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KPMG AGRIBUSINESS
AGENDA 2016 VOLUME 1**



AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

13 July 2016

Organisations referenced in this week's Field Notes include:

AgriHQ	Horticulture New Zealand
ANZ	Irish Farmers' Association
Apiculture New Zealand	KPMG
ASB	Marlborough District Council
Ashburton Council	Microsoft
Auld Brewer Mazengarb & McEwen	Ministry for Primary Industries
Barclays	Monsanto
Chipotle	New Zealand Tamarillo Growers Association
Consumer Goods Forum	NZX
Dairy Australia	Pengxin
Danone	Pepsi
Delegat Group	Potatoes New Zealand
Environmental Protection Authority	Rabobank
European Union	Skretting
Federated Farmers	Sky Greens
First NZ Capital	T&G Global
Fonterra Co-operative Group	Tomatoes New Zealand
Food and Drug Administration	United Nations Food and Agriculture Agency
Gills 'N' Claws	University of Kassel
Global Dairy Trade	University of South Australia
Golden Wing Mau Agricultural Produce	Vegetables New Zealand
Green Party	Westpac
Hawke's Bay Regional Council	WhiteWave Foods

This week's headlines

Aquaculture	Residents 'devastated' as finfish facility approved for Okiwi Bay [11 July/ Business Day: NZ Farmer]
Dairy	World dairy prices edge lower at GDT auction [6 July/ NZ Herald]
Biosecurity	Horticulture growers welcome arrival of wasp that attacks crop pest [8 July/ Business Day: NZ Farmer]
Economics and trade	Trade agenda push at G20 [8 July/ Rural News]
Water	Feds pleased Ruataniwha gets another green light [11 July/ Rural News]

NEW!! KPMG International Publication: Consumer Markets Top of Mind Survey 2016



Industry has a big appetite for big data but is wasting its time in other areas: Survey [11 July/ Food Navigator] A survey carried out by KPMG and the Consumer Goods Forum showed that food and drink executives didn't really know what was important to consumers. The study noted that 35 percent of food and drink firms thought customers wanted to get involved in new product development, while in fact 49 percent of consumers said they did. The study added that 37 percent of executives believed customers wanted them to be active on social media, but just 14 percent of customers said it was one of the five most important factors in selecting which brands to buy. KPMG Global Customer Centre of Excellence Head, Julio Hernandez said companies needed to gather and analyse as much data as possible so they could start to understand the motivation for why, when and how a consumer makes a purchase decision at any given time.

The survey can be accessed by following this link <https://home.kpmg.com/uk/en/home/insights/2016/06/global-consumer-executive-top-of-mind-survey-2016.html>

Horticulture

China's Golden Wing Mau buys 19.99% of T&G Global [11 July/ National Business Review] Chinese fruit exporter, Golden Wing Mau Agricultural Produce, has increased its stake in T&G Global to 19.9 percent, making it the second biggest shareholder in the company. The Chinese company's \$72.2 million acquisition of shares meant it paid \$2.95 per share, an 18 percent premium on the market price of \$2.50 per share. The transaction is subject to Chinese regulatory approvals and is expected to settle on or before 15 September.

Viticulture

Delegat revises forecast full-year profit to \$37m on record case sales [8 July/ National Business Review] Delegat Group has revised its forecast net operating profit for the 2016 financial year up from \$36 million to \$37 million. The wine company achieved a record 2.4 million case sales during the year, up 9 percent on last year. Delegat had been expanding its vineyards and targeting increased exports as it seeks to build a leading global wine company with its Oyster Bay and Barossa Valley Estate wine brands.

Apiculture

Beekeepers buzzing in unity [6 July/ Rural News] Apiculture New Zealand Conference Chairman, John Hartnell said the industry conference recently held in Rotorua had received 1,456 registrations, making it the city's biggest ever domestic conference. Mr Hartnell added that the conference theme was unity and speaking with one voice. Mr Hartnell said the traceability of products was a major concern, with electronic chipping of hives and products being at an early stage of development. Mr Hartnell explained that the market wanted a guarantee that honey products were genuinely from New Zealand and could be traced back to the hive.

