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BLUE STAR LIMITED.

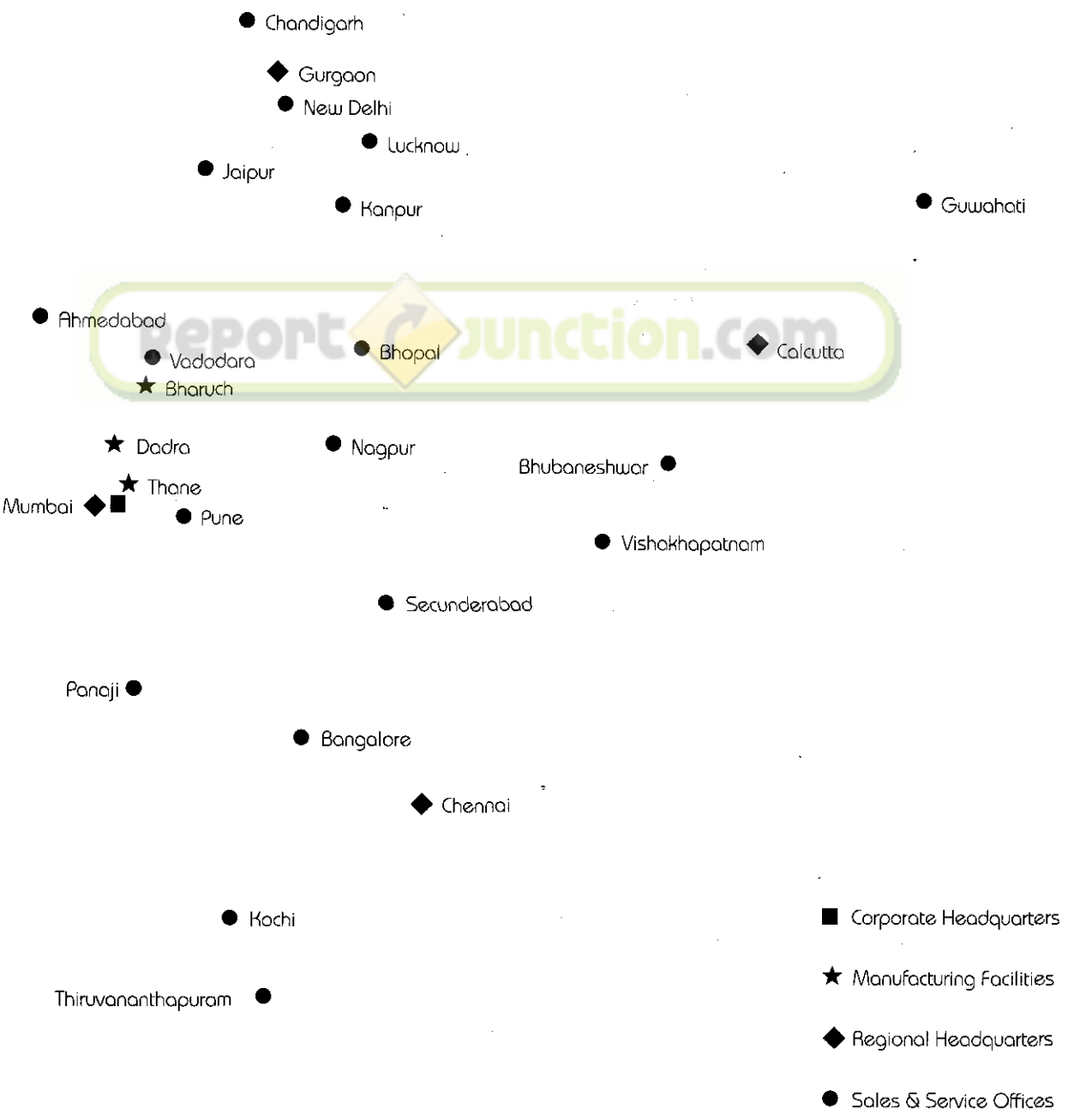
Anual Report

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BLUE STAR

Blue Star Establishments



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NOTICE

May 18, 2000

Blue Star Limited

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

NOTICE is hereby given that the 52nd 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 29, 2000 at 3.00 p.m. to transact the following business:

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, 2000 and the Auditor's Report thereon.
2. To declare final 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 Atul C Choksey who retires by rotation, and being eligible, offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration.

