

BOARD OF DIRECTORS

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T G S Babu
Executive Director

Satish Jamdar
Executive Director

Shailesh Haribhakti

Pradeep Mallick

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T G S Babu
Executive Director

Satish Jamdar
Executive Director

Avinash Pandit
Executive Vice President

H Rajaram
Executive Vice President

J M Bhambure
Vice President - R & D

R G Devnani
Vice President - Dadra Plant

Arun Khorana
Vice President - Electronics Division

Ranajit Majumdar
Vice President - Human Resources & Quality

S Sankaran
Vice President - Business Development

N Sivasankaran
Vice President - International Projects

B Thiagarajan
Vice President - Airconditioning & Refrigeration Service Division

COMPANY SECRETARY

K P T Kuty

BANKERS

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

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

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

REGISTRARS & SHARE TRANSFER AGENTS

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

REGISTERED OFFICE

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

Blue Star Establishments



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ASHOK M ADVANI
Chairman & Managing Director

“ The healthy Indian economy no doubt provided business opportunities, but what is particularly gratifying is that we grew at a faster rate than the overall airconditioning and commercial refrigeration industry, thereby increasing our market share and maintaining our leadership position in most segments.”

Letter from the Chairman

DEAR SHAREHOLDER,

2005-06 saw the third successive year of rapid business expansion of Blue Star. Such a long period of sustained high growth has never been achieved in the more than two decades that I have been at the helm of your Company. The healthy Indian economy no doubt provided business opportunities, but what is particularly gratifying is that we grew at a faster rate than the overall airconditioning and commercial refrigeration industry, thereby increasing our market share and maintaining our leadership position in most segments.

The Annexure to this letter summarises and compares the financial performance of your Company over the last two years. The growth and profitability ratios generally look good. In a market that continued to be vigorously competitive, a significant achievement was the reversal of the 5-year record of erosion in gross margin and operating margin, and a welcome improvement in both ratios.

Another notable development was that healthy growth occurred in all 3 business segments of the Company, with corresponding increase in profits. This well-balanced segment-wise performance is reassuring, because it indicates that there were no major weak areas that were a drag on Corporate results.

The big Central Airconditioning Systems segment accounted for about 70% of Total Income. Last year we powered ahead with new order inflow increasing by 31% and billings growing by 26%. The new range of screw chillers developed in-house has been well received in the market, and is proving to be very competitive with imported chillers. The growing strength of Blue Star designed and manufactured airconditioning equipment, including a wide range of chillers, ducted systems and air-side products, helped us obtain better prices and margins.

Blue Star's positioning in the market has never been at the lower end of the price spectrum. We focus, instead, on adding value through superior product design, system engineering, energy efficiency, quality and reliability, competent service and technical support. In short, we avoid commodity businesses by differentiating ourselves.

The Cooling Products segment had a banner year with a big jump of 52% in order bookings, a billings increase of 29%, and a segment profit growth of 206% that clearly proved the success of this strategy of differentiation. In view of rapid business growth, substantial investments were made in additional manufacturing capacity, including a new plant in Himachal Pradesh to produce room airconditioners, and a large cold room facility in Bharuch.

In Cooling Products, one of Blue Star's strengths is our unique dealer channel network. These are not run-of-the-mill show-room dealers who carry a wide range of competing consumer durables where products have been virtually reduced to commodities, mainly competing on price and special promotions. Most of our dealers do not sell competing brands, and offer technical and applications knowledge, efficient after sales support and service. They do not rely on walk-in trade, focusing instead, on corporate, commercial and discerning residential customers. Their staff are well trained and responsive to customers' specialised needs. So, in Cooling Products too, the policy of differentiation has been successful with a strong dealer network actively selling and supporting a wide range of superior products.

The relatively small, but specialised, Professional Electronics and Industrial Equipment segment also performed well, with order bookings growing by 33% and revenues by 36%. We serve niche markets requiring high technology and customised solutions in a variety of specialised fields. Though these activities are very different from airconditioning and refrigeration, the common thread running through Blue Star's various businesses is our technical and engineering capability being used to provide solutions that effectively meet a wide range of customer needs.

The financial position of the Company is also summarised in the Annexure. The higher capital requirements, resulting from the fast growing business operations in 2005-06, were comfortably met by a combination of internally generated funds and borrowings. But if future growth is to be fuelled without resorting to excessive financial leverage, working capital will need to be even more tightly managed. This remains a prime focus area as we go forward.

Overall, I can summarise Blue Star's financial performance in 2005-06 as successfully continuing to deliver profitable growth. Blue Star has never followed the herd. We have consciously chosen a strategy of differentiation with a clear focus on in-house engineering and development, manufacture of higher margin products, strong distribution and reliable support and service. All this takes capability and commitment, and these are qualities the nearly 2000 strong Blue Starites have demonstrated in abundance. With order inflow continuing at a healthy rate, I look forward to even greater success in 2006-07.

ASHOK M ADVANI

Chairman & Managing Director

Mumbai : May 19, 2006

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2005-06	2004-05
Total Income	1178.62	930.92
Growth over Previous Year	+ 27%	+ 30%
Operating Profit (PBDITA) excl. Non-Operating Income	86.68	57.85
Profit Before Tax	69.09	52.44
Growth over Previous Year	+ 32%	+ 13%
Profit After Tax	48.90	39.16
Growth over Previous Year	+ 25%	+ 20%
Shareholders' Funds	172.71	148.42
Borrowings	75.87	37.28
Capital Employed	248.58	185.70
Operating Cash Flow	18.36	15.34

KEY RATIOS

	2005-06	2004-05
Gross Margin	22.5%	21.8%
Operating Margin (excl. Non-Operating Income)	7.4%	6.3%
Return on Capital Employed	30.1%	30.0%
Return on Shareholders' Funds	28.3%	26.4%
Earnings Per Share (Rs.)	27.19	21.77
Dividend Per Share (Rs.)	12.00	10.00
Capital Turnover	4.74	5.01
Debt/Equity	0.44	0.25
Inventory Turnover	6.06	6.98
Receivables (Days Billings Outstanding)	74	78



Board of Directors

L to R:

Suresh N Talwar,

Satish Jamdar,

Pradeep Mallick,

Suneel M Advani,

Ashok M Advani,

Gurdeep Singh,

Shailesh Haribhakti,

T G S Babu



Board of Directors



Ashok M Advani

Chairman & Managing Director

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

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

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



Suneel M Advani

Vice Chairman & Managing Director

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

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

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



T 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.

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



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 four factories of Blue Star has substantially increased. Satish currently oversees manufacturing, international sales and material management apart from airconditioning and refrigeration service business.



Shailesh Haribhakti

Director

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

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



Pradeep Mallick

Director

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

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



Gurdeep Singh

Director

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

In 1998, Gurdeep returned to Hindustan Lever as the Director - Human Resources and Corporate Affairs. He retired as Senior Vice President - Corporate Affairs in April 2006. He joined the Board of Blue Star in 2003.



Suresh N Talwar

Director

Suresh Talwar is a Commerce & Law Graduate. He is a solicitor and was the Senior Partner of the Crawford Bayley & Company. He is currently the Special Advisor of the Firm and is also 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, Larsen & Toubro, Greaves Cotton, Sandvik Asea, Esab India, Johnson & Johnson, Uhde India and Wyeth amongst others.

Corporate Management

EXECUTIVE COMMITTEE



Ashok M Advani
Chairman & Managing Director



Suneel M Advani
Vice Chairman & Managing Director



T G S Babu
Executive Director



Satish Jamdar
Executive Director



Avinash Pandit
Executive Vice President



H Rajaram
Executive Vice President

VICE PRESIDENTS



J M Bhambure
Vice President - R & D



R G Devnani
Vice President - Dadra Plant



Arun Khorana
Vice President - Electronics Division



Ranajit Majumdar
Vice President
Human Resources & Quality



S Sankaran
Vice President
Business Development



N Sivasankaran
Vice President
International Projects



B Thiagarajan
Vice President - Airconditioning
& Refrigeration Service Division

Directors' Report

The Directors are pleased to present their 58th Annual Report and the Audited Accounts for the year ended March 31, 2006.

HIGHLIGHTS OF 2005-06

- Total Income grew at a substantial pace and reached Rs.1178.62 crores, an increase of 27% over the previous year.
- Profit Before Tax rose by 32% to Rs.69.09 crores, while Profit After Tax reached Rs.48.90 crores.
- Earnings per share climbed to Rs.27.19 compared to Rs.21.77 in the previous year.
- The Directors have recommended a dividend of Rs.12.00 per share.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

	April 2005 - March 2006	April 2004 - March 2005
Total Income	1178.62	930.92
Profit before interest, depreciation and taxation	90.74	68.00
Interest	5.72	3.21
Depreciation	15.93	12.35
Profit before tax	69.09	52.44
Provision for taxation	19.42	13.71
Add/(Less): Deferred Tax	(0.77)	0.43
Profit after tax	48.90	39.16
Add: Balance brought forward	19.73	19.13
Total available for appropriation	68.63	58.29
Less: General Reserve	18.00	18.00
- Proposed Dividend	21.58	17.99
- Corporate Dividend Tax	3.02	2.56
Balance carried forward	26.03	19.74

DIVIDEND

The Directors have proposed a dividend of Rs.12.00 per equity share. The dividend will absorb Rs.24.61 crores including Corporate Dividend Tax.

OPERATING PERFORMANCE

In 2005-06, your Company continued its third consecutive year of high revenue growth. Total Income climbed significantly in all the three business segments.

In the largest segment viz. Central Airconditioning Systems, your Company maintained its market leadership with a revenue growth of 26% and profit increase of 33%.

Cooling Products sales also grew by 29% with a gratifying jump of 206% in profit. This segment increased its manufacturing capacity for room airconditioners substantially with a new plant in Himachal Pradesh that went into production in May 2005. In addition, a modern cold room panel manufacturing facility was commissioned in October 2005. The segment is now well positioned to maintain a high growth path.

Professional Electronics continued its unbroken record of revenue and profit growth by offering a wide range of customised high-technology solutions across a spectrum of specialised applications.

FINANCIAL PERFORMANCE

After several years of declining gross margin and operating margin, stringent cost control and value engineering measures resulted in a moderate improvement in both ratios last year. This helped to achieve a 32% increase in Profit Before Tax to Rs.69.09 crores. Profit After Tax climbed by 25% to Rs.48.90 crores.

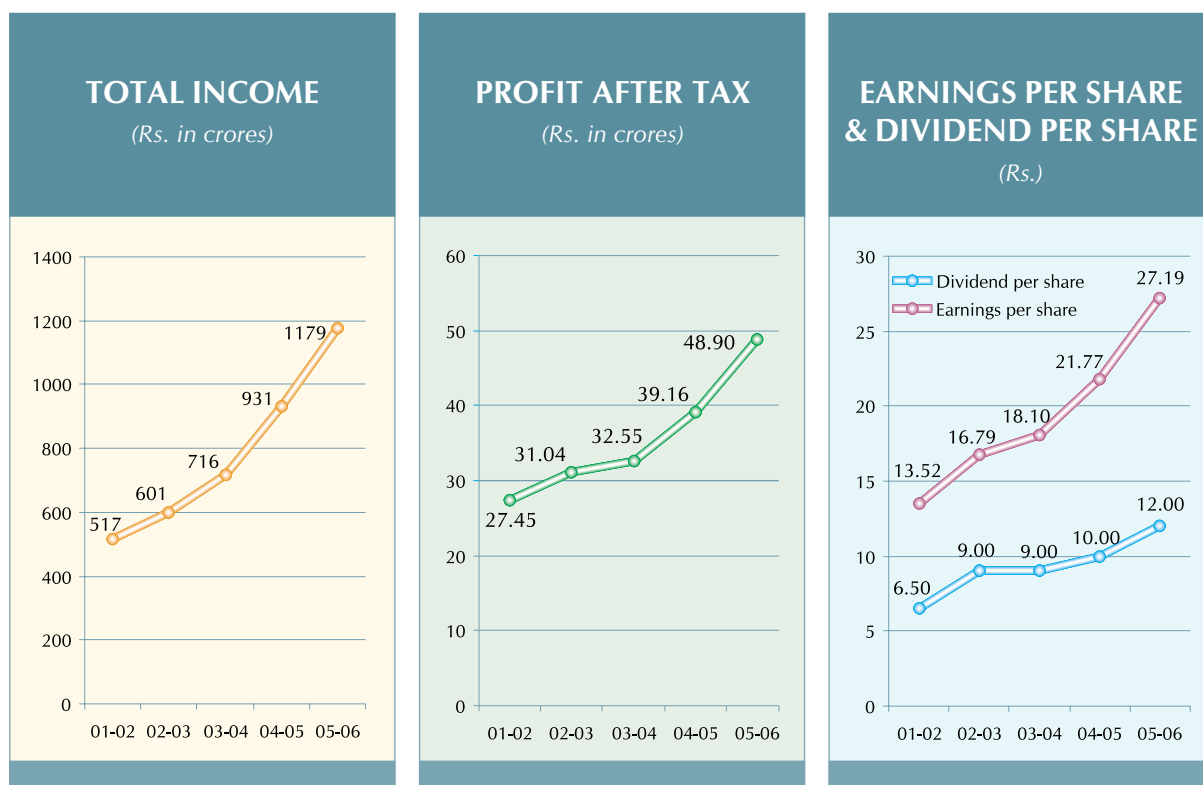
With the sustained growth in business, capital expenditure reached a new high of Rs.36.93 crores mainly to expand and upgrade manufacturing capacity and R&D capability. Working capital management showed mixed results with sundry debtors improving marginally and inventories climbing substantially.

EXPORT & FOREIGN EXCHANGE EARNINGS

While product exports grew by 34% to Rs.63.11 crores, the total foreign exchange earnings increased only moderately from Rs.76.64 crores to Rs.82.47 crores, which could be attributed to the slowing down of projects business in the Middle East. Total foreign exchange outflow during the year was Rs.124.15 crores.

SUB-DIVISION OF EQUITY SHARES

The share price of the Company has been increasing steadily over the past few years. However, the trading volumes remained low. In order to improve liquidity and thereby increase the trading volumes and spread the shares among larger public investors along with institutional investors, it is proposed to sub-divide each of the existing equity shares of Rs.10.00 into five equity shares of Rs.2.00 each. This will be subject to the approval of shareholders at the forthcoming Annual General Meeting.



DIRECTORS' RESPONSIBILITY STATEMENT

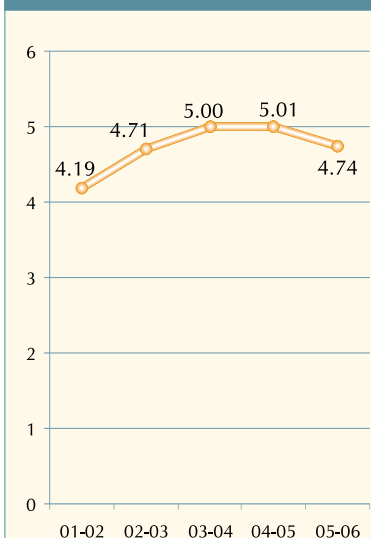
The Directors would like to inform the members that the Audited Accounts for the financial year ended March 31, 2006 are in full conformity with the requirement of the Companies Act, 1956. These financial results are audited by the statutory auditors M/s K.S. Aiyar & Company. The Directors further confirm 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.