Aquaculture

Kaikoura crayfish farmer Vince Scully makes hatchery using recycled materials [6 July/ Business Day: NZ Farmer] Freshwater Crayfish Farmer, Vince Scully has added to the potential of his business by making a hatchery from scratch using recycled material wherever possible. The hatchery would shorten the winter incubation period by keeping the water at a warm 20 degrees Celsius, allowing the babies to be released into the ponds during spring and grow big enough to fend off predators by summer. Mr Scully said he was proud of using recycled materials and maintaining the water temperature through the energy created from his bio-filter.

Residents 'devastated' as finfish facility approved for Okiwi Bay [11 July/ Business Day: NZ Farmer] The Marlborough District Council has given seafood company, Skretting, approval to construct a finfish research facility. The Marlborough District Council had received 219 submissions in relation to the application, of which 10 were in support and 209 were opposed. Okiwi Bay Resident, Paula Holder said she was devastated by the decision and it was sad to think that a multinational company could come in and pollute the bay. Skretting New Zealand Technical Account Manager, Ben Wybourne said the environmental impact would be minimal and no fish food would be discharged into the bay. Mr Wybourne added that a lot of people had not understood the effects of the proposal.

Dairy

World dairy prices edge lower at GDT auction [6 July/ NZ Herald] The results of the latest GlobalDairyTrade auction saw the price index fall by 0.4% on the last sale, with whole milk powder prices falling 1.6% to US\$2,062 per tonne. Prices increased by 2.6% of skim milk powder. This auction and the next couple of events are considered by economists to be important guides as to whether Fonterra's forecast milk price for the 2016/17 season will be achieved. Con Williams from the ANZ noted that the main price support was for product to be delivered in August, suggesting that there were a group of buyers with short term requirements, adding that the prices for whole milk powder contracts for delivery later in the year had fallen between 4 and 6%. He said prices remain precariously placed and with NZ dollar resilience the forecast of \$4.25 looks optimistic at the current stage, suggesting that if recent auction prices persisted it was likely the price would be little changed from the season that has just finished.

Potential gain from dairy pain if farmers stay ahead of future price curves – report [7 July/ Rabobank Media Release] A Rabobank report showed that the New Zealand dairy sector was particularly exposed to global markets and the resulting price volatility. The report added that when the dairy sector entered into the next price upcycle, dairy farmers needed to rebuild equity to strengthen their business structures and develop production systems that could easily reduce costs when milk prices fell again. Rabobank Dairy Analyst, Emma Higgins said farmers would need to make a tough decision in the next upward cycle over whether to repay debt or increase investment spending to chase profit margins. The report noted that New Zealand dairy debt has risen from \$11 billion in 2003 to \$39 billion in 2016, currently accounting for 68 percent of New Zealand's total agriculture debt.

A million kilograms of milk solids future contracts traded in just 42 days [11 July/ National Business Review] First NZ Capital Head of Derivatives, Mike McIntyre said the level of uptake for the NZX's milk futures contracts has been encouraging, with the millionth kilogram of milk solids recently being traded. Mr McIntyre explained that farmers had embraced the contracts, having been familiarised with risk management tools under Fonterra's guaranteed milk price programme which was piloted between 2013 and 2014. ANZ Rural Economist, Con Williams said the milk futures contracts would provide farmers with a little more certainty around their income and cost structure and other management decisions needed to run a dairy farm. The 2016/17 contract had traded at an average price of \$4.53 per kilogram of milk solids, while the 2017/18 average contract price was \$5.60 per kilogram.

