

BOARD OF DIRECTORS

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

Satish Jamdar
Executive Director

Pradeep Mallick

Nawshir Mirza (Since resigned)

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

Satish Jamdar
Executive Director

Avinash Pandit
Executive Vice President

H Rajaram
Executive Vice President

Arun Khorana
Vice President - Electronics Division

Ranajit Majumdar
Vice President - Human Resources & Quality

S Sankaran
Vice President - Business Development

N Sivasankaran
Vice President - Corporate Communications & Marketing

B Thiagarajan
Vice President - Airconditioning & Refrigeration Service Division

COMPANY SECRETARY

K P T Kutty

BANKERS

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

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

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

REGISTRARS & SHARE TRANSFER AGENTS

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

REGISTERED OFFICE

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Jamshedji Tata Road
Mumbai 400 020.
Telephone: 91-22-5665 4000
Fax: 91-22-5665 4151
www.bluestarindia.com

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Letter from the Chairman



DEAR SHAREHOLDER,

2004-05 was a year of exceptional growth for Blue Star. Revenues spurted by 30%, the highest increase recorded in the last two decades. This brought us within easy reach of the magic Rs. 1000 crore mark. I see this as Blue Star's most notable achievement last year.

Favourable economic signs, both global and domestic, were undoubtedly helpful. But it would be simplistic to attribute the achievement solely to the benign business environment. In fact, competition in our core airconditioning and refrigeration businesses remained intense with new entrants entering the fray. Selling prices continued to erode and inflationary input cost increases further squeezed the average gross margin by more than 2%.

When seen in the light of the competitive market scene, the 20% growth in Net Profit was a good achievement. The accompanying Annexure summarises the key financial parameters.

Healthy growth took place in all three business segments in which we operate:

Central airconditioning, the largest business segment, grew by an impressive 36%. This is clearly Blue Star's area of strength where we remain market leaders. The value proposition we offer is to provide customers with end-to-end turnkey solutions covering customised design, professional system engineering, use of contemporary equipment, much of it manufactured in our own factories, timely installation and commissioning, and efficient after sales service. Customers are comfortable with this single-point accountability and our promise of "cooling solutions to help your business do better."

Cooling Products had undergone a major reorganisation at the end of 2003-04. At that time, I had explained that with a new marketing strategy and young team in place, I expected to see positive results in 2004-05. My confidence was borne out by 25% revenue growth and a swing of Rs. 6.87 crores in the segment profit. Supporting the marketing team were substantial investments in new product development, an efficient and expanded manufacturing capability, and much stronger distribution channels.

Globalisation efforts showed impressive progress with export earnings climbing by 62%, while greater global sourcing led to the value of imports increasing by 54%. Our growing two-way international trade is proving to be a valuable learning experience for the organisation. In export markets, we are able to benchmark against the best global competitors. And on the imports side, we are steadily developing new and better sources for raw materials required for our manufacturing and contracting activities.

The Professional Electronics and Industrial Equipment segment also showed healthy revenue growth of 18%. Our strong technical and engineering capability combined with the latest technology from a variety of leading international firms continued to provide superior solutions for customers' specialised needs.

One of the major requirements of our aggressive growth strategy was the need for substantial investments last year. Capital expenditure almost doubled to Rs. 31.62 crores, largely to modernise and expand manufacturing facilities and to upgrade information technology systems. With business growth continuing at a rapid rate, capital expenditure is slated to increase in the current year as well.

While the financial results on the profit & loss front were noteworthy, they were not matched by equally good balance sheet performance. Receivables grew disproportionately. This, in turn, led to higher borrowings. Of course, with a low debt/equity ratio, the untapped borrowing capacity could be utilised safely, still leaving the balance sheet relatively strong. Nevertheless, there is a clear need for tighter control of receivables in the current year.

On the whole, the Company showed very good business performance last year. Over a period of time, operating in a dynamic market, we have honed the organization into a more capable and competitive machine. For instance, achieving a substantially higher rate of growth with a modest 4% increase in headcount is a clear indication that manpower productivity is much better. And, of course, we continue to generate healthy profits on a consistent basis.

There are a number of companies that grow and earn good profits. What makes Blue Star special? If there is one factor that distinguishes us from most others, it is our people and our work culture. They have demonstrated time and again, the tireless Blue Star team spirit to do what it takes to keep our customers happy. It is this special quality in our people that gives us the leadership edge.

