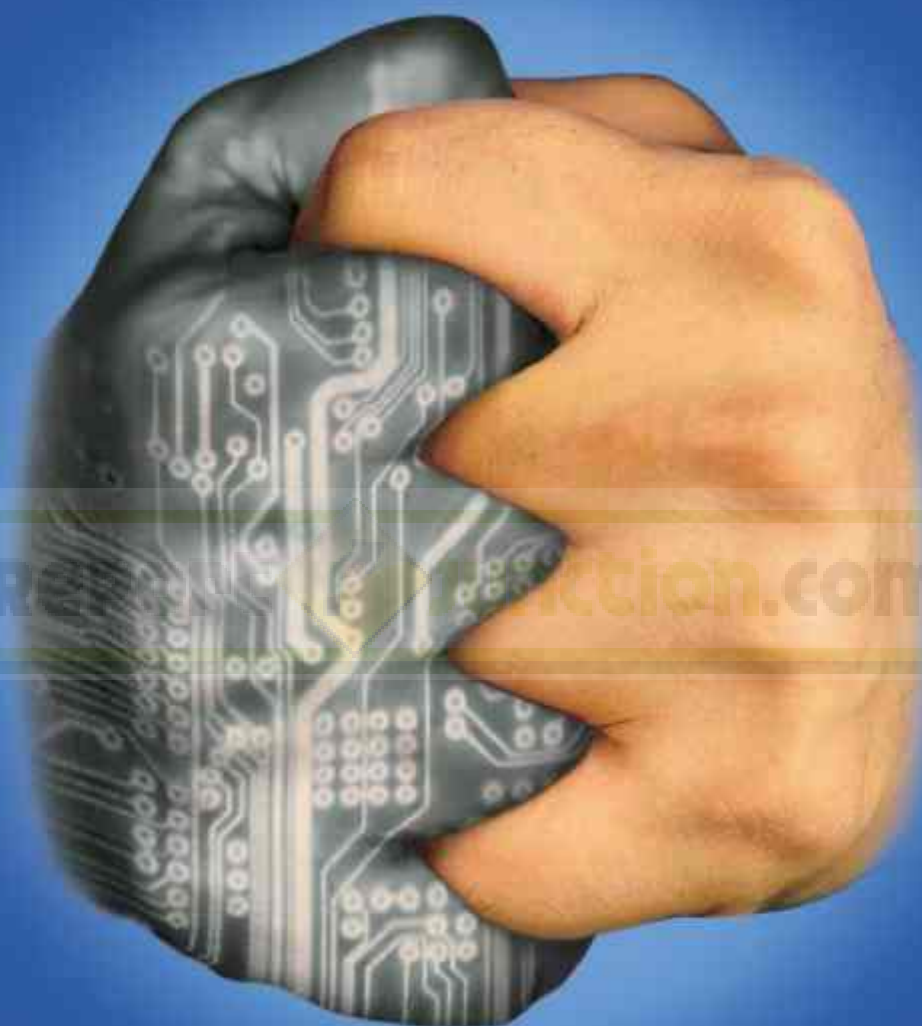


BLUE STAR INFOTECH LIMITED
ANNUAL REPORT 2000-2001





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Board of Directors

Suneel M Advani
Chairman

Ashok M Advani
Vice Chairman

Parmod K Bhalla
Managing Director

Prakash G Hebalkar
Director

Suresh N Talwar
Director

Sanjay N Vaswani
Director

Corporate Management

Parmod K Bhalla
Managing Director

Bharat P Shah
Vice President

Hubert N Coelho
General Manager

Sudhir K Gera
General Manager - Marketing

Harish Govind
General Manager - HR

Bankers

ABN- AMRO Bank

Central Bank of India

The Hongkong & Shanghai Banking
Corporation Ltd

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Letter from the Chairman

Dear Shareholder,

I write this letter to you with a sense of satisfaction.

Last year, in the first annual report published by your Company, I had written to you that BSIL was taking several initiatives to improve profitability and revenue. I am pleased to report that these steps have paid dividends.

Despite the IT slowdown in many parts of the world, especially the US which accounts for 57% of BSIL's revenues, your Company has performed well. For the 9-month period ended March

31, 2001, Net Profit is up by 40% and Total Income by 27%, compared to the same period in the previous year. Export Revenue, which is a good indicator of the Company's performance, has gone up by 46%. The Net Profit Margin improved from 15.8% to 17.4%.



