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 Agenda 2018**

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

8 August 2018

Organisations referenced in this week's Field Notes include:

Alliance Group	New Zealand Merino Company
ANZ	Nielson
Apeel Sciences	Otago Land Company
ASB	PGG Wrightson
Auckland Airport	Plant Based Foods Association
Biosecurity NZ	Poultry Industry Association of New Zealand
Crown Irrigation Investments	Qantas
DEFRA	Seafood NZ
DLF Seeds	Seeka
DouxMatok	Statistics New Zealand
Ebert Construction	Südzucker
Federated Farmers	Summerfruit New Zealand
Fonterra Co-operative Group	Synlait
Forest & Bird	Tapawera Hop Garden Limited Partnership
Havelock Wool	Tasman District Council
Hop Revolution Limited	Tegel
Jetstar	Tetra Pak
Juken New Zealand	The a2 Milk Company
Landcorp Farming - Pamu	The Hydrothecary Corporation
Mitsui	Viking Global Investments
Molson Coors	Vinamilk
MyFarm	Vivera
National Farmers Union	Wenita Forest Products
New Forests	Woolworths NZ
New Zealand Avocado	Zespri
NZ Kiwifruit Growers Incorporated	

This week's headlines:

Dairy	A2 Milk increases stake in Synlait Milk [3 August/Radio NZ]
Horticulture	Summerfruit readies funding case [1 August/Rural Life]
Fishing	Seafood industry an improving student but could try harder says executive [2 August/Stuff]
Farmers and producers	Farmer confidence at its weakest in 6 years [1 August/Rural Life]
Rural supplies	PGG Wrightson to sell seeds division for \$421m [6 August/Stuff]



Red meat

NZ lamb prices break over \$8/kg – highest on record [5 August/NZ Herald] New Zealand lamb prices have reached their highest level ever. General Manager Livestock and Shareholder Services at Alliance Group, Heather Stacy, said the co-operative has a minimum price starting in September of \$8.20 which was the highest it had ever paid. She expected prices to pull back after the traditional Christmas period. She added it was fair to say prices were starting to top out. She noted sheep farmers had enjoyed 18 months of stability which would set them up well for next season. Lambing percentages were also expected to be high. ASB said lamb prices were strong across key markets and reflected healthy global growth and demand. It added EU prices were 22 percent higher than they were for the same period last year, and U.S. prices were up 19 percent. This compared to the overall 16 percent increase in New Zealand lamb export prices. ASB noted that they are optimistic for lamb prices but wary of risks such as trade tensions.

Dairy

A2 Milk's new boss Jayne Hrdlicka unfazed by the rising tide of competition [4 August/NZ Herald] The a2 Milk Company's ('A2 Milk') new Chief Executive, Jayne Hrdlicka, is relaxed about competition entering the A2 milk market. She said more competition could only grow the segment. A2 Milk accounts for around 10 percent of the fresh milk market in Australia and is being successful in the lucrative Chinese infant formula market. It has indicated that it expects to report strong earnings growth. A2 Milk said its revenue for the year would be around \$922 million, up 68 percent on last year. Its share price rose from \$4.44 a year ago to \$10.42 currently. Attracting new CEO, Jayne Hrdlicka, was seen as a coup for A2 Milk. She previously led Jetstar and was a possible successor to Qantas' Chief Executive before taking on her new role. She noted her time at Qantas was a great experience and she learnt more than she could have in other industries. In her new role, she expected to spend time in Australia, New Zealand, China and the United States. A2 Milk had big plans for the U.S. looking forward.

Fonterra, a2 Milk bury the hatchet [3 August/NZ Herald] Fonterra and The A2 Milk Company have joined together to offer a jointly branded A1-free milk to New Zealand consumers. Fonterra had resisted the a2 Milk concept until now. The two companies have moved on from historic differences and formed a joint venture. They launched their first jointly branded product this week. Most cows carry both A1 and A2 proteins but a2 Milk specialises in A1-free milk from selected cows. A2 Milk's CEO, Jayne Hrdlicka, said the relationship was great for both sides. A2 started off as a technology and intellectual property company that sold licences around the world, but then became a company that developed the product and built its own markets. It meant buying back the licences it had sold. According to analysts, promoting A2 milk could detract from the value of regular milk. Fonterra Acting Sales Director, Grant Watson, said there were many positive opportunities and they were looking to the future.