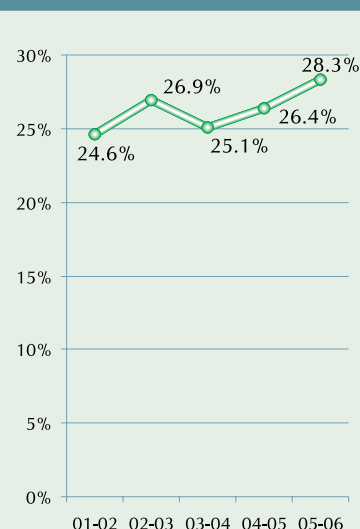
DIRECTORS

Mr Nawshir Mirza resigned from the Board during the year. Mr Shailesh Haribhakti was appointed to fill in the casual vacancy and will seek re-election at the forthcoming Annual General Meeting of the Company. Mr Satish Jamdar and Mr Pradeep Mallick will retire from the Board by rotation and being eligible, offer themselves for re-election.

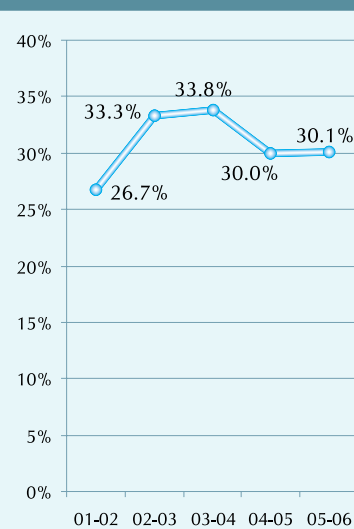
CAPITAL TURNOVER



RETURN ON SHAREHOLDERS' FUNDS

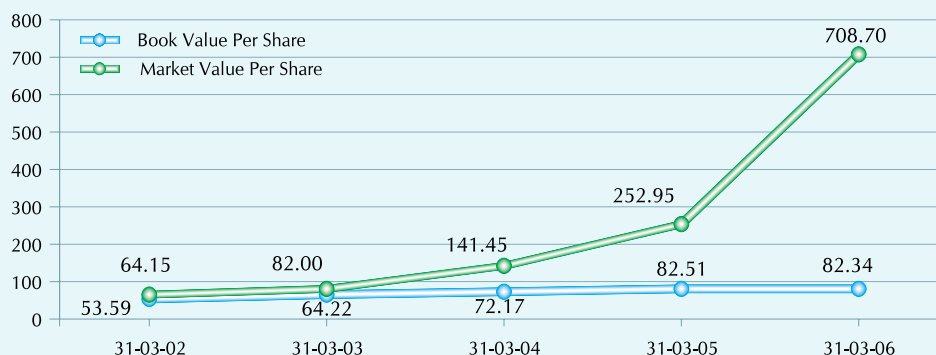


RETURN ON CAPITAL EMPLOYED



BOOK VALUE PER SHARE & MARKET VALUE PER SHARE

(Rs.)



EMPLOYEES

The focus on employee training and development continued during the year. Apart from a number of in-house technical and behavioural training programmes conducted during the year, a customized management development programme was developed for your Company, which was attended by 50 middle level managers. Significant investments were also made in training and developing the technical skills of dealers and business associates.

Employee relations made an important breakthrough with peaceful settlements being signed with workers' unions at Mumbai and Bharuch as well as their all-India Federation during the year. Relations are cordial and constructive with active worker participation in improving productivity and quality.

DISCLOSURE OF PARTICULARS

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

For and on behalf of the Board

ASHOK M ADVANI

Chairman & Managing Director

Mumbai: May 12, 2006.

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

Compressed air audit was carried out to detect flaws in the air system and to prevent air leakages in the shop floor. Energy audit for electrical systems was also carried out and preventive measures were taken for wastage of electrical energy. Servicing of capacitor bank was carried out for achieving power factor equal to unity. Operating pressure ranges of LP compressor was reduced and maintained, thus saving energy consumption. Automated water level control was provided for water tanks, which prevented wastage of water and electricity.

DADRA

Process flow of hot water generation was changed to direct heating resulting in 10% to 12% savings in diesel consumption. By increasing the conveyor speed in the paint shop, the diesel consumption was further reduced by 19%. Continuous monitoring of air compressor operation, reduction of pressures and constant checking of probable leakages resulted in savings in electricity consumption. Installation of voltage stabilizer also enabled savings in electricity by 15%.

BHARUCH

Bharuch plant maintained the energy consumption despite doubling the production capacity. The plant continued to avail the electricity rebate on power factor.

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

Replacement of old vertical recip LP compressors by horizontal recip compressors and use of gas burners for hot water generation were some of the additional proposals for reduction of consumption of energy.

c) Impact of measures taken

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

RESEARCH AND DEVELOPMENT

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

The chiller test facility was upgraded and a new fan coil unit lab was set up in Thane. 7.5 TR Psychrometric Lab and 3 TR Calorimetric-cum-Psychrometric Lab were set up in Dadra. New product development, extension of the existing product range, product design and process engineering activities were continued by the R&D Department.

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

1. Extension of the range of air-cooled screw chillers upto 370 TR.
2. Extension of the range of air-cooled and water-cooled scroll chillers upto 80 TR.
3. A complete range of water-cooled screw chillers.
4. Hiper mini-splits on energy efficiency platform.
5. Water-cooled ducted split systems.
6. Extension of the range of packaged airconditioners upto 22 TR.
7. Chest coolers for milk and beverage cooling.
8. A complete range of fan coil units and roof top units for export market.
9. Technology projects for networking and remote monitoring, variable frequency drives for AHU and chiller application, and special products for telecom applications.

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

Introduction of new products resulted in improving value addition and providing complete solution to meet customers' needs. Products like new fan coil units and roof top units etc. helped the Company to enter export markets.

c) Future plan of action

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

d) Expenditure on R&D

(Rs. in lakhs)

	2005-06	2004-05
i) Capital	74.05	7.67
ii) Recurring	148.28	179.94
Total	222.33	187.61
Total R&D expenditure as a percentage of total turnover	0.19%	0.21%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

a) Efforts made towards technology absorption, adaptation and innovation

The major thrust during the year was to continue improvement of in-house R&D facilities in order to provide wider range of products to suit customers' needs. This also enabled development of new products, import substitution and adaptation of imported technology to suit the Indian market. Where required, training was imparted to the technical staff.

b) Benefits derived as a result of the above efforts

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

c) Information regarding imported technology

The following technologies were imported during the years mentioned in brackets: Humidicoil in-store cooling units and chiller units (2000), precision airconditioning systems (2002) and INVICTA PAC (IPAC) range airconditioning units and condensers (2003).

Significant progress has been made in absorbing the technologies.

MAJOR ITEMS OF FOREIGN EXCHANGE EARNINGS AND OUTGO

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

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

b) Total foreign exchange used and earned

(Rs. in lakhs)

	2005-06	2004-05
Total foreign exchange used	12414.49	8667.76
Total foreign exchange earned	8247.32	7663.54

For and on behalf of the Board

ASHOK M ADVANI

Chairman & Managing Director

Mumbai: May 12, 2006.

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, 2005 TO MARCH 31, 2006

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	64	Chairman & Managing Director	9152420	B.Sc., SB, MBA	40	1-Jul-69	RCA Inc., USA	Information Systems Project Specialist	1968-69
Advani S M	62	Vice Chairman & Managing Director	9309351	SB,SB, L.L.B.	37	17-Mar-69	-	-	-
Babu T G S	52	Executive Director	7140975	B.Tech., MBA	30	1-Nov-95	MRF Ltd., Chennai	General Manager	1991-95
Jamdar S	54	Executive Director	4674905	B.Tech, BM	32	2-May-96	Real Value, Mumbai	Vice President	1995-96
Pandit A	53	Executive Vice President	3799788	B.E.	29	18-Feb-82	OTIS Elevators	Executive	1981-82
Rajaram H	49	Executive Vice President	3715437	B.Com, ACA, ACS	23	4-Mar-96	Raymond Ltd.	General Manager (Fin) & Co. Secretary	1994-96
Sivasankaran N	60	Vice President	3063416	B.Sc. (Engineering)	36	19-Nov-69	-	-	-
Sankaran S	60	Vice President	2692956	B.E., PGDBA	36	20-Nov-69	-	-	-
Majumdar R	59	Vice President	2866757	B.Sc., B.Tech	37	16-Sep-68	-	-	-
Khorana A	56	Vice President	2828495	B.Sc. (Engineering)	35	1-Feb-73	Motwani Pvt. Ltd.	Sales Engineer	1972-73
Thiagarajan B	49	Vice President	2541165	B.E.	26	18-May-98	Voltas Ltd.	Divisional Manager	1990-98

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

Report of the Directors on Corporate Governance

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Company has been consistently following the principles of good corporate governance through transparency, accountability, fair dealings and mutual trust. The Company is fully conscious of its responsibilities towards all its stakeholders including its customers, shareholders, employees and the society. It is also aware that in order to sustain and grow in the present competitive environment and to become a global player, it needs to religiously adhere to the governance norms and adopt the best corporate practices.

The Corporate Values and Beliefs, which were vigorously pursued, include ensuring high standards of corporate governance as one of its values. The Code of Conduct adopted by the Company also emphasizes the need of following fair and ethical business practice. It is our earnest endeavour to lead all our actions and decisions to the ultimate goal of winning the trust and admiration of our stakeholders and achieving our Corporate Vision of providing a world-class customer experience.

BOARD OF DIRECTORS

The Board consists of eight Directors – Four Wholtime Directors and four Non-Executive Directors. Out of eight Directors, four Directors are independent Directors. Mr Nawshir Mirza, who was a Director of the Company, resigned from the Board with effect from May 16, 2005. Mr Shailesh Haribhakti joined the Board on October 31, 2005.

BOARD MEETINGS

Four Board Meetings were held during the Financial Year 2005-06, i.e., on May 11, 2005; July 27, 2005; October 31, 2005 and January 27, 2006. The Company had its Annual General Meeting on July 27, 2005.

The particulars of Directors, their attendance and other Directorships, Memberships/Chairmanships of Committees for the financial year 2005-06 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	2	2	Nil
Suneel M Advani	- do -	4	Yes	2	1	Nil
T G S Babu	Non-Promoter Executive	3	No	Nil	Nil	Nil
Satish Jamdar	Non-Promoter Executive	4	Yes	Nil	Nil	Nil
Shailesh Haribhakti (With effect from 31.10.2005)	Independent Non-Executive	2	No	14	9	4
Pradeep Mallick	- do -	4	Yes	5	9	3
Nawshir Mirza (Upto 16.5.2005)	- do -	1	No	NA	NA	NA
Gurdeep Singh	- do -	4	Yes	1	Nil	Nil
Suresh N Talwar	- do -	4	Yes	14	9	3

* 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 members consist of Mr Suresh N Talwar, Mr Pradeep Mallick and Mr Shailesh Haribhakti with Mr Suresh N Talwar as the Chairman. The Committee met on May 11, 2005; July 27, 2005; October 31, 2005 and January 27, 2006. Mr Suresh N Talwar and Mr Pradeep Mallick attended four meetings and Mr Shailesh Haribhakti attended one meeting during the year 2005-06. Mr Nawshir Mirza ceased to be a member of the Committee with effect from May 16, 2005. Mr Shailesh Haribhakti joined the Committee on October 31, 2005.

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

REMUNERATION POLICY

The Wholetime Directors are appointed under a service agreement with the Company, the terms of which are approved by the Board of Directors and shareholders. Notice period for termination is 6 months on either side and no severance fee is payable on termination.

The remuneration of the Wholetime Directors and Non-Executive Directors is approved by the Board of Directors and shareholders. The annual increment 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. The commission payable to Wholetime Directors is based on a fixed percentage of the net profits of the Company as approved by the shareholders. Since the remuneration of Directors is determined by the Board of Directors within the limits approved by the shareholders, no separate remuneration committee has been constituted. The 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.20,000 for each Meeting of the Board and Committee 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	22.08	4.88	73.03	-	99.99
Suneel M Advani	22.08	4.96	73.03	-	100.07
T G S Babu	14.15	11.90	36.52	-	62.57
Satish Jamdar	13.20	1.35	36.52	-	51.07
Shailesh Haribhakti (With effect from 31.10.2005)	-	-	2.55	0.60	3.15
Pradeep Mallick	-	-	5.50	1.60	7.10
Nawshir Mirza (Upto 16.5.2005)	-	-	1.08	0.40	1.48
Gurdeep Singh	-	-	4.80	0.80	5.60
Suresh N Talwar	-	-	5.70	1.60	7.30

Notes: **1.** Commission shown above are amounts actually paid for the year 2005-06 and hence differ from the provisions made in the accounts for the year ended March 31, 2006. **2.** Mr Suresh N Talwar holds 14225 equity shares in the Company. None of the other Non-Executive Directors hold any shares in the Company.

SHAREHOLDERS' GRIEVANCE COMMITTEE

The Shareholders' Grievance Committee 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 January 27, 2006 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 665 letters of which 541 letters were requests for various actions such as change of address, dividend mandate, nominations, etc., and 124 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 5 valid transfers pending as on March 31, 2006 for 967 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
2002-2003	AGM	July 23, 2003	Jai Hind College Hall 'A' Road, Churchgate, Mumbai 400 020.	2.30 p.m.
2003-2004	AGM	July 26, 2004	-do-	2.30 p.m.
2004-2005	AGM	July 27, 2005	-do-	2.30 p.m.

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

Subject	Date of Meeting
Place of keeping the Register of Members etc.	July 23, 2003
Commission to Non-Executive Directors	July 26, 2004

No special resolution was passed through postal ballot during the year 2005-06 and no special resolution is proposed to be passed by postal ballot at the forthcoming Annual General Meeting.

DISCLOSURES

- The details of transactions with related parties are given in Clause 11 of the Notes Forming Part of the Accounts (Other Notes). There were no transactions with related parties, which are likely to have potential conflict with the interests of the Company at large.
- The Company has complied with the requirements of regulatory authorities on capital markets, and no penalties/strictures have been imposed against it.
- The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement. However, it has not adopted the non-mandatory requirements of the said Clause.

MEANS OF COMMUNICATIONS

The Company published its quarterly and half yearly results in the prescribed form within the prescribed time. The results were forthwith sent to the Stock Exchanges where shares are listed and the same were published in Economic Times and Maharashtra Times. The Financial Results were also displayed on the website of the Company www.bluestarindia.com. Official press releases are also displayed on the website. No presentations were made to institutional investors or analysts during the year. Management Discussion and Analysis forms part of the Annual Report.

