

ASIAN SPECIALTY CHEMICALS NEWSLETTER

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INTRODUCTION

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

BDA is a corporate finance and advisory firm, which assists multinational clients to identify, assess and execute cross-border transactions involving Asia, including acquisitions, divestments, JVs and restructuring. We have offices and professional staff throughout Asia, and in the US and Europe.

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

CHINA

BASF will significantly expand its compounding capacity for engineering plastics in the Asia-Pacific region in the next two years. The company will build a new compounding plant at its existing Pudong site in Shanghai. Construction of the new facility will start in Q1 2005. The plant will have an annual capacity of 45,000tpa. It is scheduled to come onstream by Q4 2006. (February 23, 2005)

BASF-YPC, a 50/50 JV between **BASF** and **Sinopec** established in 2000, has produced its first product: methyl acrylate. The successful start-up of the methyl acrylate plant in December 2004, marks the mechanical completion of the integrated petchem site in Nanjing, as scheduled for the end of 2004. BASF-YPC also plans to produce other acrylic esters and glacial acrylic acid. By 2010, BASF aims to generate 20% of its chemical sales and earnings in Asia Pacific, with 70% coming from production in the area. (December 23, 2004)

BOC has formed a 50/50 JV with **Maanshan Iron & Steel (Ma Steel)**, which will invest US\$100m in air-separation units (ASUs). **Maanshan BOC-Ma Steel Gases** will build and operate two ASUs at Ma Steel's site in Maanshan city, Anhui province. Each ASU will have a capacity of 462,000tpa of oxygen. The plants will produce a combined total of 165,000tpa of oxygen, nitrogen, and argon, and will start up in 2007. (January 24, 2005)

Cabot has started construction of its fumed-silica manufacturing facility near Nanchang in Jiangxi

province. Cabot is investing US\$30m in the plant, which is to be operational by H1 2006. It will own 90% of the new company, **Cabot Bluestar Chemical**. Its partner is **Bluestar New Chemical Materials**, a part of **China National Chemical Group**. (January 31, 2005)

Daqing Petrochemical has started basic engineering design for its 200,000tpa acetic acid project in Daqing, Heilongjiang. The project, which had been slated to start up in 2005, has been delayed by the company's search for a licensor. The high costs of using foreign technology could be an obstacle. It is unclear if the company has now chosen a licensor. (February 28, 2005)

Daqing Oilfield Fine Chemical Plant is considering building a 60,000tpa 1,4 butanediol plant in Daqing, Heilongjiang. The project is still at an initial stage, as the company was working on the feasibility study. (February 28, 2005)

Daqing Oilfield Methanol Plant will start up a 50,000tpa ammonia plant in Daqing, Heilongjiang, in Q3 2005. The project will double the company's ammonia output. (February 28, 2005)

Degussa (China), an affiliate of **Degussa AG**, and **Shandong Cathay Lineng Biotechnology ("Cathay")**, have signed a contract to establish a JV for the production of L-Lysine, an essential amino acid for animal nutrition, **Degussa Cathay Biotechnology**. Degussa will be the majority shareholder of the 51/49 JV. The JV will construct an L-Lysine plant at the Cathay site in Jining, Shandong province in 2005. The initial annual capacity of the new plant will be 40,000tpa of Biolys®, Degussa's globally-established L-Lysine product. It will begin operation in 2005. The JV plans to expand the plant's capacity to 120,000tpa by 2007/2008. (January 24, 2005)

Degussa has begun a project to further expand capacity of its carbon black plant in Qingdao with a fourth production line. With this investment, Degussa will significantly increase capacity to more than 100,000tpa of carbon black in China. The plant, located in Shandong province, is managed by **Qingdao Degussa Chemical Company, Ltd. (QDCC)**, a JV of Degussa AG, **Jiaozhou**

Municipality Fiscal Center and DEG Deutsche Investitions und Entwicklungsgesellschaft mbH. (January 18, 2005)

Dow Chemical is evaluating sites in Asia-Pacific for a propylene oxide-based glycol ethers production plant to meet the growing demands of the region. The plant will be similar in size to Dow's facility in Stade, Germany, which has the capacity to produce 125,000tpa of P-series glycol ethers. (January 24, 2005)

