

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

24 August 2016

Organisations referenced in this week's Field Notes include:

AgriHQ	Lincoln University
Apiculture New Zealand	Little Leaf Farms
Arable Industry Marketing Initiative	Ministry for Primary Industries
Balance Agri-Nutrients	Murray Goulburn
ChemChina	New Zealand Avocado
Children's Food Campaign	New Zealand International Business Forum
Comvita	New Zealand Merino Company
Countdown	New Zealand Winegrowers
Craigs Investment Partners	Perfect Day (Muufri)
Danone	Reserve Bank
Federated Farmers	Rowse Honey
Fonterra Co-operative Group	Syngenta
Glanbia	Tegel
Global Dairy Trade	United Nations
HarvestPort	United States Department of Agriculture
Immigration New Zealand	Universities New Zealand
Inland Revenue	Wools of New Zealand
Labour Inspectorate	Yashili New Zealand Dairy
Landcare Research	

This week's headlines

Viticulture	Employment breaches 'wake-up call' for Marlborough wine industry [19 August/ Business Day: NZ Farmer]
Apiculture	Riddle of how 1,700 tons of manuka honey are made... but 10,000 are sold [23 August/ NZ Herald]
Dairy	Glass half full for dairy after price lift [17 August/ Radio NZ Rural]
Economics and trade	TPP prospects are not bright [22 August/ Farmers Weekly]
Poultry	Tegel shares rally on raw chicken news [18 August/ NZ Herald]

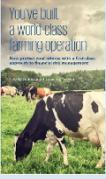


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HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
 AGENDA 2016 VOLUME 1**



New KPMG Service for farmers considering using Milk Price Futures and hedging tools



KPMG's Financial Risk Management and Farm Enterprise teams have worked together with clients to design a new treasury tool kit. In creating this KPMG will align with clients to empower them, providing them with the tools to build confidence in their business activity. Areas KPMG can help farming businesses include: explaining NZX milk contracts (how it works, risk and opportunities, financial modelling, market anticipation), treasury risk management policies, and assessments of needs / gap analysis (identifying risk and managing them). For more information please contact [Julia Jones](#).

Horticulture

New Zealand Avocado's Biggest Season Ever [17 August/ Scoop Business] The beginning of the 2016-17 avocado season has been celebrated with a 'green carpet' event in Auckland. New Zealand Avocado hosted the event to celebrate the fruit's enormous popularity and showcase its great flavour, versatility and health benefits. New Zealand Avocado Chief Executive, Jen Scoular said the launch celebrated not only the biggest crop the industry has ever had, but also the fact that it was nearly half way to achieving its sales goal of \$280 million by 2023. The event featured guests including New Zealand celebrities, influential social media bloggers, high profile chefs and New Zealand magazine editors.

Viticulture

New Zealand wine exports up 10% [19 August/ Scoop Business] New Zealand Winegrowers' Annual report showed exports have risen by 10 percent in the last year to just under \$1.6 billion. New Zealand Winegrowers Chair, Steve Green said the industry was on track to reach its target of \$2 billion of exports by 2020. Mr Green added that the progress towards the goal was due to the industry's reputation for crafting and marketing distinctively New Zealand, high quality and high value wines. Wine exports were expected to increase by a further 10 percent over the next 12 months.

Employment breaches 'wake-up call' for Marlborough wine industry [19 August/ Business Day: NZ Farmer] Labour contractors who supply Marlborough wine companies with workers have been found to have breached employment standards by failing to keep proper accounting records or failing to pay their workers minimum wage and holiday pay. The investigation, carried out by the Labour Inspectorate, Immigration New Zealand and Inland Revenue, found only one of ten labour contractors to be compliant. Labour Inspectorate Regional Manager, Kevin Finnegan said the industry needed to start taking action to ensure contractors were meeting employment standards. Mr Finnegan added that by engaging with contractors who chose to ignore employment standards, the New Zealand wine industry was exposing themselves to reputational damage.

