

Guiding Values and Beliefs of Blue Star

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

BOARD OF DIRECTORS

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

Satish Jamdar
Executive Director

Pradeep Mallick

Nawshir Mirza

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

Satish Jamdar
Executive Director

Avinash Pandit
Executive Vice President

H Rajaram
Executive Vice President

Arun Khorana
Vice President - Electronics Division

Ranajit Majumdar
Vice President - Human Resources & Quality

S Sankaran
Vice President - Airconditioning Projects Division

N Sivasankaran
Vice President - Corporate Communications & Marketing

B Thiagarajan
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

Abu Dhabi Commercial Bank Ltd

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata

Fraser & Ross, Chennai

Mohinder Puri & Company, New Delhi

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd
C-13, Pannalal Silk Mills Compound

L B S Marg, Bhandup (West)
Mumbai 400 078.

Telephone: 91-22-5555 5454

Fax: 91-22-5555 5353

REGISTERED OFFICE

Kasturi Buildings
Mohan T Advani Chowk

Jamshedji Tata Road
Mumbai 400 020.

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Letter from the Chairman



DEAR SHAREHOLDER,

Blue Star has entered its 7th decade with a sense of achievement and confidence. The positive mood is based on accelerating business growth last year combined with a sustained track record of high profitability.

The year 2003-04 saw total revenues climbing by 19%, the highest growth rate in almost a decade. The real growth is noteworthy compared to earlier years in view of the moderation of inflation in recent times. In fact, market prices actually declined in several of the Company's lines of business which further emphasises the achievement.

General economic revival resulted in a significant expansion of the airconditioning market in India with a decided shift towards bigger airconditioning projects. This encouraging development also reflects the increasing need for airconditioning in the maturing Indian economy. Blue Star's core central airconditioning business showed excellent new order inflow and billings growth of 31%. We ended the year with a healthy backlog of airconditioning projects under execution which bodes well for continued high growth in 2004-05.

It was in Cooling Products that we apparently suffered a temporary setback with a decline in business volume of about 4%. This was due to some problematic external developments such as price erosion combined with certain managerial lapses in the sales organisation. While these developments are more fully covered in the Management Discussion and Analysis section, I must clarify that corrective action was taken several months ago to tackle the strategic, marketing, distribution and sales challenges. The operating management of the Cooling Products Group was also overhauled and a new sales team put in place. Some of these measures are expected to provide quick improvements this year, while other strategic decisions may take somewhat longer to show beneficial results.

The Professional Electronics & Industrial Equipment Group turned in another year of solid performance showing 14% growth in revenues. They also sustained their established record of high profits. The Company's major strength in this business is our excellent specialised technology tie-ups which enable our technical experts to offer value-added customised solutions to meet complex customer needs in a variety of industries.

Taking a Corporate level view of the Company's performance, one cause for concern is that in spite of the Indian economy going through a healthy growth phase last year, our gross margins and operating margins continued to erode for the fourth successive year. This is primarily because of new international entrants competing more aggressively in the AC&R industry as the country globalizes as well as a higher level of capability among established Indian players. It is a measure of Blue Star's continuing competitiveness that in spite of declining gross margins, the Company's profits continued to grow steadily last year. The accompanying Annexure shows that most financial measures remain healthy.

We have accepted the reality of lower margins in the highly competitive market but we are not willing to accept a decline in our profit levels. Our financial model of high profits and a lean balance sheet is working well because it provides the essential resources for the Company to invest in future growth without regular infusions of external capital which would bloat the balance sheet and eventually dilute shareholders' equity investment. At the same time, high profits enable the Company to (a) pay generous dividends to our shareholders and (b) reward employees whose capable performance produces the results. The wisdom of this long-established philosophy of sharing the growing corporate cake with the Company's important stakeholders has been repeatedly confirmed over a number of years.

What has changed somewhat in the last couple of years is the renewed emphasis on growth as a strategic objective. In order to increase profits with gross margins continuing to be under competitive pressure, we must substantially grow revenues while keeping operating expenses under careful control. We could only achieve partial success in controlling expenses last year, but nevertheless, the logic of the strategy was validated.

Another important milestone in 2003-04 was a clear enunciation of Blue Star's business philosophy in the form of 12 guiding Corporate Values & Beliefs. This statement is also printed as part of this Annual Report. In today's business world, there are expectations of high standards of Corporate Governance and ethics from stakeholders and various authorities. We have so far completed the first part of our commitment to values. We are now taking it forward by practising what we preach. Our Values and Beliefs are being systematically imbibed and implemented by all our employees from the top down.

An important aspect of Corporate Governance is the composition and role of the Board of Directors. In the last year or so, three new independent directors have joined the Board to replace older directors who have retired or resigned. Our 4 independent Directors are all very capable and experienced individuals with impeccable credentials. They are truly able to take an objective, professional view of the Company and the management. Increasingly, the Board is playing a more active role in reviewing business performance and advising top management on policy and business strategy. This is a useful contribution because an outsider's view of individual business segments often provides a fresh perspective on complex business issues which is not always obvious to managers in charge of day-to-day business operations.

On the whole, the Company had a good year in 2003-04. We successfully exploited a number of new growth opportunities and even when faced with tough challenges, we developed innovative yet pragmatic solutions which will surely stand us in good stead in the future.

Mumbai : June 2, 2004.

ASHOK M ADVANI
Chairman & Chief Executive

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs.in crores)

	2003-04	2002-03
Total Income	716.06	601.06
Growth over Previous Year	+ 19%	+ 16%
Operating Profit (PBDIT)	58.40	52.59
Profit Before Tax	46.59	40.18
Growth over Previous Year	+ 16%	+ 47%
Profit After Tax	32.55	31.04
Growth over Previous Year	+ 5%	+ 13%
Shareholders' Funds	129.81	115.52
Borrowings	13.35	12.05
Capital Employed	143.16	127.57
Operating Cash Flow	20.61	26.02

KEY RATIOS

	2003-04	2002-03
Gross Margin	22.7%	23.5%
Operating Margin	8.2%	8.7%
Return on Capital Employed	33.8%	33.3%
Return on Shareholders' Funds	25.1%	26.9%
Earnings Per Share (Rs.)	18.10	16.79
Dividend Per Share (Rs.)	9.00	9.00
Capital Turnover	5.00	4.71
Debt/Equity	0.10	0.10
Inventory Turnover	6.87	6.60
Receivables (Days Billings Outstanding)	71	62

Board of Directors



Board of Directors from left to right: Satish Jamdar, Suresh N Talwar, T G S Babu, Suneel M Advani, Ashok M Advani, Pradeep Mallick, Gurdeep Singh, Nawshir Mirza

Ashok M Advani

Chairman & Chief Executive

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. Ashok is also the Vice Chairman of Blue Star Infotech Limited and on the board of Alfa Laval (India) Limited and Blue Star Design & Engineering 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

President & Vice Chairman

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. Suneel is also the Chairman of Blue Star Infotech Limited, Blue Star Design & Engineering Limited, Blue Star Infotech (UK) Limited, Blue Star Infotech Malaysia and Blue Star Infotech America, Inc., apart from being on the board of Arab Malaysian Blue Star 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 G S Babu

Executive Director

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

Prior to his current appointment, T G S Babu was Executive Vice President. Under his strong leadership, Blue Star's central airconditioning business achieved a clear market leadership and continues to grow at a healthy rate. T G S Babu currently oversees the channel business activities of the Company including packaged airconditioning, room airconditioners and commercial refrigeration products and systems.

Satish Jamdar

Executive Director

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

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

Pradeep Mallick

Director

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

Pradeep is also on the board of several other leading companies including Esab India, Beck India and Tata Telecom. 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 and Dignity Foundation.

Nawshir Mirza

Director

Nawshir Mirza is a graduate in commerce and a Fellow of the Institute of Chartered Accountants of India. He was with Ernst & Young and its predecessor firm, Arthur Young from 1967 to 2003. His career achievements include becoming the youngest partner in the Indian firm, holding the position of National Director of Audit & Accounting Services, and Managing Partner Western India. He joined the Board of Blue Star in October 2003.

Nawshir has also held responsible positions in various professional and trade associations like Indo-American Chamber of Commerce, Institute of Internal Auditors and the Bombay Chamber of Commerce & Industry. He is actively involved in philanthropic organizations including Childline and Red Cross.

Gurdeep Singh

Director

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

In 1998, Gurdeep returned to Hindustan Lever and is currently the Director – Human Resources and Corporate Affairs. He joined the Board of Blue Star in May 2003. He is also the Co-Chairman of Nepal Lever, and on the board of Hindlever Chemicals, Sivalik Cellulose and Levers Associated Trust.

Suresh N Talwar

Director

Suresh Talwar is a Commerce & Law Graduate. He is a solicitor and the Senior Partner of the Crawford Bayley & Company, and is also a legal counsel to various Indian companies, multinational corporations and Indian and foreign banks.

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, Sandvik Asea, Esab India, Johnson & Johnson, Madura Coats, Uhde India and Wyeth amongst others.

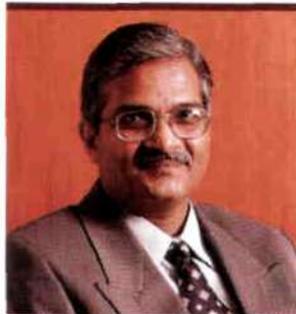
Executive Committee



Ashok M Advani
Chairman & Chief Executive



Suneel M Advani
President & Vice Chairman



T G S Babu
Executive Director



Satish Janddar
Executive Director



Avinash Pandit
Executive Vice President



H Rajaram
Executive Vice President

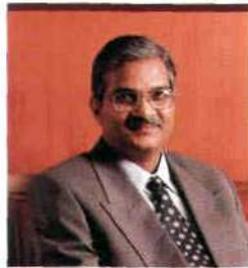
Corporate Management



Ashok M Advani
Chairman & Chief Executive



Suneel M Advani
President & Vice Chairman



T G S Babu
Executive Director



Satish Jamdar
Executive Director



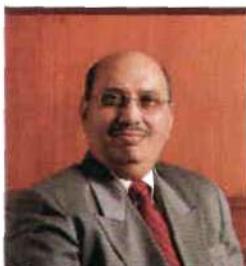
Avinash Pandit
Executive Vice President



H Rajaram
Executive Vice President



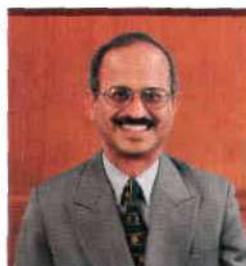
Arun Khorana
*Vice President -
Electronics Division*



Ranajit Majumdar
*Vice President - Human
Resources & Quality*



S Sankaran
*Vice President - Airconditioning
Projects Division*



N Sivasankaran
*Vice President - Corporate
Communications & Marketing*



B Thiagarajan
*Vice President - Airconditioning
& Refrigeration Service Division*

Directors' Report

The Directors are pleased to present their 56th Annual Report and the Audited Accounts for the year ended March 31, 2004.

HIGHLIGHTS OF 2003-04

- Total income climbed to Rs. 716.06 crores, a growth of 19% over the previous year.
- Profit Before Tax increased by 16% from Rs. 40.18 crores to Rs. 46.59 crores.
- Earnings per share reached a record Rs.18.10.
- Borrowings were well controlled and the debt/equity ratio was maintained at a low at 0.10.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

	April 2003 - March 2004	April 2002 - March 2003
Total Income	716.06	601.06
Profit before interest, depreciation and taxation	58.40	52.59
Interest	1.82	2.25
Depreciation	9.99	10.16
Profit before tax	46.59	40.18
Provision for taxation	11.88	9.57
Add /(Less): Deferred Tax	(2.15)	0.43
Profit after tax	32.55	31.04
Add : Balance brought forward	16.84	11.30
- Transfer from Foreign Projects Reserve	—	0.39
- Excess Provisions for Proposed Dividend write back	—	0.37
Total available for appropriation	49.39	43.10
Less : General Reserve	12.00	8.00
- Proposed Dividend	16.19	16.19
- Corporate Dividend Tax	2.07	2.07
Balance carried forward	19.13	16.84

DIVIDEND

The Directors have proposed a dividend of Rs. 9.00 per equity share. The dividend will absorb Rs.18.26 crores including Corporate Dividend Tax.

OPERATING PERFORMANCE

With the revival of the Indian economy and good business conditions in export markets, business inflow was very healthy. Margins however remained under intense pressure due to continued price erosion. The decline in the operating margin was cushioned by the significant revenue growth of 19%. Cost control was a focus area that helped to improve profit.

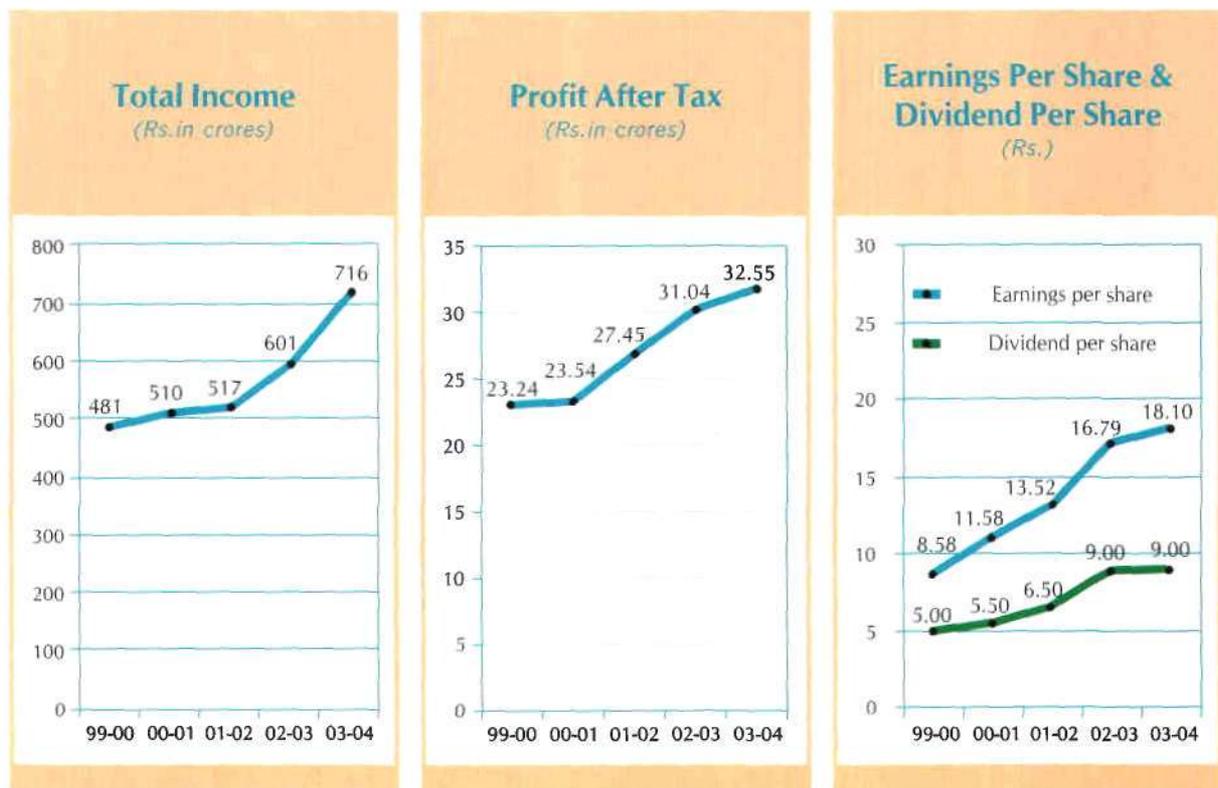
FINANCIAL PERFORMANCE

Profit Before Tax grew by 16% in spite of lower margins largely due to good balance sheet management. In spite of substantial growth in business volume, borrowings were well controlled at Rs. 13.35 crores. Low debt combined with the declining interest rate regime helped to enhance profit by reducing interest costs.