Ebert receivership hits Synlait dairy factory project at Pokeno [2 August/Stuff] Ebert Construction, who were hired to build Synlait's new dairy processing factory at Pokeno, are determined to see it completed despite going into receivership. Ebert were hired as subcontractors to the project by Tetra Pak. Receivers said the company owes creditors tens of millions of dollars, largely due to poorly performing projects in Auckland. Workers were locked out with no access to their tools. The \$250 million factory will produce 45,000 tonnes of milk powders. Synlait Chief Executive, John Penno, said the factory would provide 50 to 70 new jobs. Tetra Pak and Synlait had a long standing relationship and they were determined to find a solution. Construction of the factory was still in its early stages. A key part to the completion would be whether the receivers allowed Ebert to remain on the project. If they were not allowed to then another subcontractor will need to be found.

A2 Milk increases stake in Synlait Milk [3 August/Radio NZ] The a2 Milk Company will buy an additional 8 percent share in Synlait Milk from Mitsui for \$161.6 million. This will increase its share of Synlait to 17.4 percent in total. Synlait produces infant formula for A2 Milk, which was in demand in Australia and China. It had also helped drive the company's profits and share price over the past two years. The two companies extended their cornerstone commercial agreement in July for the supply of infant formula and other dairy products. A2's Managing Director, Jayne Hrdlicka, said the investment in Synlait was consistent with its commitment to long term supply arrangements with high quality partners. She added A2 Milk had no plans to buy any more of Synlait. The two companies were among the best market performers over the past year.

Horticulture

Three people arrested after avocado heists [3 August/The Country] Three people were arrested due to avocados being stolen from orchards in the Bay of Plenty. Police alleged that one was the organised receiver who purchased the fruit from the two who stole it. A 63 year old was due to appear in court later this month. Two others from Tauranga would appear in court next month in relation to the matter. A 23 year old man and 27 year old woman faced burglary charges. Police urged avocado buyers to ensure they know the source of the fruit and to keep records of their purchases. Avocado growers said thefts were on the rise and they were targeted in order to supply a black market. New Zealand Avocado Chief Executive, Jen Scouler, added the association was aware thefts were increasing. This should come as a warning to orchardists to be vigilant.

Critical seasonal labour shortage may hinder kiwifruit industry growth – report [3 August/The Country] A report by New Zealand Kiwifruit Growers Inc says a critical shortage of seasonal workers could limit the kiwifruit industry's growth over the next ten years. The report showed the industry would require 7,000 seasonal workers if it was to double in size as predicted. At the start of the 2018 season, the industry was short of 1,200 workers with 70 percent of the crop left to harvest. The Government declared a labour shortage and loosened up visa conditions for those willing to work. NZKGI Chief Executive, Nikki Johnson, said the situation would escalate significantly if no action was taken. The industry was working to increase interest in the work. Seeka Chief Executive, Michael Franks, said it was short of staff and could not run all the machines it wanted to. Zespri Communications Manager, Oliver Broad, said the expected growth rate of the industry required more labour at all levels across the industry.

Summerfruit readies funding case [1 August/Rural Life] Summerfruit New Zealand Chief Executive, Marie Dawkins, said it had nearly completed its business case proposal for a Primary Growth Partnership that will encourage innovation, add value and enhance the industry. She added it was a major strategy for the industry. It sent its initial application several months ago and the panel immediately requested a comprehensive, detailed business case. They had been working on the Sensational Summerfruit strategy, which would cost about \$16.7 million. The plan predicted industry growth to nearly \$500 million by 2035. She noted they hoped to have it ready by 1 September. The five key points included opening new markets (including online sales), better understanding consumer requirements, developing improved packaging and transport to deliver fresher fruit faster, encouraging the adoption of new technology and innovation, and the development of more high performance orchards with higher volumes, new varieties and new production systems.

