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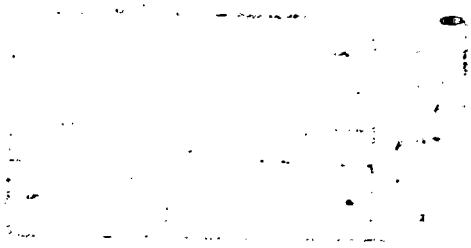


Annual Report 93-94

BLUE STAR

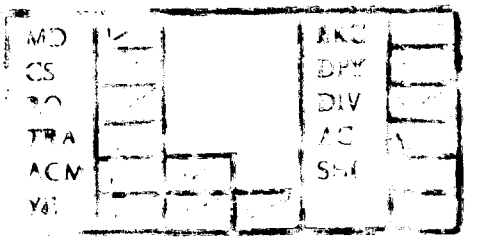
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Board of Directors

Ashok M Advani *Chairman & Chief Executive*	**Suneel M Advani** *President & Vice Chairman*	**G S Anand** *Executive Director*	**Bal K Malhotra** *Executive Director*	
Atul Choksey	**Uday Kotak**	**G Ramchandani**	**Minoo R Shroff**	**Suresh N Talwar**

Corporate Management

Ashok M Advani *Chairman & Chief Executive*	**Suneel M Advani** *President & Vice Chairman*	**G S Anand** *Executive Director*	**Bal K Malhotra** *Executive Director*
M D Mansukhani *Executive Vice President*	**T G S Babu** *Vice President - Packaged Airconditioning Division*	**R N Bhave** *Vice President - Finance*	**S B Dixit** *Vice President - Thane & Bharuch Plants*
H N Ganatra *Vice President - International*	**V V Inamdar** *Vice President - Industrial Division*	**Satish Jamdar** *Vice President - Dadra Plant*	**A Mote** *Vice President - AC&R Projects, Western Region*
C N Ramalingam *Vice President - Customer Service, AC&R*	**A S Prakash Rao** *Vice President - Eastern Region*	**Assar S Sambtani** *Vice President - International Software Division*	**S Sankaran** *Vice President - AC&R Projects, Southern Region*
N Sivasankaran *Vice President - AC&R Projects, Northern Region*			

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Company Secretary

K P T Kutty

Bankers

The HongKong & Shanghai Banking Corporation Ltd.
ANZ Grindlays Bank
State Bank of India
Oriental Bank of Commerce
ABN-AMRO Bank
Banque Nationale De Paris
Bank of Baroda
Abu Dhabi Commercial Bank

Auditors

K S Aiyar & Company, Mumbai

Branch Auditors

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

Registrars & Share Transfer Agents

Consolidated Share Services Private Limited
Shantinagar, Cross Road A
Near MIDC Bus Depot
Andheri (East)
Mumbai 400 093

Registered Office

Kasturi Buildings
Mohan T Advani Chowk
Jamshedji Tata Road
Mumbai 400 020
Telephone: 2020868
Telex: 011-82156
Fax: 91-22-2025813

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BLUE STAR

BLUE STAR LIMITED

Registered Office:
Kasturi Buildings
Mohan T Advani Chowk
Jamshedji Tata Road
Mumbai 400 020

June 3, 1997

ANNEXURE TO NOTICE

Explanatory Statement as required by Section 173 of the Companies Act, 1956.

As required by Section 173 of the Companies Act, 1956, the following Explanatory Statements set out all material facts relating to Special Business mentioned in the accompanying Notice dated June 3, 1997.

Item No. 6

The Board of Directors of the Company at its Meeting held on November 26, 1996 appointed Mr. Atul C. Choksey as an additional Director of the Company pursuant to Article 83 of the Articles of Association of the Company. Pursuant to Section 260 of the Companies Act, 1956 he holds office upto the date of the Annual General Meeting of the Company.

The Company has received notice under Section 257 of the Companies Act, 1956 from a member proposing the appointment of Mr. Choksey as a Director of the Company. Mr. Choksey has filed his consent, pursuant to Section 264(1) of the Companies Act, 1956, to act as a Director of the Company.

Mr. Atul C. Choksey is a Chemical Engineer from Illinois Institute of Technology, Chicago, USA and has done various management courses in Finance, Personnel, Economics, etc. abroad. He joined Asian Paints (India) Ltd., in 1973 and is the Managing Director of the Company since 1981. He is with many trade associations.

