

ASIAN SPECIALTY CHEMICALS NEWSLETTER

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INTRODUCTION

We hope you find the *Asian Specialty Chemicals Newsletter* informative.

BDA is a corporate finance advisory firm that helps multinational companies identify and execute acquisitions, JVs and divestments in Asia. We focus on the specialty chemicals sector and are well placed to advise our clients.

If you think that BDA's services may be useful to you, please contact us at any one of our offices or email me at erellie@bdallc.com. Contact details for our branch offices are at the back of this newsletter. We look forward to talking to you in the future.

Euan Rellie
Managing Director

AUSTRALIA

Orica, Australian explosives, fertilizer and chemical major, plans to sell loss-making cracker operator **Qenos** after writing down its investment in the company to A\$140m (US\$88.5m). Announcing its first-half results, Orica said it would have recorded a net profit of A\$97m, an increase of 21% from A\$80.4m in H1 2002, but the Qenos write-off meant the company actually posted a net loss for the first half of A\$42.5m. (May 5, 2003)

Orica also paid A\$10m (US\$6.5m) to acquire the industrial engineering plastics business of **Qenos**, a move to grow the company's speciality plastics distribution business following its acquisition of **Fernz Speciality Chemicals** from **Nufarm** for A\$60m (US\$40m) in September 2002. Orica also said it paid A\$3.5m (US\$2.2m) to take a 37.4% stake in **Welvic**, Australia's largest manufacturer of custom PVC compounds with annual sales of about A\$40m (US\$26m). Welvic is a subsidiary of **PolyOne**. Orica has also managed to strike a deal with Polyone to market its resin compounds and concentrates for distribution in Australia and New Zealand. (July 23, 2003)

In yet more news, **Orica** has agreed to buy **ICI India Ltd's** 51% interest in their JV **Indian Explosives Co** for A\$23m (US\$15m). (July 30, 2003)

CHINA/HK

Bayer and **GE Plastics** are holding talks on GE's possible acquisition of a stake in Bayer's 200,000tpa PC (polycarbonate) project in Caojing, Shanghai. **Shanghai Chlor-Alkali Chemical (SCAC)** said the talks have been going on for more than six months and the outlook appears positive. SCAC is Bayer's partner in the project. A JV between the two PC rivals could reduce competition as well as allow GE to offtake PC for its own compounding plant in Shanghai. GE owns another compounding plant in Nansha, Guangzhou, Guangdong. Both plants currently rely on PC imported from GE's global facilities. (June 23, 2003)

Degussa AG announced that an R&D center will be established and it will also invest in construction of a warehouse in Shanghai early 2004. Professor Hellmuth Felcht, CEO of Degussa AG, has said that he sees Shanghai as a fast-growing base. With a total investment of US\$37m, Degussa AG has already established four manufacturing enterprises in Shanghai. (July 3, 2003)

DuPont and the Chinese coatings producer **Beijing Red Lion Coatings Co Ltd** have signed agreements to form two joint ventures, one in Beijing and the other in Changchun, Jilin Province. DuPont will hold 60% of each venture and its Chinese partner 40%. The primary focus of the two ventures will be coatings for the automobile industry. The two joint ventures were expected to begin operating on May 1, 2003. (April 4, 2003)

Far Eastern Polychem Industries (FEPI) has sought PRC government approval to build a 145,000tpa polyester plant in Pudong, Shanghai. Expected to come onstream in mid-2005, the planned unit would produce 42,000tpa of PET bottle-grade chip, 60,000tpa of PSF (polyester staple fiber), 34,000tpa of POY (partially oriented yarn) and 9,000tpa of DTY (drawn textured yarn). (July 7, 2003)

Ho Tung Chemical of Taiwan is likely to construct its 50,000tpa MMA (methyl methacrylate) project in Caojing, Shanghai instead of Nanjing, if it eventually decides to go ahead with the project. Output from this plant could feed the company's planned 20,000tpa PMMA (polymethyl methacrylate) project, also at Caojing. Nanjing was previously considered because the company has an existing production base there. The PMMA project is expected to come onstream in 2004, before the MMA project does. A technology licensor and a startup date for the MMA project have yet to be decided. Feedstock for the proposed PMMA plant could be purchased from local suppliers or imported before the MMA project is completed. The PMMA project would be a JV between Ho Tung Chemical, **Shanghai Wujing Chemical** and a Taiwanese technology company. (April 7, 2003)

