

## **Continuous Assessment Report**

### **Individual/Group Assessment**

Program	DHRM
Subject	Financial Accounting
Title of assignment	Interpretation of Financial Statements of a listed company which is in Colombo Stock Exchange
Name of Student/s	Golden Humans
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### **For lecturer's use only**

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**Submission Date 02nd Jan 2023**

**2022 Group Formation Sheet**

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33) Tharidu Sadaruwan	350	H0387	
34) T.M. Ashan Malinga	351		
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## DEDICATION

I dedicate this with great respect to the teacher of Human Resource Management who gave instructions to our team to carry out this assignment, to the students and parents of our team who helped us in every way to complete this from start to finish, and to everyone including those who work at Siyochem Institute



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## INTRODUCTION TO THE COMPANY

### HARISCHANDRA – The legendary household brand



#### About Harischandra PLC

C.A. Harischandra of Matara was a greater industrialist, known to everyone. **He was born on 13th of November 1911** and was the **fourth son of late Odiris De Silva**, a respectable and reputed business magnet in Matara engaged in coconut oil milling.

Harischandra had four brothers. He received his **primary education at St. Thomas Boys School, Matara** and **secondary education at Ananda College, Colombo**. In 1930 he entered the University College, Colombo and graduated in economics, and he obtained his Inter Commerce degree with credit. After his university education, he came back to Matara and started to run the Broadway Cinema Hall, a bookshop, and a printing press. **In 1938 he married to Miss Cornelia Shanthi of Thihagoda**, a textile weaving teacher at that time.

His charming wife was his own selection and was a tower of strength to him. **They had four daughters**. Harischandra was a best-known social worker involved in educational, health and philanthropic activities. **Harischandra died in 1985 at the age of 74 years**.

#### Evaluation of the business

More than 80 percent of the world's businesses are family owned. In Sri Lanka, there are well-known family-owned businesses like DSI Samson Group, Hemas Holdings Ltd., Damro Group, Siddhalepa Group, Dilma Group, Maliban Plc., Perera & Sons and Ceylon Biscuits Ltd etc. and have been ensured their persistence through success. Some of these companies are operated in international soils. Southern Province of Sri Lanka is considered as the ground for family business enterprises.



As an example, Harischandra Mills PLC, Nipolac Group, Odiris Silva Company, Rich Curd Company, and Saman Mal Restaurant have widely known family businesses originated in Southern province. However, some of these companies are not continuing at present due to several reasons. 'Harischandra' is a well-known family business which, originated in the district of Matara of the Southern Province, Sri Lanka. Matara is one of the largest cities in Sri Lanka belongs to the low country wet zone. Its population is about 803,999 according to the 2012 Population and Housing Census. Matara is situated between Galle and Hambantota districts.



Although there are other ethnic groups, the majority of the people in the district are Sinhala Buddhist. Harischandra is a familial business which has a greater history. Kandaudarata Arachchige Odiris Silva (father of Harischandra) is the founder of the preliminary business, who was born on 2nd August 1867. As his education was disrupted due to some reason, he had started a business for extracting coconut oil by using a Sekkuwa (a grinding machine made out of granite and driven by a bull) belonging to his grandfather – Samichchi de Silva. In addition to his oil business, he had run a cinema and a printing press.

Although Odiris Silva had five sons and six daughters, Harischandra was the only child (fourth son of the family) who actively involved in his father's businesses. After some time, Harischandra decided to start his own business and as a result, he had started a rice mill with a small capital. With the commencement of the World War II in 1942, he started a timber mill and obtained contracts from the government and the Army to supply rice and timber. The Harischandra Mill was formed by Harischandra, in 1943, with an initial capital of Rs. 25,000/- on a land area of 20 perches.

The Company has a long history over seventy-four years and a household brand name has been born purely base on quality. The Harischandra Company had been started as a small business to supply daily essential food, flour and coconut oil for the neighborhood. The company's initial operation was milling of rice, Kurakkan, and other grains. First, a rice mill was started with a small capital at Angarika Dharmapala Mawatha, Matara in 1943. Subsequently, several mills had been started such as mill for timber, rubber, copra, oil, soap and the production of gingelly oil as well. The business had gradually expanded into various other fields including the milling of coconut oil.