EXPORT & FOREIGN EXCHANGE EARNINGS

Total foreign exchange earnings during the year recorded a substantial increase of 137% to Rs. 51.20 crores. There was an aggressive export drive that sharply increased export income to Rs. 37.84 crores from Rs. 9.14 crores, a four-fold growth over the previous year. There was a small decrease in the commission income during the year.

Total foreign exchange outflow was Rs. 59.12 crores as compared to Rs. 39.88 crores in the previous year.



SUBSIDIARY COMPANY

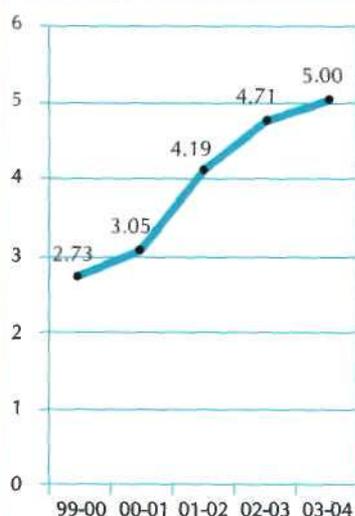
Blue Star has set up a wholly owned subsidiary company under the name Blue Star Design & Engineering Limited in November, 2003 with a paid up capital of Rs.1.25 crores. The Company will provide offshore product design and project engineering services to the global manufacturing and specialized Architecture, Engineering and Construction (AEC) sectors. The first financial year of the Company will close on March 31, 2005.

DIRECTORS' RESPONSIBILITY STATEMENT

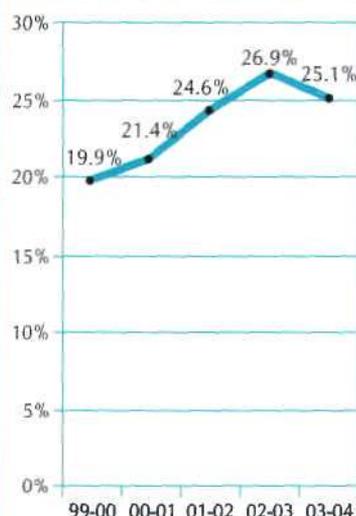
The Directors would like to inform the members that the Audited Accounts for the financial year ended March 31, 2004 are in full conformity with the requirement of the Companies Act, 1956. These financial results are audited by the statutory auditors M/s K.S. Aiyar & Company. The Directors further confirm that:

- 1) In the preparation of the Annual Accounts, the applicable accounting standards have been followed.
- 2) The accounting policies are consistently applied and reasonable, prudent judgement 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.

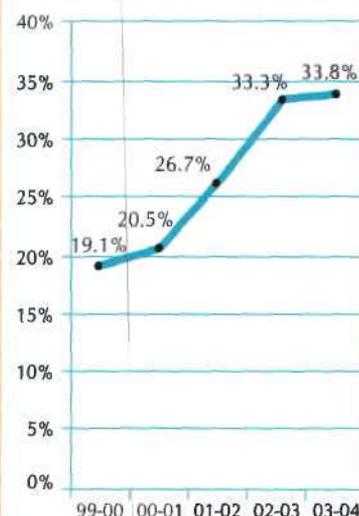
Capital Turnover

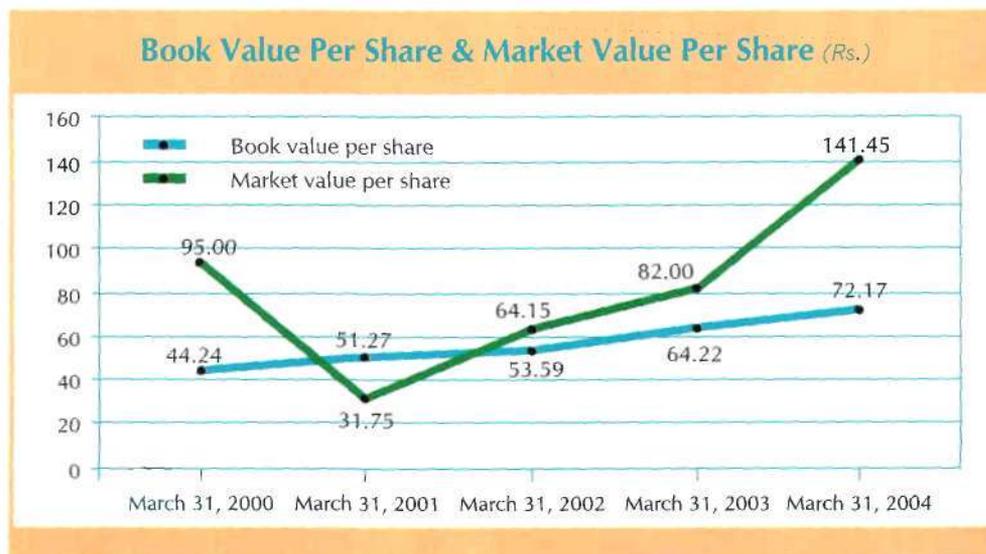


Return on Shareholders' Funds



Return on Capital Employed





DIRECTORS

Mr Minoo R Shroff retired from the Board on March 31, 2004 after 22 years. As the senior-most, independent director, he had played a useful role in the deliberations of the Board and given mature advice to the Management. Being the Chairman of the Audit Committee, he had ensured high standards of Corporate Governance. The Board acknowledges the invaluable services rendered by Mr Shroff over the years.

Mr Nawshir H Mirza and Mr Satish Jamdar were appointed as additional directors and will seek re-election at the forthcoming Annual General Meeting of the Company. Mr Satish Jamdar was appointed as a wholetime Director designated Executive Director. A resolution for confirmation of his appointment as wholetime Director will be placed before the forthcoming Annual General Meeting. Mr T G S Babu and Mr Pradeep Mallick will retire from the Board by rotation and being eligible, offer themselves for re-election.

EMPLOYEES

The focus on employee development continued during the year with average training man-hours of 35 hours per employee including technical, behavioural and management training. Selected managers were sent to leading management institutes for specific management development programmes.

The senior management team articulated the Corporate Values & Beliefs which have now become the guiding principles for the organization.

Employee relations were cordial throughout the year. A long pending Charter of Demands was settled at Chennai.

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 & Chief Executive

Mumbai : May 12, 2004.

Annexure to Directors' Report - A

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

CONSERVATION OF ENERGY

a) Energy conservation measures taken

Energy consumption in the Company's factories is not a major cost factor.

THANE

Despite billing growth of 29%, the electricity charges in the Thane plant increased only by 4%. By maintaining the Power Factor close to unity, a rebate of Rs. 1.50 lakhs was received under MSEB Incentive Scheme. The diesel generating set was overhauled resulting in increased efficiency and reduction in diesel consumption by about 500 litres per annum. Use of inverter based welding systems has saved power consumption by 60% in arc welding applications.

DADRA

Use of fast curing powders and fast acting chemicals for powder coating; use of spot clinching machines; and an auto-brazing line were some of the energy saving measures taken at Dadra factory.

BHARUCH

The factory with improved conveyor lines was able to work on a single shift basis in the assembly area during the 2nd half of the year, reducing energy consumption by 24%.

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

An Energy audit was conducted recently at Dadra and will be carried out at other locations to identify areas for further reduction.

c) Impact of measures taken

There has been a 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

New product development, extension of existing product range, product design and process engineering were some of the areas where R&D was carried out.

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

1. Air-cooled screw chillers to international standards, with computer connectivity and Building Management System compatibility. These chillers are web enabled and can be serviced through remote access.
2. Process chillers used in industrial applications to maintain the temperature of specific parts of machines. These chillers maintain the temperature within +/- 0.5 degree celsius.
3. Tandem scroll chillers have been developed which give 15% to 20% savings in energy consumption.
4. A complete range of evaporating and condensing units for refrigeration applications specifically designed to work in high ambient tropical conditions.
5. Deep freezers with hard top and glass top, which can be used in tropical conditions.
6. A complete range of ducted split heat pumps for the European market. These models comply with European standards for energy efficiency and safety.

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

Increased product range; energy efficient and environment friendly products for the Indian market; high ambient window and split airconditioners for the Middle East market; and products meeting international standards for European markets were some of the benefits derived from R&D. Microprocessor controls improve the life of the equipment and ensure reliable performance.

c) Future plan of action

Future plan involves setting up of a modern R&D Lab at Dadra with calorimetric, psychometric and noise measurement labs and reliability set-up; separate test lab for deep freezers at Bharuch and up-gradation of existing test facilities at Thane, to assure high quality products of international standards.

d) Expenditure on R&D

	<i>(Rs.in lakhs)</i>	
	2003-04	2002-03
i) Capital	12.11	6.95
ii) Recurring	99.13	93.88
Total	111.24	100.83
Total R&D expenditure as a percentage of total turnover	0.16%	0.18%

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

A new range of air-cooled screw chillers, process chillers, tandem scroll chillers and cooling and freezing units were designed and developed during the year. Indigenous sources for import substitution are also being developed where feasible. Efforts also include adaptation of imported technology to Indian conditions. Where required, training is being imparted to the technical staff.

b) Benefits derived as a result of the above efforts

Availability of environment friendly airconditioning systems, increased product range, improved quality and product designs, and cost reduction are amongst the benefits derived.

c) Information regarding imported technology

The following technologies were imported during the years mentioned in brackets : Centrifugal chillers using CFC-free R-123 as refrigerant (1998), screw chillers using CFC-free R-22 as refrigerant (1998), panels and door sections (1998), humidicoil in-store cooling units and chiller units (2000), precision airconditioning systems (2002) and INVICTA PAC (IPAC) range of airconditioning units and condensers (2003).

Significant progress has been made in absorbing the technologies. Technology in respect of centrifugal and screw chillers and insulated panels and door sections has been absorbed.

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 & Analysis report.

b) Total foreign exchange used and earned

	<i>(Rs.in lakhs)</i>	
	2003-04	2002-03
Total foreign exchange used	5912.11	3987.85
Total foreign exchange earned	5120.33	2160.78

For and on behalf of the Board

ASHOK M ADVANI

Chairman & Chief Executive

Mumbai : May 12, 2004.

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, 2003 TO MARCH 31, 2004

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	62	Chairman & Chief Executive	4441302	B.Sc., SB, MBA	38	1-Jul-69	RCA Inc., USA	Information Systems Project Specialist	1968-69
ADVANI S M	60	President & Vice Chairman	4614641	SB, SB, LL.B.	35	17-Mar-69	-	-	-
BABU T G S	50	Executive Director	4041175	B.Tech., MBA	28	1-Nov-95	MRF Ltd., Chennai	General Manager	1991-95
JAMDAR S	52	Executive Director	2440857	B.Tech., BM	30	2-May-96	Real Value, Mumbai	Vice President	1995-96
INAMDAR V V	60	Executive Vice President	2546849	B.Tech.	38	1-Dec-83	P.T.Trios Santosa, Indonesia	General Manager	1981-83

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

Report of the Directors on Corporate Governance

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Corporate vision of the Company is to deliver a world class customer experience. In order to achieve this, the Company must maintain global standards of corporate conduct towards its customers, employees, shareholders, business partners, Government and society. The senior management team has clearly articulated the Corporate Values and Beliefs which are the guiding principles of the Company. These are being communicated and understood by employees throughout the organisation. The Company strives to achieve a high level of transparency and accountability in all facets of its operations including its relationships with various stakeholders. We believe that our decisions and actions must serve the ultimate goal of providing a world class experience and enhancing shareholder value while observing strict ethical standards.

BOARD OF DIRECTORS

The Board consists of eight Directors – four Wholetime Directors and four Non-Executive Directors. Out of eight Directors, six Directors are independent Directors. Mr Atul Choksey and Mr Mino0 Shroff, who were Directors of the Company, retired from the Board with effect from July 23, 2003 and March 31, 2004 respectively. Mr Nawshir Mirza and Mr Satish Jamdar joined the Board on October 20, 2003 and November 1, 2003 respectively.

BOARD MEETINGS

Four Board Meetings were held during the financial year 2003-04 i.e. on May 23, 2003; July 23, 2003; October 20, 2003 and January 27, 2004. The Company had its Annual General Meeting on July 23, 2003.

The particulars of Directors, their attendance and other Directorships, Memberships/Chairmanships of Committees for the financial year 2003-04 are given below:

Name	Category	Attendance		Particulars of other Directorships, Committee Memberships/Chairmanships		
		Board Mtg.	Last AGM	Directorship*	Committee Membership	Committee Chairmanship
Ashok M Advani	Promoter Executive	4	Yes	3	2	Nil
Suneel M Advani	- do -	4	Yes	2	1	Nil
T G S Babu	Non-Promoter Executive	4	Yes	Nil	Nil	Nil
Satish Jamdar (Joined the Board on 1.11.2003)	Non-Promoter Executive	1	NA	Nil	Nil	Nil
Atul C Choksey (ceased to be a Director with effect from 23.7.2003)	Non-Promoter Non-Executive	Nil	No	NA	NA	NA
Pradeep Mallick	- do -	4	Yes	5	8	2
Nawshir Mirza (Joined the Board on 20.10.2003)	- do -	2	NA	5	4	2
M R Shroff (ceased to be a Director with effect from 31.3.2004)	- do -	4	Yes	NA	NA	NA
Gurdeep Singh	- do -	4	Yes	4	Nil	Nil
Suresh N Talwar	- do -	4	Yes	13	9	4

* Alternate Directorships, Directorship in Private Companies and Membership in Governing Councils, Chambers and other bodies not included.

AUDIT COMMITTEE

The Audit Committee consists of three independent Non-Executive Directors. The terms of reference of the Audit Committee are in line with the powers, duties and responsibilities stipulated in Clause 49 of the Listing Agreement. The members consist of Mr Suresh N Talwar, Mr Pradeep Mallick and Mr Nawshir Mirza with Mr Suresh N Talwar as the Chairman. The Committee met on May 23, 2003; October 20, 2003 and March 25, 2004. Mr Nawshir Mirza joined the Committee with effect from October 20, 2003 and Mr M R Shroff ceased to be a member of the Committee with effect from March 31, 2004.

REMUNERATION POLICY

The remuneration of the Wholetime Directors and Non-Executive Directors is approved by the Board of Directors and the shareholders. The annual increment and commission for the Wholetime Directors and the commission to the Non-Executive Directors within the limits approved by the shareholders are determined by the Board of Directors. Hence, no separate remuneration committee has been constituted. The Wholetime Directors are paid by way of salary, perquisites and commission based on their agreements with the Company. Non-Executive Directors are paid by way of 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. In addition, they are paid sitting fees of Rs.5000/- for each Board Meeting 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	15.60	9.19	27.33	-	52.12
Suneel M Advani	15.60	7.54	27.33	-	50.47
T G S Babu	10.57	11.19	15.94	-	37.70
Satish Jamdar (With effect from 1.11.2003)	4.50	1.83	7.95	-	14.28
Atul C Choksey (Upto 23.7.03)	-	-	1.25	-	1.25
Pradeep Mallick	-	-	4.70	0.17	4.87
Nawshir Mirza (With effect from 20.10.03)	-	-	2.35	0.10	2.45
M R Shroff	-	-	5.15	0.17	5.32
Gurdeep Singh	-	-	4.50	0.17	4.67
Suresh N Talwar	-	-	5.00	0.17	5.17

Note: Commission shown above are amounts actually paid for the year 2003-04 and hence differ from the provisions made in the accounts for the year ended March 31, 2004.

SHAREHOLDERS' GRIEVANCE COMMITTEE

The Shareholders' Grievance Committee consists of 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 October 23, 2003 and January 27, 2004 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 1175 letters of which 1017 letters were requests for various actions such as change of address, dividend mandate, nominations, etc., and 158 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 three valid transfers pending as on March 31, 2004 for 381 shares which were approved and sent to the transferees within the prescribed time.

GENERAL BODY MEETINGS

Financial Year	AGM/EGM	Date	Location of Meetings	Time
2000-2001	AGM	July 30, 2001	Jai Hind College Hall 'A' Road, Churchgate, Mumbai 400 020.	2.30 p.m.
2001-2002	AGM	July 29, 2002	" "	3.00 p.m.
2002-2003	AGM	July 23, 2003	" "	2.30 p.m.