Forestry

Foreign forestry deal promises to support 'billion trees' plan [5 August/Stuff] According to the Overseas Investment Office, a forest sale to overseas investment company New Forests was likely to advance the Government's plan to plant one billion trees over 10 years. New Forests intended to prune more of the trees, increasing the likelihood the wood would be supplied to domestic processors. New Forests Associate Director, MaryKate Bullen, said while all its investments were managed by local firms, they worked closely to help with operational efficiencies, and forest certification. The OIO allowed the purchase of a 38 percent stake in Wenita Forest Products and full ownership of Otago Land Company. New Forests promised more protection for indigenous vegetation and wetlands, control against animal pests, and more public access. New Forests was attracted by strong housing markets, rising demand for hardwood chips and softwood logs in China, easing currencies and low shipping rates. Investors in New Forest funds are mainly other superannuation funds.

Govt could step in to help Kaitaia's biggest employer [3 August/Radio NZ] Regional Economic Development Minister, Shane Jones, suggested government funds could be used to safeguard Kaitaia's biggest employer. The plant was run by Juken New Zealand which was a subsidiary of Juken Nissho. It employs 300 people and makes a timber product, Triboard. The company has said it is running short of raw material to supply its factory. Mr Jones was worried the plant may be subject to downsizing or closure as had happened to the company's plant on the East Coast and was waiting to hear what they would do with it. He added it would be a bad day for Kaitaia and hurt the area if it did close. He was planning a trip to Japan and would raise the matter with company managers there. He planned to tell them that the Provincial Growth Fund might still play a part in the Kaitaia firm's future. Juken New Zealand said its Kaitaia plant was not about to shut down but General Manager, Dave Hilliard, said too many trees had been cut too soon, making it hard to find raw materials.

Fishing

Seafood industry an improving student but could try harder says executive [2 August/Stuff] Seafood NZ Executive Chairman, Craig Ellison, updated his personal appraisal on the state of the industry at this year's Seafood New Zealand conference. In 2017, he likened the industry to a studious pupil who showed signs of maturity, but could do better. He now suggested the industry had made some positive moves towards a straight A grade, but improvements were a work in progress. The industry kept its C grade for the number of prosecutions, but the industry was getting better at condemning those who contravened the code. Mr Ellison noted the industry was doing good work on minimising its environmental impact. Investment in science and innovation had a successful year with Sanford's investment in nanofiber skincare technology. Accountability moved from a B minus to a B. He noted while the debate for cameras on board was ongoing, digital monitoring in the over 28 metre fleet was in place.

Wool

US company buys NZ wool for home insulation [5 August/Stuff] New Zealand wool producers have landed a contract to supply a U.S. company with fibre for home insulation. They claim wool was a healthier alternative to fibreglass, which has been disputed by fibreglass manufacturers. The deal would include 200 tonnes of Landcorp coarse wool supplied to Havelock Wool. Havelock Wool Managing Partner, Andrew Legge, said materials in homes contributed to poor indoor air quality. He added wool did not emit dangerous particles. Around 95 percent of New Zealand homes were insulated using fibreglass. Mr Legge noted a key benefit would be contractors would not ingest fibreglass during installation. Landcorp Chief Executive, Steven Carden, said the wool would be marketed under its Pamu brand. The deal was arranged by New Zealand Merino, who are also helping Havelock Wool improve its product manufacturing through looking at the type and style of wool used. NZM Chief Executive, John Brakenridge, said partnerships with innovative companies were a key part of its strategy to shift the wool industry from volume to value.