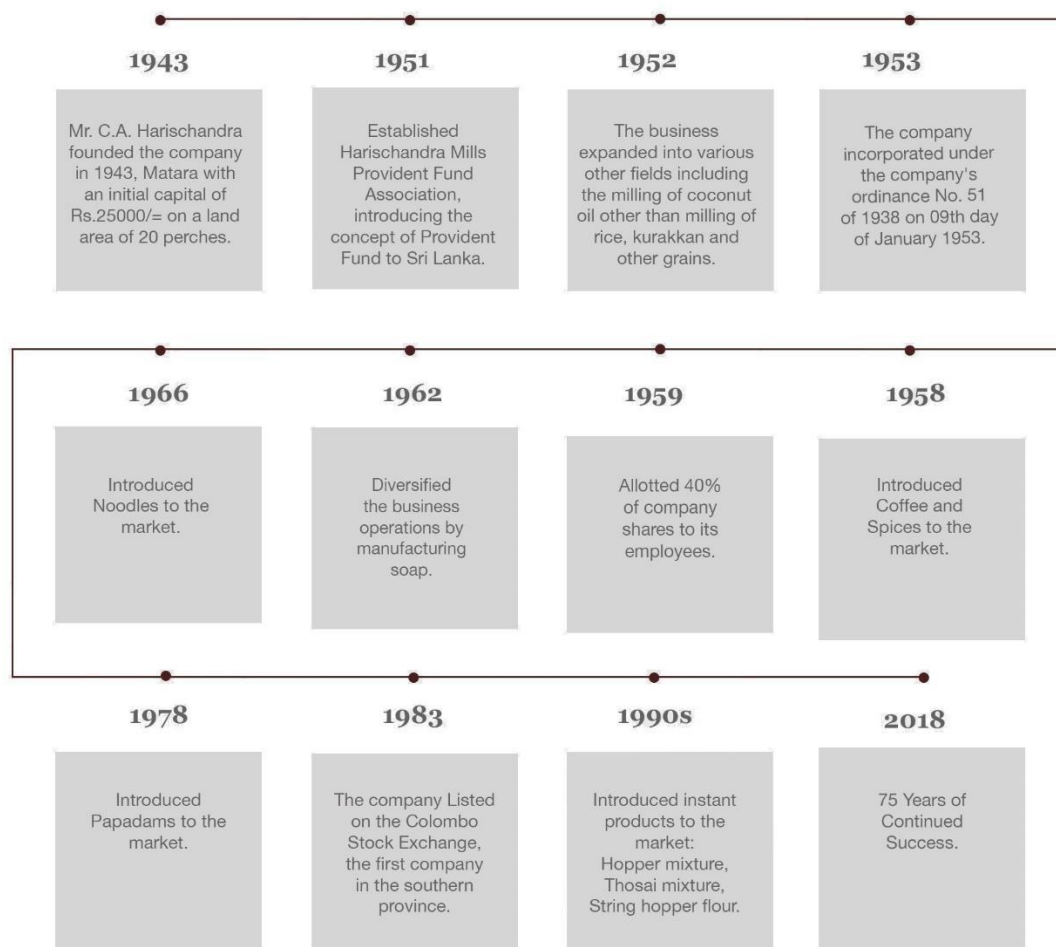
During the period of 1945 – 1946, the business had been shifted over to No. 11, Delkada Road, Matara, Sri Lanka. Within few years, operations were expanded by adding sawmill and Kurakkan flour mill. Soon the reputation of the company for quality spread far and wide. Then the company formed under the name of the Harischandra Mills (Pvt.) Ltd. in 1953. The company was converted to a Public Quoted Company with limited liability on 14th December 1959 under the name of Harischandra Mills PLC. The Registered Office and the principal place of business of the Company are located at No.11, C. A. Harischandra Mawatha, Matara. In 1983 the company was listed on the Colombo stock exchange. At present, the Harischandra Company is in its third generation.

