

# [China huiyuan juice group limited](https://assignbuster.com/china-huiyuan-juice-group-limited/)

[Economics](https://assignbuster.com/essay-subjects/economics/), [Tax](https://assignbuster.com/essay-subjects/economics/tax/)

On September 3, 2008, the Coca-Cola Company offered to buy China Huiyuan Juice Group, the nation’s largest juice maker (which was listed in Hong Kong), for 17. 92 billion Kong Kong dollars in cash. The acquisition was halted by Chinese regulator. On March 18, 2009, the Ministry of Commerce (MOC) announced that Coca-Cola’s bid to acquire Huiyuan failed to meet the country’s anti-monopoly law. Huiyuan gained 149 percent from the time before the offer announcement to the day before the ministry’s announcement.

In mid 2008, in preparation for negotiation with Coca-Cola for a possible deal, the chief financial officer (CFO) of Huiyuan, Mr. Francis Ng, worked to evaluate the fair value of his company. He started with financial forecast. In this question, suppose you are the CFO and work on the three-year financial forecast for the period 2008-2010. With the provided balance sheets and income statements of the years 2005-2007 (posted on course web), answer the questions using suitable historical average percentages (of sales).

Corporate income is expected to be taxed at the marginal tax rate of 25%. Both common stock and long-term debt will remain unchanged during the forecast period. (a) Use historical average percentages of sales to obtain forecast of income items, current assets, current liabilities, and net fixed assets for the period of 2008-2010, and then determine Huiyuan’s free cash flows (and cash flow components) for each year. Ignore issues regarding external fund needed.

(b) Complete the forecast table, using historical average ratios wherever applicable. Use overdrafts (a line of current liabilities) to indicate any external capital needed. Huiyuan will keep its cash level at HK$110 million or higher. The base interest rate of 3% applies to both cash and overdrafts. Interest rates on Huiyuan’s long-term debt will be averaged at 7. 5%. (c) Determine external fund needed, total assets, earnings per share, return on equity, and the ratio of total liabilities over total assets, for year 2010, for each of the following growth rates of sales: 10%, 14%, 18%, 22%, 26%, and 30%. The firm has constant 1, 365, 068, 000 shares outstanding. (Hint: you can use excel’s “ data table” function to simplify your calculation.)