

A high-contrast, black and white photograph of four large spools of thread, arranged in a row. The spools are made of a dark material, possibly wood or metal, and are covered in a dense, light-colored thread. The lighting is dramatic, coming from the side, which creates bright highlights on the edges of the spools and the thread, while the rest of the scene is in deep shadow. The spools are slightly out of focus, giving a sense of depth.

**Exactly
your
chemistry.**

Colour-Chem Limited
47th Annual Report & Accounts
2003-2004

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DIRECTORS

Mr. P. Lindner – Chairman (w.e.f. 24th July, 2003)
Dr. G. Hencken – Chairman (upto 30th June, 2003)
Mr. R. A. Shah
Mr. K. R. V. Subrahmanian
Mr. H. K. Bilpodiwala
Mr. K. J. Bharucha – Vice-Chairman & Managing Director
Dr. R. Sergio
Mr. P. R. Rastogi

Mr. V. Ramanujam
(General Manager – Legal & Company Secretary)

EXECUTIVE COMMITTEE

Mr. K. J. Bharucha
Dr. R. Sergio
Dr. G. G. Patkar
Mr. S. C. Sachdev
Mr. P. V. Kalawar
Mr. C. N. Bharucha
Dr. S. Siddhan
Mr. N. U. Nadkarni

AUDITORS

A. F. Ferguson & Co., Chartered Accountants

INTERNAL AUDITORS

Mahajan & Aibara, Chartered Accountants

SOLICITORS

Crawford Bayley & Co.

BANKERS

State Bank of India
Citibank N.A.
The Hongkong & Shanghai Banking Corpn. Ltd.
HDFC Bank Ltd.

REGISTERED OFFICE

Ravindra Annexe
194, Churchgate Reclamation
Mumbai-400 020

THANE WORKS

Mumbai-Agra Road,
Balkum Village
Thane-400 608

ROHA WORKS

113/114 MIDC Industrial Area
A.V.P.O. Dhatav, Taluka-Roha
District - Raigad 402 116

Notice

NOTICE is hereby given that the FORTY-SEVENTH ANNUAL GENERAL MEETING of COLOUR-CHEM LIMITED will be held at the Y.B. Chavan Auditorium, General Jagannath Bhosale Marg, Next to Mantralaya Gymkhana, Mumbai - 400 021 on Thursday, 29th July, 2004 at 4.00 p.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2004, the Balance Sheet as at that date and to consider the Reports of the Directors and Auditors thereon.
2. To declare a dividend for the year 2003-2004.
3. To appoint a Director in place of Mr. H. K. Bilpodiwala who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. R. A. Shah who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of the forty-seventh Annual General Meeting until the conclusion of the forty-eighth Annual General Meeting at a remuneration to be decided by the Board of Directors.

SPECIAL BUSINESS

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

"RESOLVED that subject to the provisions of Sections 198, 269, 309, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (the "Act") the Company hereby approves the re-appointment of Dr. R. Sergio as Whole-time Director of the Company designated as the Marketing Director for a period of one year from 1st January, 2004 upon the terms and conditions including remuneration, benefits and perquisites payable or extended to him as set out in the draft agreement submitted to this meeting (which for the purpose of identification is initialled by the Chairman of the meeting thereof) which agreement is hereby specifically sanctioned with liberty to the Board of Directors of the Company (the "Board") to alter and vary the terms and conditions of the appointment and/or agreement in such manner as may be agreed to between the Board and Dr. R. Sergio; and

RESOLVED FURTHER that in the event of loss or inadequacy of profits in any financial year during the term of service of Dr. R. Sergio as Marketing Director of the Company,

Dr. R. Sergio shall in respect of that financial year, be paid such remuneration by way of salary, benefits and perquisites as the Board may deem fit, within the limits prescribed in Section II of Part II of Schedule XIII to the Act; and

RESOLVED FURTHER that for the purpose of giving effect to this Resolution, the Board be and is hereby authorised to execute all such documents and to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, expedient and proper."

