



Hot Off The Press:
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 Agenda 2017**

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

7 March 2018

Organisations referenced in this week's Field Notes include:

a2 Milk	NZX Rural Limited
ANZ Bank	Organic Valley Dairies
Aussie Farmers Direct	Oxford University
Beef + Lamb New Zealand	Parker Dairies
Beingmate Baby Child	Perfect Day
Bostock	PGG Wrightson
City Food Lecture	R C Hari Fruit and Vegetable Growers
Environmental Protection Authority	Royal Easter Show Wine Awards
Federated Farmers Arable Industry Group	Scales Corp
Fonterra Co-operative Group	Shingle Creek Chevron
Food Marketing Institute	Statistics New Zealand
Food Navigator	Synlait
Horticulture New Zealand	Tegel
New Zealand King Salmon	Tesco
Landcorp	The New Zealand Institute for Economic Research
Milk&more	U.S. Department of Agriculture
Ministry for Primary Industries	U.S. Food and Drug Administration
Mission Produce	Villa Maria
National Animal Welfare Advisory Committee	Waikato University
NZ Apples and Pears	

This week's headlines

Biosecurity	Ministry for Primary Industries estimates the Mycoplasma bovis outbreak could cost \$95m [1 March/The Country]
Farmers and Producers	Help coming for storm-hit farmers in Taranaki and Tasman [2 March/NZ Farmer]
Economics and Trade	NZ terms of trade at new record high [1 March/Radio NZ]
Dairy	Waikato to get new milk powder factory [27 February/Radio NZ]
Red Meat	NZ meat industry confident despite protein threat [2 March/Radio NZ]

Biosecurity

Ministry for Primary Industries estimates the Mycoplasma bovis outbreak could cost \$95m [1 March/The Country] Tracking and tracing the spread of Mycoplasma bovis and compensating farmers could cost about \$95 million according to the Ministry for Primary Industries. MPI Director of Readiness and Response, Geoff Gwyn, said the disease has been confirmed at 26 properties which are part of the 43 properties under a restricted place notice. Mr Gwyn noted that the Ministry has investigated several ways to fast track compensation as they were mindful of the effect cash flow has on businesses. The disease was first confirmed in July on two farms in South Canterbury. It presents no food safety risk, however it can cause a range of symptoms in cattle. MPI Director-General, Martyn Dunne, added that the Ministry is still optimistic that they can eradicate the disease, and that they have gone back to the government to seek funding.

Fourth stink bug infested ship ordered from NZ [28 February/Radio NZ] A fourth Japanese ship has been turned away from New Zealand for having the brown marmorated stink bug on board. Six hundred of the bugs were found on the Glovis Caravel while the ship was anchored near Auckland. The Ministry for Primary Industries said the risk was too high for the ship to remain in New Zealand waters, and that it had to be treated offshore before being allowed back. The brown marmorated stink bug has the potential to devastate New Zealand's crops destroying more than \$4 billion of export value according to a report by the New Zealand Institute for Economic Research.

US veterinarian downplays Mycoplasma bovis risk [5 March/Rural Life] Dr Paul Detloff of the large United States dairy cooperative, Organic Valley Dairies, said Mycoplasma bovis should not damage dairy profitability. Dr Detloff added that he saw farmers who did not have Mycoplasma bovis in their cows despite being surrounded by infected farms. He emphasised the importance of optimal nutrition for production animals. Since the outbreak, 28 properties have been confirmed as being infected. According to the Ministry for Primary Industries' latest stakeholder update, there were 43 properties under restricted place notices.

Animal welfare

Government won't ban rodeo, animal welfare Minister says [1 March/The Country] The Associate Minister of Agriculture, Meka Whaitiri, does not believe rodeos are harmful enough to be banned. She did however ask the National Animal Welfare Advisory Committee (NAWAC) to address some issues raised by animal activists. The former Ministry for Primary Industries National MP, Nathan Guy, supported Ms Whaitiri's decision and added that changes have been made through NAWAC. Ms Whaitiri noted that the use of electric prodders was already addressed in the animal welfare regulations she was considering, and that the code says animals have to be handled in ways that minimise the risk of pain, injury or distress.

