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ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A quarterly newsletter of developments in the chemicals sector

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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 offices are at the back of this newsletter. We look forward to speaking with you in the future.

Euan Rellie
Managing Director

AUSTRALIA

Borden Chemical acquired Australia's **Fentak Pty Ltd**, a producer of specialty chemical products for the engineered wood, laminating and paper impregnation markets. The business has two manufacturing locations – in Somersby, New South Wales, Australia, and Penang, Malaysia. (November 10, 2003)

CHINA/HK

Akzo Nobel NV opened its new non-stick coatings facility in Dongguan City. The factory produces non-stick coatings, primarily for the rapidly growing cookware industry in China, but also for a wide range of specialized industrial applications such as automotive pistons and copier rollers. **Akzo Nobel Coatings** already operates six production sites in China; the majority are wholly owned and they employ more than 1,600 people. (October 15, 2003)

Atofina is considering increasing its PS capacity in Sanshui, Guangdong, from 100,000tpa to between 300,000tpa and 500,000tpa. Atofina signed a land-reservation agreement on the proposed expansion in October 2003 and the PS plant was acquired in January 2003. Atofina could also double the capacity of its 75,000tpa PS plant in Tuas, Singapore, by mid-2005. Atofina is evaluating both projects, and said that no decision had been made. The company had dropped plans for a PS plant in Huizhou, Guangdong, because it wanted to focus on the expansions of its Sanshui and Singapore plants. (November 20, 2003)

Atofina is also going forward with plans to build a 3,000tpa organic peroxide plant in Changshu. Set for commissioning in late 2004 or early 2005, the plant will raise Atofina's worldwide peroxide capacity to 41,000tpa. Production at the unit will be geared to serve the polymerization initiator market, which accounts for 65% of Asia's growing peroxide market. Atofina will target the PVC, ldPE and PS markets in China, as well as export peroxide to Taiwan and Southeast Asia. (October 20, 2003)

Degussa is expanding its carbon black production capacity by over 20,000tpa in Qingdao. **Degussa** has an annual overall output of over 70,000 tons in China and has indicated the company will seek more development opportunities in other Chinese regions. In recent years, the demand for carbon black in China has risen sharply, especially high-quality auto-tire-rubber carbon black. (November 13, 2003)

Degussa's coatings and colorants business plans to build a colorants plant and a manufacturing facility for producing coating polyesters at its Shanghai site. (December 4, 2003)

Degussa also opened a new production facility for the pharmaceutical amino acid l-methionine in Wuming. It is operated by the **Nanning Only-Time Rexim Pharmaceuticals Co Ltd**, a JV set up in April 2001. (November 11, 2003)

DuPont is building another R&D center in Shanghai. The foundation stone laying ceremony of **DuPont (China) Research and Development Co Ltd** was held in Zhangjiang Hi-tech Zone at Pudong. DuPont has invested RMB120m (US$14.5m) in it. This will be the third largest overseas comprehensive R&D center of DuPont besides its institution in Switzerland and Japan. It will include laboratories, office rooms and high-rise building for advanced experimentation for product application and development. The R&D center will have room for 200 scientists and it will be formally operated in 2005. (November 20, 2003)

GE Plastics is investing US$60m to expand capacity at its Nansha plant in Guangdong Province. The expansion will primarily be to set up eight new production lines and is scheduled to be completed in Q4 2004. The plant in Nansha after expansion is expected to further assist customers and all industry players in China to help transition from commodity plastics to higher end engineering thermoplastics. The current GE Plastics Nansha plant specializes in plastics compounding and film extrusion. Using raw materials such as PC, ABS, additives and pigments, the plant produces various plastic products ranging from Lexan resin, cycoloy resin, noryl resin and cycolac resin to 8010 and 8B35 graphic film. (December 15, 2003)

Hercules Inc announced its acquisition of **Quantum Hi-Tech Co Ltd**, a leading producer of CMC (carboxymethyl cellulose) products located in Jiangmen City, Guangdong Province. The acquisition consists of a production facility commissioned in 1998 with current production capacity of 6,000tpa and annual sales of approximately US$10m. Quantum's key markets include food, toothpaste, ceramics and paper with the majority of its sales in China. Hercules's Aqualon division is a world leader in products that modify the physical properties of water-based systems. Its key markets served include manufacturers of personal care, such as hair, oral hygiene and skin products and paint. (December 1, 2003)