#### **Harischandra product portfolio**

Segment	Description	Products
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Soaps	Harischandra soap range is gentle on the skin and has no added animal fat. Harischandra soaps are backed by generations of trust and are the smart choice for the modern household.	Sal Bar, Senola, Namal, Saman, Aththora
Instant products	Harischandra instant products are the convenient option for the modern Sri Lankan home. With Harischandra instant products making delicious and healthy home cooked meals is simple and quick.	String Hopper flour (Red) String Hopper flour (White) Kurakkan Thosai Mix Hopper /Thosai Mix
Coffee	Harischandra coffee has a rich and deep flavor and as it is made from 100% coffee it produces a pure blend that is smooth in taste and rich in aroma. Drink a cup of Harischandra coffee in the morning and it will give you the perfect start to the day.	Harischandra Coffee
Flour	Harischandra flour has been trusted in homes for generations. With Harischandra flour you are sure of preparing meals that are of quality and taste.	Rice flour Ulundu flour Kurakkan flour
Noodles	Harischandra noodles range has been a trusted product for generations. Turning simple family meals into special events, Harischandra noodles are the convenient way to preparing delicious and healthy home cooked meals.	White Rice noodles Red Rice noodles Kurakkan noodles Special/Plain noodles
Papadam	has been a favorite accompaniment for generations, with the young and old alike enjoying the crispy taste. Harischandra papadam is made from natural ingredients and is packed with taste and goodness. Fry some Harischandra papadam and watch the food disappear.	Masala Papadam Rice papadam Papadam
Pickles / Chutney / Curry Pastes & powders	With its home cooked flavor, natural ingredients and no artificial preservatives, the Harischandra pickle range is a convenient and healthy choice for the modern home. Turn everyday meals into special occasions as Harischandra pickles enhance the flavor of your dishes.	Date and Lime chutney/ Tamarind chutney/ Malay /Garlic pickle Curry paste/ Chilli paste Turmeric/Chilli powder
Gingelly rolls	Harischandra gingerly rolls are legendary and are the perfect after meal dessert or snack. Jaggery and sesame seeds are combined to create this local heavenly sweet.	Harischandra Gingelly rolls
Kithul Treacle	A staple in all Sri Lankan homes Harischandra Kithul treacle is made from natural Kithul sap. It is used to make traditional sweets and is also ideal for curd, ice cream or with freshly baked bread.	Harischandra Kithul Treacle
Coconut vinegar	Harischandra coconut vinegar brings out the natural flavor of salads made with fresh vegetables. Just a splash of Harischandra coconut vinegar makes home cooked fish and meat curry tastier.	Harischandra Coconut vinegar
Bakery Products	Harischandra produces a wide range of bakery products.	Bread, Rolls, Biscuits, Buns, Murukku ...etc
Source: Official website of Harischandra Mills PLC, 2019		

## **History of HARISCHANDRA PLC**



## **IN OUR DISCUSSION**

**Presently**, Harischandra is the market leader for noodles, coffee, Kurakkan flour and Ulundu flour. In addition, the company has an appreciable market share for rice flour, laundry bar soap and blue washing soap. Today, the company offers a wide range of goods (thirty-three brands) as depicted in Table 1, all across Sri Lanka. All the Harischandra brands are fallen under two main marketing segments of food and soap. Thus, the principal activity of the company is manufacturing and distribution of food and soap products.

The main objective of the company was to utilize local raw materials and to provide maximum job opportunities to the people in the area. The company has four main corporate objectives namely Constant improvement of the quality of all products Provide a fair return to shareholders while safeguarding their investment To encourage and promote the manufacture of foodstuffs and maximizing the use of raw materials locally available. Provide opportunities for personal and career development of employees with maximum benefits.

The company Vision lies down to enhance the heritage brand status and serves the nation. The formulated Mission statement of the company is to provide the public with a variety of high-quality foods and soaps. Both statements reflect the differentiation of strategy and the accountability of enhancing the national heritage brands by means of maintaining the high quality. The company always used indigenous raw materials for its products. Therefore, the farmers in the area got an opportunity to supply required raw materials and they were able to find a market. The company ensures maximum manual operations in the manufacturing/supply/value chain to sales and marketing besides employing the state-of-the-art technologies for the production of bulk products.

