

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

# ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A bimonthly newsletter of developments in the chemicals sector

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## INTRODUCTION

Polymer prices remain weak in Asia, as downstream demand has failed to pick up. Western investors and creditors continue to work to restructure the industry, with mixed results.

We hope that you find *Asian Specialty Chemicals Newsletter* informative. BDA is a corporate finance advisory firm which helps clients to identify and execute acquisitions and JVs in Asia. 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.

Euan Rellie  
Managing Director

## CHINA/HK

**BASF** of Germany plans to invest US\$3.3bn in various plant construction projects in the Shanghai and Nanjing areas. Their JV with Chinese partner, **SBCA**, is building a new specialty chemicals plant with a capacity of 40,000tpa. **Samsung Engineering** will design, build and test the US\$20m facility, which is expected to be completed by Q3 2000. (November 1, 1999)

**BASF (China) Co, Ltd** plans to open a new distribution center in Shanghai with **P & O Nedlloyd Logistics**, one of the three largest global shipping companies. This facility will be the company's second regional distribution center, with the first located in Singapore. BASF also has factories in the Pudong New Area of Shanghai. (October 19, 1999)

**BP Amoco PLC** of the UK and **Sinopec** agreed to a framework to construct a cracker and derivatives complex in Shanghai. The companies aim to establish the 50/50 JV before the end of 2001 and complete the US\$2.5bn compound by 2005. The deal is an extension of an already established relationship between the two companies. (October 21, 1999)

**Huntsman ICI Polyurethanes** will continue a Chinese JV between **BASF** and **ICI** as a result of **Huntsman Corp's** US\$8bn acquisition of ICI's titanium dioxide and polyurethanes operations. The JV is a methyl di-p-phenylene isocyanate facility in Coajing, China. Another division of Huntsman, **Huntsman Tioxide**, will increase operations at an

80,000tpa titanium dioxide facility in Malaysia from the current 60% capacity to 100%. Overall, 15% of Huntsman's revenues are generated in Asia. (October 7, 1999)

**Lonza Fine Chemicals and Specialties** of Switzerland has begun production at its new Guangzhou plant. The US\$30m facility has a capacity of 3,400tpa and produces niacinamide that will supply the food and pharmaceuticals industries. (October 11, 1999)

**Solvay** of Belgium concluded a deal with **Xinji Ltd** in China in which the Chinese company will supply the chemicals giant with barium carbonate. Demand for the chemical is expected to increase due to new applications in LDC flat screens. (October 26, 1999)

**Indian Organic Chemicals Ltd (IOCL)** is in the final stages of negotiations with an unnamed multinational company to form a specialty chemicals JV in India. IOCL would not identify the product to be manufactured but disclosed that plans include setting up a plant by September 2000. The entire production generated by the JV is expected to be exported to the foreign party under a buy-back arrangement. The revenue from this business is estimated at Rs18crores (US\$4.1m) per year, which is approximately 8% of IOCL's current revenues. (October 31, 1999)

**Mitsubishi Corp Ltd** of Japan is negotiating to acquire small, local specialty chemical companies in India but has yet to finalize any transactions. The company has reserved Rs210m (US\$4.8m) for the acquisitions, according to Mitsubishi Corp deputy general manager, Shinichi Fiji. (November 16, 1999)

**Mysore Chemicals and Fertilizers Co** of India, a state-run company, ceased operations because it could not find an investor to finance its factory. With a mothballed facility in Mandya, Karnataka that used to manufacture dimethyl acetate, the company owes various banks Rs166m (US\$3.8m). (November 12, 1999)

**Thirumalai Chemicals** of India will begin production of specialty chemicals including phthalic anhydride (PA) in January 2000, which is used in the epoxy resin and paint industries. The company also plans to add tetrahydro phthalic anhydride, hexahydro phthalic anhydride, tetramethyl phthalic anhydride and methyl hexahydro phthalic anhydride to its product line. (October 15, 1999)