Invista and **UOP** have been selected by **Liaoyang Petrochemical** as its licensors for its respective PTA and PX units. Feedstock for the planned PX unit would be obtained from another PetroChina subsidary. Startup for the planned PTA and PX units is slated for early 2006. (December 22, 2003)

Lucite International, the world's largest producer of MMA (methyl methacrylate) is considering expanding the capacity of its planned new plant in China to 150,000tpa. The 93,000tpa facility at

Caojing near Shanghai, which is due onstream by mid-2005, is being built at an initial cost of US$100m. (October 3, 2003)

Noviant Group, the world's largest manufacturer of CMC (carboxymethyl cellulose), set up a representative office in Shanghai as it prepares to invest up to US$40m in a plant in Jiangsu Province. The new plant, which will be located in the Taixing Fine Chemical Industrial Park, is Noviant's first manufacturing facility outside of Europe. The company is currently conducting a feasibility study of issues related to setting up the plant and a survey of China's CMC market. The Shanghai representative office will establish a nationwide distribution network. The plant in Jiangsu is expected to start construction in 2004. Priority will go to providing products to meet China's demand. The plant in Jiangsu may also export to other countries in the Asia Pacific region, such as Japan and South Korea. Before setting up a plant in China, Noviant was already selling CMC to the country. Noviant owns the world's largest single CMC production line in Finland with a capacity of 73,000tpa. (December 12, 2003)

Qilu Eastman Specialty Chemical, a JV between **Sinopec Qilu Petrochemical Co** and US-based **Eastman Chemical**, has started construction of a US$30m oxo derivatives plant at Zibo, Shandong Province. The plant, which will produce Texanol ester alcohol and TXIB plasticizer, is scheduled for mechanical completion in October 2004, with commercial production due to come onstream in December 2004. **Maison Engineers & Constructor (MEC)** of Beijing is the main contractor for the project. Qilu would become the largest oxo producer in China and Asia upon completion. The investment is Eastman's second major project in China in the specialty chemicals market. It follows the establishment of **Nanjing Yangzi Eastman Chemical Ltd**, a 50-50 JV with **Yangzi Petrochemical**, to manufacture eastotac hydrocarbon tackifying resin for adhesives. (October 10, 2003)

Xiang Lu Petrochemical plans to debottleneck its PTA unit in Haicang, Xiamen to 1.2mtpa. Current capacity is 900,00tpa. Expansion is slated to begin in H2 2004. Xiang Lu would continue to source paraxylene feedstock from Korea and Japan. (December 22, 2003)

Yangzi Petrochemical is considering expanding its 650,000tpa cracker and downstream units in Nanjing, Jiangsu. The cracker is expected to be expanded to 900,000tpa. The downstream products include 260,000tpa of monoethlylene glycol, 370,000tpa of polyethlene and 360,000tpa of polyproplene. (December 22, 2003)

Yangzi Petrochemical delayed the startup of its 70,000tpa high density polyethylene project to June 2004. The proposed unit in Nanjing Jiangsu was originally scheduled to come onstream at the end of 2003. (December 22, 2003)

INDIA

Chemplast has revised the startup date of its 170,000tpa PVC project to 2006. It was orginally due to be onstream in Q1 2004. The delay was caused by the change in plant location from Tamil Nadu to Andhra Pradesh due to the inability of the company to secure the necessary environmental approval from the Tamil Nadu government. (December 22, 2003)

Henkel KGaA has tied up with the Vapi-based **Hindustan Inks and Resins** to market **Henkel's** range of solvent-free laminate adhesives, Liofol, in India, on royalty. In turn, **Henkel** will market the Hibond range of solvent-based products of Hindustan Inks and Resins outside India. (September 23, 2003)

Henkel SPIC is considering a proposal to reverse merge itself with one of its subsidiaries perhaps **Calcutta Chemicals Ltd.** However, the proposal is at a very preliminary stage. Calcutta Chemicals was acquired by Henkel SPIC from **Shaw Wallace** in 1999. The reverse merger of Henkel SPIC with

Calcutta Chemicals would help the former in reducing its large equity base bringing it in line with the net worth of the company. (December 2, 2003)