## **INTERPRETATION OF FINANCIAL STATEMENTS**

### **Comparative Income Statements**

<b>Harischandra Mills PLC</b>				
Comparative income statements For the years ended 31 March				
	2020	2019	Amount	100%
Revenue (Sales)	Rs. 3,652,268,411.00	Rs. 3,626,418,360.00	Rs. 25,850,051.00	0.7%
Cost of Sales	Rs. 2,928,452,487.00	Rs. 926,000,645.00	Rs. 2,002,451,842.00	216.2%
Cost of good sold	Rs. 2,828,787.00	Rs. 2,851,176.00	-Rs. 22,389.00	-0.8%
Gross Profit	Rs. 723,815,924.00	Rs. 700,409,715.00	Rs. 23,406,209.00	3.3%
Gross Margin	Rs. 3,649,439,624.00	Rs. 3,623,567,184.00	Rs. 25,872,440.00	0.7%
Other income	Rs. 46,657,542.00	Rs. 101,976,334.00	-Rs. 55,318,792.00	-54.2%
Distribution expenses	Rs. 240,669,403.00	Rs. 244,763,588.00	-Rs. 4,094,185.00	-1.7%
Administrative expenses	Rs. 315,199,238.00	Rs. 271,522,157.00	Rs. 43,677,081.00	16.1%
Operating Expenses	Rs. 558,864,641.00	Rs. 516,285,745.00	Rs. 42,578,896.00	8.2%
Operating Profit	Rs. 214,604,825.00	Rs. 286,100,304.00	-Rs. 71,495,479.00	-25.0%
Net operating income	Rs. 46,657,542.00	Rs. 101,976,334.00	-Rs. 55,318,792.00	-54.2%
Interest expenses	Rs. 1,447,979.00	Rs. 7,234,115.00	-Rs. 5,786,136.00	-80.0%
Net income before taxes	Rs. 946,147,285.00	Rs. 309,768,440.00	Rs. 636,378,845.00	205.4%
Finance Income	Rs. 32,990,439.00	Rs. 30,902,251.00	Rs. 2,088,188.00	6.8%
Finance expenses	Rs. 1,447,979.00	Rs. 7,234,115.00	-Rs. 5,786,136.00	-80.0%
<b>profit before tax</b>	<b>Rs. 246,147,280.00</b>	<b>Rs. 309,768,440.00</b>	<b>-Rs. 63,621,160.00</b>	<b>-20.5%</b>
<b>Income tax expenses</b>	<b>Rs. 93,564,538.00</b>	<b>Rs. 59,838,063.00</b>	<b>Rs. 33,726,475.00</b>	<b>56.4%</b>
<b>Net income</b>	<b>Rs. 150,603,342.00</b>	<b>Rs. 252,453,610.00</b>	<b>-Rs. 101,850,268.00</b>	<b>-40.3%</b>

Sales Decreased by 0.7% yes net income increased by 88.4%

There were increases in both cost of goods sold (0.7%) and operating expenses (7.6%).

This increase in cost resulted in a decrease in sales indicating an increase in net income.

### Income Information

Harischandra Mills PLC					
Income Information					
For the years ended 31 March					
Item	Year				
	2020	2019	2018	2017	2016
Sales	Rs. 3,652,268,411.00	Rs. 3,626,418.00	Rs. 178,556,180.00	Rs. 3,003,823.00	Rs. 2,826,223,246.00
Cost of goods sold	Rs. 2,828,787.00	Rs. 2,851,176.00	-Rs. 2,467,271.00	-Rs. 2,369,175.00	Rs. 2,188,289.00
Gross margin	Rs. 3,649,439,624.00	Rs. 3,623,567.00	Rs. 3,001,454,762.00	Rs. 3,001,454,762.00	Rs. 2,824,034,957.00

Harischandra Mills PLC					
Income Information					
For the years ended 31 March					
Item	Year				
	2020	2019	2018	2017	2016
Sales	129%	128%	112%	106%	100%
Cost of goods sold	129%	130%	112%	108%	100%
Gross margin	129%	128%	112%	106%	100%

By analyzing the trends for Harischandra Mills PLC we can see that the cost of goods and sold is increasing faster than sales, which is slowing the increase in gross margin.