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## INDIA

**Albright Morarji Pandit (AMP)** of India is to become a wholly owned subsidiary of **Rhodia** following Rhodia's open offer to purchase the remaining 27.2% of the company currently owned by the public and minority shareholders. AMP produces phosphoric acid, sodium tripolyphosphate, linear alkyl benzene, sulfonic acid and other specialty chemicals. In May 1999 ISPG-Rhodia acquired Albright and Wilson which held 72.8% of AMP's shares. **Dharamsi Morarji Chemicals** was the other partner in AMP. (October 29, 1999)

**Asian Paints** of India has acquired a 76% stake in **Delmege Forsyth**, Sri Lanka's second largest paint manufacturer. The Rs36m (US\$1m) acquisition by Asian Paints was the company's first. Asian Paints already has JVs in Australia, Fiji, Tonga, Solomon Islands, Vanuatu, Mauritius and Oman. (October 11, 1999)

**Forbes Gokak** of India will sell its 28.5% stake in **Goodlass Nerolac Paints** to its partner **Kansai Paints** in a Rs985.6m (US\$22.6m) transaction. (October 11, 1999)

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## JAPAN

**Asahi Denka** of Japan has developed a new technology to mass produce mevalonolactone, an organic compound that reduces the effects of aging on the skin. Asahi Denka discovered a yeast fungus that creates mevalonolactone by breaking down sugar,

making the product easier to synthesize. The technology may be used in various applications, including cosmetics, health foods and pharmaceuticals. (November 12, 1999)

**Asahi Glass Co (AGC)** of Japan plans to buy **ICI's** fluoropolymers business, which will increase AGC's global market share from 6% to 18%. Aiming to close the deal this year, Asahi Glass will pay US\$143m for the business, which had 1998 revenues of US\$110m. The acquisition includes ICI's polytetrafluoroethylene (PTFE) and PTFE compounding plants in the US and UK. The purchase will yield two new companies, **Asahi Glass Fluoropolymers USA** and **Asahi Glass Fluoropolymers UK**. (October 11, 1999)

**BASF Japan Ltd** will build a new ultrapure N-Methylpyrrolidone (NMP) plant in Yokkaichi with a capacity of 10,000tpa. The chemical is employed in the manufacture of semiconductors and electronic components, and in various other applications including stripping of coatings, cleaning, production of engineering plastics, process chemicals and crop protection agents. Demand for ultrapure NMP has grown substantially in Asia over the last several years, especially in Japan. As a result, BASF will construct its new facility with the flexibility to double capacity in order to meet growing demand. (October 22, 1999)

**Ciba Specialty Chemicals** of Switzerland has established a new R&D facility in Japan. The center focuses on researching for the skin care markets in Taiwan, China, Korea and Japan. (October 13, 1999)

**CK Witco** of the US anticipates starting sales of a new miticide in Japan and Korea, while continuing to sell older specialty chemicals products in China and India. The company, a merger between **Witco Corp** and **Crompton and Knowles**, aims to achieve 15%-20% of its sales in Asia within 10 years, an increase over its current 10%. Operations in Asia to date

include a performance chemicals plant in Singapore and organosilicones production facilities in Thailand and Indonesia. (October 29, 1999)

**Ichikawa Gohsei Chemical** of Japan has renamed itself **Chemicrea Inc**. The company plans to expand its pharmaceutical intermediates production by Q3 2000. (October 21, 1999)

**Kaneka** of Japan is moving towards becoming a specialty chemicals company. In fiscal 1999, chemicals, resins and plastics accounted for 46% of sales and fibres and polyimide and PVC materials totaled 17%. Total revenues amounted to ¥343bn (US\$3.2bn), a ¥15bn (US\$142m) increase over 1998. (October 21, 1999)

**Mitsui BASF Dyes** of Omuta, Japan will be included in a new JV between **BASF** and **DyStar** (itself an existing 50/50 JV between **Bayer** and **Hoechst**). DyStar specializes in chemical dyes. The new JV, which will be equally owned by BASF, Bayer and Hoechst, is expected to begin production of chemical dyes in April 2000 and to have annual sales exceeding DM2bn (US\$1bn). (November 15, 1999)