Horticulture

Apple growers positive but labour shortage could spoil season [1 March/The Country] Although a bumper crop of Hawke's Bay apples is being harvested early this year, there were fears a labour shortage could leave thousands of apples unpicked. A spokeswoman for Bostock said they have a good quality crop and that it was going to be a bumper season, however labour shortages meant they were picking less than they should be. A Scales spokeswoman said the labour shortage did not affect their operations. Scales Chairman, Tim Goodacre, noted that in spite of the wet weather in the region, early signs were positive. NZ Apples and Pears Chief Executive, Allan Pollard, said there was outstanding quality fruit in the region and reaffirmed that the main challenge was around labour. Tukituki National MP, Lawrence Yule, explained that he believed the government needed to be more liberal with Recognised Seasonal Employer workers.

Scales Corp profit slumps 17% on weaker prices [28 February/The Country] Due to weaker sales prices and increased on-orchard costs due to poor weather, Scales Corp posted a 17 percent drop in 2017 profit. Their net profit fell from \$38.2 million in 2016 to \$31.8 million in 2017. Scales Chair, Tim Goodacre, said that the Hawke's Bay region experienced a difficult growing season as shown in the half-year results. However, he added that the horticulture team produced an overall export volume consistent with the record 2016 crop and an export pack out percentage in line with the prior year. Sales at their storage and logistics business rose 16 percent gain in 2017, while the Liqueo bulk liquids posted a 42 percent decrease in EBITDA, and the food ingredients business recorded a 19 percent gain in sales.

Vegetable prices grow as crops rot [5 March/Radio NZ] Across the country, vegetables such as cauliflower had increased to up to \$10 a head which is more than double the average price. Horticulture New Zealand Chief Executive, Mike Chapman, said heavy rain, cyclone Gita and high humidity are causing crops to go to seed or rot. He added that limited supply meant growers were losing production and money. Pukekohe-based R C Hari Fruit and Vegetable Growers spokesman, Kiran Hari, said he lost 80 percent of his crop this season. They have been growing farming in the area for 80 years and do not remember a summer this humid before. He noted that the price didn't necessarily cover costs and it was unlikely the crop broke even this season. Mr Hari was hoping for dry weather to salvage the rest of his crops.

Arable

South Canterbury arable farmers lose \$30m from stubble-burn ban [1 March 2018/NZ Farmer] A fire ban and wet autumn and winter may have cost Mid and South Canterbury's arable farmers more than \$30 million according to Federated Farmers Arable Industry Group, Guy Wigley. The average wheat yield is about eight to twelve tonnes per hectare. Mr Wigley said that farmers look at planting at the end of March for autumn-sown wheat. An anonymous farmer said that he suffered substantial losses due to the fire ban and not being able to burn stubble and sow his crops. He believed burning stubble would have posed no threat. Mr Wigley noted that there are some alternatives to burning stubble such as ploughing or dicing, however they had to be planned for. He added that Autumn-sown crops yield more than spring-sown crops.

Farmers and producers

Help coming for storm-hit farmers in Taranaki and Tasman [2 March/NZ Farmer] The Minister for Agriculture and Rural Communities, Damien O'Connor, announced that the damage caused by former cyclone Gita in Taranaki and parts of the Tasman district met the criteria to be classified as a medium-scale adverse event which would trigger funding for recovery efforts. He noted that intense winds caused significant damage to trees, sheds, and roofs among other things. Some areas are still without power. Mr O'Connor added that a lot of work was needed to make farms safe, rebuild infrastructure, and clean up the mess left behind by the cyclone. Flooding from the storm and wind damage both contributed to the impacts in the area. Assistance from Enhanced Task Force Green and Rural Assistance Payments are available subject to approval by the Minister for Social Development.

