

Case Study: China Fishery Group Limited (China)

China Fishery's Story

China Fishery Group Limited is a global industrial fishing company that harvests, processes and distributes a variety of ocean-caught fish and fish products. The company began trawling operations in the North Pacific Ocean in 2001 and by 2004, China Fishery's promising growth prospects had attracted the attention of Pacific Andes Resources Development Limited. That year, the Singapore-listed Pacific Andes acquired a 58% majority stake in China Fishery.

In 2006, China Fishery listed an IPO on the Mainboard of the Singapore Stock Exchange to raise capital for a series of growth activities. The company entered into its second Vessel Operating Agreement and subsequently acquired Peruvian fishing vessels and processing plants. These acquisitions enabled the company to launch a new business line: fishmeal operations.

By 2010, China Fishery had further expanded its fishmeal operations through the acquisition of two fishing companies in Peru. These acquisitions increased the company's share of the fishing quota to 6.05% in the North of Peru and 10.91% in the South of Peru, enabling the company to raise fishmeal and fish oil production by approximately 20%, while delivering economies of scale and operating efficiencies. Moreover, China Fishery initiated new fishing operations in the South Pacific.



Amid this flurry of activity, Carlyle Senior Director Patrick Siewert, based in Hong Kong, learned that China Fishery was considering a secondary listing in Oslo to raise additional growth capital. To Siewert, China Fishery fit squarely within Carlyle's investment thesis and offered exposure to China's burgeoning consumer economy. In July of 2010, Carlyle invested US\$190 million through a private placement of 113.5 million new shares and 26.7 million warrants, and acquired an 11.1% stake in the company.

Today, China Fishery has strategically positioned operations in a number of sustainable fishing grounds in the Pacific Ocean—both North and South—as well as in Peruvian waters. It continues to work with Carlyle to secure further access to underutilized ocean resources and enhance its sustainable fishing practices.

The Role Played by Private Equity

As a listed company, China Fishery had access to capital markets and thus was not looking solely for financing in a private equity partner. Encouraged by Carlyle's track record, particularly in the Chinese agribusiness sector (Carlyle had taken significant minority stakes in Guangdong Yashili Group in 2009 and C.P. Pokphand Co. Ltd. in 2010), China Fishery looked to Carlyle to leverage its global network and proven sector expertise to create value and establish the company as a reliable and responsible supplier of fish products to the global market.

Following the investment, Carlyle's Siewert joined China Fishery's Board of Directors and became a member of the company's Audit and Risk Management Committee. Carlyle subsequently developed a priority action plan to focus corporate activities on growing China Fishery's business and further advancing its corporate social responsibility (CSR) commitments, particularly to establish higher standards for sustainable practices. Carlyle set up two new committees to drive these initiatives: Investment and CSR.

Previously, China Fishery had typically used an acquisitions strategy for geographical growth; ▶

The Company



Essentials

Company: China Fishery Group Limited,
www.chinafisherygroup.com

Country: China

Sector: Agribusiness

Business focus: Industrial fishing

Size: Total revenue of US\$538.9 million (FY 2010)

GP: The Carlyle Group, a global alternative asset manager with approximately US\$153 billion in assets under management (www.carlyle.com)

Date of investment: July 2010

Investment: US\$190 million for an 11.1% stake

Impact Highlights

Carlyle's proven track record in Chinese agribusiness provides China Fishery with deep-level board expertise and enhanced corporate governance

Carlyle worked with China Fishery to create an Investment Committee to structure the company's growth through acquisition strategy; China Fishery leverages Carlyle's global network to source M&A opportunities and knowledge of vessel purchasing opportunities

After appointing an industry expert to advise the company on sustainability, Carlyle is working with China Fishery to earn the Marine Stewardship Council (MSC) qualification, which certifies sustainable fisheries and operators

Carlyle and China Fishery developed an initiative to obtain accurate readings of fish stocks in the South Pacific, and will work with local communities to ensure fish are caught in a sustainable manner

The Company View

“China Fishery has a history of strong, profitable growth. In partnering with a private equity player, we were looking to find substantial value add—less in terms of equity invested, but more in terms of the industry knowledge and connections that it could supply. Carlyle fit the bill perfectly: not only did it understand our business objectives, but it also had the necessary experience in our sector to fulfill our criteria for a partner.”

“Carlyle’s work over the last year, particularly in setting up our Corporate and Social Responsibility Committee, has immeasurably enhanced our sustainability credentials. We look forward to our fisheries achieving MSC qualification in the near future, and to further growing our business with Carlyle’s support.”

Joo-siang Ng, Chairman and CEO, China Fishery



“The world has woken up to the issues of food availability, quality and security. China Fishery fitted perfectly into our investment thesis of finding companies that provide plentiful, yet sustainable ways to address increased global demand for high quality protein. We look forward to working with them further to grow their business in a responsible way.”

Patrick Siewert, Senior Director, Carlyle

► the Investment Committee was formed to add structure to this process. Carlyle’s global footprint and network continue to feed the pipeline with possible additional vessel purchases and candidates for mergers and acquisitions, and the newly created committee evaluates each opportunity in turn.

The CSR Committee was formally initiated in November 2010 with the full support of all shareholders as well as the company’s executive directors. As a first step in building the committee, Carlyle conducted comprehensive research to recruit an independent member from the fishing industry with strong sustainability credentials. After interviewing a number of NGOs and the World Wildlife Fund (WWF), China Fishery recruited Dr. Keith Sainsbury—an expert on food production based on sustainable ecosystems—to be a member of the committee.

Dr. Sainsbury provided expert insights on where the CSR priorities for China Fishery should lie. To illustrate, he highlighted a WWF comparison metric that assessed six sustainability certifications; this work compelled Carlyle and China Fishery Group to prioritize working toward the Marine Stewardship Council (MSC) qualification, which certifies sustainable fisheries. While the certification process is ongoing, China Fishery hopes to receive the MSC certification for its operations in the North Pacific and Peruvian areas by 2012 and 2013, respectively.

After a year of investment, Carlyle’s outlook for China Fishery remains one of profitable and sustainable growth. While exiting its position isn’t currently a focus for Carlyle, a postponed secondary listing on the Hong Kong Stock Exchange may be revisited in the future.

Beyond the Bottom Line

The Carlyle-founded CSR Committee launched a specific initiative to address some of the fish quota issues surrounding China Fishery’s newest fishing locations, particularly those in the South Pacific. Ensuring sustainable quotas is an essential part of responsible industrial fishing, and China Fishery is taking a key role in advocating the development of quotas for those waters.

In a project under discussion by Dr. Keith Sainsbury, China Fishery vessels may undertake mapping in Southern Pacific waters to obtain improved understanding of the fishery biomass. These readings will help the industry better understand the current levels of fish stocks in these waters. Once this research is complete, China

Fishery plans to engage with relevant parties to encourage fishing in a sustainable manner and adhere to well-managed fisheries.