No resolution is proposed to be passed by postal ballot at the forthcoming Annual General Meeting.

DISCLOSURES

a) The details of transactions with related parties are given in Clause 11 of the Notes Forming Part of the Accounts (Other Notes). There were no transactions with related parties, which have potential conflict with the interests of the Company at large.

b) The Company has complied with the requirements of regulatory authorities on capital markets, and no penalties/ strictures have been imposed against it.

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. No presentations were made to institutional investors or analysts during the year. Management Discussion and Analysis form part of the Annual Report.

SHAREHOLDERS' INFORMATION

Annual General Meeting

Date	: July 26, 2004
Time	: 2.30 p.m.
Venue	: Jai Hind College Hall 23-24, Backbay Reclamation, Sitaram Deora Marg (‘A’ Road), Churchgate, Mumbai 400 020.

Financial Calendar (Provisional)

Unaudited results for quarter ending June 30, 2004	: Last week of July 2004
Unaudited results for quarter ending Sept 30, 2004	: Last week of Oct 2004
Unaudited results for quarter ending Dec 31, 2004	: Last week of Jan 2005
Audited results for the year ending March 31, 2005	: May 2005
Date of Book Closure:	: Wednesday, July 14, 2004 to Wednesday, July 21, 2004
Dividend Payment Date	: July 30, 2004 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 472A01021

MARKET PRICE DATA

	The Stock Exchange, Mumbai		National Stock Exchange	
	High	Low	High	Low
2003				
April	96.00	81.50	95.55	81.90
May	114.40	88.25	114.25	87.90
June	115.25	103.95	120.00	95.00
July	127.00	92.00	126.00	88.00
August	107.20	88.00	108.90	90.00
September	115.00	100.00	115.00	101.00
October	129.00	106.10	125.00	107.10
November	145.00	109.55	145.50	110.00
December	167.70	133.45	168.00	137.25
2004				
January	169.70	133.95	170.05	130.00
February	159.90	134.00	159.00	135.00
March	151.75	133.00	152.85	132.00

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 400 070.

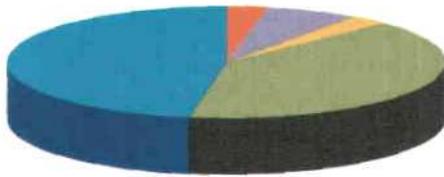
SHARE TRANSFER SYSTEM

The Company's shares are traded in the Stock Exchanges in demat mode. These transfers are effected through NSDL & CDSL. Most of the transfer 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, 2004

No. of equity shares held	No. of Shareholders	Percentage of Shareholders	Total No. of shares held	Percentage of shares held
1 - 500	16306	83.95	2331398	12.96
501 - 1000	1670	8.60	1218578	6.77
1001 - 2000	843	4.34	1172871	6.52
2001 - 3000	231	1.19	563590	3.13
3001 - 4000	97	0.50	343433	1.91
4001 - 5000	68	0.35	307208	1.71
5001-10000	83	0.43	580386	3.23
10001 and above	124	0.64	11469757	63.77
TOTAL	19422	100.00	17987221	100.00

CATEGORIES OF SHAREHOLDERS AS ON MARCH 31, 2004



3.18%	Foreign Holdings
6.79%	Financial Institutions/Banks/Mutual Funds
2.71%	Bodies Corporate
40.02%	Directors and Relatives
47.30%	Indian Public

DEMATERIALISATION OF SHARES & LIQUIDITY

About 86% of the equity shares have been dematerialized by about 62% of the total shareholders as on March 31, 2004. 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 47% of the equity shares are held by public and the shares are actively traded in BSE and NSE.

PLANT LOCATIONS

Blue Star Limited
IInd Pokhran Road
Majiwada
Thane 400 601.

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

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

ADDRESS FOR CORRESPONDENCE

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

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, 2004, 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

Ramakrishna Prabhu
Partner
Membership No. 38959

Mumbai : May 12, 2004.

Management Discussion and Analysis

INTRODUCTION

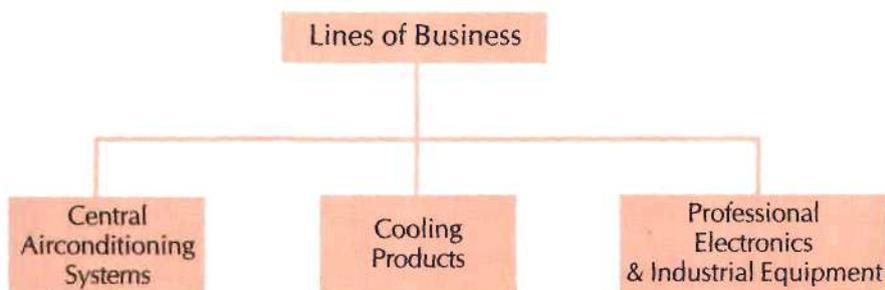
Blue Star is India's largest central airconditioning and commercial refrigeration company. It is recognized as an expert in the field of providing cooling solutions, with over six decades of experience. Another significant area of business interest to Blue Star is import distribution and maintenance of professional electronic and industrial equipment and systems. These include turnkey engineered solutions in the areas of banking, telecom, healthcare, defense, pharmacy, manufacturing and R&D.

Owing to its expertise and ethical business practices, Blue Star has emerged as the company of choice for its customers, employees and business partners. It achieved leadership status in its chosen markets in the previous decade, and it continues to maintain and strengthen its leadership status, despite stiff global competition.

With an objective of aggressive growth, the Company is implementing several strategic initiatives in augmenting manufacturing capacity, product innovation, information technology, channel development, exports and brand building.

LINES OF BUSINESS

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



CENTRAL AIRCONDITIONING SYSTEMS

This involves manufacturing, installation, commissioning and support of large central airconditioning plants, packaged airconditioners and ducted split airconditioners. This line of business also promotes after-sales service as a business, by offering several service products including retrofitting and revamping.

COOLING PRODUCTS

Blue Star offers a wide range of contemporary window and split airconditioners. The Company also manufactures and markets a comprehensive range of commercial refrigeration products and services that cater to the industrial, commercial and hospitality sectors. These include water coolers, bottled water dispensers, deep freezers, cold storages and ice cubers.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL EQUIPMENT

For 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.

FINANCIAL HIGHLIGHTS

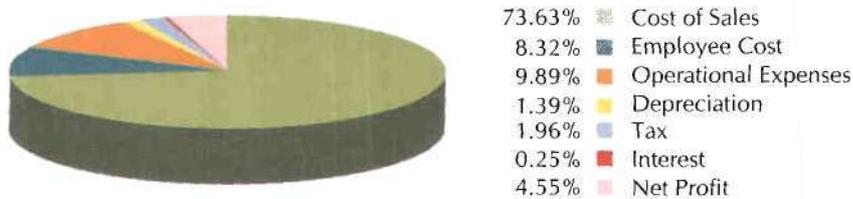
Blue Star's financial performance for the year ended March 31, 2004 was amongst the best in the industry. Total Income grew 19% to reach Rs. 716.06 crores. Net Profit grew 5% to Rs. 32.55 crores, while Earnings Per Share increased to Rs. 18.10 from Rs. 16.79. Order inflow for the 12 months through March 31, 2004 grew by 30% to Rs. 800.70 crores from last year's figure of Rs. 616.61 crores. The carry-forward order book as of March 31, 2004 at Rs. 383.45 crores represents a 40% improvement over the previous year.

The financial year 2003-04 was characterized by severe competitive pressures, especially in the cooling products segment, leading to erosion in gross margins. This was primarily because of new players competing more aggressively in the airconditioning and commercial refrigeration industry as well as a higher level of capability among established Indian players. Despite declining gross margins, the Company's profits continued to grow steadily last year.

The year ended March 31, 2004 also saw a substantial increase in exports business with revenues of Rs. 37.84 crores compared to Rs. 9.14 crores in the previous year.

Return on average capital employed (ROCE) improved to 33.8% from 33.3%, while Return on Shareholders' Funds stood at 25.1%, a marginal decrease from 26.9% during the previous year.

How every rupee earned was spent



INDUSTRY STRUCTURE AND DEVELOPMENTS

AIRCONDITIONING

The market size for airconditioning in India is estimated to be around Rs. 3800 crores. Of this, the market for central airconditioning, including packaged and ducted airconditioning systems, is estimated to be around Rs. 1600 crores, whilst the market for window and split airconditioners comprises the balance Rs. 2200 crores.

The commercial airconditioning market, estimated to be around Rs. 2700 crores, primarily comprises of three segments viz central plants, packaged and ducted split airconditioners and room (window and split) airconditioners. In terms of value, the central plant segment comprises 40%, packaged and ducted split 20%, whilst room airconditioners constitutes the balance 40% of the commercial airconditioning market. The commercial airconditioning industry is expected to grow at a CAGR of 14% in the next few years.

The commercial airconditioning market growth is primarily driven by increased demand from segments such as retail, IT/ITES, healthcare, hospitality, entertainment, telecom, banking and other service sectors. Apart from this, the SOHO (Small Office Home Office) segment as well as self-employed professionals such as doctors, lawyers, chartered accountants and architects fuelled the growth of the industry.

Market size of Airconditioning in India



Factors like global warming, pollution, humidity and the need to have better indoor air quality have moved the airconditioning industry from the bracket of luxury to comfort and necessity. Despite these changes, the penetration of airconditioning in India continues to be less than 1%. In fact, the per capita consumption of airconditioning in China is 12 times more than India, while that of the US is a staggering 800 times more. This vital industry warrants focused attention from the Government to be able to harness the huge potential of the domestic market and to exploit the vast opportunities available in export markets. The industry is passing through severe price pressures and the Government needs to play a key role in achieving higher penetration levels for airconditioning in the country.

COMMERCIAL REFRIGERATION

The market for commercial refrigeration equipment and systems is estimated to be in excess of Rs. 900 crores. The commercial refrigeration segment includes a wide range of products such as cold storages, water coolers, bottled water dispensers, deep freezers, bottle coolers, visi coolers, refrigerated display cabinets and ice cubers. More than 80% of the commercial refrigeration market is driven by the food and processed food sectors. Since these sectors are at an early stage of development and likely to expand, the commercial refrigeration market is poised for growth. The commercial refrigeration industry is characterized by a significant presence of the unorganized sector, which offers inferior, low energy efficiency technologies. Blue Star is perhaps one of the few national brands, which manufactures and markets such a wide range of commercial refrigeration equipment in India.

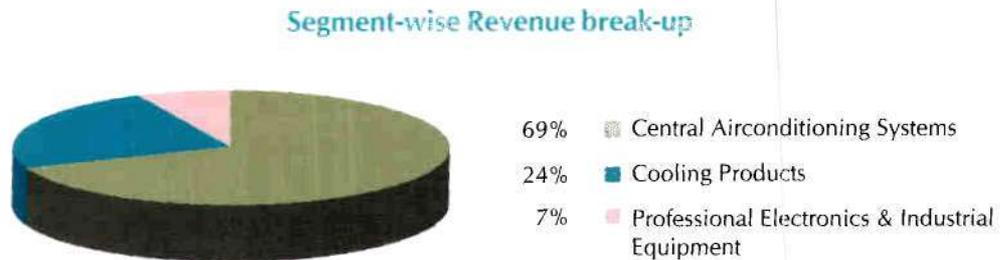
Although India is one of the largest producers of fruit, vegetables and milk, more than 30% of the horticultural and agricultural produce is wasted due to inadequate integrated cold chain facilities resulting in post-harvest losses to the tune of Rs. 50,000 crores. A cold chain is a system, which provides a series of facilities for maintaining ideal storage conditions for perishables from the point of origin to the point of consumption. The cold chain contains many critical links such as handling and packaging of farm produce, post harvest storage, transportation, and storage in retail outlets until it reaches the end consumer. Lack of refrigeration facilities in any part of the chain will hamper preservation of the produce and result in losses.

The Government is taking initiatives to develop cold chain infrastructure in the country to cut down storage losses. The Prime Minister's Council of Trade and Industry has also made several recommendations to improve the cold chain facilities. Further, CII and Refrigeration & Airconditioning Manufacturers' Association (RAMA) are actively working with the Government on several fronts to enhance the cold chain infrastructure, which will result in a steep rise in demand for commercial refrigeration products.

Over the last few years, certain segments such as branded dairy products, ice creams, soft drinks, bottled mineral water, seafood and processed meat have grown sharply. This has led to increased demand for commercial refrigeration products. Further, hotels, restaurants and national fast food chains are coming up in large numbers. Moreover, the retail industry is undergoing a revolution with the emergence of supermarkets and shopping malls across the country. With these encouraging developments, the sustained, overall average growth rate of the commercial refrigeration market is expected to be in excess of 20%.

SEGMENT-WISE ANALYSIS

The revenue break up in terms of business segments was as follows:



CENTRAL AIRCONDITIONING SYSTEMS

Blue Star continues to be the undisputed market leader in this segment with a market share of 29%. This line of business registered an impressive billings growth of 31% over last year and contributed nearly 67% of the Company's Total Segment Revenue. A true reflection of the Company's market leadership in this business is visible in the substantial jump in the new order inflow, which grew by over 30%, while the market growth was around 18%.

The Company offers a wide variety of chillers including centrifugal, screw, reciprocating and scroll. The Company adds value by providing a turnkey customized cooling solution after understanding the dynamics and special requirements of each customer's business, and providing the optimal solution. Owing to its expertise and experience in this field, the Company enjoys preferred vendor status in several fast-growing segments such as shopping malls, multiplexes, the software industry and healthcare, with a share of over 50% in these sectors.

Blue Star has pioneered several state-of-the-art products and technologies, which specifically address energy efficiency and power savings. During the year under review, the Company launched several new products including screw chillers, process chillers and tandem scroll chillers.

Screw chillers were traditionally imported from global players to meet the airconditioning demand in the country. During the review period, Blue Star became the first Indian Company to design and manufacture air-cooled screw chillers in its plant at Thane. The features and design of these chillers are considered at par if not better than their global counterparts. Apart from screw chillers, the Company also launched process chillers for specialized applications. These chillers are used in various industrial cooling applications to remove excess heat generated and accurately maintain the temperature of specific parts of machines. For example, a process chiller developed for Siemens helps maintain the temperature of helium in the magnet of an MRI system. The revolutionary tandem scroll compressors launched during the year under review offer substantial energy savings to the extent of 20% under part-load conditions.

Apart from chillers, Blue Star's packaged airconditioning range includes floor and ceiling mounted packaged airconditioners as well as ducted split airconditioners. These incorporate reciprocating as well as scroll compressors with options of air-cooled or water-cooled models. Thus, in ducted systems, Blue Star provides the widest possible range, and meets every conceivable requirement of customers.

In the period under review, the Company continued its foray in precision-control airconditioners in collaboration with Eaton Williams, UK to cater to high-precision cooling applications. It also enhanced its range of ductable splits, which was well received among the light commercial segment. To address the requirements of the

telecom industry, the Company developed telecom shelter cooling equipment and bagged several prestigious orders from telecom players including Hutch, Airtel and BPL for these units. Over 500 units were sold in the last quarter of the review period and the Company is confident of its prospects in the future. Plans are also on the anvil to develop digital scroll systems incorporating VRV (Variable Refrigerant Volume) technology.

In order to expand the distribution reach, dealers have been appointed in several cities to procure and use chillers, air handling units and fan coil units manufactured by Blue Star for airconditioning projects for their customers.

The Company won a number of prestigious airconditioning contracts including DMRC, Delhi (Rs. 20 crores); IEML, Delhi (Rs. 19 crores); IIT Guwahati (Rs. 15 crores); Infosys, Bangalore (Rs. 13 crores); Moser Baer, Delhi (Rs. 10 crores) and PIMS, Jalandhar (Rs. 9 crores) amongst others. A number of multiple outlet organizations including HDFC Bank (40-50 branches, 90 ATMS) and Reliance Petroleum (200 outlets) chose Blue Star to do their airconditioning. The Company also received significant orders from ICICI Bank, Reliance, HCL Technologies, ING Vyasa Life Insurance, Birla Sun Life, Allianz Bajaj, MET Life Insurance, ING Vyasa Bank and Café Coffee Day amongst others.