Apiculture

Police, beekeepers in anti-theft drive [19 August/ Radio NZ Rural] New Zealand police have officially teamed up with beekeepers to tackle beehive crime after the rising price of manuka honey has led to more thefts. Apiculture New Zealand Chief Executive, Daniel Paul said the beehive thefts were not a good look for the honey industry and it was a concern for beekeepers who were losing thousands of dollars as a result. Mr Paul added that initial meetings with police showed that they were taking the issue very seriously at a national level. Mr Paul explained that the police would be more proactive about monitoring hive movement and would check hives from time to time.

Riddle of how 1,700 tons of manuka honey are made... but 10,000 are sold [23 August/ NZ Herald] Research has shown that New Zealand produces 1,700 tonnes of manuka honey each year, while as much as 10,000 tonnes of honey labelled as manuka were sold each year around the world. The numbers suggested some producers were substituting cheap standard honey in for manuka honey, meaning consumers hoping to take advantage of its healing properties would not be getting value for money. Rowse Honey Marketing Director, Kirstie Jamieson said the current Ministry for Primary Industries guidelines had been ineffective and led to consumers buying jars with different levels of manuka honey's unique characteristic, Non-peroxide Activity (NPA).

Comvita profit rises as company in growth mode [23 August/ Business Day: NZ Farmer] Comvita's net profit after tax increased by 81 percent from \$10.2 million in the 12 months ended March 2015 to \$18.5 million in the 15 months ended June 2016. The company changed its reporting period to the end of June in order to better align with the honey producing season. Comvita Chairman, Neil Craig said the company was in growth mode and wanted to keep a bit of cash on hand to take advantage of opportunities, and therefore the company's dividend payments would be between 40-45 percent of operating profit rather than 50 percent as it had been in the past.

Forestry

Log prices hit eight-month low [23 August/ NZ Herald] According to AgriHQ's monthly survey of exporters, forest owners and saw millers, the average wharf price for New Zealand A-grade logs decreased from \$114 per tonne in July to \$110 per tonne in August, the lowest level in eight months. The fall was due to a stronger local currency along with shipping rates to China and South Korea increasing by about 8 percent this month. AgriHQ Analysts, Reece Brick and Shaye Lee said returns in the domestic market were in line with last month, while returns in the structural market fell from \$115 per tonne of S1 logs to \$114 per tonne.

Dairy

Glass half full for dairy after price lift [17 August/ Radio NZ Rural] The average dairy price increased by 12.7 percent at the recent Global Dairy Trade auction. The price of whole milk powder, which heavily influences payments to New Zealand farmers, rose by 18.9 percent to USD 2,695 per tonne. AgriHQ Dairy Analyst, Susan Kilsby said dairy farmers could finally have break even milk prices this season. Ms Kilsby added that she did not think prices would continue to increase at the rate they had done, but it was certainly looking a lot more positive.

Fonterra confirms further dividend payment [18 August/ Dairy News] Fonterra has confirmed that it would pay a further 10 cents per share of its previously announced 2015/16 forecast dividend of 40 cents per share. Fonterra Chairman, John Wilson said the co-operative's intention was to always declare a further dividend in August, subject to its financial performance supporting the forecast earnings of between 45 and 55 cents per share. Mr Wilson added that there were early signs of the expected recovery in dairy prices but conditions on farm remained challenging. Mr Wilson noted that the co-operative would confirm its end of season farmgate milk price and total payout as part of its annual results announcement on 22 September.

Good news for dairy farmers was bad news for the Reserve Bank [22 August/ National Business Review] A 19 percent rise in the price of whole milk powder at the latest Global Dairy Trade auction led to the NZD gaining a further 1 percent against the USD. Craigs Investment Partners Head of Wealth Research, Mark Lister said he suspected the Reserve Bank would be happy to see the farming sector get a bit of a boost. Mr Lister added that the dairy sector had been one of the few weaknesses in the New Zealand economy, but that now looked to be improving.