Considering the extensive knowledge, business skill and managerial experience of Mr. Choksey, the Board considers it to be in the best interest of the Company to appoint him as a Director of the Company. The Board, therefore, recommends the proposed resolution for your approval.

No Director, except Mr. Atul C. Choksey, is concerned or interested in passing the above resolution.

By Order of the Board of Directors

K.P.T. Kutty
Company Secretary

FOR THE ATTENTION OF SHAREHOLDERS

1. Shareholders are requested to forward their queries on the Accounts for the financial year ended March 31, 1997 to the Registered Office of the Company at least 10 days in advance to enable us to keep the information ready at the Meeting.

2. The Annual Reports and Attendance Slips will not be distributed at the Annual General Meeting. Shareholders attending the Meeting are requested to bring the same along with them.

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BLUE STAR

BLUE STAR LIMITED

Registered Office:
Kasturi Buildings
Mohan T Advani Chowk
Jamshedji Tata Road
Mumbai 400 020

June 3, 1997

NOTICE

NOTICE is hereby given that the 49th Annual General Meeting of the members of the Company will be held at Jai Hind College Hall, 23-24, Backbay Reclamation, 'A' Road, Churchgate, Mumbai 400 020, on Tuesday, August 26, 1997 at 3.00 p.m. to transact the following business:

A. Ordinary Business

1. To receive and adopt the Directors' Report, the audited Balance Sheet as at and Profit & Loss Account for the financial year ended March 31, 1997 and the Auditor's Report thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. B.K. Malhotra who retires by rotation, and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. G.S. Anand who retires by rotation and has expressed his desire not to seek reappointment. The Board does not propose any Director to fill the vacancy for the time being.
5. To appoint Auditors and to fix their remuneration.

B. Special Business

6. To consider and, if thought fit, to pass with or without modification, as an ordinary Resolution, the following:

   "RESOLVED that Mr. Atul Champaklal Choksey be and is hereby appointed a Director of the Company".

NOTES:

1. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Special Business under Item 6 above is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL ONLY AND THE PROXY NEED NOT BE A MEMBER. THE PROXY FORM SHOULD BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE MEETING.
3. The Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, July 16, 1997 to Wednesday, July 30, 1997 (both days inclusive).
4. The dividend declared at the Annual General Meeting will be paid on or after Wednesday, September 3, 1997, only to those Members whose names appear on the Company's Register of Members on July 30 ,1997.
5. Members are requested to file Mandates and notify any change in their address.
6. It is notified for the information of the members concerned that the unclaimed dividends for the financial years upto 1992-93 have been transferred by the Company to the General Revenue Account of the Central Government and the same can be claimed by such members from the Registrar of Companies, Maharashtra, Mumbai.

By Order of the Board of Directors

K.P.T. Kutty

Company Secretary

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Directors' Report

The Directors are pleased to present their 49th Annual Report and the Audited Accounts for the year ended March 31, 1997.

Highlights of 1996-97

- In spite of the general slowdown in the economy and depressed market conditions, total income during the year was Rs. 440.85 crores compared to Rs. 408.91 crores during the previous year. Income from operations recorded a reasonable growth of 12%.
- Profit before non-recurring items and tax increased by 22% from Rs. 23.21 crores to Rs. 28.30 crores.
- New order inflow during the year was Rs. 425.92 crores with an unexecuted order position of Rs. 347.77 crores at year-end.
- Investments to the tune of over Rs. 37 crores in fixed assets and in associate companies were handled without strain. At year-end, the financial position remained sound.
- Equity dividend is being proposed at 35%, the same as last year.