Landcorp's half-year profit falls 42 percent following volatile weather [5 March/NZ Farmer] Landcorp's profit after tax has fallen 42 percent to \$21.9 million for the first six months of the year. Landcorp's Chief Executive, Steven Carden, predicted full year EBITDA would be between \$33 and \$38 million. He added that this was a good result given the spring and summer conditions when record rainfall was followed by drought in some areas. Mr Carden noted that while farming remained at the core of what they do, they were also taking a cautious approach to finding high value niche markets for their high quality product with credible, experienced partners.

Aquaculture

King Salmon record profit, but heat is on [2 March/Otago Daily Times] With sea temperatures well above average, a record \$15.7 million first-half profit for New Zealand King Salmon has been tempered by a second-half profit warning. King salmon estimated second-half profitability to be lower due to lower sales volume, a de-acceleration of harvesting, increased fish mortality and increasing feed costs. Chairman, John Ryder, said the company was able to deliver additional volumes due to favourable growing conditions and strong demand, however warned that the situation for second-half trading was more challenging. King Salmon's biomass was up 9 percent at the end of December with 6,684 tonnes of salmon in its pens. Mr Ryder added that their higher-flow sites have lessened the impact of sustained heat, although has caused associated performance and survival challenges. King Salmon said it would continue to push for more of its salmon farms in the Marlborough Sounds to be moved following a report by an independent panel.

Rural supplies

Strong first half from PGG Wrightson [28 February/Otago Daily Times] PGG Wrightson had posted its best first-half EBITDA result in a decade, and PGW Chairman, Alan Lai, said that he expected the strength to continue, forecasting operating EBITDA to exceed 2017's result and be in the \$65 to \$70 million range. An interim dividend of 1.75c per share was announced to be paid to shareholders on April 5. PGW Chief Executive, Ian Glasson, noted that the livestock business benefited from international demand for protein. The retail and water group increased its EBITDA by 25 percent over the same period last year. The New Zealand seed and grain business also had positive results, majorly due to the favourable weather conditions in spring. Mr Glasson explained that the company was confident about the second half of the financial year, and was optimistic that the positive trading environment would continue.

Goats

Live goat exports to Asia in demand [28 February/Rural Life] According to Shingle Creek Chevon Partner, Dougal Laidlaw, more pure and composite meat goats were needed to fill four shipments of live goats and goat meat to Asian clients. Due to the competitive live export market, he did not disclose the countries the goats were being sent to however he wanted to hear from farmers who were interested in supplying or rearing goats. He added they were trying to get more farmers in the South Island to breed Boer pure goats or composite goats. Shingle Creek was paying \$6/kg year round for goats. Mr Laidlaw noted that they visited their farmer suppliers regularly and had established stock management protocols and set up animal health and traceability systems. He noted that the company was working on their brand image so that people knew they were buying a quality product. Their five year plan is to get to the stage of killing 20,000 goats annually compared to the 2,000 they currently kill.

Apiculture

'No one wants to see honey bees die' [1 March/Radio NZ] An analysis of neonicotinoids, a group of pesticides, has confirmed they are harmful to wild bees and honey bees. The analysis by Europe's food safety watchdog, EFSA, collected scientific evidence and literature reviews on the effect the pesticide had on bees, concluding that any outdoor use of neonicotinoids put bees at risk. In New Zealand, the use of the pesticide is controlled by the Environmental Protection Authority. Victoria University Professor Phil Lester, one of New Zealand's leading insect experts, said the findings were concerning and that nobody wants to see our pollinator populations collapse. Professor Lester added that he thought the study of was use, however New Zealand is still quite different from Europe so the results should be interpreted in light of our crops and the way New Zealand uses neonicotinoids.

