a)

A large group with multiple member companies, its financial management structure can be divided into two types, namely, decentralized and centralized. The connotation of decentralized financial model is the financial fragmentation of each member enterprise, which decides the financial problem, while the group company can pay attention to the strategy and so on. The connotation of the centralized financial model is that all the financial rights of the enterprise are concentrated in the group company, and the members of the group must strictly implement the financial decisions of the group.

The advantage of using decentralized financial management model is to stimulate the creativity of subsidiaries and improve the efficiency of financial decision-making. At present, more and more enterprises adopt the centralized financial management mode, which is due to the fact that:

The group's subsidiaries have different management and mode of operation, and other legal persons is equal and independent, in this case, if not a unified, can easily lead to overall planning in the whole picture, caused some waste of resources, influence the whole efficiency of the group.

And the centralized financial management mode should follow the following principles: conducive to resource utilization; to encourage subsidiaries and employees of various departments; conducive to the subsidiary and part of the performance evaluation; to achieve the overall strategic objectives for the company.

But we know the truth too far, so excessive concentration or excessive decentralization will affect the group's overall strategic objectives. From the point of view of enterprise practice, neither is desirable. So we should combine, grasp a suitable degree, you can better play to the headquarters of the group's financial management functions, and can better elicitor, creativity. The combination of the two can overcome both shortcomings, but also play both advantages. The allocation of the main decision-making power at the head office, and the subsidiary company with independent management, such distribution is the most ideal.

b)

i)

In order to evaluate the buyout financially by using discounted cash flows, we should calculate the future spot rates in the first place. Considering that the buyout involves two countries, that is, China and Australia, we will do the calculation separately. As for China, the future spot rates in ten years are as follows.

|  |  |  |
| --- | --- | --- |
|  |  | Spot Rate |
| Current |  | 9.67 |
| In one year |  | 9.71 |
| In two year |  | 9.75 |
| In three year |  | 9.79 |
| In four year |  | 9.82 |
| In five year |  | 9.86 |
| In six year |  | 9.9 |
| In seven year |  | 9.94 |
| In eight year |  | 9.98 |
| In nine year |  | 10 |
| In ten year |  | 10.26 |

Then, we can calculatee the net present value in pounds.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Cash Flow(Yuan) | 3 | 3.3 | 3.63 | 3.99 | 4.39 | 4.83 | 5.31 | 5.85 | 6.43 | 7.07 | 7.78 |
| Spot Rates | 9.67 | 9.71 | 9.75 | 9.79 | 9.82 | 9.86 | 9.9 | 9.94 | 9.98 | 10 | 10.26 |
| Cash Flow(pounds) | 0.31 | 0.34 | 0.37 | 0.41 | 0.45 | 0.49 | 0.54 | 0.59 | 0.64 | 0.7 | 0.76 |
| Discount Factor 15% | 1 | 0.87 | 0.756 | 0.658 | 0.572 | 0.497 | 0.432 | 0.376 | 0.327 | 0.284 | 0.247 |
| Present value | 0.31 | 0.29 | 0.28 | 0.27 | 0.26 | 0.24 | 0.23 | 0.22 | 0.21 | 0.2 | 0.18 |

According to the chart above, we can figure out that the net present value is ￡2.07 million. As for Australia, we can use the same way to calculate NPV

Net Present Value = .

ii)

⚫If the M & A enterprise requires an installment payment and the payment price is paid at the rate of performance, this measure will help narrow the gap between the two parties in terms of the merger price, which will enable the target enterprise to maintain the normal operation of the enterprise at the beginning of the merger, To prove the value of the enterprise, and the mergers and acquisitions can also protect themselves, so that the performance of the merger after the completion of the rapid decline.

And the use of the full payment of the way, then there is no more advantages, increased the financial pressure of the enterprise. So I suggest that mergers and acquisitions business or to try to conduct business negotiations, but also can make concessions, such as reducing the repayment period and other conditions.

If using the full payment of the payment method, then the enterprise will need to plan for the next financial issues to ease the financial constraints.

⚫ After the acquisition of the new subsidiary, general cash flow will rise, if the actual cash flow in the actual operation process of the cash flow is lower than the previous forecast, so on the one hand that a merger plan may not be so ideal, in this case a strategic plan to re look at the Target Corp specific indicators and corporate. On the other hand, it shows that after the merger, the cooperation between the two companies may not be good enough, so it is necessary to make much effort in the field of cooperation and make more business exchanges. The worst case is to sell the subsidiary again.

iii)

The theory of purchasing power parity has a profound influence on the theory of economic field and the method of economic analysis. Provides the basis for the exchange rate decision theory of purchasing power parity, and monetary and credit system origin deep analysis has been widely used in the field of international economy, specifically, plays a very important role in the exchange rate decision.