Looking at Blue Star's results last year, I can say with confidence that we are well positioned to exploit new global opportunities which were not in the realm of possibility a few years ago. A bright future beckons us.

ASHOK M ADVANI

Chairman & Chief Executive

Mumbai : May 30, 2005.

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

| | 2004-05 | 2003-04 |
|---------------------------|---------|---------|
| Total Income | 930.92 | 716.06 |
| Growth over Previous Year | +30% | + 19% |
| Operating Profit (PBDITA) | 69.72 | 61.57 |
| Profit Before Tax | 52.44 | 46.59 |
| Growth over Previous Year | +13% | + 16% |
| Profit After Tax | 39.16 | 32.55 |
| Growth over Previous Year | +20% | +5% |
| Shareholders' Funds | 148.42 | 129.81 |
| Borrowings | 37.28 | 13.35 |
| Capital Employed | 185.70 | 143.16 |
| Operating Cash Flow | 15.34 | 20.61 |

KEY RATIOS

| | 2004-05 | 2003-04 |
|---|---------|---------|
| Gross Margin | 21.8% | 24.1% |
| Operating Margin | 7.5% | 8.5% |
| Return on Capital Employed | 30.0% | 33.8% |
| Return on Shareholders' Funds | 26.4% | 25.1% |
| Earnings Per Share (Rs) | 21.77 | 18.10 |
| Dividend Per Share (Rs) | 10.00 | 9.00 |
| Capital Turnover | 5.01 | 5.00 |
| Debt/Equity | 0.25 | 0.10 |
| Inventory Turnover | 6.98 | 6.87 |
| Receivables (Days Billings Outstanding) | 78 | 71 |

Board of Directors



Ashok M Advani

Chairman & Chief Executive

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

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

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



Suneel M Advani

President & Vice Chairman

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

He joined Blue Star in 1969 as a Management Trainee and moved up steadily by holding responsible positions before he was elevated to the position of President and Vice Chairman in 1984. Suneel is also the Chairman of Blue Star Infotech Limited, Blue Star Design & Engineering Limited, Blue Star Infotech (UK) Limited 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.



Satish Jamdar

Executive Director

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

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



Pradeep Mallick

Director

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



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. Currently, he is the Senior Vice President - Corporate Affairs in Hindustan Lever. He joined the Board of Blue Star in 2003. He is also the Co-Chairman of Nepal Lever.



Suresh N Talwar

Director

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

He joined the Board of Blue Star in 1986. In addition to Blue Star, he is also on the board of several leading companies such as Merk, Cadbury India, Sandvik Asea, Esab India, Johnson & Johnson, Uhde India and Wyeth amongst others.

Corporate Management

EXECUTIVE COMMITTEE



Ashok M Advani
Chairman & Chief Executive



Suneel M Advani
President & Vice Chairman



T G S Babu
Executive Director



Satish Jamdar
Executive Director



Avinash Pandit
Executive Vice President



H Rajaram
Executive Vice President

VICE PRESIDENTS



Arun Khorana
Vice President - Electronics Division



Ranajit Majumdar
Vice President - Human Resources & Quality



S Sankaran
*Vice President
Business Development*



N Sivasankaran
*Vice President
Corporate Communications & Marketing*



B Thiagarajan
*Vice President
Airconditioning & Refrigeration Service Division*

Directors' Report

The Directors are pleased to present their 57th Annual Report and the Audited Accounts for the year ended March 31, 2005.

HIGHLIGHTS OF 2004-05

- Total income grew by a record 30% over the previous year to reach Rs. 930.92 crores.
- Profit Before Tax rose to Rs. 52.44 crores, an increase of 13% while Profit After Tax grew from Rs. 32.55 crores to Rs. 39.16 crores.
- Earnings per share climbed to Rs. 21.77 compared to Rs. 18.10 in the previous year.
- The Directors have recommended a dividend of Rs. 10.00 per share.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

| | April 2004 - March 2005 | April 2003 - March 2004 |
|---|----------------------------|----------------------------|
| Total Income | 930.92 | 716.06 |
| Profit before interest, depreciation and taxation | 68.00 | 58.40 |
| Interest | 3.21 | 1.82 |
| Depreciation | 12.35 | 9.99 |
| Profit before tax | 52.44 | 46.59 |
| Provision for taxation | 13.71 | 11.88 |
| Add/(Less): Deferred Tax | 0.43 | (2.15) |
| Profit after tax | 39.16 | 32.55 |
| Add : Balance brought forward | 19.13 | 16.84 |
| Total available for appropriation | 58.29 | 49.39 |
| Less : General Reserve | 18.00 | 12.00 |
| - Proposed Dividend | 17.99 | 16.19 |
| - Corporate Dividend Tax | 2.56 | 2.07 |
| Balance carried forward | 19.74 | 19.13 |

