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FIRST PACIFIC COMPANY LIMITED

第一太平有限公司

(Incorporated with limited liability under the laws of Bermuda)

Website: www.firstpacific.com

(Stock Code: 00142)

CONTINUING CONNECTED TRANSACTIONS

(1) REVISED FRAMEWORK AGREEMENT BETWEEN MAYNILAD WATER SERVICES, INC. AND D.M. CONSUNJI, INC. AND REVISED ANNUAL CAPS FOR 2019 AND 2020

(2) SERVICE CONTRACT BETWEEN MAYNILAD WATER SERVICES, INC. AND THE DMCI-JFE CONSORTIUM

INTRODUCTION

Reference is made to the 2018 Announcement in relation to the Framework Agreement between DMCI and Maynilad.

The Board announces that on 10 October 2019, DMCI and Maynilad entered into the Revised Framework Agreement to revise Maynilad's estimated annual CAPEX budget and the Annual Caps for 2019 and 2020 in respect of the continuing connected transactions contemplated under the Revised Framework Agreement. Save for Maynilad's revised estimated annual CAPEX budget and the revised Annual Caps set for the years ending 31 December 2019 and 2020, respectively, all other terms and conditions of the Framework Agreement will remain in full force and effect.

This announcement contains details of Maynilad's revised estimated annual CAPEX budget and the revised Annual Caps for 2019 and 2020 in respect of the continuing connected transactions contemplated under the Revised Framework Agreement.

This announcement also contains details of the Service Contract proposed to be entered into between Maynilad and the DMCI-JFE Consortium, being a service contract entered into pursuant to the terms of the Revised Framework Agreement. As the term of the Service Contract exceeds a period of three years, under Rule 14A.52 of the Listing Rules, the Independent Financial Adviser has been appointed to issue an independent opinion to explain the reasons for the Service Contract requiring a duration longer than three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

IMPLICATIONS UNDER THE LISTING RULES AND DIRECTORS' VIEW

The Group has approximately 51.3% interest in MWHC, the holding company of Maynilad. DMCI Holdings, being the 27.2% shareholder of MWHC, is a connected person of the Company. DMCI is a subsidiary of DMCI Holdings and is, therefore, a connected person of the Company. Accordingly, the transactions contemplated under the Revised Framework Agreement (including the entering into of the Service Contract) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The transactions contemplated under the Revised Framework Agreement are on normal commercial terms or better (as far as the Company is concerned) and DMCI is a connected person of the Company at the subsidiary level.

The Board has approved the Revised Framework Agreement and the revised Annual Caps for 2019 and 2020 in respect of the transactions contemplated under the Revised Framework Agreement; and the Directors (including the independent non-executive Directors) are of the view that the terms of the Revised Framework Agreement and the revised Annual Caps for 2019 and 2020 in respect of the transactions contemplated under the Revised Framework Agreement are fair and reasonable, are on normal commercial terms or better, in the ordinary and usual course of business of Maynilad and in the interests of the Company and its shareholders as a whole. Therefore, pursuant to Rule 14A.101 of the Listing Rules, the execution of the Revised Framework Agreement and the revision of the Annual Caps for 2019 and 2020 in respect of the Revised Framework Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

REVISED ANNUAL CAPS FOR 2019 AND 2020 UNDER THE REVISED FRAMEWORK AGREEMENT

Reference is made to the 2018 Announcement in relation to the Framework Agreement between DMCI and Maynilad.

The Board announces that on 10 October 2019, DMCI and Maynilad entered into the Revised Framework Agreement to revise Maynilad's estimated annual CAPEX budget and the Annual Caps for 2019 and 2020 in respect of the continuing connected transactions contemplated under the Revised Framework Agreement. Save for Maynilad's revised estimated annual CAPEX budget and the revised Annual Caps set for the years ending 31 December 2019 and 2020, respectively, all other terms and conditions of the Framework Agreement will remain in full force and effect.

This announcement contains details of Maynilad's revised estimated annual CAPEX budget and the revised Annual Caps for 2019 and 2020 in respect of the continuing connected transactions contemplated under the Revised Framework Agreement.

As stated in the 2018 Announcement, the Annual Caps for 2019 and 2020 in respect of the transactions contemplated under the Framework Agreement were equal to 25% of Maynilad's estimated annual CAPEX budget for the relevant year and contemplate the possibility of incremental increases in the value of contracts awarded compared to the prior year. The annual caps have been determined based on the approximate cost of the services which DMCI has provided to Maynilad historically.