Red meat

Venison prices hit exporters [8 July/ NZ Herald] New Zealand meat processors have had to pay more to secure local supply of venison to service their overseas contracts as farmers retained their breeding hinds to rebuild herds. The spot price of a stag increased from \$6.60 per kilogram in July 2015 to \$7.85 per kilogram in July 2016, the highest level since 2011. Venison production in May 2016 was 36 percent lower than in May 2015, with deer numbers at their lowest level in 26 years. AgriHQ Agricultural Analyst, Rachel Agnew said the profitability of venison was now much higher than competing land uses such as dairy, leading to an increase in the number of people wanting to enter the industry. Ms Agnew added that some meat processors were offering attractive supply contracts for as much as \$9.80 per kilogram in an attempt to secure venison for the traditional European chilled export season during September and October.

Biosecurity

NZ looks to Europe to combat velvetleaf outbreak [7 July/ Radio NZ Rural] Two staff members from the Ministry for Primary Industries have travelled to Europe to learn about velvetleaf and how New Zealand may be able to contain the outbreak. Ministry for Primary Industries Plant Imports and Exports Group Manager, Steven Butcher said the European arable industry had taken the New Zealand velvetleaf outbreak seriously and had already made improvements to their systems. Mr Butcher added that there was a really strong opportunity to get an improved quality of seed from Europe. Mr Butcher noted that the ministry should complete a report on the trip and make recommendations by the end of the month.

Horticulture growers welcome arrival of wasp that attacks crop pest [8 July/ Business Day: NZ Farmer] The Environmental Protection Authority has approved an application by Horticulture New Zealand to release a wasp that could be the key to controlling a devastating horticultural pest, the tomato potato psyllid. The application was made on behalf of industry groups including Potatoes New Zealand, Tomatoes New Zealand, Vegetables New Zealand, and the New Zealand Tamarillo Growers Association. Market Access Solution Vegetable Research and Innovation Co-ordinator, Sally Anderson said industry groups had three years of funding from the Ministry for Primary Industry's Sustainable Farming Fund to carry out the releases and follow up monitoring. The Tamarixia wasp laid eggs on the psyllid which ate the pest when they hatched.

International

US govt pressures food industry to make foods less salty [1 July/ China Daily] The Obama administration has proposed sodium guidelines for food in an effort to prevent thousands of deaths each year from heart diseases and strokes. The voluntary guidelines set recommended limits for about 150 categories of foods, including cereals, pizzas and sandwiches. Food and Drug Administration Centre for Food Safety and Applied Nutrition Director, Susan Mayne said scientific evidence showed that Americans ate about one and a half teaspoons of salt daily, a third more than the government recommendation. The proposal encouraged a gradual decrease in salt content so consumers' taste buds could adjust and companies could develop foods with a lower level of sodium.

Monsanto, Microsoft to invest in agricultural technology in Brazil [4 July/ The Globe and Mail] Monsanto and Microsoft have announced a partnership to invest in agricultural start-ups in Brazil. Monsanto would give up to USD 92 million to a Brazilian investment fund managed by Microsoft in order to evaluate ideas for new digital tools to be applied to agricultural production in the country. Selected ideas would receive up to USD 460,000 for early development, with project owners given the choice to pay back the investment after three years or convert the money into equity. Monsanto Latin America Head, Rodrigo Santos said the company wanted to foster new start-ups in the agricultural sector as there was a vast opportunity for research and development.

Barclays fires up £100m loan fund to ease farmers' woes [5 July/ The Daily Telegraph] Barclays Bank in the UK has announced that it would lend up to GBP 100 million to farmers looking to adapt in the face of volatile commodity prices and the threat of losing support from European Union subsidies. The bank explained that farmers would be offered loans to modernise their equipment or diversify away from their main livestock or crop. Barclays Head of Agriculture, Mark Suthern said the funding would allow farmers to find alternate sources of income and therefore decrease the impact of price volatility on farm incomes.

Farmers say Brexit being used to lower beef prices [7 July/ The Irish Times] Irish Farmers' Association President, Joe Healy said meat factories were unnecessarily decreasing payments to beef farmers after the referendum result, even though they were hedged against currency volatility. Mr Healy added that farmers were being quoted prices five to ten cents lower than current market rates, despite demand from United Kingdom supermarkets remaining strong. Mr Healy said beef processors had a responsibility to reflect strong market conditions in the United Kingdom and maximise return to producers.