NOTES

1. 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.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, August 17, 2000 to Thursday, August 24, 2000 (both days inclusive).
3. The final dividend declared at the Annual General Meeting will be paid on or after September 6, 2000, only to those Members whose names appear on the Company's Register of Members on August 24, 2000.
4. Members are requested to file Mandates and notify any change in their address.

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, 2000 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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ANNEXURE TO DIRECTORS' REPORT - B

Information under Section 217(2A) of The Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the period April 1, 1999 to March 31, 2000

Name	Age (Yrs.)	Designation & Nature Of Duties	Remuneration (Rupees)	Qualification	Exp. (Years)	Date of Joining BSL	Details of last employment		
							Employer	Designation	Period
EMPLOYED FOR THE WHOLE OF THE YEAR :									
ADVANI A M	58	CHAIRMAN & CHIEF EXECUTIVE	2102567	B.SC., SB, MBA	33	1-Jul-69	RCA INC., USA	INFORMATION SYSTEMS PROJECT SPECIALIST	1968-69
ADVANI S M	56	PRESIDENT & VICE CHAIRMAN	2102880	SB, SB, LL.B.	31	17-Mar-69	-	-	-
BABU T G S	46	EXECUTIVE VICE PRESIDENT	1154720	B.TECH., MBA	21	1-Nov-95	MRF LTD., MADRAS	GENERAL MANAGER	1991-95
BALAKRISHNAN P V	37	GROUP PROJECT MANAGER	1020913	M.TECH.	13	28-Sep-95	KRUPP INDUSTRIES LTD.	ASSOCIATE MANAGER	1994-95
BHAVE A N	42	VICE PRESIDENT	895866	B.COM,FCA,FICWA,FCS	20	24-Jun-97	MAFATLAL INDUSTRIES	GENERAL MANAGER - FINANCE	1991-97
COELHO HUBERT	44	GENERAL MANAGER	944908	B.COM., CA	18	8-Apr-96	FUJITSU - ICIM LTD.	REGL. INDUSTRY SOLUTIONS MGR	1995-96
DIXIT SANTOSH	32	LEAD CONSULTANT	705873	B.E.	11	16-Jul-97	GODREJ & BOYCE LTD.	ASSISTANT MANAGER	1990-97
FERNANDES MELBA	30	ASST PROJECT MANAGER	694716	DEME, DCM	7	1-Jun-98	PATNI COMPUTER SYSTEMS PVT. LTD.	SOFTWARE ENGINEER	1997-98
G SURYANARAYAN	33	SR. CONSULTANT	1415797	B.E., PGDST	10	9-Jun-97	OIL & NATURAL GAS CORPN. LTD.	EXECUTIVE ENGINEER	1989-97
GERA SUDHIR	39	DEPUTY GENERAL MANAGER	652450	B.E., DBM.	17	15-Apr-98	LEMUIR RECORDS MANAGEMENT	GENERAL MANAGER	1995-98