In light of recent developments as described further below in this announcement under the heading "Reasons for the Revision of Annual Caps for 2019 and 2020 and Expected Benefits", Maynilad's estimated annual CAPEX budget for 2019 and 2020 have been increased from US\$336.1 million (equivalent to approximately HK\$2,621.6 million) and US\$439.4 million (equivalent to approximately HK\$3,427.3 million), to US\$777.0 million (equivalent to approximately HK\$6,060.6) million and US\$693.0 million (equivalent to approximately HK\$5,405.4 million), respectively.

Moreover, in view of the acceleration of the current Philippine Government administration's implementation of its infrastructure projects under the "Build, Build, Build" program (details of which are described further below in this announcement under the heading "Reasons for the Revision of Annual Caps for 2019 and 2020 and Expected Benefits"), there is an increased probability of DMCI being awarded such projects in accordance with Maynilad's standard bidding process (as set out below). As a result, the Annual Caps for 2019 and 2020 in respect of the transactions contemplated under the Revised Framework Agreement have also been revised from 25% to 40% of Maynilad's revised estimated annual CAPEX budget for each of the years ending 31 December 2019 and 2020.

A summary of (i) the historical transaction amounts for the period from 1 January 2019 to 30 September 2019 and the previous Annual Caps for 2019 and 2020 (as set out in the 2018 Announcement) under the Framework Agreement, and (ii) the revised Annual Caps for 2019 and 2020 under the Revised Framework Agreement, are set out in the table below. The revised Annual Caps for 2019 and 2020 under the Revised Framework Agreement are, in each case, equal to 40% of Maynilad's revised estimated annual CAPEX budget for the relevant year.

| Actual Transaction Amount for the period from 1 January 2019 to 30 September 2019 | Previous Annual Cap for the year ending 31 December 2019 | Revised Annual Cap for the year ending 31 December 2019 | Previous Annual Cap for the year ending 31 December 2020 | Revised Annual Cap for the year ending 31 December 2020 |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------|
| Nil (Nil) | 84.0 (655.2) | 310.8 (2,424.2) | 109.9 (857.2) | 277.2 (2,162.2) |

US\$ million
(HK\$ million)

Reasons for the Revision of Annual Caps for 2019 and 2020 and Expected Benefits

There exists intense political, regulatory and legal pressure to accelerate water and wastewater infrastructure projects in the Philippines, particularly, after recent widespread water service interruptions and near-drought conditions and historically low water levels at the primary water source, Angat Dam, which conditions are anticipated to occur more frequently because of climate change.

The recent decision of the Philippine Supreme Court (which is now the subject of a Motion for Reconsideration) imposing a hefty fine on Maynilad, Manila Water Company, Inc. (the other water concessionaire in Metro Manila) and MWSS (the government agency vested with the duty to provide water and wastewater services in the East zone of Metro Manila) for the alleged failure to connect the existing sewer lines of all establishments to the available sewerage and to construct the necessary wastewater treatment facilities within the period prescribed in the Clean Water Act, made it necessary to accelerate the implementation of Maynilad's wastewater projects.

In light of the foregoing reasons, Maynilad's estimated annual CAPEX budget for 2019 and 2020 have been revised. As stated in the 2018 Announcement and for the purposes of the Revised Framework Agreement, Maynilad's annual CAPEX budget includes the total costs of labour, materials and overhead associated with all projects classified as CAPEX in Maynilad's business plan such as, but not limited to, pipe-laying, construction of facilities related to the provision of water and sewerage services and improvement of existing facilities.

At the same time, there is equally intense, multi-sectoral competition for construction contractors owing to the current Philippine Government administration's "Build, Build, Build" program which promotes the prioritization and accelerated implementation of infrastructure projects. This has resulted in the increasing scarcity of technically qualified, financially capable and cost-efficient contractors that could implement Maynilad's large-scale, complex, multi-year and highly-visible construction projects, which include the CAMANA Water Reclamation Facility (as defined below).

DMCI is one of the leading construction companies in the Philippines, and was qualified to bid for a number of projects of Maynilad in the past. In light of the anticipated expansion of the construction sector as described in the foregoing paragraphs, there is an increased probability of DMCI being awarded projects in accordance with Maynilad's standard bidding process (as described below), and having taken into account the Service Contract to be entered between Maynilad and the DMCI-JFE Consortium, the Annual Caps have been revised to more closely reflect current projections of the activity levels between Maynilad and DMCI for 2019 and 2020. The increased capacity of DMCI to be awarded projects in accordance with Maynilad's standard bidding process is expected to benefit Maynilad by facilitating the timely and cost-effective construction of its water and wastewater infrastructure projects, particularly having regard to the current scarcity of suitably qualified contractors.

