



28 February 2020

Overseas Investment Office

Attention: Svetlana Malivuk

By email: OIOmonitoring@linz.govt.nz; SMalivuk@linz.govt.nz

Dear Svetlana,

201420003 - Xindongyue Group NZ Limited's ("Company")

1. We refer to your letter of 28 August 2019.
2. In your letter, you requested for information to facilitate the Overseas Investment Office's ("OIO") investigation on this matter. We provided (by way of a letter) the requested information and submissions on the Company's behalf on 25 September 2019.
3. In this letter, we set out supplementary submissions on:
 - a. The Company's extensive efforts in promoting its investment.
 - b. The Company's proposal.

Extensive efforts

4. As you are aware, the Property consists of the Karaka Point vineyard ("**Vineyard**") and a homestead accommodation ("**Homestead**").
5. Regarding the Vineyard, the Company's primary goal was to produce and export its wine products to China.¹ We are instructed that the Company was unable to penetrate successfully this increasingly competitive market (despite its repeated attempts to promote its wine products in the Chinese market). For the specific steps taken by the Company, we refer you our letter of 25 September 2019.²
6. We are also instructed that the Company has not been able to sell any of its wine products to its Chinese distributors since 2018. We submit that this must be understood in light of the intense competition that the Company faces. On a global level, the Company faced competition from French, Australian, Chilean, Italian, Spanish, US, South African, Argentinian and German wine producers.³ The Company also faced intense competition from other New Zealand wine exporters.⁴

¹ Page 1 of our letter of 25 September 2019.

² Pages 1, 2, 3, 5 and 6.

³ <https://chinawinecompetition.com/en/blog/insights-1/top-wine-importing-countries-of-china-172.htm>

⁴ <https://media.newzealand.com/en/story-ideas/new-zealand-wine-industry/>



7. To make matters worse, the Vineyard suffered from an infection of [powdery mildew](#).⁵ We are instructed that this has led to a decreased wine productivity rate and increased the costs in containing/eradicating the infection.
8. Despite the above difficulties faced by the Company, its **export sales increased significantly** for three consecutive years:

Financial year	Export Sales
2015/16	\$69,000
2016/17	\$93,722
2017/18	\$131,499

9. In tandem with the increased export sales and despite the powdery mildew infection, the Company also **increased its wine production for three consecutive years**:

Year	Wine Production
2015	2880 litres
2016	3,925 litres
2017	5,862 litres

10. Regarding the Homestead, the Company also took extensive steps to promote its accommodation services. The Company's steps include:
- The marketing its accommodation facilities on AirBNB, Trademe, and Booking.com.
 - The maintaining of its liquor license to enable the Property to host events.
 - The receipt of at least around 200 domestic and international guests since late 2016 at the Homestead.
11. Despite the Company's efforts, the income generated from the Vineyard and Homestead were unable to cover the expenses incidental to its business at the Property. Since 2014, the Company has suffered consecutive losses for each financial year. We are instructed that the losses to date stand in the region of \$1,000,000. In light of the recent COVID-19 outbreak in China, the Company is also expected to suffer further losses.
12. Mr Desheng Zhao, the sole shareholder of the Company, has been and continues to be concerned about the financial state of the Company. In January 2020, we are instructed that he also made it a point to personally visit New Zealand from China for the sole purpose of inspecting the Property and reviewing the financial state of the Company.
13. While the Company acknowledges and is disappointed that it was unable to generate the expected export receipts and achieve some aspects of its marketing plan, we submit that this must be understood in light of:

⁵ Page 3 and Annexure 12 of our letter of 29 November 2016



- a. The difficulties faced by the Company (see paragraphs 5 to 8 above, and our letter of 25 September 2019);
- b. The extensive steps taken by the Company to increase its revenue (see paragraph 6, 9, 10 and 11 above, and our letter of September 2019); and
- c. The losses suffered by the Company that impeded its ability to promote its investment.

The Company's proposal

14. The Company reiterates its willingness to cooperate with OIO in any aspect of its investigation.
15. In a spirit of transparency, the Company would like to inform OIO that it had to take steps to cut its losses. This includes steps taken to market and sell the Property. As stated in our letter of 25 September 2019, the Company engaged Sotheby's International Realty to market and sell the Property.⁶ To increase the chances of selling the Property, the Company has also engaged Ray White to market the Property.
16. In light of the above, the Company respectfully seeks OIO's agreement to dispose of the Property **within 18 months from the date of this letter**. This can be done by way of a settlement agreement between the Company and OIO. We respectfully submit that this agreement is mutually beneficial as it would allow the Company to decisively cut its losses and allow OIO to conserve resources that would have been expended in this investigation.
17. Thank you and we look forward to your reply.

Yours faithfully,

PRESTIGE LAWYERS LIMITED

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Managing Partner

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