This famous theory also has its shortcomings, the theory of purchasing power parity is that it is based on the theory of money, money quantity theory assumes that money was the only factor affecting the price, so long as the production structure and consumption structure of the two countries and the price system roughly the same, then the exchange rate changes between the two countries may be very close. This shows that the purchasing power is not as accurate as the purchasing power parity between the parity and the real exchange rate is a big deviation, which is the weakness of the purchasing power parity theory.

写到这里

Now, I put forward another theory: Interest rate parity theory holds that the relationship between the spot exchange rate between the two countries and the forward exchange rate is closely related to the interest rates of the two countries. The main starting point of the theory is that the short-term interest rate income obtained by investors in China should be equal to the short-term investment income obtained by converting foreign exchange into foreign exchange at the spot exchange rate and buying back the currency at the forward exchange rate.

Since interest rates were raised for the first time since the 1920s, interest rate parity was valued by Western economists. What it differs from purchasing power parity is the study of the relationship between capital flows (not commodity flows) and exchange rate decisions, which illustrate the reasons for the change in exchange rates - the flow of capital in the international context. Interest rate parity is not a perfect exchange rate decision theory, because some of the assumptions of interest rate parity theory are difficult to set up in reality, coupled with the complexity of factors that affect future exchange rate changes, the interest rate parity theory in the short-term exchange rate speculation in practice, the actual effect of interest rate parity is uncertain.

c)

In the current financial environment, corporate mergers and acquisitions mainly have two major sources: own funds and bank loans. Equity financing due to the financing side to be listed companies, and to meet certain financing conditions, the implementation of the corresponding audit procedures and other reasons, the financing costs are too high and fewer audiences; bond financing, corporate bonds, corporate bonds issued, Strict, and the low credit rating of the bond issue has a very strict restriction. It is precisely because of the financing bottleneck constraints, the current existing M & A business is mostly self-owned funds, which is very serious restrictions on the number of mergers and acquisitions, quality and efficiency.

Another source of funding is the M & A fund. Throughout the history of mergers and acquisitions, every time the peak of mergers and acquisitions, all kinds of funds involved in mergers and acquisitions market, M & A fund played a big role.

Therefore, the company in the financing process may encounter problems:

1. Financing channels are single. For now, the financing of corporate mergers and acquisitions, in the current business efficiency is generally poor situation, the amount of financing is very limited. In terms of loan financing, some banks will only lend to better-performing companies, and many banks are reluctant to allow speculative firms to operate, which increases the difficulty of financing to a certain extent. If the listed company mergers and acquisitions of non-listed companies, then the new part of the stock market there are obstacles.

2. At present, when mergers and acquisitions mainly rely on bank loans, the issue of shares to raise funds, financing tools more monotonous. Coupled with the current capital market itself has been the shortcomings, making the difficulty of financing M & A increased.

3. If the listed company as a mergers and acquisitions, but also to consider the ownership structure of listed companies, due to the particularity of the shares of listed companies, the proportion of outstanding shares, so this way for the acquirer, it is often to pay higher than Non-tradable shares transfer several times the cost. The increase in the cost of mergers and acquisitions will undoubtedly lead to an increase in the number of financing, indirectly increasing the difficulty of financing, risk, and success rate.

4. Through the market means of mergers and acquisitions, not only to consider the situation before the acquisition of funds, but also to consider the merger of funds after the refinancing situation. Mergers and acquisitions are paid to the target business owners, do not enter the target business; after the acquisition of funds into the reimbursement of financing when borrowing and so on the business operation has a crucial role, but also the key to the success of M & A activities. And the current corporate mergers and acquisitions is only concerned about the financial needs of mergers and acquisitions, mergers and acquisitions after the lack of funds to prepare, this is not only easy to cause M & A activities halfway, but also a waste of early investment funds.

d)

i)

1.Through the internal transfer pricing using the national income tax rate difference to achieve tax avoidance.

First, the commodity trade between affiliated companies uses a low-priced approach to sell the goods in order to achieve tax avoidance.

Second, the commodity trade between affiliated enterprises adopts the way of raising the price, so as to achieve the purpose of tax avoidance.

Thirdly, between the affiliated enterprises, the profits are transferred through the full use of intangible assets, the co-ordination of funds, or the full use of the transfer of pricing methods.

2.Tax avoidance through taxpayers through internal transfer pricing.

3.Through the internal transfer pricing use of tariffs to achieve tax savings.