Yashili NZ will supply powder to Danone [23 August/ NZ Herald] Yashili New Zealand Dairy has agreed to sell up to \$18.7 million of base powder dairy products to Danone under a contract that would run until the end of the year. The deal was disclosed in a notice to the Hong Kong stock exchange because Danone Asia owned 25 percent of Yashili International and was therefore deemed a connected person. The notice did not provide any details of what volume would be sold, but the value of \$18.7 million was described as an annual cap for the consideration.

Environment and emissions

NZ to ratify Paris agreement this year [19 August/ Rural News] Climate Change Minister, Paula Bennett said the Government planned to ratify the Paris agreement on climate change before the United Nation's Framework Convention on Climate Change conference in November. Ms Bennett said ratifying the agreement early reinforced New Zealand's commitment to the deal and showed the country's support for the global momentum to grow with lower emissions. Under the agreement, New Zealand committed to reducing its greenhouse gas emissions to 30 percent below 2005 levels by 2030. Ms Bennett said it was an ambitious target for the country to achieve, but New Zealanders were already doing a lot of work to reduce our emissions.

Wasp vs wasp: Landcare brings in parasite to tackle common wasp [22 August/ Radio NZ Rural] Landcare Research have taken steps to import parasitic wasps from the United Kingdom to be tested as a weapon against common wasps which cost the primary sector about \$130 million each year. Landcare Scientist, Bob Brown said the adult parasitic wasp laid eggs on the larvae of the common wasp. Mr Brown added that the eggs hatched into tiny larvae before eating the larvae of the other wasp. Mr Brown explained that the parasitic wasps did not prey on other species and did not have stings so would not be an annoyance to humans. Mr Brown said he might have to dig into 30 or 40 nests in the United Kingdom to find the parasitic wasps he needed.

Biosecurity

Official too slow taking pea action [22 August/ Farmers Weekly] Federated Farmers Mid Canterbury Vice President, David Clark said the Ministry for Primary Industries (MPI) was too slow to act on the latest biosecurity incursion and as a consequence it had put the pea industry under serious threat. Mr Clark explained that MPI knew about the pea weevil incursion more than a month before they said anything and three months before they took action. MPI imposed a moratorium which would halt all pea production in Wairarapa for two years from 27 July. Mr Clark said New Zealand was one of the only countries in the world which was free from the pea weevil pest, and that status had secured market premiums and attracted key overseas markets such as Asia.

International

Australian wild dogs should be killed and sent to China to be eaten, says wildlife expert [17 August/ The Independent] Wildlife Expert, Ben Allen has caused uproar among animal activists after suggesting wild dogs living in Australia should be caught and sent to China to be processed for food. Mr Allen said his scientific paper showed that there were concerns over wild dogs terrorising reared sheep and cattle in the Australian countryside. Mr Allen added that the dogs were already being killed through trapping and shooting and exporting them to Asia would mean they were not wasted. Animal activists have launched a petition demanding the cancellation of the conference in which Mr Allen was to release his scientific paper.

Glanbia sports nutrition revenue up 35%; Kilkenny-based food company now ranked as biggest global player in EUR 10bn market [18 August/ The Irish Times] Glanbia Managing Director, Siobhan Talbot said the company represented 12-13 percent of the global sports nutrition market which was estimated to be worth EUR 10 billion. Ms Talbot added that the company's nutrition business made the largest contribution to the group's latest half year earnings with a 35 percent increase. Ms Talbot explained that weak global dairy markets continued to be a challenge for parts of the business, but the diversity of the company's portfolio enabled it to navigate the issue.

Dairy in sales decline as Danone tops global dairy rankings again [18 August/ Dairy Reporter] Euromonitor figures showed that the retail value of the global dairy market decreased from USD 501.6 billion in 2014 to USD 454.2 billion in 2015 and USD 452.6 billion in 2016. The majority of these decreases were due to exchange rates with several major currencies weakening against the USD. According to the data, Group Danone maintained the number one spot in terms of global retail dairy sales. The only change in the top 12 rankings from 2015 saw Royal FrieslandCampina rise one place to seventh, while Unilever Group fell one place to eighth. Fonterra did not feature in the Top 12.