Danone Boosts U.S. Business With \$10 Billion WhiteWave Deal [7 July/ The Wall Street Journal] Danone has agreed to buy WhiteWave Foods for about USD 10.4 billion in a deal which would increase its exposure to the organic food market and more than double its North American revenue. WhiteWave was one of the fastest growing companies in the organic foods sector, reporting a net profit of USD 168 million in 2015. The deal would boost Danone's upmarket product line with the introduction of brands such as Horizon Organic milk and Silk almond milk. The deal was expected to be completed by the end of the year, subject to WhiteWave shareholders' approval and regulatory approvals.

Frost & Sullivan: ‘More dairy companies will expand into the dairy alternative category to offset flat liquid milk sales’ [8 July/ Dairy Reporter] Visionary Science Global Program Manager, Christopher Shanahan said Danone’s purchase of WhiteWave Foods made sense as both companies were focused on targeting consumers who were interested in enhancing their health and wellbeing. Mr Shanahan added that the target consumer markets for Danone’s products were different from WhiteWave’s target consumers, and therefore very little cannibalisation would occur. Mr Shanahan noted that the deal would face very little regulatory barriers in the United States as there was still plenty of competition. Mr Shanahan said he would expect other dairy companies to expand into the dairy alternative market to offset the low liquid milk prices and take advantage of the 15 percent compound annual growth rate in the plant based dairy alternative category.

Farming on the up and up; There are seven licensed vertical farms in Singapore producing vegetables, fish and crab [9 July/ The Straits Times] The number of vertical farms producing vegetables, fish and crab in Singapore has increased from just one in 2012 to seven in 2016. Vertical farming was gaining popularity in Singapore as it optimised the use of scarce land and could operate with minimal manpower. At Sky Greens, vegetables are grown on 9 metre towers which produce five to ten times more vegetables than conventional methods would in the same land area. Gills ‘N’ Claws Chief Executive, Steven Suresh said about 1,000 mud crabs could be raised in 100 square metres, compared with 30 crabs in open farming.

All eyes on the House as Senate passes GMO labelling bill: ‘Within a few years, every GMO food will carry an on-package disclosure’ [9 July/ Food Navigator] United States industry groups have been pressuring leaders in the House of Representatives to allow a vote on a Genetically Modified Organism (GMO) labelling bill next week before they break for the party conventions, after the proposed legislation was passed in a recent 63-30 Senate vote. The bill would nullify all state GMO labelling laws, including the one that just came into effect in Vermont. The legislation would require mandatory GMO disclosures on food labels, but was flexible over the form the disclosure could take. GMO activists have remained opposed to the bill as it allowed companies to use QR codes or other symbols, rather than forcing them to state on the packaging that the product used GMOs.

Agriculture returns set to be sweet for decade [8 July/ Sunday Mail] According to the United Nations Food and Agriculture Agency (FAO), world food prices increased by 4.2 percent between May and June, the largest increase in four years. June was the fifth month in a row in which food prices had increased after four consecutive annual declines. The increase was led by a 14.8 percent rise in the price of sugar, while vegetable oils went against the trend with a 0.8 percent price decrease. The FAO forecasted stable food prices for the next 10 years.

Chipotle Seeks a Fresh Start After Food Safety and Drug Scandals [10 July/ The New York Times] Chipotle has decided to push ahead with its four minute animated marketing film titled “A Love Story”, to be featured as an advertisement in movie theatres, on YouTube, and on social media sites such as Snapchat. Creative Arts Agency Marketing Executive, Todd Hunter said Chipotle was sticking to its approach of telling its story with animated characters because animation made issues a lot more approachable. The advertisement came after a company executive was charged with drug possession and a food safety scare in which hundreds of people fell ill after eating Chipotle products. The company would release its second quarter earnings report on 21 July. Some commentators are questioning whether the campaign will help rebuild the trust that the company has lost with its customers in the last year.

