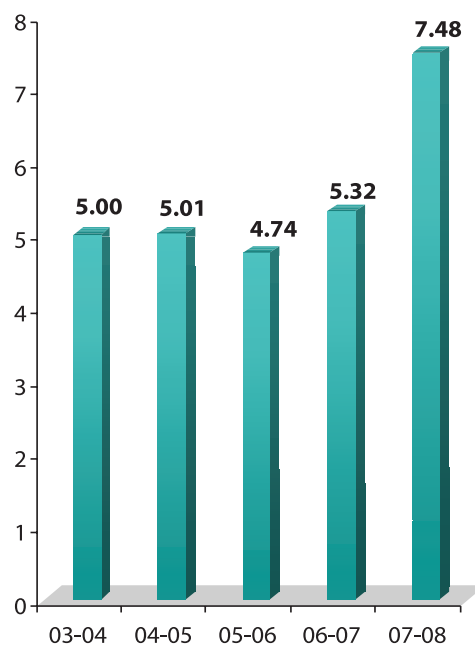
- 1) In the preparation of the Annual Accounts, the applicable accounting standards have been followed.

Earnings Per Share & Dividend Per Share

(Rs.)



Capital Turnover



- 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.

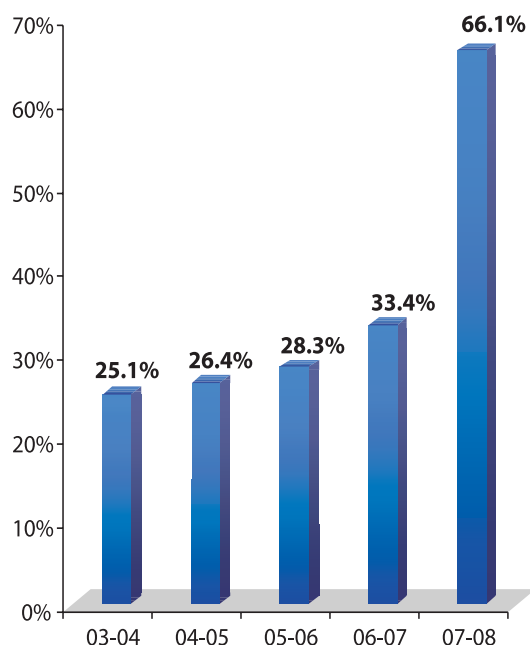
DIRECTORS

Mr Gurdeep Singh and Mr Shailesh Haribhakti will retire from the Board by rotation and being eligible, offer themselves for re-election.

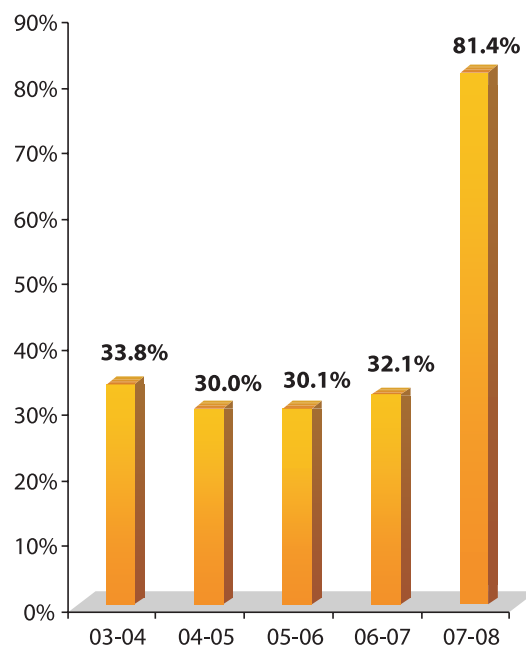
EMPLOYEES

The emphasis on people development continued during the year with special attention to the technical skills of the Company's dealers and business associates. Training in soft skills for Blue Star employees also continued and several new training programmes were introduced. The Company began a major programme to strengthen the positive Corporate culture through conscious practice of The Blue Star Way. Two training modules were developed for the Senior & Middle Management Group and Junior / Front-line Managers & Executives. During the year, about 500 employees were imparted training through 19 one-day modules. All employees as well as those of business partners will undergo this training over a 24-month period.

Return on Shareholders' Funds

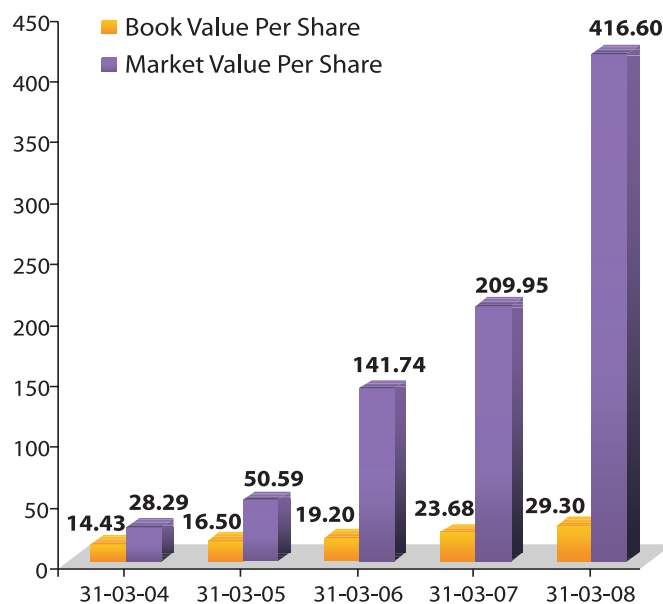


Return on Capital Employed



Book Value Per Share & Market Value Per Share

(Rs.)



Environment, Health & Safety (EHS) has gained relevance as a new management discipline in recent times. To pursue these goals, it was decided to create a new Corporate Department for Environment, Health & Safety that will be responsible for creating standards, conducting workshops to sensitize all employees and business partners to EHS and ensuring Company-wide compliance of the EHS norms to be followed.

The employee relations scenario continued to be harmonious and congenial. This helped in achievement of overall business growth.

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 12, 2008

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. However, the following measures have been taken to conserve energy:

THANE:

Energy saving devices have been fitted on seven key machines, and these devices save energy upto 25%. The air compressors are fitted with timers to ensure that the compressors are switched off during breaks.

DADRA:

Installation of horizontal two stage air compressor and variable frequency drives (VFD), replacement of 100 KVA projection welding machine by 15 KVA capacitor discharge type machine and use of FRP sheets and turbo ventilator for the plant roof were some of the energy conservation measures taken at Dadra plant. Modification of oven design in the paint shop also reduced fuel consumption. A water treatment plant has been set up to recycle waste water for gardening purposes.

BHARUCH:

Use of gas fired hot water generator system in place of 80 KW electrical heaters for heating of hydraulic press for PUF panels, use of transparent polycarbonate sheet and self driven turbo air ventilator in roofing, and maintaining the power factor close to unity through installation of 50 KVAR power capacitor bank in the cold room plant, were some of the energy saving measures adopted in Bharuch plant.

HIMACHAL:

Use of a combination of VFD and Non-VFD low pressure air compressor, modifications in pipelines, provision of receivers on the shop floor, installation of transvector nozzle at compressed air outlet and provision of ducting for discharge of hot air were some of the energy saving measures adopted in Himachal plant.

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 and use of solar energy for hot water and street lighting are some of the proposals for reduction of energy consumption.

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:

A noise measurement facility was installed at Thane factory to measure noise levels of wall mounted units and fan coil units. Two licenses for CFD analysis software with necessary hardware were purchased for advance analysis of fluid flow and development of fans and blowers. In order to have a proper data management system, a server was purchased and the services of Parametric Technology were hired for execution of the project.

Following are some of the new products developed during the year:

1. A complete range of variable refrigerant flow (VRF) Systems upto 42HP, for both, heating and cooling with eco-friendly R410a refrigerant. The earlier product range with R22 refrigerant will be phased out.
2. A complete range of star-rated airconditioners in 2, 3 & 4 star ratings to meet the requirements of the soon to be announced energy labeling programme.
3. Split storage water cooler systems.
4. Ultra low noise fan coil units for the export market.
5. High efficiency coolers and condensers for screw chillers and new design coolers for scroll chillers.
6. Screwless air handling units.

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

Installation of noise measurement device helped in demonstrating the capabilities of fan coil units to customers and consultants in India and abroad. Introduction of star-rated products gave the customers a wider choice in selecting energy efficient units for their specific needs. 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 involve 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)*

	2007-08	2006-07
a) Capital	28.50	23.19
b) Recurring	218.39	172.83
Total	246.89	196.02
Total R&D expenditure as a percentage of total turnover	0.11%	0.12%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION**a) Efforts made towards technology absorption, adaptation and innovation:**

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

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

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

c) Information regarding imported technology:

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

Significant progress has been made in absorbing the technologies.

MAJOR ITEMS OF FOREIGN EXCHANGE EARNINGS AND OUTGO**a) Activities relating to exports, initiatives taken to increase exports, developments of new export markets for products and services and export plans:**

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

b) Total foreign exchange used and earned:*(Rs. in lakhs)*

	2007-08	2006-07
Total foreign exchange used	30379.58	21062.31
Total foreign exchange earned	16515.93	11384.39

For and on behalf of the Board

ASHOK M ADVANI

Chairman & Managing Director

Mumbai: May 12, 2008

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, 2007 TO MARCH 31, 2008

Name	Age (Yrs)	Designation & nature of duties	Remuneration (Rupees)	Qualification	Experience (Yrs)	Date of Joining Blue Star	Details of Last Employment		
							Employer	Designation	Period
Employed for the whole of the year									
Advani A M	66	Chairman & Managing Director	20186151	B.Sc, SB, MBA	42	1-Jul-69	RCA Inc., USA	Information Systems Project Specialist	1968-69
Advani S M	64	Vice Chairman & Managing Director	20513673	SB, SB, LL.B.	39	17-Mar-69	-	-	-
Babu T G S	54	Deputy Managing Director	13310166	B.Tech, MBA	32	1-Nov-95	MRF Ltd.	General Manager	1991-95
Jamdar S	56	Deputy Managing Director	12947589	B.Tech, BM	34	2-May-96	Real Value	Vice President	1995-96
Pandit A	55	Executive Vice President	5518587	B.E. (Mechanical)	31	18-Feb-82	Otis Elevators	Executive	1981-82
Khorana A	58	Executive Vice President	5319949	B.Sc (Engineering)	37	1-Feb-73	Motwani Pvt. Ltd.	Sales Engineer	1972-73
Thiagarajan B	51	Executive Vice President	4988266	B.E.	28	18-May-98	Voltas Ltd.	Divisional Manager	1990-98
Aravindan R	43	Vice President	3910108	B.E.	22	11-Apr-88	Fedders Lloyd	Marketing Officer	1986-88
Bhambure J M	50	Vice President	3688966	B.E., DMS	28	15-Nov-92	HMP Engineers Ltd.	Prod Dev Manager	1979-92
Venkat Rao P	44	Vice President	3802835	B.E., MBA, PGDPM	23	21-Mar-96	Carrier Aircon	Manager	1995-96
Devnani R G	49	Vice President	3656862	B.E., MMS	26	4-Feb-94	Pam Pharmaceuticals	Production Manager	1993-94
Rakesh Rao A	50	Vice President	3568539	B.E.	27	18-Aug-81	-	-	-
Fernandes Michael C	49	Vice President	2837715	B.Com, LLB, ACS, MLS	29	1-Feb-07	ITD Cementation	Vice President	2000-07
Menezes Sean	42	Senior General Manager	3044161	B.Com	21	9-Sep-02	Amtrex Hitachi App. Ltd.	Area Manager	1992-02
Mehta Rahul	51	Senior General Manager	2951890	B.Sc, B.Textile Tech	29	3-Oct-00	United Phosphorus Ltd.	General Manager - IT	1998-00
Anandkumar G	50	Senior General Manager	2877791	B.E.	29	28-Jun-82	Hyderabad Asbestos Cement	Engineer	1981-82
Bhat Ashok	49	Senior General Manager	2849782	B.E. (Elec & Comm)	27	9-Mar-81	Weston Electronics	Trainee Engineer	-
Sukumar K P	46	Senior General Manager	2849608	DMT	24	19-May-95	Audco India	Supervisor	1984-95
Roy D H	43	Senior General Manager	2792142	B.E. (Mech)	21	11-Aug-97	Siel Aircon Ltd.	Sr. Manager - Projects	1995-97
Singh D P	51	Senior General Manager	2731015	B.E.	27	28-Jun-80	-	-	-
Iyengar R M	57	Senior General Manager	2614480	B.E.	38	1-Mar-96	Southern Group Industries	Dy. General Manager	1995-96
Krishnan R	54	Senior General Manager	2527809	B.E., DFM	30	6-Aug-04	Fedders Lloyd Corporation	Chief Executive Officer	2002-04
Mitra Parthopratin	47	General Manager	2644551	B.Sc, DME	20	6-Jan-88	TSC Instrumentation (P) Ltd.	Senior Sales Engineer	1987-88
Lakshmanan K S	49	General Manager	2653146	B.E., PGDMSM	27	3-Jun-82	Precision Screws Ltd.	Sales Engineer	1981-82
Employed for the part of the year									
Rajaram H	51	Executive Vice President	5352792	B.Com, ACA, ACS	25	4-Mar-96	Raymond Ltd.	Gen Manager (Fin) & Co. Secretary	1994-96
Advani Vir S	32	Vice President	1735357	BS, BA	9	28-Aug-07	Blue Star Design & Engg	Chief Executive Officer	2004-07
Kalyaniwala Manek J	54	Executive Vice President	670111	B.Com, ACA	30	1-Feb-08	Wartsila India Ltd.	Head - Finance, Secretarial & Admin	2004-07

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

Seven Board Meetings were held during the Financial Year 2007-08 i.e., on May 9, 2007; May 30, 2007; July 25, 2007; October 24, 2007; October 29, 2007; December 5, 2007 and January 30, 2008. The Company had its Annual General Meeting on August 3, 2007.

The particulars of Directors, their attendance and other Directorships, Memberships/Chairmanships of Committees for the financial year 2007-08 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	7	Yes	2	2	Nil
Suneel M Advani	Promoter Executive	6	Yes	2	1	Nil
T Gouri Sankara Babu	Non-Promoter Executive	6	Yes	Nil	Nil	Nil
Satish Jamdar	Non-Promoter Executive	7	Yes	Nil	Nil	Nil
Shailesh Haribhakti	Independent Non-Executive	7	No	13	8	4
Pradeep Mallick	Independent Non-Executive	6	Yes	6	9	3
Gurdeep Singh	Independent Non-Executive	6	Yes	2	3	Nil
Suresh N Talwar	Independent Non-Executive	4	Yes	12	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 April 26, 2007; May 9, 2007; July 25, 2007; October 24, 2007 and January 30, 2008. Mr Pradeep Mallick attended all the five Committee Meetings; Mr Suresh N Talwar and Mr Shailesh Haribhakti attended four Meetings.

