

ASIAN SPECIALTY CHEMICALS NEWSLETTER

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INTRODUCTION

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

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

If you think that BDA's services may be useful to you, please contact us in New York at (212) 265-5300 or in Singapore at (65) 533-8500, Shanghai at (86) 21-6279-8390 or Tokyo at (81) 3-3433-5803.

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Managing Director

CHINA

BASF of Germany, **Huntsman** of the US and their Chinese partners will build and operate an integrated isocyanates manufacturing facility in Caojing, Shanghai. The total investment for the complex is US\$1bn. The integrated complex will consist of three separate JVs. The first will involve Huntsman, BASF and its partners: **Shanghai Chloro-Alkali Chemical Co Ltd**, **Shanghai Hua Yi Company**, **China Petroleum and Chemical Corporation** and **Sinopec Shanghai Gao Qiao Petrochemical Corporation**. The companies will collectively build a plant producing crude MDI, aniline and nitrobenzene with a production capacity of 160,000tpa. In the second JV BASF and its partners: Shanghai Hua Yi Company, China Petroleum and Chemical Corporation and Sinopec Shanghai Gao Qiao Petrochemical Corporation will build a MDI finishing plant and a 130,000tpa TDI plant with nitric acid and dinitrotoluene. The third JV is Huntsman and Shanghai Chloro-Alkali Chemical Co Ltd's MDI finishing plant. MDI and TDI are important precursors in the manufacture of polyurethanes. These polymers will be used in the automotive and construction industries as well as for products such as refrigerators, upholstery and mattresses. The entire complex, the second largest investment for BASF in China, is scheduled to be completed in 2005. (April 22, 2002)

The **Chinese government** has created the **Fine Chemical Industrial Development Park** in Taixing, a city in Jiangsu province, close to Shanghai. There are more than 200 kinds of chemical products being produced in the park, including organochlorine products, medicines, pesticides and electronic chemical products. The

58 enterprises in the park recorded combined sales of RMB1.5bn (US\$188m) for 2001. Taixing is increasingly becoming a chemical industry hub in China. (May 22, 2002)

Eastman Chemical Ltd, a wholly-owned subsidiary of **Eastman Chemical Company** of the US, and **Sinopec Qilu Petrochemical Company** of China will form a JV to produce Texanol ester alcohol and TXIB plasticizer in China. The world-scale oxo derivatives plant will be built at Sinopec Qilu's existing site in Zibo, Shandong Province, 400 kilometers southeast of Beijing. Construction of the US\$30m facility is expected to begin in 2003 and is scheduled to be completed by the end of 2004. The JV will be named **Zibo Qilu Eastman Specialty Ltd**. Eastman will contribute its derivative technology and marketing to the JV while Qilu contributes its raw material integration and operational management expertise. Texanol ester alcohol is the leading coalescing aid used in premium quality architectural paints. TXIB plasticizer is a primary modifier for vinyl, urethanes and other polymers for the production of consumer goods such as flooring, wallpaper, artificial leather and disposable medical examination gloves. (April 18, 2002)

Kawasaki Sanko Kasei Co, a synthesized resin compound maker, and **Sumitomo Corp** will form a JV in Shanghai in Q2 2002 to build three compounding factories in China. The JV will be capitalized at US\$3m, with Kawasaki Sanko taking an 85% stake, and **Sumitomo Shoji Plastics Co**, a wholly-owned subsidiary of Sumitomo Corp, taking the remainder. The JV will spend US\$5m to build the first compounding factory in the Pu Tong district of Shanghai. The plant will begin operations in Q3 2002 and produce 9,600tpa, which will be increased to 14,400tpa by 2003. The JV will build a second compounding factory in Wuhan by April 2005 and later a similar plant in Dalian, in the north. The JV aims to meet surging demand for compounds as more electronics manufacturers and automakers enter the Chinese market. (May 13, 2002)

Mitsubishi Rayon Co of Japan will produce acrylic resin in China, in anticipation of growing local demand for use in LCD panels and cars. Mitsubishi Rayon will spend US\$236m to enable integrated production of both the raw material and resin in