SHAREHOLDERS' INFORMATION

ANNUAL GENERAL MEETING

Date	: August 4, 2006
Time	: 3.00 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 the quarter ending June 30, 2006 : Last week of July 2006

Unaudited results for the quarter ending Sept 30, 2006 : Last week of Oct 2006

Unaudited results for the quarter ending Dec 31, 2006 : Last week of Jan 2007

Audited results for the year ending March 31, 2007 : May 2007

Date of Book Closure : Wednesday, July 19, 2006 to
Wednesday, July 26, 2006

Dividend Payment Date : August 8, 2006 onwards

LISTING ON STOCK EXCHANGES : The Stock Exchange, Mumbai
National Stock Exchange

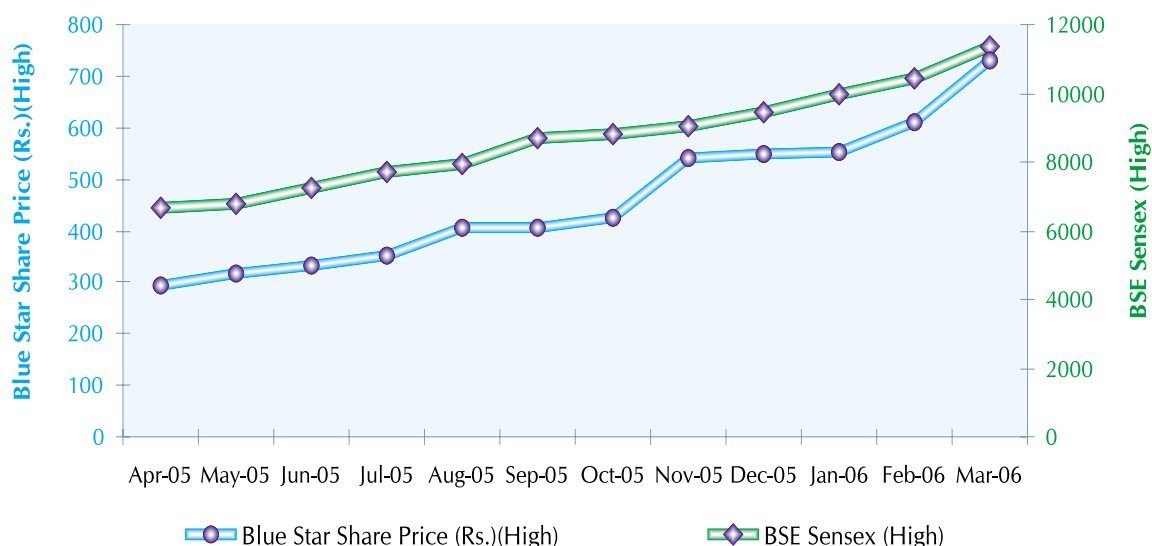
STOCK CODE : The Stock Exchange, Mumbai - 500067
National Stock Exchange-BLUESTARCO
NSDL/CDSL-ISIN-INE 472A01021

MARKET PRICE DATA

(Rs. per share)

	The Stock Exchange, Mumbai		National Stock Exchange	
	High	Low	High	Low
2005				
April	292.00	247.00	288.80	245.00
May	315.00	277.00	324.85	273.00
June	332.00	294.50	334.90	296.00
July	351.00	300.00	349.00	300.00
August	405.00	326.00	425.00	327.05
September	405.00	343.00	406.95	364.00
October	424.70	380.00	440.00	385.00
November	542.40	401.00	540.10	390.00
December	550.00	490.05	569.00	481.00
2006				
January	552.90	485.80	554.00	459.40
February	609.70	515.50	653.80	525.00
March	729.00	580.05	810.00	582.00

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.

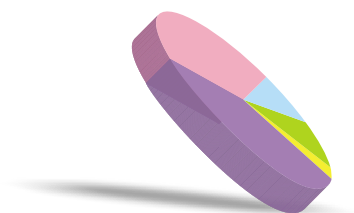
SHARE TRANSFER SYSTEM

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, 2006

No. of equity shares held	No. of Shareholders	Percentage of Shareholders	Total No. of shares held	Percentage of shares held
1 - 500	12987	83.20	1763070	9.80
501 - 1000	1346	8.62	981143	5.45
1001 - 2000	715	4.58	997143	5.54
2001 - 3000	211	1.35	517392	2.88
3001 - 4000	77	0.49	273975	1.52
4001 - 5000	49	0.32	219007	1.22
5001 - 10000	87	0.56	619729	3.45
10001 and above	137	0.88	12615762	70.14
TOTAL	15609	100.00	17987221	100.00

CATEGORIES OF SHAREHOLDERS AS ON MARCH 31, 2006



39.61%	Directors and Relatives
38.40%	Indian Public
9.70%	Financial Institutions/Banks/Mutual Funds
8.07%	Foreign Holdings
4.22%	Bodies Corporate

DEMATERIALIZATION OF SHARES & LIQUIDITY

About 90% of the equity shares have been dematerialized by about 66% of the total shareholders as on March 31, 2006. The Company's shares can be traded only in dematerialized form as per SEBI notification. The Company has entered into agreements with NSDL & CDSL whereby shareholders have the option to dematerialize their shares with either of the Depositories. About 38% of the equity shares are held by public and the shares are actively traded in BSE and NSE.

PLANT LOCATIONS

Blue Star Limited
Ind Pokhran Road
Majiwada
Thane 400 601.

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

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

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

ADDRESS FOR CORRESPONDENCE

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

Declaration

As provided under Clause 49 of the Listing Agreement with the Stock Exchanges, the Directors and the Senior Management Personnel have confirmed compliance with the Code of Conduct during the financial year ended March 31, 2006.

For **BLUE STAR LIMITED**

Mumbai: May 12, 2006.

ASHOK M ADVANI
Chairman & Managing Director

Auditors' Certificate

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

We have examined the compliance of conditions of Corporate Governance by Blue Star Limited for the financial year ended March 31, 2006, 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 *except for clause 49(I) and 49(II) regarding composition of Board of Directors and Audit Committee for the period between May 16, 2005 to October 31, 2006 due to vacancy caused upon resignation of one of the Directors of the Company.*

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

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

For **K. S. Aiyar & Co.,**
Chartered Accountants

Raghuvir M Aiyar
Partner
Membership No. 38128

Mumbai: May 25, 2006

Management Discussion and Analysis

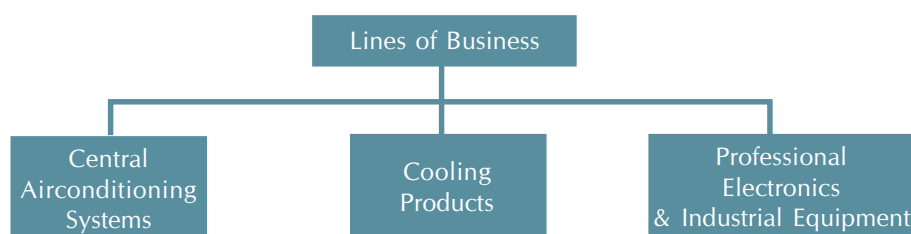
INTRODUCTION

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

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, defence, pharmaceuticals, manufacturing and R&D.

Blue Star has emerged as the preferred partner for its customers and the Company of choice for its employees and business associates, owing to its expertise and ethical business practices. It achieved leadership status in most of its chosen markets over a decade ago, and it continues to maintain and strengthen its leadership status, despite stiff global competition.

LINES OF BUSINESS



Blue Star primarily focuses on the corporate and commercial markets. These include institutional, industrial and government organizations as well as commercial establishments such as 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 design, engineering, 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 value added services in the areas of upgrades and enhancements, air management, water management and energy management.

COOLING PRODUCTS

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

PROFESSIONAL ELECTRONICS AND INDUSTRIAL EQUIPMENT

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

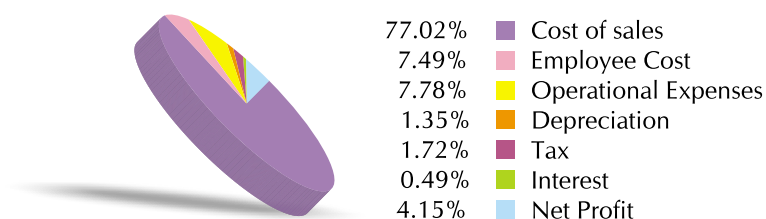
FINANCIAL HIGHLIGHTS

In 2005-06, Blue Star continued to perform remarkably well. The Company's focus on profitable growth in its core businesses as well as the sustained buoyancy in the economic environment contributed to its impressive financial performance. For the year ended March 31, 2006, Net Sales grew 28% to reach Rs.1174.56 crores. Net Profit grew 25% to Rs.48.90 crores, while Earnings Per Share increased to Rs.27.19 from Rs.21.77. Total Income for the year stood at Rs.1178.62 crores, representing a 27% growth over the previous year.

Operating profit (PBDITA excluding Other Income) for the year at Rs.86.68 crores grew 50% compared to Rs.57.85 crores earned in the previous year. The operating margin saw substantial improvement at 7.4% in the year as against 6.3% in the previous year. Operating margin increased primarily due to improved realization in some of the segments as well as a continuous focus on improving operating efficiencies.

While Return on average Capital Employed (ROCE) continued to be attractive at 30.1%, Return on Shareholders' Funds improved to 28.3% from last year's figure of 26.4%

How every rupee earned was spent



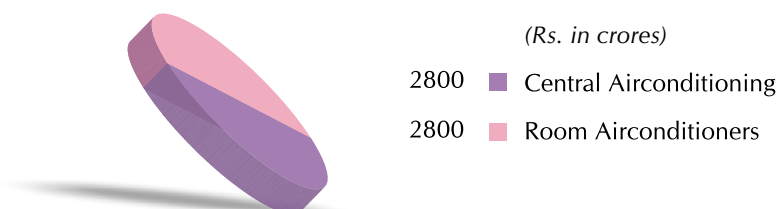
INDUSTRY STRUCTURE AND DEVELOPMENTS

AIRCONDITIONING

The market size for airconditioning in India is estimated to be around Rs.5600 crores. Of this, the market for central airconditioning, including central plants and packaged airconditioning systems, is estimated to be around Rs.2800 crores, whilst the market for window and split airconditioners comprises the balance Rs.2800 crores.

The commercial airconditioning market catering to corporate and commercial establishments is estimated to be around Rs.4100 crores. Booming segments such as retail, IT/ITES, healthcare, hospitality, entertainment, telecom, banking and other service sectors have fuelled the growth of the commercial airconditioning industry. With increased investments in infrastructure and a buoyant economic environment, the commercial airconditioning industry is expected to grow in excess of 25% over the next few years.

Market size of Airconditioning in India



COMMERCIAL REFRIGERATION

The market for commercial refrigeration equipment and systems is estimated to be around Rs.1200 crores. The commercial refrigeration segment includes a wide range of products such as cold storages, water coolers, bottled water dispensers, deep freezers, bottle coolers and ice cubers.

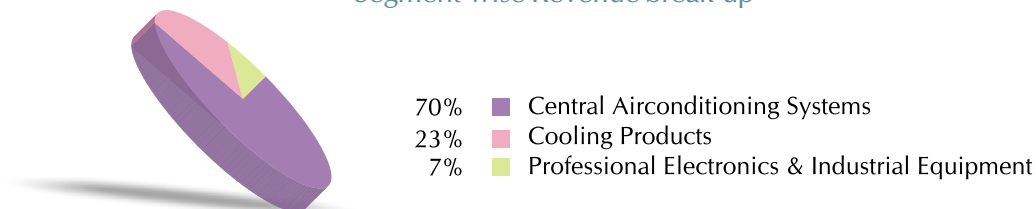
The cold chain business is expected to register a dramatic increase in the next few years. The Central Government's intention to enhance production and export of vegetables and fruits to raise agricultural income has resulted in large industrial houses announcing plans for contract farming and branded exports. This will necessitate pre-coolers, bulk cold storages, transport refrigeration and perishable cargo complexes.

Further, retailing of agricultural produce- both raw and processed- is expected to undergo a massive transformation in the big cities with the emergence of supermarket chains. The multinational supermarket chains are also waiting in the wings. These high quality supermarkets, regardless of size, will require a lot of refrigeration equipment for storing and showcasing food produce. The supermarkets will also drive growth of bulk cold storages.

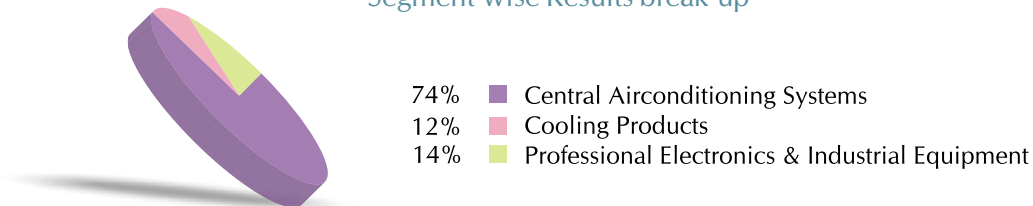
SEGMENT-WISE ANALYSIS

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

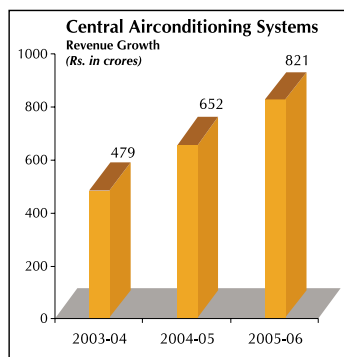
Segment-wise Revenue break-up



Segment-wise Results break-up



CENTRAL AIRCONDITIONING SYSTEMS



The central airconditioning business saw substantial growth during the year and continues to be the key growth driver for Blue Star's revenues. Blue Star remains the undisputed market leader in this segment with a market share of 30%. This line of business registered an impressive billings growth of 26% over last year and contributed nearly 70% to the Company's Total Segment Revenue. The IT/ITES and Retail segments fuelled the demand for central airconditioning during the year.

Blue Star's design and engineering capabilities and its commitment to provide customized airconditioning solutions to suit various business needs resulted in the Company sustaining its market leadership. Blue Star's impressive track

record of on-time delivery and meeting challenging deadlines helped the Company enjoy a preferred partner status in most of the high growth segments.

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

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

Blue Star has been a pioneer in introducing several state-of-the-art products and technologies in India. In 2004-05, Blue Star had launched energy efficient air cooled screw chillers, manufactured at its plant at Thane. During the year under review, the Company introduced water cooled screw chillers with advanced features. The water cooled versions are highly energy efficient and help reduce operating costs substantially. Both the air cooled and water cooled screw chillers have been well received in the market place and the Company has installed over 75 Blue Star screw chillers within just 18 months of its launch, garnering over 10% of the screw chiller market.

During the review period, the Company won a number of prestigious airconditioning orders including Sahara Hospital, Lucknow; DLF Infinity, Gurgaon; National Sports Centre, Mumbai; State Bank of India, Mumbai; Nicholas Piramal, Baddi; E-City, Lucknow; Technopolis, Kolkata; Globsyn Crystals, Kolkata; Jindal Power Plant, Raigarh; Microsoft Ph II, Secunderabad and RMZ Infinity Tower (B&C), Bangalore, amongst others.

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

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. The Company also offers precision control packaged airconditioners for applications where accurate control of temperature is critical. Thus, in ducted systems, Blue Star provides the widest possible range, and meets every conceivable requirement of customers.

During the year under review, the Company further strengthened its leadership position in ducted systems with growth of over 30%. IT/ITES and retail continued to drive growth with builders/promoters playing an important role catering to these segments.

Blue Star introduced a complete range of floor mounted high energy efficient (Hisen/Hiper Plus) differentiated products and held product expositions and technical seminars across key markets. It also established a strong position in the telecom segment, with specially designed packaged airconditioners for telecom applications, called Telepacs. In addition, Blue Star introduced an innovative solution for retail malls with water cooled ducted split airconditioners largely catering to the big metros. Owing to their cost effectiveness, an increasing number of customers are opting for ducted packages for large spaces.

The Company also made a strong entry into the high technology Variable Refrigerant Flow airconditioning systems business. Blue Star is the first airconditioning company in India to manufacture these sophisticated systems indigenously and the prospects for these systems look promising.

Blue Star has cultivated a large number of national customer accounts such as ICICI Bank, HDFC Bank, ING Vysya Bank, Reliance Petro Chemicals, Pantaloon India, Vishal Mega Mart, Kotak Mahindra Bank, Met Life Insurance and Café Coffee Day, to name a few. A separate National Accounts Department is a competency that the Company has built over the last four years. This portfolio is expected to provide increasing business with each passing year since this is a service that large customers appreciate.

