

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 Kutty

BANKERS

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

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

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

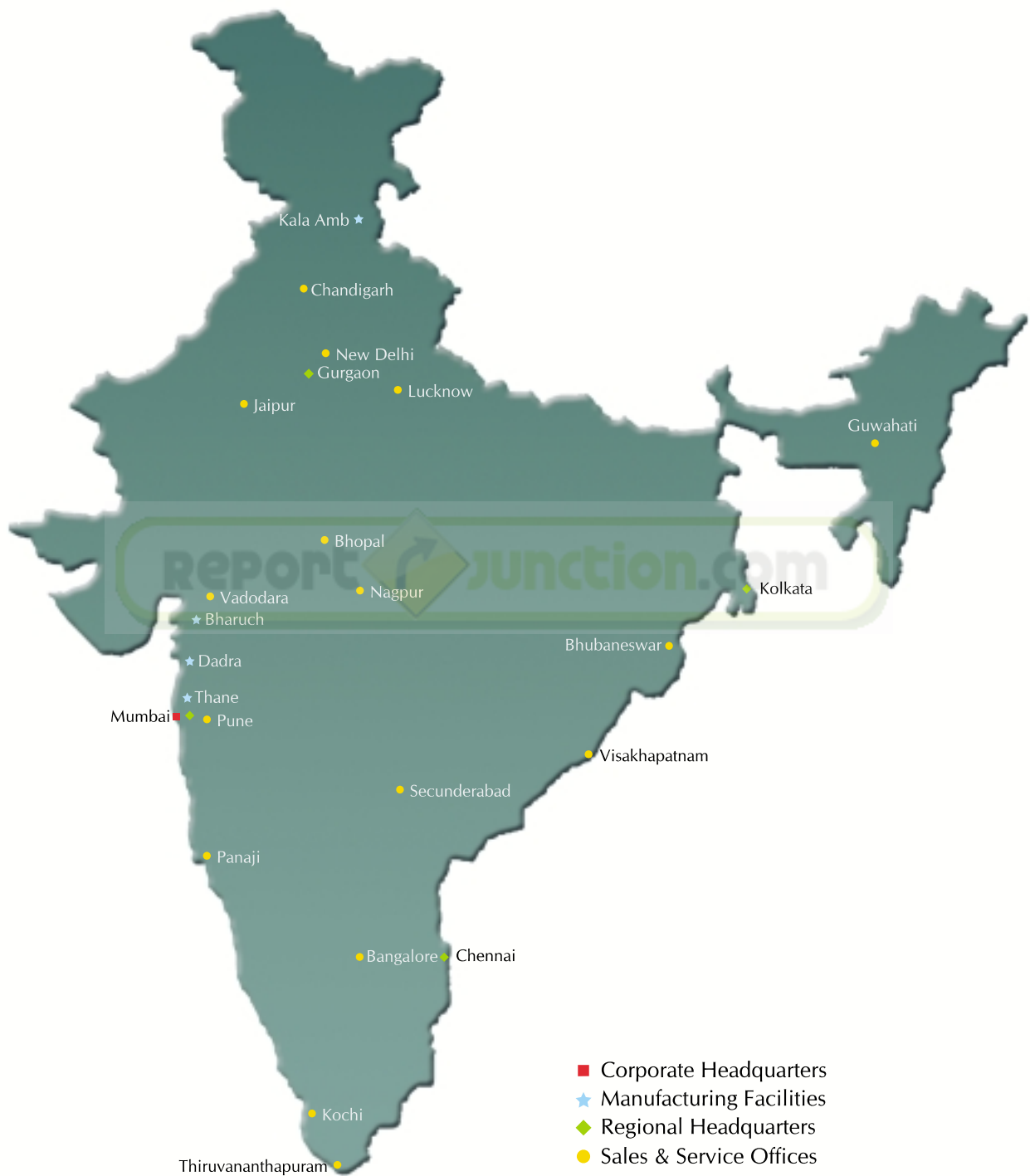
REGISTRARS & SHARE TRANSFER AGENTS

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

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

Mumbai : May 19, 2006

ASHOK M ADVANI
Chairman & Managing Director

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



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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.