China. The plant will produce 40,000tpa of resin granules beginning in 2003. The JV will also produce sheet resin in 2005, with output doubling to 20,000tpa by 2007. It will set up a facility to produce 100,000tpa of methyl methacrylate monomer, the raw material, in 2005. (May 5, 2002)

INDIA

Ciba Specialty Chemicals Holding Inc (Ciba) of Switzerland has made a voluntary offer to acquire an additional 49% stake in **Ciba Specialty Chemicals India**. Ciba, which currently holds a 40% stake in the Indian arm, has made the offer jointly with **Ciba Specialty Chemicals International Inc** and **Ciba India Pvt Ltd**, which hold a total of 11% equity shares. The offer closes on June 28, 2002. (April 18, 2002)

Dainippon Ink and Chemicals Group (DIC Japan) has acquired a 59% stake in **Coates of India (Coates)**. Previously, **Sun Chem Group BV** of the Netherlands acquired a 51% stake in Coates from **Coates Brothers Plc**, and eventually increased its shareholding to 59%. Sun Chem subsequently sold these shares to **DIC Singapore**, the fully owned subsidiary of DIC Japan. Coates has a seven-year one-umbrella technology agreement with DIC Japan to develop new premium top-end products in the printing inks segment. (May 6, 2002)

ICI India's industrial specialties and industrial chemicals helped increase the company's performance for fiscal year ending March 31. Overall, industrial specialties' sales grew 25% and operating profit increased by 29% YoY. Industrial chemicals' group sales for the year grew 3% and operating profit increased by 27% due to the turnaround of the rubber chemicals division, and continued strong performance from the nitrocellulose and syntex businesses. (May 23, 2002)

Kerala Minerals & Metals of India will begin preliminary expansion work to increase its titanium dioxide (TiO₂) pigment capacity to 60,000tpa in Q3

2002. The expansion at the plant in Quilon, India will be carried out in two phases. During Phase 1, the company's 30,000tpa capacity will be increased to 36,000tpa by 2003. In Phase 2, an additional 24,000tpa will be added by 2005. The state-owned company will take feedstock from its ilmenite mines in India and will use the chloride TiO₂ process to produce the TiO₂ pigment. The extra volume will be sold in the domestic market and exported to Korea, China, and Italy. (May 1, 2002)

Schenectady International Group (SIG) of the US has increased its holding in local producer **Herdillia Chemicals Ltd (HCL)** through its Indian arm, **Schenectady Holdings India**, from 61% to 81%. HCL will change its name to **Schenectady Herdillia**. The investment is expected to strengthen Herdilla's financials, bring down its cost of funds and support expansion and modernization plans. HCL will have access to SIG's global marketing and distribution network, adding North America and Europe to its export markets of South East Asia and the Far East. HCL will also add new products to its range of specialty chemicals, including alkyl phenols, phenolic resins, and electrical insulation products. (April 8, 2002)

Travancore Titanium Products is expanding its 15,000tpa titanium dioxide (TiO₂) pigment plant in Trivandrum, India to 24,000tpa in two phases. Travancore will add 4,000tpa each in phase one and phase two and employ the sulphate TiO₂ process to produce the TiO₂ pigment. The expansion is scheduled to be completed in 2003. (May 2, 2002)

To submit stories to the *Asian Specialty Chemicals Newsletter* please contact Chiemi Kobayashi on (212) 265-5300 or ckobayashi@bdallc.com

INDONESIA

Indonesian chemical trading firm **PT Lautan Luas Tbk** purchased a 24.9% stake in **PT Daiti Carbon Nusantara** from Singaporean chemical distribution company **Federal Chemical Marketing Pte Ltd**. Daiti Carbon Nusantara was a JV set up by Federal Chemical Marketing of Singapore and PT Lautan Luas in 2000 to produce 3,600tpa of activated carbon at a facility in Pontianak, West Kalimantan. Lautan Luas invested US\$249,000 for its stake, bringing its total shareholding up to 99.9%. The remaining 0.1% stake was sold to **Indrawan Masrin**, a shareholder of Lautan Luas. Lautan Luas plans to expand its business operations to China and Vietnam in the near future. (May 20, 2002)