India's Government has invited bids from qualified investors to sell its 9.2% stake in **ICI India Ltd (ICI)**. The Government will exit the chemical company by disinvesting its entire stake by offering its shares to the highest qualified bidder. It has set the floor price for the bids at Rs1 crore (US$220,000). ICI India, is a 51% subsidiary of **ICI Plc,** of the UK, and has presence in several lines of business including paints, catalysts, pharmaceuticals, surfactants and acrylics. The company is planning to divest its stake in its rubber chemicals and nitrocellulose divisions. ICI has initiated talks with international and domestic firms for selling its stake in these lines of business. This is part of its decision to focus on its four core lines of businesses, decorative paints, national starch and chemicals, specialty chemicals and flavors and fragrances, which together account for 80% of the company's revenue. (October 1, 2003)

Indorama, a leading Indian JV in Thailand, invested US$385m in a project to manufacture PTA. Its subsidiary **Indorama Petrochem Ltd**, which also produces PTA, will ship its product primarily to outside polyester manufacturers in Asia. (December 11, 2003)

National Aluminium Co (Nalco) plans to conduct a feasibility study on building a chlor-alkali plant, which would produce 150,000tpa of caustic soda. The studywould identify an appropriate site for the plant, work out detailed cost estimates, and evaluate technologies. Nalco is a major consumer of caustic soda. It plans to use most of the caustic soda captively and sell the surplus caustic soda and co-products, including chlorine, in local and export markets. (November 10, 2003)

Rohm and Haas has set up its first adhesives , sealants and coatings manufacturing and technical service facility at Taloja in Maharashtra with an investment of US$20m. It plans to bring to India products from its global portfolio. (November 3, 2003)

Tata Chemicals Ltd (TCL) is planning to expand its soda ash capacity to 1mtpa from 875,000tpa at its inorganic chemical complex at Mithapur in Gujarat. The company will make a final decision on the expansion in the next six to nine months, which will depend on the pickup in domestic demand for soda ash, level of exports and growth in prices. (November 7, 2003)

JAPAN

Degussa-Shionogi Ltd, a new JV for precipitated silica, silica gel and matting agents, began operations on October 1, 2003. (October 2, 2003)

Kanebo is continuing negotiations on the sale of its acrylic fiber plant in Japan, although doubts have arisen over whether Kanebo will be able to offload its assets successfully. The company had announced in early August 2003 that it would stop production at its 31,000tpa acrylic fiber plant in Yamaguchi, and its acrylic fiber spinning unit at Hikone by the end 2003. Marketing of acrylic fiber will cease by end-March 2004. Kanebo had later entered into discussions with Japanese and foreign companies on the transfer of technology, plant and equipment. Finding an overseas buyer will be difficult as moving the plant is costly. Kanebo is optimistic about finding a buyer as it has the technology to produce flame-retardant acrylic fiber. Besides Kanebo, only Japan's **Kaneka** has this technology. (December 8, 2003)

Mitsubishi Chemical and **Mitsui Chemicals** are to merge their agricultural materials operations. The consolidation is to take place by April 2004. The new company will target sales of Yen13bn (US$110m) in the first year. It will have a combined capacity of 37,500tpa for vinyl chloride films and 8,000tpa of PE film. Mitsubishi Chemical will acquire a 75% stake in the new company, with Mitsui Chemicals taking the other 25%. Mitsubishi runs its agricultural materials business through its subsidiary **Mitsubishi Chemical MKV Co**, and Mitsui through its affiliate **Mitsui Kagaku Platech Co**. (September 11, 2003)

Mitsui Chemicals has decided to merge its two fine-chemicals affiliates, **Mitsui Kagaku Fine Chemicals** and **Sun Technochemicals Co**, into a new standalone company called **Mitsui Fine Chemicals**. The consolidation will be effective April 1, 2004. (November 6, 2003)

Sumitomo Chemical's wholly owned subsidiary, **Sumika Fine Chemicals**, will be absorbed into Sumitomo and integrated with its fine chemicals sector on July 1, 2004. Sumika was formed in 1992 after the consolidation of three Sumitomo Chemical subsidiaries – **Yodogawa Chemical, Daiei Chemical** and **Okayama Chemical**. Sumika specializes in fine-chemical intermediates such as those for pharmaceuticals and dyestuffs, as well as rubber chemicals, and photo and imaging chemicals. (November 28, 2003)