Gaoqiao Petrochemical plans to boost its 120,000tpa polyether polyols capacity in Pudong, Shanghai. Polyether polyols and isocyanates are used in making polyurethanes. Gaoqiao has a stake in a MPI and a TDI project in Caojing, led by **BASF**. The project is due to start up in Q4 2006. (January 10, 2005)

Kolon Chemical started up its new US\$9.5m phenolic resins plant in Suzhou, despite the company having earlier said it would postpone the start-up to June 2005 because of the high price of phenol feedstock. Construction of the facility was completed in November 2004. (January 17, 2005)

Kureha Chemical will start commercial production at its 10,000tpa polyvinylidene chloride (PVDC) project in Nantong, Jiangsu, in October. Vinyl chloride monomer feedstock will be purchased locally. The company has formed a JV with **Toyota Corp** and meat-processing company **Henan Shineway Group** for the project, which is integrated from basic resin to finished packaging film. Kureha Chemical aims to increase its PVDC capacity in China to 30,000tpa contingent on market demand. (February 28, 2005)

Lanxess, which was spun off from **Bayer**, announced plans to build a JV antioxidant rubber chemicals plant in China with **Xinda** and Shanghai-listed investor **Anhui Tongfens**. Lanxess will be the minority shareholder in the new **Anhui Tongfeng Shengda Chemical Company**. The plant will be built in the economic and technological development zone of Tongling near the Yangtze River in Anhui province. It is scheduled for start-up in H2 2006.

Lanxess has completed two new leather chemicals plants in Wuxi, northwest of Shanghai, and will begin construction work on a hydrazine hydrate facility at Weifang in Shandong province. (February 28, 2005).

Lenzing, the Austrian fibers group will invest US\$70m-US\$75m in a 60,000tpa viscose staple fibers plant for textiles and non-woven applications near Nanjing, in Jiangsu. Start-up is expected in Q4 2006, and construction will take 18 months. (January 17, 2005)

Mitsubishi Rayon Co (MRC) will likely decide in March 2005 whether to expand its PMMA facility in Nantong, Jiangsu, or to build a new PMMA plant in Huizhou, Guangdong. The Nantong plant, which produces 40,000tpa of PMMA, could be expanded by 20,000tpa. MRC is also building a 90,000tpa MMA facility in Huizhou that will start up in July 2006. It plans to offtake C4s from **CNOOC Shell Petrochemical Co's** proposed cracker. The company is also conducting a feasibility study on a new MMA plant in Asia. It planned to bring the new MMA and PMMA units onstream in 2007-2008. (January 17, 2005)

Rohm and Haas has selected the site for its new China R&D Center in Shanghai. Located on eight acres in the Zhangjiang Hi-Tech Park in Pudong. The new site will anchor the company's presence in China. The new site, expected to open in mid-2006, will employ up to 1,500 employees. Rohm and Haas will invest US\$30m initially, although the total project is estimated at up to US\$60m. (March 2, 2005)

Teijin plans to start up a second 50,000tpa polycarbonate (PC) plant in the Zhapu Development Zone in Jiaxing City, by December 2006. Construction work on the plant will start in May 2005. Its first PC plant in Jiaxing is to start commercial production in April 2005. (February 23, 2005)

Wacker-Chemie and **Dow Corning** will invest US\$1bn in their silicone and silica JV and associated downstream facilities in China. (January 24, 2005)

Yangzi Petrochemical Co (YPC) has submitted a feasibility study to its parent company, **Sinopec**, on a 100,000tpa emulsion-styrene butadiene rubber (SBR) project in Nanjing Chemical Industry Park, Jiangsu. YPC and GPRO Chemical Co will form a 60/40 JV for the project. Feedstock will be sourced from YPC and the project will use local technology. The companies plan to build another 100,000tpa solution-SBR unit in the project's second phase. (January 24, 2005)

Zhejiang South Holding Group is building facilities to produce 180,000tpa of polyethylene terephthalate (PET) fiber-grade chips, 100,000tpa of polyester filament yarn and 60,000tpa of polyester staple fiber in Shaoxing, Zhejiang. It plans to start up the plants in October 2005. The project will cost US\$73m. The company will fund 40% of the cost with equity; it has secured bank loans to finance the remainder. 50% of the polyester output will be used for the company's own textile production. (January 24, 2005)