7. To consider and, if thought fit, to pass the following Resolution, with or without modification, as a Special Resolution:

"RESOLVED that pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956 including any statutory modification thereto or any re-enactment thereof for the time being in force ("the Act"), the Articles of Association of the Company be and are hereby altered by inserting the following new Article 87-A along with the heading "Passing of Resolutions by Postal Ballot" and the marginal note "Postal Ballot" after the present Article 87:

87-A. Passing of Resolutions by Postal Ballot

The Company may pass a resolution by postal ballot in the manner prescribed by Section 192A of the Act and such other applicable provisions of the Act. Notwithstanding anything contained in the provisions of the Act, the Company, being a listed Company, may in the case of resolutions relating to such business as the Central Government may, by notification, declare to be conducted only by postal ballot, shall get any resolution passed by means of a postal ballot instead of transacting the business in a general meeting of the Company; and

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, usual or expedient to give effect to this resolution."

NOTES:

- (a) The relative explanatory statement, pursuant to Section 173 of the Companies Act, 1956, in respect of the special business under item No. 6 and No. 7 set out above is hereto annexed.
- (b) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER.

(c) The Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, 8th July, 2004 to Thursday, 29th July, 2004 (both days inclusive).

(d) The dividend on shares as recommended by the Board of Directors, if declared at the meeting, will be payable to those members whose names appear:

(i) as members in the Register of Members of the Company after giving effect to all valid share transfers in physical form lodged with the Company or its Registrars on or before 7th July, 2004; and

(ii) as Beneficial Owners as at the end of the business on 7th July, 2004, as per the list to be furnished by National Securities Depository Limited and/or Central Depository Services (India) Limited in respect of the shares held in electronic form.

(e) Members are requested to notify immediately any change in their address to their Depository Participants (DPs) in respect of their holdings in electronic form and to the Company/to the Registrars & Share Transfer Agents, M/s. Sharepro Services in respect of their holdings in physical form.

(f) In respect of members who have given mandate for payment of dividend through Electronic Clearing Service (ECS), the dividend will be paid through ECS and their bank account details will be printed on their dividend advices.

(g) In accordance with the provisions of Section 205A of the Companies Act, 1956, the Company has, from time to time, transferred the unclaimed dividends relating to the years upto and including 1994-95 to the General Revenue Account of the Central Government. Members

who have a valid claim to any amount being the dividend unclaimed by them, pertaining to the period upto and including 1994-95, may claim the same from the Registrar of Companies, Maharashtra, in the prescribed manner.

In terms of Section 205A (5) of the Act, unpaid or unclaimed dividend for the year 1995-96 lying in the Unpaid Dividend 1995-96 Account of the Company was transferred to the Investors Education and Protection Fund established by the Central Government pursuant to sub-section (1) of Section 205C of the Act, in December 2003.

Individual intimation has been given, from time to time, to those members whose claim for payment of unclaimed dividend still lies against the Company and such members are requested to seek an early settlement of such claims for the periods 1996-97 to 2002-2003. Members may please note that no claim of the transferred unclaimed/unpaid dividend shall lie against the Investors Education and Protection Fund of the Central Government or the Company upon transfer of the amounts to the Fund.

By Order of the Board of Directors,

V. Ramanujam
General Manager – Legal & Company Secretary

Mumbai, 25th May, 2004

Registered Office:
Ravindra Annexe
194 Churchgate Reclamation
Mumbai - 400 020.

Explanatory Statement

As required by Section 173 of the Act the following explanatory statement sets out all the material facts relating to items No. 6 and 7 of the accompanying Notice dated 25th May, 2004:

Item No. 6

Dr. R. Sergio was appointed as Marketing Director of the Company initially for a period of four years from 1st April, 1993. He was re-appointed for three terms of two years each upto 31st March, 2003 and one term of nine months

from 1st April, 2003 to 31st December, 2003 with the approval of the members.