Report of the Directors on Corporate Governance

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 for the Managing Directors and Deputy Managing Directors and the commission to the Non-Executive Directors within the limits approved by the shareholders are determined by the Board of Directors. The commission payable to Managing Directors and Deputy Managing Directors is based on a fixed percentage of the net profits of the Company as approved by the shareholders. Since the remuneration of Directors is determined by the Board of Directors within the limits approved by the shareholders, no separate remuneration committee has been constituted. The Managing Directors and 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	31.80	63.60	201.67	-	297.07
Suneel M Advani	31.80	63.60	201.67	-	297.07
T Gouri Sankara Babu	24.48	48.96	100.83	-	174.27
Satish Jamdar	24.30	48.60	100.83	-	173.73
Shailesh Haribhakti	-	-	10.10	2.20	12.30
Pradeep Mallick	-	-	10.00	2.20	12.20
Gurdeep Singh	-	-	10.30	1.20	11.50
Suresh N Talwar	-	-	8.80	1.60	10.40

Note:

1. Commission shown above are amounts actually paid for the year 2007-08 and hence differ from the provisions made in the accounts for the year ended March 31, 2008.
2. Mr Suresh N Talwar holds 71125 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 30, 2008 and reviewed the status of shareholders' grievances.

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

During the year, the Company's Registrars received 713 letters of which 617 letters were requests for various actions such as change of address, dividend mandate, nominations, etc., and 96 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, 2008 for 2525 shares, which were approved and sent to the transferees within the prescribed time.

GENERAL BODY MEETINGS

Financial Year	AGM/EGM	Date	Location of Meeting	Time
2004-2005	AGM	July 27, 2005	Jai Hind College Hall, Sitaram Deora Marg ('A' Road), Churchgate, Mumbai 400 020.	2.30 p.m.
2005-2006	AGM	August 4, 2006	-do-	3.00 p.m.
2006-2007	AGM	August 3, 2007	-do-	3.00 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 2007-08 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 15 of the Notes Forming Part of the Accounts (Other Notes). There were no transactions with related parties, which are likely to have potential conflict with the interests of the Company at large.
- The Company has complied with the requirements of regulatory authorities on capital markets and no penalties/strictures have been imposed against it.
- The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement. However, it has not adopted the non-mandatory requirements of the said Clause.

MEANS OF COMMUNICATIONS

The Company published its quarterly and half yearly results in the prescribed form within the prescribed time. The results were forthwith sent to the Stock Exchanges where shares are listed and the same was published in Economic Times and Maharashtra Times. The Financial Results were also displayed on the website of the Company www.bluestarindia.com. Official press releases are also displayed on the website. The Company made presentations to the institutional investors and analysts on May 28, 2007 and February 25, 2008 about the Company, its performance during the year 2006-07 and the nine month period ended December 31, 2007, the future prospects of the Company and details of the acquisition of electrical contracting business of Naseer Electricals Private Limited. Management Discussion and Analysis form part of the Annual Report.

Report of the Directors on Corporate Governance

SHAREHOLDERS' INFORMATION

Annual General Meeting

Date	: July 28, 2008
Time	: 3.30 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, 2008	: July 28, 2008
Unaudited results for the quarter ending Sept 30, 2008	: October 27, 2008
Unaudited results for the quarter ending Dec 31, 2008	: January 27, 2009
Audited results for the year ending March 31, 2009	: May 2009
Date of Book Closure	: Wednesday, July 16, 2008 to Wednesday, July 23, 2008
Dividend Payment Date	: July 31, 2008 onwards

LISTING ON STOCK EXCHANGES

: The Stock Exchange, Mumbai
National Stock Exchange

STOCK CODE

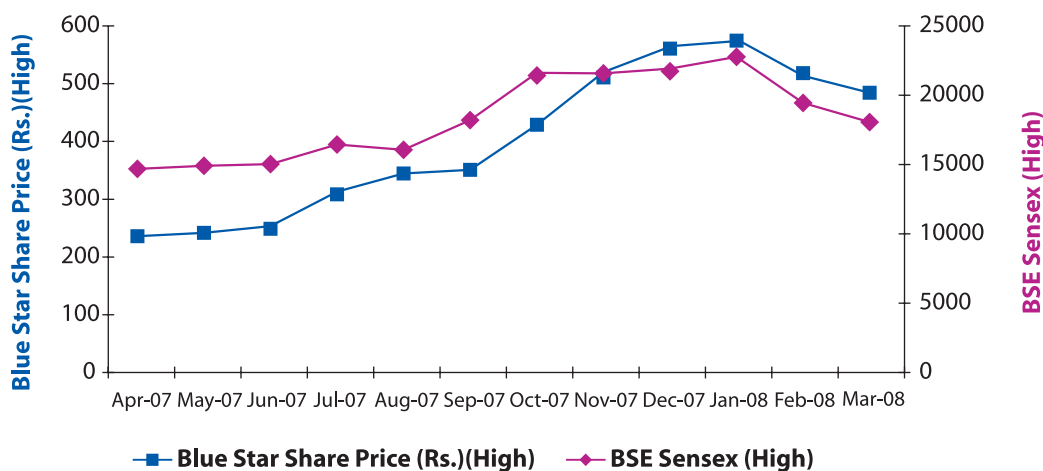
: The Stock Exchange, Mumbai - 500067
National Stock Exchange-BLUESTARCO
NSDL/CDSL-ISIN-INE 472A01039

MARKET PRICE DATA

(Rs. per share)

	The Stock Exchange, Mumbai		National Stock Exchange	
	High	Low	High	Low
2007				
April	235.00	197.00	234.00	195.00
May	240.00	210.80	248.50	192.70
June	250.00	212.00	249.80	211.05
July	300.00	234.00	299.90	225.00
August	326.80	275.25	327.00	275.00
September	332.00	308.50	330.95	300.10
October	398.10	280.00	398.00	290.00
November	475.00	365.00	452.00	368.00
December	525.00	441.50	524.90	443.00
2008				
January	548.25	373.25	549.45	375.00
February	501.00	415.00	518.00	416.20
March	480.00	359.95	486.00	359.00

PERFORMANCE – COMPARISON WITH BSE SENSEX



REGISTRAR & SHARE TRANSFER AGENTS

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

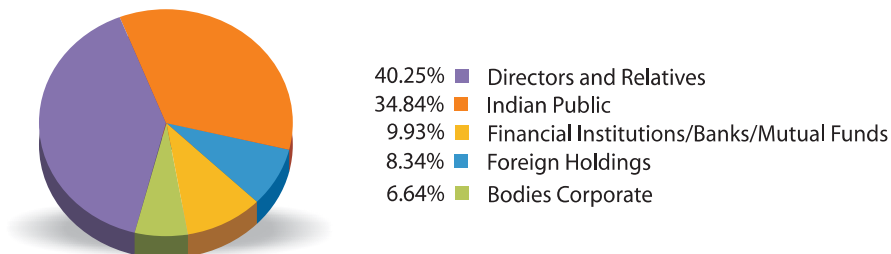
SHARE TRANSFER SYSTEM

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

DISTRIBUTION OF SHAREHOLDING AS ON MARCH 31, 2008

No. of equity shares held	No. of Shareholders	Percentage of Shareholders	Total No. of shares held	Percentage of shares held
1 - 500	16698	87.44	8113554	9.02
501 - 1000	1215	6.36	4400046	4.89
1001 - 2000	639	3.35	4469473	4.97
2001 - 3000	190	1.00	2328226	2.59
3001 - 4000	76	0.40	1332611	1.48
4001 - 5000	50	0.26	1137026	1.27
5001 - 10000	86	0.45	3076424	3.42
10001 - and above	142	0.74	65078745	72.36
TOTAL	19096	100.00	89936105	100.00

CATEGORIES OF SHAREHOLDERS AS ON MARCH 31, 2008



DEMATERIALISATION OF SHARES & LIQUIDITY

About 93% of the equity shares have been dematerialized by about 79% of the total shareholders as on March 31, 2008. 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
Ind 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, 2008.

For **BLUE STAR LIMITED**

Mumbai: May 12, 2008.

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, 2008, 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 12, 2008

Management Discussion and Analysis

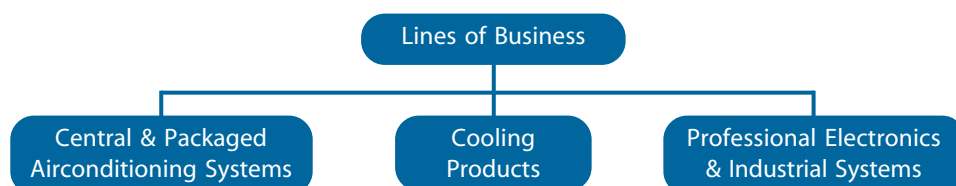
INTRODUCTION

Blue Star is India's leading central airconditioning and commercial refrigeration company, fulfilling the requirements of a large number of corporate and commercial customers. With 65 years of experience in providing expert cooling solutions, the Company has been associated with a large number of prestigious projects and organizations in the country and enjoys a preferred partner status in most of the high growth segments.

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

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 customized solutions have contributed to sustained growth and leadership. The Company continues to perform well in all its lines of business, despite stiff global competition.

LINES OF BUSINESS



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

CENTRAL AND PACKAGED AIRCONDITIONING SYSTEMS

This business segment covers the design, manufacturing, installation, commissioning and maintenance of central airconditioning plants and ducted systems. It also includes after-sales service as a business, with several value added services in the areas of upgrades and enhancements, air management, water management, energy management, integrated engineering facilities management and LEED certification consultancy for Green Buildings.

The Company's recent foray into the electrical contracting business through the acquisition of the businesses of Naseer Electricals Private Limited also provides a new opportunity to cross-sell electrical services to its existing HVAC customers.

COOLING PRODUCTS

Blue Star offers a wide range of contemporary window and split airconditioners, specifically targeted at corporate and commercial establishments. It also manufactures and markets a comprehensive range of commercial refrigeration products and cold chain equipment including water coolers, bottled water dispensers, deep freezers, milk coolers, bottle coolers, ice cube machines, customized cold storages, bulk cold storages and supermarket refrigeration equipment.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL SYSTEMS

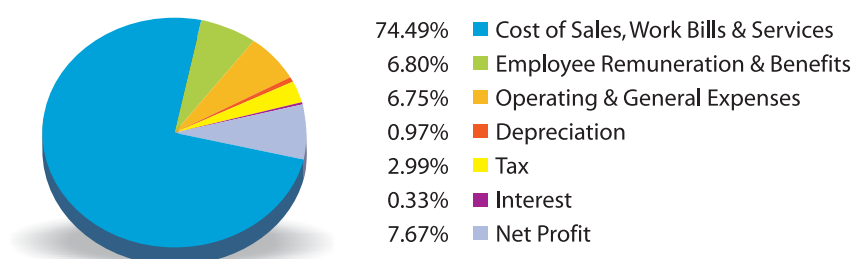
For over five decades, the Electronics Division has been the exclusive distributor in India for many internationally renowned manufacturers of hi-tech professional electronic equipment and services, as well as industrial products and systems. The Company has established profitable businesses for itself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

FINANCIAL HIGHLIGHTS

2007-08 was, by far, the best year in the Company's history. The construction boom and favourable economic environment coupled with the Company's strong credentials significantly contributed to its topline growth. Scale, lower cost of sales and well controlled expenses resulted in exceptional margin improvement. Total Income for the year grew by 41% to reach Rs.2270.09 crores. Net Profit grew by 145% to Rs.174.09 crores, while Earnings Per Share increased to Rs.19.36 from Rs.7.91 (face value of Rs.2.00).

Operating profit (PBDIT excluding Other Income) for the year at Rs.234.49 cores doubled over the previous year. Operating Margin increased significantly to 10.5% from 7.3% in FY07. While Return on Capital Employed (ROCE) grew from 32.1% to 81.4%, Return on Shareholders' Funds improved to 66.1% from last year's figure of 33.4%.

How every rupee earned was spent



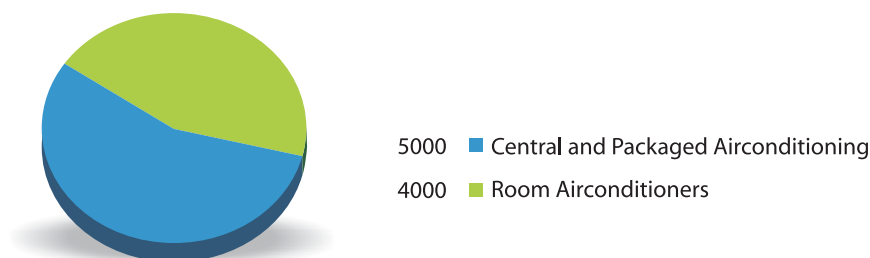
INDUSTRY STRUCTURE AND DEVELOPMENTS

AIRCONDITIONING

In 2007-08, the estimated total market size for airconditioning in India was around Rs.9000 crores. Of this, the market for central airconditioning, including central plants and ducted systems, was about Rs.5000 crores, while the market for window and split airconditioners comprised the balance Rs.4000 crores. The commercial airconditioning segment catering to corporate and commercial customers amounted to around Rs.7000 crores.

Market size of Airconditioning in India

(Rs. in crores)



The year 2007-08 saw big growth in segments such as infrastructure, power, healthcare, telecom and hospitality. In the IT/ITES sector, there was a slowdown amongst smaller players who were adversely affected by the depreciating dollar. However, large IT/ITES companies continued with their aggressive expansion plans. Although the retail sector witnessed some setbacks, especially in the food retail segment, there was significant growth in Tier 2 cities, offering new opportunities.

Based on plans announced by several players, the cumulative non-residential airconditioning opportunity over the next 5 years is estimated to be around Rs.38,000 crores.

With investments continuing in infrastructure and a buoyant economic environment, the commercial airconditioning industry is expected to grow significantly over the next few years.

COMMERCIAL REFRIGERATION

The market for commercial refrigeration equipment and systems was estimated at around Rs.1800 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.

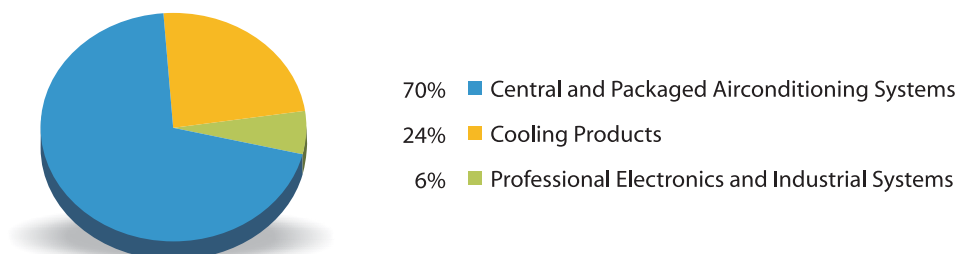
India has great potential for the production and distribution of perishable agricultural commodities including fruits and vegetables. This potential needs a modern cold chain infrastructure including conventional, controlled and modified atmosphere cold storages, to be effectively harnessed. The distribution system for horticulture produce in India is also subject to several lacunae due to the presence of a large number of intermediaries between the farmer and the consumer. Further, lack of adequate storage facilities and refrigerated transport equipment add to the problem causing huge wastage of these perishables. The cold chain infrastructure will help to correct the 'supply side constraint' throughout the year which, in turn, will bring down food prices to the consumer.