JAPAN

Akzo Nobel of The Netherlands will acquire the marine and aerospace coatings businesses of **US Paint** and **NOF Europe**, both subsidiaries of **NOF** of Japan. The terms for NOF Europe are limited to the marine business' sales and technical support unit in Antwerp, Belgium. The two subsidiaries produce the **AWLGRIP(R)** brand for marine coatings systems. This acquisition will extend Akzo Nobel's position in the professional above-water Topsides segment and improve its position in the aerospace coatings in the corporate jet market, as well as its overall position in the global aerospace market. (April 15, 2002)

Asahi Kasei Corporation of Japan and **Teijin Limited** of Japan have formed a 50/50 JV to manage all polytrimethylene terephthalate (PTT) fiber operations, including marketing, production and R&D. The new firm will be operational by June 2002 and was invested with capital of US\$2m. (April 10, 2002)

BASF Japan Ltd (BASF), the Japanese unit of **BASF AG** of Germany, increased its equity stake in **BASF Dispersion**, a JV between BASF and

Mitsubishi Chemical Corp of Japan, to 67% from 65%. The JV produces polymer dispersion, a chemical compound used in paints and adhesives. Through this increase, BASF now has over two-thirds of the voting rights, effectively giving it control over management of the JV. (April 3, 2002)

Itochu Corporation (Itochu) of Japan will merge its wholly-owned synthetic resin sales firm, **Itochu Plastics System Co** and its group sales company, **Itochu Polymer Inc**, in Q2 2002. The combined firm will create a unified sales system for the goods and will be capitalized at US\$8m. By the end of 2002, Itochu will transfer a portion of its own parent operations in the trading of synthetic resin raw materials used in office equipment and other products to the merged entity. The merged unit will develop operations in China and elsewhere in Asia, and strengthen collaborative ties with other resin-processing companies of the Itochu group. (May 1, 2002)

Kyocera Corp of Japan will acquire **Toshiba Chemical Corp**, the fine chemicals business of **Toshiba Corp** of Japan. The deal will be finalized in August 2002 in the form of a stock swap valued at US\$74m. Toshiba Chemical's business will stay the same but its name will be changed to **Kyocera Chemical Corp**. Its fine chemicals technology will be integrated with Kyocera's fine ceramics technology, creating synergies in organic materials and components to develop new electronic parts and components. (May 20, 2002)

Sumitomo Corp of Japan will consolidate its chemicals subsidiaries as of Q2 2002 to streamline operations and improve efficiency. In response to clients relocating their operations abroad, **Sumisho Plaschem Co**, an Osaka-based company selling a broad range of chemicals, will merge with **Sumitomo Shoji Plastics Co**, a Tokyo-based marketer of synthetic resins with operations abroad, to cheaper production locations. **Sumitomo Shoji Plastics** will be the surviving entity in the merger with part of Sumisho Plaschem's marketing rights transferred to the new company. (April 4, 2002)

Sumitomo Rubber Industries Ltd and **Dow Chemical Japan Ltd** will jointly develop a polyurethane compound for use in "run-flat" tires,

which allow a vehicle to run safely on a flat tire. The companies will develop technology that reduces tire weight and lowers production costs by replacing the internal support components now used in the tires, which are made of rubber, with internal supports made of polyurethane. Sumitomo Rubber signed the agreement with **Dow Polyurethanes Japan Ltd**, a wholly owned subsidiary of Dow Chemical Japan. Sumitomo Rubber has been working on the development of run-flat tires since licensing the technology from Michelin SCA of France in July 2001. (May 30, 2002)

KOREA

LG Chemical Ltd of Korea will divest all of its Korean epoxy resin operations to **Bakelite AG**, a subsidiary of **Rutgers Group** of Germany, for US\$17m as part of its strategy to focus on its core businesses. Bakelite AG will acquire the working capital, fixed assets, intellectual property and certain other rights relating to LG Chem's epoxy resin businesses. LG Chemical's strategy has been to increasingly shift its commodity chemicals base to China, while strengthening specialty chemicals, industrial materials and the information and electronic materials businesses in Korea. (April 10, 2002)