Economics and trade

NZ terms of trade at new record high [1 March/Radio NZ] Due to record lamb and butter prices, New Zealand's purchasing power with the rest of the world has improved. Official figures have shown the quantity of imports that can be bought with a given quantity of exports rose by 0.8 percent in the December quarter. Export prices rose 4.9 percent mainly due to the 12 percent increase in lamb prices to their highest level on record. Stats NZ Business Prices Manager, Sarah Williams, said dairy prices were generally high in 2017, with butter rising 11 percent in the final quarter of 2017 to a new high. ANZ Bank Senior Economist, Philip Borkin, noted that we're adding more value to the products we produce, but the world was also going through a global upswing at the moment and that was reflecting strong demand conditions.

Senior Fonterra GM jumps ship to become ambassador to Korea [5 March/NZ Herald] Fonterra Senior Executive, Philip Turner, is leaving the co-operative to become New Zealand's new ambassador in South Korea. Mr Turner's departure had been known in the market for some months, and Foreign Minister, Winston Peters, has announced his new appointment. He has held multiple senior positions with Fonterra since March 2007. Prior to this, he had multiple roles in the Ministry of Foreign Affairs and Trade, including postings to the New Zealand embassies in Tokyo and Brussels. Mr Peters noted that since the entry into our Free Trade Agreement with Korea in 2015 trade had flourished. He added that Mr Turner's role will also involve him in the geo-political machinations concerning North Korea's nuclear programme and diplomatic isolation.

Dairy prices boost commodities index [5 March/Radio NZ] A recovery in dairy prices drove New Zealand's main commodities to have their strongest price rise in eight months. According to ANZ Bank, the commodity price index rose 2.8 percent last month which was the second monthly gain in a row. ANZ advised that the lift was broad-based but dairy was the strongest with a 6 percent rise. They added that the dairy price improvement was driven by concerns about a possible early finish to the New Zealand season and cooler weather in Europe. ANZ Senior Economist, Phil Borkin, noted that New Zealand's terms of trade hit a record high at the end of last year, and that they assumed it will stabilise around that level for the next few years.

Dairy

Waikato to get new milk powder factory [27 February/Radio NZ] Synlait is investing \$260 million into the development of a new milk powder factory in Waikato. The company said they were buying 28 hectares in Pokeno to build an infant base powder factory, and that they expected the first dryer to produce 40,000 tonnes a year. Synlait's Chief Executive, John Penno, said they planned to grow their a2 Milk and Lead with Pride programmes with farmers in Waikato. He added that there was high demand for infant formula and the new factory would help to balance its reliance on a single powder manufacturing site. Mr Penno noted that they will have a national portfolio of added-value capability to leverage for future growth with the new site. The deal is subject to Overseas Investment Office approval.

Fonterra Media gag 'bizarre' says former board member [5 March/NZ Herald] Former Fonterra Board Member, Greg Gent, said the Co-operative's move to gag former director Leonie Guiney from talking to the media is bizarre. The legal gagging order issued by Justice Clark restrained NZX Rural Limited from using, publishing or disseminating confidential information allegedly received from Ms Guiney and also restrains her from breaching duties of confidentiality. Ms Guiney left Fonterra's board last year. Mr Gent added that in his opinion the major concern is around Fonterra's minority 18.8 percent shareholding in China's Beingmate Baby Child.

International

Mission launches Emeralds in the Rough avocados [1 March/Euro Fruit] Mission Produce released its newest value-added offering to the avocado market of 2lb and 3lb bags of grade 2 avocados to be sold under the emeralds in the rough banner. The company said the avocados are not quite pretty enough to be top grade, and are the fruits that are weather blemished, imperfect and out of shape. The avocados taste the same as the grade 1 fruit according to Mission Produce. Grade 2 fruit is often sold to foodservice distributors and industrial users in bulk. Mission Produce Marketing Director, Denise Junqueiro, added that it was agriculture and not every piece of fruit was perfect and this product was created to showcase avocado quality even when they are blemished. Mission Produce Sales Director, Patrick Cortes, noted that the product had a lot of factors in its favour such as rising consumption of imperfect fruit, a propensity for sustainable products, smart design and average lower cost.