Poultry

Chicken prices shrink as industry grows [3 August/Stuff] Chicken prices are decreasing with the expansion of the poultry industry. According to Statistics New Zealand, prices fell 8.5 percent in the last 12 months. A Woolworths NZ Spokeswoman said there were a number of factors that influenced food prices. She added simple demand and supply was one factor driving the trend in chicken prices. According to the Poultry Industry Association of New Zealand, New Zealanders were consuming record amounts of chicken meat. The poultry industry produced 118 million chicken last year to meet demand. Tegel had plans to farm nine million chickens a year on a proposed free range poultry farm in Northland however its resource consent had been postponed until further notice. Poultry Industry Association of NZ Executive Director, Michael Brooks, said contractual systems were similar for large companies with chickens owned by processors and growers paid a few for each bird. Mr Brooks noted the industry was vertically integrated so companies purchased grains and milled their feed.

Farmers and producers

Farmer confidence at its weakest in 6 years [1 August/Rural Life] New Zealand farmer confidence fell to its lowest level in six years due to uncertainty with government policies. According to the latest Federated Farmers confidence survey, around 39 percent of farmers surveyed were pessimistic about the economic conditions over the next year. This was the lowest level recorded since 2012. ANZ's business outlook also saw New Zealand business confidence fall to a 10 year low. Federated Farmers Vice President, Andrew Hoggard, said there seemed to be a fear factor at play and farmers were uncertain about what the coalition government would do next on key issues. He noted pessimism was a sour note among generally positive indicators. Expectations for farm profitability were up slightly. The three main concerns were regulation and compliance costs, heightened concerns about pests, diseases and biosecurity, and climate change policy.

Biosecurity

Fruit fly found at Auckland Airport could have ‘devastated’ horticulture industry [2 August/Stuff] According to Biosecurity NZ, a fruit fly could have devastated New Zealand’s horticulture industry if it wasn’t discovered at Auckland Airport. It came on undeclared food from Malaysia last month. Biosecurity NZ Passenger Manager, Craig Hughes, said many horticulture crops were susceptible to attack by fruit fly. Affected crops could be inedible or subject to trade restrictions if the fly became established in New Zealand. He added more than ten fruit flies had been found at the border by Biosecurity officers this year and they were on high alert. Mr Hughes noted it was about protecting New Zealand from an invasive pest that could harm an industry worth \$5 billion. The passenger was fined \$400 for failing to declare the food.

Hops

Hoppportunity knocks in Tapawera [31 July/Radio NZ] MyFarm has launched a \$17.64 investment offer to fund New Zealand’s largest hop orchard, the Tapawera Hop Garden Limited Partnership. It included the purchase of a 96 hectare property and lease of a 50 hectare property that would be developed into a hop garden. MyFarm CEO, Andrew Watters, said half the garden would be planted this spring. He added the offer included a \$3 million stake in new hop exporter Hop Revolution Limited. It would manage the garden and market the hops offshore. Hop Revolution Chair, John Loughlin, noted he thought the company could add considerable value to the way New Zealand hops were marketed internationally. He said they were aiming to create brand value for growers. Mr Loughlin added spray-free aroma hops were highly sought after. Mr Watters was pleased at the level of interest from New Zealand investors. New Zealand had about 600 canopy hectares of hop gardens.

International

Malcolm Turnbull consoles grief-stricken drought charity worker as he announces emergency relief [5 August/ABC News] Charity worker, Edwina Robertson, broke down during an emotional confrontation with Prime Minister Malcolm Turnbull in relation to the drought in the area. Mr Turnbull comforted her. She said it was worse than anything in the media and she worried every day. Mr Turnbull promised to do more to help those under intense financial strain due to drought conditions in New South Wales. He signed off an emergency special payment for eligible farmers. It would provide households with up to AUD12,000 in additional lump sum payments. The package included funding for mental health support. Mr Turnbull added it was the worst drought in many decades and the cash would help provide some relief. The eligibility to receive the money would also be relaxed. Mr Turnbull encouraged farmers to seek support when required. Labour’s Agricultural Spokesman, Joel Fitzgibbon, noted the move to support struggling farmers was long overdue.