Kyowa Yuka is considering building a solvents plant in China, and expanding its solvents capacity in Yokkaichi, Japan, and oxo-alcohols capacity in Chiba, Japan. The source said some of the solvents being considered for the China and Yokkaichi projects include EA (ethyl acetate), butyl acetate and glycol ethers. Shanghai and Guangzhou are being considered as possible locations for the China project, which is likely to be a joint venture with a local company. As a subsidiary of **Kyowa Hakko Kogyo**, Kyowa Yuka runs a JV plasticizer plant in Shanghai with Taiwan's **UPC**. (April 28, 2003)

Mitsui & Co has been named as one of the potential investors in **Cangzhou Chemicals Industry (CCI)**. CCI is holding discussions with potential investors for its VCM-PVC project in Cangzhou, Hebei. However, the talks had not progressed much due to the SARS outbreak. Mitsui already produces 233,000tpa of VCM and 24,000tpa of PVC through **Cangjing Chemical Industry Co**, a JV with Cangzhou Chemicals. Mitsui owns 25% of the JV, and CCI the rest. The proposed plant would produce 400,000tpa each of VCM and PVC based on imported feedstocks. (May 19, 2003)

Nan Ya Plastics Corp plans to invest NT\$600m (US\$17m) in a new China plant that will manufacture and market PSF (polyester staple fiber) and

polyester chips. The venture would produce about 49,000tpa of PSF and 99,600tpa of chips. It will be located in Kunshan, Jiangsu province. (June 10, 2003)

Rhodia is considering building a world-scale adipic acid plant in China by 2008-2010 either on its own or with a partner. Several locations are being evaluated, but no decision has yet been made. Rhodia is not precluding the possibility of teaming up with one of its global competitors for the project. Major adipic acid producers include **DuPont**, **Solutia**, and **Asahi Kasei**. Rhodia's proposed plant in China would initially have a capacity of around 70,000tpa. The capacity of the plant could later be expanded, as has been done at Rhodia's plant in South Korea. (July 21, 2003)

Shanghai Wujing Chemical plans to add a 50,000tpa EA (ethyl acetate) line in Wujing. A feasibility study is due to be completed by June, after which government approval would be sought. The company, a subsidiary of **Shanghai Hua Yi**, hopes to bring the project onstream in 2004. The project is estimated to cost around RMB50m (US\$6m). Wujing already owns a 15,000tpa EA plant, which will be upgraded to 30,000tpa during an ongoing turnaround. The additional capacity was expected to be onstream in May. (April 28, 2003)

Shinho Petrochemical is considering doubling the capacity of its JV 50,000tpa ABS plant in Changzhou, Jiangsu, by adding a new line. The new line is part of the company's long-term plan and it would be completed in 3-5 years. Shinho is presently studying the ABS market to see when would be a good time to carry out the expansion. The existing plant is operated by Shinho Changzhou Petrochemical Corp (SCPC), which Shinho has a 67% share and Changzhou Plastic Group, a 33% share. (April 21, 2003)

Solvay confirmed that it is in discussions with several prospective Chinese partners over plans to establish a soda-ash JV in China. Solvay said talks were under way, but did not identify the Chinese companies or comment on the size and scope of the possible project. (June 24, 2003)

Taiwan Synthetic Rubber Corp (TSRC) has decided to postpone indefinitely a study to build a TPE (thermoplastic elastomer) polymer plant in Nantong, Jiangsu province, due to the product glut in the country. TSRC was to have completed the study by end-2003. However, it decided to shelve it recently as it estimates that oversupply could last for at least three years. TSRC's other facilities include an 8,000tpa TPE compounding unit in Shanghai, and a 53,000tpa TPE polymer unit and a 100,000tpa SBR plant in Kaohsiung, Taiwan. TSRC is expected to bring onstream its 100,000tpa styrene butadiene rubber (SBR) plant, which is being debottlenecked, in Nantong, Jiangsu province. The capacity of the unit is being raised to 120,000tpa. (May 12, 2003)