Tesco aims to create "closed loop" of packaging [1 March/Euro Fruit] Tesco's Chief Executive, Dave Lewis, told the audience at the City Food Lecture that he is talking to the UK government about creating a closed loop of packaging system as part of a new sustainability campaign. He is considering using Tesco car parks as recycling sites for packaging to be reused in stores. He said that it was a fundamental change that will require Tesco to work with the government on the national infrastructure, but it is doable. Mr Lewis added that previous relationships with suppliers had been confrontational, and was regretful about the supermarkets past treatment of suppliers. He noted they have attempted to change their ways and have made commitments to long-term partnerships with a number of key suppliers.

Perfect Day, a maker of cow-free dairy proteins, raises \$24.7M in funding [27 February/Food Dive] A California-based start-up, Perfect Day, that creates cow-free milk proteins out of yeast has raised \$24.7 million in funding according to Food Navigator. They have patented their process of producing non-dairy milk. Perfect Day co-founder, Perumal Gandhi, said that he believed once they had shown the product at a commercial scale at affordable prices, others will come in but by that point they will have a big head start in the industry. Product labelling is an obstacle and Perfect Day's co-founders have had discussions with the U.S. Food and Drug Administration around how to state the ingredients are technically dairy yet animal-free. Their process involves taking food-grade yeast and adding 3D printed DNA sequences from dairy cows to produce the types of proteins in dairy-based milks. If Perfect Day and other alternative animal-free products don't start impacting the market, it is hard to see how U.S. consumers will respond to genetically engineered milk products.

Consumer enthusiasm for meat is still sizzling, survey finds [28 February/Food Dive] The average home was eating four meals a week with meat or poultry according to the Food Marketing Institute's latest Power of Meat report. The report found that those customers who know more about meat tended to buy a greater variety of cuts and cooked with it more often which has created an opportunity to boost sales through educating shoppers. Customers are also increasingly comfortable with buying meat online with 19 percent of shoppers having bought meat online at least once. According to the U.S. Department of Agriculture, the average U.S. consumer will eat 222.2 pounds of red meat and poultry in 2018. Customers reported that they want to know more about sourcing, raising, animal welfare and environmental practices. The four main areas suggested for retailers to focus on were improved quality and freshness transparency, greater cut and pack size variety, better pricing and promotions, and improved customer service.

Aussie Farmers Direct goes into administration affecting 100,000 customers, truckloads of produce turned away [5 March/ABC News] Fresh food delivery company Aussie Farmers Direct went into voluntary administration, and blamed competition with supermarkets and the low cost of imported food. According to the administrator Craig Shephard, the closure would affect 260 employees, 100 franchisees and 100,000 customers around Australia. The company began in 2005 and was one of the first to deliver items such as fresh fruit and vegetables. Food and agribusiness consultant, Mark Soccio, said it was sad news for the retail food market and farmers, but that it showed the limitations to scalability these types of business models have. He believed that the expansion attempt ultimately caused the business failure as they did not have the capacity to compete effectively.

Milkmen are returning to London as millennials order glass milk bottles in a bid to slash plastic waste [25 February/Evening Standard] London dairies had identified an upsurge in customers at the start of the year due to public upset over plastic waste. Milk&more and Parker Dairies had noticed increased demand for glass bottles in 2018, and believe it was caused by David Attenborough's Blue Planet II. It has been reported that there was a 25 percent increase in milk deliveries in the UK over the last two years. Glass milk bottles make up 3 percent of milk sales in the UK. Parker Dairies Bus Depot Manager, Paul Lough, said the dairy has gained 382 new customers since the start of the year, with 95 percent of these having milk delivered in glass bottles. He added that people are much more environmentally conscious. Milk&more have gained more than 2,500 new customers which is the equivalent of five new milk rounds. Managing Director of Milk&more, Patrick Muller, said the glass bottle is an exciting product and they think it has a future.