The audited figures given in this annual report are for the 9-month period ended March 31, 2001. The last annual report had figures for the 15-month period ended June 30, 2000. To facilitate a more meaningful comparison, we have provided unaudited figures for the 9-month period ended March 31, 2000 in the Summary of Financial Performance included in this report.

You will be happy to see that your Company continues to generate a healthy surplus and remains debt free.

Last year at the AGM several shareholders expressed their disappointment at being denied a dividend. I am happy to report that the continuing good performance of your Company has encouraged your Directors to recommend a maiden dividend of 30% for your approval.



Market Scenario

The global IT services market is going through a period of uncertainty in the wake of the dotcom bubble burst and the subsequent NASDAQ crash. For the Indian IT industry this slowdown primarily has impacted the market in the onsite placement segment, as more local software technical resources have become available around the world, with laid-off engineers offering their services as independent contractors. But in this new market scenario, end-users have slashed their IT budgets and are looking for low cost, but high quality alternatives for their product development and in-house IT needs. As a consequence, outsourcing of IT services to India is rapidly gaining acceptance from the Fortune 2000 segment, and offshore software development is becoming a necessary extension of such end-users' IT departments. Fortunately, your Company's core strengths have always been offshore software projects executed in India. In fact, this offshore project-related business constitutes as much as 85% of the man-months of work billed by the Company. For this reason I am hopeful that BSIL may not feel the full brunt of the slowdown.

Demand in the UK and Continental Europe IT services markets is still reasonably good. Fortunately, as conveyed to you in last year's annual report, BSIL had strengthened its marketing subsidiary in the UK, namely, Blue Star Infotech UK, to address the European market more effectively. It also set up a new branch office in Helsinki, Finland to meet the growing demands of the Scandinavian telecommunications industry. As a result, the share of revenue from UK, Continental Europe and Scandinavia has gone up to 18% compared to 11% last year. The Management team remains optimistic about further increasing revenue contribution from this region in the coming year.

The Company shifted gears mid-year, and moved its attention to the "old economy" companies which have ongoing and stable IT requirements that support their business activities. This move began paying dividends. Promising large, long-term customer accounts were opened in the early part of this calendar year, giving us grounds for optimism in the new financial year.





Joint Venture in Malaysia

Your Company has recently signed up with Arab Malaysian Corporation Sdn Bhd (AMCORP), a leading Banking & Financial Services player in Malaysia, to form a new Joint Venture named Blue Star Infotech (Malaysia) Sdn Bhd. This Joint Venture will address the IT services market in Malaysia and the Asia-Pacific region. BSIL owns 51%, and AMCORP 49% of the Joint Venture. As you may be aware, Blue Star Limited, BSIL's parent, already has a successful joint venture in Malaysia for large central airconditioning projects with the Arab Malaysian Group for over seven years now.

This Joint Venture will provide BSIL with a deep understanding of banking and financial services which has always been the largest user of IT amongst all sectors around the world.

As a part of our global expansion strategy, we have identified the growth of business in the Asia-Pacific region as one of BSIL's focus areas. Given our long-standing business ties with the country as well as its growing demand for IT services, BSIL has identified Malaysia as its base for this region. A significant part of the Malaysian IT services business comprises services to the Banking, Financial Services, Telecom and Government sectors. AMCORP, with its direct access and reach in these sectors will help Blue Star Infotech in successfully penetrating this market.

Considering all the above factors, and the inherent core competencies your Company has in managing high quality offshore software projects in India and in building long-term partnerships with its clients, I am confident that the future of your Company looks bright. We shall use the current period of slowdown to consolidate our operations and optimise returns from the investments made during the last several years of hectic growth and expansion. Maintaining sales margins, controlling costs and improving productivity will receive more attention this year. Fortunately, on account of strong leadership our people are motivated and committed to growth. I look forward to your continued support as well.

Yours sincerely,

Suneel M Advani

June 25, 2001.





Corporate Profile

Blue Star Infotech Limited (BSIL) is in the business of providing software services to customers across the globe, spanning USA, UK, Continental Europe, Scandinavia, Canada, Japan, Malaysia and India. It has several Fortune 500 and hi-technology clients, and has been providing services ranging from customized software development to application implementation, maintenance and support for nearly two decades.