On the export front, the Company re-established itself in Mauritius by booking orders for two contracts ; Ebene Cyber City (Rs. 13 crores) and Bank of Mauritius (Rs. 15.5 crores). The Company has also initiated moves to commence operations in Dubai and Qatar for its central airconditioning business.

COOLING PRODUCTS

This line of business mainly includes window and split airconditioners apart from commercial refrigeration products and systems such as deep freezers, water coolers, bottled water dispensers, cold storages and ice cubers. Over the last few years the Company has established leadership in commercial refrigeration products. Blue Star has also become a respected window and split airconditioner brand amongst the corporate and commercial buyers.

2003-04 was a difficult year for the cooling products business. Although this business recorded a revenue of Rs. 168.33 crores, it registered a loss of Rs. 2.56 crores owing to a small drop of sales and heavy erosion of margins. The Company has already taken steps to correct the revenue stagnation and profitability erosion and the prospects of this line of business in the next few years look promising.

In the room airconditioners business, competitive pressure led to a decline in gross margins. The Company focused on sales force management, better market coverage and training and development of the field force including those of dealers. Also targeted were the fast-growing banking, telecom and educational institutions, which helped increase the sales of window and split airconditioners. The Company received several prestigious orders from telecom companies such as Airtel, Reliance Infocom, RPG and Aircel. It also received orders from national accounts such as Bank of India, Jammu Kashmir Bank and Amity group. In the near future, the Company plans to strengthen its dealer distribution network to effectively target the corporate and commercial segment.

The deep freezer business was adversely affected since the sale of imported products became unviable due to the strengthening of the Euro. However, the Company was quick to get into action and began manufacturing deep freezers in its plant at Bharuch by the end of the year. These units have been well received in the market place and have several advantages over imported brands such as double doors, better quality hinges, tropicalised cooling system and higher storage capacity at attractive and affordable prices. The local manufacturing of these freezers is expected to give the Company competitive costs and will help the deep freezer business to regain its eroded market share.

The traditional storage-type water cooler market remained stagnant, mainly due to reduced institutional buying and preference for bottled water dispensers in the Small Office Home Office (SOHO) segment. Nevertheless, Blue Star retained its eminent place in this segment driven by a new range of eco-friendly water coolers with enhanced cooling capacities. Blue Star continues to explore and build on the growing demand from the OEM and export markets. The Company has identified exports as a major growth area for water coolers in the future.

With consumers becoming increasingly health conscious, the mineral water dispenser segment has opened up new opportunities for Blue Star. Although this product category is extremely price sensitive, Blue Star's thrust on adding value by enhancing product quality and after-sales service is likely to achieve higher growth rates in the future.

Another identified growth area is the cold storage business, for which the Company is working on a new range of locally manufactured ammonia refrigeration products. This should enable the Company to win over SSI players with its better manufactured products and system practices.

During the review period, prestigious orders for cold storages were bagged for pack houses from UPSiDC, Varanasi as well as specialized mango pack houses for MSAMB, Pune at Ratnagiri and Devgarh. These pack houses built on a turnkey basis contain a large receiving area, packing grading area, cold storage area and 100% back up diesel generator. To ensure proper washing and grading, imported washing grading and packing machines for variety of fruits and vegetables have been supplied. Blue Star did well in the horticulture, fast food, ice cream and pharma segments to maintain its leadership position.

Blue Star plays a key role in bringing new technologies in the cold storages segment and executing the projects to high quality standards within the specified time. Blue Star also helps the Government in understanding new technologies and implementing them successfully to suit Indian conditions. The formation of Agri-Export zones by APEDA and Food Parks by Ministry of Food Processing is expected to fuel the growth of the cold storage industry in the next few years at a rate of about 25% per annum.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL EQUIPMENT

For nearly five decades, the Electronics Division of 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 equipment. The Company is a dominant player and has carved out profitable niches for itself in most of the specialized markets it operates in this vast field.

The Division provides turnkey engineered solutions from leading global manufacturers including Hitachi and JEOL from Japan, Thales e-security from UK, Yxlon from Germany, Outokumpu from Finland, and ITT, Aeroflex, Panametrics and NuAire from USA, to name a few. The strength of this line of business 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 add value to customers.

During the year under review, the Division continued to contribute significantly to the overall performance of the Company. In fact, the contribution from the Electronics business has grown significantly over the last five years, with minimal capital and manpower employed. The Division has six strategic business units (SBUs), and all of them contributed significantly to its overall growth. The performance of each SBU is enlisted below:

Material Testing Equipment and Systems

During the review period, the Company broadened its product range and services in the area of weld inspection, complex material handling systems and inspection of heat exchanger tubes. The market response to these offerings is very encouraging, and the Company is confident of significant business in these areas in the coming year. The Company also performed well in the eddy current, ultrasound and industrial x-ray product lines. It has recently tied up with Panametrics of USA, a well-renowned manufacturer of thickness gauges and flaw detection products.

The Company continues to dominate the market for destructive testing products including universal testing machines and hardness testing. The growth in this segment was fuelled by increased demand from the automobile and defense sectors. Over the last few years, the Division has built expertise in design and execution of complex material handling systems to automate on line non-destructive testing. The Company has bid for several projects for automated testing of pipes and plates.

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, managed network solutions and ISDN back up solutions. It represents well-renowned manufacturers such as Thales e-Security (formerly Racal), UK for data security and encryption; LXE, USA for RF Data Terminals; Patapasco, UK for ISDN backup devices as well as channel partnerships with various leading suppliers of networking equipment for system integration.

The Company maintained its hold over the host security business during the review period with sales to premier banks including Citibank, State Bank of India, Canara Bank, ICICI Bank, HDFC Bank and UTI amongst others to upgrade their existing ATM network transaction security. The Company bid for several projects in wireless RF data communication for on-line data management in ports and warehouses. It bagged and commissioned the first order of a radio data terminal network project from Visakha Container Terminal, Vizag for a port application based on the Spread Spectrum technology, the latest state-of-the-art technology using 802.11b wireless networking.

Test and Measuring Instruments

In the field of test and measuring instruments, the Company represents world-renowned manufacturers including Aeroflex, USA; Navtel, Canada; Telesoft, UK; Promax, Spain; NEC SAN-EI, Japan and Pendulum, Sweden offering a wide range of spectrum analyzers, signal generators, protocol analyzers and microwave test equipment amongst others. The major industries addressed include space, defense, paramilitary, cable broadcast and telecommunications.

During the year, the Department booked a major order for supply of RF test equipment from ONGC for their radio trunking project. It also secured prestigious orders from LRDE for microwave system analyzer, Indian Airforce for avionics test equipment and ECIL and Kerala Police for radio test sets.

Analytical Instruments

In the field of analytical instruments, Blue Star did well in specialised equipment such as electron microscopes and nuclear magnetic resonance spectrometers for material research (nano-technology) and chemical structural elucidation applications.

The Company installed a high resolution mass spectrometer for dope testing of athletes in Afro-Asian games held in Hyderabad during the review period. It was also a good year for life sciences research equipment with increased demand from biotech and drug discovery research in the pharmaceutical industry.

Industrial Products

Blue Star has been engaged in marketing high technology process instruments such as special-purpose valves, engineered pumps and compression systems for mega projects. Over the last few years, investments in grass-root projects in core sectors like refinery, petrochemical, agro chemical, pulp and paper has been on the decline. Despite market constraints, the Company has done well in Industrial Products by changing focus to specialised fields such as automatic bagging plants, industrial filtration plants, pumping solutions for transportation of fly ash and air-operated pumps. Significant orders were booked in these areas.

A major order was received from Hi Grade Pellets, Vizag for transportation of iron ore through pipe lines from Badilia mines to Vizag, a distance of over 260 km. It also received a prestigious order from TISCO, Jamshedpur for the total instrumentation accompanying the oxygen supply system.

Medical Diagnostic Equipment

The Company has done well in the sale of MRI and CT Scanners of Hitachi Medical Corp., Japan. The business of permanent magnet MRI systems registered a huge growth across the country. The turnkey responsibility for imports, offloading of magnets, transportation to site, room shielding and installation is now carried out with

in-house expertise. The Company also received a prestigious order for supply of four CT Scanners from the Government of Gujarat to equip regional diagnostic centers in the State.

During the year, the Department made a beginning in the area of computerized radiography and bone densitometry equipment for detection of osteoporosis.

MANUFACTURING FACILITIES

Blue Star's three modern manufacturing plants are integrated with an ERP system, which ensures operational efficiency. The factories make extensive use of IT to enhance productivity and product development capabilities.

Blue Star uses a sophisticated 3D modelling software called Pro Engineer (Pro-E) for all its new product development and value engineering. Extensive product testing facilities enable the development of high quality products manufactured at the factories at extremely competitive costs.

Research & Development

In its thrust towards new product development, the Company has upgraded and expanded its manufacturing facilities and substantial investments have been made in setting up sophisticated test laboratories. To stay abreast with the latest international developments, the Company has partnered with global technology leaders – Hanbell for screw chillers, Copeland for the development of digital scroll systems, and MCS and OYL for high-end controllers.

During the year under review, the Company launched several new products including screw chillers, process chillers, telecom shelter cooling equipment, precision control packaged airconditioners and deep freezers. Plans are on the anvil to launch digital scroll systems using VRV technology, chest coolers and reach-in coolers/freezers. Apart from addressing the needs of the Indian market, the Company has developed several products for international markets. These include heat pumps, air handlers, window airconditioners and split airconditioners for the European and Middle East markets.

Test laboratories are being upgraded at all three factories. These laboratories will comply with national as well as international standards like Eurovent for Europe and ARI for USA. These laboratories will incorporate the best global systems to control conditions and monitor operating parameters on a real time basis. Other improvements include the setting up of a few more Pro-E stations and upgrading of existing ones. Pro-E stations at all three factories are being linked and will be operational by July 2004.

Dadra Plant

Blue Star's state-of-the-art automated plant at Dadra is regarded by industry experts as the best manufacturing facility in the country for airconditioning products. The product range manufactured by this plant includes packaged airconditioners, ducted split airconditioners, split airconditioners and window airconditioners. The plant is also an OEM supplier to other companies to sell under their brand names in the domestic and export markets.

During the review period, the plant continued with its outstanding work in value engineering and improving procurement processes. Output recorded a growth of 31% over the previous year, with productivity levels improving substantially. Increase in exports contributed significantly to the growth of the plant with several orders received from the Middle East and European markets.

Another important highlight was outstanding contributions by workmen under the plant's continuous improvement (Kaizen) programme. More than 1000 Kaizens have been implemented since the scheme was launched.

The plant is in the process of expanding capacity. Three new assembly lines dedicated to exports have been added. Also in the process of being set up is a new R&D building which is expected to be operational in 2004-05.

Thane Plant

The plant manufactures a wide range of chillers – reciprocating, scroll and screw for central airconditioning applications. It also manufactures PUF panels and refrigeration units for prefabricated cold storages and mortuary chambers. During the year under review, the plant added fan coil units and air handling units, which were earlier manufactured in Dadra and Bharuch respectively.

During the review period, output recorded 29% growth, with most of the growth coming from scroll chillers, air handling units and fan coil units. The plant commissioned several new machines during the review period to increase production capacity for air handling units.

The Kaizen scheme has been extremely successful and has generated an overwhelming response from workmen. In fact, the plant has set up a Kaizen Gallery to archive the best Kaizens.

Bharuch Plant

During the year under review, re-layouts of the assembly lines were carried out and some new processes initiated. A wide range of water coolers for local and export markets are manufactured at the Bharuch Plant. As part of re-organising products plant-wise, manufacturing of air handling units was shifted to Thane during the first half of the year.

The manufacturing of deep freezers was initiated with the latest processes and machinery. The plant is also in the process of adding 12,000 sq ft of space to expand deep freezer production and is targeting a capacity of 30,000 units per annum. These freezers are designed to suit Indian conditions and can withstand ambient temperatures of upto 54°C. Moreover, the performance of these freezers is better than that of the earlier imported machines in terms of hold time and power consumption. Over 3,000 indigenously manufactured deep freezers were supplied during the latter part of the review period and these have been well received in the market place.

A major highlight of the year for the plant was receiving ISO 9001 certification. With this, all three plants of the Company are now ISO 9001 certified.

EXPORTS

The year ended March 31, 2004 saw a substantial four-fold increase in exports with revenues of Rs. 37.84 crores compared to Rs. 9.14 crores in the previous year. The growth in the export business was driven mainly by increased demand for Blue Star manufactured products for European and Middle East markets.

In response to a request from Rheem, USA, the Company has developed and contract manufactured seven models of heat pumps for their European markets. Blue Star is the first company to supply these units to Europe, under Rheem's brands against competition from well-known global brands such as Daikin, Lennox and Carrier. These units meet all European standards and have been well received in the market place. The Company has also developed air handlers for Rheem to compete with market leaders like LG in the Middle East. Plans are also on the anvil to develop heat pump chillers and roof top units for Greece, Turkey and other markets.

Water Coolers with the Blue Star brand name continue to be a major thrust area for exports to the Middle East. The Company has also launched high ambient window and split airconditioners for the Middle East market, specifically Iraq. These airconditioners are designed to operate at temperatures upto 54 deg. There are also plans to introduce window airconditioners in a unique capacity of 2.5 TR, which is expected to do well in the market.

AIRCONDITIONING AND REFRIGERATION SERVICE

The airconditioning and refrigeration service business of the Company is segregated into three easily identifiable operations:

a) Central Plant Service catering to large airconditioning systems, which were mainly designed, engineered and installed directly by Blue Star.

b) Packaged Airconditioners Service catering to ducted splits and packaged airconditioners, mostly through the dealer network.

c) Refrigeration and Airconditioning Products Service providing services to products such as room airconditioners, split airconditioners, water coolers, deep freezers and cold storages. This service is provided through a network of dealers and service associates.

As part of its after-sales service offerings Blue Star provides regular preventive maintenance and life-cycle enhancement services. This not only enhances the life of the equipment but also helps customers cut costs through power savings. Recognizing this, more and more customers are entering into comprehensive service and maintenance contracts with Blue Star. Apart from maintenance, the Company also offers revamping and retrofitting in order to help customers upgrade, augment or replace their airconditioning systems.

During the review period, the Company introduced several value added services. These include duct cleaning services to ensure improved air quality in conditioned spaces, refrigerant conversion from R11 to R123 in centrifugal chillers to minimise ozone depletion and replacement of fan coil units to give the customer an opportunity to use low noise, space saving and latest generation units.

In order to strengthen the backbone of the service operations, the Company has initiated the implementation of the ERP system of BaaN. This is expected to enhance efficiency and reliability in service call management. Another important role played in the service operations is that of the Customer Care Officer (CCO). The CCO's primary responsibility is to receive customer calls related to post sales support and to see these through to the satisfaction of the caller. With proper induction, training and monitoring, this team of CCOs today enables customers to get prompt action from the Company and has considerably helped in improving customer satisfaction levels.

Since many of Blue Star's customers work beyond normal business hours, the Company offers extended hours of operation for all its service centres. Today Blue Star's customers can call any time from 9 a.m. to 9 p.m. on every day of the year. Customers have given the Company's extended hours service a resounding vote of confidence.

The Company has a well-organized and managed National Parts Centre (NPC) in Mumbai with subsidiary stocking points, modern procurement methods, contemporary communication systems and state-of-the-art IT infrastructure. NPC has dramatically shortened the lead time for supply of original spare parts to customers and dealers. NPC is linked to the other warehouses spread across the country and continuously monitors the stock status of frequently used spares. The web-enabled supply chain management system ensures that stocks are replenished in a timely manner based on consumption trends.