**Nippon Paper Industries** of Japan will add a new line to its chlorinated polyolefins plant in Iwakuni, Yamaguchi prefecture in April 2000. The expansion will result in a 30% increase in output. The company currently holds a 30% market share of the 20,000tpa global market for the chemical. Chlorinated polyolefins are generated by chlorinating polyethylene or polypropylene, and are used in the production of adhesives, coatings and lithographic inks. (October 21, 1999)

**Showa Denko** of Japan has restructured its operations to focus on electronics chemicals, value-added aluminum products and specialty chemicals for a medium-term strategy. In response to the economic crisis, the company will dispose of non-core businesses including injection moulding, metallic materials and other plastics businesses. (October 20, 1999)

**Showa Denko** of Japan will own 100% of **SDS Biotech K.K.** of Japan, an agrochemical manufacturer, in a stock swap scheme in order to

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enhance its specialty chemicals competitiveness. The company will increase its stake in SDS Biotech from 99.3%. (November 15, 1999)

**Tosoh Corp** of Japan plans to build a high performance oxygen zeolites plant at the Nanyo Manufacturing Complex in the Yamaguchi prefecture. The new ¥3.0bn (US\$28.3m) facility is part of the company's strategy to increase its global zeolite business. (October 6, 1999)

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## KOREA

**EKA Chemicals** of Sweden, a paper-chemical manufacturer and subsidiary of **Akzo Nobel NV** of the Netherlands, will start production in Korea at a plant it acquired from **Dong-sung Chemical**. Located in the Kunsan industrial complex, the facility will produce various chemicals used in paper manufacturing such as retention systems, surface sizing agents and set-strength resins. EKA expects revenues of W40bn (US\$34.2m) in 2000, an increase of W12bn (US\$10.3m) compared to 1999. The company previously had only a marketing office in the country. (November 8, 1999)

**LG Chemical** of Korea plans to refocus its strategy towards the production of specialty chemicals and away from commodity chemicals. With operations in Korea, China and Thailand, the company will increase its production of specialty polymers from 20% to 40% production by 2001. Its dyes and pigments business is reportedly for sale, but the company has yet to find a buyer. In 1999 sales are expected to reach W4,300bn (US\$3.7bn). (October 29, 1999)

**Solvay** of Belgium acquired a 60% stake in **Daehan Specialty Chemicals (DSC)** of Korea, a leading producer of barium and strontium carbonaten, and will take over its sales divisions. DSC will, however, maintain its management status at the production plant at Onsan, Korea. (October 26, 1999)

## MALAYSIA

**The Baerlocher Group** of Germany has begun production at its 3,000tpa polymer additive preblending plant at Seremban, Malaysia. Expected to reach full capacity within three years, the facility will manufacture customer-specific PolyAd preblends exclusively for **Ciba Specialty Chemicals**. (November 15, 1999)

**Sitt Tatt Industrial Gases**, a major player in the Malaysian gases market, has commissioned a new specialty chemicals facility. **Prodair Corp**, a subsidiary of **Air Products**, has increased its stake in Sitt Tatt Industrial Gases from 30% to 70%. (November 1, 1999)

**W. R. Grace & Co** of the US plans to invest RM66m (US\$17.4m) over the next five years in its Malaysian subsidiary, **W. R. Grace Specialty Chemicals Malaysia Sdn Bhd**. Through the modernization of plants and machinery as well as the construction of new laboratory and storage facilities, the parent company will expand its production capacity in the region. The current facility has a capacity of 3,000tpa and produces high grade silicic acid for distribution to customers across the region. W. R. Grace has set a goal of double-digit growth rates in Asia Pacific in the next few years. (October 14, 1999)

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## SINGAPORE

According to the **Economic Development Board (EDB)**, Singapore's chemical industry recorded an overall output increase of 32.9% in September on the year, spurred by the expansion of the specialty chemicals and pharmaceuticals sectors. In the first nine months of 1999, compared to last year, total output of the chemicals industry rose 19.4%. In the specialty chemicals sector, the increase was largely due to greater regional demand for chemical additives. (October 26, 1999)