Dr. Sergio is the Head of business units comprising Textile Chemicals, Leather Chemicals and Functional Chemicals of the Company. Dr. Sergio has contributed immensely towards improving the Company's marketing and business activities in respect of these business units. The Board has re-appointed, at its meeting held on 11th December, 2003, Dr. Sergio as the Marketing Director, in the whole-time

Notice (contd.)

employment of the Company for a further period of one year from 1st January, 2004 on the following terms of remuneration, benefits and perquisites:

1. Salary:

Rs. 1,45,000/- (Rupees one lakh forty-five thousand only) per month with authority to the Board of Directors to grant suitable increments from time to time, as it may determine, to the salary payable to Dr. Sergio. Salary will be subject to the deduction of Indian income tax at the applicable rates.

2. Commission:

At 1% (one per cent) per annum of the net profits of the Company for each financial year or part thereof computed in the manner laid down under Section 309(5) of the Act, subject, however, to a maximum of 50% (fifty per cent) of the salary paid or payable to Dr. R. Sergio during the relevant year.

3. Perquisites

(i) Housing:

Suitable residential accommodation, free of cost with all facilities, amenities and services (including gas, electricity, water and furnishings). In case Dr. Sergio does not opt for Company provided accommodation at any time, he shall be paid house rent allowance of a sum not exceeding 60% of his salary. The expenditure incurred by the Company on gas, electricity, water and furnishings provided to him shall be evaluated as per the Income Tax Rules, 1962.

(ii) Medical Reimbursement:

Reimbursement of medical expenses incurred by Dr. Sergio for self and family, in accordance with the rules and regulations of the Company as may be in force from time to time.

(iii) Leave and Leave Travel Concession:

Leave period of six weeks on full pay and allowances, for the entire period of twelve months of service subject to the condition that the leave accumulated but not availed of will not be allowed to be encashed. The Company will bear the full cost of leave passage for Dr. R. Sergio and his family once during the period of twelve months to any destination in India. In case it is proposed that the

leave be spent abroad, the Company will bear the full cost of air passage by club class for Dr. Sergio and his family for the said period not exceeding the cost of return passage to his home country.

(iv) Club Fees:

Dr. Sergio shall be entitled to the reimbursement of fees of any two clubs in India, including admission or entrance fees and monthly or annual subscriptions.

(v) Personal Accident Insurance:

The Company shall pay an annual premium of a sum not exceeding Rs. 7,000/- for a personal accident insurance policy for Dr. Sergio.

(vi) Reimbursement of expenses for returning to home country:

Dr. Sergio will be entitled to reimbursement of expenses incurred by him for self and family for returning to his home country after completion of his tenure of office, including actual expenses incurred on travel and on packing, forwarding, loading/unloading as well as freight, insurance etc. in connection with the moving of his personal effects.

(vii) Car, Driver & Telephone:

The Company will provide Dr. Sergio with a car and driver and a telephone at his residence for use on Company's business. Use of car for private purposes and personal long distance calls on the telephone shall be billed by the Company to Dr. Sergio.

In case the Company is not able to provide a driver to Dr. Sergio, the expenses for engaging a driver will be reimbursed to him as per the Company's rules.

4. Entertainment Expenses:

The Company shall reimburse entertainment expenses actually and properly incurred by Dr. Sergio in the course of the business of the Company subject to such limits as may be fixed by the Board.

5. Limits on Remuneration:

The remuneration as specified in clauses 1 to 4 above shall be subject to the overall limits as specified in Sections 198, 269, 309 and other applicable provisions of the Act, read with Schedule XIII to the Act.

6. Minimum Remuneration:

In the event of the Company incurring a loss or having inadequate profits in any financial year, the remuneration, benefits and perquisites payable or extended to Dr. Sergio shall be in accordance with the provisions of Section II of Part II of Schedule XIII to the Act, as may be in force from time to time.

7. Termination:

The agreement to be entered into by the Company with Dr. Sergio may be terminated by either party giving to the other party three months' notice of such termination.

8. Vacation of Office:

If at any time during the tenure of his appointment as a whole-time Director of the Company, Dr. Sergio ceases to be in the employment of the Company for any reason whatsoever, he will also cease to be a Director of the Company and simultaneously the agreement entered into between the Company and Dr. Sergio shall stand terminated.