PepsiCo on life in a fragmented beverage market: ‘We have to learn how to handle complexity’ [11 July/ Food Navigator] PepsiCo Chief Executive Officer, Indra Nooyi said the company was increasingly recognising consumers’ interest in craft, niche and premium products. Ms Nooyi added that it was important for Pepsi to own the distribution system it used as it allowed the company to easily distribute low volume niche products. Ms Nooyi noted that a large percentage of Pepsi’s beverage sales remained in the carbonated soft drinks market, and added that it was defeatist to talk about the cola category as if it was in terminal decline.

Dairy Australia forced to slash budget as prices fall and levies dry up [11 July/ ABC Rural] Dairy Australia Managing Director, Ian Halliday said the organisation’s revenue for the current financial year would be about 12 percent less than what was predicted two months ago. Mr Halliday explained that sudden cuts to milk prices by major processing companies meant production was likely to fall and therefore levy payments to the organisation would decrease. The organisation received about two thirds of its revenue from levies paid by farmers which were based on the volume of milk they produced. The other third came from Federal Government contributions which were influenced by milk prices and volumes. Mr Halliday said the low prices would likely lead to a 5 percent drop in Australian milk production, and Dairy Australia had been working hard to determine where it could reduce costs.

What other industries can learn from the failures of Australian greyhound racing [11 July/ NZ Herald] University of Kassel Professor, Roger Burritt, and University of South Australia Researcher, Katherine Christ said other industries could learn from the banning of the greyhound racing industry in New South Wales. Mr Burritt and Ms Christ explained that businesses needed to recognise that when they were given the right to operate, they also accepted the responsibilities of acting in a sustainable and humane way. Mr Burritt and Ms Christ said the failure of the greyhound industry showed that industries must consider all aspects of their products or services, including social factors such as animal cruelty, in order to maintain the legitimacy of their operations in the long run.

Economics and trade

Brexit dairy blip proves modest [8 July/ Farmers Weekly] Westpac Senior Economist, Michael Gordon said the 0.4 percent fall in the Global Dairy Trade price index was the best outcome that could have been hoped for after widespread uncertainty in world markets following the British vote to exit the European Union. Mr Gordon explained that although the United Kingdom and the European Union were relatively small markets for New Zealand dairy products, global uncertainty tended to decrease commodity prices. ASB Rural Economist, Nathan Penny said the modest fall in price reassured the sector that the initial Brexit fallout in terms of dairy prices would be modest and temporary. Mr Penny added that achieving his milk price forecast of \$6 per kilogram of milk solids would become increasingly difficult with each passing dairy auction if dairy buyers continued to wait for the Brexit dust to settle.

Trade agenda push at G20 [8 July/ Rural News] Trade Minister, Todd McClay said New Zealand's invitation to be part of the G20 Trade Ministers' Meeting in Shanghai would give the country the opportunity to talk to representatives from the United Kingdom and the European Union about the implications of the referendum result on trade relationships. Mr McClay said he had already confirmed a meeting with the European Union Commissioner, Cecilia Malmstrom, and the United Kingdom Minister of State for Trade and Investment, Lord Price, to discuss the best way to protect and advance New Zealand's trade interests with both parties.

Farmers and producers

Equity partnerships provide a stepping stone for sharemilkers [6 July/ Business Day: NZ Farmer] Dairy farmers have turned to equity partnerships and farm syndicates rather than traditional family farm operations as the dairy sector came under significant pressure. An equity partnership or farm syndicate is a joint venture between individuals who have come together to pool their capital and possibly their skills to purchase and run a farm. Lawyers from Auld Brewer Mazengarb & McEwen said becoming part of an equity partnership was a useful vehicle for sharemilkers as it allowed them to take the next step into property ownership which may have seemed unobtainable on their own.