Zhenhai Refining & Chemical Co (ZRCC) has started work on boosting capacity at its 40,000tpa methyl tertiary butyl ether (MTBE) plant in Ningbo, Zhejiang, to 100,000tpa. (January 19, 2005)

INDIA

LG Chem plans to become one of the top five petchem majors in India in the next five years by focusing on its core ABS and PVC segments. LG Chem plans to build a 100,000tpa ABS plant and a 200,000tpa PVC plant by 2008. The company is also considering expanding the capacity of the proposed ABS plant to 150,000tpa by 2010. The preferred location for both projects is Dahej, in Gujarat. LG is also planning to build a 20,000tpa engineering plastics compound plant by 2010 to meet future demand by automobile and cell-phone

manufacturers, including LG Electronics. (February 28, 2005)

Merck & Co has decided to re-enter the Indian pharmaceuticals market after 18 years through a 100%-owned subsidiary. The company has applied for approval from the Indian government to set up the subsidiary, which will be owned by Dutch affiliates **Merck Sharp & Dohme (MSD) BV** (99.99%) and **MSD Finance BV** (0.01%). In its application to the Foreign Investment Promotion Board, **Merck** said it planned to invest US\$15m over five years through the subsidiary. (January 10, 2005)

Nicholas Piramal India Ltd (NPIL) has acquired **Rhodia's** inhalation anaesthetics business for US\$14m. Rhodia was selling the business as part of the restructuring of its perfumery, performance, and agchem division. The acquisition will give NPIL access to Rhodia's manufacturing technology and facilities related to the inhalation anaesthetics halothane and isoflurane, although it will not acquire the manufacturing plant or land. NPIL will gain access to Rhodia's complex continuous catalytic conversion process for the production of the products. NPIL will also gain access to Rhodia's sales and marketing network of exclusive distributors in more than 90 countries. NPIL will relocate the production of the products to Ennore near Chennai, India, from Rhodia's plant in Avonmouth, Bristol, UK. (December 18, 2004)

Unichem Laboratories is looking to back-integrate into the manufacture of active pharmaceutical ingredients (APIs). The company hopes to complete the acquisition of an API plant by the end of its financial year in March 2005. The plant will cost US\$5m. The company's ventures in the US would be purely for marketing and distribution, as all manufacturing will be in India. Unichem is headquartered in Mumbai, with four

plants in Maharashtra, Goa, Uttar Pradesh, and Himachal Pradesh. (January 24, 2005)

JAPAN

Asahi Kasei Chemicals is investing US\$270m-US\$360m to grow the business of four specialty products – industrial membranes, photopolymers for printing, performance-coating materials, and microcrystalline cellulose – through 2008. Sales of these four products totaled US\$720m in 2003-2004. Asahi expects those revenues to rise to US\$1.8bn in 2008-2009. (January 24, 2005)

BASF has signed a contract with **NOF Corporation** for BASF to acquire the remaining shares of **BASF NOF Coatings (BNC)**, a 50/50 JV between the two companies. Effective April 2005, BASF will operate the company under the name of **BASF Coatings Japan Ltd**. Financial details were not disclosed. The JV was formed in 2000. The company produces and markets automotive OEM coatings, refinish coatings, and industrial coatings. (March 1, 2005)

BASF and **Sumitomo Corp** reached agreement on the sale of the global triforine fungicide business of BASF to Sumitomo. The business with sales of US\$6m in 2003, consists of the active ingredient triforine, the trademarks Sapro[®], Funginex[®] and Denarin[®], the manufacturing and formulation know-how, registration rights, IP and inventories. Financial details of the transaction were not disclosed. The transaction is expected to close by Q1 2005. (February 24, 2005)

HB Fuller Company has signed a definitive agreement to enter into two JVs with construction supplier and house manufacturer **Sekisui Chemical Company**, one in Japan and the other in China. In Japan, Sekisui and HB Fuller will merge its adhesives businesses to create a new entity named **Sekisui-Fuller**. Sekisui, which will own 60% of the JV, will be one of the largest industrial adhesives businesses in Japan with US\$150m in sales. Fuller will retain the option to increase its