Some Prestigious Installations



▲ AIRTEL, MUMBAI

INFOSYS, HYDERABAD ▼





▲ ELECTRONIC DATA SYSTEMS (EDS), CHENNAI

PANCHSHIL TECHPARK, PUNE ▼





▲ DLF IT PARK, KOLKATA

HSBC, HYDERABAD▼





▲ RMZ ECOSPACE SOFTWARE PARK, BANGALORE

SPICE WORLD, NOIDA ▼



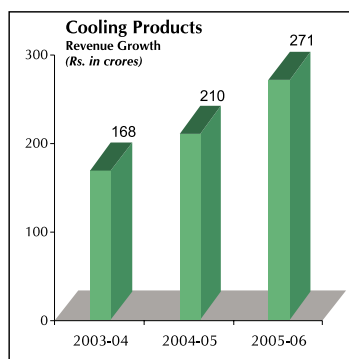


▲ CAFE COFFEE DAY, MUMBAI

HYDERABAD CENTRAL, HYDERABAD ▼



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, bottle coolers, 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.

This line of business performed exceedingly well in 2005-06 registering growth of 29%. The growth was driven by increased sales of window and split airconditioners as well as refrigeration products and systems such as deep

freezers, water coolers and cold storages. Segment profit spurted by 206% in the year.

The room airconditioner market size for 2005-06 was around 1.5 million units. This field is characterized by intense competition amongst many players and is dominated by multinational brands. Despite this scenario, Blue Star's room airconditioner sales recorded perhaps the highest growth rate in the industry. While the window airconditioner volumes of Blue Star grew 20%, the split airconditioner volumes grew nearly 100%. Blue Star sold over 60,000 units, with more than 60% of the sales coming from split airconditioners. Further, the Company also improved profitability in this line of business, with enhanced dealer productivity.

The Company launched the verticool and hiper split airconditioners during the year. The hiper split airconditioners are high performance energy-efficient units ideal for places where temperatures soar to 43° C. These units have been well received by the corporate and commercial segments.

2005-06 was an exceptional year for the refrigeration products business. All the product lines registered substantial growth. While sales volumes of storage water coolers grew 34%, bottled water dispensers registered a 75% growth. The Company has been a pioneer in water coolers and has firmly established its leadership position in the segment. Blue Star's deep freezers also continued to perform well, recording a growth of 45%, with over half of the demand coming from the ice cream segment.

During the year, the Company launched beer coolers for cooling beer and milk coolers for cooling dairy products. Both these product lines have registered impressive sales. The Company also tied up with NFT, Italy during the year for selling ice cube machines. These too, have been well received in the market.

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

Blue Star has taken several steps in order to leverage the huge business opportunities arising out of these developments. The Company has signed technical agreements with consultancy organizations in Europe who are specialized in cold chain solutions. It has also come to an understanding with Bitzer, a global leader in refrigeration equipment for initially importing and then manufacturing the Bitzer range of rack compressor units which are extremely popular with the supermarkets all over the world. The Company will also be concluding agreements with supermarket display cabinet manufacturers in Europe. Blue Star also has signed a technical agreement with M/s Fruit Control Equipment, Italy for Controlled Atmosphere technology for long-term storage applications such as apple storage. The Company expects a lot of start-up activity in 2006-07 with substantial business results in 2007-08 onwards.

The modular (standard) cold room business, where Blue Star has been the market leader for many years, grew

New Products



▲ VRF SYSTEM WITH DIGITAL SCROLL



▲ HIPER SPLIT AC



VERTICOOL ▲



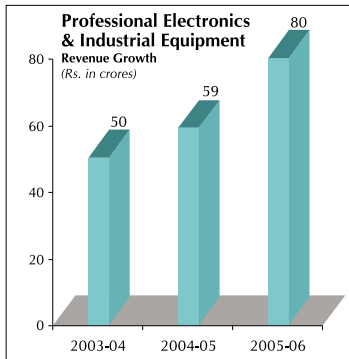
▲ WATER COOLED SCREW CHILLER



MILK COOLER ▲

at a modest pace in 2005-06 due to disturbance of operations arising out of shifting the production line from Thane to Bharuch, in the second half of the year. The new manufacturing unit at Bharuch is fully ready and the business is expected to bounce back to a healthy growth rate in 2006-07.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL EQUIPMENT



For 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 Division's strength is the intellectual capital of its employees who keep abreast of the constant global changes in the world of technology, and upgrade their knowledge and skills to constantly innovate and exploit new business opportunities.

The Division represents in India leading global manufacturers including Hitachi and JEOL from Japan, Thales e-security from UK, Yxlon from Germany, Larox from Finland, Olympus NDT from Canada and ITT, Aeroflex, Panametrics

and NuAire from USA, to name a few.

In 2005-06, the Division continued to contribute significantly to the overall performance of the Company. For the future, the Division anticipates huge opportunities in engineering projects and services as well as in system integration as a value added reseller.

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

Material Testing Equipment and Systems

With the Indian manufacturing industry focusing on quality over the past few years, the demand for material testing equipment and systems has substantially increased. During the review period, the Company continued to perform well in the eddy current, ultrasound and industrial x-ray product lines. It has tied up with Panametrics of USA and Olympus NDT of Canada for these products. In the area of weld inspection, the Company received a major repeat order from Jindal Saw, for longitudinal weld inspection of pipes used for oil and gas transportation.

The Company has also forayed into a new business area of inspection services. Inspection Service involves specialised application knowledge and the Company has found a niche place in inspection of welds with Time of Flight Diffraction (TOFD) Ultrasonic technique which is traditionally done with hazardous X-Ray/Radioactive sources. The Company has also undertaken inspection jobs to check the health of chiller tubes in HVAC by Eddy Current technique.

The Company continues to dominate the market for destructive testing products including universal testing machines and hardness testing. The Company has tie-ups with Hung Ta Instruments, Taiwan for universal testing machines and Thermal Product Solutions, USA for environmental chambers. This business grew 25% during the year and the outlook looks promising.

Data Communication Products and Services

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

The Company maintained its strong position in the host security business during the review period with major orders from IDBI, UTI, Canara Bank, ING Vysya Bank and HDFC Bank, totalling to over Rs.3 crores. The Company bagged a prestigious order from Gateway Terminals, who are managing Phase III of the Jawaharlal Nehru Container Yard – the country's largest RF network for a container yard terminal. The Company also received orders for point-to-point and point-to-multipoint wireless networking including Andhra University, Vizag.

Test and Measuring Instruments

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

During the year, this business performed impressively registering a growth of 33%. The Department booked major orders for supply of RF test equipment from HAL, Kanpur and Hyderabad; and Indian Air Force. AP Police, Hyderabad and Ministry of Home Affairs, Delhi also placed orders for radio test sets.

Analytical Instruments

Blue Star represents reputed players such as JEOL, Japan and Nu-Aire, USA in the field of analytical instruments. During the year, the Company did well in specialized equipment such as electron microscopes for nano-technology applications. It also bagged a prestigious order from Central Pollution Control Board, New Delhi for a high resolution mass spectrometer, which will be used to measure dioxin levels in the environment.

The Company has partnered with Techcomp Ltd, Hong Kong to provide professional consultation for design, build and maintenance of prefabricated Bio Safety Level-3 (P3) containment labs on a turnkey basis. P3 labs are used primarily for containment of dangerous pathogens from virus and bacteria that are harmful to humans and animals. During the year, the Company sold the country's first P3 containment lab to Centre for Cellular and Molecular Biology (CCMB), Hyderabad for conducting a research on HIV Virus. With the onset of Bird Flu, the Ministry of Health & Family Welfare has also placed an order for the P3 lab for surveillance and research on the H5N1 virus. The Company expects many more orders from the Govt of India in the near future.

Industrial Products

Blue Star has been engaged in marketing and support of high technology process instruments and capital equipment to meet the diverse needs of the core sector such as oil and gas, petrochemical, pulp and paper, minerals and mining and power industries. Based on the industrial investment trends and its requirements, the Company restructured its business model and has been successful in its initiatives.

During the year under review, the Company did well in pumps and valves as well as value added services. It has also been successful in providing turnkey engineered solutions in mechanical, electrical and instrumentation packages.

The Company bagged a major repeat order valued at Rs.24 crores from Tata Steel for re-routing of overhead yard utility pipe work. The Company has also booked an order from BPCL for design, supply, erection and commissioning of skids to be used for the online viscosity measurement of lube oil base stock at their Mahul refinery.

Medical Diagnostic Equipment

The Company continued to represent Hitachi Medical Corp., Japan for the sale of MRI scanners, CT scanners and ultrasound systems. During the year, the Company also performed well in the sales of bone densitometers

used for detection of osteoporosis. It bagged a major order of 17 such machines from Meyer Organics, Thane. The Company has recently partnered with Mindray of China for the distribution of patient monitoring systems and Rogan Delft of Netherlands for Picture Archiving and Communication Systems (PACS).

MANUFACTURING FACILITIES

Blue Star has four modern, state-of-the-art manufacturing facilities at Thane, Bharuch, Dadra and Kala Amb, Himachal Pradesh. The factories make extensive use of IT to enhance productivity and product development capabilities. Extensive product testing facilities enable the development of high quality products manufactured at the factories at extremely competitive costs.

The rapidly growing market for room airconditioners required expansion of manufacturing capacity. Hence, the first phase of construction of a fourth plant at Kala Amb was completed and production commenced in May 2005. The second phase is already under way. This new manufacturing facility will provide substantial benefits from both the economies of scale, as well as tax and duty incentives.

Research & Development

In its thrust towards new product development, the Company has upgraded and expanded its product development facilities and substantial investments have been made in setting up sophisticated test laboratories.

During the year under review, the Company launched a host of new products and models. The new products include water cooled screw chillers, fresh-air air handling units, high-static fan coil units for district cooling applications, hyper split airconditioners, chilled water precision control packaged airconditioners and digital scrolls. In all, a total of 63 new products and 32 derivative products were introduced, during the review period.

During the year, the Company upgraded labs for chiller test facility at Thane, deep freezer test facility at Bharuch and labs at Dadra. The Company also added a lab for fan coil unit testing at Thane.

Dadra Plant

Blue Star's state-of-the-art plant at Dadra is regarded by industry experts as one of the best manufacturing facilities in the country for airconditioning products. The product range manufactured by this plant includes packaged airconditioners, ducted split airconditioners, telepacs, VRF systems, precision control packaged airconditioners, heat pumps and room airconditioners.

During the review period, the plant continued to do good work in value engineering and improving the procurement process. Output recorded an increase of 28% over the previous year, with ducted systems, telepacs and export products fuelling growth. Assembly lines were re-aligned to cater to a changing product mix. It also set up a dedicated assembly line for VRF systems. All three laboratories at the R&D centre of the plant became operational. Additional capital equipment was installed including hydraulic press, vacuum lifter, data logger systems and bump and jolt machines.

Quality continued to be a thrust area including conducting of several technical training sessions. Several customers and consultants from India and abroad visited the plant and were convinced of its ability to manufacture products that can compete globally. Several educational institutions toured the plant to gain an understanding of best practices employed in manufacturing.

Thane Plant

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



▲ NEW R&D BUILDING AT DADRA PLANT

CHILLER TESTING FACILITY AT THANE PLANT ▼





▲ BHARUCH PLANT

ASSEMBLY LINE AT HIMACHAL PLANT ▼



During the review period, the manufacture of cold storages was shifted to Bharuch and the space released was used to increase capacity for production of air handling units. The manufacturing facilities were upgraded to increase in-house value addition and enhance capacity. Capital expenditure included a variety of new equipment to increase productivity including a sheet metal line, hair pin bending machine, refrigerant charging machine, ultrasonic cleaning machine and assembly conveyor for air handling units.

Bharuch Plant

The Bharuch plant mainly manufactures refrigeration products such as water coolers, bottle coolers, deep freezers and cooling units. During the year, the manufacturing of cold storages was transferred from Thane to Bharuch. With this change, Bharuch now manufactures all the refrigeration products of the Company. During the year, the plant celebrated 25 years of its existence.

In 2005-06, production recorded major growth of 53% with increased demand coming in nearly all the product categories. The plant underwent a major expansion and the production area has now been doubled. The construction of 52,000 sq ft for manufacture of cold storages was completed in a record time of 7 months, enabling the plant to reach full capacity production by the end of the year.

Deep freezers manufactured at the plant continue to be well received in the market. The manufacture of deep freezers which began in 2003-04, crossed the 20,000 units mark in 2005-06.

Himachal Plant

The Himachal Pradesh plant is the fourth manufacturing facility of the Company, situated at Kala Amb, around 60 km from Chandigarh. It is set up on a site area of 8 acres with an outlay of about Rs.30 crores over FY06 and FY07.

The Plant has initially taken up production of room airconditioners, with a thrust on areas such as automation, manufacturing costs, vertical integration and quality.

The construction activity of 10,000 sq m was completed in December 2005 and another 4,000 sq m is in progress. The Plant already began operations last year producing around 30,000 units. The plant expansion under way will be completed by August 2006 and is expected to have an annual production capacity of 150,000 window and split airconditioners on a single shift basis. Further, the plant has been designed to manufacture other airconditioning products as well, if required.

CUSTOMISED OEM BUSINESS

Having been in the business of HVAC for several decades, Blue Star last year entered a new area of customized cooling solutions for various industrial, process and other non-comfort cooling applications. With wide experience in cooling solutions coupled with a large pool of qualified R&D engineers, Blue Star is in an unparalleled position to meet the demands of various customers for various cooling solutions. These include process applications, mobile applications, bulk milk coolers and contract manufacturing of specialized products for international players

Director General of Quality Assurance (Ministry of Defence) has approved the Company's manufacturing facilities at Thane, Bharuch and Dadra for developing mobile and static airconditioning systems for defence applications. A trial order from Central Ordnance Depot, Delhi for military graded window airconditioners was received. Vehicle Research and Development Establishment (Ministry of Defence) also placed an order for a mobile airconditioning system for armoured vehicle on a trial basis. Blue Star has also tied up with Packo, Belgium for partial manufacturing and marketing of bulk milk coolers.

EXPORTS

On the product export front, the Company continued to make good progress especially in the Middle East. Blue Star enlarged its range of products in the international market to include products like chillers, air handling units, fan coil units and roof top units apart from traditional cooling products like water coolers and room airconditioners. These products, which compete with global brands, were well received in the market and resulted in a significant rise in the Company's exports during the year. Product Exports grew by a healthy 34% to Rs.63.11 crores in FY06. Although still relatively small, this represents a growing acceptance of Blue Star cooling products in the international market.

Representation in the Middle East area was uneven without the Company's presence in many large markets. Systematically identifying potential companies, short listing based on key parameters and appointing the selected few as distributors showed promising starts in the represented areas. Another highlight was the approval of Company's products by key Ministries and Departments in Muscat, Abu Dhabi and Oman.

During the year, the Company participated in the Big 5 exhibition in Dubai showcasing a comprehensive range of products. It also hosted several customer events in the Middle East. The response to the products has been overwhelming and the Company is confident of its business prospects in the Middle East.

On the international projects front, the airconditioning project of the Bank of Mauritius in Mauritius, valued at Rs.12 crores, was in an advanced stage of completion at year-end. Since the Indian market has been booming, the Company was selective in bidding for international projects.