Pest management

Federated Farmers: New rabbit virus a relief for farmers [5 March/The Country] The new rabbit haemorrhagic virus disease strain, RHDV1 K5 has been approved for release and is a relief for farmers affected by the pest according to Federated Farmers. A high country farmer who represented Federated Farmers on the cross-sector group co-ordinating the K5 initiative, Andrew Simpson, said the timing of this is critical for some areas, and that the ecological damage could be devastating without it. He added that K5 was introduced into Australia last year and reports showed that it had been better than anticipated with some areas achieving up to 80 percent kill rates. It is optimal for the K5 strain to be released among rabbit populations in March and April. Mr Simpson noted that other forms of rabbit control that have been employed for years will still have to be implemented alongside the K5 virus.

Viticulture

Villa Maria awarded 12 golds and two trophies at Royal Easter Show Wine Awards [5 March/The Country] Villa Maria upheld their reputation as New Zealand's most awarded winery when it was awarded 12 golds and two trophies at the Royal Easter Show Wine Awards. The Group's Chief Winemaker, Nick Picone, was particularly happy that the golds were across all four tiers of Villa Maria wines. He said they were thrilled the golds were to a spectrum of wines from their Private Bin, Cellar Selection, Reserve and Single Vineyard ranges. Villa Maria Founder and President, Sir George Fistonich, believed the awards were an outcome of a passionate and hard-working winemaking team.

Red meat

NZ meat industry confident despite protein threat [2 March/Radio NZ] With the increased pressure from alternative protein food products, the New Zealand meat industry insisted it will survive, and even thrive. Beef + Lamb New Zealand said that large-scale production of alternate proteins was likely to become a reality within five years having received a report on the realities of alternative protein markets. Their General Manager of Market Development, Nick Beeby, added there was untapped potential for natural, free-range, grass-fed, and hormone-free red-meat. He said it was all about New Zealand developing a red-meat story and that we have to be the best. Currently we can only feed 40 million people in the world with our red-meat products, so he believed we need to aim for the top. Achieving a premium price was the long-term vision.

Poultry

Extension to Dargaville chicken farm submission deadline rejected by councils [6 March/The Country] A Kaipara resident believes people should support a large chicken farm near Dargaville as it would provide much needed jobs and income. A written request to block the proposal has been sent to the Northland Regional Council on behalf of those opposed to Tegel Food's plan for a chicken farm with more than 1.2 million chickens. However, painter/decorator Clyde Forbes said factory-oriented industries were needed as a lot of people were not well-educated. He added that farming kumara, and Silver Fern Farms were not going to sustain the local economy as most only offer seasonal work. Mr Forbes noted that many young people in Dargaville often look to Auckland or Whangarei for job prospects and believes this chicken farm would allow the community to grow. A public march to oppose Tegel's proposal was held in Dargaville town on Thursday.

Rural communities

Rural med school pledge at risk [6 March/Rural News] The withholding of \$4.5 million that was pledged to help set up a Waikato rural medical school was prompted by short-sightedness and political game-playing by the new government. Philanthropist Sir Owen Glenn pledged the gift for a Waikato medical school with the primary focus of community healthcare in high need communities. Mr Glenn advised the Waikato University Vice-Chancellor, Neil Quigley, that he is disappointed Labour has discounted the proposal. Health Minister David Clark told Parliament that the Government was considering proposals for a third medical school, but declined to offer any further information. The rural medical school is proposed as a joint project by The University of Waikato and the Waikato District Health Board.

Research and development

Oxford research director calls for NZ farming sustainability [5 March/Radio NZ] Oxford University Population Biologist, Charles Godfray, said that New Zealand agriculture needed to become more sustainable to catch up with its clean, green, unspoiled image overseas. Sir Charles added that New Zealand agriculture has a tremendous reputation as producing very high quality products, and that he thought there was a general feeling that it's produced from a pristine and wonderful environment. He noted that there are some issues around sustainability where New Zealand has greater challenges, particularly nitrogen run-off. He emphasised the importance of looking ahead in meeting the challenges of feeding a global population of 10 billion sustainably. He believed that in some ways the reality of the sustainability of New Zealand's agricultural land almost had to catch up with its perception abroad.

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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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