Unifi Inc has signed a non-binding LOI to form a JV with China's **Kaiping Polyester Enterprises Group** of Kaiping, Guangdong, to manufacture and sell polyester and nylon products. Unifi said it expects to take a 75% stake in the JV company, which is expected to have annual sales of US\$300m. Kaiping, which is owned and operated by the Kaiping city government, is one of the largest polyester textile filament producers in China. The companies hope to close the proposed transaction by the end of 2003. (July 22, 2003)

Yantai Wanhua Polyurethanes' feasibility study on its 160,000tpa MDI (methyl di-p-phenylene isocyanate) project in Zhejiang was approved by the Chinese government. The company has decided to build the RMB2.58bn (US\$311.7m) plant in the Ningbo Daxie Development Zone in Zhejiang. The MDI project will use Wanhua's own technology and be 100% owned by Wanhua. Construction work is likely to begin in H2 2003 and the company plans to bring the project onstream in H1 2006. Wanhua now produces 80,000tpa of MDI in Yantai, Shandong. (May 5, 2003)

INDIA

Bayer Cropscience India has decided to sell its phosalone-based insecticide business to **Cheminova India** for an undisclosed price. Cheminova India is a subsidiary of **Cheminova Agro** of Denmark. The Danish major acquired the pesticides business of pharmaceutical major **Lupin** in 1997 and later renamed it Cheminova India. (May 12, 2003)

Ciba Specialty Chemicals intends to enhance its stake in **Ciba Specialty Chemicals (India)** from the present 69.3% to 100%, through a creeping acquisition. (June 30, 2003)

Hindustan Organic Chemicals Ltd (HOCL) is being sold by the Indian government, which will soon invite new financial bids from shortlisted bidders for the purchase of a controlling stake of 32.6%. The Cabinet Committee on Disinvestment cleared the way for bids to be made after a meeting on July 10, 2003, when it approved the final transaction documents to be signed with the winning bidder. Although the government has not disclosed the names of short-listed bidders, it is understood that the main contenders are **Deepak Nitrite/Deepak Fertilizers & Petrochemicals** and **Schenectady India/Schenectady Herdillia**. The Indian government, which currently holds 58.6% of the shares in the company, originally invited expressions of interests for the HOCL purchase on January 17, 2003. (July 14, 2003)

Reliance Industries recently established a strategic alliance with **DuPont** on polyester products R&D which would give it access to the archives of DuPont's past research projects. The alliance includes the establishment of an R&D center at Patalganga, Maharashtra, where Reliance operates polyester plants. The alliance is expected to help Reliance develop new products for the Indian market and possibly for export. (May 5, 2003)

Xpro India Ltd (XIL) will expand and consolidate its presence in its polymers business while it plans to sell its cotton-yarn business. XIL is considering acquiring a bi-axially oriented PP (BOPP) film unit, although it has not named the company with which it is negotiating. XIL currently operates a 4,600tpa BOPP film plant at Barjora in West Bengal. (July 9, 2003)

JAPAN

Asahi Glass has acquired a controlling stake in **Hankuk Electric Glass**. Asahi bought an extra 1.03m shares for W55.2bn (US\$4.6m) thereby raising its stake in the South Korean company to 42.76% from 30%. Asahi purchased the shares from **Nippon Electric Glass**, which now has no interest in Hankuk. **LG Electronics** owns 20% of the company. Hankuk manufactures and sells glass bulbs for cathode-ray tubes used in television sets and computer monitors. Asahi's move follows its decision to close down permanently its glass-bulb factory in Funabashi, Chiba prefecture, by the end of this year, and transfer production to its factory and development base in Takasago, in Hyogo prefecture, and its factories in Southeast Asia, South Korea, and China, all of which are closer to its main bulb customers. (July 21, 2003)