AIRCONDITIONING AND REFRIGERATION SERVICE

The installed population of airconditioning and refrigeration equipment has been growing rapidly in recent times, and this has created growth opportunities for after sales service business as well. Blue Star is well known in the market place as a superior value added service provider, and it maintains close to 600,000 TR of airconditioning and refrigeration systems.

Blue Star had anticipated the changes that are happening in the market place, and recognized the need to develop new service products and competencies. Blue Star is also committed to establish global practices in India.

Apart from comprehensive annual maintenance contracts, Blue Star's service offerings were expanded to include energy management, air management, water management, product upgrades and enhancements, and revamping and retrofitting solutions. In each of the above areas, the Company is also in the process of acquiring the required accreditation and several of its executives and managers are qualified energy auditors or energy managers certified by the Bureau of Energy Efficiency. The Company is also a certified member of National Air Duct Cleaner Association, USA.

Blue Star tied up distribution agreements with global leaders such as Danfoss, Denmark for distribution of variable frequency drives; Ecospec, Singapore for water treatment systems; Sterile Aire, USA for UV emitters and Desiccant Rotors International Pvt Ltd (formerly Arctic India Engineering Pvt Ltd) for heat recovery wheels, energy recovery ventilators and evaporative cooling pads.

Blue Star also introduced customized service solutions for various customer segments depending on their needs, giving customers a choice from a basket of available options.

During the year, the Company continued to focus on enhancing the quality of service delivery, and towards this end, several developmental programmes were implemented. These included:

- ISO certification programme : ISO 9001:2000 accreditation from UL, India was obtained for the service operations pertaining to central plants in the Western and Southern regions. The implementation is in progress in the Eastern and Northern regions. Certification was also obtained for the National Parts Centre.

- **Expansion of Call Desk:** The call desk was extended from 9 am–9 pm all 7 days of the week. A 24x7 facility was introduced as an option.
- **Service Specialists Group:** A Service Specialists Group was created comprising experts who handle hi-end technical problems. This has been extended to the regions by the formation of Regional Service Specialists Group.
- **Certification and Developmental programme for channel partners and business associates:** This was introduced last year for improving the infrastructure, manpower resources and capabilities of the service delivery channels. This is an ongoing programme aimed at developing the channel partners as extended arms of Blue Star.
- **Monitoring of service quality through Service Quality Assurance Group:** Service Quality Assurance Group was formed for benchmarking best practices existing in other service industries within India and abroad, and for developing and implementing service delivery standards in conformity with the same. Service Quality Assurance Group is an integral part of the operations. It not only audits the delivery processes, but also works on continuous improvements.

SUPPLY CHAIN MANAGEMENT

Consistent growth in the top line in the Company's business in all the sectors entailed larger procurement volumes of raw materials, auxiliary equipment and parts. Encouraged by sustained business growth, the Company introduced a "Supply Excellence Programme" for its major vendors who agreed to enhance all aspects of service levels related to product lifecycle management as well as maintaining price agreements for a predetermined period. In the area of finished products logistics, the third party logistics service providers enhanced the scope of their service by selectively introducing GPS in the transport vehicles. This innovative approach supported by an internet based consignment tracking system significantly improved product availability with the sales channel partners.

CHANNEL DEVELOPMENT

During the review period, a turnover of close to Rs.500 crores was achieved through channel driven businesses i.e. small central plants, packaged airconditioners, room airconditioners, refrigeration products, and standard cold rooms. Blue Star has around 160 systems dealers who exclusively deal in the Company's systems businesses consisting of packaged airconditioning and cold rooms. These dealers were provided technical expertise, installation and service competence of a higher order.

On the other hand, room airconditioners and refrigeration products, which are simple to install products, are sold through a larger network of approximately 500 dealers. Most of them deal exclusively with Blue Star products in the HVAC domain. A few of them are multi brand, multi product dealers.

The Company established a Channel Management Centre to oversee the policy framework, certification and development of dealers and also put in place a Training Department for training channel partners. During the year, 115 dealers were added. The Company also initiated a magazine for dealers called 'Pulse' which was well received. In 2005-06, the Company assisted 16 dealers in setting up highly visible Product Display Areas in locations such as Vijayawada, Vizag, Mangalore, Cuddalore, Trivandrum, Baroda and Kolkata. The visibility of Blue Star at the ground level is expected to improve on account of this programme.

FINANCIAL PERFORMANCE

The analysis for the 12-month period ended March 31, 2006 in comparison with the corresponding figures for the 12-month period ended March 31, 2005 is as follows:

1. INCOME

Total Income grew 27% from Rs.930.92 crores to Rs.1178.62 crores. The Company increased its revenue of sales, work bills, service and commission to Rs.1170.67 crores, an increase of Rs.253.87 crores over the

previous year. Other income comprised Rs.7.95 crores generated from export incentives, dividend income and interest on 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. 907.87 crores. This represents 77.0% of the Total Income, the same level as the previous year. Despite increase in the cost of inputs and costs of transportation and freight, the Company was able to improve gross margins.

3. EMPLOYEE REMUNERATION AND BENEFITS

There was an increase in employee costs by 22%, mainly due to an increase in salaries, training and welfare expenses. Employee remuneration and benefit costs for the year under review stood at Rs.88.27 crores. This represents 7.5% of the Total Income compared with 7.8% of the previous year.

4. OPERATING AND GENERAL EXPENSES

Operating and general expenses increased by 24.8% mainly due to increase in advertising and publicity expenses and commission to dealers. Operating and general expenses for the year under review amounted to Rs.91.74 crores, representing 7.8% of the Total Income compared to a corresponding figure of 7.9% in the previous year.

5. INTEREST

Interest costs during the year rose to Rs.5.7 crores compared to the previous year's figure of Rs.3.2 crores representing 0.49% of the Total Income compared to a corresponding figure of 0.34% in the previous year.

6. DEPRECIATION

Depreciation charge for the year under review was Rs.15.92 crores compared to Rs.12.35 crores in the previous year.

7. TAXATION

Provision for taxation increased from Rs.13.71 crores to Rs.16.41 crores. The introduction of Fringe Benefit tax required an additional provision of Rs.3.0 crores.

8. NET PROFIT

Net profit increased to Rs.48.90 crores compared to Rs.39.16 crores in the previous year, representing an increase of 25%. Profit before Tax stood at Rs.69.09 crores, a rise of 32% from previous year's figure.

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 the progress is monitored against targets, and control is exercised on all major expenses, so that actual spending is in accordance with the budgets. The management information system provides timely and accurate information for effective control.

ENTERPRISE RISK MANAGEMENT

Considering the risks and challenges being faced by business enterprises, companies are required to set up a structured procedure for assessment and minimization of business risks as part of corporate governance. The Company made a detailed study of possible risks in each division/function through KPMG, a leading management consultancy firm. All major risks were identified and the divisional/functional heads were made responsible for assessing the risks and adopting measures to minimize the same and report to the Board on a periodical basis.

HUMAN RESOURCES

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.

During the review period, with the substantial increase in the business volume, the Company increased its total head count to 1999 as on March 31, 2006, an increase of 131 over the previous year.

The focus on people development was maintained with special attention to developing the technical skills of dealers and business associates. During the year under review, there was a significant increase in the training inputs provided to business associates. Selected managers were nominated to the leading management institutes like IIM Ahmedabad, Lucknow and Bangalore to attend specific programmes. IIM Ahmedabad developed a Customized Management Development Programme for middle level managers. This was attended by 50 managers from various functions.

Focus on Corporate Values and Beliefs continued during the year, and for Managers above the level of Deputy General Manager, a 360 degree feedback system was implemented to measure behaviour pertaining to Corporate Values.

As part of the Management Development initiative, a technical/functional competency dictionary was created for a number of operating divisions. This is useful for identifying training and development needs.

The welfare initiatives of providing life insurance cover to all employees through the HDFC Standard Life Insurance continued during the year. The Mohan T Advani Education Trust disbursed scholarships to a number of children of employees who are pursuing higher professional education. Blue Star Sahayata Foundation also extended financial aid to a number of deserving cases for emergency medical expenses.

As a culmination of continuous improvement in industrial relations, settlements were signed with the Blue Star Workers Union in Mumbai, Bharuch and the all-India Federation resulting in substantial improvement in shopfloor productivity. Harmonious and constructive relations between the Management and workmen helped to achieve business growth with higher productivity.

INFORMATION TECHNOLOGY

Over the last few years, Blue Star has made substantial investments in IT and communication infrastructure, as well as in advanced state-of-the-art software. The year 2005-06 saw the stabilization of the IT infrastructure which was deployed in the previous year and refinement of the various services deployed. Some new services were also launched with the objective of strengthening and securing the infrastructure.

Implementation of an ERP package from BaaN had begun in 2003-04 and was completed in 2005-06. While the system has now stabilized, to leverage the latest technology, the Company is in the process of upgrading the ERP package of BaaN to a higher version available. The migration to this version is expected to be completed in the latter half of 2006-07.

Hitherto for all locations, access of internet for browsing was through different channels from multiple gateways. The year saw the Internet Gateway being consolidated to provide centralized access to major locations. All insecure de-central low-quality internet accesses are now closed. The results are seen in reduced virus attacks, and better quality of surfing.

A dedicated team of network engineers proactively monitor and manage all WAN links, all servers as well as email application with an aim to maximize uptime and availability of these applications. The operations are supported by an OpenSource based Network Monitoring Tool. Online alerts are generated by this tool for events like server failures, link failures and crossing of predefined thresholds, amongst others.

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

BRAND EQUITY

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

To enhance brand equity and recognition, the Company invested not only in mass media channels of print and television, but also in field marketing which involves creating leaflets and literature, participation in trade exhibitions, IDEAC (Interior Designers, Architects and Consultants) relationship management, customer events and public relations through the Press. These field activities are critical and go a long way in complementing mass media campaigns and strengthening brand equity.

Since Blue Star is not a consumer durables player, in order to effectively target its core audience of corporate and commercial customers, the Company has arrived at an optimum media mix.

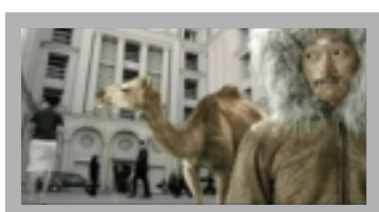
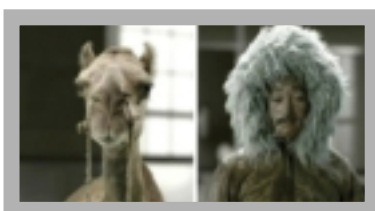
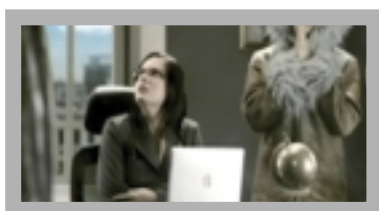
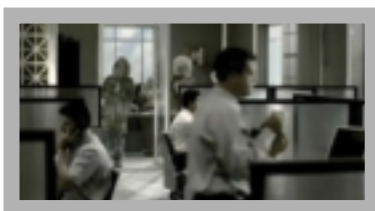
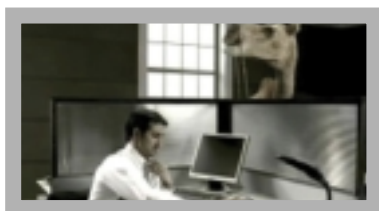
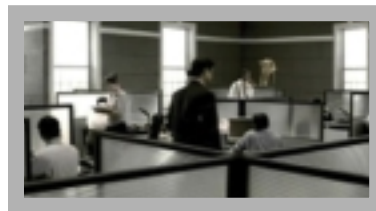
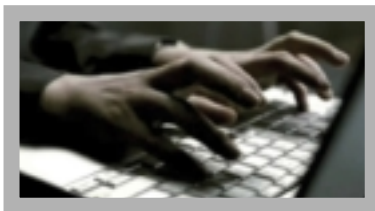
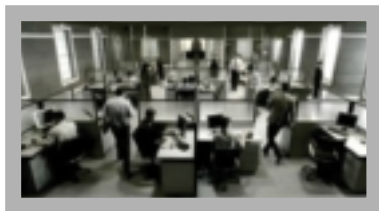
OUTLOOK

The central airconditioning business continues to be the largest contributor to the Company’s revenue and is expected to drive the overall growth of the Company in the coming quarters of the year as well. Blue Star’s strengths in system design, project management and after-sales service coupled with energy efficient world-class products will help the Company in sustaining market leadership.

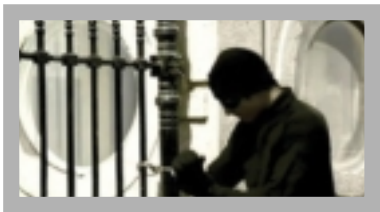
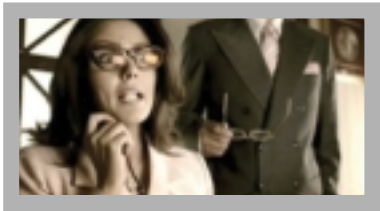
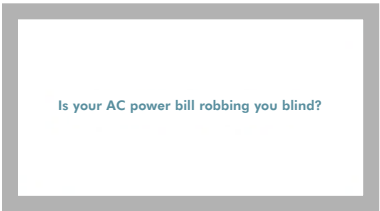
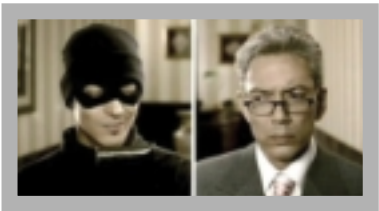
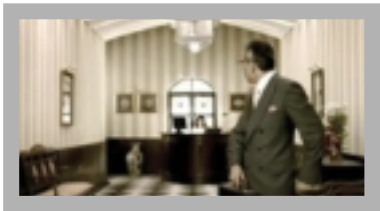
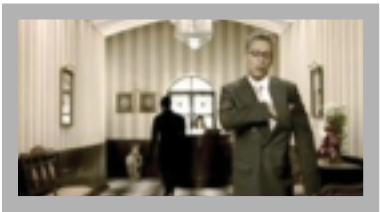
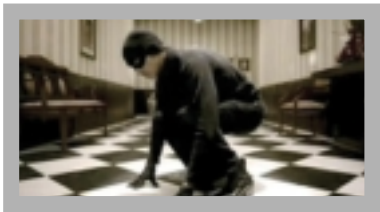
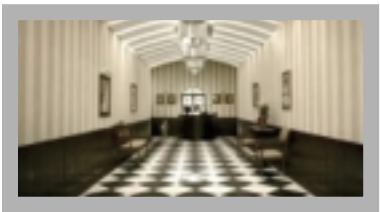
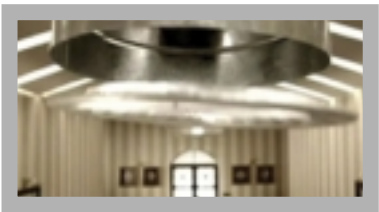
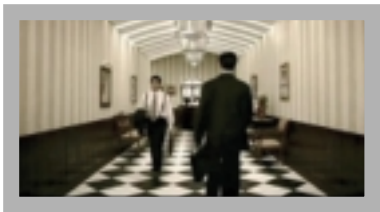
With the manufacture of room airconditioners commencing at Kala Amb and the new cold room plant at Bharuch, the Company expects the cooling products business to contribute substantially to the overall growth. The cooling products business performed impressively in FY06 and the Company expects this trend to continue in FY07 as well.