Most of the cold storage units in India do not have facilities to store a wide range of products across varied temperatures. The aggregate cost of providing a nationwide cold chain infrastructure considering present capacities and benchmarking with the current level of production is estimated to be more than Rs.15,000 crores. This includes facilities such as pre cooling, pack houses, ripening chambers, controlled atmosphere storages, reefer vans, refrigerated containers, retail cabinets and mobile refrigerated units. The Government of India has been implementing schemes for construction, modernisation and expansion of cold storages for horticulture produce under National Horticulture Mission towards post harvest management since 2005-06. Further, Agricultural & Processed Food Products Export Development Authority (APEDA) under Ministry of Commerce is implementing a scheme for infrastructure development with an allocation for setting up specialized storage facilities including high humidity cold storages, freezers and controlled atmosphere storages with financial assistance to various entrepreneurs. Recently, the Government has approved a proposal to float 'Special Purpose Vehicles' (SPV) under the new mega food park scheme to build a cold chain infrastructure in rural India. These Government initiatives coupled with private investments from retail, logistics and large agricultural traders would progressively open up a great opportunity to participate in the growing cold chain infrastructure in India.

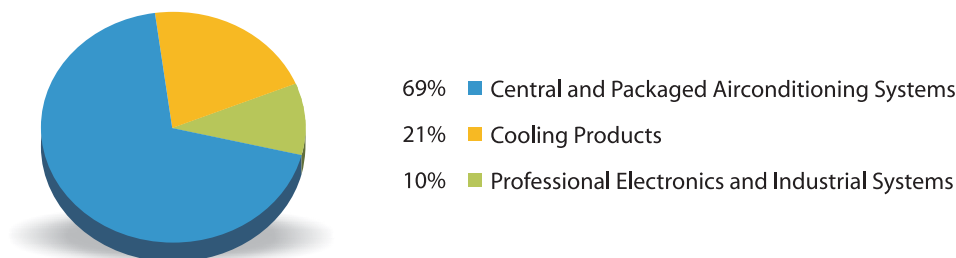
SEGMENT-WISE ANALYSIS

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

Segment-wise Revenue break-up

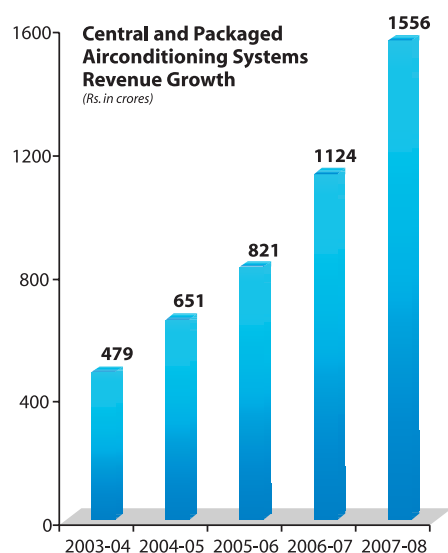


Segment-wise Results break-up



CENTRAL AND PACKAGED AIRCONDITIONING SYSTEMS

The central and packaged airconditioning business continues to be the largest segment contributing to 70% of the Company's Total Segment Revenue. Blue Star remains the market leader in this segment with a market share of 30%. Blue Star's strong reputation and track-record coupled with its energy-efficient and differentiated products helped it sustain its leadership position. This line of business registered an impressive billings growth of 38% over last year.



The year under review witnessed growing demand from segments such as infrastructure, power, healthcare, telecom and hospitality, in addition to continued demand from the IT/ITES and retail segments. Blue Star's end-to-end solutions approach as a manufacturer, contractor and after-sales service provider has immensely helped it to attain a preferred partnership status in most of the new growth segments. Customers appreciate the fact that Blue Star offers solutions and partners with them throughout the life cycle of the system.

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

In the central plant projects segment, the Company offers a range of chillers as well as a wide array of airside products such as air handling units and fan coil units.

The year under review saw the full scale production of the Company's eco-friendly next generation range of screw chillers incorporating R134a refrigerant. These chillers were very well appreciated in the market place

and met with tremendous success despite the presence of several existing multinational brands. Encouraged by the response, the Company plans to aggressively promote these chillers in FY09.

During the review period, the Company won a prestigious order valued at Rs.38 crores for airconditioning India's first indigenously designed Fast Breeder Reactor from Nuclear Power Corporation of India Limited (NPCIL) for the Kalpakkam project. NPCIL has been entrusted to set up Fast Breeder Reactors by the Government of India, and Kalpakkam, which is located 70 km from Chennai has been selected as one of the facilities where a 500 MW Fast Breeder Reactor is being set up at the cost of approximately Rs.3500 crores. Blue Star will be airconditioning the Kalpakkam project, including supply of water cooled centrifugal chillers, to be executed over a period of 24 months.

The Company also won orders for airconditioning 7 airports during the year including Varanasi, Khajuraho, Trivandrum, Madurai, Dehrdun, Mangalore and Ahmedabad. In addition, it was also awarded the order for airconditioning of GTB Nagar Station of Delhi Metro. Another significant order was an airconditioning contract valued at over Rs.25 crores from

MediCity, Gurgaon. Promoted by the world renowned cardiac surgeon, Dr. Naresh Trehan, MediCity will provide multi speciality tertiary healthcare delivery network with a capacity of over 1600 beds, 48 operation rooms, state-of-the-art diagnostics and lab facilities where clinical treatment protocols will be of international standards. In addition, the facility will undertake medical education, in-house and contracted research and development.

Other prestigious business booked by the Company during the year includes orders from Infosys, Mysore and Jaipur; RBI, Guwahati; DuPont, Secunderabad; Bengal Peerless, Kolkata; Moser Baer, Greater Noida; Virtusa Software, Hyderabad; Nirlon, Mumbai; United Bank of Switzerland, Hyderabad; ST Microelectronics, Greater Noida; Major Dhyanchand Stadium, New Delhi; Hindustan Unilever, Mumbai; Weikfield, Pune; Franklin Templeton, Secunderabad; India Bulls, Mumbai and Reliance Communications, Hyderabad.

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) airconditioning 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 possible range, and meets every conceivable customer requirement.

During the year under review, the Company witnessed increased demand from organized retail, while small and medium IT/ITES establishments seemed to be in a slowdown mode, with delay in execution of their expansion plans. The construction boom in Tier 2 cities resulted in growing demand for airconditioning especially in the hospitality, entertainment and retail segments.

The Company strengthened its foothold in the high technology VRF airconditioning systems business. The year saw the Company clinching the country's largest order for VRF systems with digital scroll technology for Central Secretariat Building, South Block, New Delhi for 2400 HP. Blue Star is India's first and only manufacturer of VRF Systems and the Company has been steadily gaining market share in a segment where traditionally only imported brands existed. Blue Star recently launched an eco-friendly range of VRF systems incorporating R410a refrigerant and the Company is confident of increasing its market share significantly in this product category.

Blue Star's precision control packaged airconditioners have also been well accepted with fast growing demand from data centres, banking and telecom segments.

In the central and packaged airconditioning business, the Company has several national/major account customers from IT, retail, banking, telecom, developers and healthcare segments which contribute over a third of the revenues. These include Aditya Birla Group, Adlabs, Apollo Hospitals, Café Coffee Day, DLF, Future Group, HDFC Bank, ICICI Bank, Infosys, Kotak Group, Microsoft, Moser Baer, RMZ, Reliance, Vishal Retail and Vodafone.

The Company sustained its leadership position in the telecom segment with its customized array of packaged airconditioners especially designed for the telecom industry. Blue Star offers a complete range of telecom airconditioning solutions including the twin circuit telepacs, filter-free telepacs and EFC telepacs. The Company has already supplied equipment to major telecom service providers such as Vodafone, Airtel, Reliance Telecom, BSNL, TTSL, Spice Telecom and Essar as well as to other passive infrastructure providers like GTL, Quipo, TVS and Tower Vision. Blue Star's deep understanding of the dynamics and intricacies of the telecom segment and its specialized airconditioning requirements has helped the Company to achieve a preferred partner status in this fast growing sector.

INTEGRATED MECHANICAL, ELECTRICAL & PLUMBING (MEP) CONTRACTING PROJECTS

The growing Indian economy and the construction boom offer attractive business opportunities in the integrated MEP contracting space. Moreover, many customers of Blue Star are seeking electrical contracting services from the Company. In order to avail of these opportunities, the Company strengthened its projects business through the strategic acquisition

Some Prestigious Installations



DLF IT Park, Secunderabad



K Raheja Commerz Zone, Pune



OMAXE, Noida



Infosys, Chennai



Franklin Templeton, Secunderabad



Pantaloon's, Kolkata



Oberoi Mall, Mumbai



Select Citywalk, New Delhi



Microsoft, Secunderabad



Weikfield, Pune



Good and Kind Foods, Chandigarh



The Park Hotel, Navi Mumbai



Gurgaon Central, Gurgaon



Heritage Foods, Kuppam, Andhra Pradesh

of the business of Naseer Electricals Private Limited, a leading electrical contracting firm as a going concern in January 2008. While the Company will continue to focus on its core businesses of airconditioning and commercial refrigeration as a manufacturer, contractor and service provider, it is broadening its capabilities in the MEP space with this entry into electrical contracting. The carry forward order book included orders worth Rs.93 crores for electrical projects.

COOLING PRODUCTS

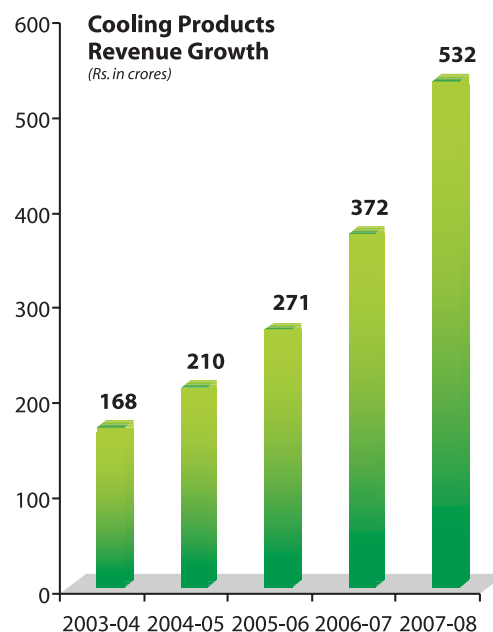
This business segment includes window and split airconditioners apart from commercial refrigeration products and systems. Over the last few years, the Company has established leadership in commercial refrigeration products. Blue Star has also become a respected split airconditioner brand amongst the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

The Cooling Products segment performed exceedingly well in 2007-08 registering growth of 43%. The growth was driven by increased sales of split airconditioners as well as refrigeration products and systems such as deep freezers, water coolers and cold storages. Segment profit increased substantially by 128% in the year. Scale, higher price realization due to differentiated products and Himachal plant tax benefits contributed to an increase in margins despite cost pressure on raw material inputs.

The room airconditioner market size for 2007-08 was around 2.2 million units. This business is characterized by intense competition amongst over 20 brands. Despite this scenario, Blue Star's room airconditioner sales recorded perhaps the highest growth rate in the industry. The differentiated range of Blue Star's split airconditioners contributed to the impressive performance of this line. Focus remains on the corporate, commercial and light commercial segments, where Blue Star's market share is now in double digits. The market shift in preference for split airconditioners vis-à-vis window airconditioners has provided a tremendous boost for this business. Blue Star sold around 132,000 units during FY08, with more than 70% of the sales coming from split airconditioners.

At year-end, the Company began the transition of split airconditioners to star-rated energy efficient models. Under a new Central Government legislation expected to become operational from October 2008, it will become mandatory to energy label window and split airconditioners upto and including 3 Ton capacity. Under this law, airconditioners need to be compulsorily tested at authorized laboratories and their energy efficiency revealed through clearly understandable energy labels, to be fixed on all ACs. 5-star would mean the highest efficiency and 1-star would mean the lowest. Since Blue Star has been promoting the concept of energy efficiency for several years, it was decided to sell only star labeled split airconditioners from the summer of 2008 on a voluntary basis even though the law has not come into force. These airconditioners are available in a range of 2, 3 & 4 star ratings.

In the fragmented commercial refrigeration products industry with a large presence of local players, traders and assemblers, Blue Star continued to be the dominant player across all the product lines. The Company retained its leadership position in the water cooler segment. Blue Star's deep freezers and bottle coolers also continued to perform well, recording sales growth of over 30%, while ice cube machines increased by over 50%. The Company also made inroads into the eateries segment with its new range of gelato dispensing machines and vertical showcases from ISA, Italy. The year saw the Company emerging as the market leader in the gelato dispensers product category.



For the cold chain, Blue Star offers equipment right from pack houses at the farm-end to supermarket refrigeration equipment for retail outlets. Blue Star's focus on the agricultural segment helped it win a significant order valued at Rs.16 crores from Haryana State Agri Marketing Board (HSAMB) for supply of cold chain equipment comprising cold storages, pre-cooling chambers and ripening chambers across nine locations in Haryana. While large corporate players like Tata Chemicals (Khet Se) and Heritage are setting up pack houses, small players at the village and town level are investing in ripening chambers, mainly banana and mango. Blue Star booked several ripening chamber orders from upcountry locations in Tamil Nadu, Punjab and Gujarat.

Concor, with financial support from Agricultural & Processed Food Products Export Development Authority (APEDA), is setting up perishable cargo storages at small airports primarily for agricultural exports. Blue Star booked orders for the same at Nasik and Goa Airport. During the year, the Company also won a prestigious order from AP Agros, co-funded by APEDA for setting up mango pack houses at Tirupathi and Nuziuid (the mango belts of Andhra Pradesh). This facility is the first of its kind in AP and will facilitate export of mangoes to Japan. In addition, the Company booked a repeat order from Heritage Foods for their Hyderabad facility.