## Comparative Balance Sheets

Harischandra Mills PLC				
Comparative balance sheets				
31-Mar				
	2020	2019	Amount	100%
<b>Assets</b>				
Non-Current assets				
Property, plant and equipment	Rs. 921,502,755.00	Rs. 810,219,979.00	Rs. 111,282,776.00	13.7%
Intangible assets	Rs. 1,387,376.00	Rs. 1,532,058.00	-Rs. 144,682.00	-9.4%
Right of use asset	Rs. 6,466,727.00		Rs. 6,466,727.00	0.0%
Investment in Subsidiary	Rs. 70.00	Rs. 70.00	Rs. 0.00	0.0%
<b>Total Non-Current assets</b>	<b>Rs. 929,356,928.00</b>	<b>Rs. 811,752,107.00</b>	<b>Rs. 117,604,821.00</b>	<b>14.5%</b>
Current assets				
Inventories	Rs. 310,185,346.00	Rs. 188,847,495.00	Rs. 121,337,851.00	64.3%
Trade and other receivables	Rs. 371,438,404.00	Rs. 418,463,281.00	-Rs. 47,024,877.00	-11.2%
Investment in Unit trusts	Rs. 5,751,000.00	Rs. 5,379,000.00	Rs. 372,000.00	6.9%
Investment in fixed deposits	Rs. 239,565,685.00	Rs. 221,143,528.00	Rs. 18,422,157.00	8.3%
Cash and cash equivalents	Rs. 73,159,225.00	Rs. 74,841,630.00	-Rs. 1,682,405.00	-2.2%
<b>Total current assets</b>	<b>Rs. 1,000,099,660.00</b>	<b>Rs. 908,674,934.00</b>	<b>Rs. 91,424,726.00</b>	<b>10.1%</b>
<b>Total assets</b>	<b>Rs. 1,929,456,588.00</b>	<b>Rs. 1,720,427,041.00</b>	<b>Rs. 209,029,547.00</b>	<b>12%</b>
<b>Equity</b>				
Stated capital	Rs. 105,478,000.00	Rs. 105,478,000.00	Rs. 0.00	0.0%
Other capital reserves	Rs. 11,014.00	Rs. 11,014.00	Rs. 0.00	0.0%
General reserve	Rs. 12,841,000.00	Rs. 12,841,000.00	Rs. 0.00	0.0%
Retained earnings	Rs. 1,285,035,457.00	Rs. 1,230,114,915.00	Rs. 54,920,542.00	4.5%
<b>Total equity attributable to owners of the company</b>	<b>Rs. 1,403,365,471.00</b>	<b>Rs. 1,348,444,929.00</b>	<b>Rs. 54,920,542.00</b>	<b>4.1%</b>
<b>Liabilities</b>				
Non-Current liabilities				
Deferred tax liabilities	Rs. 41,818,461.00	Rs. 41,250,533.00	Rs. 567,928.00	1.4%
Employee benefit obligation	Rs. 109,246,500.00	Rs. 95,384,457.00	Rs. 13,862,043.00	14.5%
Lease creditor	Rs. 440,479.00		Rs. 440,479.00	0.0%
<b>Total non-Current Liabilities</b>	<b>Rs. 151,505,440.00</b>	<b>Rs. 136,634,990.00</b>	<b>Rs. 14,870,450.00</b>	<b>10.9%</b>
Current liabilities				
Trade and other payables	Rs. 238,918,415.00	Rs. 190,588,247.00	Rs. 48,330,168.00	25.4%
Lease creditor	Rs. 155,027.00		Rs. 155,027.00	0.0%
Current tax liabilities	Rs. 6,871,951.00	Rs. 16,126,097.00	-Rs. 9,254,146.00	-57.4%
Bank Overdraft	Rs. 128,540,284.00	Rs. 28,532,778.00	Rs. 100,007,506.00	350.5%
<b>Total current liabilities</b>	<b>Rs. 374,485,677.00</b>	<b>Rs. 235,247,122.00</b>	<b>Rs. 139,238,555.00</b>	<b>59.2%</b>
<b>Total liabilities</b>	<b>Rs. 525,991,117.00</b>	<b>Rs. 371,882,112.00</b>	<b>Rs. 154,109,005.00</b>	<b>41.4%</b>
<b>Total equity and liabilities</b>	<b>Rs. 1,929,356,588.00</b>	<b>Rs. 1,720,327,041.00</b>	<b>Rs. 209,029,547.00</b>	<b>12.2%</b>