The Company carried out customer surveys for each line of business to assess customer satisfaction levels. The feedback has been encouraging. Satisfaction levels have increased over the previous year, and the Company shall endeavour to further enhance these levels in the coming years.

SUPPLY CHAIN MANAGEMENT

During the review period, as part of its supply chain initiatives, Blue Star completed the national roll out of Third Party Logistics of finished goods. This is comprised of 20 warehouses and 248 Stock Keeping Units nationally, with a total covered area of around 30,000 sq ft. With this the Company has been able to introduce real time stock view, enhancing the sales forces' ability to marshal stocks across branches and regions thereby lowering finished goods stock holding. A structured reverse logistics process has been introduced to handle return of products damaged in transit. This was integrated with a product lifecycle management strategy.

With the substantial increase in products exports, the Company has streamlined export logistics processes to reduce transit lead time significantly.

In the area of procurement, a major initiative was introduced aimed at reducing the input materials cost for the Company's projects business. The central procurement cell developed a robust product configuration system to simplify product and supplier selection. The resultant rate contracts with selected vendors paved the way for long term pricing and supply strategy on an annual basis.

FINANCIAL PERFORMANCE

The analysis for the 12-month period ended March 31, 2004 in comparison with the corresponding figures for the 12-month period ended March 31, 2003 is as follows:

1. INCOME

Total Income increased by 19% from Rs. 601.06 crores to Rs. 716.06 crores. The Company increased its revenue of sales, work bills, service and commission to Rs. 694.74 crores, an increase of Rs. 112.75 crores over the previous year. Other income comprised of Rs. 21.31 crores generated from profit on sale of assets, dividend income and income tax refunds.

2. COST OF SALES, WORK BILLS AND SERVICES

The cost of sales, work bills and services during the year stood at Rs. 527.20 crores. This represents 73.6% of the Total Income, compared to a corresponding figure of 72.4% in the previous year.

3. EMPLOYEE REMUNERATION AND BENEFITS

There was an increase in employee costs by 16.9%, mainly due to an increase in salaries, training and welfare expenses. Employee remuneration and benefit costs for the year under review stood at Rs. 59.61 crores. This represents 8.3% of the Total Income compared with 8.5% of the previous year.

4. OPERATING AND GENERAL EXPENSES

Operating and general expenses grew by 13.7% in the review period. This increase is largely attributable to several non-recurring expenses incurred for diamond jubilee celebrations and management consultancy fees. Operating and general expenses for the year ended March 31, 2004 was Rs. 70.85 crores, representing 9.9% of the Total Income compared to a corresponding figure of 10.4% in the previous year.

5. INTEREST

There was a decrease in interest costs during the year under review. The interest cost stood at Rs. 1.82 crores representing a reduction of 19% compared to the previous year's figure of Rs. 2.25 crores. This sharp decrease was on account of declining interest rates and tight working capital management.

6. DEPRECIATION

Depreciation charge for the year under review was marginally lower than the previous year. The depreciation charge stood at Rs. 9.98 crores compared to Rs. 10.15 crores in the previous year.

7. TAXATION

Provision for taxation increased from Rs. 9.57 crores to Rs. 11.88 crores.

8. NET PROFIT

Net profit increased to Rs. 32.55 crores compared to Rs. 31.04 crores in the previous year. Profit before Tax stood at Rs. 46.58 crores, a rise of 16% from previous year's figure. The overall profitability of the Company was adversely affected by gross margin erosion including competitive pressures in the cooling products business. However, the Company has taken steps to correct revenue stagnation and profitability erosion in this business and the Company is confident that these initiatives will positively impact this business and will improve profitability.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

In any industry, the processes and internal control systems play a critical role in the health of the Company. Blue Star has robust internal processes as well as clearly defined roles and responsibilities at all levels. Frequent internal audits ensure compliance with these processes. Rigorous business planning as well as expense, capital and manpower budgeting processes ensure that progress is monitored against targets, and control is exercised on all major expenses, so that actual spending is in accordance with the budgets. The mature, timely and accurate management information systems are regarded as amongst the best in the industry.

HUMAN RESOURCES

Over the last decade, the focus of human resource management has been on improving productivity through rationalization of manpower while substantially improving the quality of people.

The Management of Blue Star takes pride in the fact that the technical and business knowledge it has acquired over six decades as an organization in the field of airconditioning and refrigeration is perhaps the richest in the country, and is invaluable. The headcount of the Company stood at 1798 as on March 31, 2004.

Over the last few years, training and development inputs for the employees at all levels have increased substantially. The average training man-hours during the review period was 35 hours per employee. Training inputs include technical training and soft skills training which help employees attain the Corporate Vision "To deliver a world-class customer experience." Training has also been designed and conducted to improve managerial competencies. Young executives taking up managerial responsibilities are put through structured management development programmes to help them discharge their responsibilities better.

During the review period, selected managers were sent to leading management institutes for specific management development programmes to enable them shoulder higher responsibilities. The Company also provided a distant learning programme for sales and marketing from IIM, Kozikhode, wherein about 20 employees completed the certification. The Company also spent significant resources in training the dealers on both technical and non-technical skills.

The Company participated for the first time in the "Best Employers Survey" organized by Hewitt Associates and qualified for the final round. The survey findings were largely used to re-design and modify HR policies to the changing expectations of the employees.

The senior management team was involved in a two-day workshop to arrive at the Corporate values and beliefs of Blue Star. These values and beliefs were then articulated across the organization and will now become the guiding principles for the organization.

A major welfare initiative of providing life coverage to all employees through HDFC Standard Life Insurance has been implemented during the year. The Company has also set up a trust named after the founder, Mohan T Advani Education Trust, to provide financial assistance to employees' children pursuing professional education.

During the Diamond Jubilee celebrations, special functions were organized for employees and their families across the country. Cultural programmes, spot competitions and other events commemorated this occasion. Mementos were distributed to all employees. Blood donation camps were organized which were enthusiastically attended by over 500 employees.

The Industrial Relations scenario has improved significantly with the Company signing a 3 year wage settlement with the Workers Union at Chennai.

INFORMATION TECHNOLOGY

Blue Star, over the last few years, has made substantial investments in IT and communication infrastructure, as well as in advanced state-of-the-art software. The Company believes that “old economy” companies should embrace the opportunities offered by the developments in IT in order to improve customer relations management, operational efficiency and product development.

Implementation process of ERP package from BaaN began during the review period. This project called ‘Manthan’ was first taken up for implementation in the Western Region. Efforts are underway to have the system rolled out and commissioned at other locations.

BaaN is a leader in the field of ERP and is being used in more than 120 organizations in India. This project covers all business divisions of the Company, and will provide a centralized integrated solution for the Company.

In a complex organization like Blue Star, many business processes have a tendency to get fractured on multiple frontiers like divisions, departments and locations. This, quite often, gives the look and feel of many mini Blue Stars within a large organization. ERP will provide the Company with a platform that will seamlessly integrate all its businesses across all the locations and therefore create an integrated virtual organization.

The BaaN server is located at a central site, with all the other locations being connected to this server over a wide area network. The Company has also provided in the network design for extending connectivity to its partners namely dealers, franchisees and suppliers, once the system stabilizes.

A team of 30 people are involved with the implementation of the Manthan project. A total of 17 people have been drawn from the business to work full time on this project, whereas 13 people comprise the technical team. A Steering Committee was formed to oversee the work done by this group and ratify/validate all the business processes that were being mapped into BaaN. More than 300 people in the Company have already been trained on BaaN. The Company is expected to spend approximately Rs. 10 crores on this project over a period of three years.

The Company also launched its intranet, called “Infovine”, during the review period. This initiative facilitates knowledge sharing amongst Blue Star employees, who are currently geographically dispersed. The employees are being constantly updated on the latest happenings and this platform will help in enhancing customer relationship management, collaboration between employees, as well as increase productivity.

BRAND EQUITY

The Company embarked on a brand equity building programme around five years ago, recognizing that although it enjoyed strong brand recall with the corporate and institutional segments, amongst individuals and small businessmen its visibility was low. The Company has made substantial investments in marketing and advertising since then to strengthen its brand equity, particularly in this latter segment of the market. These investments have gone a long way in building the Corporate Brand, and have substantially increased visibility for the brand. Blue Star is now a well-recognized name amongst its target group of corporate and commercial customers, including small businessmen and self-employed professionals.

To enhance brand equity and recognition, the Company has invested not only in mass media channels of print and television, but also in field marketing which involves creating leaflets and literature, participation in exhibitions and events and relationship programmes amongst others. Since Blue Star is not a consumer durables player, in order to effectively target it’s core audience of corporate and commercial customers, including small businessmen and self-employed professionals, the Company has arrived at an optimum media mix with the value proposition of “Cooling Solutions to help your business do better”.

With the onset of summer of 2004, Blue Star unleashed its advertising campaign across the country. This includes some new television commercials as well as a Helpline campaign in the print media promoting the Company's toll free number 1600-2222-00.

On television, the Company associated with the Weather Report and aired its commercials in the Indo-Pak Cricket Series. It has also associated itself with Elections on NDTV 24x7, Aaj Tak, Star News and CNBC.

The Helpline campaign is being executed in all major markets for room airconditioners in mainline dailies. This campaign is also being supported with internet banners on popular portals like Indiatimes and Rediff. Based on the Company's experience, customers are often confused about which capacity of airconditioner to buy, whether they should buy a window or split airconditioner, by how much would the power bills go up by purchasing an airconditioner and so on. The Helpline campaign addresses these common customer queries and provides them with answers to all their questions on cooling. Since Blue Star positions itself as experts in providing cooling solutions, this campaign will help in re-enforcing the expertise.

Apart from the advertising campaign, the Company is also making significant investments in field marketing. These include participation in trade exhibitions, IDEAC (Interior Designers, Architects and Consultants) Relationship Management and PR through the Press. These field activities are critical and go a long way in complementing mass media campaigns and strengthening brand equity.

OUTLOOK

Blue Star's continued focus on growth and competitiveness in its core businesses, and efficient use of resources resulted in higher sales and profitability. The last six months of 2003-04 produced excellent growth for the industry as a whole. As the construction boom, investments in infrastructure projects, and growth in the services sector continue, Blue Star has seen this momentum maintained in the new financial year for the airconditioning and refrigeration industry. With sound financials, trained manpower and expanding manufacturing capacity, Blue Star is well positioned to reap the benefits of these macro-economic trends.

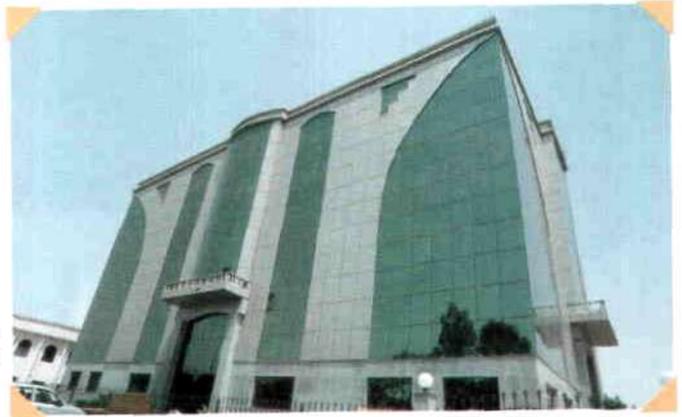
Some Prestigious Installations



HDFC Bank, Mumbai



Reuters,
Bangalore



HCL,
Gurgaon



Intercontinental, Mumbai



PVR Plaza,
New Delhi



Vanenburg IT Park,
Secunderabad



Inorbit Mall, Mumbai



Apollo Gleneagles Hospital, Kolkata



Mentor Graphics, Secunderabad



Nestle, Samalakha



Cognizant Technology Solutions, Kolkata



RMZ Westend, Pune



LNB Textiles, Chennai



Ericsson, Gurgaon



HSBC, Pune



Grand Hyatt, Mumbai



City Centre, Gurgaon



Bentley, New Delhi

The Dynamics of Blue Star's Growth

10 YEAR FINANCIAL HIGHLIGHTS

		2003-04	2002-03	2001-02
OPERATING RESULTS				
Total Income	Rs.in Crores	716.06	601.06	517.32
Profit before Tax	"	46.59	40.18	27.33
Tax	"	11.88	9.57	2.28
Profit after Tax	"	32.55	31.04	27.45
Dividend (including Corporate Dividend Tax)	"	18.26	18.26	12.55
Retained Profit	"	14.29	12.78	14.90
FINANCIAL POSITION				
Paid up Capital	Rs.in Crores	17.99	17.99	19.30
Reserves	"	111.82	97.53	92.10
Shareholders' Funds	"	129.81	115.52	111.40
Borrowings	"	13.35	12.05	12.09
Total Funds Employed	"	143.16	127.57	123.49
Net Fixed Assets & Investments	Rs.in Crores	70.41	59.79	68.41
Net Working Capital	"	77.17	67.84	54.09
Debt Equity Ratio		0.10	0.10	0.11
Book Value per Equity Share	Rs.	72.17	64.22	53.59
Bonus Share Ratio	-	-	-	-
OTHER INFORMATION				
Number of Shareholders	Nos.	19422	22000	24878
Number of Employees	"	1798	1808	1825
PERFORMANCE INDICATORS				
Earnings per Share	Rs.	18.10	16.79	13.52
Dividend per Share	Rs.	# 9.00	9.00	6.50
Return on Shareholders' Funds	%	25.1	26.9	24.6
Return on Capital Employed	%	33.8	33.3	26.7

(# Proposed Dividend)

2000-01	1999-00	1998-99	1997-98	1996-97	1995-96	1994-95
509.82	480.94	476.49	452.77	440.85	408.91	318.82
25.57	25.20	18.12	18.04	23.21	35.48	22.10
2.03	1.96	1.85	2.53	8.43	10.30	5.72
23.54	23.24	16.27	15.51	14.78	25.18	16.38
12.32	11.39	10.53	10.43	10.43	8.12	3.51
11.22	11.85	5.74	5.08	4.35	17.06	12.87
20.32	27.10	27.10	27.10	27.10	27.10	10.05
89.72	97.67	85.95	80.37	75.47	71.27	51.56
110.04	124.77	113.05	107.47	102.57	98.37	61.61
57.35	64.04	82.49	60.43	32.96	10.18	15.65
167.39	188.81	195.54	167.90	135.53	108.55	77.26
94.11	105.25	99.93	97.05	73.60	46.00	37.81
67.43	78.68	88.18	67.44	61.88	62.45	38.93
0.52	0.51	0.73	0.56	0.32	0.10	0.26
51.27	44.24	38.98	38.40	37.84	36.26	60.79
-	-	-	-	-	-	1:1
26094	27399	23963	23318	20578	18004	15697
2084	2489	2504	2619	2799	2982	2661
11.58	8.58	6.00	5.72	5.45	10.85	16.30
5.50	5.00	3.50	3.50	3.50	3.50	3.50
21.4	19.8	15.4	15.5	15.6	27.8	30.5
20.5	19.1	14.9	14.7	22.0	39.1	39.2

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, 2004 and also the Profit and Loss Account wherein are incorporated the locally audited returns from the branches and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003, 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 matter 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 purpose 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;

v) On the basis of written representations received from the Directors, as on 31st March, 2004, which are taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2004 from being appointed as Director in term of clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956;

vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) In the case of Balance Sheet, of the state of affairs of the Company as at 31st March 2004; and
- b) In the case of Profit and Loss Account, of the Profit of the Company for the year ended on that date; and
- c) In the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date

For K. S. AIYAR & Co.
Chartered Accountants

RAMAKRISHNA PRABHU
Partner
Membership No. 38959

Mumbai : May 12, 2004

Annexure to the Auditors' Report

(Referred to in paragraph 3 of our Report of even date on the Accounts for the year ended 31st March, 2004 of Blue Star Limited)