9. Sitting Fees:

Dr. Sergio will not be paid sitting fees for attending the meetings of the Board.

The Directors of your Company are of the view that Dr. Sergio's knowledge and experience will be of immense value to the Company. The Board, therefore, recommends the acceptance of the Resolution set out in the notice convening the meeting.

The foregoing may be treated as an abstract of the draft agreement for the appointment of Dr. Sergio as a Marketing Director in the whole-time employment of the Company as required under Section 302 of the Act.

A copy of the draft agreement to be entered into between the Company and Dr. R. Sergio is available for inspection by the members of the Company at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day.

Dr. R. Sergio may be deemed to be concerned or interested in this Resolution.

Item No. 7

Section 192A of the Companies Act, 1956 ("the Act") was inserted by the Companies (Amendment) Act, 2000 in order to give members a right to vote through postal ballot system by requiring a listed public company to pass resolutions relating to certain business notified by the Central Government by means of a postal ballot only.

It is, therefore, proposed to alter the present Articles of Association of the Company by inserting a new Article 87-A in order to conform to the amended provisions of the Act.

The Board, therefore, recommends that the Special Resolution at item No. 7 of the Notice to be passed.

A copy of the existing Articles of Association of the Company together with a copy of the proposed alteration referred to in the Resolution at item No. 7 of the Notice will be open for inspection by the members at the Registered Office of the Company between 10 a.m. to 12 noon on any working day of the Company until the date of the Annual General Meeting or any adjournment thereof.

None of the Directors of the Company are concerned or interested in the said Resolution at item No. 7 of the Notice.

By Order of the Board of Directors,

V. Ramanujam
General Manager – Legal & Company Secretary

Mumbai, 25th May, 2004

Registered Office:
Ravindra Annexe
194 Churchgate Reclamation
Mumbai - 400 020.

Directors' Report to the Members

The Directors present herewith their Forty-seventh Annual Report and the Audited Statement of Accounts of the Company for the year ended 31st March, 2004.

FINANCIAL RESULTS

2. The financial results are indicated below in brief:

	2003-2004	Previous Year
	Rupees lakhs	Rupees lakhs
Turnover	38460.47	36074.83
Other Income	8473.40	1642.38
	46933.87	37717.21
Profit before Interest, Depreciation and Tax	4082.02	3843.62
Interest	(281.71)	(406.18)
Depreciation	(1305.15)	(1290.39)
Profit before Tax	2495.16	2147.05
Provision for Taxation		
— Current Tax	(940.00)	(965.00)
— Deferred Tax	1801.87	314.59
Profit after Tax	3357.03	1496.64
Excess provision for taxation in respect of previous years written back	—	12.86
Net Profit after prior year's Taxation	3357.03	1509.50
Balance brought forward from previous year	2032.89	1811.95
Amount available for appropriation	5389.92	3321.45
The Directors have made the following appropriations therefrom:		
(a) General Reserve	1500.00	500.00
(b) Proposed Dividend	699.00	699.00
(c) Tax on Dividend	89.56	89.56
leaving a balance to be carried forward of	3101.36	2032.89
	5389.92	3321.45

DIVIDEND

3. The Board of Directors has recommended a dividend of Rs. 6/- per equity share of the face value of Rs. 10/- for the year ended 31st March, 2004 (previous year – Rs. 6/- per share).

ACCOUNTS AND FINANCE

Term Loan

4. The long term loan of Rs.1500 lakhs availed by the Company in the year 2001-2002 from the Standard Chartered Bank to finance its long term working capital requirements was repayable in April 2004. However the loan was repaid earlier on 31st March 2004 through the Company's cash accruals generated during the year 2003-2004.

Sales Tax Deferred Loan

5. Under the Sales Tax incentive scheme of the Government of Maharashtra, the Company is allowed to defer its payment of Sales tax aggregating to Rs. 1237 lakhs for a period of ten years, payable in five equal installments thereafter.