DouxMatok Partners with Europe’s Largest Sugar Producer to Commercialize Sugar Reduction Tech [31 July/AgFunder News] According to its CEO, Eran Baniel, DouxMatok has entered into a partnership with Europe’s largest sugar producer, Südzucker. DouxMatok is an Israeli company that has developed a sugar reduction technology. It had boosted the amount of sweetness perceived per gram of sugar by binding sucrose molecules to the mineral silica. Silica is a naturally occurring mineral in many foods such as bananas and carrots. The technology allows companies to use 40 percent less sugar in their products while achieving the same level of sweetness. The partnership began due as a result of food manufacturer’s trialling the product. Mr Baniel had been sending out samples of the product for companies to experiment with, but the company had no capacity to deliver on the high demand. That’s the main reason for the partnership. He was happy that most products ended up with more dietary fibre as a result of the sugar. DouxMatok raised a USD8.1 million Series A funding round from investors last September.

Hedge Fund Viking Invests in Battle to Keep Avocados Ripe Longer [1 August/Bloomberg] Viking Global Investors led a \$70 million fundraising round for Apeel Sciences. Apeel Sciences is a California startup that uses food waste and other plant material to delay the aging of fruit and vegetables. It has raised a total of USD110 million. Avocados treated by its solution stay ripe twice as long and have been in the market for about a month as a pilot test. Apeel’s CEO, James Rogers, said they weren’t making fruits and vegetables any better, but were just maintaining the quality. Harp Food Stores was one of the chains testing the products and had increased its avocado profits by over 50 percent. These results were being pitched to other grocers. Viking Global believed the investment would give them a foothold in the battle against food waste. Mr Rogers added on top of helping grocers sell more produce, it could be used abroad to expand access to fresh food.

Gove pledges drought support [2 August/EuroFruit] DEFRA Secretary, Michael Gove, called for increased flexibility to help drought hit farmers in the UK, but the National Farmers Union want to also address market volatility. The summer of 2018 is turning out to be one of the driest summers in memory and the warmest July on record. Mr Gove promised to ensure farmers had what they needed in order to provide the high quality food the country needs and allow their business to survive. Farmers reported decreased harvests and yields as a result of the dry conditions. The Environment Agency said farmers would be allowed some flexibility within their water abstraction licences. Head of Water Resources, Paul Hickey, noted they needed to balance farmers’ needs with those of wildlife and other water users. Mr Gove added the government wanted to be flexible and would not allow bureaucracy to prevent farmers getting the support they need. NFU President, Minette Batters, said it was too soon to know if poor harvests would lead to higher prices for consumers.

Molson Coors makes cannabis-infused beverage deal in Canada [1 August/CNBC] According to Molson Coors, its Canadian unit is entering into a deal that will develop cannabis infused beverages in Canada. The company will team with The Hydrothecary Corporation to create a joint partnership. Marijuana use will become legal in Canada later this year. CEO of Molson Coors Canada, Frederic Landtmeters, said Canada was breaking new ground in the cannabis sector and it had an opportunity to participate in the expanding consumer segment. Molson Coors Canada would have a 57.5 percent interest in the venture. Molson Coors reported second quarter sales fell to USD3.085 billion from USD3.091 billion a year earlier.

Vinamilk produces the first A2 milk in Vietnam [2 August/Dairy Reporter] Vinamilk, a Vietnamese dairy company, said its first A2 dairy cows imported from New Zealand had started producing milk. The Vinamilk A2 milk products were available in UHT milk and pasteurised milk formats. It differs from regular cow’s milk in that it only contains the A2 beta-casein protein which is easier to digest. A2 milk has been available for more than a decade in selected markets. Vinamilk said it had brought the cow breed to Vietnam to not only bring benefits to consumers, but also prove the capability of Vinamilk to showcase Vietnamese products internationally. The company invested in almost 200 cows. It added by 2019 it would increase the number of cows to 1,000 to meet domestic consumer demand. Vinamilk was named the most valuable brand name in Vietnam at \$2.28 billion.