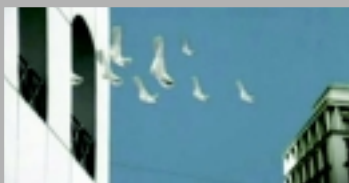
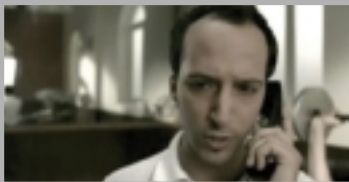
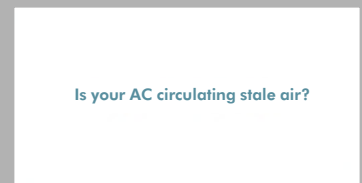
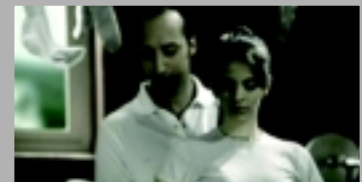
The outlook for the Professional Electronics business continues to be promising. Its growth pattern in the last few years has been steady. The Division has forayed into several new high growth niche segments with additional product lines, and is optimistic about its prospects in this business.

TV Commercials



TV Commercials





The Dynamics of Blue Star's Growth

10 YEAR FINANCIAL HIGHLIGHTS

		2005-06	2004-05	2003-04
OPERATING RESULTS				
Total Income	Rs. in Crores	1178.62	930.92	716.06
Profit before Tax	"	69.09	52.44	46.59
Tax	"	19.42	13.71	11.88
Profit after Tax	"	48.90	39.16	32.55
Dividend (including Corporate Dividend tax)	"	24.61	20.55	18.26
Retained Profit	"	24.29	18.61	14.29
FINANCIAL POSITION				
Paid up Capital	Rs. in Crores	17.99	17.99	17.99
Reserves	"	154.72	130.43	111.82
Shareholders' Funds	"	172.71	148.42	129.81
Borrowings	"	75.87	37.28	13.35
Total Funds Employed	"	248.58	185.70	143.15
Net Fixed Assets & Investments	Rs. in Crores	113.04	89.03	70.41
Net Working Capital	"	141.33	100.53	77.17
Debt Equity Ratio		0.44	0.25	0.10
Book Value per Equity Share	Rs.	96.02	82.51	72.17
OTHER INFORMATION				
Number of Shareholders	Nos.	15609	17187	19422
Number of Employees	"	1999	1868	1798
PERFORMANCE INDICATORS				
Earnings per Share	Rs.	27.19	21.77	18.10
Dividend per Share	Rs.	#12.00	10.00	9.00
Return on Shareholders' Funds	%	28.3	26.4	25.1
Return on Capital Employed	%	30.1	30.0	33.8

Proposed Dividend

2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97
601.06	517.32	509.82	480.94	476.49	452.77	440.85
40.18	27.33	25.57	25.20	18.12	18.04	23.21
9.57	2.28	2.03	1.96	1.85	2.53	8.43
31.04	27.45	23.54	23.24	16.27	15.51	14.78
18.26	12.55	12.32	11.39	10.53	10.43	10.43
12.78	14.90	11.22	11.85	5.74	5.08	4.35
17.99	19.30	20.32	27.10	27.10	27.10	27.10
97.53	92.10	89.72	97.67	85.95	80.37	75.47
115.52	111.40	110.04	124.77	113.05	107.47	102.57
12.05	12.09	57.35	64.04	82.49	60.43	32.96
127.57	123.49	167.39	188.81	195.54	167.90	135.53
59.79	68.41	94.11	105.25	99.93	97.05	73.60
67.84	54.09	67.43	78.68	88.18	67.44	61.88
0.10	0.11	0.52	0.51	0.73	0.56	0.32
64.22	53.59	51.27	44.24	38.98	38.40	37.84
22000	24878	26094	27399	23963	23318	20578
1808	1825	2084	2489	2504	2619	2799
16.79	13.52	11.58	8.58	6.00	5.72	5.45
9.00	6.50	5.50	5.00	3.50	3.50	3.50
26.9	24.6	21.4	19.8	15.4	15.5	15.6
33.3	26.7	20.5	19.1	14.9	14.7	22.0

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, 2006, the profit and loss account and also cash flow statement, wherein are incorporated the locally audited returns from the branches for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.
 - (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 2006, which are taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the balance sheet, of the state of affairs of the company as at 31st March, 2006;
 - (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

Mumbai: May 25, 2006

For K. S. AIYAR & Co.
Chartered Accountants

RAGHUVIR M AIYAR
Partner
Membership No. 38128

Annexure to the Auditors' Report

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

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

including Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth-tax, Service tax Custom duty, Excise-duty, Cess and other material statutory dues applicable to it. According to the information and explanations given to us, no undisputed amounts payable in respect of such statutory dues were in arrears, as at 31st March, 2006 for a period of more than six months from the date they became payable.

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

For K. S. AIYAR & Co.
Chartered Accountants

RAGHUVIR M AIYAR
Partner
Membership No. 38128

Mumbai: May 25, 2006

Balance Sheet As At March 31, 2006

(Rs. in lakhs)

		As at March 31	
	Schedule	2006	2005
SOURCES OF FUNDS			
Share Capital	A	17,98.72	17,98.72
Reserves & Surplus	B	1,54,72.34	1,30,43.09
Shareholders' Funds		1,72,71.06	1,48,41.81
Secured Loans	C	40,57.48	35,91.24
Unsecured Loans	D	35,29.65	1,36.60
Loan Funds		75,87.13	37,27.84
TOTAL		2,48,58.19	1,85,69.65
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block		1,97,72.76	1,63,85.02
Depreciation		1,00,95.35	87,27.54
Net Block	E	96,77.41	76,57.48
Capital Work-in-Progress		11,08.91	7,27.50
Investments	F	5,17.77	5,17.77
Fixed Assets & Investments		1,13,04.09	89,02.75
Inventories		1,49,83.99	1,02,66.42
Sundry Debtors		2,38,84.51	1,95,76.99
Cash & Bank Balances		2,36.80	2,47.81
Loans & Advances		90,64.74	68,91.55
Total Current Assets, Loans & Advances	G	4,81,70.04	3,69,82.77
Current Liabilities		3,12,32.42	2,47,36.23
Provisions		28,04.35	21,93.13
Less: Total Current Liabilities & Provisions	H	3,40,36.77	2,69,29.36
Net Current Assets		1,41,33.27	1,00,53.41
Miscellaneous Expenditure			
(to the extent not written off or adjusted)			
(See note 6)		3,26.14	4,41.58
Net Deferred Tax Liability (See note 14)		(9,05.31)	(8,28.09)
TOTAL		2,48,58.19	1,85,69.65
Notes forming part of the Accounts	N		

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

RAGHUVIR M AIYAR
Partner

Mumbai: May 25, 2006

Ashok M Advani
Suneel M Advani

T G S Babu
Satish Jamdar

Pradeep Mallick
Gurdeep Singh
Shailesh Haribhakti
Suresh N Talwar

H Rajaram
K P T Kutty

Chairman & Managing Director
Vice Chairman & Managing Director

Executive Director
Executive Director

Director
Director
Director
Director

Executive Vice President
Company Secretary

Mumbai: May 12, 2006

Profit & Loss Account For The Year Ended March 31, 2006

(Rs. in lakhs)

	Schedule	Year ended March 31	
		2006	2005
INCOME			
Sales, Work Bills & Services (See note 1, 2 & 5)		11,52,06.00	9,03,02.97
Commission		18,61.43	13,77.07
Other Income	I	7,94.87	14,11.48
		11,78,62.30	9,30,91.52
EXPENDITURE			
Cost of Sales, Work Bills & Services	J	9,07,86.60	7,17,03.20
Employee Remuneration & Benefits	K	88,27.50	72,36.75
Operating & General Expenses	L	91,74.19	73,51.64
Depreciation	M	15,92.56	12,34.79
Interest (Including nil on Fixed Loans; 2004-05: Rs.1.84 lakhs)		5,71.98	3,21.05
		11,09,52.83	8,78,47.43
PROFIT			
PROFIT BEFORE TAXATION		69,09.47	52,44.09
Provision for Income Tax		16,35.81	13,65.77
Provision for Wealth Tax		6.00	5.00
Fringe Benefit tax		3,00.00	-
		19,41.81	13,70.77
Add: Deferred Tax Asset/(Liability) (See note 14)		(77.22)	42.49
PROFIT AFTER TAXATION		48,90.44	39,15.81
Add: Balance brought forward		19,73.46	19,12.79
PROFIT AVAILABLE FOR DISPOSAL		68,63.90	58,28.60
APPROPRIATIONS			
Transfer to General Reserve		18,00.00	18,00.00
Proposed Dividend		21,58.47	17,98.72
Corporate Dividend Tax/Education Cess		3,02.72	2,56.42
		24,61.19	20,55.14
Balance carried forward		26,02.71	19,73.46
Basic & Diluted Earnings Per Share (See note 12)		Rs. 27.19	21.77
Notes forming part of the Accounts	N		

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

RAGHUVIR M AIYAR
Partner

Mumbai: May 25, 2006

Ashok M Advani
Suneel M Advani

T G S Babu
Satish Jamdar

Pradeep Mallick
Gurdeep Singh
Shailesh Haribhakti
Suresh N Talwar

H Rajaram
K P T Kutty

Chairman & Managing Director
Vice Chairman & Managing Director

Executive Director
Executive Director

Director
Director
Director
Director

Executive Vice President
Company Secretary

Mumbai: May 12, 2006

Schedules Forming Part of The Balance Sheet

As At March 31, 2006

(Rs. in lakhs)

		As at March 31	
		2006	2005
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
2821	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, 2005		1,08,36.07	90,36.07
Add: Transfer from Profit & Loss Account		18,00.00	18,00.00
		1,26,36.07	1,08,36.07
Capital Redemption Reserve			
Balance as on April 1, 2005		2,33.56	2,33.56
		2,33.56	2,33.56
Profit & Loss Account			
Balance carried forward		26,02.71	19,73.46
		1,54,72.34	1,30,43.09

Schedules Forming Part of The Balance Sheet
As At March 31, 2006

(Rs. in lakhs)

	As at March 31	
	2006	2005
C. SECURED LOANS		
Term Loan from Bank		
From Banque Nationale Paris	15,00.00	-
Secured by mortgage of immovable fixed assets and hypothecation of all movable fixed assets both present and future at Kala Amb plant. (Amount due within 1 year Rs.6,00 lakhs)		
From Banks, secured by hypothecation of stock-in-trade and book debts	25,57.48	35,91.24
	40,57.48	35,91.24
D. UNSECURED LOANS		
Non Convertible Debentures (Due within 1 year Rs.35,00 lakhs)	35,00.00	-
Fixed Deposits	-	3.57
From Banks	23.65	1,33.03
Others	6.00	-
	35,29.65	1,36.60
	75,87.13	37,27.84

E. FIXED ASSETS

(Rs. in lakhs)

	Gross Block				Depreciation				Net Block	
	As on 1.4.2005	Additions	Deletions	As on 31.3.2006	As on 1.4.2005	Additions	Deletions	As on 31.3.2006	As on 31.3.2006	As on 31.3.2005
Land - Freehold	70.45	93.81	-	1,64.26	-	-	-	-	1,64.26	70.45
Land - Leasehold	18.18	-	-	18.18	3.74	0.15	-	3.89	14.29	14.44
Bulding Sheds and Road	33,57.76	11,42.21	8.12	44,91.84	14,65.46	1,87.98	3.36	16,50.08	28,41.75	18,92.30
Plant and Machinery	76,37.83	14,78.18	57.20	90,58.79	41,19.86	6,52.19	34.71	47,41.74	43,17.08	35,17.97
Furniture, Fittings & Equipments	17,47.76	3,37.21	1,06.22	19,78.74	9,85.63	1,65.70	79.70	10,71.63	9,07.11	7,62.13
Vehicles	4,15.58	56.52	55.07	4,17.03	1,91.34	65.55	39.63	2,17.26	1,99.76	2,24.24
Computers	24,44.73	2,48.91	78.68	26,14.96	18,22.28	2,87.87	71.75	20,38.40	5,76.54	6,22.45
Intangible Assets - BaaN SYSTEM	7,28.97	3,36.21	-	10,65.20	1,46.99	2,39.06	-	3,86.05	6,79.15	5,81.98
Sub Total 31.3.2006	1,64,21.26	36,93.05	3,05.31	1,98,10.00	87,35.30	15,98.50	2,29.15	1,01,09.05	96,99.94	76,85.96
Less: Grant received from UNIDO	36.24	-	-	36.24	7.76	5.94	-	13.70	22.53	28.48
Total 31.3.2006	1,63,85.02	36,93.05	3,05.31	1,97,72.76	87,27.54	15,92.56	2,29.15	1,00,95.35	96,77.41	76,57.48
Total 31.3.2005	1,35,25.96	31,61.73	3,02.67	1,63,85.02	77,18.02	12,34.79	2,25.27	87,27.54	76,57.48	

(Rs. in lakhs)

	As at March 31	
	2006	2005
F. LONG TERM INVESTMENTS		
18,755 Unit 6.75 % Bonds of Unit Trust of India (Face Value Rs.18.56 lakhs)	18.56	18.56
UNQUOTED: TRADE INVESTMENTS		
2,400 Fully Paid Equity Shares of Rs.100 each in Ashok Sunil & Company Private Ltd	5.64	5.64
76,790 fully paid Equity Shares of Rs.10 each in Ravistar India Private Ltd	7.68	7.68
3,67,500 Fully Paid Equity Shares of MR 1 each in Blue Star M & E Engineering (Sdn) Bhd	49.97	49.97
2,94,000 Fully Paid Equity Shares of Rs.10 each in Rolastar Private Limited	29.40	29.40
9,75,000 Fully Paid Equity shares of Rs.10 each in Blue Star Design and Engineering Ltd.	97.50	97.50
QUOTED: OTHER INVESTMENTS		
29,25,725 Fully Paid Equity shares of Rs.10 each in BLUE STAR INFOTECH LTD (Aggregate Market Value Rs.31,30.52 lakhs; 2004-05 Rs.38,23.92 lakhs)	2,92.57	2,92.57
329 Fully paid secured & redeemable Bonds of Rs.5000 each in Krishna Bhagya Jala Nigam Ltd (Aggregate Market Value Rs.17.08 lakhs; 2004-05 Rs.17.76 lakhs)	16.45	16.45
	5,17.77	5,17.77

(Rs. in lakhs)

	As at March 31	
	2006	2005
G. CURRENT ASSETS, LOANS & ADVANCES		
(a) INVENTORIES		
Raw Materials, Stores & Components (at cost)	48,77.21	32,75.25
Work-in-Progress (at cost)	79,85.34	63,04.78
Work-in-Progress (at contract value)	20.80	1,65.40
	80,06.14	64,70.18
Less: Advance received thereagainst	14,97.25	16,30.32
	65,08.89	48,39.86
Finished Goods (at cost or net realisable value, whichever is lower)	25,89.51	14,09.89
Goods in Transit (at cost)	9,94.99	6,88.31
Tools, Cylinders & Consumable Stores	8.35	48.08
Units, Bonds & Shares in hand (at lower of cost or net realisable value) (See Note 17)	5.03	5.03
	1,49,83.99	1,02,66.42
(b) SUNDRY DEBTORS (Unsecured)		
Considered Good		
Over six months	50,90.08	41,87.50
Others	1,87,94.43	1,53,89.49
Considered Doubtful		
Over six months	5.75	5.75
Less: Provided	5.75	5.75
	2,38,84.51	1,95,76.99
(c) CASH & BANK BALANCES		
Cash on hand	32.04	21.20
With Scheduled Banks		
Current Account	94.55	1,30.07
Unclaimed Dividend Account	80.78	68.04
Deposit Account	29.32	28.50
With Unscheduled Banks		
Abu Dhabi Commercial Bank Ltd. A/c (Maximum balance during the year Rs.0.11 lakhs ; 2004-05: nil)	0.11	-
	2,36.80	2,47.81
(d) LOANS & ADVANCES		
Unsecured and considered good:		
Advance recoverable in cash or in kind or for value to be received	58,75.97	39,20.95
Advance Tax paid (net of Provision for taxes)	14,37.89	13,37.08
Deposits with Government and other bodies	17,50.88	16,33.52
	90,64.74	68,91.55
	4,81,70.04	3,69,82.77