- 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 have 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)(b), (c), and (d) are not applicable.
- iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit we have not come across any major weaknesses in the internal controls with regard to purchase of inventory, fixed assets and with regard to sale of goods.
- v.a) According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 have been so entered.
- b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 and exceeding the value of rupees five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. No order has been passed by the National Company Law 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 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, Customs 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, 2004 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, Sales tax, Income tax, Customs duty, Wealth tax, Excise duty and Cess which have not been deposited on account of dispute are given in Note 3B - Contingent Liabilities to Schedule N - Notes forming part of the Accounts.
- 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 the immediately preceding financial year.
- xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
- xii) The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or other similar securities.
- xiii) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4 (xiii) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company.
- xiv) During the year, no transactions were entered into by the Company in respect of investments held as stock in trade and hence the question of maintaining proper records of transactions and contracts and timely entries therein doesn't arise. The investments held as stock in trade by the Company are held in its own name.
- xv) In our opinion, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the Company.
- xvi) According to records of the Company no term loans have been raised during the year by the Company.
- xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short term basis have been used for long-term investment. Long-term funds raised of Rs.6533.47 lakhs have been used to finance short-term assets including permanent working capital.
- 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 Companies Act, 1956.
- xix) According to the information and explanations given to us, the Company has not issued debentures 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

RAMAKRISHNA PRABHU
Partner
Membership No. 38959

Mumbai : May 12, 2004

Balance Sheet As At March 31, 2004

(Rs. in lakhs)

	Schedule	As at March 31	
		2004	2003
SOURCES OF FUNDS			
Share Capital	A	17,98.72	17,98.72
Reserves & Surplus	B	1,11,82.42	97,53.64
Shareholders' Funds		1,29,81.14	1,15,52.36
Secured Loans	C	10,92.82	8,73.15
Unsecured Loans	D	2,41.86	3,32.35
Loan Funds		13,34.68	12,05.50
TOTAL		1,43,15.82	1,27,57.86
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block		1,35,25.96	1,24,62.34
Depreciation		77,18.02	71,45.91
Net Block	E	58,07.94	53,16.43
Capital Work-in-Progress		6,85.55	2,39.60
Investments	F	5,47.80	4,22.80
Fixed Assets & Investments		70,41.29	59,78.83
Inventories		76,74.98	65,93.87
Sundry Debtors		1,35,87.04	98,39.54
Cash & Bank Balances		2,42.76	2,90.54
Loans & Advances		53,00.81	64,70.99
Total Current Assets, Loans & Advances	G	2,68,05.59	2,31,94.94
Current Liabilities		1,71,36.40	1,44,64.52
Provisions		19,52.41	19,46.21
Less : Total Current Liabilities & Provisions	H	1,90,88.81	1,64,10.73
Net Current Assets		77,16.78	67,84.21
Miscellaneous Expenditure (to the extent not written off or adjusted) (See Note 8)		4,28.34	6,50.12
Net Deferred Tax Liability (See Note 13)		(8,70.59)	(6,55.30)
TOTAL		1,43,15.82	1,27,57.86
Notes forming part of the Accounts	N		

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

RAMAKRISHNA PRABHU
Partner

Mumbai : May 12, 2004

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

Pradeep Mallick
Nawshir Mirza
Gurdeep Singh
Suresh N Talwar

H Rajaram
K P T Kutty

*Chairman & Chief Executive
President & Vice Chairman*

*Executive Director
Executive Director*

*Director
Director
Director
Director*

*Executive Vice President
Company Secretary*

Mumbai : May 12, 2004

Profit & Loss Account For The Year Ended March 31, 2004

(Rs. in lakhs)

	Schedule	Year ended March 31	
		2004	2003
INCOME			
Sales, Work Bills & Services (See note 1,2 & 6)		6,82,14.17	5,68,86.83
Commission		12,59.85	13,12.61
Other Income	I	21,31.63	19,06.48
		7,16,05.65	6,01,05.92
EXPENDITURE			
Cost of Sales, Work Bills & Services	J	5,27,20.51	4,35,15.06
Employee Remuneration & Benefits	K	59,60.50	50,98.80
Operating & General Expenses	L	70,85.33	62,33.28
Depreciation	M	9,98.69	10,15.87
Interest (Including Rs. 12.79 lakhs on Fixed Loans; 2002-03 : Rs.37.59 lakhs)		1,81.99	2,24.78
		6,69,47.02	5,60,87.79
PROFIT			
PROFIT BEFORE TAXATION		46,58.63	40,18.13
Provision for Income Tax		11,84.30	9,54.00
Provision for Wealth Tax		4.00	3.00
		11,88.30	9,57.00
Add: Deferred Tax Asset /(Liability) (See note no. 13)		(2,15.29)	43.33
PROFIT AFTER TAXATION		32,55.04	31,04.46
Add: Balance brought forward		16,84.01	11,30.30
Add: Transfer from Foreign Project Reserve		—	38.50
Add: Excess provision for proposed Dividend w/back		—	37.01
PROFIT AVAILABLE FOR DISPOSAL		49,39.05	43,10.27
APPROPRIATIONS			
Transfer to General Reserve		12,00.00	8,00.00
Proposed Dividend		16,18.85	16,18.85
Corporate Dividend tax		2,07.41	2,07.41
		18,26.26	18,26.26
Balance carried forward		19,12.79	16,84.01
Basic & Diluted Earnings Per Share (See note 12)		Rs. 18.10	Rs. 16.79
Notes forming part of the Accounts	N		

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

RAMAKRISHNA PRABHU
Partner

Mumbai : May 12, 2004

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

Pradeep Mallick
Nawshir Mirza
Gurdeep Singh
Suresh N Talwar

H Rajaram
K P T Kutty

*Chairman & Chief Executive
President & Vice Chairman
Executive Director
Executive Director*

*Director
Director
Director
Director*

*Executive Vice President
Company Secretary*

Mumbai : May 12, 2004

Schedules Forming Part of The Balance Sheet

As At March 31, 2004

(Rs. in lakhs)

		As at March 31	
		2004	2003
A. SHARE CAPITAL			
Authorised			
10,000	7.8% Cumulative Preference Shares of Rs.100 each	10.00	10.00
2,97,40,000	Equity Shares of Rs.10 each	29,74.00	29,74.00
16,000	Unclassified Shares of Rs.100 each	16.00	16.00
		30,00.00	30,00.00
Issued			
1,79,87,221	Equity Shares of Rs.10 each	17,98.72	17,98.72
		17,98.72	17,98.72
Subscribed & Paid Up			
	Equity Shares of Rs.10 each:		
46,78,203	Shares fully paid in cash	4,67.82	4,67.82
929	Shares allotted as fully paid pursuant to a contract without payment being received in cash	0.09	0.09
1,33,05,268	Shares allotted as fully paidup Bonus shares by Capitalisation of Reserves and Share Premium	13,30.53	13,30.53
2,821	Shares allotted as fully paid shares on conversion of 425 - 7.8% Cumulative Preference Shares of Rs.100 each as per terms of the prospectus dated June 24,1969	0.28	0.28
1,79,87,221		17,98.72	17,98.72
B. RESERVES & SURPLUS			
General Reserve			
	Balance as on April 1, 2003	78,36.07	74,25.68
	Add: Transfer from Profit & Loss Account	12,00.00	8,00.00
	Add: Transfer from Capital Reserve	—	11.20
		90,36.07	82,36.88
	Less: Transferred to Capital Redemption Reserve	—	1,31.56
	Less: Adjusted against premium paid on buy back	—	2,69.25
		—	4,00.81
		90,36.07	78,36.07
	Balance carried forward	90,36.07	78,36.07

(Rs. in lakhs)

	As at March 31	
	2004	2003
B. RESERVES & SURPLUS (Contd.)		
(Balance brought forward)	90,36.07	78,36.07
Foreign Projects Reserve		
Balance as on April 1, 2003	—	38.50
Less: Transfer to Profit & Loss Account	—	38.50
	—	—
Capital Redemption Reserve		
Balance as on April 1, 2003	2,33.56	1,02.00
Add: Transfer from General Reserve	—	1,31.56
	2,33.56	2,33.56
Capital Reserve		
Subsidy from Government	—	11.20
Less: Transfer to General Reserve	—	11.20
	—	—
Share Premium Account		
Balance as on April 1, 2003	—	5,03.07
Less: Adjusted against premium paid on buy back	—	5,03.07
	—	—
Profit & Loss Account		
Balance carried forward	19,12.79	16,84.01
	1,11,82.42	97,53.64
C. SECURED LOANS		
From Banks, secured by hypothecation of stock-in-trade and book debts	10,92.82	8,73.15
	10,92.82	8,73.15
D. UNSECURED LOANS		
Fixed Deposits	97.36	2,24.41
Others	1,44.50	1,07.94
	2,41.86	3,32.35
	13,34.68	12,05.50

E. FIXED ASSETS

(Rs. in lakhs)

	Gross Block				Depreciation				Net Block	
	As at 1.4.2003	Additions	Deletions	As at 31.3.2004	As at 1.4.2003	Additions	Deletions	As at 31.3.2004	As at 31.3.2004	As at 31.3.2003
Land- Freehold	70.45	-	-	70.45	-	-	-	-	70.45	70.45
Land Leasehold	18.18	-	-	18.18	3.44	0.15	-	3.59	14.59	14.74
Building Sheds and Roads	30,82.96	1,48.34	56.35	31,74.97	12,73.16	1,36.51	34.67	13,75.00	17,99.97	18,09.80
Plant and Machinery	55,19.22	8,90.62	1,53.49	62,56.36	34,97.23	3,75.80	1,25.40	37,47.63	25,08.73	20,22.00
Furniture, Fittings & Equipments	14,45.04	2,52.89	96.89	16,01.04	8,00.84	1,39.96	72.52	8,68.28	7,32.76	6,44.20
Vehicles	3,11.79	1,66.68	95.24	3,83.22	1,69.49	63.46	68.47	1,64.48	2,18.74	1,42.29
Computers	20,14.70	1,73.36	1,30.07	20,57.98	14,01.75	2,83.06	1,25.52	15,59.29	4,98.69	6,12.94
Sub Total 31.3.2004	1,24,62.34	16,31.89	5,32.04	1,35,62.20	71,45.91	9,98.94	4,26.60	77,18.27	58,43.93	53,16.43
Less: Grant Received from UNIDO (See note7)		36.24		36.24		0.25		0.25	35.99	
Total 31.3.2004	1,24,62.34	15,95.65	5,32.04	1,35,25.96	71,45.91	9,98.69	4,26.60	77,18.02	58,07.94	
Total 31.3.2003	1,19,58.16	8,73.61	3,69.43	1,24,62.34	64,11.62	10,15.87	2,81.58	71,45.91	53,16.43	

Note: Land and Building of Dadra plant and Sakinaka office premises have been mortgaged in favour of ICICI Bank.

(Rs. in lakhs)

F. LONG TERM INVESTMENTS:

In 1,85,550 Units of 6.75% Bonds of Unit Trust of India
(Face Value Rs.18.56 lakhs)

Unquoted : Trade Investments

1,000 Fully Paid Equity Shares of Rs. 25
each in Jaihind Cooperative Bank Ltd.

2,400 Fully Paid Equity Shares of Rs.100
each in Ashok Sunil & Company Private Ltd

16,780 Fully Paid Equity Shares
of Rs. 10 each in Easy Flow Air Products Private Ltd

76,790 Fully Paid Equity Shares
of Rs. 10 each in Ravistar India Private Ltd

3,67,500 Fully Paid Equity Shares of
MR 1 each in Arab Malaysian Blue Star SDN

2,94,000 Fully Paid Equity Shares of
Rs.10 each in Rolastar Private Limited

12,50,000 Fully Paid Equity shares of Rs. 10
each in Blue Star Design and Engineering Ltd.
(Wholly Owned Subsidiary) (Subscribed during the year)

(Balance carried forward)

	As at March 31	
	2004	2003
In 1,85,550 Units of 6.75% Bonds of Unit Trust of India (Face Value Rs.18.56 lakhs)	18.56	18.56
Unquoted : Trade Investments		
1,000 Fully Paid Equity Shares of Rs. 25 each in Jaihind Cooperative Bank Ltd.	0.25	0.25
2,400 Fully Paid Equity Shares of Rs.100 each in Ashok Sunil & Company Private Ltd	5.64	5.64
16,780 Fully Paid Equity Shares of Rs. 10 each in Easy Flow Air Products Private Ltd	1.68	1.68
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 Arab Malaysian Blue Star SDN	49.97	49.97
2,94,000 Fully Paid Equity Shares of Rs.10 each in Rolastar Private Limited	29.40	29.40
12,50,000 Fully Paid Equity shares of Rs. 10 each in Blue Star Design and Engineering Ltd. (Wholly Owned Subsidiary) (Subscribed during the year)	1,25.00	—
(Balance carried forward)	238.18	113.18

(Rs. in lakhs)

	As at March 31	
	2004	2003
F. LONG TERM INVESTMENTS (Contd.)		
(Balance brought forward)	2,38.18	1,13.18
Quoted: Other Investments		
29,25,725 Fully Paid Equity shares of Rs.10 each in BLUE STAR INFOTECH LTD (Aggregate Market Value Rs.49,37.16 lakhs; 2002-03 : Rs 32,51.94 lakhs)	2,92.57	2,92.57
21,400 Fully Paid Equity Shares of Rs.10 each in Ansal Housing & Properties Ltd. (Aggregate Market Value Rs. 0.42 Lakhs; 2002-03 : Rs 0.60 lakhs)	0.60	0.60
329 Fully paid 11.7% secured & redeemable Bonds of Rs.5000 each in Krishna Bhagya Jala Nigam Ltd. (Aggregate Market Value Rs.18.21 Lakhs; 2002-03 : Rs.17.43 Lacs)	16.45	16.45
	5,47.80	4,22.80
G. CURRENT ASSETS, LOANS & ADVANCES		
(a) INVENTORIES		
Raw Materials, Stores & Components (at cost)	19,80.80	16,21.61
Work-in-Progress (at cost)	39,69.99	27,77.89
Work-in-Progress (at contract value)	7,38.83	13,19.00
	47,08.82	40,96.89
Less: Advance received thereagainst	8,70.62	9,77.79
	38,38.20	31,19.10
Finished Goods (at cost or net realisable value, whichever is lower)	10,48.60	14,17.38
Finished Goods lost in fire (See Note 5)	2,55.33	—
Goods in Transit (at cost)	5,05.13	3,99.56
Tools, Cylinders & Consumable Stores	41.76	31.06
Units, Bonds & Shares in hand (at lower of cost or market value) (See Note 17)	5.16	5.16
	76,74.98	65,93.87
(b) SUNDRY DEBTORS (Unsecured)		
Considered Good :		
Over six months	27,39.16	24,96.82
Others	1,08,47.88	73,42.72
Considered Doubtful :		
Over six months	23.38	48.38
Less: Provided	23.38	48.38
	1,35,87.04	98,39.54

(Rs. in lakhs)

	As at March 31	
	2004	2003
G. CURRENT ASSETS, LOANS & ADVANCES (Contd.)		
(c) CASH & BANK BALANCES		
Cash on hand (including Cheques on hand Nil; 2002-03: Rs.19.74 lakhs)	23.38	50.51
With Scheduled Banks		
Current Account	1,05.90	1,34.94
Unclaimed Dividend Account	62.03	59.40
Deposit Account	50.45	44.10
With Unscheduled Banks		
1. Rafidain Bank (Maximum balance during the year Rs.0.68 lakhs ; 2002-03 : Rs. 0.68 lakhs)	—	0.68
2. Rafidain Bank (Railway) (Maximum balance during the year Rs.31.63 lakhs ; 2002-03 : Rs. 31.63 lakhs)	—	31.63
3. Abu Dhabi Commercial Bank Ltd.A/c (Maximum balance during the year Rs.2.60 lakhs ; 2002-03 : Rs. 2.60 lakhs)	0.85	2.60
4. Jai Hind Co-operative Bank Ltd. (Maximum balance during the year Rs.0.15 lakhs ; 2002-03 : Rs. 0.15 lakhs)	0.15	0.15
	2,42.76	3,24.01
Less: Provided* Cash & Bank Balances	—	33.47
	2,42.76	2,90.54