INAMDAR V V	55	VICE PRESIDENT	899183	B.TECH.	34	1-Dec-83	P.T.TRIOS, INDONESIA	ASST. GENERAL MANAGER	1981-83
IYER SURESH	36	GROUP PROJECT MANAGER	475657	B.SC. (TECH)	10	4-Dec-89	LINK SOFTWARE INNOVATIONS	SYSTEMS EXECUTIVE	1988-89
JAMDAR SATISH	47	VICE PRESIDENT	748562	B.TECH.	27	2-May-96	REAL VALUE LTD., MUMBAI	VICE PRESIDENT	1995-96
KHORANA A	50	VICE PRESIDENT	871599	B.SC.(ENGG).	28	1-Feb-73	MOTWANE P LTD.	SALES ENGINEER	1972-73
KIRPALANI RITA	50	SR GENERAL MANAGER	684375	B.E.	28	1-Sep-71	-	-	-
MALHOTRA B K	61	EXECUTIVE DIRECTOR	1791855	B.SC.(ENGG).	38	1-Nov-62	-	-	-
MUKHERJEE DIBYENDU	34	GENERAL MANAGER	565078	B.E.	13	8-Apr-96	FUJITSU - ICIM LTD.	TECHNICAL MANAGER	1986-96
PHADKE SHIRISH	37	DEPUTY GENERAL MANAGER	475305	B.E., M.S.	14	1-Sep-99	ORIGIN INFORMATION TECH. LTD.	SR. PROJECT MANAGER	1994-99
RAJARAM H	43	VICE PRESIDENT	732366	B.COM, ACA, ACS	17	4-Mar-96	RAYMOND LTD.	GEN.MGR (FIN) & CO. SECRETARY	1994-96
RAO A S PRAKASH	53	VICE PRESIDENT	1075598	B.TECH.	30	1-Dec-69	-	-	-
RAO DEEPAK	34	SR. PROJECT MANAGER	906188	B.E.	19	13-Feb-97	PRICE SOFTWARE SOLUTIONS	PROJECT MANAGER	1996-97
RAVINDRA D	58	SR GENERAL MANAGER	631772	B.TECH, ME, DIP OP. MGMT	34	23-Oct-85	VOLTAS LIMITED	PRODUCTION MANAGER - R&D	1971-85
RAY CHANDAN	36	DEPUTY GENERAL MANAGER	711658	B.SC., MCA	10	1-Apr-99	SYNTEL-EUROPE LTD.	PROJECT MANAGER	1998-99
SAMBTANI ASSAR	57	PRESIDENT	2108316	B.TECH.	32	3-Jul-95	FUJITSU - ICIM LTD.	VICE PRESIDENT	1978-95
SANKARAN S	53	VICE PRESIDENT	945988	B.E.	31	20-Nov-69	-	-	-
SAUHNEY SANJAY	37	DY. GENERAL MANAGER	695234	B.COM.	15	7-Apr-98	FUJITSU - ICIM LTD.	MANAGER	1993-94
SETH N	39	VICE PRESIDENT	957055	B.COM., MBA.	17	1-Mar-95	USHA INTERNATIONAL LTD, DELHI	MARKETING MANAGER	1989-95
SETHI M S	50	VICE PRESIDENT	849875	BE, PGDIT, MS, MBA	27	17-Nov-97	PAM-PAC MACHINES LTD.	GENERAL MANAGER - MFG	1997
SHAH BHARAT	43	VICE PRESIDENT	1905671	B.TECH., PGDSM, MFM	19	21-Dec-92	BOOTS PHARMACEUTICALS LTD.	SYSTEMS MANAGER	1986-92
SIVASANKARAN N	53	VICE PRESIDENT	1116305	BSC.(ENGG)	31	19-Nov-69	-	-	-
TALUKDAR ASOKE	46	VICE PRESIDENT	1476637	M.SC.	18	18-Jan-99	MASCOT SYSTEMS	MANAGING DIRECTOR	1997-99
THAKKER RAJESH	32	PROJECT MANAGER	818481	B.E.	9	4-Apr-94	SOFTWARE TECHNICAL SERVICES, INC.	CONSULTANT	1992-94