In addition to the agricultural and horticultural segment, Blue Star offers cold storage solutions for hospitality, healthcare, pharma and dairy segments through standardized modular cold rooms. The Company recorded a growth of over 30% in the modular cold room segment including a rate contract with Domino's Pizza for the supply of 80 modular cold rooms.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL SYSTEMS

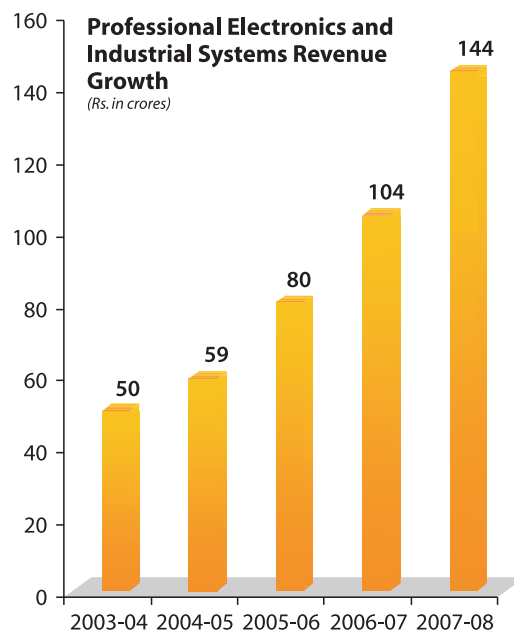
For over five decades, Blue Star has been consistently providing its customers with a wide range of products, systems and value-added services in the field of professional electronics and industrial systems. The Division's strength is the intellectual capital of its employees who keep abreast of the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

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

In 2007-08, the Division continued to contribute significantly to the overall performance of the Company, with segment profits going up by 50% over the previous year. The Division has six strategic business units (SBUs), and all of them continued to contribute significantly to overall growth. The performance of each SBU is enlisted below:

Material Testing Equipment and Systems

During the review period, Blue Star continued to perform well in the eddy current, ultrasound and industrial x-ray product lines. The Company met with considerable success in the pipe testing business moving up the value chain - from a product supplier to a system integrator - by developing competence to create a complete system for pipe testing applications rather than only supply of individual products. This helped the Company execute turnkey orders from Essar, Jindal Saw and Mukand Industries.



Blue Star continued to dominate the market for destructive testing products with equipment supplied by F.I.E, India including universal testing machines and hardness testers. The Company also has tie-ups with Hung Ta Instruments, Taiwan for universal testing machines, Thermal Product Solutions, USA for environmental chambers and Conviron, Canada for plant growth chambers. It booked prestigious orders from Alloy Steel Plant, Durgapur; DLRL, Hyderabad; NBRI, Lucknow and Nuclear Fuel Complex, Hyderabad during the year.

Data Communication Products and Services

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

The Department maintained its strong position in the host security modules business during the review period with major orders from Federal Bank, Kotak Mahindra, IDBI Bank, Union Bank, Opus and ING Vysya. The year also witnessed developing of special wireless applications such as remote video surveillance and remote monitoring of pollution by booking wireless links orders from NHPC and IOCL.

Test and Measuring Instruments

In the field of test and measuring instruments, the Company represents world-renowned manufacturers including Aeroflex, USA; Advantech, Canada; Promax, Spain; dBm Corp, USA and NEC SAN-EI, Japan offering a specialized range of test and measuring instruments. The major market segments addressed include space, defense, paramilitary, cable broadcast and telecommunications.

The avionics business continued to be the main growth driver for this business, during the year. In addition, several orders were booked for phase noise test systems, analog signal generators, satellite link emulators and recorders.

Analytical Instruments

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

During the year, the Company did well in sales of specialised equipment such as electron microscopes for nano-technology applications. The Company booked a significant order from IIT, Mumbai for the same. It also supplied scanning electronic microscopes to Hyundai Motors, Nokia and Delphi TVS Diesel Systems for failure analysis applications in addition to gas chromatograph based special analyzers to HPCL, Mumbai. Orders were received for P3 labs from DGHS. With frequent outbreaks of bird flu in India, the Company expects more such orders in the future.

Industrial Products

Blue Star has been engaged in marketing and support of high technology process instruments and capital equipment to meet the diverse needs of the core sector such as steel, oil and gas, petrochemical, pulp and paper, minerals and mining and power industries.

The year witnessed substantial business growth in both product sales and the projects business. Major orders were booked from Tata Steel, Vishakapatnam Steel Plant, Haldia Petrochemicals, Chemplast, Reliance Industries, Essar and Brahmani.

Medical Diagnostic Equipment

Blue Star represents Hitachi Medical Corpn., Japan for the sale of MRI scanners, CT scanners and ultrasound systems. The Company has also partnered with Mindray, China for the distribution of patient monitoring and ultrasound systems. During the year, the Department performed extremely well in the sale of MRI systems, booking 22 orders and achieved a 35% market share in the permanent magnet MRI segment. It also did well in patient monitoring systems with orders from hospitals such as Tata Memorial and Hiranandani as well as organizations such as UNICEF and Operations Smile.

MANUFACTURING FACILITIES

Blue Star has five modern, state-of-the-art manufacturing facilities at Thane, Bharuch, Dadra, Himachal and recently, Wada. Phase I of the Wada plant has been partially constructed and production commenced from March 2008.

Research & Development

Blue Star invested Rs.2.47 crores 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 include the star-rated split airconditioners under the BEE energy labeling programme. The Company also introduced an entire range of eco-friendly VRF systems incorporating R410a refrigerant. With this launch, Blue Star has the unique distinction of being the first and only Company to manufacture these sophisticated systems indigenously. In addition, Blue Star enhanced the range of precision control packaged airconditioners and scroll chillers and introduced a complete range of next generation screw chillers incorporating R134a refrigerant in both air-cooled and water-cooled versions. The Company also discontinued the manufacture of energy inefficient reciprocating chillers and replaced the same with lower tonnage screw chillers. Screwless air handling units, which are superior in terms of air leakage parameters were introduced in the year under review. Further, the Company also extended the range of ducted systems by introducing floor standing and ductable units in 22TR capacity.

Dadra Plant

Blue Star's Dadra plant continued to be the Company's flagship plant and is regarded as one of best manufacturing facilities in the country for manufacturing high quality airconditioning products for domestic markets as well as for exports. The product range manufactured includes floor standing packaged airconditioners, ducted split airconditioners, VRF systems, precision control packaged airconditioners and telepacs for the telecom sector.

During the review period, the plant recorded a growth of 32% over last year with enhanced demand for telepacs, precision control packaged airconditioners and VRF systems. Emphasis was on enhancing capacity considering a three-year horizon. The plant augmented the feeder shop capacity by installing a state-of-the-art turret punching machine and automatic coil bending machine and also enhanced powder coating capacity. Due to physical space constraints, efforts were made to increase availability of floor space. A fully automatic vertical storage carousal system in incoming stores and semi automatic vertical storage system for finished goods were installed, which helped improve productivity in both areas. Six Sigma and TPM continued to be actively practiced at the plant.

Thane Plant

The Thane plant is the Company's oldest manufacturing facility. It manufactures a range of screw and scroll chillers as well as airside products such as air handling units for central airconditioning applications. Process chillers are also manufactured for customized requirements.

New Products



R134a Screw Chiller



Precision Control Packaged Airconditioner (PCPA)



Star-rated Split Airconditioner



R410a Variable Refrigerant Flow
(VRF) Airconditioning System

During 2007-08, emphasis was placed on productivity and production capacity improvements, process/methods improvements and value engineering. As a result of these initiatives, the production capacity of screw and scroll chillers was enhanced by over 50%. The air handling units manufacturing facility was upgraded and modernized successfully resulting in substantial productivity improvement coupled with effective utilization of space. All these initiatives resulted in reduction of lead time by nearly half in all product lines. Other noteworthy initiatives taken up during the review period were Six Sigma and lean manufacturing systems. The Kaizen scheme was launched in a different format which gave good results at all levels.

Bharuch Plant

In 2007-08, Bharuch plant recorded a growth of 31% over the previous year with increased demand mainly for cold chain products. The growth in exports and OEM business was also very encouraging contributing to over 15% of the plant's billing. Over the last couple of years, the plant has focused on tapping the growth potential of cold chain products and invested in modern equipment for manufacturing the entire range of cold chain products. Bharuch plant manufactures refrigeration products including storage water coolers, deep freezers, cold storages, cooling and freezing units, PU sandwich panels, mortuary chambers and bulk milk coolers, amongst others.

Considering the substantial growth in the cold chain industry, the plant invested in a state-of-the-art facility for polyurethane sandwich panels using CFC-free technology and enhanced the capacity of panels significantly. These new facilities are highly automated and will provide substantial benefits in terms of productivity and quality along with capacity enhancement. The plant initiated a Six Sigma drive during the year for quality improvement. With a thrust on value engineering, product standardization, productivity improvement through automation and sourcing from China, margins were maintained despite increasing raw material price trends during the year.

Himachal Plant

The Himachal plant, which began production in 2005-06 mainly manufactures window and split airconditioners for the domestic as well as international markets. During the year under review, the plant achieved full capacity operation on a single shift basis. With the second assembly line fully automated, the capacity of the plant reached 1000 machines per shift. Continuing efforts in line balancing helped increase productivity. The plant began manufacturing all models of water coolers, during the year. For this purpose, the third assembly line was extended and modified to suit water cooler production. The plant also added a coil line for manufacturing finned heat exchangers. With this addition, all coils are now made in-house contributing to substantial value addition.

During the year, the plant manufactured over 150,000 airconditioners and 10,000 other products including water coolers recording an overall billing growth of 75%.

Wada Plant

Blue Star's Wada facility is the most recent plant set up by the Company, situated around 60 km from Thane, near Mumbai. With a plot size of around 36 acres, this facility is planned to eventually be Blue Star's biggest manufacturing facility. The ground breaking ceremony was conducted in May 2007 and construction commenced thereafter. In the first phase, 18,000 sq m of area was taken up for construction. Construction work was partially completed by March 2008. This space was occupied and three refrigeration products assembly lines were made operational. A small quantum of billing amounting to Rs.37 lakhs was achieved in the year under review.

The products planned to be manufactured in the plant in the first phase are telepacs, air handling units and fan coil units. Modern manufacturing systems are being deployed with the focus on quality systems through programmes like Kaizen, Lean Management and TPM.



Amada Turret Punching Machine at Dadra Plant



Assembly line at Thane Plant



Assembly line at Wada Plant



PU Foaming Press at Bharuch Plant

CUSTOMISED OEM BUSINESS

The OEM business currently offers process chillers for special process applications in the medical, food and plastic 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. The revenues of the OEM business doubled during the year under review. Though on a small base, this is indicative of the potential of the market for customized solutions.

During the year, the Company focused on private dairies for bulk milk coolers and concluded major orders for 323 tanks from Sahyadri Agro, Modern Dairies, GSK Glaxo, ABT Industries, Dinshaws and KMF, amongst many others. The OEM branded water cooler business also grew three-fold over the previous year. In addition, several MIL graded airconditioners were supplied to the Indian Army.

EXPORTS

On the product export 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.

While the depreciating dollar adversely affected product export margins in the beginning of the year, enhanced price realizations saw the trend getting back to normal during the latter part of the year. The exports focus is on products that are specialized and more technical in nature, and are targeted at specific industry and customer needs. This provides better margins than commoditized standard products.

During the year, the Company focused on brand building in Middle East through advertisements, and factory visits for consultants and customers for formal approval of the manufacturing facilities and products. In addition to UAE, Qatar, Bahrain and Oman where distributors already existed, the Company established a presence in new markets like Kuwait, Iran and South Africa. It also hosted several customer events in Dubai. In order to support the Company's business partners in the UAE, a senior member of the Blue Star Product Export team was stationed in Dubai from December 2007. He will support the Company's distributors in technical matters and also help in generating increased business for new products. The above combined efforts should see product exports grow in the coming financial year.

As far as international projects are concerned, given the substantial boom in the domestic market, the Company continued to be selective in pursuing only projects with reasonable margins. During the quarter, the Company's joint venture in Qatar booked orders valued at Rs.50 crores from New Western District Hospital, Qatar; Qatar University and Sofitel Hotel, Qatar.

AIRCONDITIONING AND REFRIGERATION SERVICE

The installed population of airconditioning and refrigeration equipment has been growing rapidly in recent times, and this has created faster growth opportunities for after-sales service as well. Blue Star is well known in the market place as a superior value added service provider and maintains over 800,000 TR of airconditioning and refrigeration systems under well defined maintenance contracts. The total tonnage maintained under various categories of after-sales solutions is over 1.5 million TR, easily 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 special service products such as energy management audits and solutions, air management consultancy and services, water management services for cooling systems, product upgrades and retrofits, Green Building certification consultancy and associated services.

As a result 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 and existing buildings. The Green Building services team comprises three US Green Building Council certified Leadership in Energy and Environmental Design (LEED) Accredited Professionals, commonly known as LEED APs. Further, many customers are continuing to augment their capacities as a part of their expansion plans. Consequently, the Company's revamp, replacement and retrofit solutions businesses have witnessed a huge inflow of orders.

Distribution agreements with global leaders such as Danfoss, Denmark for distribution of variable frequency drives, Ecospec, Singapore for water treatment systems and Sterile Aire, USA for UV emitters enhanced the Company's capabilities in meeting the growing demands of its customers. Blue Star's customized service solutions for various customer segments offering customers a choice from a basket of available options, received an overwhelming response.

In line with its programmes to deploy advanced methods in the maintenance of equipment, the Company uses many predictive maintenance techniques including remote monitoring of chillers installed at customer sites.

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

A new Commissioning Services Group was constituted to handle commissioning services in line with international practices. The Company's business foray into Genuine Parts and Accessories grew handsomely in 2007-08.

SUPPLY CHAIN MANAGEMENT

Rapid growth coupled with volatility of input costs necessitated an agile and adaptable supply chain. The Company focused on both the efficiency and responsiveness of all aspects of the supply chain by improving all round execution capability. A combination of short term and long term view along with the support of business associates helped the Company tide over the uncertainty and turbulence of increasing input costs. The supply chain adequately met the increased demands of the market place supporting greater channel and project business success.

CHANNEL DEVELOPMENT

Blue Star has around 180 systems dealers who exclusively deal in the Company's systems businesses consisting of packaged airconditioning and cold rooms. These dealers are provided technical expertise, installation and service competence of a high order. On the other hand, room airconditioners and refrigeration products, which are simple to install, are sold through a larger network of approximately 600 dealers. Most of them deal exclusively with Blue Star products in the HVAC domain. A few are multi-brand, multi-product dealers.

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

During the year, the Company implemented a number of initiatives in order to strengthen the competence of the dealer channels and make them more robust. A Management Development Program (MDP) for systems dealers was held to impart the essentials of managing a business professionally. Systems dealers were also put through a Sales Management training programme in order to enhance their sales competence.

The Company put up 10 more Product Display Areas (PDAs) in association with its leading dealers. The PDAs aim to

provide customers with a pleasant, standardized shopping experience, apart from the comprehensive product information that Blue Star dealers are known for. PDAs have enhanced the visibility of the Blue Star brand and have attracted more footfalls for the dealers.