(Rs. in lakhs)

	As at March 31	
	2006	2005
H. CURRENT LIABILITIES & PROVISIONS		
Sundry Creditors - Small Scale Units (See note 9)	5,36.79	1,30.13
Sundry Creditors - Others	1,33,68.81	90,60.59
Acceptances	14,08.60	1,26.59
Other Liabilities	1,10,10.32	1,12,13.38
Advances against Contracts	48,21.38	41,37.50
Investor Protection Fund:		
Unclaimed Dividends	80.78	68.04
Unclaimed Fixed Deposits	3.08	-
Interest accrued but not due	2.66	-
Current Liabilities	3,12,32.42	2,47,36.23
Provision for Leave encashment	1,60.16	1,42.14
Provision for Warranty (See note 7)	1,83.00	-
Proposed Dividend	21,58.47	17,98.72
Corporate Dividend Tax / Education cess	3,02.72	2,52.27
	24,61.19	20,50.99
Provisions	28,04.35	21,93.13
	3,40,36.77	2,69,29.36

Schedules Forming Part of Profit & Loss Account

For The Year Ended March 31, 2006

(Rs. in lakhs)

	Year ended March 31	
	2006	2005
I. OTHER INCOME		
Export Incentives	77.00	-
Profit on Sale of Assets	5.75	5,37.92
Interest (Gross) (Including tax deducted at source nil 2004-05: Nil)	88.20	81.89
Provisions & Liabilities no longer required	3.49	25.92
Dividends (Gross) (Including tax deducted at source Rs.24.87 lakhs; 2004-05: Rs.23.69 lakhs)	3,12.52	3,84.77
Profit on sale of Investments	-	9.28
Miscellaneous	3,07.91	3,71.70
	7,94.87	14,11.48
J. COST OF SALES, WORK BILLS & SERVICES		
Stock at commencement		
Raw Materials, Stores & Components	32,75.25	19,80.80
Work-in-Progress	63,04.78	39,69.99
Finished Goods	14,09.89	10,48.60
Units, Bonds and Shares in hand (See note 17)	5.03	5.16
Purchases & Expenses (See note 13)	9,52,48.75	7,56,93.60
	10,62,43.69	8,26,98.15
Less: Stock at Close		
Raw Materials, Stores & Components	48,77.21	32,75.25
Work-in-Progress	79,85.34	63,04.78
Finished Goods	25,89.51	14,09.89
Units, Bonds and Shares in hand (See note 17)	5.03	5.03
	1,54,57.09	1,09,94.95
	9,07,86.60	7,17,03.20
K. EMPLOYEE REMUNERATION & BENEFITS		
Salaries, Wages & Bonus	66,39.83	55,07.99
Provident Fund, Superannuation, Gratuity Fund and Leave Encashment	10,31.03	7,72.11
Welfare & Training Expenses	11,56.64	9,56.65
	88,27.50	72,36.75

Schedules Forming Part of Profit & Loss Account
For The Year Ended March 31, 2006

(Rs. in lakhs)

	Year ended March 31	
	2006	2005
L. OPERATING & GENERAL EXPENSES		
Rent	7,24.05	6,04.73
Rates & Taxes	29.84	43.36
Power	4,51.43	3,80.95
Insurance	1,01.16	55.96
Repairs & Maintenance		
- Premises	3,27.53	2,69.60
- Machinery	1,59.08	1,29.82
- Others	1,47.09	79.67
Payment to Auditors (including payment to Branch Auditors)		
- Audit Fees	22.41	18.98
- Other Services (Including for Tax Audit Fees Rs.3.86 lakhs; 2004-05: Rs.3.48 lakhs)	5.51	4.33
- Reimbursement of Expenses	0.52	0.78
Directors' Fees	5.00	6.20
Non Executive Directors Commission	22.80	17.85
Donations	-	8.58
Commission on Sales (other than salesmen)	9,69.48	6,65.07
Advertising & Publicity	13,98.88	11,48.43
Transport & Travelling	18,65.83	16,10.48
Stationery & Printing	2,21.06	1,95.35
Other expenses	22,31.12	17,91.20
Exchange Rate Difference	33.97	10.40
Non Recoverable Debts Written-off	3,75.16	2,21.34
Loss on sale / write-off of Investment	-	0.55
Loss on assets sold or discarded	42.88	15.24
Research & Development	39.39	72.77
	91,74.19	73,51.64
M. DEPRECIATION		
Depreciation on Fixed Assets	15,98.50	12,42.30
Less: Transferred from Grant Received	5.94	7.51
Depreciation charged to Profit and Loss Account	15,92.56	12,34.79

Notes Forming Part of The Accounts

N. NOTES FORMING PART OF THE ACCOUNTS

I SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. Revenue Recognition

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

In respect of all such contracts, revenue is recognised on the Percentage Completion Method, in respect of specific supplies to the project as and when supplies are effected and in respect of installation and commissioning based on measurement of actual work done.
- c. Provision is made for expected warranty liability on account of projects and products as per the estimates based on past experience.
- d. Service income is recognised on accrual basis.
- e. Claims recoverable are accrued only to the extent admitted by the parties.
- f. Export benefits are accrued only after the claims are lodged with the appropriate authorities.

4. Depreciation/Amortisation

- a. Depreciation is charged 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), net of Value Added Tax input credit and after providing for requisite diminution in the value due to obsolescence.
 - ii) Work-In-Progress relating to manufacturing activity is valued at 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.
 - iv) In case of construction contracts entered from 1.4.2003, Contract Work-in-Progress is stated at cost.
 - v) Finished goods are valued at lower of cost and net realisable value.
 - vi) Goods-in-transit are valued at cost.
 - vii) Tools, Cylinders and consumable stores are valued at lower of cost and net realisable value.
 - viii) Bonds, Units & Shares held as stock-in-trade are valued at lower of cost and market value.
- b. Basis of Allocation of Expenditure and Determination of Cost
 - i) Direct expenses identifiable to jobs are allocated to the jobs. Indirect expenses are charged as period cost in the year they are incurred.
 - ii) Depreciation on assets used specifically and exclusively for a job is charged to the respective job and finally absorbed as cost of sales.

6. R & D Expenditure

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

7. Foreign Exchange Transactions

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

8. Deferred Revenue Expenditure

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

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

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

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

12. Investments

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

13. Contingent Liabilities

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

II. OTHER NOTES

1. Sales/Work bills include

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

	(Rs. in lakhs)	
	2005-06	2004-05
Work done to be billed		
- At close	20.80	1,65.40
Less: At commencement	1,65.40	7,38.83
	(1,44.60)	(5,73.43)

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)	
	2005-06	2004-05
i) Contract revenue recognised as revenue in the period	3,81,41.83	3,07,05.24
ii) For Contracts that are in progress as on 31.3.2006		
a. Contract costs incurred and recognised profits (Less Recognised losses) up to the reporting date.	3,54,88.96	2,98,82.45
b. Advances received	28,02.36	16,16.67
c. Retention amount	-	81.05
d. Gross amount due from customers for contract work	47,02.09	50,28.38
e. Gross amount due to customers for contract work	27.52	39.67

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

	(Rs. in lakhs)	
	2005-06	2004-05
i) Claim against the Company not acknowledged as debts	2,34.36	3,22.67
ii) Sales Tax demands under appeal	1,34.64	-
iii) Excise duty claims not acknowledged as debts	1,46.14	1,46.14
iv) Income Tax	5,33.41	3,10.03
v) Corporate Guarantee given on behalf of other Associate Companies	34,15.91	29,60.42

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

Name of Statute	Nature of the Dues	Amount (Rs in lakhs)	Period to which it relates	Forum where dispute is pending
Sale Tax	Non-submission of forms	1,01.05 (34.56)	1992-93, 1995-96, 2001 to 2003	Sale Tax Officer / Appellate Asst. Commissioner.
	Claim of Sale in the course of imports rejected	1.92 (1.92)	1972 to 1975	High Court
	Entry tax	37.22 (42.22)	2003-2004	High Court
	Entry tax	32.96 (32.96)	2003-2004	Deputy Excise & Tax Commissioner
	Interstate sale treated as Local sale	1,65.20 (1,70.27)	2002 to 2004	High Court
	Works Contract Demand	- (40.57)	1997 to 1999	Sales tax Appellate Tribunal
	Work Contract & interstate purchase	41.88 (22.85)	1990-1991	High Court, JC Appeals, Asst. Commissioner
	Additional demand / disallowances	27.53 (32.63)	1984-85, 1994-95, 2002-2003	Sales Tax Appellate Tribunal/ Appellate Asst. Commissioner
	Claim of Additional turnover	53.63 (-)	2002-2003	AC sales tax
	Ex-parte assessment	68.53 (-)	2001 to 2003	D. C Appeals
Service tax	Service tax demand on composite contracts	1,28.81 (-)	2003	CESTAT
Central Excise	Excise Duty	11.53 (1,49.03)	1987 to 2004	Central Excise Commissioner
	Excise Duty	17.44 (34.44)	2000 to 2003	Central Excise Commissioner (Appeals)
	Excise Duty	3,56.05 (4,35.80)	1991-92, 1996 to 2003	CESTAT
	Excise Duty	10.00 (10.00)	1981 to 86	Penalty levied by High Court stayed 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 judgment assessment for the years 1995-96 to 2000-2001. The Company has filed Miscellaneous Writ Petition with the High Court of Madras contesting the action of the CTO. In view of the matter being sub-judice, no liability is ascertainable at the moment.

4. Estimated amount of Contracts remaining to be executed on Capital account and not provided for Rs.4,74.23 lakhs (2004-2005: Rs.3,74.30 lakhs).
5. As per the requirements of Accounting Standard 9 on Revenue recognition the sales figures are required to be reported net of excise duty. Due to the interwoven nature of the business of the Company segregating the excise duty paid on product sales is difficult.

6. In accordance with Accounting Policy No.8 regarding Early Voluntary Retirement Scheme an amount of Rs.3,26.14 lakhs (2004-05: Rs.4,41.58 lakhs) is carried forward under the head "Miscellaneous Expenditure (to the extent not written off or adjusted)".
7. As per the requirements of Accounting Standard 29 on Provisions, Contingent Liabilities and Contingent Assets, a provision of Rs.1,83 lakhs has been provided for expected warranty claims on products / projects sold / commissioned during the financial year.
8. The Company has an arrangement with Logistics companies to store finished goods of the Commercial Refrigeration Division and spares. On July 26, 2005 due to heavy rainfall in Mumbai, the materials which were stored in the warehouses got damaged. Consequently, the Company has lodged necessary insurance claim to recover the damage estimated at Rs.2,64 lakhs which is carried in the books at cost. The Company is confident of salvaging the entire loss.
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.	Malde Paper
Advance Valve Co.	Mihir Engineers Ltd.
Advance Valves (P) Ltd.	Murugan Electrical Works
Air Bow Systems	NEES Engineering
Air Guide & Controls	Navtech Enterprises Pvt. Ltd.
Anergy Instruments Pvt. Ltd.	Narendra Engg.
Anfilco Limited	Parkaire Engg. Co. Pvt. Ltd.
Airtech	P.S. Engineers
Bankim & Co.	Prijai Works
Beardsell Ltd.	Ravindra Bros
BIE Cooling Systems Ltd.	Rapid Control Pvt. Ltd.
C & R Pumps & valves	Servex Engineers and Fabricators
Caryaire Equipments	Suburban Ariovent Engg.
DEPS Products & Packaging Pvt. Ltd.	Servex Fabricators
Hemant Engineers	Tricon Elect. Ind. Pvt Ltd.
H. Guru Marketing Co.	Thermadyne Pvt. Ltd.
J K Insulation	Ventura Air Products
K.C. Industries & Fabricators	Waves Aircon Pvt. Ltd.
Khokhar Electricals Pvt. Ltd.	

- c. The above parties have been 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 i) central air-conditioning projects and ii) packaged air-conditioning businesses including manufacturing and after sales service.

- b. Cooling Products includes cooling appliances, cold storage products, including manufacturing and after sales service .
- c. Professional Electronics and Industrial Equipment includes trading and services for testing machines, medical, analytical, test & measuring, data communications, industrial products and systems.
- d. Residual includes discontinued business.

Segment Revenues, Results and Other Information

(Rs. in lakhs)

Description	Year ended March 31	
	2006	2005
I. SEGMENT REVENUE		
i. Central Air-conditioning Systems	8,21,29.63	6,51,51.82
ii. Cooling Products	2,71,20.92	2,09,83.12
iii. Professional Electronics and Industrial Equipments	80,35.56	59,24.10
iv. Residual	1,70.38	18.00
TOTAL SEGMENT REVENUE	11,74,56.50	9,20,77.04
Less: Inter Segment Revenue	-	-
Add: Other Un-allocable Income	4,05.79	10,14.48
TOTAL INCOME	11,78,62.30	9,30,91.52
II. SEGMENT RESULT		
i. Central Air-conditioning Systems	80,02.51	60,31.93
ii. Cooling Products	13,16.89	4,31.42
iii. Professional Electronics and Industrial Equipments	15,27.51	12,00.99
iv. Residual	(79.66)	(1,87.14)
TOTAL SEGMENT RESULT	1,07,67.25	74,77.20
Less: i. Interest paid	5,71.98	3,21.05
ii. Other un-allocable Expenditure Net of un-allocable Income	32,85.80	19,12.06
TOTAL PROFIT BEFORE TAX	69,09.47	52,44.09
Less: Provision for Tax	16,35.81	13,65.77
Provision for Wealth Tax	6.00	5.00
Fringe Benefit Tax	3,00.00	-
Add/(Less): Deferred Tax Adjustment	(77.22)	42.49
NET PROFIT AFTER TAX	48,90.44	39,15.81
III. OTHER INFORMATION		
a. SEGMENT ASSETS		
i. Central Air-conditioning Systems	3,45,53.12	2,85,87.48
ii. Cooling Products	1,66,14.43	1,02,69.37
iii. Professional Electronics and Industrial Equipments	36,87.99	26,33.10
iv. Residual	-	2,72.67
TOTAL SEGMENT ASSETS	5,48,55.54	4,17,62.62
Add: Un-allocable Corporate Assets	49,44.74	45,64.48
TOTAL ASSETS	5,98,00.28	4,63,27.10

Segment Revenues, Results and Other Information (Contd.)