How Tinder for Tractors is Shaking Up the Agriculture Industry [18 August/ AgFunder News] HarvestPort has created an online marketplace to enable agribusinesses to lease their equipment to others for some extra cash. A farming organisation that wanted to borrow equipment was required to enter a request for the type of equipment it needed, its location, and the price it would pay. Organisations lending equipment also picked the price they wanted along with their location. HarvestPort then made a match based on the details entered. After the platform made a match, the borrower and lender would contact each other to agree on a price and the terms of the lease.

Sugar tax: Government plans criticised as 'feeble' while food bosses say measures are too tough [18 August/ The Independent] The United Kingdom Government is ready to announce its campaign to combat obesity, including a target for food manufacturers to reduce the level of sugar in food and drink by 20 percent over the next five years. However, these measures would be voluntary and would not include many of the measures health campaigners were demanding. United Kingdom Prime Minister, Theresa May has given the go ahead for the levy on sugary drinks. Children's Food Campaign Member, Kath Dalmeny said the soft drinks levy was the only serious policy commitment, while the 20 percent target was a voluntary measure and would likely be ineffective.

Farmers may miss boycott benefits [18 August/ The Sydney Morning Herald] According to consumer group, Choice, Australian consumers would spent almost AUD 114 million more on branded labels this year in an effort to support dairy farmers who have faced cuts in the milk price they receive from Murray Goulburn and Fonterra Australia. Private label milk selling at AUD 1 per litre currently made up 50 percent of total sales, having made up 63.3 percent of total sales in May. Consumers were instead purchasing branded milk at an average retail price of AUD 1.92 per litre. A Murray Goulburn spokesman said the co-operative's farmers were directly benefiting from the public response as profits were passed on to its farmers via the farm gate milk price.

Trump team talks trade, labour with U.S. farm groups [19 August/ Reuters] Republican Presidential Nominee, Donald Trump has told United States agricultural groups that he would give growers and states a say on national farm policy if he was elected. Topics discussed in the meeting between Mr Trump's representatives and agricultural groups included agricultural trade, labour, crop insurance and food safety. According to agricultural groups, the presidential candidates' agricultural policies were crucial because net farm income across the United States this year was forecast to drop to its lowest level since 2002. The latest RealClearPolitics opinion poll put Democratic Presidential Nominee, Hillary Clinton 6 percentage points ahead of Mr Trump.

Baby food and probiotics driving expectations for a EUR 1.7 billion colostrum market within the decade [19 August/ Dairy Reporter] Analysts from Future Market Insights have predicted the global colostrum market to be worth over EUR 1.7 billion by 2026. The market was worth EUR 1.1 billion in 2015 and was expected to rise to almost EUR 1.2 billion by the end of 2016. The analysts said the increase was due to an increased awareness of health among consumers and an increasing demand for infant formula and probiotic yoghurt. The analysts added that leading companies were focusing on expanding their production capacity and launching new product offerings in order to increase market share and gain a competitive advantage.

Govt to employ advanced satellites for high-tech farming [20 August/ The Japan News] Japan's government has planned to introduce information technology that utilised the nation's advanced positioning satellites, known as quasi-zenith satellites. The government intended to use the satellites to enable technologies such as self-driving tractors. The satellites would help strengthen the competitiveness of Japan's agriculture sector in preparation for the possible implementation of the Trans Pacific Partnership. The satellites were expected to begin full scale operations in 2018 and would have a margin of error of just a few centimetres at any location throughout the country.

Eat your food packaging, don't bin it – scientists [22 August/ Reuters] Scientists from the United States Department of Agriculture have started to develop an edible form of packaging which would preserve food more effectively and more sustainably than plastic film, reducing both food and plastic waste. The scientists said the milk-based packaging did not have much taste, but flavours could be added. The scientists added that the packaging was similar to plastic wrapping but was biodegradable, sustainable and up to 500 times better at protecting the food from oxygen. Lead Researcher, Peggy Tomasula said the milk protein packaging should be on shelves within three years.

