

BOARD OF DIRECTORS

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T Gouri Sankara Babu
Deputy Managing Director

Satish Jamdar
Deputy Managing Director

Shailesh Haribhakti

Pradeep Mallick

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani
Chairman & Managing Director

Suneel M Advani
Vice Chairman & Managing Director

T Gouri Sankara Babu
Deputy Managing Director

Satish Jamdar
Deputy Managing Director

Manek Kalyaniwala
Executive Vice President

Arun Khorana
Executive Vice President

Avinash Pandit
Executive Vice President

B Thiagarajan
Executive Vice President

Vir S Advani
Vice President - Corporate Affairs

R Aravindan
Vice President - Packaged Airconditioning Division

J M Bhambure
Vice President - R&D

R G Devnani
Vice President - Dadra & Bharuch Plant

Michael Fernandes
Vice President - Human Resources & Quality

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

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

K P Sukumar
Vice President - Airconditioning & Refrigeration Service Division

COMPANY SECRETARY

K P T Kutty

BANKERS

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

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata
Sharp & Tannan, Chennai
Mohinder Puri & Company, New Delhi

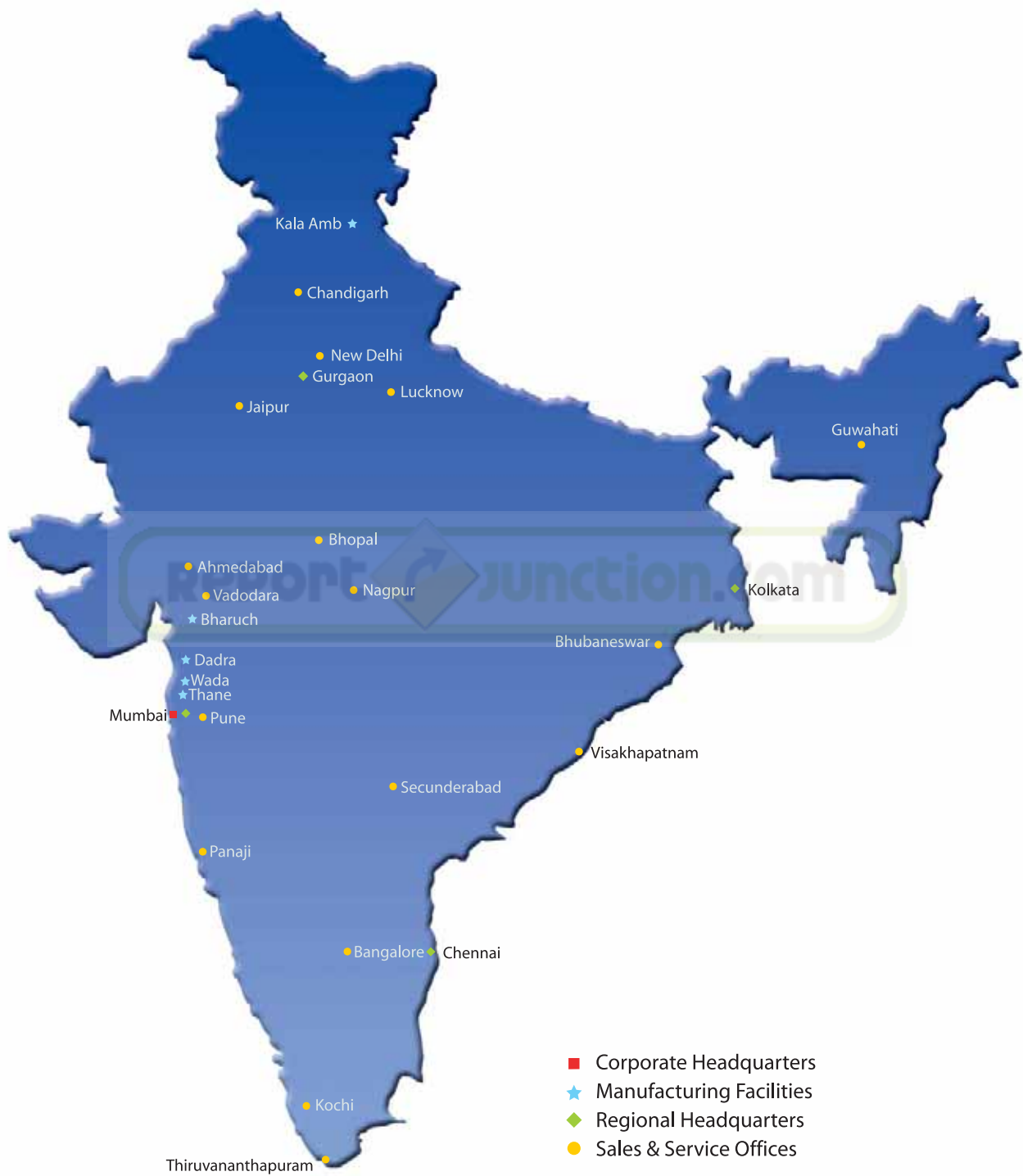
REGISTRARS & SHARE TRANSFER AGENTS

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

REGISTERED OFFICE

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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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Letter from the Chairman



Ashok M Advani, *Chairman & Managing Director*

DEAR SHAREHOLDER,

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

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

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

BUSINESS SEGMENTS

Once again, all the business segments performed well.

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

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

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

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

FINANCIAL MANAGEMENT

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

higher working capital leading to a disproportionate increase in borrowings.

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

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

PROFITABLE GROWTH

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

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

ASHOK M ADVANI

Mumbai : May 26, 2008 Chairman & Managing Director

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

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

Key Ratios

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



Board of Directors | T Gouri Sankara Babu

| Gurdeep Singh

| Shailesh Haribhakti

| Ashok M Advani



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| Pradeep Mallick

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