During the year under review, the Company has availed of credit under this scheme amounting to Rs. 366.93 lakhs (Previous year – Rs. 99.96 lakhs).

Further in terms of a notification issued by the Government of Maharashtra, the Company is allowed to repay such deferred sales tax liabilities at the Net Present Value (NPV). The Company accordingly extinguished the accumulated deferred sales tax liability amounting to Rs. 858.31 lakhs by repaying at its NPV of Rs. 253.57 lakhs and accounted a gain of Rs. 604.74 lakhs.

Fixed Deposits

6. As at 31st March, 2004, an aggregate of Rs. 2.95 lakhs, representing 46 deposits, had remained unpaid pending instructions from the depositors concerned. Since that date, three deposits of an aggregate amount of Rs. 0.40 lakh have been repaid. The Company has neither renewed nor accepted fresh deposits during the year.

There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

Credit Rating

7. The Credit Rating and Information Services of India Limited (CRISIL) has reaffirmed the highest rating (P1+) to the Company's Commercial Paper/short term debt programme of Rs. 3000 lakhs.

8. In respect of the Company's Non-Convertible Debenture programme of Rs. 2000 lakhs, CRISIL has reaffirmed a rating of "AA" with stable outlook.

Management Discussion & Analysis

9. Industry Structure and Development

Colour-Chem manufactures a wide range of Specialty Chemicals encompassing several different sectors. Being industrial in nature, demand for its products is derived directly from that of the products of its customers and end-users which in turn span a large and diverse industry spectrum.

(a) Intermediates and Colours

Colour-Chem manufactures intermediates for agro-chemicals, pharmaceuticals and colourants. The Company is an acknowledged leader in the area of diketene chemistry and is in a position to manufacture large volumes of this important building block in a wide range of derivative forms. It is therefore the pre-eminent player in the sector of diketene based intermediates in India. Colour-Chem is also the leading organic pigments producer in the country. The Company serves the needs of the paints, printing inks, plastics and other industries. Overall, the pigment industry is characterized by a high degree of fragmentation and the excess capacity thus created has resulted in aggressive competition resulting in pressure on its gross margin both in the domestic and overseas markets. The Company is exploring new avenues of applications to widen the customer base and improve capacity utilisation.

(b) Specialty Chemicals

This segment of the business caters to the textiles, leather, surfactants, paints, construction, packaging and numerous other industries that consume a large variety of functional and performance chemicals.

The industrial segments related to textile and leather chemicals have several players both in the organized and small scale sectors. Colour-Chem ranks amongst the first three players in both these industries. In the recent past, many multinational companies have set up their business of leather chemicals in India resulting in an increasingly competitive environment.

Colour-Chem has successfully entered the field of specialty chemicals to primarily cater to niche applications. These specialties enhance performance characteristics of a variety of products resulting in value added end-products for different market segments.

10. Opportunities

With many specialty chemicals getting commoditised, the need for cost efficiency is driving businesses to look at India as a global source of supplies with renewed interest. Simultaneously, the restructuring of Clariant's sites in Europe, such as the Azo pigments facility at Knapsack, Germany could also result in the shifting of production of specific items to India. Given a favourable cost position, there will be increased opportunity for manufacture of some items from the Clariant range to move to India resulting in Colour-Chem becoming the global source for these products.

In the case of the pharmaceutical business, change is also being driven by the customer with Indian pharmaceutical companies urging Clariant to make the best use of its production capacities in India. Clariant is therefore under both cost and market pressure to take a fresh look at India which is resulting in a perceptible shift in attitude which we now need to exploit. The global pharmaceutical business of Clariant in particular has evinced keen interest in India and has begun to float a number of enquiries.

The Company will shortly be investing in a new multi-step non-GMP (Good Manufacturing Practice) facility for manufacture of a variety of intermediates for use by the pharmaceutical and agrochemical sectors. The success of this test case will provide us an opportunity to showcase our project management skills in meeting time, cost and quality targets and will demonstrate our manufacturing capabilities.