Asahi Kasei Corp has agreed to sell its industrial-use nitrocellulose operations to a unit of France's **Societe Nationale de Poudres et Explosives (SNPE)**. Asahi Kasei will transfer the manufacturing rights, technology and some related facilities to the SNPE unit, and cease manufacturing of the product in March 2004. (July 30, 2003)

BASF is increasing its share in **Idemitsu BASF Co (IBC)**, its Japanese butanediol JV with **Idemitsu Petrochemical**, to 67% from 50% in July 2003. At the same time, IBC will change its corporate name to **BASF Idemitsu Co (BIC)**. BIC will continue to operate a plant with a capacity of 25,000tpa. The plant is integrated with Idemitsu's petrochemical

production complex in Ichihara City, Chiba. (June 3, 2003)

Degussa AG announced it and **Shionogi** will establish a JV in Japan for precipitated silica, silica gel and matting agents. The joint venture will commence operation on October 1, 2003. Degussa, through its subsidiary Degussa Japan Co Ltd will hold 51% of the new venture's shares and Shionogi will have 49%. As a part of its Industrial Chemicals Division, Shionogi will transfer production, sales and R&D activities to the new JV. (June 24, 2003)

Kuraray is strengthening its business in high-performance activated carbon. Its subsidiary **Kuraray Chemical Co**, has developed a high-performance type of activated carbon that features nanoscale porosity and uniform electrical properties, which can be used to make long-life capacitors for fuel-cell-powered and hybrid vehicles. Kuraray currently produces 18,500tpa of activated carbon primarily for use in water purification equipment. It anticipates huge demand for capacitors in the automobile industry as well as producers of personal computers and consumer electronics. (July 28, 2003)

Mitsubishi Chemical acquired **Tonen Chemical's** 35% stake in **Japan Polychem (JPC)** on June 2, 2003 for a sum that was not disclosed. JPC's paid-up capital is ¥20bn (US\$168.6m), so Tonen's 35% share would have a book value of ¥7bn (US\$59m). JPC, a producer of polyethylene, was formed in 1996 as a JV between Mitsubishi Chemical (65%) and Tonen Chemical (35%). (June 23, 2003)

Tosoh Corp has acquired the remaining 20% shares of **Nippon Silica Industrial (NSI)** from **Mitsui & Co** making NSI a wholly owned subsidiary. The company did not reveal how much it paid for the Mitsui stake. NSI specializes in the production and sale of silica and silicate compounds. It brings

technological strength to Tosoh's specialty products portfolio, which already includes electrolytic manganese dioxide, fabricated quartzware, and zirconia ceramics. (May 5, 2003)

Wacker-Chemie said it will purchase partner **Nippon Steel Corp's** 45% stake in their Japanese silicon-wafer JV, **Wacker NSCE Corp**, and will close its wholly-owned wafer plant in Malaysia under a related restructuring in Asia. (May 30, 2003)

KOREA

Kolon Industrial has not been able to meet the twice-extended deadline for the sale of at least one of the two 3,700tpa nylon-film lines it acquired from **Kohap Corp** in September 2002. South Korea's Fair Trade Commission (KFTC) had given Kolon an extension until April 30, 2003 to complete the sale of at least one of the lines. Missing the deadline means that Kolon would have to pay a fine for each day after April 30th until one or both of the nylon-film lines are sold. Kolon had been negotiating with three companies, **Hyosung**, **Honeywell**, and **Toray Saehan**, a joint venture between **Toray Industries** and **Saehan Industries**, on the sale of one or both lines. But the talks had not progressed. The KFTC has ruled that the company must sell one of the two lines to maintain a balance in the domestic nylon-film market, as Kolon's purchase of the two lines is likely to give it a dominant 60% market share. It also ruled that Kolon could operate only one of the lines until the sale is completed. (April 1, 2003)

Samsung Atofina was approved by the European Commission (EC). This 50/50 JV between **Atofina** and **Samsung General Chemicals** was first announced in December 2002 and examined under the simplified merger review procedure. Atofina and Samsung signed a final US\$1.6bn contract for this JV in May 2003. The French firm will inject