Additional information and other developments of the year are covered below:

Profits, Dividends & Retention

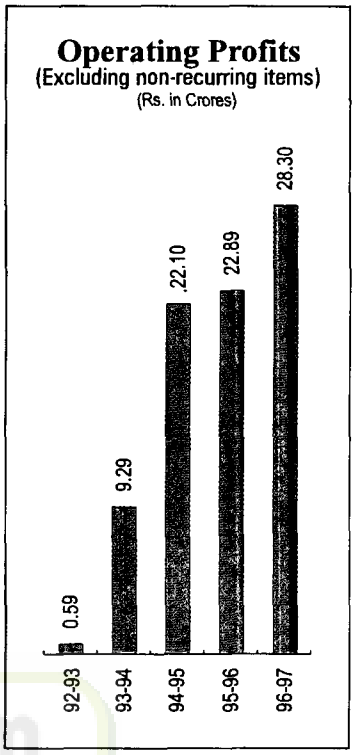
	April '96 March '97 (Rs. Lakhs)	April '95 March '96 (Rs. Lakhs)
Profit before Non-recurring Items	2829.66	2320.94
Add : Capital Receipts	44.83	1226.80
Less : Arrears of wages and benefits for previous years pursuant to an Industrial Tribunal Award	553.33	—
Profit Before Tax	2321.16	3547.74
Less : Provision for Tax	843.00	1030.00
Profit After Tax	1478.16	2517.74
Add : Balance brought forward	919.11	485.88
Transfer from:		
Investment Allowance Reserve	17.73	18.00
Debenture Redemption Reserve	250.00	50.00
Foreign Projects Reserve	0.20	14.00
Total available for appropriation	2665.20	3085.62
Less : Foreign Projects Reserve	38.50	55.00
General Reserve	600.00	1300.00
Dividend	948.40	811.51
Corporate Dividend Tax	94.84	—
Balance carried forward	983.46	919.11

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Dividends

The Directors propose maintaining the equity dividend at Rs. 3.50 per share (net of corporate dividend tax). The dividend will absorb Rs. 948.40 lakhs.



Operating Results

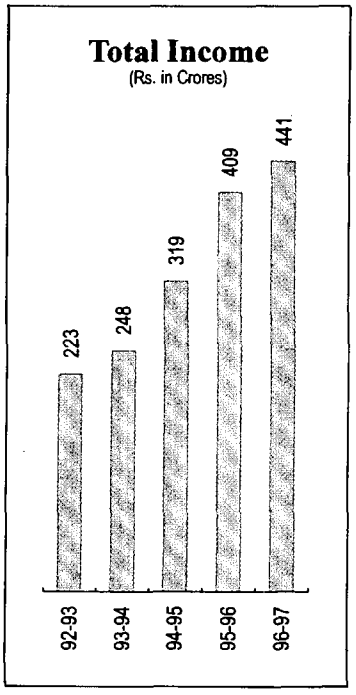
The financial year 1996-97 witnessed a number of adverse developments in the Indian economy including high cost of finance combined with a credit squeeze, depressed capital market conditions, political instability and infrastructural bottlenecks. These led to a slowing down of industrial growth; and recessionary trends in several sectors of the economy, including engineering and capital goods.

In spite of these factors, the operating results of the Company showed an improvement during the year. Business revenues and operating profits registered positive growth.

Alert to the slowing down of the economy, Management took several steps to prevent a deterioration of corporate performance:

* A variety of cost control measures resulted in a reduction of 8% in Operating and General Expenses.
* A freeze on new recruitment and pruning of unproductive manpower combined with normal attrition reduced year-end headcount by 6%.
* A number of business activities were rationalised. Those that were unremunerative and where future prospects do not look attractive are being phased out after fulfilling existing contractual commitments. These include Strip Processing Lines in the Industrial Group, Cable TV Equipment and Diagnostic Products Distribution in the Electronics Group.

On the positive side, substantial investments were made in the core AC&R business, especially in manufacturing and in developing international markets, as well as in software exports.