## TAIWAN

**Asia Chemical** of Taiwan will begin production at its electronic chemicals unit in Yang-mei in January 2000 which will serve the semiconductor market in Hsin-chu industrial park. **Clariant** of Switzerland provided the process technology used in the manufacture of the photoresist for thin-film transistor liquid crystal displays, electronic-grade solvents and specialty cleaning solvents. (November 9, 1999)

**China Synthetic Rubber Corp (CSRC)** of Taiwan is negotiating to acquire **Anhui Maanshan Carbon Black Co** of China. The transaction is part of CSRC's plan to increase its production in the region. The carbon black company produces 25,000tpa of the chemical. (November 15, 1999)

**Dahin Group** of Taiwan expects to begin commercial production its recently completed JV methyl di-phenylene isocyanate (MDI) facility in Chiang Ping Industrial Zone in early 2000. The JV, **Afino Specialty Chemicals**, is constructing a 30,000tpa MDI unit as well as a 100,000tpa phthalic anhydride (PA) plant there. The PA plant is 90% complete and will come onstream in early 2000. Dahin's JV partner is **Central Investment Company** of Taiwan. (October 26, 1999)

**Union Petrochemical Corp (UPC)** of Taiwan and **Rohm & Haas (R&H)** plan to form a US\$43.8m electronic chemicals JV to manufacture photoresist in Yang-mei. UPC initially negotiated with **Morton International** and continued the talks when R&H acquired Morton. (October 11, 1999)

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## THAILAND

**Ciba Specialty Chemicals** of Switzerland plans to expand its dyes unit at Mahachai, Thailand from 3,000tpa to 5,000tpa. The facility will manufacture reactive dyestuffs, ink-jet dyes and commodity dyes, such as reactive black. (October 1, 1999)

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## FOCUS:

### Japanese pharmaceutical intermediates

Pharmaceutical companies increasingly source pharmaceutical intermediates from chemical companies, generating a growing interest in these products in the chemicals sector. In particular, the demand for specifically designed performance intermediates is expanding, especially from MNC pharmaceutical manufacturers.

The range of products in the industry is broad, including chiral compounds such as antibiotic intermediates, antibacterial intermediates, anti-ulcer intermediates, anti-cholesterol intermediates and intermediates for HIV protease inhibitors, pyrimidine, pyrazine and amines.

The following profiled companies were among the largest pharmaceutical intermediates manufacturers in Japan in 1998. In accordance with the trend of pharmaceutical companies outsourcing intermediates, the companies profiled are chemicals companies, not pharmaceutical companies.

#### 1. IHARA CHEMICAL INDUSTRY CO, LTD

**Activities** - Ihara Chemical is a medium-sized diversified chemical manufacturer of agrochemicals, organic intermediates amines and other chemical products. Pharmaceutical intermediates accounted for 25% of sales in 1998, and the company estimates 5%-6% medium-term growth. Recent growth has been supported by antibacterial intermediates. The company exported 46.5% of sales: 27.0% to the Americas; 13.3% to Europe; 6.0% to Asia and Africa.

**Key products** - antibacterial intermediates.

**Shareholder structure** - Publicly listed on the TYO exchange.

#### Financials (year ending October 1998, US\$m)

Revenues	220.7
Pharma intermed revenues	51.0
Market capitalization	122.7

## 2. KANEKA CORPORATION

**Activities** - Japan's leading manufacturer of pharmaceutical intermediates, Kaneka is a diversified chemicals manufacturer engaged in a wide range of operations including the manufacture of chemicals, resins, plastic products, foodstuffs and electronic materials. Pharmaceutical intermediates accounted for 12% of sales, totalling ¥28.5bn (US\$269m), three times as great as its closest competitor. The company constructed a ¥4.0bn (US\$37.8m) facility in 1998 aimed to produce intermediates for AIDS medication, supplying five pharmaceutical companies. Kaneka also has a subsidiary, **Kaneka Singapore**, that manufactures the penicillin intermediate HPG from raw materials exported from Japan. Kaneka Singapore had revenues of ¥4.0bn (US\$37.8m) in 1998.