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US\$775m into the JV and SGC will contribute the balance, plus its petrochemicals complex and labor force in Daesan. (July 18, 2003)

crystal display and semiconductor manufacturers. (July 18, 2003)

MALAYSIA

Mitsubishi Heavy of Japan has been awarded a ¥8b (US\$67m) natural gas plant project by **Petroleum National (Petronas)**, Malaysia's state-run oil firm. Under the contract, Mitsubishi Heavy and a local construction firm will upgrade Petronas's gas plant to extend its operational lifespan until 2025. The project is to be completed by 2005. The facility, which is located in Kerteh, Trengganu, was constructed in 1985. It refines 250m m³ of gas per day. The two firms will also upgrade a nearby facility that ships liquefied petroleum gas. (April 21, 2003)

TAIWAN

Asahi Kasei and **Chi Mei** have postponed indefinitely plans to expand their JV PC (polycarbonate) plant in Tainan, to 75,000tpa from 50,000tpa. The JV partners were supposed to have completed the expansion by late 2002. However, because of an oversupply of PC in the markets, Asahi and Chi Mei have decided to put off the expansion indefinitely. It is not known if plans to build a second line of 75,000tpa by 2004 have been cancelled. (May 13, 2003)

SINGAPORE

Sumitomo Chemical announced plans to build its second MMA (methyl methacrylate) plant in Singapore. The 80,000tpa project is due to come onstream in mid-2005. The company also may include a PMMA (polymethyl methacrylate) unit in its third MMA project, which is scheduled to start up by 2007. The company is considering Singapore, China, Taiwan and other Asian countries as a site for the longer-term MMA-PMMA project. (April 14, 2003)

Nagase has announced the official opening of its US\$24m electronic chemicals plant at Tuas View Industrial Park. The plant is based on a 20,000m² site and produce electronic chemicals for liquid

THAILAND

Mitsui Chemicals plans to invest ¥60bn (US\$512m) to expand a PTA (purified terephthalic acid) plant in Thailand and build a new one in China. Mitsui Chemicals will first raise the output capacity of its Thai plant run jointly with **Siam Cement Group** by 50% to an annual 1.4mtpa by fall 2005, and later build a Chinese plant with an annual output capacity of 400,000tpa to 500,000tpa. (May 20, 2003)

Sumitomo Corp, the **Xiyang Group** and **SVM Property** are all considering bidding for a 71% stake in Thailand's debt-ridden **National Fertiliser Co (NFC)** on June 24, 2003. Sumitomo and **Cargill** have teamed up to look into the possibility of acquiring the stake together. Both companies may use their subsidiary companies in Thailand to bid for the stake. Sumitomo's subsidiary, **Sumi-Thai International**, is a trading company, while Cargill's subsidiary, **Cargill Siam**, is an agricultural producer and trading company. The Xiyang Group

and SVM Property had submitted bids for the stake in May. But NFC's creditors rejected the bids, which they deemed too low, and had arranged for a second bidding. (June 23, 2003)

currently relies completely on imports of DAP fertilizer to satisfy domestic demand of around 500,000tpa. The company was committed to commissioning the plant by end-2005 or early 2006. (July 9, 2003)

VIETNAM

Vinachem is to build Vietnam's first DAP (diammonium phosphate) fertilizer plant in the port city of Haiphong at end of July 2003. The plant would jumpstart the country's flagging fertilizer production and help reduce its reliance on imports. The 330,000tpa is to be located in the Dinh Vu industrial park, 100 km northeast of Hanoi. Vietnam

Vietnam Plastic Company (Vinaplast) has been established from the combined six plastic firms under the Ministry of Industry. **Vinaplast** is being privatized and the program is expected to be finished by 2005. The company has a registered capital of approximately VND95.5bn (US\$6.2m). Vinaplast wants to restructure and privatize all of its 14 enterprises under the program to help raise their effectiveness and competitiveness. (May 9, 2003) China.

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. For further information on BDA's services or on any of the articles in this newsletter, please contact our offices below.

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