LG Chemical Ltd of Korea has formed a strategic business alliance with the **Industrial and Commercial Bank of China (ICBC)** to expand mutual transactions. Under the partnership, ICBC will open an annual credit line of US\$200m, offer LG Chemical prime rates and reduced fees and approve its payment guarantees. In return, the chemical company will increase transactions with ICBC's main office in China and its Seoul branch. This deal is the first in which a Korean company is allowed to take out loans in China without payment guarantees or collateral. LG Chemical also expects to reduce losses caused by exchange rates, since it can use the Renminbi (RMB) if needed for operating funds or facility investments in China. In addition, the alliance will enable LG to receive

various other benefits in China, including access to ICBC's 28,156 branch network. ICBC is China's largest bank with US\$522bn in total assets and 430,000 employees as of 2001. (May 28, 2002)

A Japanese consortium led by **Mitsubishi Corporation** will acquire **Kyunggi Chemical Industrial Co Ltd**, a Korean specialty chemical manufacturer. Mitsubishi proposes to purchase Kyunggi Chemical for US\$65m, and the terms of the transaction will be decided by Q2 2002. (May 29, 2002)

MALAYSIA

TITAN Petrochemicals & Polymers Bhd, a JV between the **Chao Group International** of the US and **Permodalan Nasional Bhd** of Malaysia, will be the first company to produce metallocene polyethylene (mPE) resins in Southeast Asia. TITAN will fill a demand currently satisfied by imports from Japan and the US. Titan signed a metallocene catalyst supply agreement with **Univation Technologies LLC**, a JV between **ExxonMobil Chemical Co** and **Dow Chemical Co** of the US, which will enable TITAN to produce mPE resins. Metallocene catalysts permit the production of polyolefins with a controllable molecular weight distribution, which is tailored to achieve a specific structure and set of properties. Metallocene PE is known for its enhanced performance and exceptional toughness. (April 16, 2002)

SINGAPORE

SsangYong Digital XII (Singapore) Pte Ltd, a wholly owned subsidiary of **Ssangyong Cement Ltd** of Singapore, has divested its entire interest in **Burkill Pte Ltd** of Singapore to **Resin & Pigment Technologies Pte Ltd** of Singapore in exchange for

a 33% equity stake in Resin & Pigment Technologies. Burkill is engaged in the manufacturing and sale of chemicals and colorants while Resin & Pigment is a producer of color compounds, masterbatches and other specialty compounds. (May 30, 2002)

TAIWAN

Ashland Specialty Chemical Company, a division of US-based **Ashland Inc**, has formed a partnership with **Ashland Union Electronic Chemical Corp (AUECC)** of Taiwan, a JV between **UPC** and Ashland Specialty Chemical Company. AUECC will manufacture and distribute advanced electronic chemicals while Ashland Specialty Chemical will oversee product sales and customer service for the entire Greater China region. With this collaboration, AUECC will establish service procedures designed to meet its customers' individual needs and supply different products manufactured by Ashland throughout the world based on the product applications jointly developed with the customers. (April 17, 2002)

Nan Ya Plastics Corp of Taiwan will invest US\$45m to establish two more BOPP (biaxial oriented polypropylene) film production lines in 2002. The two new production lines, with an aggregate production capacity of 64,800tpa, are scheduled to be completed in August 2003. The two lines are projected to create additional revenue of US\$73m. Nan Ya has six BOPP production lines, with total production capacity of 101,760tpa currently fully utilized. (May 29, 2002)

OTHER

Nuplex Operations (Australia) Pty Ltd, a wholly owned subsidiary of **Nuplex Industries Limited** of

New Zealand has placed a bid of US\$26m to acquire **Asia Pacific Speciality Chemicals (APS)** for the 80% of APS that it does not already own. Nuplex outbid an offer made by **Symex Holdings** of Australia in April. APS, with annual sales of US\$100m, manufactures specialty chemicals for a range of applications. (May 15, 2002)

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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 and acquisitions. BDA helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul, Shanghai, Taipei and Tokyo. For further information on BDA's services or on any of the articles in this newsletter, please contact Euan Rellie at erellie@bdallc.com.

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