KOREA

Atofina plans to more than double PMMA resin capacity at its subsidiary **Atoglas**' Jinhae plant. Annual capacity would be increased to about 40,000 tons in May 2004. The site currently has a capacity of 17,000tpa of acrylic resin as well as lines for production of acrylic and polycarbonate sheet. (December 8, 2003)

Georgia-Pacific Resin has formed a strategic alliance with **Kolon Chemical** under which the two companies will market and sell each other's products in their respective regional markets. The two companies will also share their manufacturing technologies, and research and development. Kolon is South Korea's main producer of hydrocarbon resins, with an 80% share of the domestic market. It has a 60,000tpa facility in Ulsan and is building a 30,000tpa plant in Yeochun. The company also produces phenolic resins, specialty chemicals such as polyurethane resins, plastic additives and pharmaceutical intermediates, and super absorbent polymers (SAP). (December 8, 2003)

Kolon Industries is to scrap almost a third of its 190,000tpa nylon filament capacity and increase its production of spandex under its restructuring program. It will scrap a 60,000tpa nylon filament plant that is more than 30 years old. Production at the plant was stopped in August 2003. At the same time, Kolon plans to increase its spandex capacity by more than four times, from 2,400tpa to 10,000tpa. Expansion of the spandex plant will start in November 2003 and be completed in late 2006. (October 13, 2003)

Sumitomo Chemical has bought land in Pyungtaek from the provincial government of Kyunggi. The company hopes to set up its fourth electronic chemicals project on the site, but has yet to confirm the nature or the extent of the investment. Sumitomo already operates two color-filter plants and one optical-film plant in Pyungtaek through its subsidiaries, **Dongbu Fine Chemical, Dongbu Optical Film** and **Dongbu STI**. (November 7, 2003)

MALAYSIA

Mitsubishi Corp has bought back from **Petroliam Nasional Bhd (Petronas)** a 5% stake in Malaysia's first liquefied natural gas (LNG) plant in Sarawak state. Mitsubishi had to sell its original 15% stake in the plant to Petronas in February

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2003 as part of an agreement signed in 1978. (December 22, 2003)

SINGAPORE

Megachem, the Singaporean specialty chemicals distributor, has launched its IPO of 20.8 million new shares priced at S$28 cents a share. Megachem has come up with a plan to expand into new markets as well as diversify its capabilities. It hopes to raise US$4.6m in net proceeds partly to fund plans to prepare for what could be a booming outsourcing trend among customers and suppliers. US$1m of the IPO proceeds will be used to open three representative offices in China and one in Vietnam, where it expects its customers are moving. Another US$500,000 will be used to upgrade facilities for the company's manufacturing business. (October 9, 2003)

TAIWAN

China Man-Made Fiber Corp (CMMFC) has selected **Shell Chemicals** as licensor for its recently announced 400,000tpa monoethylene glycol (MEG) project in Kaohsiung. Construction is slated to start in January 2004 and the target date for bringing the plant onstream is in the second half of 2006. (December 10, 2003)

THAILAND

Degussa's aerosol and silicates business unit is building a facility for the production of fumed silica at the Map Ta Phut industrial estate in Rayong. The new facility is scheduled to go into operation in 2004. (December 14,2003)

Thai Olefins Co (TOC) and its potential foreign partners have delayed the signing of a JV agreement on a 300,000tpa MEG (monoethylene glycol) project in Mab Ta Phut, due to high bids submitted by shortlisted contractors. The turnkey bids submitted by **Toyo Engineering, Samsung Engineering and Technip** were much higher than the investors' expectations, and this had affected the project's investment returns. Further talks will be held with the contractors in December 2003. (December 5, 2003)

VIETNAM

Vietnam Chemical Company (Vinachem) said that the Government has approved a pre-feasibility study for the country's first facility to produce black carbon from residual oil. The US$38m project, to be set up by Vinachem, will have an annual production capacity of 50,000tpa of black carbon, a material used in making pigment, ink and rubber. Residual oil is the low-grade hydrocarbons that remain after petroleum is refined, and is used for substances like asphalt or as furnace fuel. The company said it was considering locating the factory in Quang Ngai's Dung Quat IZ or in Da Nang's Lien Chieu IZ. It also said it was calling for foreign partners to join the project and that they would hold 51%. International companies in the sector, including the **Cabot**, **Degussa** and India's **Birla**

Group, are in talks with it about the project. Vinachem said it expect to complete the feasibility study in 2004 and begin building the factory in 2005. (November 15, 2003)

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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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