Growing lettuce without soil; High-tech hydroponics operation is taking root at bustling Devens complex [22 August/ The Boston Globe] Little Leaf Farms has been using technology to grow salad greens, such as lettuce, without soil. The farm planted seeds in soilless trays and nourished them with a mixture of water and all the nutrients the plant needed to grow. After 25 days, the greens were carried by conveyor belt from the greenhouse into cutting and mixing rooms. They then continued along the automated assembly line to be bagged and put into boxes by machines and shipped out the next day. Little Leaf Farms Chief Executive Officer, Paul Sellow said his process eliminated pesticide residue and avoided the need to throw out 50 percent of produce that did not survive the seven day truck ride from California due to the convenient location of his farm.

Hammond makes subsidy promise [22 August/ Farmers Weekly] Chancellor, Phillip Hammond said British farmers and landowners should continue to receive the same level of subsidies after the United Kingdom leaves the European Union. Mr Hammond said any structural and investment funds projects which were signed before the United Kingdom left the European Union would be guaranteed by the Treasury after the exit. Mr Hammond added that the government would also match the current level of agricultural funding until 2020 in order to provide the agricultural community with more certainty.

Don't have a cow? Perfect Day animal-free milk bids for slice of multi-billion dollar global dairy market [22 August/ Food Navigator] Perfect Day, a start-up company in the cellular agriculture industry (previously known as Muufri), has produced dairy milk without the need for any cows. Perfect Day Chief Executive Officer, Ryan Pandya said the company used genetically engineered yeasts that have been programmed to produce proteins and other ingredients found in plants or animals on an industrial scale. Mr Pandya added that the process did not harm any animals and had a considerably smaller impact on the environment. Mr Pandya said the company was in talks with three of the largest dairy companies in the world to potentially partner up to get the product to consumers as fast as possible. Perfect Day dairy milk could be in supermarkets by late 2017.

U.S. clearance of ChemChina's Syngenta deal removes key hurdle [22 August/ Reuters] A United States national security panel has cleared ChemChina's USD 43 billion takeover of Syngenta, increasing the chance that the deal would go through. Syngenta shares rose by 10.6 percent to USD 437.90 after the news was announced. Georgetown McDonough School of Business Professor, Charles Skuba said the decision was a very good signal to China that the United States was open for investments in most sectors. A Syngenta representative said the company expected to complete the deal by the end of the year. The representative added that completing the transaction was subject to anti-trust reviews by numerous regulators around the world and other customary closing conditions.

Economics and trade

TPP prospects are not bright [22 August/ Farmers Weekly] New Zealand International Business Forum Executive Director, Stephen Jacobi said opposition to the Trans Pacific Partnership in the United States election campaign meant it may not be ratified. Mr Jacobi explained that United States President, Barack Obama, may not ratify the deal by the time the new administration took office on 20 January. Mr Jacobi added that both presidential candidates, Hillary Clinton and Donald Trump, opposed the deal. In order to come into effect, the Trans Pacific Partnership required ratification by countries representing 85 percent of the area's GDP, including Japan and the United States.

Agribusiness strategy

Old school thinking stunts export gains [19 August/ Business Day: NZ Farmer] New Zealand Merino Company Chief Executive, John Brakenridge said New Zealand was stuck in the past as it was trying to produce more low cost commodities rather than promote the fine products it already had. Mr Brakenridge added that New Zealand sold commodities at an export value of around \$37 billion, but by the time they reached consumers globally they were valued at over \$200 billion. Mr Brakenridge explained that a huge amount of that extra value came from branding and capturing the hearts and minds of target consumers. Mr Brakenridge said science and research had a place in terms of extracting innovation, but that should be anchored off a sophisticated marketing infrastructure.