Although the transfer pricing to the enterprise to bring huge profits, but it will result in the loss of a country's tax revenue. So each country has adopted the appropriate policy and legal means to prevent enterprises to take improper means to transfer profits, to avoid tax. Transfer pricing is a double-edged sword, enterprises in the use of transfer pricing tax planning, it is necessary to legitimate and legitimate to achieve tax savings, but also to avoid slippage tax misunderstanding, and the tax, multi-tax rate between the tax structure, Local, immediate and long-term interests of the relationship to be considered in order to prevent the transfer pricing and business process of taxation, law and other risks.

In short, the effective use of this approach through internal transfer pricing can change the income and costs of the enterprises associated with each country, and so on. For multinationals, in this way, To achieve a variety of ways to achieve the transfer of profits and to achieve the tax burden of regulation, so as to effectively avoid tax, and ultimately maximize the profits of enterprises.

According to the relevant website data, China's import duty rate for seasoning sauce is 8.4%, while the Australian tax rate is 17.6%, then you can let the Australian subsidiary of the sauce at a very low price to sell to the branch in China, although Australia's subsidiary lost, but the profits of the Chinese branch has risen, and China's import tax rate is relatively low, then you can avoid the difference between the two tax rates formed by the amount of tax.

ii)

⚫Many large multinational companies operating the financial sector is still subject to the financial value chain of incomplete control and supervision, information dispersion and capacity imperfections. In addition, smaller companies often lack the technical and human resources needed to optimize their funding. These gaps in the optimization of the Treasury are particularly dangerous in today's environment due to the tightening of the credit market, the accelerating pace of globalization, the speed of operations, and the unprecedented level of financial risk in the market. Today, a well-functioning financial sector can be a difference between financial success and failure than ever before.

One drawback of central technology management is that it may take longer to send assistance from the central location when the device is locally disabled. Centralized accounting facilitates the integration of financial data in remote areas to provide a comprehensive view of the company's performance. One drawback of centralized accounting is that large staff with related costs must be maintained at headquarters locations. As labor costs in remote areas fall, it may be cheaper to allocate some accounting functions to other areas.

One drawback of centralized disaster management is that it may take longer to send resources if a problem occurs at a remote location.

⚫Centralization is the key to reduce the cost of debt, increase the return on investment, provide professional knowledge for the business department, reduce the financial risk and ensure the liquidity of the whole group.

Through the centralized payment process, the company can achieve significant efficiency and maximum revenue from financial management.

A centralised treasury offers a number of tangible and intangible benefits to the corporation, including:

Economic

Improved working capital management through increased access to cash, resulting in reduced debt and increased return on investments of excess cash.

Reduced number of cash flows leading to improved management of liquidity.

Reduced number of bank accounts, which translates to lower transaction costs and bank fees.

Control

Standardised cash management across all legal entities.

Global compliance with headquarters treasury policies and procedures, including Sarbanes-Oxley (SOX) and Office of Foreign Assets Control (OFAC) requirements.

Risk management

More effective management of FX exposures and interest rate risks through global oversight.

Netting of exposures leading to cost savings from fewer FX conversions and bank transfers.

Global view and management of limits on bank exposure.

Scale economies

Increased productivity by leveraging centralisation of treasury activities and technology to achieve more output with fewer human resources.

Better process management through standardised key performance indicators (KPIs).

Transition to a centralised treasury is no easy task. Treasurers should keep in mind several critical success factors for a smooth transition:

Involvement of regional and local financial personnel

Critical for local buy-in as subsidiaries give up responsibility for some treasury tasks.

Local knowledge will undoubtedly be required to structure the right banking architecture for a global solution.

Executive management support

Senior corporate management must sponsor the project to ensure sufficient resources for a successful transition.

Division, regional, and local senior management must also be on board to ensure coordination with corporate treasury to get the project done.

Technology

Best-in-class technology is a requirement for a centralised global treasury operation:

Treasury management systems (TMS).

Derivatives management and trading systems.

Bank-to-book reconciliation software.

SWIFT.

Treasury technology should be bank-agnostic to ease the transition from one banking partner to another in the event of a bankruptcy or financial crisis.

A global standard enterprise resource planning (ERP) system, while not necessarily a prerequisite, nevertheless will reduce the amount of effort to create interfaces with the new treasury technology needed for centralisation.

The right banking partners

Critical to the success of a treasury centralisation effort is the selection of the right banking partners.

Bank capabilities must be appropriate on a local, regional, or global basis, depending on the banking need.

Evaluation of the bank’s future commitment to providing a particular service is essential prior to awarding the business.