* Provision for Non-Repatriable Foreign Assets

**Schedules Forming Part of The Balance Sheet
As At March 31, 2004**

(Rs. in lakhs)

	As at March 31	
	2004	2003
G. CURRENT ASSETS, LOANS & ADVANCES (Contd.)		
(d) LOANS & ADVANCES		
Unsecured and considered good:		
Advance recoverable in cash or in kind or for value to be received	28,26.97	40,28.71
Advance Tax paid (Net of Provision for taxes)	11,53.89	13,50.89
Deposits with Government and other bodies	13,19.95	10,91.39
	53,00.81	64,70.99
	2,68,05.59	2,31,94.94
H. CURRENT LIABILITIES & PROVISIONS		
Sundry Creditors- Small Scale Units (See note 9)	1,01.94	1,58.41
Sundry Creditors- Others	66,97.49	51,83.66
Acceptances	8,23.46	4,01.84
Other Liabilities	72,16.98	60,67.00
Advances against Contracts	22,28.17	25,85.70
Investor Protection Fund		
- Unclaimed Dividends	62.03	59.40
- Unclaimed Fixed Deposits	6.16	8.36
- Unclaimed Interest on Fixed Deposits (matured)	0.17	0.15
Current Liabilities	1,71,36.40	1,44,64.52
Provision for Leave encashment	1,26.15	1,19.95
Proposed Dividend	16,18.85	16,18.85
Corporate Dividend tax	2,07.41	2,07.41
	18,26.26	18,26.26
Provisions	19,52.41	19,46.21
	1,90,88.81	1,64,10.73

Schedules Forming Part of Profit & Loss Account

For The Year Ended March 31, 2004

(Rs. in lakhs)

	Year ended March 31	
	2004	2003
I. OTHER INCOME		
Export Incentives	96.49	2,18.70
Profit on Sale of Assets	10,63.97	72.69
Interest (Tax deducted at source Rs.8.20 lakhs; 2002-03:Rs.1.17 lakhs)	2,20.01	1,11.58
Provisions & Liabilities no longer required	31.41	1,05.93
Dividends (Including tax deducted at source Nil; 2002-03 Rs.18.43 lakhs)	4,07.09	1,75.54
Profit on sale of Investments	—	8,53.54
Miscellaneous	3,12.66	3,68.50
	21,31.63	19,06.48
J. COST OF SALES, WORK BILLS & SERVICES		
Stock at commencement:		
- Raw Materials, Stores & Components	16,21.61	13,52.66
- Work-in-Progress	27,77.89	28,27.14
- Finished Goods	14,17.38	11,26.61
- Units, Bonds and Shares in hand (See note 17)	5.16	5.16
Purchases & Expenses (See note 14)	5,39,03.02	4,40,25.53
	5,97,25.06	4,93,37.10
Less: Stock at Close:		
- Raw Materials, Stores & Components	19,80.80	16,21.61
- Work-in-Progress (at cost)	39,69.99	27,77.89
- Finished Goods	10,48.60	14,17.38
- Units, Bonds and Shares in hand (See note 17)	5.16	5.16
	70,04.55	58,22.04
	5,27,20.51	4,35,15.06
K. EMPLOYEE REMUNERATION & BENEFITS		
Salaries, Wages & Bonus	39,75.82	34,06.85
Provident Fund, Superannuation, Gratuity Fund and Leave Encashment	6,34.44	6,23.27
Welfare & Training Expenses	13,50.24	10,68.68
	59,60.50	50,98.80

(Rs. in lakhs)

	Year ended March 31	
	2004	2003
L. OPERATING & GENERAL EXPENSES		
Rent	5,29.52	4,87.95
Rates & Taxes	31.94	42.51
Power	3,51.15	3,18.98
Insurance	50.55	51.90
Repairs & Maintenance		
- Premises	2,46.08	2,31.33
- Machinery	93.37	88.53
- Others	82.57	79.33
Payment to Auditors (including payment to Branch Auditors)		
- Audit Fees	15.10	11.70
- Other Services (including Tax Audit Fees Rs. 2.54 lakhs; 2002-03: Rs. 2.24 lakhs)	6.77	9.31
- Reimbursement of Expenses	0.54	1.17
Directors' Fees	0.78	0.34
Non Executive Directors' Commission	16.65	15.00
Donations	—	10.23
Commission on Sales (other than salesmen)	4,47.74	2,91.60
Advertising & Publicity	10,87.32	12,08.05
Transport & Travelling	13,40.19	11,79.07
Stationery & Printing	2,21.55	1,68.97
Other expenses	18,73.46	15,68.91
Exchange Rate Difference	20.17	29.38
Non Recoverable Debts Written-off	5,73.86	3,44.49
Provision for Doubtful Debts/Advances	—	10.80
Loss on sale/write-off of Investment	—	0.34
Loss on assets sold or discarded	51.20	44.85
Research & Development	44.82	38.54
	70,85.33	62,33.28
M. DEPRECIATION		
Depreciation on Fixed Assets	9,98.94	10,15.87
Less: Transferred from Grant Received (See note 7)	0.25	—
Depreciation charged to Profit and Loss Account	9,98.69	10,15.87

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 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 expenses, is included in Capital WIP and will be treated in the accounts appropriately on completion of the project.

3. Revenue Recognition

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

In respect of all such contracts, revenue is recognised on the Percentage Completion Method, in respect of specific supplies to the project as and when supplies are affected and in respect of installation and commissioning based on measurement of actual work done.

- c) Warranty liability on account of after sale services is accounted on accrual basis to the extent ascertained; liability unascertainable is accounted on cash basis.
- d) Service income is recognised on accrual basis.
- e) Claims recoverable are accrued only to the extent admitted by the parties.

4. Depreciation/Amortisation

- a) Depreciation is charged at rates applicable under Schedule XIV of Companies Act, 1956, on written down value of assets.
- b) Technical Know-how Fees are amortised over a period of six years from the year in which they become payable.

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), after providing for obsolescence.
- ii) Work-In-Progress relating to manufacturing activity is valued at cost.
- iii) In case of construction contracts entered prior to 1.4.2003, Contract Work-in-Progress awaiting customer acceptance is valued at proportionate contract value and the balance work-in-progress is valued at cost. All products of Packaged Airconditioning Division are valued at cost.
- iv) In case of construction contracts entered from 1.4.2003, Contract Work-in-Progress is stated at cost.
- v) Finished goods are valued at lower of cost and net realisable value.
- vi) Service kits and demonstration stock included in finished goods are amortised over a period of five years.
- vii) Goods-in-transit are valued at cost.
- viii) Bonds, Units & Shares held as stock-in-trade are valued at lower of cost or market value.

b. Basis of Allocation of Expenditure and Determination of Cost

- i) Direct expenses identifiable to specific jobs are debited to those jobs. Indirect expenses are not allocated to jobs but charged as period cost in the year they are incurred.
- ii) Depreciation on Assets used specifically and exclusively for a job contract is charged to the respective job and finally charged to 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 adjusted to the carrying amount of such fixed assets.

8. Deferred Revenue Expenditure

- a) Payment of compensation to employees who have retired under Early Voluntary Retirement Scheme, is amortised over a period of 5 years. The balance amount is carried forward as "Miscellaneous Expenditure (to the extent not written off or adjusted)".

- b) Technical Know-how fees incurred prior to 1.4.2003 and apportioned to manufacturing processes is treated as revenue expenditure and amortised over a period of 6 years.
- c) The expenses for Brand Equity image building incurred prior to 1.4.2003 are treated as revenue expenditure and amortised over a period of 3 years from the date of conclusion of such activity.

9. Retirement Benefits

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

10. Excise/Customs Duty

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

11. Taxes on Income

- a) Provision for taxation is made at the average 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. As a result, contingent liability, if any, arising there-against is not ascertained.

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

12. Investments

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

13. Contingent liabilities

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

II. OTHER NOTES

1. Sales/Work bills include

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

	(Rs. in lakhs)	
	2003-04	2002-03
Work done to be billed		
- At close	7,38.83	13,19.00
Less : At commencement	13,19.00	10,83.00
	(5,80.17)	2,36.00

2. 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)
	2003-04
i) Contract revenue recognised as revenue in the period	84,02.65
ii) For Contracts that are in progress as on 31.3.2004:	
a) Contract costs incurred and recognised profits (Less Recognised losses) up to the reporting date	84,00.51
b) Advances received	6,32.84
c) Retention amount	—
d) Gross amount due from customers for contract work	7,73.13
e) Gross amount due to customers for contract work	—
iii) Impact due to revised AS 7 on	
- Billing - increased by	36,85.63
- Profit - increased by	3,64.43
- Debtors - increased by	22,22.78

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

	(Rs. in lakhs)	
	2003-04	2002-03
i) Claim against the Company not acknowledged as debts	84.54	1,44.42
ii) Sales tax demands under appeal	77.34	10,42.74
iii) Excise duty claims not acknowledged as debts	1,34.92	36.53
iv) Income Tax	1,74.84	—
v) Corporate Guarantee given on behalf of other Bodies Corporate	20,75.25	19,46.31

3B. Contingent Liabilities for Companies (Auditor's Report) Order, 2003 purpose:

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	66.04	1975-76 to 1990-91 & 2000-01	Sales Tax Officer
	Claim of Sale in the course of imports rejected	5.33	1975-76 to 1990-91 & 2000-01	Sales Tax Officer
	Entry tax	33.00	2003-04	Excise & Tax officer
	Interstate sale treated as Local sale	1,70.00	2002-03 & 2003-04	High Court
	Sale contract treated as Works Contract	14.71	1984 to 1998	High Court
	Work Contract demand	40.57	1997 - 98 & 1998 - 99	Sales Tax Appellate Tribunal
	Tax on High Sea sale & interstate purchase	91.90	1993 - 94 & 1994 - 95	Sales Tax Tribunal
	Entry tax claims	47.90	1992 - 93 & 2001- 02	Appellate Asst. Commissioner
	Import Sales Electronics items	3.14	1972 to 75 & 1984 - 85	High Court
Central Excise	Excise Duty	1,03.47	1986 to 2001	Central Excise Commissioner
		30.54	1996 to 2000	Central Excise Commissioner (Appeals)
		2,97.46	1991- 92 & 1997 to 2001	CESTAT
	Excise Duty	10.00	1981 to 1986	Penalty levied by Supreme Court

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

4. Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.10,61.90 lakhs (2002-03: Rs.53.58 lakhs).

5. The Company has an arrangement with AFL Logistics to store finished goods of the Commercial Refrigeration Division. During February, 2004 there was an unfortunate fire at the warehouse at Okhla. Consequently, the Company has lodged necessary insurance claim to recover the damage estimated at Rs.255.33 lakhs, which is carried in the books at cost. The Company is confident of salvaging the entire loss.

6. 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.

7. During the year United Nations Industrial Development Organization (UNIDO) has sponsored cleaning machine for conversion of Carbon Tetra Chloride (CTC) as cleaning solvent to trichloroethylene at the Company's

Thane plant. The cost paid by UNIDO for the machine has been capitalised and an equal amount is adjusted from the gross block and depreciation on fixed assets in line with Accounting Standard requirement.

8. a) In accordance with Accounting Policy No.8 (a) regarding Early Voluntary Retirement Scheme an amount of Rs.4,26.65 lakhs (2002-03: Rs. 4,80.01lakhs) is carried forward under the head "Miscellaneous Expenditure (to the extent not written off or adjusted)".

b) In accordance with Accounting Policy No.8 (b) regarding Technical Know-how related to manufacturing processes, an amount of Rs.1.69 lakhs (2002-03; Rs. 12.38 lakhs) is carried forward under the head "Miscellaneous Expenditure (to the extent not written off or adjusted)".

c) In accordance with Accounting Policy No.8 (c) regarding Brand Equity expenditure, an amount of nil (2002-03: Rs. 1,57.74 lakhs) is carried forward under the head "Miscellaneous Expenditure (to the extent not written off or adjusted)".

9. a) There is no amount remaining unpaid to Small Scale Suppliers within the meaning of "The Interest on Delayed Payments to Small Scale & Ancillary Undertakings Act".

b) The small scale undertakings to which the Company owes amounts outstanding for more than 30 days are as stated below:

Air Flow Pvt Ltd	Hemant Engineers
Advance Valve Co.	H Guru Instruments (NI) Pvt Ltd
Alflow Glass Equipment	Khokhar Electricals Pvt Ltd
Anfilco Ltd	Logic Controls Pvt Ltd
Advance Valves Pvt Ltd	Mihir Engineering Ltd
Anergy Instruments	Milestones Switchgears Pvt Ltd
Air Grille Industries	Parkaie Engg. Co. Pvt Ltd
Beardsell Ltd	Sri Industries
BIE Cooling System Pvt Ltd	Sukaso Engg. Enterprises
Bankim & Company	Servex Engg. & Fab Pvt Ltd
Dass Pass Sales Corpn	Suburban Industrial Works Lessee
DBR Cooling Towers P Ltd	Thermadyne Pvt Ltd
H. Guru Marketing Co	Tanus Sheet Metal Industries

c) The above information has been compiled to the extent they could be identified as small scale and ancillary undertakings on the basis of information available with the Company.

10. Segment Information

A) Primary Segment Reporting (by Business Segment)

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

a) Central Air-conditioning Systems includes Central Airconditioning projects, Packaged Airconditioning business, manufacturing and services.

b) Cooling Products includes Cooling appliances, Cold Storage products, Commercial Kitchen and Laundry Equipments, manufacturing and customer service business.

- c) Professional Electronics and Industrial Equipment includes trading and servicing for Testing Machine Instruments, Medical, Analytical, Test Measuring and Data communication instruments.
- d) Residual includes discontinued business.

Segment Revenues, Results and Other Information

(Rs. in lakhs)

Description	As at March 31	
	2004	2003
I) SEGMENT REVENUE		
i. Central Air-conditioning Systems	4,78,64.91	3,66,68.05
ii. Cooling Products	1,68,33.37	1,76,23.26
iii. Professional Electronics and Industrial Equipment	50,13.29	43,81.33
iv. Residual	33.97	15.36
TOTAL SEGMENT REVENUE	6,97,45.54	5,86,88.00
Less: Inter Segment Revenue	—	—
Add: Other Un-allocable Income	18,60.11	14,17.92
TOTAL INCOME	7,16,05.65	6,01,05.92
II) SEGMENT RESULT		
i. Central Air-conditioning Systems	46,29.10	36,56.88
ii. Cooling Products	(2,56.35)	6,33.51
iii. Professional Electronics and Industrial Equipment	11,19.52	10,01.97
iv. Residual	(10.69)	(1,08.08)
TOTAL SEGMENT RESULT	55,02.96	51,84.28
Less:		
i. Interest paid	1,81.99	2,24.78
ii. Other un-allocable income net of un-allocable Expenditure	6,62.34	9,41.37
TOTAL PROFIT BEFORE TAX	46,58.63	40,18.13
Less: Provision for Tax	11,84.30	9,54.00
Provision for Wealth Tax	4.00	3.00
Add: Deferred Tax Adjustment	(2,15.29)	43.33
NET PROFIT AFTER TAX	32,55.04	31,04.46
III) OTHER INFORMATION		
a) SEGMENT ASSETS		
i. Central Air-conditioning Systems	1,98,99.08	1,42,60.79
ii. Cooling Products	84,94.58	82,12.91
iii. Professional Electronics and Industrial Equipment	21,55.83	19,05.09
iv. Residual	3,47.45	4,73.36
TOTAL SEGMENT ASSETS	3,08,96.94	2,48,52.15
Add: Un-allocable Corporate Assets	33,78.28	49,71.74
TOTAL ASSETS	3,42,75.23	2,98,23.89

Segment Revenues, Results and Other Information (Contd.)