FINANCIAL PERFORMANCE

The analysis of the financial performance for the year ended March 31, 2008 in comparison to the previous year is as under:

1. INCOME

Total Income for the year at Rs.2270.09 crores increased by 41% over the total income of Rs.1607.41 crores in the previous year. The Total Income includes 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 39% from Rs.1594.58 crores in the previous year to Rs.2221.58 crores in 2007-08.

2. COST OF SALES, WORK BILLS AND SERVICES

The cost of sales, work bills and services during the year was Rs.1690.93 crores and was 76.1% of the Revenue from sales, work bills and commission as compared to 77.9% in the previous year. The reduction was attributed to lower cost of imports due to appreciation of the rupee vis-à-vis USD, value engineering and better material procurement.

3. EMPLOYEE REMUNERATION AND BENEFITS

To support the significant increase in revenues, the number of employees went up by 18% to 2565 at the end of the year. Consequently, the employee cost increased by 25.7% from Rs.122.86 crores to Rs.154.41 crores, including an incentive provision of Rs.18.16 crores as compared to Rs.11.65 crores last year. The employee cost was 6.8% of the Total Income as compared to 7.6% for the previous year.

4. OPERATING AND GENERAL EXPENSES

Operating and General expenses amounted to Rs.153.21 crores, increasing by 28.9% over the previous year. As a percentage of Total Income, the Operating and General expenses for the year were lower at 6.7% as compared to 7.4% in the previous year.

5. INTEREST

Interest cost at Rs.7.56 crores for the year was lower than the interest cost of Rs.9.55 crores in the previous year primarily due to the increase in cash flows and tighter control on capital employed, and was 0.33% of the Total Income as compared to 0.59% in the previous year.

6. DEPRECIATION

Depreciation charge for the year was marginally higher at Rs.21.97 crores compared to Rs.20.90 crores in the previous year.

7. TAXATION

Provision for taxation for the year was Rs.67.93 crores. This included a provision for tax of Rs.8 crores on long term capital gains on sale of investment and a short provision of Rs.1.8 crores towards tax for earlier years. After adjusting the above, the provision for tax was 28.1% of the Profit before tax, as compared to 23.1% in the previous year. The increase was mainly due to the expiry of the tax holiday benefit on profits of the Dadra plant from the year under review.

8. NET PROFIT

Net profit for the year was Rs.174.09 crores as compared to Rs.71.18 crores in the previous year, representing an increase of 145%. Excluding an amount of Rs.27.32 crores being the profit on the sale of shares (net of tax thereon), the Net Profit was Rs.146.77 crores, an increase of 106% over the previous year.

Profit before Tax for the year stood at Rs.242.02 crores, a rise of 161% over the previous year. Excluding the profit of Rs.35.32 crores on sale of shares, the Profit before Tax was Rs.206.70 crores, an increase of 123%.

9. CAPITAL EXPENDITURE

During the year, the Company incurred capital expenditure of Rs.47.66 crores as compared to Rs.39.20 crores in the previous year. This includes capital expenditure incurred for the first phase of the Company's fifth manufacturing facility at Wada, Maharashtra, which commenced production during the year. In addition, the Capital Work-in-Progress at the end of the year was Rs.18.09 crores as compared to Rs.2.41 crores at the end of the previous year.

10. ACQUISITION OF THE ELECTRICAL CONTRACTING BUSINESS OF NASEER ELECTRICALS PRIVATE LIMITED

During the year, the Company acquired the electrical contracting business of Naseer Electricals Private Limited. The intangible assets of Rs.41.18 crores and goodwill of Rs.8.32 crores, totaling to Rs.49.50 crores, arising out of this acquisition were adjusted against the General Reserve as per the accounting treatment prescribed in the Scheme of Arrangement approved by the shareholders and sanctioned by the Hon'ble High Court.

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 coupled with local and global inflation and the high price

of oil are causes for concern and consequently a slow down 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

Blue Star takes pride in the fact that the invaluable technical and business knowledge it has acquired in 65 years as an organization in the field of airconditioning and refrigeration is perhaps the richest in the country.

During the review period, with the substantial increase in business volume, the Company increased its total head count to 2565 (including the absorbing of 124 employees from Nasser Electricals) as on March 31, 2008, an increase of 18% over the previous year, while Net Sales grew by 39%. Organizational productivity continued to grow in terms of sales per person and value added per person.

The focus on people development continued at the same pace with special attention to developing the technical skills of dealers and business associates. Training in soft skills for Blue Star employees was enhanced with the introduction of some new training programmes. In order to sustain the positive culture of the Company, a new Corporate programme was introduced called 'The Blue Star Way'. This programme is intended to create an awareness of, and strengthen the Blue Star Way of working. A 360-degree feedback system continued to be used to measure behaviour of Senior Managers pertaining to the Corporate Values and Beliefs.

Environment, Health & Safety (EHS) has gained relevance as a new management discipline in recent times. In order to improve its performance in the EHS domain, the Company decided to provide a corporate focus by creating a new department called 'Environment, Health & Safety'. The EHS Department will be responsible for creating standards and conducting workshops to sensitize all employees and business partners on the EHS norms to be followed in the course of business.

The Welfare initiatives include providing life insurance cover to all employees through HDFC Standard Life Insurance, annual medical check-ups for employees above the age of 40 years, and the Company subsidizing the medical insurance premium for dependent parents. The Mohan T Advani Education Trust disbursed scholarships to employees' children pursuing higher professional education while Blue Star Sahayata Foundation extended financial assistance to a number of deserving cases for mitigating emergency medical expenses.

Harmonious and constructive relations between the Management and workmen helped to maintain a cordial work atmosphere and achieve business growth.

INFORMATION TECHNOLOGY

Over the last few years, Blue Star has made substantial investments in IT and communication infrastructure, as well as in advanced state-of-the-art software. The year 2007-08 saw the Company optimizing the IT and communication infrastructure installed over the last few years. The focus was on optimal usage of the capacity deployed and augmenting the security, apart from the launch of a few new services.

During the year, Blue Star decided to implement the mySAP ERP across all its Divisions and Branches, including the factories. The implementation, expected to start by June 2008 and with a roll out by March 2009, will improve efficiency across the organization due to common masters and processes, on line reports, information systems and better controls.

Operations for the Network Operations Centre or NOC were optimized during the year, with the team involved in proactive monitoring of all WAN links, servers as well as email application; thereby resulting in minimal downtime and better quality. Centralization of internet access saw increased control of content monitoring and filtering, as well as reduced virus/spam attacks.

A number of security enhancement measures were implemented in the day-to-day operations. As a step towards single log-on, active directory and domain logging services implemented earlier were stabilized in the year. This enabled effective deployment of security policies from a central node. As a step towards client data security, the Company implemented an automated backup facility for desktop data. Also implemented were automated patch-management services, independent of the desktop user.

BRAND EQUITY

The Company has been making substantial investments in building brand equity over the last few years. These investments have gone a long way in building the Blue Star brand, and have substantially increased visibility of the brand. Since Blue Star is not a major consumer durables player, in order to effectively target its core market of corporate and commercial customers, the Company arrived at an optimum media mix.

During the year under review, the Company continued to reinforce the value proposition of Blue Star as 'Experts in cooling' and executed two campaigns in mass media: the corporate image building campaign, and room airconditioners and refrigeration products campaign.

The corporate image building campaign was targeted at corporate and commercial decision makers of central airconditioning/commercial refrigeration. It comprised of four television commercials. The Company also planned the release of a fifth TV commercial on VRF systems. The creativity of the ads helped to break advertising clutter and several customers appreciated the campaign. The TV media strategy comprised a mix of sports, news and niche channels. There were several innovations on TV such as the Expert Opinion capsule on BBC World, History, NDTV Profit and National Geographic. Apart from television, internet banner advertising was also used to communicate the above.

The cooling products campaign leveraged Blue Star's expertise in cooling with a proposition of 'ACs/Refrigeration Products from the Experts'. It was targeted at the light commercial and corporate decision makers. The campaign showcased the Company's differentiated products in mainline dailies across several priority markets. This campaign was supported by hoardings, primarily in Tier 2 cities.

Apart from the mass media, the Company also made significant 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.

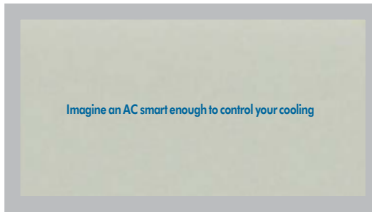
CORPORATE OUTLOOK

The central airconditioning business is witnessing high growth in additional segments such as infrastructure, telecom, healthcare, power and hospitality. Blue Star's end-to-end solutions offering as manufacturer, contractor and after-sales service provider has helped it enjoy a preferred partner status. Blue Star is India's first and only manufacturer of VRF systems and the Company is confident of gaining substantial market share in this high technology product category. Its recent foray into the electrical contracting business also provides it with a good opportunity to cross-sell electrical services to its existing HVAC customers.

The Company expects the cooling products business to contribute significantly to overall growth. Blue Star has become a significant player in split airconditioners in the corporate and commercial segment, owing to its range of differentiated, energy-efficient products. It is also well positioned to leverage on the impending boom in cold chain infrastructure.

The outlook for the Professional Electronics and Industrial Systems business continues to be attractive. Its growth pattern in the last few years has been solid and its strong reputation as a value added reseller and system integrator will help it to further enhance market share.

Latest TV Commercial



The Dynamics of Blue Star's Growth

10 YEAR FINANCIAL HIGHLIGHTS

		2007-08	2006-07	2005-06	2004-05
OPERATING RESULTS					
Total Income	Rs.in Crores	2270.09	1607.41	1178.62	930.92
Profit before Tax	"	242.02	92.60	69.09	52.44
Tax	"	67.92	21.42	19.42	13.71
Profit after Tax	"	174.10	71.18	48.90	39.16
Dividend (including Corporate Dividend tax)	"	73.65	30.93	24.61	20.55
Retained Profit	"	100.45	40.26	24.29	18.61
FINANCIAL POSITION					
Paid up Capital	Rs.in Crores	17.99	17.99	17.99	17.99
Reserves	"	245.56	194.98	154.72	130.43
Shareholders' Funds	"	263.54	212.97	172.71	148.42
Borrowings	"	36.54	89.05	75.87	37.28
Total Funds Employed	"	300.08	302.02	248.58	185.70
Net Fixed Assets & Investments	Rs.in Crores	160.39	121.79	113.04	89.03
Net Working Capital	"	141.86	184.49	141.33	100.53
Debt Equity Ratio	Ratio	0.14	0.42	0.44	0.25
Book Value per Equity Share	Rs.	29.30	23.68	19.20	16.50
OTHER INFORMATION					
Number of Shareholders	Nos.	19096	18065	15609	17187
Number of Employees	"	2565	2181	1999	1868
PERFORMANCE INDICATORS					
Earnings per Share	Rs.	19.36	7.91	5.44	4.35
Dividend per Share	Rs.	# 7.00	3.00	2.40	2.00
Return on Shareholders' Funds	%	66.1	33.4	28.3	26.4
Return on Capital Employed	%	81.4	32.1	30.1	30.0

Proposed Dividend

2003-04	2002-03	2001-02	2000-01	1999-00	1998-99
716.06	601.06	517.32	509.82	480.94	476.49
46.59	40.18	27.33	25.57	25.20	18.12
11.88	9.57	2.28	2.03	1.96	1.85
32.55	31.04	27.45	23.54	23.24	16.27
18.26	18.26	12.55	12.32	11.39	10.53
14.29	12.78	14.90	11.22	11.85	5.74
17.99	17.99	19.30	20.32	27.10	27.10
111.82	97.53	92.10	89.72	97.67	85.95
129.81	115.52	111.40	110.04	124.77	113.05
13.35	12.05	12.09	57.35	64.04	82.49
143.15	127.57	123.49	167.39	188.81	195.54
70.41	59.79	68.41	94.11	105.25	99.93
77.17	67.84	54.09	67.43	78.68	88.18
0.10	0.10	0.11	0.52	0.51	0.73
14.43	12.84	11.54	10.83	9.21	8.34
19422	22000	24878	26094	27399	23963
1798	1808	1825	2084	2489	2504
3.62	3.45	2.84	2.32	1.72	1.20
1.80	1.80	1.30	1.10	1.00	0.70
25.1	26.9	24.6	21.4	19.8	15.4
33.8	33.3	26.7	20.5	19.1	14.9

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, 2008, 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 2008, which are taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - (vi) We draw attention to Note No.9 of Schedule N-II of notes forming part of the accounts, as no effect has been given to the arrangements embodied in Scheme of Amalgamation, pending receipt of the requisite High Court Order;
 - (vii) 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, 2008;
 - (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For K. S. AIYAR & Co.
Chartered Accountants

RAGHUVIR M AIYAR
Partner
Membership No. 38128

Mumbai: May 12, 2008

Annexure to the Auditors' Report

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

- (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
(b) The Fixed Assets have been physically verified by the management in accordance with regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets. Discrepancies have been appropriately dealt with in the books of account.
(c) In our opinion no substantial part of the fixed assets has been disposed off during the year.
- (ii) (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
(b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) On the basis of our examination of the records of inventory, we are of the opinion that the Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured from Companies, firms or other parties covered in the register maintained under section 301 of the Act. Hence the provisions of paragraph 4(iii) are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for purchases of inventory and fixed assets and for the sale of goods and services. During the course of our audit we have not come across any continuing failure to correct major weaknesses in internal control system.
- (v) (a) The particulars of contracts or arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section.
(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits during the year. The Company has repaid certain old unpaid deposits during the year. Therefore, in our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A, 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) The Central Government under Section 209(1)(d) of the Companies Act, 1956, has prescribed the maintenance of cost records in respect of certain products manufactured by the Company. We have broadly reviewed such books of account relating to materials, labour and other items of cost and are of opinion that prima facie the prescribed accounts and records have been made and maintained.
- (ix) (a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth-tax, Service tax, Custom duty, Excise-duty, Cess and other material statutory dues applicable to it. According to the information and explanations given to us, no undisputed amounts payable in respect of such statutory dues were in arrears, as at 31st March, 2008 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 the Company, income-tax, sales tax, wealth-tax, service tax, custom duty, excise duty and cess which have not been deposited on account of dispute are given below:

(Figures in bracket are for previous year)