Vivera sees growing demand from US and Australian retailers [1 August/Global Meat News] According to Vivera, it received requests from Australian and U.S. retailers to stock its plant-based meat products following its success in Europe. Its Head of Sales, Richard Janson, said it currently sells its products to 26 countries, which were reporting significant sales uplifts. Neilson recently released data showing plant-based meat sales in the U.S. had grown 24 percent this year. The Plant Based Foods Association said the industry had gone from being a relatively niche market to fully mainstream. Its Executive Director, Michele Simon, said it was not only for vegetarians or vegans anymore. He was surprised by the figures reported this year.

Water

TDC hopes Provincial Growth Fund will plug \$18m hole in Waimea dam plan [6 August/Stuff] Tasman District Council has applied to the Government's Provincial Growth Fund in relation to the proposed Waimea dam. A guide to the fund specifically had an exclusion for water and large-scale irrigation, so it may preclude the dam project which had received funding commitments from Crown Irrigation Investments. It was to provide the council with a \$10 million interest free loan for the dam project. Tasman District Council Relations Manager, Chris Choat, said the council accepted the fund did not provide for high value irrigation schemes, but added the Waimea was more than an irrigation project. The application was still open for consideration. Regional Economic Development Director, John Doorbar, said anyone was welcome to apply for funding through the fund. They were looking for \$18 million in funding. It had an unexpected \$26 million increase in costs which would pose a challenge that TDC Chief Executive, Janine Dowding, said could result in the decision to end the project being made.

Rural supplies

PGG Wrightson to sell seeds division for \$421m [6 August/Stuff] PGG Wrightson Limited has agreed to sell its seed division to DLF Seeds for \$421 million. The deal was subject to shareholder and Overseas Investment Office approval. PGG Wrightson said the sale amount exceeded the book value of the net assets of the division. The deal followed a review of the company. It was New Zealand's largest agribusiness services business. Its Chief Executive, Ian Glasson, said the sale would mean business as usual for the company and its customers. DLF Seeds Chief Executive, Truels Damsgaard, added PGW Seeds was the leading temperate forage seed player in the Southern Hemisphere and presented a real opportunity for value creation. PGG Wrightson Seeds had operations in New Zealand, Australia and South America. PGG Wrightson would still continue to provide a range of corporate functions and back office services to PGW Seeds for a transitional period and the deal is subject to regulatory approvals including approval from the Overseas Investment Office.

Emerging markets

NZ could lead the way [6 August/Rural Life] New Zealand Merino Company Chief Executive, John Brakenridge, believes plastic pollution has brought the world to a crossroad. He thought New Zealand had an opportunity to take a global leadership position in finding solutions. He said seventy percent of the world's clothing was made from plastic and it was one of the leading contributors to global plastic pollution. He added New Zealand was positioned to find natural solutions through either wool, flax or hemp products. Mr Brakenridge noted we had to change our relationship and dependence on plastic for the planet, and it was a collective responsibility of all parties. The life cycle of products needed to be looked at and greater emphasis placed on what happened once consumers disposed of them.

Environment and emissions

Pamu, Forest & Bird to work together [6 August/Radio NZ] Pamu, formerly Landcorp, said it will cut down on the number of cows it stocks on each of its Canterbury dairy farms. It declined to put a number on the reduction. It managed six dairy farms in Canterbury. Its Chief Executive, Steven Carden, announced a deal with Forest and Bird to improve environmental practice on New Zealand farms. They signed a Memorandum of Understanding to work together on agricultural practices to protect nature. Forest & Bird's Chief Executive, Kevin Hague, said the industry had immense influence over New Zealand's natural environment. Mr Carden added Pamu was committed to environmental stewardship in a meaningful way. Both parties said they wanted to work together for New Zealand's native species, water, climate, and people. The Memorandum covered things including advocacy for nature in agricultural landscapes, developing climate-resilient farming systems, and understanding regenerative agriculture.

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Weekly news update from the KPMG Agribusiness Network – 8 August 2018

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