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Name	Age (Yrs.)	Designation & Nature Of Duties	Remuneration (Rupees)	Qualification	Exp. (Years)	Date of Joining BSL	Details of last employment Employer	Designation	Year
EMPLOYED FOR THE PART OF THE YEAR :									
BHAGWAT LOKESH	41	GENERAL MANAGER	508036	M.SC., DCM	18	1-May-98	PATNI COMPUTER SYSTEMS PVT. LTD.	REGIONAL MANAGER	1994-95
BICHU PRAMOD V	60	MECHANIC	286181	NON MATRIC	33	7-Jul-66	-	-	-
CALDEIRA PETER	60	DESPATCH CLERK	286505	STD VI	42	2-Jan-57	-	-	-
CHATTERJEE D	54	DEPUTY GENERAL MANAGER	868387	B.SC.(ENGG).	29	16-Feb-76	TOSHNIWAL BROS.PVT.LTD.	SALES ENGINEER	1971-76
CHELLANI SANJAY	31	AREA MANAGER	150807	DEAE, PDME	9	20-Dec-89	-	-	-
CHHAYA M.B	45	MANAGER	382965	B.SC., DFM, DMM	21	22-Dec-80	SAGAR SHIPPING CO.	ACCOUNTANT	1980
DESAI HEMANT	52	DEPUTY GENERAL MANAGER	468330	Ph.D.(EECS)	22	14-Dec-98	ZENITH GLOBAL CONSULTANTS	INDEPENDENT CONSULTANT	1991-94
DESHMUKH SANJAY	40	DEPUTY GENERAL MANAGER	720672	B.SC., PGDST	19	15-Apr-85	TATA BURROUGHS LTD.	SYSTEMS ANALYST	1980-85
DILEEP T	47	SR GENERAL MANAGER	447540	B.E.	25	3-Jun-77	KRISHNA INDUSTRIES	BRANCH MANAGER	1975-77
JOSHI SUBHASH	40	ASSISTANT MANAGER	178550	DME	17	01-Sep-82	-	-	-
KARMARKAR P.G	46	GENERAL MANAGER	584416	MSC, DMS	21	15-Apr-98	GODREJ SOAPS	MANAGER	1991-98
KARNANI B.N	54	SR. GENERAL MANAGER	320417	B.TECH.	32	30-Aug-93	AFCO INDL. & CHEM. LTD.	CE - ELECTRICAL	1990-93
KAUR PARKASH	43	STENOGRAPHER	310148	B.A.	17	02-Apr-84	-	-	-
KRISHNAN S.	60	DEPUTY GENERAL MANAGER	581038	MA, MMS	40	05-Sep-58	-	-	-
KULKARNI UDAY	43	SR GENERAL MANAGER	619628	B.E., MMS	19	22-Oct-92	KORPORATE SOLUTIONS	SELF EMPLOYED	1991-92
LUMAN SATISH	43	GENERAL MANAGER	127061	B.SC., MLS	16	6-Apr-98	NOCIL POLYMER	MANAGER	1992-98
MANSUKHANI M.D	60	EXECUTIVE VICE PRESIDENT	1907421	B.SC.	39	29-Nov-60	-	-	-
MEHTA NARESH	35	DEPUTY GENERAL MANAGER	193737	MMS	10	3-Jun-96	OMAM CONSULTANTS	GENERAL MANAGER	1992-93
MOHAPATRA ASIT	42	VICE PRESIDENT	241316	B.TECH., MAM.	20	22-Jul-97	PARKE DAVIS	DIRECTOR - HR	1996-97
NAIK YESHWANT S	60	SENIOR EXECUTIVE	403607	SSC	34	21-Dec-64	-	-	-
PADTE M.Y	60	MECHANIC	290931	NON MATRIC	44	17-Oct-66	NANAVATI & SONS PVT.LTD.	AIRCONDITIONING OPERATOR	1966
PEREIRA CLYDE	41	CUSTOMER SUPPORT ENGR.	74386	SSC	20	20-Oct-82	TELEVISTA ELECTRONICS LTD.	SR. TECHNICIAN	1980-82
PINTO VEEDA	43	RECEPTIONIST	104850	B.A.	22	16-Aug-89	MURUGAN OVERSEAS CONSULTANTS	EXEC.OFFICER	1989
RAO KIRAN	38	GROUP PROJECT MANAGER	936221	M.SC.	15	23-Oct-96	DATA SYSTEMS & SERVICES	SR PROJECT MANAGER	1996
RAO S.V	52	AREA MANAGER	234608	B.E.	26	12-Jun-81	ENGINEER'S ENTERPRISES P.LTD.	WORKS MANAGER	1980
SHAH VASANT	36	MANAGER	173183	B.E.	13	10-Aug-87	MUKAND IRON & STEEL	TRAINEE	1987
SUBRAMANIAM J	45	GENERAL MANAGER	369764	M.SC.	6	26-Jul-83	INDOCHEM ELECTRONICS LTD	SALES ENGINEER	1981-83
SUNDARAM P.V	60	SR.MANAGER	419959	B.COM	36	02-Sep-64	CARONA SAHU CO.PVT.LTD	ACCOUNTS ASSISTANT	1964
VINODKUMAR V.N	35	REGIONAL MANAGER	398283	B.E, MMM, CFA	22	20-Jul-88	INDOCHEM ELECTRONICS LTD	SALES ENGINEER	1981-83
WAGLE R.L	60	MANAGER	610068	INTER SC., DME	37	03-Oct-62	-	-	-