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equity ownership to 50% after two years. Employees of both companies' adhesives businesses will be transferred to **Sekisui-Fuller**. To form the China JV, Fuller will sell a 20% equity interest in its China operations to Sekisui. Sekisui will retain an option, exercisable after two years, to increase its ownership to 30%. (February 21, 2005)

Kureha Chemical plans to expand its 1,500tpa polyvinylidene fluoride (PVDF) plant in Iwaki city, Japan, by 1,000tpa. The new capacity will come onstream in April 2006. Chlorine and hydrofluorocarbon 152a feedstock will be sourced from **Maruzen Petrochemical**. (February 28, 2005)

Shin-Etsu Chemical is planning an expansion of methyl cellulose production capacity, both in Japan and at its SE Tylose facilities in Wiesbaden, Germany. Combined investment for the two projects is US\$190m. In Japan, output at the Naoetsu site will rise to 23,000tpa from 20,000tpa by the end of 2005. Capacity at SE Tylose will be increased to 40,000tpa from 27,000tpa by Q3 2006. The capacity hikes will take the Japanese group's overall capacity for methyl cellulose to 63,000tpa. (March 3, 2005)

KOREA

SK Chemicals has decided to merge with its affiliate **SK Pharmaceutical** on April 7, 2005. SK Chemicals decided on the merger as it plans to expand its core business in specialty chemicals and life sciences over the next 3-5 years. The company has targeted annual sales of US\$1.2bn after the merger. It estimates that its 2004 sales will hit US\$950m, while SK Pharma's sales should reach US\$80m. (January 10, 2005)

MALAYSIA/ SINGAPORE

BASF is expanding its compounding facility in Pasir Gudang, Malaysia. The expansion from 30,000tpa to about 45,000tpa capacity will be completed by Q2 2005. Together with the plant in Pudong, the total investment may exceed EUR10m. Both plants produce Ultramid® polyamide and Ultradur® PBT compounds. (February 23, 2005)

Degussa AG announced plans for a new oil additives manufacturing facility in Singapore, scheduled to come onstream in 2007. The investment will be US\$13m. (February 17, 2005)

ExxonMobil Chemical is expanding the capacity of its oxo alcohol plant in Singapore. The Singapore chemical plant will increase its isononyl alcohol capacity from 180,000tpa to 220,000tpa. Project completion is expected by Q3 2006. (March 7, 2005)

Namhae Chemicals has formed a JV to produce melamine in Malaysia. Namhae stopped producing melamine at its plant in Yeochun, South Korea, in 2002 because of rising costs and increasing competition at home. The 50/50 JV with **ABF**, a subsidiary of **Petronas**, will be set up at a cost of US\$16m. The 15,000tpa plant will be at Bintulu on Borneo Island. Construction of the plant should start in June, and it is expected to be completed in Q1 2006. (January 31, 2005)

THAILAND/ VIETNAM

Thai Olefins Co (TOC) and **Cognis Thai** have signed an agreement to form a JV to produce fatty alcohol ethoxylates. This is part of TOC's plan to

invest US\$115m over the next two years to produce its own ethylene oxide (EO) supply and to move into the domestic EO derivatives market. The 50/50 JV, **Thai Ethoxylate Co**, will have US\$11m capital. It will produce 50,000tpa of fatty alcohol ethoxylates. (January 17, 2005)

Vietnam National Chemical Corp (Vinachem) plans to build a carbon black plant in central Vietnam. The proposed plant will have a capacity of 30,000tpa–50,000tpa. The project's pre-feasibility study has been approved and the company is working on its feasibility study. The project will cost US\$40m and is likely to be located in Dung Quat, Quang Ngai, so that it can obtain feedstock from

PetroVietnam's No 1 refinery project. Vinachem requires foreign technology for its carbon black project and has spoken to a few companies, such as **Thai Carbon Black**, **Degussa**, and **Cabot** about the project, but no agreement has been signed. Vinachem also plans to build an antibiotics plant in northern Vietnam and is working on a pre-feasibility study. The first phase of the project will produce 300tpa of antibiotics. The project will be a JV with **Vietnam Pharmaceutical Corp**. (February 7, 2005)

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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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