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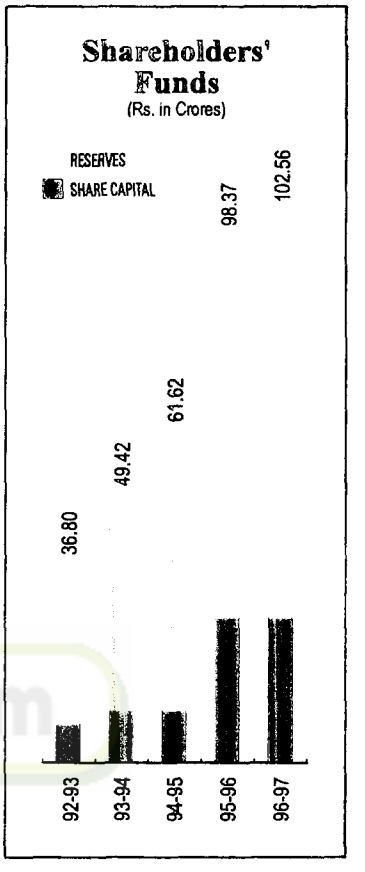
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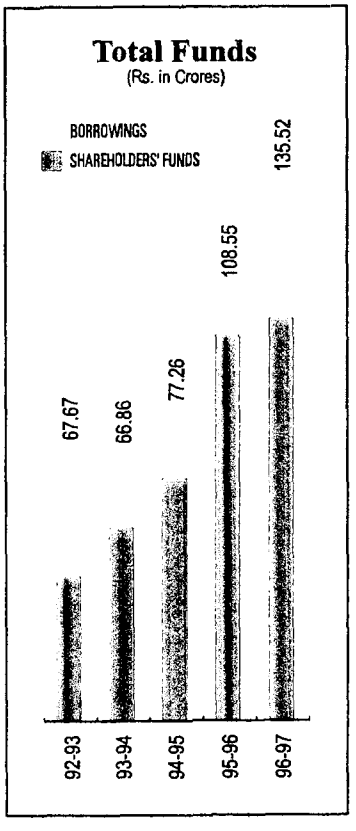
Financial Position

During the year stringent financial controls and a focus on collections generated over Rs. 20 crores from operations in spite of tight market conditions. Along with borrowings of about Rs. 23 crores, this enabled an investment of Rs. 32 crores in fixed assets and Rs. 5.50 crores in equity investment in associate companies.

The Company adopted various measures to access lower cost funds. These included external commercial borrowing, issue of commercial paper and foreign suppliers' credit. The continued reduction in the level of borrowings for operational purposes for the fourth year in succession was also an encouraging development. As a result, in spite of increased total borrowings and higher interest rates prevailing in the market, the interest cost recorded a modest increase of Rs. 96 lakhs. The year-end balance sheet reveals a sound financial position with healthy reserves and good liquidity.

14% Redeemable Secured Debentures of Rs. 5 crores were redeemed in February 1997.





New Manufacturing Unit in Dadra

Civil work in respect of the new Dadra factory has been completed. Installation of plant and machinery is virtually over and commercial production will commence shortly. The new plant manufactures state-of-the-art room, split and packaged airconditioners ranging from 1 TR to 20 TR capacities. The latest technology and modern process knowhow from Rheem Manufacturing Company, USA, now ensures world-class products, which will help the Company to retain its leadership position in this competitive market.

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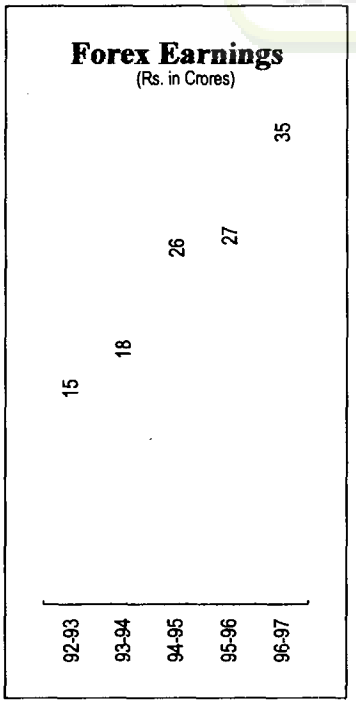
Exports and Foreign Exchange Earnings

Total export income from AC&R Projects, Water Coolers and Software grew from Rs. 13.63 crores to Rs. 21.64 crores, showing a creditable increase of 59%. Substantial unfilled orders will help maintain healthy growth in the current year. A new branch office has been opened in Dubai in April 1997. Overall foreign exchange earnings during the year was Rs. 34.53 crores.

USIN International Inc., USA

USIN International Inc., is a 100% subsidiary of Blue Star Limited, marketing software services provided by the Company's International Software Division. The Balance Sheet and the Statement of Income and Retained Earnings of USIN for the year ended March 31, 1997, form part of this Annual Report. Total income during the year ended March 31, 1997 was US $ 3.987 million, as compared to US $ 2.642 million during the previous year.

In order to fund rapid growth of the Company's software business, it is proposed to substantially enhance the equity of USIN.



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