Name of Statute	Nature of the Dues	Amount (Rs in lakhs)	Period to which it relates	Forum where dispute is pending
Sales Tax	Non-submission of forms	166.28 (129.79)	1992-93, 1995-96, 2001-04	Sale Tax Officer / Deputy / Asst. Commissioner
	Claim of Sale in the course of imports rejected	1.92 (1.92)	1972-75	High Court
	Factory direct sale treated as local branch sale	133.69 (148.69)	2002-04	D.C. (Appeals)
	Works Contract Tax on interstate purchase	33.67 (41.79)	1990-91	D.C. (Appeals)
	Additional demand/ disallowances on works contracts	12.66 (10.09)	1984-85, 1990-91, 2001-04	Sales Tax Appellate Tribunal / High Court
	Additional sales tax on works contract	148.74 (-)	2000-02	High Court
	Ex-parte assessment	- (68.53)	2001-03	D.C. (Appeals)
	Tax demand on factory products, enhancement in turnover	- (104.62)	2002-04	Appeal filed before A.C. (Appeals)
	Show cause notice received from CTO, Hyderabad treating works contract sales as product sales.	2025.57 (1024.54)	2003-04 to 06-07 2003-04/04-05	Supreme Court/High Court
	Tax demand on assessment	196.25 (-)	2001- 06	Appeal to be filed before D.C. (Appeals)
Entry Tax	On Factory direct sales	0.87 (32.96)	2001-02	Asst. Commissioner
Service Tax	Service Tax demand on composite contracts	- (2118.79)	2004-05	CESTAT/Commissioner (Appeals)
Central Excise	Excise Duty	11.53 (11.53)	1987-2004	Central Excise Commissioner
		2.77 (2.77)	2000-03	Central Excise Commissioner (Appeals)
		- (356.05)	1991-92, 1996-2003	CESTAT
	Excise Duty	10.00 (10.00)	1981-86	Penalty levied by High Court stayed by Supreme Court
Income Tax	Income Tax	231.55 (-)	Ass. Year 1996-97	CIT (Appeals)
		85.27 (224.00)	Ass. Year 2004-05	ITAT

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

For K. S. AIYAR & Co.
Chartered Accountants

RAGHUVIR M AIYAR
Partner
Membership No. 38128

Mumbai: May 12, 2008

Balance Sheet as at March 31, 2008

(Rs. in lakhs)

		As at March 31	
	Schedule	2008	2007
SOURCES OF FUNDS			
Share Capital	A	17,98.72	17,98.72
Reserves & Surplus	B	2,45,55.90	1,94,97.92
SHAREHOLDERS' FUNDS		2,63,54.62	2,12,96.64
Secured Loans	C	36,29.20	39,04.96
Unsecured Loans	D	24.56	50,00.00
LOAN FUNDS		36,53.76	89,04.96
Net Deferred Tax Liability (See note 18)		3,58.78	6,51.44
TOTAL		3,03,67.16	3,08,53.04
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block		2,72,57.34	2,30,80.85
Depreciation		1,34,84.06	1,16,73.16
Net Block	E	1,37,73.28	1,14,07.69
Capital Work-in-Progress		18,09.30	2,41.29
Investments	F	4,56.79	5,29.88
Fixed Assets & Investments		1,60,39.37	1,21,78.86
Inventories		2,73,49.15	1,88,08.03
Sundry Debtors		4,83,73.98	3,50,68.38
Cash & Bank Balances		2,67.24	4,60.73
Loans & Advances		2,57,48.83	1,69,05.73
Total Current Assets, Loans & Advances	G	10,17,39.20	7,12,42.87
Current Liabilities		6,34,66.66	4,29,10.51
Provisions		2,40,86.54	98,83.14
Less : Total Current Liabilities & Provisions	H	8,75,53.20	5,27,93.65
Net Current Assets		1,41,86.00	1,84,49.22
Miscellaneous Expenditure (to the extent not written off or adjusted) (See note 5)		1,41.79	2,24.95
TOTAL		3,03,67.16	3,08,53.04
Notes forming part of the Accounts	N		

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

RAGHUVIR M AIYAR
Partner
Mumbai: May 12, 2008

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 12, 2008

Profit & Loss Account for the year ended March 31, 2008

(Rs. in lakhs)

	Schedule	Year ended March 31	
		2008	2007
INCOME			
Sales, Work Bills & Services (See note 1 & 4)		21,96,72.20	15,71,63.42
Commission		24,86.47	22,94.82
Other Income	I	48,50.65	12,82.45
		22,70,09.32	16,07,40.69
EXPENDITURE			
Cost of Sales, Work Bills & Services	J	16,90,92.87	12,42,69.10
Employee Remuneration & Benefits	K	1,54,40.64	1,22,86.12
Operating & General Expenses	L	1,53,20.73	1,18,80.70
Depreciation	M	21,96.62	20,90.12
Interest		7,56.49	9,54.93
		20,28,07.35	15,14,80.97
PROFIT			
PROFIT BEFORE TAXATION		2,42,01.97	92,59.72
Provision for Income Tax		66,14.00	21,35.50
Short Provision for Income tax in respect of earlier year		1,81.10	-
Provision for Wealth Tax		5.06	5.00
Provision for Fringe Benefit Tax		2,85.00	2,55.00
		70,85.16	23,95.50
Deferred Tax (Asset)/Liability (See note18)		(2,92.66)	(2,53.88)
PROFIT AFTER TAXATION		1,74,09.47	71,18.10
Add: Balance brought forward		43,78.29	26,02.71
PROFIT AVAILABLE FOR APPROPRIATION		2,17,87.76	97,20.81
APPROPRIATIONS			
Transfer to General Reserve		25,00.00	22,50.00
Proposed Dividend		62,95.53	5,39.62
Interim Dividend		-	21,58.47
Corporate Dividend Tax		10,69.92	3,94.43
		73,65.45	30,92.52
Balance carried forward		1,19,22.31	43,78.29
Basic & Diluted Earnings Per Share (See note 16)		Rs. 19.36	Rs. 7.91
Notes forming part of the Accounts	N		

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

RAGHUVIR M AIYAR
Partner

Mumbai: May 12, 2008

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 12, 2008

Schedules Forming Part of The Balance Sheet

As At March 31, 2008

(Rs. in lakhs)

		As at March 31	
		2008	2007
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			
	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, 2007		1,48,86.07	1,26,36.07
Less: Adjusted per contra against Fixed Assets - Intangibles (See note 8 a)		49,50.94	-
Less: Adjusted loss on sale of Investment (See note 8 b)		35.10	-
		99,00.03	1,26,36.07
Add: Transfer from Profit & Loss Account		25,00.00	22,50.00
		1,24,00.03	1,48,86.07
Capital Redemption Reserve			
Balance as on April 1, 2007		2,33.56	2,33.56
		2,33.56	2,33.56
Profit & Loss Account			
Balance carried forward		1,19,22.31	43,78.29
		2,45,55.90	1,94,97.92

(Rs. in lakhs)

	As at March 31	
	2008	2007
C. SECURED LOANS		
From Banks, secured by hypothecation		
of stock-in-trade and book debts	36,29.20	39,04.96
	36,29.20	39,04.96
D. UNSECURED LOANS		
Non Convertible Debentures	-	50,00.00
Others	24.56	-
	24.56	50,00.00
	36,53.76	89,04.96

E. FIXED ASSETS

(Rs. in lakhs)

	Gross Block				Depreciation				Net Block	
	As on 1.4.2007	Additions	Deletions	As on 31.3.2008	As on 1.4.2007	Additions	Deletions	As on 31.3.2008	As on 31.3.2008	As on 31.3.2007
Land - Freehold	4,42.74	23.61	-	4,66.35	-	-	-	-	4,66.35	4,42.74
Land - Leasehold	7.94	-	-	7.94	1.83	0.06	-	1.89	6.05	6.11
Building Sheds and Road	57,98.54	9,67.57	1,56.67	66,09.44	18,78.66	3,47.85	28.44	21,98.07	44,11.37	39,19.87
Plant and Machinery	1,04,99.01	27,84.82	2,18.19	1,30,65.64	55,31.64	11,26.57	1,73.48	64,84.73	65,80.91	49,67.40
Furniture, Fittings & Equipments	21,73.51	5,90.65	90.60	26,73.56	11,53.97	2,49.07	72.46	13,30.58	13,42.98	10,19.54
Vehicles	3,49.17	87.72	29.13	4,07.76	2,20.47	34.93	19.42	2,35.98	1,71.78	1,28.69
Computers	23,14.87	3,11.00	94.29	25,31.58	18,02.90	2,70.19	91.92	19,81.17	5,50.41	5,11.96
Intangible Assets										
- BAAN SYSTEM	15,31.31	-	-	15,31.31	11,02.09	1,71.68	-	12,73.77	2,57.54	4,29.21
- Goodwill *		8,32.32	8,32.32							
- Trade Marks *		39,00.67	39,00.67							
- Technical Knowhow *		33.49	33.49							
- Others *		1,84.46	1,84.46							
Sub Total - 31.03.2008	2,31,17.09	97,16.31	55,39.82	2,72,93.58	1,16,91.56	22,00.35	3,85.72	1,35,06.19	1,37,87.39	1,14,25.52
LESS: Capital Reserve - Grant received from UNIDO	36.24	-	-	36.24	18.40	3.73	-	22.13	14.11	17.83
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
Total 31.3.2007	1,97,72.76	39,20.39	6,12.30	2,30,80.85	1,00,95.35	20,90.12	5,12.31	1,16,73.16	1,14,07.69	

* Adjusted per contra from General Reserve(See note 7 and 8a)

(Rs. in lakhs)

	As at March 31	
	2008	2007
F. LONG TERM INVESTMENTS		
18,755 Units 6.75 % Bonds of Unit Trust of India (Face Value Rs.18.56 lakhs)	18.56	18.56
UNQUOTED: TRADE INVESTMENTS		
2,400 Fully paid Equity Shares of Rs.100 each in Ashok Sunil & Company Private Ltd.	5.64	5.64
76,790 Fully paid Equity Shares of Rs. 10 each in Ravistar India Private Ltd.	7.68	7.68
3,67,500 Fully paid Equity Shares of MR 1 each in Blue Star M & E Engineering (Sdn) Bhd	49.97	49.97
1,17,600 (2006-07 : 2,94,000) Fully paid Equity Shares of Rs.10 each in Rolastar Private Limited (sold 1,76,400 shares during the year) (See note 10)	11.76	29.40
5,85,000 (2006-07: 9,75,000) Fully paid Equity Shares of Rs.10 each in Blue Star Design and Engineering Ltd. (sold 3,90,000 shares during the year) (See note 8b)	58.50	97.50
98,000 Fully paid Equity Shares of Rs.10 each in Blue Star Qatar (LLC)	12.11	12.11
QUOTED: OTHER INVESTMENTS		
29,25,725 Fully paid Equity Shares of Rs.10 each in Blue Star Infotech Ltd. (Aggregate Market Value Rs.17,27.64 lakhs; 2006-07: Rs.26,81.43 lakhs)	2,92.57	2,92.57
329 Fully paid secured & redeemable Bonds of Rs.5000 each in Krishna Bhagya Jala Nigam Ltd. (Redeemed during the year)	-	16.45
	4,56.79	5,29.88

(Rs. in lakhs)

	As at March 31	
	2008	2007
G. CURRENT ASSETS, LOANS & ADVANCES		
(a) INVENTORIES (At lower of Cost and Net realisable value)		
Raw Materials, Stores & Components (See note 11)	91,36.14	64,61.54
Work-in-Progress	1,03,82.03	1,06,76.21
Less: Advance received thereagainst	16,29.87	20,51.41
	87,52.16	86,24.80
Finished Goods (See note 11)	55,32.25	25,84.10
Goods in Transit	38,98.48	11,21.39
Tools, Cylinders & Consumable Stores	25.10	11.17
Units, Bonds & Shares in hand (See note 21)	5.03	5.03
	2,73,49.15	1,88,08.03
(b) SUNDRY DEBTORS (Unsecured)		
Considered Good		
Over six months	86,54.61	58,66.22
Others	3,99,30.78	2,96,70.97
Less: Amounts due to Customer	2,11.41	4,68.81
	4,83,73.98	3,50,68.38
(c) CASH & BANK BALANCES		
Cash on hand	70.97	29.67
With Scheduled Banks		
Current Account	22.85	81.61
Unclaimed Dividend Account	97.11	2,69.40
Deposit Account	76.31	79.94
With Unscheduled Banks		
Abu Dhabi Commercial Bank Ltd. A/c (Maximum balance during the year Rs.0.11 lakhs; 2006-07 : Rs.0.11 lakhs)	-	0.11
	2,67.24	4,60.73
(d) LOANS & ADVANCES		
Unsecured and considered good		
Advance recoverable in cash or in kind or for value to be received	90,70.91	52,91.71
Advance Tax paid	1,42,37.89	94,31.28
Deposits with Government and other bodies	24,40.03	21,82.74
	2,57,48.83	1,69,05.73
	10,17,39.20	7,12,42.87

(Rs. in lakhs)

	As at March 31	
	2008	2007
H. CURRENT LIABILITIES & PROVISIONS		
Sundry Creditors - Micro, Small Medium Enterprises (See note 12)	43.15	8,03.46
Sundry Creditors- Others	2,88,17.05	1,72,39.43
Acceptances	37,27.14	9,18.02
Other Liabilities	2,19,50.44	1,55,81.31
Advances against Contracts	88,20.32	80,89.72
Investor Protection Fund:		
- Unclaimed Dividends	97.11	2,69.40
- Unclaimed Fixed Deposits	2.58	2.83
Interest accrued but not due	8.87	6.34
Current Liabilities	6,34,66.66	4,29,10.51
Provision for Leave encashment	7,06.02	3,26.16
Provision for Warranty (See note 6)	7,86.40	5,84.80
Provision for Taxes	1,52,28.67	83,40.85
Proposed Dividend	62,95.53	5,39.62
Corporate Dividend Tax	10,69.92	91.71
Provisions	2,40,86.54	98,83.14
	8,75,53.20	5,27,93.65

Schedules Forming Part of Profit & Loss Account

For The Year Ended March 31, 2008

(Rs. in lakhs)

	Year ended March 31	
	2008	2007
I. OTHER INCOME		
Profit on Sale of Assets	7.09	2,02.99
Interest (Gross) (Including tax deducted at source Rs.9.64 lakhs; 2006-07 : Rs.10.93 lakhs)	99.74	78.88
Provisions & Liabilities no longer required	1,95.58	41.59
Dividends (Gross) (Including tax deducted at source Nil; 2006-07: Rs.24.65 lakhs)	66.19	3,31.08
Profit on sale of Investment (See note 10)	35,32.17	-
Exchange gain (net)	3,18.62	82.40
Miscellaneous	6,31.26	5,45.51
	48,50.65	12,82.45
J. COST OF SALES, WORK BILLS & SERVICES		
Stock at commencement		
Raw Materials, Stores & Components	64,61.54	48,77.21
Work-in-Progress	1,06,76.21	79,85.34
Finished Goods	25,84.10	25,89.51
Units, Bonds and Shares in hand (See note 21)	5.03	5.03
Purchases & Expenses (See note 17)	17,44,21.44	12,85,38.89
	19,41,48.32	14,39,95.98
Less: Stock at Close		
Raw Materials, Stores & Components (See note 11)	91,36.14	64,61.54
Work-in-Progress	1,03,82.03	1,06,76.21
Finished Goods (See note 11)	55,32.25	25,84.10
Units, Bonds and Shares in hand (See note 21)	5.03	5.03
	2,50,55.45	1,97,26.88
	16,90,92.87	12,42,69.10
K. EMPLOYEE REMUNERATION & BENEFITS (See note 13)		
Salaries, Wages & Bonus	1,21,19.78	95,58.21
Contribution to Provident Fund, Superannuation, Gratuity Fund and Leave Encashment	14,82.47	13,86.01
Welfare & Training Expenses	18,38.39	13,41.90
	1,54,40.64	1,22,86.12