## Common Size Statements

Common Size - Statements				
Harischandra Mills PLC				
Comparative income statements For the years ended 31 March				
	2020	2019	2020	2019%
Revenue (Sales)	Rs. 3,652,268,411.00	Rs. 3,626,418,360.00	100.0%	100.0%
Cost of Sales	Rs. 2,928,452,487.00	Rs. 926,000,645.00	80.1%	80.6%
Cost of good sold	Rs. 2,828,787.00	Rs. 2,851,176.00	0.0%	0.0%
Gross Profit	Rs. 723,815,924.00	Rs. 700,409,715.00	19.8%	19.3%
Gross Margin	Rs. 3,649,439,624.00	Rs. 3,623,567,184.00	99.9%	99.9%
Other income	Rs. 46,657,542.00	Rs. 101,976,334.00	1.2%	2.8%
Distribution expenses	Rs. 240,669,403.00	Rs. 244,763,588.00	6.5%	6.7%
Administrative expenses	Rs. 315,199,238.00	Rs. 271,522,157.00	8.6%	7.4%
Operating Expenses	Rs. 558,864,641.00	Rs. 516,285,745.00	15.2%	14.2%
Operating Profit	Rs. 214,604,825.00	Rs. 286,100,304.00	5.8%	7.8%
Net operating income	Rs. 46,657,542.00	Rs. 101,976,334.00	1.2%	2.8%
Interest expenses	Rs. 1,447,979.00	Rs. 7,234,115.00	0.0%	0.1%
Net income before taxes	Rs. 946,147,285.00	Rs. 309,768,440.00	9.4%	8.5%
Finance Income	Rs. 32,990,439.00	Rs. 30,902,251.00	0.9%	0.8%
Finance expenses	Rs. 1,447,979.00	Rs. 7,234,115.00	0.0%	0.1%
profit before tax	Rs. 246,147,280.00	Rs. 309,768,440.00	6.7%	8.5%
Income tax expenses	Rs. 93,564,538.00	Rs. 59,838,063.00	2.5%	1.6%
Net income	Rs. 150,603,342.00	Rs. 252,453,610.00	2.8%	6.9%

## INDIPENDANT AUDITOR'S REPORT

To the shareholders of HARISCHANDRA MILLS PLC

### Report on the Audit of the financial statements

#### Opinion

We have audited the financial statements of Harischandra Mills PLC ("The company") and the consolidated financial statements of the company and its subsidiary ("The Group") which comprise the statements of profit or loss and other comprehensive income, statements of cash flows for the year then ended, and notes to

the financial statements, including a summary of significant accounting policies on this annual report.

In our opinion the accompanying financial statements of the company and the group give a true and fair view of the financial position of the company and the group as at 31 March 2020 and of their Financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuss) our responsibilities under those standards are further described in the auditor responsibilities for the audit of the financial statement section of our report. We are independent of the group in accordance with the code of Ethics issued by CA Sri Lanka (code of Ethics) and we have fulfilled our other Ethical responsibilities in accordance with the code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit Matters are those Matters that in our professional judgement were of most significance in our audit of the company financial statements and the consolidated financial statements of the current period. The matters were addressed in the context of our audit of the company financial statements and the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

#### Business Risks

The authorized and published papers revealed that the persistence of family businesses is controversial in the future. There is empirical evidence to prove the fact that only 30% of family businesses span to the second generation and that only about 10% to 15% survive by the third generation. The major reason for this failure is improper succession planning. The objective of this case story is to identify whether the existing succession process is durable enough to safeguard the future of the wellknown Sri Lankan family-owned business called Harischandra Mills PLC. The Company has a long history of over seventy-three years along with a household brand name with quality assurance. While this case focuses on the generational differences and the leadership transformation pattern between the founder and the successors of



Harischandra Mills PLC, it also offers some important guidance for the micro and macro perspectives in entrepreneurship. The leadership transformation gaps of Harischandra Mills PLC were explored by the researcher along with safety measures to ensure long-term success, as well as for a smoother transition of the leadership. The success of a family firm depends on its ability to maintain the stability of the business. Hence, it can be said that an effective succession strategy is vital for Harischandra Mills Ltd. to attain a higher level of business performance and to maintain long-term sustainability.



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