The Company is listed on The Stock Exchange, Mumbai, and is part of the Blue Star group, a Rs 7,500 million (US\$ 160 million) conglomerate that has interests in airconditioning and refrigeration and distribution of hi-technology professional electronics equipment. Blue Star has long-standing business relationships and technology tie-ups with world-renowned companies including Hewlett-Packard, USA; Yokogawa, Japan; Juniper Networks, USA; Vestfrost, Denmark; York International, USA and Hitachi Medical Corporation, Japan to name a few.

The software services business of Blue Star Limited commenced its operations in 1983 as a division to support Hewlett-Packard's computer business for which it was the exclusive distributor for India. Based on its initial success, it attracted many Fortune 500 and hi-technology clients. Throughout the nineties, the division leveraged Blue Star's relationships with its collaborators, business associates and joint venture partners to enter into long-term software development partnerships. Toward the end of the nineties, with the growing success of the Indian software industry, it started becoming increasingly



Global Corporate Office at Mumbai



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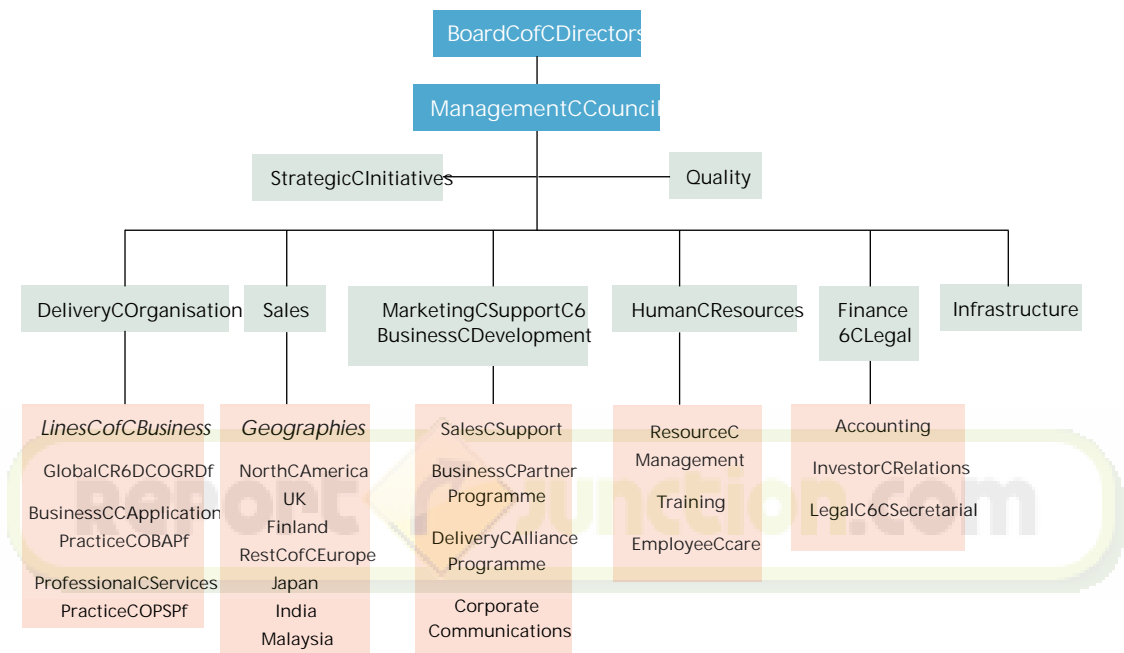


Global Corporate Office at Mumbai



challenging to retain talented consultants in a software activity within a large conglomerate. Hence Management decided to spin off this business into a separate company. Blue Star Limited's International Software Division was thus spun off in April 2000, and rechristened Blue Star Infotech Limited.

Organisation Structure



The Management Council (MC) is responsible for managing and ensuring effective coordination between the Sales & Delivery Organisations, as well as the support functions, namely, Human Resources, Infrastructure, Quality, Finance and Sales Support/Marketing. The MC has representation from each of the key functions in the organisation including Sales, Human Resources and Finance, and is headed by the Managing Director.

The MC directly oversees two key groups within the organisation - Quality and the Strategic Initiatives Group (SIG). While project-level quality processes are left to the Lines of Business, the MC oversees the SEI-CMM certification programme and directly monitors the Continuous Improvement Process. The SIG undertakes initiatives that are strategically important for the long-term success of the Company. These include significant corporate partnerships, entry into new industry segments, penetration into new geographies and breaking into large outsourcing accounts, amongst others.