(Rs. in lakhs)

Description	As at March 31	
	2004	2003
b) SEGMENT LIABILITIES		
i. Central Air-conditioning Systems	1,23,05.82	90,20.74
ii. Cooling Products	34,80.26	41,12.76
iii. Professional Electronics and Industrial Equipment	9,33.72	10,04.56
iv. Residual	51.72	14.73
TOTAL SEGMENT LIABILITIES	1,67,71.53	1,41,52.79
Add: Un-allocable Corporate Liabilities	23,17.28	22,57.94
TOTAL LIABILITIES	1,90,88.81	1,64,10.73
c) CAPITAL EXPENDITURE		
i. Central Air-conditioning Systems	9,98.42	4,16.41
ii. Cooling Products	4,03.78	2,49.03
iii. Professional Electronics and Industrial Equipment	58.04	47.79
iv. Residual	—	—
v. Other Un-allocable	1,71.65	1,60.38
TOTAL	16,31.89	8,73.61
d) DEPRECIATION		
i. Central Air-conditioning Systems	5,95.97	5,95.01
ii. Cooling Products	2,48.73	2,63.05
iii. Professional Electronics and Industrial Equipment	40.34	38.72
iv. Residual	3.75	6.31
v. Other Un-allocable	1,09.91	1,12.78
TOTAL	9,98.69	10,15.86
e) NON CASH EXPENSES OTHER THAN DEPRECIATION		
i. Central Air-conditioning Systems	3,83.54	3,07.70
ii. Cooling Products	1,17.60	36.01
iii. Professional Electronics and Industrial Equipment	25.89	0.12
iv. Residual	3.91	6.24
v. Other Un-allocable	42.92	5.21
TOTAL	5,73.86	3,55.29

B) Secondary Segment Information

The Company predominantly caters to the needs of Indian market. Since the export turnover constitutes 5.85% (2002-03 : 3.34%) of the total turnover of the Company, there are no reportable geographical segments.

11. Related Party Disclosure

a. Related party and their relationship

Associates

Rolastar Private Limited
Ravistar Private Limited
Arab Malaysian Blue Star (SDN) BHD
Easy Flow Air Products Private Limited
Blue Star Infotech Limited

Subsidiary

Blue Star Design and Engineering Limited

Enterprises in which key management personnel & their relatives are interested

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

Directors

Mr Ashok M Advani
Mr Suneel M Advani
Mr T G S Babu
Mr Satish Jamdar (w.e.f. 1.11.2003)

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

(Rs. in lakhs)

Name of Related Party / Transaction	2003-04		2002-03	
	Volume	Balance O/S DR/(CR)	Volume	Balance O/S DR/(CR)
Yokogawa Blue Star Ltd.		—		(11.64)
Sales/Service charges	—	—	10.05	
Rolastar Pvt. Ltd.		(15.01)		(1,09.60)
Sale of materials	2,46.67		64.49	
Fabrication charges	2,76.31		4,96.74	
Rent received	—		0.20	
Corporate guarantee	2,45.00		50.00	
Guarantee Commission	2.25		0.59	
Ravistar Pvt. Ltd.		3.65		8.48
Purchase of goods	4,12.08		3,67.49	
Corporate guarantee	12.25		12.25	
Arab Malaysian Blue Star SDN		2.35	—	—
Consultancy services paid	87.38			
Easy Flow Air Products Pvt. Ltd.				1.23
Purchases during the year	10.72		10.63	
Blue Star Infotech Ltd.		(29.42)		3.38
Sales	18.70		35.41	
IT Services	3,85.84		2,09.54	
Charges for use of Business center	46.50		46.50	
Reimbursement of Expenses	0.10		—	
Blue Star Design & Engineering Ltd.		—		—
Subscribed to Share Capital	1,25.00		—	
Synergy Realtors & Services Pvt. Ltd.		—		—
Sale of Fixed Assets	11,19.53		—	
Corporate guarantee	18,18.00		18,84.06	
Rent paid for Premises	2,78.20		2,78.20	
Mohan T. Advani & Co.		—		—
Discounting charges	—	—	1.70	—
Purchase of Fixed Assets	—		0.09	
Ashok Sunil & Co. P. Ltd.		—		—
Purchase of Machine	—	—	1.53	—
Directors				
Managerial remuneration	1,53.04		99.54	
Housing loan		20.63		22.87

12. Earning Per Share

(Rs. in lakhs)

	2003-04	2002-03
Profit after taxation as per Profit & Loss Account.	32,55.04	31,04.46
Weighted average number of Equity Shares Outstanding.	1,79,87,221	1,84,90,880
Basic and diluted Earnings per share (Face Value Rs.10 per share)	18.10	16.79

13. The breakup of Net Deferred Tax liability is as under

(Rs. in lakhs)

	As at March 31, 2004		As at March 31, 2003	
	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		26,59.01		20,67.68
- Provision for Doubtful Debts, Advances, Cash and cash equivalents	93.96		1,52.43	
- Leave Encashment Provision	1,26.15		1,19.95	
- Others	12.18		12.18	
Total	2,32.29	26,59.01	2,84.56	20,67.68
Net Deferred tax liability	24,26.72		17,83.12	
Tax on net Deferred tax Liability	8,70.59		6,55.30	

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

(Rs. in lakhs)

	2003-04	2002-03
Salaries, Wages & Bonus	1,13.69	0.27
Employee Welfare & Training	2.48	0.86
Rent	7.45	0.12
Power	1.30	0.65
Insurance	63.56	1,00.35
Transport & Travelling	1,65.48	1,22.10
Stationery & Printing	9.10	7.51
Commission on Sales (other than Salesmen)	42.59	—
Other Expenses	18,04.21	13,27.26

15. Managerial Remuneration to Whole-time Directors included in the Profit & Loss Account*(Rs. in lakhs)*

	2003-04	2002-03
a) Salaries	46.27	34.09
b) Commission	77.01	42.72
c) Contribution to Provident Fund & Superannuation Scheme	12.49	9.20
d) Other Perquisites	17.27	13.53
Total	1,53.04	99.54

16. Computation of Directors' Commission*(Rs. in lakhs)*

	2003-04	2002-03
Profit before tax as per Profit and Loss Account	46,58.63	40,18.13
Add: Directors' Remuneration	1,69.69	1,14.54
- Provision for doubtful debts/ Advances	--	10.80
- Loss on sale/diminution in Investments	--	0.34
- Loss on Fixed Assets sold/ Discarded	51.20	44.85
Less: Profit on sale of Fixed Assets	10,63.97	72.69
- Profit on sale of Investment	--	8,53.54
Net Profit for the purpose of Directors' Commission	38,15.55	32,62.44
Maximum Remuneration payable upto 10% of the above to Whole-time Directors	3,81.55	3,26.24
Commission payable to the Whole-time Directors as per contract of service	77.01	42.72
Maximum commission payable upto 1% of the above Net Profits to the Non-Executive Directors	38.15	32.62
Commission paid to Non-Executive Directors	16.65	15.00

17. Statement showing investment held as stock in trade

Investments	Type of security	Opening Balance		Closing Balance	
		Nos.	Value <i>(Rs in lakhs)</i>	Nos.	Value <i>(Rs in lakhs)</i>
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
Ansal Housing & Construction Ltd	Shares	2,500	0.14	2,500	0.14
Total		44,300	5.16	44,300	5.16

18. The figures of the previous year have been regrouped/ rearranged wherever necessary to conform to the current years 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.	74610 (69610)	50805 (40616)	3378 (2080)	5,10.37 (3,22.29)	4832 (3378)	7,01.33 (5,10.37)
Packaged airconditioning	Nos.	12000 (12000)	7947 (5908)	11 (38)	5.80 (26.23)	30 (11)	21.95 (5.80)
Industrial packaged chillers	Nos.	300 (300)	777 (612)	— (—)	— (—)	3 (—)	11.44 (—)
Shell & tube condensers & Coolers	Nos.	3000 (3000)	69 (67)	— (—)	— (—)	6 (—)	7.67 (—)
Air handling units	Nos.	3740 (3740)	5097 (1980)	1 (6)	0.36 (0.60)	122 (1)	71.33 (0.36)
Finned condensers & evaporators	Nos.	10780 (10780)	825 (2376)	— (50)	— (7.44)	— (—)	— (—)
Environmental test chambers	Sets	— (250)	— (—)	— (—)	— (—)	— (—)	— (—)

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.	6378 (6191)	10,90.44 (9,32.47)	42672 (37006)	1,03,33.21 (78,00.63)	4817 (6378)	7,59.21 (10,90.44)	44233 (36819)	1,13,85.42 (84,68.34)
Central Airconditioning Plant (Sales Contract)	Worth	— (—)	15.51 (10.97)	— (—)	1,44.59 (3,57.75)	— (—)	17.23 (15.51)	— (—)	2,50.51 (4,86.44)
Electronics & Other Appliances, Equipment, Instruments Etc.	Nos.	52 (26)	15.50 (18.49)	893 (1694)	21,18.74 (16,50.81)	92 (52)	10.31 (15.50)	853 (1668)	25,14.28 (21,32.90)
Spares & Components	Worth	— (—)	3,23.30 (2,59.62)	— (—)	11,24.06 (22,50.55)	— (—)	3,71.70 (3,23.30)	— (—)	14,20.25 (26,90.20)
Others	Nos.	4 (6)	2.36 (2.96)	10 (34)	8.51 (31.91)	2 (4)	1.56 (2.36)	12 (36)	10.77 (38.88)
Total			14,47.11 (12,24.51)		1,37,29.11 (1,20,91.65)		11,60.01 (14,47.11)		1,55,81.23 (1,38,16.76)

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)

	2003-04	2002-03
C. GROSS INCOME FROM SERVICES RENDERED	96,00.27	82,02.82

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

	Units	2003-04		2002-03	
		Quantity	Rs. in lakhs	Quantity	Rs. in lakhs
Non-Ferrous Metals	Tonne	1194.81	21,01.35	954	16,91.00
Steel	Tonne	3335.97	14,29.70	2067	9,18.31
Compressors	Number	77485	46,77.89	51462	36,08.49
Compressor Components	Worth	—	1,89.15	—	2,98.18
Others (items individually not exceeding 10% of total)	Worth	—	97,47.64	—	81,16.12
Total			1,81,45.73		1,46,32.10

b) Raw Materials & Components Consumed

	2003-04		2002-03	
	% of Total Consumption	Value Rs. in lakhs	% of Total Consumption	Value Rs. in lakhs
Imported (at landed cost)	17.29	31,37.08	22.00	32,19.87
Indigenous	82.71	1,50,08.65	78.00	1,14,12.23
Total	100.00	1,81,45.73	100.00	1,46,32.10

E. VALUE OF IMPORTS ON CIF BASIS

(Rs. in lakhs)

	2003-04	2002-03
(a) Raw Materials	12,61.90	2,49.24
(b) Components	18,59.46	5,19.54
(c) Capital goods	3,25.94	—
(d) Spares	12,51.88	5,08.33
(e) Finished Goods	5,17.95	19,92.48
Total	52,16.82	32,69.59

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

	2003-04	2002-03
(a) Project Exports	1,51.73	—
(b) Royalty & Know-how	42.11	1,20.56
(c) Others	5,01.45	5,97.70
Total	6,95.29	7,18.26

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

	2003-04	2002-03
(a) Export of goods on F.O.B. basis	31,37.06	9,13.63
(b) Project Exports	6,46.74	—
(c) Royalty, Know-how, Professional & Consultation fees	87.38	80.16
(d) Other Income:		
- Commission	10,95.06	11,66.99
- Others	1,54.08	—
Total	51,20.33	21,60.78

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	4
---	---	---	---	---	---	---	---

Date Month Year

State Code

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

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

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

Total Liabilities

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

Sources of Funds

Paid-up Capital

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

Secured Loans

			1	0	9	2	8	2
--	--	--	---	---	---	---	---	---

Applications of Funds

Net Fixed Assets (incl Capital WIP)

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

Net Current Assets

			7	7	1	6	7	8
--	--	--	---	---	---	---	---	---

Accumulated Losses

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

(Amount in Rs Thousands)

Total Assets (Net of Current Liabilities & Deferred Tax Liabilities)

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

Reserves & Surplus

			1	1	1	8	2	4	2
--	--	--	---	---	---	---	---	---	---

Unsecured Loans

						2	4	1	8	6
--	--	--	--	--	--	---	---	---	---	---

Investments

						5	4	7	8	0
--	--	--	--	--	--	---	---	---	---	---

Misc. Expenditure

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

IV. Performance of Company (Amount in Rs Thousands)

Turnover

			7	1	6	0	5	6	5
--	--	--	---	---	---	---	---	---	---

Profit/Loss Before Tax

			4	6	5	8	6	3
--	--	--	---	---	---	---	---	---

Earning Per Share (in Rs.)

						1	8	.	1	0
--	--	--	--	--	--	---	---	---	---	---

Total Expenditure

			6	6	9	4	7	0	2
--	--	--	---	---	---	---	---	---	---

Profit/Loss After Tax

			(+)	3	2	5	5	0	4
--	--	--	-----	---	---	---	---	---	---

Dividend rate %

									9	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, 2004
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2004	2003
[A] CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit Before Tax & Capital Receipts	46,58.63	40,18.13
Depreciation	9,98.69	10,15.87
Foreign Exchange	33.78	28.20
Investments/Others	(7,84.77)	(7,23.21)
Interest/Dividend	(6,27.09)	(2,87.12)
Interest charged	1,81.99	2,24.78
	(1,97.40)	2,58.52
Operating profit before working capital changes	44,61.23	42,76.65
Adjustment for : Trade and other receivables	(34,01.92)	(12,99.12)
Inventories	(10,81.11)	(9,99.91)
Trade payables	26,64.47	9,74.32
	(18,18.56)	(13,24.71)
Cash generated from operations	26,42.66	29,51.94
Direct taxes paid	(3,99.83)	(1,25.00)
Interest paid	(1,81.99)	(2,24.78)
	(5,81.82)	(3,49.78)
NET CASH FROM OPERATING ACTIVITIES	20,60.85	26,02.16
[B] CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(20,41.60)	(10,42.80)
Sale of Fixed Assets	11,24.75	1,15.68
Purchase of Investments	(1,25.00)	(18.14)
Interest received	2,20.61	1,13.14
Dividend received	4,07.09	1,75.54
NET CASH USED IN INVESTING ACTIVITIES	(4,14.17)	(6,56.58)
(Balance carried forward)	16,46.68	19,45.58

Cash Flow Statement For The Year Ended March 31, 2004
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2004	2003
(Balance brought forward)	16,46.68	19,45.58
[C] CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Share Capital	--	(9,03.87)
Proceeds from Long Term Borrowings	1,29.18	(3.90)
Dividend Paid	(18,23.64)	(12,08.01)
NET CASH FROM FINANCING ACTIVITIES	(16,94.46)	(21,15.78)
NET INCREASE IN CASH & CASH EQUIVALENTS	(47.78)	(1,70.20)
CASH & CASH EQUIVALENTS - OPENING BALANCE	2,90.54	4,60.74
CASH & CASH EQUIVALENTS - CLOSING BALANCE	2,42.76	2,90.54

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Satish Jamdar

Pradeep Mallick
Nawshir Mirza
Gurdeep Singh
Suresh N Talwar

H Rajaram
K P T Kutty

Executive Director
Executive Director

Director
Director
Director
Director

Executive Vice President
Company Secretary

Mumbai : May 12, 2004

Mumbai : May 12, 2004

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: 91-22-5665 4000
Fax: 91-22-5665 4151
www.bluestarindia.com

Intime Spectrum Registry Ltd
C-13, Pannalal Silk Mills Compound
L B S Marg, Bhandup (West)
Mumbai 400 078.
Tel : 91-22-5555 5454
Fax : 91-22-5555 5353

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, 2004, the Company has 19422 registered shareholders. Approximately 47 per cent of the Company's shares are held by individual investors. The Promoters hold approximately 40 per cent of the shares while Foreign Investors, Institutions and Body Corporate hold the balance shares.

STOCK EXCHANGE LISTINGS

The Stock Exchange, Mumbai
National Stock Exchange

Blue Star Establishments