DIVIDEND

The Directors have proposed a dividend of Rs. 10.00 per equity share. The dividend will absorb Rs. 20.55 crores including Corporate Dividend Tax.

OPERATING PERFORMANCE

With the economy continuing to maintain a healthy growth rate, the new order inflow during the year was good. All the business segments showed significant increases in revenue, with Central Airconditioning Systems in particular, climbing a substantial 36%. Operating margins continued to be under pressure, partly due to severe competition and partly due to inflationary cost increases. Ongoing efforts to control material costs, focus on growth to attain greater economies of scale and control of operating expenses helped to mitigate the effects on profit.

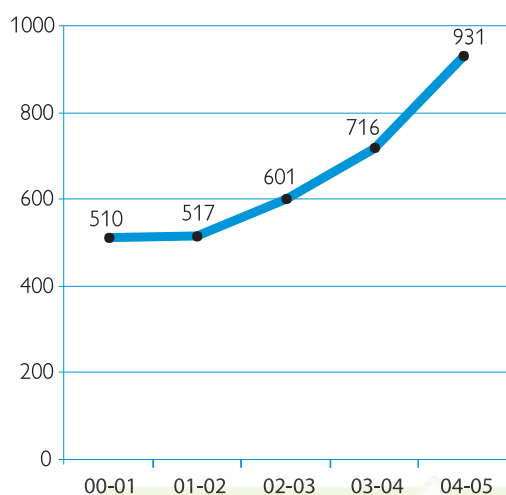
EXPORT & FOREIGN EXCHANGE EARNINGS

Export Income showed another year of strong growth. Export of products and projects increased by 62% to a level of Rs. 61.19 crores. A number of new export opportunities were identified and pursued especially in the growing Middle-East market.

Total Foreign exchange earnings increased by 50% and reached Rs. 76.64 crores while overall outflow amounted to Rs. 94.68 crores.

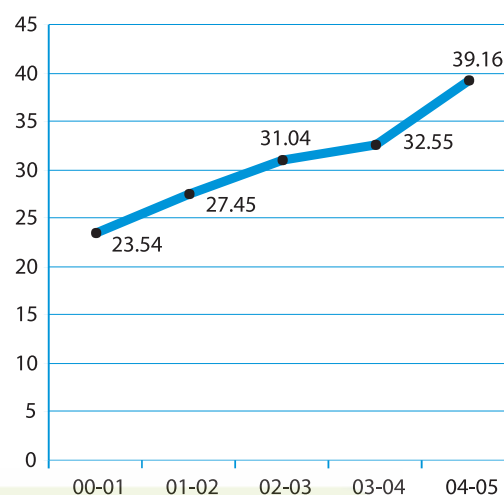
TOTAL INCOME

(Rs. in crores)



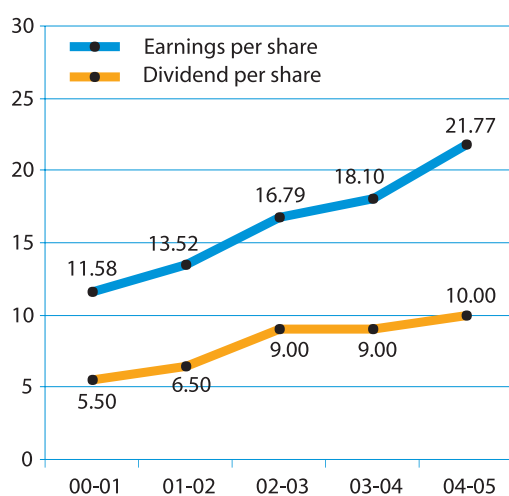
PROFIT AFTER TAX

(Rs. in crores)



EARNINGS PER SHARE & DIVIDEND PER SHARE

(Rs.)



CAPITAL TURNOVER