(Rs. in lakhs)

Description	Year ended March 31	
	2006	2005
b. SEGMENT LIABILITIES		
i. Central Air-conditioning Systems	2,14,43.40	1,84,75.33
ii. Cooling Products	79,28.12	47,14.75
iii. Professional Electronics and Industrial Equipments	16,42.20	10,84.37
iv. Residual	-	11.61
TOTAL SEGMENT LIABILITIES	3,10,13.72	2,42,86.06
Add: Un-allocable Corporate Liabilities	39,28.37	26,43.30
TOTAL LIABILITIES	3,49,42.09	2,69,29.36
c. CAPITAL EXPENDITURE		
i. Central Air-conditioning Systems	8,60.87	13,29.42
ii. Cooling Products	2,31.94	6,38.37
iii. Professional Electronics and Industrial Equipments	17.46	13.14
iv. Residual	-	-
v. Other Un-allocable	4,95.34	11,80.80
TOTAL	36,93.04	31,61.73
d. DEPRECIATION		
i. Central Air-conditioning Systems	6,90.77	5,60.05
ii. Cooling Products	4,08.27	3,09.97
iii. Professional Electronics and Industrial Equipments	49.36	67.21
iv. Residual	2.85	3.19
v. Other Un-allocable	4,41.30	2,94.37
TOTAL	15,92.56	12,34.79
e. NON CASH EXPENSES OTHER THAN DEPRECIATION		
i. Central Air-conditioning Systems	1,62.26	1,25.44
ii. Cooling Products	60.10	73.95
iii. Professional Electronics and Industrial Equipments	44.80	15.71
iv. Residual	1,08.00	-
v. Other Un-allocable	-	6.78
TOTAL	3,75.16	2,21.89

B. Secondary Segment Information

The Company predominantly caters to the need of Indian market. Since the export turnover constitutes 7.1% (2004-05: 6.9%) 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
 Blue Star M & E Engineering (Sdn) Bhd
 Blue Star Infotech Limited
 Blue Star Design and Engineering Ltd.

Enterprises in which key management
 personnel & their relatives are interested
 Synergy Realtors and Services Private Limited
 Mohan T. Advani and Co. (AOP)
 Ashok Sunil & Co. Private Limited

Directors

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

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

(Rs. in lakhs)

Name of Related Party / Transaction	2005-06		2004-05	
	Volume Rs.	Balance O/S DR/(CR)	Volume Rs.	Balance O/S DR/(CR)
Rolastar Pvt. Ltd.		(1,13.25)		(33.94)
Purchase of materials	6,74.38		3,52.78	
Fabrication charges	2,51.15		2,17.64	
Corporate guarantee	1,81.24		69.99	
Guarantee Commission	2.45		2.60	
Ravistar Pvt. Ltd.		19.28		(56.19)
Purchase of goods	9,38.69		6,58.86	
Corporate guarantee	12.25		12.25	
Blue Star M & E Engineering (Sdn) Bhd		9.45		26.52
Consultancy services paid	1,00.39		1,34.62	
Blue Star Infotech Ltd.		19.26		(18.16)
Sales	7.60		3.41	
IT Services	3,93.73		3,72.40	
Rent paid for Premises	32.55		-	
Purchase of Fixed Assets	8.50		-	
Reimbursement of Expenses	-		2.91	
Blue Star Design & Engineering		7,11.63		2,70.23
Subscribed to Share Capital	-		70.00	
Rent paid for Premises	0.54		-	
Loan	3,88.50		2,70.00	
Interest	37.39		0.23	
Purchase of Services	0.05		-	
Synergy Realtors & Services Pvt. Ltd.		0.55		-
Sale of Fixed Assets	-		5,66.00	
Sale of Investments	-		97.50	

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

(Rs. in lakhs)

Name of Related Party / Transaction	2005-06		2004-05	
	Volume Rs.	Balance O/S DR/(CR)	Volume Rs.	Balance O/S DR/(CR)
Sale of Goods	0.92		-	
Consultancy Charges	0.45		-	
Corporate guarantee	32,22.42		28,78.18	
Rent paid for Premises	3,89.89		3,52.43	
Directors				
Managerial remuneration	3,33.19		2,50.72	
Housing loan		7.78		9.46

12. Earning Per Share

		2005-06	2004-05
Profit after taxation as per Profit & Loss Account	(Rs. in lakhs)	48,90.44	39,15.81
Weighted average number of Equity Shares Outstanding	(Nos.)	1,79,87,221	1,79,87,221
Basic and diluted Earnings per share (Face Value Rs.10 per share)	(Rs.)	27.19	21.77

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

(Rs. in lakhs)

	2005-06	2004-05
Salaries, Wages & Bonus	30.14	17.74
Rent	3.21	30.35
Power	12.24	2.29
Insurance	1,13.11	1,27.44
Transport & Travelling	1,79.16	1,60.55
Stationery & Printing	14.43	31.62
Other Expenses	17,43.71	28,28.55

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

(Rs. in lakhs)

	As at March 31, 2006		As at March 31, 2005	
	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		31,26.09		28,53.80
Provision of Doubtful Debts, Advances, & Inventories	2,76.33		4,48.65	
Leave Encashment Provision	1,60.16		1,42.14	
Total	4,36.49	31,26.09	5,90.79	28,53.80
Net Deferred tax liability	26,89.60		22,63.01	
Tax on Net Deferred Tax Liability	9,05.31		8,28.09	

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

(Rs. in lakhs)

	2005-06	2004-05
a) Salaries	71.51	61.80
b) Commission	2,19.10	1,49.01
c) Contribution to Provident Fund & Superannuation Scheme	19.50	16.68
d) Other Perquisites	23.08	23.23
Total	3,33.19	2,50.72

16. Computation of Directors' Commission

(Rs. in lakhs)

	2005-06	2004-05
Profit before tax as per Profit and Loss Account	69,09.47	52,44.09
Add: Directors' Remuneration	3,55.99	2,74.77
Loss on sale / diminution in Investments	-	0.55
Loss on Fixed Assets sold / Discarded	42.88	15.24
Less: Profit on sale of Fixed Assets	5.75	5,37.92
Profit on sale of Investment	-	9.28
Net Profit for the purpose of Directors' Commission	73,02.59	49,87.45
Maximum Remuneration payable up to 10% of the above to Whole-time Directors	7,30.26	4,98.75
Commission payable to the Whole-time Directors as per contract of service	2,19.10	1,49.01
Maximum commission payable up to 1% of the above Net Profits to the Non-Executive Directors	73.02	49.87
Commission payable to Non-Executive Directors	22.80	17.85

17. Statement showing investment held as stock in trade

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

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

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

A. PARTICULARS IN RESPECT OF EACH CLASS OF GOODS MANUFACTURED

(Figures in brackets refer to previous year)

Class of goods	Unit	Installed Capacity	Actual Production	Opening stock		Closing stock	
				Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)
Refrigeration & air-conditioning equipment.	Nos.	246730 (101230)	124192 (62735)	5442 (4832)	851.43 (701.33)	16015 (5442)	3104.51 (851.43)
Packaged air-conditioning	Nos.	18000 (15000)	16559 (10512)	125 (30)	75.06 (21.95)	177 (125)	226.76 (75.06)
Industrial packaged chillers	Nos.	1450 (1450)	1057 (944)	- (3)	- (11.44)	10 (-)	194.29 (-)
Shell & tube condensers & Coolers	Nos.	- (-)	- (-)	3 (6)	5.07 (7.67)	- (3)	- (5.07)
Air handling units	Nos.	15500 (15500)	10280 (7376)	11 (122)	2.97 (71.33)	210 (11)	67.38 (2.97)
Finned condensers & evaporators	Nos.	10780 (10780)	- (5293)	- (-)	- (-)	- (-)	- (-)

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

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

Class of goods	Unit	Opening stock		Purchases		Closing stock		Sales	
		Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)	Qty.	Value (Rs. in lakhs)
Air-conditioning & Refrigeration Equipment	Nos.	6641 (4817)	1022.63 (759.21)	88098 (59454)	18135.65 (12031.07)	10015 (6641)	1556.34 (1022.63)	84002 (58348)	19498.09 (12953.42)
Central Air-conditioning Plant (Sales Contract)	Worth		46.61 (17.23)		1782.29 (1106.84)		4.82 (46.61)		1888.00 (1069.35)
Electronics & Other Appliances, Equipment, Instruments Etc.	Nos.	584 (92)	109.91 (10.32)	777 (3211)	2386.41 (2538.99)	160 (584)	251.60 (109.91)	768 (2719)	2605.16 (3278.59)
Spares & Components	Worth		673.09 (371.70)		2826.84 (2867.41)		863.90 (673.09)		3265.12 (2977.81)
Others	Nos.	1 (2)	0.77 (1.56)	13 (14)	6.50 (12.08)	1 (1)	0.59 (0.77)	13 (15)	6.68 (15.48)
Total			1853.01 (1160.02)		25137.70 (18556.39)		2677.24 (1853.01)		27263.05 (20294.65)

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)

	2005-06	2004-05
C. GROSS INCOME FROM SERVICES RENDERED	1,13,97.18	1,03,74.75

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

	Units	2005-06		2004-05	
		Quantity	Rs. in lakhs	Quantity	Rs. in lakhs
Non-Ferrous Metals	Tonne	1792	39,82.80	1692.50	29,60.18
Ferrous Metals	Tonne	6021	31,33.17	5565.65	24,26.42
Compressors	Number	156227	83,06.47	103025	53,53.71
Others (items individually not exceeding 10% of total)	Worth		2,23,27.07		1,54,09.75
Total			3,77,49.51		2,61,50.06

b) Raw Materials & Components Consumed

	2005-06		2004-05	
	% of Total Consumption	Value Rs. in lakhs	% of Total Consumption	Value Rs. in lakhs
Imported (at landed cost)	29.85	1,12,68.86	22.70	59,36.70
Indigenous	70.15	2,64,80.65	77.30	2,02,13.36
Total	100.00	3,77,49.51	100.00	2,61,50.06

E. VALUE OF IMPORTS ON CIF BASIS

	(Rs. in lakhs)	
	2005-06	2004-05
(a) Raw Materials	22,29.65	20,43.20
(b) Components	70,72.99	35,63.37
(c) Capital goods	4,44.59	6,83.38
(d) Spares	2,16.55	15,99.35
(e) Finished Goods	19,15.93	1,33.74
Total	1,18,79.71	80,23.04

F. EXPENDITURE INCURRED IN FOREIGN EXCHANGE

	(Rs. in lakhs)	
	2005-06	2004-05
(a) Project Exports	2,82.81	4,58.64
(b) Royalty & Know-how	3.77	29.42
(c) Others	2,48.20	1,56.66
Total	5,34.78	6,44.72

G. EARNINGS IN FOREIGN EXCHANGE

	(Rs. in lakhs)	
	2005-06	2004-05
(a) Export of goods on F.O.B. basis	63,11.02	47,12.56
(b) Project Exports	5,04.92	14,06.33
(c) Royalty, Know-how, Professional & Consultation fees	1,00.39	1,34.63
(d) Other Income:		
Commission	12,37.11	13,17.40
Others	93.88	92.62
Total	82,47.32	76,63.54

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	6
---	---	---	---	---	---	---	---

Date Month Year

State Code

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

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

Public Issue

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

Bonus Issue

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

Rights Issue

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

Private Placement

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

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

Total Liabilities

	2	4	8	5	8	1	9
--	---	---	---	---	---	---	---

Sources of Funds

Paid-up Capital

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

Secured Loans

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

Applications of Funds

Net Fixed Assets (incl Capital WIP)

	1	0	7	8	6	3	3
--	---	---	---	---	---	---	---

Net Current Assets

	1	4	1	3	3	2	7
--	---	---	---	---	---	---	---

Accumulated Losses

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

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

	2	4	8	5	8	1	9
--	---	---	---	---	---	---	---

Reserves & Surplus

	1	5	4	7	2	3	3
--	---	---	---	---	---	---	---

Unsecured Loans

		3	5	2	9	6	6
--	--	---	---	---	---	---	---

Investments

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

Misc. Expenditure

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

IV. Performance of Company (Amount in Rs Thousands)

Turnover

1	1	7	8	6	2	3	0
---	---	---	---	---	---	---	---

Profit/Loss Before Tax

	(+)	6	9	0	9	4	7
--	-----	---	---	---	---	---	---

Earning Per Share (in Rs.)

			2	7	.	1	9
--	--	--	---	---	---	---	---

Total Expenditure

1	1	0	9	5	2	8	3
---	---	---	---	---	---	---	---

Profit/Loss After Tax

	(+)	4	8	9	0	4	4
--	-----	---	---	---	---	---	---

Dividend rate %

					1	2	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, 2006
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2006	2005
[A] CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit Before Tax	69,09.47	52,44.09
Depreciation	15,92.56	12,34.79
Foreign Exchange	38.57	11.44
Investments / Others	3,53.59	(5,28.66)
Interest / Dividend	(4,00.72)	(4,66.66)
Interest charged	5,71.98	3,21.05
	<u>21,55.99</u>	<u>5,71.96</u>
Operating profit before working capital changes	90,65.45	58,16.05
Adjustment for:		
Trade and other receivables	(72,38.71)	(81,81.21)
Inventories	(47,17.57)	(25,91.44)
Trade payables	64,80.79	75,97.14
	<u>(54,75.49)</u>	<u>(31,75.51)</u>
Cash generated from operations	35,89.96	26,40.54
Direct taxes paid	(11,85.00)	(7,85.00)
Interest paid	(5,69.32)	(3,21.05)
	<u>(17,54.33)</u>	<u>(11,06.05)</u>
	18,35.64	15,34.49
NET CASH FROM OPERATING ACTIVITIES	18,35.64	15,34.49
[B] CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(40,74.46)	(32,03.68)
Sale of Fixed Assets	47.58	6,00.08
Purchase of Investments	-	(70.00)
Sale of Investments	-	1,08.76
Interest received	50.81	81.89
Dividend received	3,12.52	3,84.77
NET CASH USED IN INVESTING ACTIVITIES	(36,63.55)	(20,98.18)
Balance carried forward	(18,27.91)	(5,63.69)

Cash Flow Statement For The Year Ended March 31, 2006
In Accordance with The Requirement of The Listing Agreement with The Stock Exchanges

(Rs. in lakhs)

	Year ended March 31	
	2006	2005
Balance brought forward	(18,27.91)	(5,63.69)
[C] CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Long Term Borrowings	38,59.30	23,93.15
Dividend Paid	(20,42.40)	(18,24.41)
NET CASH FROM FINANCING ACTIVITIES	1,816.90	5,68.74
NET INCREASE IN CASH & CASH EQUIVALENTS	(11.01)	5.05
CASH & CASH EQUIVALENTS - OPENING BALANCE	2,47.81	2,42.76
CASH & CASH EQUIVALENTS - CLOSING BALANCE	2,36.80	2,47.81

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

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

Pradeep Mallick *Director*

Gurdeep Singh *Director*

Shailesh Haribhakti *Director*

Suresh N Talwar *Director*

H Rajaram *Executive Vice President*

K P T Kutty *Company Secretary*

Mumbai: May 12, 2006

Mumbai: May 12, 2006

Investor and Shareholder Information

SHAREHOLDER INQUIRIES

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

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

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

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

DEMATERIALISATION

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

INVESTOR RELATIONS PROGRAMME

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

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

BLUE STAR SHAREHOLDERS

As of March 31, 2006, the Company has 15609 registered shareholders. Approximately 38 per cent of the Company's shares are held by individual investors. The Promoters hold approximately 40 per cent of the shares while Foreign Investors, Institutions and Body Corporate hold the balance shares.

STOCK EXCHANGE LISTINGS

The Stock Exchange, Mumbai
National Stock Exchange