**Key products** - most profitable products include: antihypertensive ACE-inhibitors captoril and enalapril, anti-glaucoma intermediates and intermediates for antibiotics, and intermediates for 'statin' type anti-cholesterol drugs and intermediates for HIV protease inhibitors.

**Shareholder structure** - Publicly listed on AMS, OSA, TYO and OTH. 28% of the stock is held by insiders.

### Financials (year ending March 1999, US\$m)

Revenues	3,080.0
Pharma intermed revenues	269.2
Market capitalization	4,200.0

## 3. KOEI CHEMICAL CO, LTD

**Activities** - A subsidiary of **Sumitomo Chemical Company**, Koei is a diversified chemicals manufacturer that specializes in fine chemicals, including pharmaceutical intermediates. **40% of sales are generated from intermediates.** In October of 1999, the company began operations at its fifth pharmaceutical intermediates unit at its Chiba facility. The new unit was brought onstream to serve the new demand for the intermediates as drug manufacturers outsource part of their manufacturing. The company is R&D oriented. Dedicating 20% of its work force

to the endeavor, the company focuses on optically active substances which are essential in the manufacture of pharmaceuticals.

**Key products** - Very strong in the manufacture of pyridine, pyrazine, and amine. Also produces intermediates for anti-ulcer proton pump inhibitors for **Astra** of Sweden and other pharmaceutical companies.

**Shareholder structure** - Publicly held since October 1997. Sumitomo holds 55.7% of issued stock.

### Financials (year ending March 1999, US\$m)

Revenues	228.6
Pharma intermed revenues	9.5
Market capitalization	83.6

## 4. NIPPON SODA CO, LTD

**Activities** - Nippon Soda is a major caustic soda manufacturer. Revenues decreased 11.5% in 1999 from 1998 which is attributed to a decline in sales of chemicals, agrochemicals and pharmaceuticals. The company generated 10% of sales from pharmaceutical intermediates, totalling US\$94.5m. Sales of the intermediate BBP to one of Nippon's primary customers, **Merck** of the US, declined in 1998. Exports are 23.9% of sales.

**Key products** - BBP used in the manufacture of the AIDS drug *Crixivan*.

**Shareholder structure** - Publicly listed on OSA, TYO and OTH exchanges.

### Financials (year ending March 1999, US\$m)

Revenues	1,450.0
Pharma intermed revenues	51.0
Market capitalization	378.4

## 5. TAKASAGO INTERNATIONAL CORPORATION

**Activities** - One of the largest producers of flavorings and food additives in Japan, Takasago is a large fine

chemicals manufacturer. With strong technology and production capacity in chiral compounds, the company began promoting its asymmetric synthesis technology for pharmaceutical intermediates in 1998. One of its main activities is supplying bulk for **Daiichi Seiyaku's** antibacterial *Cravit*. It also expanded its production capacity in its Iwata Shizuoka Prefecture plant, including production of the antibacterial intermediate it supplies to **Merck** is growing.

**Key products** - 4-acetoxy azetidinone used in the production of carbapenam antibiotics, 1-propanediol used in the production of synthetic antibacterials.

**Shareholder structure** - Publicly listed on OSA, TYO and OTH exchanges.

**Financials (year ending March 1999, US\$m)**

Revenues	898.0
Pharma intermed revenues	47.2
Market capitalization	434.3

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**ABOUT BDA**

Business Development Asia is a corporate finance advisory firm which assists multinational companies to expand their businesses in Asia. BDA specializes in the chemical industry and helps clients to find local business partners. BDA has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul and Shanghai. For further information on BDA's services or on any of the articles in this newsletter, please contact Euan Rellie or Charles Maynard, through our New York office, or Andrew Huntley in Singapore.

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