1. Remuneration includes salary, house rent assistance, employer's contribution to PF and superannuation, gratuity, leave travel assistance, group insurance premium, commission where payable and other allowances / benefits as applicable and also includes compensation paid under Voluntary Retirement Scheme.

2. The nature of employment in all cases is contractual.

3. Relatives of Directors:
Mr Ashok M Advani and Mr Suneel M Advani are relatives.

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BLUE STAR

Board of Directors

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

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

Bal K Malhotra
Executive Director

T G S Babu
Executive Vice President

H N Ganatra
Vice President - International

V V Inamdar
Vice President - Western Region & Industrial Division

Satish Jamdar
Vice President - Manufacturing

Arun Khorana
Vice President - Electronics Division

Ranajit Majumdar
Vice President - Human Resources & Quality

A S Prakash Rao
Vice President - Northern Region

H Rajaram
Vice President - Finance

S Sankaran
Vice President - Southern Region

Neeraj Seth
Vice President - Commercial Equipment Division

N Sivasankaran
Vice President - ACPD Mktg. & Service

Company Secretary

K P T Kutty

Bankers

The Hongkong & Shanghai Banking Corporation Ltd.

ANZ Grindlays Bank Ltd.

State Bank of India

Oriental Bank of Commerce

ABN - AMRO Bank

Banque Nationale De Paris

Bank of Baroda

Abu Dhabi Commercial Bank Ltd.

Auditors

K S Aiyar & Company, Mumbai

Branch Auditors

R Venkatarama Aiyar & Company, Calcutta

Fraser & Ross, Chennai

Mohinder Puri & Company, New Delhi

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Registrars & Share Transfer Agents

Intime Spectrum Registry Pvt. Ltd.
260 - Shanti Industrial Estate
Sarojini Naidu Road, Mulund (West)
Mumbai 400 080
Telephone: 91-22-564 7731
Fax: 91-22-567 2693

Registered Office

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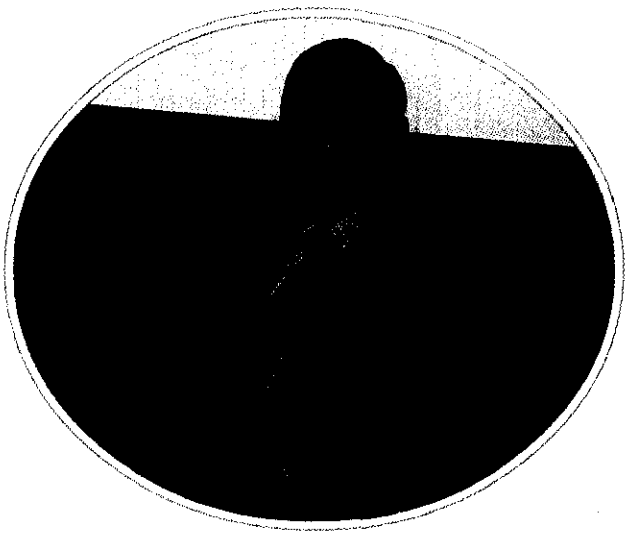
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Ashok M Advani

Chairman & Chief Executive

Letter from the Chairman

Dear Shareholder:

1999-2000 was a year of transition for Blue Star. The Company was busy restructuring itself around its core businesses - airconditioning and refrigeration (AC&R), and marketing of professional electronics, industrial equipment and services. The restructuring process involved spinning off the software business and winding up the industrial projects activity.

The long awaited demerger of the International Software Division (ISD) took place on April 4, 2000 after a cumbersome and extended legal process of about 20 months. In spite of our best efforts to expedite the procedure, the demerger could not be achieved before the end of the financial year. As a result, the audited accounts for the year ended March 31, 2000 are for the consolidated Company including ISD.

In order to incorporate the effect of demerger in the books of Blue Star Infotech Limited (BSIL) and present a complete report to its shareholders, the financial year of BSIL has been extended to 15 months ending June 30, 2000. Accordingly, the Annual Report of BSIL to be published will cover the period April 1, 1999 to June 30, 2000.

The New Blue Star

Last year, with the restructuring of the Company under implementation, I had dealt with the important question of Blue Star's future without the divested businesses of software services and industrial projects. I was optimistic about our prospects and explained why I felt that way, but I was not in a position to offer tangible proof. The Company's financial results for 1999-2000 provide supporting evidence in this regard.

The consolidated accounts of Blue Star obviously do not provide separate figures for software and the other business of the Company. However, in the interests of greater transparency we have shown segregated Profit & Loss Accounts for the 12-month period, by way of supplementary information annexed to this letter. These show that:

- ★ After several years of high growth, the Company's software business slowed down. This was mainly due to a fall in US onsite revenue on account of the US preoccupation with the Y2K problem; and management's focus on the spinoff of the software business. The annual report of BSIL will provide additional analysis and details regarding the software business.
- ★ For Blue Star, excluding software, Total Income was not much different from the consolidated figures. ISD accounted for 8% of the total revenues.
- ★ On the profit front, while software accounted for 35% of the consolidated Profit After Tax, the

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important point to note is that the entire improvement in profit last year came from the non-software businesses. Profit Before Tax grew by a healthy 73% to Rs.17.10 crores, while Profit After Tax surged by 189% to Rs.15.14 crores.