The market for automotive paints and decorative paints is growing rapidly and the reduction in import duties will spur the indent business for HPP pigments in particular. To capitalize on this demand, Colour-Chem's Pigments & Additives division has launched a range of pigment preparations Hostatints which can be used for water based and solvent based systems.

The abolition of the quota systems for the export of textiles with effect from 2005 will present a good opportunity for textile auxiliaries which can look forward to double digit annual growth. In Laminating Adhesives, a new generation of products will be introduced shortly based on know-how update that is being transferred. In Functional chemicals, we

Directors' Report to the Members (contd.)

have been particularly successful in break fluids and solvents and are setting up a multipurpose plant for local production at Roha.

11. Threats, Risks and Concerns

Almost all the businesses face a tangible threat from lower cost alternatives imported from China. Chinese products are highly competitive both on account of a better raw material cost position and a large local market which ensures economies of scale. (The Chinese market for specialty chemicals is valued at \$ 63 bn. as against India's \$ 24 bn.). India is also handicapped by its relatively high power and utility costs.

The leather industry has already shifted its traditional base from Europe to China, where productivity is much higher, particularly in respect of shoes, leather goods and garments. India will continue to enjoy some advantage in goat skin production but value addition is limited. The export potential of garment and shoe uppers is severely limited and leather crust is being exported.

Price resistance in the local market accompanied by the continuous spiraling of raw material and input costs has relentlessly squeezed margins in the Pigments business. The volatility of Rupee and the inequitable duty structure with duties on some inputs being higher than that on finished products are an additional cause for concern in our Life Science business.

12. Segment-wise Performance

We continue to be the leader in the organic pigments business in India. During the year, overall sales grew by 2.6 per cent with exports turning in a very satisfactory performance. Merchant exports also performed exceptionally well. However, despite undertaking several cost saving measures, declining profitability is of great concern.

Business (both manufactured and indent) in the pharmaceutical segment has grown significantly with more customers and a larger number of products. A first for the Company is the supply of active ingredients to the local pharmaceutical producer for formulations that will meet with the certificate of suitability required by Indian manufacturers to access the highly regulated health care markets of the West. The performance in the photographic segments has also been satisfactory with several new products being introduced and a strengthening of the cost position.

In spite of tough competition from an MNC which has started local production, the laminating adhesives business performed well. Several new locally developed products have been successfully launched in the Indian market and will soon be exported to Europe. Many new products were introduced in the textile chemicals range enabling the Company to keep its market share despite severe competition in the printing segment. A sizable increase in business was achieved in respect of Tylose for paints and methyl cellulose for the construction industry. Brake fluids and special solvents for the pharmaceutical industry also performed well.

13. Outlook

The outlook is good despite a very competitive situation in the market. While the quality of our pigments is world-class, in the domestic market particularly we are facing a great deal of price resistance. Paint, automotive, housing, printing inks and plastics are growing at 8%, 15%, 30%, 8% and 15% respectively and will continue to grow at the same pace in the foreseeable future. The demand for pigments and additives by these markets will remain buoyant provided the price is right. Colour-Chem is making all efforts to reduce its cost base to ensure that we do not lose our market share due to price resistance. Market trends indicate a change in usage pattern from moderate quality products to high performance ecologically safe pigments and additives. Of late a segment is emerging that is more quality conscious and we will increasingly cater to this segment.

There is good opportunity for servicing customers of the Life Science businesses out of India provided that the additional cost on account of higher crude oil prices and duties can be offset by the several internal cost saving measures that are being implemented.

There is also good opportunity in personal products of the Functional Chemicals division. Clariant has a range of specialties for metal working, solvents and thinners for the paint industry. With the start up of local production in a multipurpose plant being set up at the Roha site, the future outlook is quite optimistic.

14. Internal Control Systems and their adequacy

The Company has effective internal control systems commensurate with the size of the Company. This is further supplemented by an internal audit being carried out by an external firm of Chartered Accountants. The internal auditors conduct audits of the performance of various departments, functions and locations and also statutory compliances