Report says share milking alive and well [8 July/ Farmers Weekly] According to the Dairy Progression Pathways report, more flexible contracts were required to ensure sharemilking remained a viable career path. The report showed that dairy farm ownership was slipping out of the reach of many sharemilkers with fewer than half of sharemilkers now intending to buy a farm at the end of their sharemilking careers. The report explained that many sharemilkers thought land was unaffordable and therefore farm ownership was out of reach. Report Authors, James Allen and Nicola Kloeten said that despite the difficulties, sharemilking as a career path was alive and well.

Pengxin NZ Farm Group CEO Andy Macleod resigns [11 July/ National Business Review] Pengxin New Zealand Farm Group Chief Executive, Andy Macleod has resigned after leading the group since April 2013. The farm group has established an advisory board which would oversee the appointment of a new chief executive and advise the company on farm operations. Shanghai Pengxin Local Unit Managing Director, Terry Lee said Mr Macleod's contribution to the business was appreciated and he wished him well for the future. Mr Lee did not give reasons for Mr Macleod's resignation.

Agribusiness education

NZ Young Farmer of the Year announced [9 July/ Business Day: NZ Farmer] Aorangi Dairy Farmer, Athol New has been named the New Zealand Young Farmer of the Year for 2016. Although Mr New did not win any of the categories, his above average performance in each of the sections meant he ended up winning the overall award by a comfortable margin of ten points. Mr New said winning the award was the pinnacle of his career. Mr New added that he was relieved the competition was over, but was glad to have had the opportunity to meet the other six finalists who were all great guys and would go on to be leaders in the primary industry. The award meant Mr New walked away with \$80,000 in prizes.

Opportunities to apply for professional and personal development in 2017 now open [12 July/ Nuffield Foundation release] With a long history and strong reputation in the Primary Industries, both the Kellogg and Nuffield programmes offer programmes to develop leadership potential. The programmes are "life changing" and offer career acceleration through international knowledge, global networks and understanding to become more effective leadership skills. Applications are now open for the 2017 Nuffield scholarships. The Kellogg Rural Leadership Programme targets those in the primary industries including farmers/growers, agri business and agri service sectors who are looking to develop and grow their confidence knowledge and skills. While the Nuffield Scholarship targets emerging active farmers/growers to develop their leadership potential through a programme that includes market emersions and individual research. Full details and applications are on the website www.nuffield.org.nz. In other trust news, a new Chair and Trustees were elected at the recent Nuffield NZ Conference. After 6 years in the role and taking the Trust through some significant developments, Julian Raine stood down as Chair of Nuffield NZ as did trustee Jenni Vernon. The new chair is Juliet Maclean, with Andrew Watters remaining as Trustee and joined by Craig McKenzie and Michael Tayler. The Trustees sit on the Board which now governs both the Nuffield Scholarships and the Kellogg Rural Leadership Programme.

Water

Ashburton council reneges on controversial water bottling deal [11 July/ National Business Review] The Ashburton Council has gone back on its deal to sell commercial land to a Chinese controlled company that planned to bottle South Island water for export. The Green Party claimed that the Ashburton Council pulled out of the deal because the buyer could not assure them that the water would be exported in bottles rather than in plastic bladders. The deal was controversial as the Chinese company planned to extract 1.4 billion litres of water annually under a 30 year resource consent they were granted. A petition against the deal was signed by more than 40,000 people.

Feds pleased Ruataniwha gets another green light [11 July/ Rural News] The Hawke's Bay Regional Council has approved its \$80 million investment in the Ruataniwha Water Storage Scheme after a 7-2 vote. Federated Farmers Hawke's Bay Provincial President, Will Foley said the Ruataniwha Plains were highly vulnerable to drought and this dam would ensure a reliable water source to preserve the family farming traditions in the region. Mr Foley added that the local economy would thrive with the returns from more high value primary industry products being exported around the world. Farmers in the region had signed a 35 year contract for the scheme and would make adjustments from traditional dry land farming to irrigation farming.

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Weekly news update from the KPMG Agribusiness Network – 13 July 2016

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Field Notes presents a summary of some of the media comment on the Agribusiness sector in the last week. The views expressed do not necessarily represent the views of KPMG but are summaries of the articles published.

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