In any business, the key variables affecting profits are sales volume, value addition or gross margins and the overall level of business expenses. Last year, with scope to increase sales volume being somewhat limited by a slow economy, and expense control already reasonably tight, the major opportunity for better profit performance was to focus on higher gross margins. This is especially so since more than three-quarters of the sales income is consumed by material and other direct costs. Efforts to drive down the cost of sales ratio pervaded the entire Company resulting in an improvement in gross margin in the non-software business by 2.7% from 23.4% to 26.1%. The effect of the higher gross margin was to enhance profit by Rs.11.55 crores, a remarkable achievement in a sluggish economy, facing severe competitive pressures.

The income tax provision was only 11% of profit because of good tax planning. The tax holiday on Dadra Plant was a major reason for the modest tax liability and will provide an effective tax shield in the current year as well.

Improving Gross Margins

The Directors' Report briefly mentions the three-pronged strategy to enhance gross margins. I would like to elaborate on this.

In airconditioning projects, products, and the allied manufacturing activities, better engineering and design were combined with reduced material procurement prices. Generally lower market prices for raw materials and components along with scientific supply-chain management techniques, resulted in significant cost reductions. Manufacturing profits were also favourably affected by a substantial increase in capacity utilisation.

After-sales service continues to be an excellent business because it offers high gross margins and limited competitive pressure. The key to success is meeting customer expectations and building customer loyalty through proactive measures. Service was reorganised by integrating it with sales for each line of business. This provided better customer support and our customers have generally been pleased with this change. In the reorganisation, care was taken to ensure that the focus on service as a business was not diffused. Service remains a profit centre with its own strategy, resources and investments such as the induction of marketing resources into after-sales service; an extensive trained network of service associates; upgraded computerised systems including service parts management. These measures, which were explained in my speech at last year's Annual General Meeting, resulted in significant growth in service revenues and profits.

The third factor influencing the increase in overall gross margin and profit was the sharp decline in billing in industrial projects. In earlier years, low or even negative gross margins on some fixed price contracts dragged down the average gross margin and the overall profitability of the Company. Most of these contracts having been progressively completed under our belt, the negative factors reducing gross margins are now largely behind us and future profits should improve further.

Shareholder Value

Investors have definite views about shareholder value and have little patience for corporate managements that are not able to enhance the value of their investment. Your Board of Directors is acutely conscious of its responsibility to shareholders and regularly reviews the Company's strategies and performance. In a highly volatile stock market, we believe our prime responsibility is to deliver superior financial results and we expect that discerning investors will recognise our performance in the long run, especially with increased communication through our website (www.bluestarindia.com) and other channels.

Last year, the consolidated return on average capital employed (ROCE) improved from 16.06% to 18.80% while return on average shareholders funds (RONW) increased from 15.84% to 20.84%. These are respectable figures. This year, with reduction of the equity capital by 25% after the software demerger, the profitability ratios should be even better because of a higher numerator, viz. profits, in the non-software businesses, and a lower denominator, viz. capital employed.

Yours sincerely,

ASHOK M ADVANI

June 30, 2000

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Profit & Loss Account for the 12-month period ended March 31, 2000

(Rupees in lakhs)

	Blue Star Ltd. excluding Software Business	Software Business	Blue Star Ltd. including Software Business
Income			
Sales, Work Bills & Services	42619.96	3696.47	46316.43
Commission	1179.33	-	1179.33
Other Income	581.57	17.46	599.03
	44380.85	**3713.93**	**48094.78**
Expenditure			
Cost of Sales, Work Bills & Services	31479.97	1575.45	33055.43
Employee Remuneration & Benefits	4741.66	790.69	5532.35
Operating & General Expenses	4493.16	394.62	4887.78
Depreciation	1027.42	117.57	1144.99
Interest	928.66	25.41	954.07
	42670.87	**2903.74**	**45574.62**
Profit			
Profit Before Taxation	**1709.98**	**810.19**	**2520.17**
Provision for Income Tax	193.00	-	193.00
Provision for Wealth Tax	3.00	-	3.00
	196.00	-	196.00
Profit After Taxation	**1513.98**	**810.19**	**2324.17**

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