Schedules Forming Part of Profit & Loss Account
For The Year Ended March 31, 2008

(Rs. in lakhs)

		Year Ended March 31	
		2008	2007
L. OPERATING & GENERAL EXPENSES			
Rent		9,01.17	6,96.82
Rates & Taxes		28.25	21.61
Power		7,04.09	5,82.62
Insurance		1,22.14	1,30.68
Repairs & Maintenance			
- Premises		5,49.07	3,39.99
- Machinery		2,19.44	2,37.23
- Others		1,99.15	1,50.69
Payment to Auditors (including payment to Branch Auditors)			
- Audit Fees		28.34	18.05
- Other Services (Including for Tax Audit Fees Rs.6.30 lakhs; 2006-07: Rs.4.73 lakhs)		12.09	16.64
- Reimbursement of Expenses		2.86	2.50
Directors' Fees		7.20	7.40
Non Executive Directors' Commission		40.00	30.00
Donations		60.39	32.25
Commission on Sales (other than salesmen)		20,02.33	16,84.63
Advertising & Publicity		22,00.88	17,73.49
Transport & Travelling		27,95.72	22,84.90
Stationery & Printing		3,10.71	2,45.49
Other expenses		37,70.39	28,12.63
Non Recoverable Debts Written-off		12,34.96	7,14.14
Loss on assets sold or discarded		74.78	43.67
Loss on sale of Investment	35.10		-
Less: Adjusted per Contra from General Reserve (See note 8b)	35.10	-	-
Research & Development		56.77	55.27
		1,53,20.73	1,18,80.70
M. DEPRECIATION			
Depreciation on Fixed Assets		22,00.35	20,94.82
Less: Transferred from Grant Received		3.73	4.70
Depreciation charged to Profit and Loss Account		21,96.62	20,90.12

Notes Forming Part of The Accounts

N. NOTES FORMING PART OF THE ACCOUNTS

I SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. Revenue Recognition

- a. On construction contracts entered into before 1.4.2003

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.

4. Depreciation/Amortisation

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

5. Inventory Valuation and Treatment of Costs

- a.** All inventories are valued at lower of cost and net realisable value.
 - i) Raw materials, stores, components at factories are valued at weighted average rate and at marketing units on first in first out basis (FIFO), net of Value Added Tax / CENVAT input credit and after providing for requisite diminution in the value due to obsolescence.
 - ii) Work-in-Progress relating to manufacturing activity is valued at lower of cost and net realisable value.
 - iii) In case of construction contracts entered 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 & 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 and leave encashment 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 & Loss Account and are not deferred.

c. Voluntary Retirement Scheme

Payments made under the Voluntary Retirement Scheme are deferred and amortised over 3 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)*

	2007-08	2006-07
i Contract revenue recognised as revenue in the period	5,97,85.85	4,70,38.31
ii For Contracts that are in progress as on 31.3.2008		
A Contract costs incurred and recognised profits (Less Recognised losses) up to the reporting date	6,87,83.61	4,60,06.80
B Advances received	43,11.33	53,43.92
C Retention amount	-	-
D Gross amount due from customers for contract work	1,31,37.66	64,39.21
E Gross amount due to customers for contract work	11,50.46	1,22.10

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

	2007-08	2006-07
i Claims against the Company not acknowledged as debts	1,28.42	3,34.61
ii Sales Tax demands under appeal	1,11.23	1,05.85
iii Excise duty claims under appeal	1,95.92	1,34.92
iv Income Tax demands under appeal	5,92.65	5,33.41
v Corporate Guarantee given on behalf of Associates and other Companies	54,62.36	38,53.30

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	166.28 (129.79)	1992-93, 1995-96, 2001-04	Sale Tax Officer / Deputy / Asst. Commissioner
	Claim of Sale in the course of imports rejected	1.92 (1.92)	1972-75	High Court
	Factory direct sale treated as local branch sale	133.69 (148.69)	2002-04	D.C. (Appeals)
	Works Contract Tax on interstate purchase	33.67 (41.79)	1990-91	D.C. (Appeals)
	Additional demand/ disallowances on works contracts	12.66 (10.09)	1984-85, 1990-91, 2001-04	Sales Tax Appellate Tribunal / High Court
	Additional sales tax on works contract	148.74 (-)	2000-02	High Court
	Ex-parte assessment	- (68.53)	2001-03	D.C. (Appeals)
	Tax demand on factory products, enhancement in turnover	- (104.62)	2002-04	Appeal filed before A.C. (Appeals)
	Show cause notice received from CTO, Hyderabad treating works contract sales as product sales.	2025.57 (1024.54)	2003-04 to 06-07 2003-04/04-05	Supreme Court/High Court
	Tax demand on assessment	196.25 (-)	2001- 06	Appeal to be filed before D.C. (Appeals)
Entry Tax	On Factory direct sales	0.87 (32.96)	2001-02	Asst. Commissioner
Service Tax	Service Tax demand on composite contracts	- (2118.79)	2004-05	CESTAT/Commissioner (Appeals)
Central Excise	Excise Duty	11.53 (11.53)	1987-2004	Central Excise Commissioner
		2.77 (2.77)	2000-03	Central Excise Commissioner (Appeals)
		- (356.05)	1991-92, 1996-2003	CESTAT
	Excise Duty	10.00 (10.00)	1981-86	Penalty levied by High Court stayed by Supreme Court
Income Tax	Income Tax	231.55 (-)	Ass. Year 1996-97	CIT (Appeals)
		85.27 (224.00)	Ass. Year 2004-05	ITAT

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 2000-01. 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.27,60.53 lakhs (2006-07 : Rs. 6,05.33 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.1,41.79 lakhs (2006-07 : Rs. 2,24.95 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, a provision of Rs.7,86.40 lakhs (2006-07 : Rs. 5,84.80 lakhs) has been provided for expected warranty claims on products/ projects sold/ commissioned during the financial year.
7. The Company has acquired the electrical contracting business of Naseer Electricals Private Ltd. (NEPL) under a business purchase agreement on a slump sale basis for Rs.48,09.77 lakhs (including Rs.5,00.00 lakhs held in Escrow account till the conditions stipulated in the said agreement are fulfilled) with effect from January 24, 2008. After adjusting the value of tangible fixed assets acquired of Rs.1,16.65 lakhs, the balance consideration along with the incidental expenses have been allocated towards various intangible assets and goodwill as valued by an independent valuer as detailed hereunder:

	<i>(Rs. in lakhs)</i>
Consideration paid / payable to NEPL	42,05.86
Add: Current Liabilities net of Current Assets taken over	5,89.22
Add: Secured Loan taken over	14.69
Gross consideration paid / payable	48,09.77
Less: Fixed Assets acquired	1,16.65
Consideration paid / payable, net of tangible assets acquired	46,93.12
Add: Incidental expenses	2,57.82
Total Business Purchase Cost	49,50.94
Comprising of -	
• Trademark	39,00.67
• Technical Know-how	33.49
• Others	1,84.46
• Total Intangibles	41,18.62
• Goodwill on acquisition	8,32.32
Total	49,50.94

8. As per the Scheme of Arrangement approved by the shareholders at the Extra-ordinary General Meeting held on March 4, 2008 and duly approved by the Hon'ble High Court at Bombay vide its order dated April 11, 2008, the Company has, in accordance with the accounting treatment prescribed therein adjusted the following amounts against the General Reserve of the Company:
 - a. The intangible assets of Rs. 41,18.62 lakhs and Goodwill of Rs.8,32.32 lakhs arising on acquisition of electrical contracting business of NEPL.
 - b. Loss of Rs.35.10 lakhs on sale of 3,90,000 equity shares of Blue Star Design & Engineering Ltd.

9. Pending receipt of the requisite order from the Hon'ble High Court at Bombay, no effect has been given to the arrangements embodied in the Scheme of Amalgamation of Admo Holdings Private Limited, Sunag Investments Private Ltd., Sunashad Investments Private Ltd. and Mohan T. Advani Finance Private Limited with the Company, as approved by the shareholders at the Extra-ordinary General Meeting held on March 4, 2008. The said Scheme, when given effect to, will not have any impact on the financial statements of the Company.
10. Other Income includes profit of Rs.35,32.17 lakhs on sale of 1,76,400 shares of Rolastar Pvt. Ltd.
11. Inventories includes raw material, stores and components estimated at Rs.6,86.31 lakhs and finished goods estimated at Rs.2,35.58 lakhs that have been destroyed in a fire on April 10, 2008. The Company is in the process of lodging its claim with the Insurer. The Company is confident of recovering the entire loss.
12. Suppliers/service providers covered under Micro, Small Medium Enterprises Development Act, 2006 have not furnished the information regarding filing of necessary memorandum with the appropriate authority except for few cases in Southern Region. However, no interest is payable to any of the said enterprises. In the absence of the said information the Company is unable to identify units as well as furnish details required under the said Act.
13. 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	Leave Encashment
I Expense recognised in the Statement of Profit & Loss for the year ended 31st March 2008		
1 Current Service Cost	176.85 137.82	336.19 101.82
2 Interest Cost	116.64 79.83	20.89 14.04
3 Expected return on Plan Assets	(141.29) (86.38)	N.A.
4 Net Actuarial (Gains)/Losses	(463.40) (420.99)	152.77 82.31
5 Total Expense	615.61 552.25	509.86 198.16
II Net Assets/(Liability) recognised in the Balance Sheet as at 31st March 2008		
1 Present Value of Defined Obligation as at 31 st March 2008	2133.84 1541.58	706.02 326.16
2 Fair Value of Plan Assets as at 31 st March 2008	2134.00 1551.25	N.A.
3 Funded Status [Surplus/(Deficit)]	0.16 9.67	(706.02) (326.16)
4 Net Assets/(Liability) as at 31 st March 2008	0.16 9.67	(706.02) (326.16)
III Change in Obligation during the Year ended 31st March 2008		
1 Present Value of Defined Benefit Obligation at the beginning of the year	1541.58 1092.33	326.16 223.00
2 Current Service Cost	176.85 137.82	336.19 101.82

(Figures in Italics pertain to Previous year)

(Rs. in lakhs)

Sr No.		Gratuity Funded	Leave Encashment
3	Interest Cost	116.64 79.83	20.89 14.04
4	Actuarial (Gains)/Losses	465.98 420.61	152.77 82.31
5	Benefits Payments	(167.21) (189.00)	(130.00) (95.00)
6	Present Value of Defined Benefit Obligation at the end of the year	2133.84 1541.58	706.02 326.16
IV Change in the Assets during the year ended 31st March 2008			
1	Fair Value of Plan Assets at the beginning of the year	1542.00	N.A.
2	Expected return on Plan Assets	141.29 86.38	
3	Contribution by Employer	615.35 576.00	130.00 95.00
4	Actual benefits paid	(167.21) (189.00)	(130.00) (95.00)
5	Actuarial Gains / (Losses) on Plan Assets	2.57 (0.38)	N.A.
6	Fair Value of Plan Assets at the end of the year	2134.00 1551.25	N.A.
V Balance Sheet Reconciliation			
	Opening Net Liability	(0.42) 14.08	326.16 223.00
	Expenses as per Sr. no. I (5)	615.61 552.25	509.86 198.16
	Employers' Contribution	(615.35) (576.00)	(130.00) (95.00)
	Amount Recognised in the Balance Sheet	(0.16) (9.67)	706.02 326.16

VI Actuarial Assumptions	As at March 31, 2008	As at March 31, 2007
Discount rate	8%	8%
Rate of return on Plan Assets	8%	8%
Salary escalation rate (Management-Staff-Directors)	8%, 2%, 12%	6%, 2%, 10%
Attrition rate	1% throughout	1% throughout

14. Segment Information

A. Primary Segment Reporting (by Business Segment):

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

- Central and Packaged Airconditioning Systems includes central airconditioning projects and packaged airconditioning businesses including manufacturing and newly acquired electrical contracting business.
- Cooling Products includes cooling appliances, cold storage products, including manufacturing and after sales service.
- 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	
	2008	2007
I. SEGMENT REVENUE		
i. Central & Packaged Airconditioning Systems	15,56,29.16	11,24,27.25
ii. Cooling Products	5,32,41.99	3,72,77.89
iii. Professional Electronics and Industrial Systems	1,44,33.10	1,04,22.52
TOTAL SEGMENT REVENUE	22,33,04.25	16,01,27.66
Add: Other Un-allocable Income	37,05.07	6,13.03
TOTAL INCOME	22,70,09.32	16,07,40.69
II. SEGMENT RESULT		
i. Central & Packaged Airconditioning Systems	1,89,69.81	1,02,86.44
ii. Cooling Products	58,06.56	25,43.93
iii. Professional Electronics and Industrial Systems	28,92.09	19,22.71
TOTAL SEGMENT RESULT	2,76,68.46	1,47,53.08
Less: i) Interest paid	7,56.49	9,54.93
ii) Other un-allocable Expenditure Net of un-allocable Income	27,10.00	45,38.43
TOTAL PROFIT BEFORE TAX	2,42,01.97	92,59.72
Less: Provision for Tax	66,14.00	21,35.50
Short Provision for Income tax in respect of earlier year	1,81.10	-
Provision for Wealth Tax	5.06	5.00
Provision for Fringe Benefit Tax	2,85.00	2,55.00
Deferred Tax Liability / (Asset)	(2,92.66)	(2,53.88)
NET PROFIT AFTER TAX	1,74,09.47	71,18.10

Segment Revenues, Results and Other Information (Contd.)