Agribusiness education

Lincoln University courses could be cut, academic board 'rejuvenated' [19 August/ Business Day] Lincoln University Vice-Chancellor, Robin Pollard said discussions were under way to find ways to improve the university's financial and academic performance. Mr Pollard added that the university would collaborate with other institutions in both academic and non-academic areas. Mr Pollard explained that the university would ensure its assets were being used to their potential, including its farms and properties, its corporate entities and its fundraising potential. Universities New Zealand Executive Director, Chris Whelan said he was aware that the university had been reviewing its future options, one of which may be a merger.

Rural infrastructure

Ballance Agri-Nutrients announces delay of Kapuni ammonia urea plant rebuild [18 August/ Business Day: NZ Farmer] Ballance Agri-Nutrients Chief Executive Officer, Mark Wynne said the rebuilding of the Kapuni ammonia-urea plant had been delayed. Mr Wynne explained that the co-operative was writing off \$13.3 million of costs associated with the potential upgrade because its potential partner had withdrawn from the project. Mr Wynne said there was still potential for the project, but given that it was less likely that it would go ahead in the near future, it was sound accounting practice to write off the costs to date. Mr Wynne added that the co-operative was talking with other potential partners, but if no suitable partner was found the project would be put on hold for revisiting at a future date. Mr Wynne said the co-operative would continue to upgrade and operate the current facility if the project was put on hold.

Poultry

Supermarket launches free range egg programme [17 August/ Radio NZ Rural] Countdown has launched an Egg Producer Programme designed to support free range and barn eggs. Countdown Merchandise Manager, Nikhil Sawant said the programme would mean the supermarket could commit to long term supply agreements with free range and barn egg farmers. Mr Sawant added that it would involve a large investment in free range and barn eggs, but would give farmers the support they deserve. Mr Sawant explained that the programme was a move in the right direction, but would not fix the expected shortage of eggs in 2022 when cage eggs were expected to be phased out industry-wide.

Tegel shares rally on raw chicken news [18 August/ NZ Herald] Tegel has announced that it has secured an agreement to export raw poultry to Australia, leading to an 8.5 percent increase in share price to \$1.78. The company explained that a regulatory change opened up additional export opportunities into the Australia market, but revenue upside could not yet be quantified. The company added that it would immediately apply for new import permits to take advantage of the new business opportunities.

Food safety

Bill to streamline Food Safety passes first reading [21 August/ Rural News] Food Safety Minister, Jo Goodhew said she welcomed the Food Safety Law Reform Bill after it passed its first reading in Parliament with unanimous support. The Bill standardised enforcement tools from the Food Act through into the Animal Products and Wine Acts. This meant regulators now had similar tools available to encourage behavioural change and deal swiftly with operators who did not comply. Ms Goodhew explained that the Bill illustrated the Government's commitment to ensuring the safety of food. Ms Goodhew added that this was vitally important for both domestic and overseas customers and New Zealand's international trade reputation.

Wool

Wool stoush 'positive'! [23 August/ Rural News] Wools of New Zealand Chairman, Mark Shadbolt said the recent attacks on the company by its former chief executive had turned out to be a positive. Mr Shadbolt added that the company had received a strong acknowledgement of support from not only growers, but from the industry in New Zealand and globally. Mr Shadbolt said the more time he wasted on negative actions such as this, the less time he would be able to spend on ensuring the company was in a strong and robust position. Mr Shadbolt's comments came after former chief executive, Ross Townshend said the company would not be able to survive past the middle of 2018 due to cash flow problems, suggesting it merge with NZ Merino.

Arable

Low returns discourage feed grain planting in Canterbury [18 August/ Business Day: NZ Farmer] According to the latest Arable Industry Marketing Initiative Cereal Crop Survey, the volume of barley harvested in 2017 for feed was expected to decrease by 41 percent compared to 2015 levels. Federated Farmers Arable Vice Chairman and Grains Spokesman, Brian Leadley said there had been a lot of talk about the dairy downturn reducing demand and prices for grain domestically, but the world grain price was also down due to high global stocks. Mr Leadley added that growers were still meeting domestic demand despite prices falling below \$300 per tonne. The 2017 harvest area for milling wheat was predicted to increase by 55 percent back up to levels seen in 2011 and 2014.

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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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