(Rs. in lakhs)

Description	As at March 31	
	2008	2007
III. OTHER INFORMATION		
a. SEGMENT ASSETS		
i. Central & Packaged Airconditioning Systems	6,65,47.28	4,64,63.81
ii. Cooling Products	2,74,86.40	2,00,16.03
iii. Professional Electronics and Industrial Systems	64,02.56	48,53.83
TOTAL SEGMENT ASSETS	10,04,36.24	7,13,33.67
Add: Un-allocable Corporate Assets	1,74,84.12	1,23,12.99
TOTAL ASSETS	11,79,20.36	8,36,46.68
b. SEGMENT LIABILITIES		
i. Central & Packaged Airconditioning Systems	4,62,38.29	3,10,72.44
ii. Cooling Products	1,27,65.17	86,32.58
iii. Professional Electronics and Industrial Systems	31,58.94	18,48.22
TOTAL SEGMENT LIABILITIES	6,21,62.40	4,15,53.24
Add: Un-allocable Corporate Liabilities	2,53,90.80	1,12,40.41
TOTAL LIABILITIES	8,75,53.20	5,27,93.65
c. CAPITAL EXPENDITURE		
i. Central & Packaged Airconditioning Systems	76,56.05	13,31.38
ii. Cooling Products	19,01.81	24,62.68
iii. Professional Electronics and Industrial Systems	56.83	26.43
iv. Other Un-allocable	1,01.62	99.90
TOTAL	97,16.31	39,20.39
d. DEPRECIATION		
i. Central & Packaged Airconditioning Systems	10,52.19	9,36.89
ii. Cooling Products	7,84.07	6,47.30
iii. Professional Electronics and Industrial Systems	62.20	53.16
iv. Other Un-allocable	2,98.16	4,52.77
TOTAL	21,96.62	20,90.12
e. NON CASH EXPENSES OTHER THAN DEPRECIATION		
i. Central & Packaged Airconditioning Systems	8,48.40	4,13.36
ii. Cooling Products	2,26.95	2,08.38
iii. Professional Electronics and Industrial Systems	1,01.04	60.16
iv. Other Un-allocable	58.57	32.24
TOTAL	12,34.96	7,14.14

B. Secondary Segment Information :

The Company predominantly caters to the needs of Indian market. Since the export turnover constitutes 6.6% (2006-07 : 5.7%) of the total turnover of the Company, there are no reportable geographical segments.

15. Related Party Disclosure

a. Related party and their relationship

Associates

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

Enterprises in which key management personnel & their relatives are interested

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

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

(Rs. in lakhs)

Name of Related Party / Transaction	2007-08		2006-07	
	Volume Rs.	Balance O/S DR/(CR)	Volume Rs.	Balance O/S DR/(CR)
Rolastar Pvt. Ltd.		(3.86)		(68.19)
Purchase of materials	35,04.49		15,11.91	
Fabrication charges	2,08.83		1,60.17	
Corporate guarantee	8,00.00		2,27.10	
Guarantee Commission	7.08		3.22	
Ravistar Pvt. Ltd.		21.42		(1,60.52)
Purchase of goods	21,46.95		14,86.20	
Corporate guarantee	25.04		72.36	
Guarantee Commission	0.90		-	
Blue Star M & E Engineering (Sdn) Bhd		18.38		10.64
Consultancy services received	1,70.61		1,56.03	
Blue Star Infotech Ltd.		4.57		(19.62)
Sales	-		21.37	
IT Services	5,65.09		4,80.37	
Rent paid for Premises	33.18		55.86	
Purchase of Fixed Assets	23.51		-	
Reimbursement of Expenses	55.33		12.72	
Received for Services/AMC	4,18.58		-	

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

(Rs. in lakhs)

Name of Related Party / Transaction	2007-08		2006-07	
	Volume Rs.	Balance O/S DR/(CR)	Volume Rs.	Balance O/S DR/(CR)
Blue Star Qatar (LLC)		73.99		12.75
Purchase of Investment	-		12.11	
Reimbursement of Expenses	61.25		12.75	
Corporate guarantee	27,00.00		-	
Blue Star Design & Engineering Ltd.		36.53		3,96.35
Consultancy service	-		1.67	
Rent paid for Premises	-		0.12	
Loan given	3,26.00		7.50	
Loan repaid	37.00		3,00.00	
Interest	42.94		52.11	
Corporate guarantee	4,55.24		5,00.00	
Guarantee Commission	7.67		-	
Purchase of Fixed Assets	32.26		0.64	
Reimbursement of Expenses	31.35		-	
Synergy Realtors & Services Pvt. Ltd.		0.80		-
Consultancy Charges	-		0.68	
Corporate guarantee	14,82.08		30,53.84	
Rent paid for Premises	7,00.08		3,61.85	
Guarantee Commission	14.75		-	
Directors				
Managerial remuneration	9,72.48		5,64.14	
Housing loan		4.42		6.10
Relative of Directors		70.00		
Rent Deposit	70.00			
Salary	17.32			

16. Earning Per Share

		2007-08	2006-07
Profit after taxation as per Profit and Loss Account	(Rs. in lakhs)	1,74,09.47	71,18.10
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.	19.36	7.91

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

(Rs. in lakhs)

	2007-08	2006-07
Salaries, Wages & Bonus	84.82	45.12
Rent	5.33	5.87
Power	4.78	50.23
Insurance	3,93.34	5,64.07
Transport & Travelling	1,88.65	3,46.55
Stationery & Printing	20.69	13.01
Other Expenses	26,63.58	19,21.90

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

(Rs. in lakhs)

	As at March 31, 2008		As at March 31, 2007	
	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		25,76.21		27,91.62
Provision of Doubtful Debts, Advances & Inventories	5,60.67		1,15.00	
Leave Encashment Provision, Other Current Liabilities	9,60.03		7,41.29	
Total	15,20.70	25,76.21	8,56.29	27,91.62
Net Timing Differences	10,55.51		19,35.33	
Deferred Tax Liability(Net)	3,58.78		6,51.44	

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

(Rs. in lakhs)

	2007-08	2006-07
a) Salaries	3,02.01	2,23.94
b) Commission	6,05.00	2,82.37
c) Contribution to Provident Fund & Superannuation Scheme	30.34	23.26
d) Other Perquisites	35.13	34.57
Total	9,72.48	5,64.14

20. Computation of Directors' Commission

(Rs. in lakhs)

	2007-08	2006-07
Profit before tax as per Profit and Loss Account	2,42,01.97	92,59.72
Add: Directors' Remuneration	10,12.48	5,94.14
Loss on Fixed Assets sold/discarded	74.78	43.67
Less: Amortisation of Intangible Assets®	9,90.19	-
Less: Profit on sale of Fixed Assets/Investments	35,39.25	2,02.99
Net Profit for the purpose of Directors' Commission	2,07,59.77	96,94.54
Maximum Remuneration payable up to 10% of the above to Whole-time Directors	20,75.98	9,69.45
Commission payable to the Whole-time Directors as per contract of service	6,05.00	2,82.37
Maximum commission payable up to 1% of the above		
Net Profits to the Non-Executive Directors	2,07.60	96.94
Commission payable to Non-Executive Directors	40.00	30.00

@ Goodwill and other Intangible Assets of Rs.49,50.14 lakhs acquired from NEPL are considered as 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 (Refer note 8a).

21. 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

22. 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 & airconditioning equipment	Nos.	476250 (356250)	312514 (154760)	13361 (16015)	2353.69 (3104.51)	31765 (13287)	5485.43 (2324.17)
Packaged airconditioning	Nos.	112500 (112500)	38286 (67975)	727 (177)	320.28 (226.76)	261 (701)	168.53 (299.42)
Industrial packaged chillers	Nos.	1450 (1450)	1454 (1204)	11 (10)	98.84 (194.29)	18 (11)	146.26 (98.84)
Shell & tube condensers & Coolers	Nos.	- (-)	741 (1861)	3 (-)	2.00 (-)	4 (3)	5.90 (2.00)
Air handling units	Nos.	15500 (15500)	4852 (9635)	66 (210)	55.02 (67.38)	193 (66)	33.00 (55.02)
Finned condensers & evaporators	Nos.	10780 (10780)	8651 (6685)	- (-)	- (-)	61 (-)	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)
Airconditioning & Refrigeration Equipment	Nos.	7790 (10015)	1512.93 (1556.34)	199861 (120892)	43406.31 (26069.44)	24640 (7790)	4269.23 (1512.93)	183011 (123112)	47976.02 (30370.68)
Central Airconditioning Plant (Sales Contract)	Worth	- (-)	95.30 (4.82)	- (-)	5401.24 (2902.16)	- (-)	98.66 (95.30)	- (-)	6233.58 (3449.32)
Electronics & Other Appliances, Equipment, Instruments Etc.	Nos.	492 (160)	400.67 (251.60)	19774 (1464)	3374.97 (4504.19)	371 (492)	243.02 (400.67)	19895 (1148)	5092.89 (5309.68)
Spares & Components	Worth	- (-)	919.73 (863.90)	- (-)	7086.16 (6179.84)	- (-)	1304.25 (919.73)	- (-)	9243.78 (8411.56)
Others	Nos.	3 (1)	1.72 (0.59)	- (35)	- (22.68)	- (3)	- (1.72)	3 (33)	1.89 (21.56)
Total			2930.35 (2677.24)		59268.68 (39678.32)		5915.15 (2930.35)		68548.17 (47562.80)

Notes:

(i) Purchases are inclusive of own products.

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

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

2007-08	2006-07
1,84,82.12	1,60,79.50

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

	Units	2007-08		2006-07	
		Quantity	Rs. in lakhs	Quantity	Rs. in lakhs
Non-Ferrous Metals	Tonne	3704	1,15,02.57	2596	82,45.74
Ferrous Metals	Tonne	5699	42,02.28	8899	41,71.63
Compressors	Number	315972	1,74,41.76	208715	1,25,13.53
Others (items individually not exceeding 10% of total)	Worth	-	4,39,21.36	-	3,26,67.42
Total			7,70,67.97		5,75,98.32

b) Raw Materials & Components Consumed

	2007-08		2006-07	
	% of Total Consumption	Value Rs. in lakhs	% of Total Consumption	Value Rs. in lakhs
Imported (at landed cost)	38.26	2,94,83.26	33.67	1,93,94.01
Indigenous	61.74	4,75,84.71	66.33	3,82,04.31
Total	100.00	7,70,67.97	100.00	5,75,98.32

E. VALUE OF IMPORTS ON CIF BASIS

(Rs. in lakhs)

	2007-08	2006-07
(a) Raw Materials	2,04,79.43	76,25.01
(b) Components	30,16.50	87,72.00
(c) Capital Goods	8,18.89	3,56.16
(d) Sample for R&D	5.86	-
(e) Spares	15,11.39	9,80.66
(f) Finished Goods	41,92.55	28,77.44
Total	3,00,24.63	2,06,11.28

F. EXPENDITURE INCURRED IN FOREIGN EXCHANGE

(Rs. in lakhs)

	2007-08	2006-07
(a) Project Exports	1,18.00	1,90.32
(b) Royalty & Know-how	22.67	30.10
(c) Others	2,14.27	2,30.61
Total	3,54.95	4,51.03

G. EARNINGS IN FOREIGN EXCHANGE

(Rs. in lakhs)

	2007-08	2006-07
(a) Export of goods on F.O.B. basis	1,43,67.94	88,05.27
(b) Project Exports	50.14	1,94.35
(c) Royalty, Know-how, Professional & Consultation fees	1,70.61	1,56.03
(d) Other Income:		
Commission	18,80.01	21,37.44
Others	47.23	91.30
Total	1,65,15.93	1,13,84.39

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	8
---	---	---	---	---	---	---	---

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 (Incl. Deferred Tax Liabilities)

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

Sources of Funds

Paid-up Capital

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

Secured Loans

		3	6	2	9	2	0
--	--	---	---	---	---	---	---

Deferred Tax Liability

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

Applications of Funds

Net Fixed Assets (incl Capital WIP)

	1	5	5	8	2	5	8
--	---	---	---	---	---	---	---

Net Current Assets

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

Total Assets (Net of Current Liabilities)

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

Reserves & Surplus

	3	1	9	2	1	3	5
--	---	---	---	---	---	---	---

Unsecured Loans

				2	4	5	6
--	--	--	--	---	---	---	---

Investments

			4	5	6	7	9
--	--	--	---	---	---	---	---

Misc. Expenditure

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

IV. Performance of Company (Amount in Rs Thousands)

Turnover

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

Profit/Loss Before Tax

(+)	2	4	2	0	1	9	7
-----	---	---	---	---	---	---	---

Earning Per Share (in Rs.)

			1	9	.	3	6
--	--	--	---	---	---	---	---

Total Expenditure

2	0	2	8	0	7	3	5
---	---	---	---	---	---	---	---

Profit/Loss After Tax

(+)	1	7	4	0	9	4	7
-----	---	---	---	---	---	---	---

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, 2008
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2008	2007
[A] CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit Before Tax	2,42,01.97	92,59.72
Depreciation	21,96.62	20,90.11
Foreign Exchange	(2,33.42)	(87.70)
Investments/Others	(27,99.85)	5,09.70
Interest/Dividend	(1,65.93)	(4,09.95)
Interest charged	7,56.49	9,54.93
	(2,46.09)	30,57.10
Operating profit before working capital changes	2,39,55.88	1,23,16.82
Adjustment for :		
Trade and other receivables	(1,69,19.59)	(1,62,30.19)
Inventories	(85,41.12)	(38,24.03)
Trade payables	2,08,22.17	1,55,60.13
	(46,38.54)	(44,94.09)
Cash generated from operations	1,93,17.34	78,22.73
Direct taxes paid	(51,85.10)	(8,59.23)
Interest paid	(7,53.96)	(9,51.25)
	1,33,78.28	60,12.25
NET CASH FROM OPERATING ACTIVITIES	1,33,78.28	60,12.25
[B] CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets (See note 7)	(1,12,84.32)	(30,52.76)
Sale of Fixed Assets	39.06	2,59.28
Purchase of Investments	-	(12.12)
Sale of Investments (See note 10)	35,70.16	-
Interest received	92.20	1,02.12
Dividend received	66.19	3,31.08
NET CASH USED IN INVESTING ACTIVITIES	(75,16.71)	(23,72.39)
Balance Carried Forward	58,61.57	36,39.86

Cash Flow Statement For The Year Ended March 31, 2008
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2008	2007
Balance Brought Forward	58,61.57	36,39.86
[C] CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Share Capital	-	-
Proceeds from Borrowings	-	13,17.82
Repayment of Borrowings	(52,51.20)	-
Dividend Paid	(8,03.86)	(47,33.76)
NET CASH FROM FINANCING ACTIVITIES	(60,55.06)	(34,15.93)
NET INCREASE IN CASH & CASH EQUIVALENTS	(1,93.49)	2,23.93
CASH & CASH EQUIVALENTS - OPENING BALANCE	4,60.73	2,36.80
CASH & CASH EQUIVALENTS - CLOSING BALANCE	2,67.24	4,60.73

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 12, 2008

Mumbai: May 12, 2008

Investor and Shareholder Information

SHAREHOLDER INQUIRIES

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

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

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

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

Share transfer documents will also be accepted at
Intime Spectrum Registry Ltd.
203 Dawar House, 2nd floor
Next to Central Camera Building
197 D N Road
Fort, Mumbai 400 001.
Tel : 91 22 2269 4127

DEMATERIALISATION

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

INVESTOR RELATIONS PROGRAMME

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

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

BLUE STAR SHAREHOLDERS

As of March 31, 2008, the Company has 19096 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

The Stock Exchange, Mumbai
National Stock Exchange