SERVICE CONTRACT

Pursuant to the terms of the Revised Framework Agreement and following an open competitive bidding process in accordance with Maynilad's standard bidding process (as previously described in the 2018 Announcement), Maynilad will award a contract for a project to the DMCI-JFE Consortium in relation to the construction of a wastewater treatment facility in the Philippines (the "**Project**"). The scope of work under the Project involves the provision of engineering design, construction, supply and installation of electromechanical equipment/process units, testing, commissioning and process-proving of a 205-million litres per day water reclamation facility that will treat wastewater coming from the cities of Caloocan, Malabon and Navotas (the "**CAMANA Water Reclamation Facility**" or "**CAMANA WRF**").

In relation to the Project, Maynilad and the DMCI-JFE Consortium propose to enter into a service contract which would set out the terms and conditions governing the relationship between the parties, including but not limited to the contract price and terms of payment, scope of work and project milestone dates.

The Service Contract shall have a term of 2,099 days effective from 11 October 2019, comprising an initial period during which the DMCI-JFE Consortium is to perform the scope of work under the terms of the Service Contract, followed by a two-year defects notification period which runs concurrently with a one-year process-proving period.

Maynilad's standard bidding process is set out below:

- (1) As a company policy of Maynilad, all contractors, including DMCI, undergo yearly accreditation to demonstrate that they have the technical and financial capabilities, as well as the management system required to perform Maynilad's infrastructure projects. The principles for accepting the services for infrastructure projects is best value for money and engaging partnerships with the best contractors in the industry to ensure quality of work.

- (2) Maynilad's proposed projects are posted in the company website. The bidding process starts with the selection and invitation of capable contractors who will bid for Maynilad's infrastructure projects. Selection of contractors is based on their overall grade in the most recent monitoring sheet. Overall grade is an objective measure that considers such factors as quality and level of technical capability, financial capacity and stability, past performance record with similar installations, and management systems.
- (3) Invited contractors undergo either of the two general methods of bidding – competitive and alternative bidding. As a policy, competitive bidding is Maynilad's primary method of bidding used for awarding infrastructure projects to winning contractors. Alternative methods like raffle and negotiation are done under exceptional circumstances and upon prior approval from management.
- (4) Complex projects require a two-step process, in which financial assessment is performed on those contractors who have passed the technical assessment. Simple projects such as secondary pipelaying require only the submission of financial proposals.
- (5) Contractors who have submitted their bids before the deadline are evaluated by reference to Maynilad's reference estimate. Bids below 70% and above 120% of the reference estimate are disqualified and will merit no further cost comparison and detailed cost analysis. On the other hand, cost comparison is performed in respect of bids between 70% and 120% of the reference estimate. Cost comparison refers to the examination of the accuracy of the computation found in bids and making the necessary corrections. If it turns out that the lowest evaluated bid falls between 100% and 120% of the reference estimate, a maximum of three lowest complying bidders are asked to submit their sealed discounted proposals prior to recommendation for award.
- (6) The recommendation is presented to Maynilad's Contracts Awards Committee ("CAC") which approves contracts (of at least Php5 million which is equivalent to approximately US\$0.096 million or HK\$0.75 million) on behalf of Maynilad. The President must be present for approval of projects worth more than Php500 million (equivalent to approximately US\$9.6 million or HK\$75.0 million). The contracts must be approved by a majority of the CAC members.
- (7) The notice of award is issued once the recommended contractor is approved by the CAC for projects worth less than Php1 billion (equivalent to approximately US\$19.2 million or approximately HK\$150.0 million) or by the board of Maynilad for projects worth at least Php1 billion (equivalent to approximately US\$19.2 million or approximately HK\$150.0 million). The notice would state the amount of the award, the award date, and further requirements which the contractor may need to comply with within the time indicated in the notice, reckoned from the notice's issuance to the contractor. Upon confirmation of the contractor's compliance with the further requirements, the contract agreement is entered into, and the notice to proceed is issued to the contractor.

Opinion from the Independent Financial Adviser

As the term of the Service Contract exceeds a period of three years, under Rule 14A.52 of the Listing Rules, Somerley, the Independent Financial Adviser, has been appointed to issue an independent opinion to explain the reasons for the Service Contract requiring a duration longer than three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

Somerley has taken into account the following principal factors when formulating its opinion pursuant to Rule 14A.52 of the Listing Rules:

(1) Comparable Projects

Somerley has reviewed copies of agreements in connection with four other expansion/rehabilitation projects with comparable scale, complexity and/or technical requirements as the Project (the “**Comparable Projects**”). Based on the information provided by Maynilad, three of the Comparable Projects were signed with contractors which are independent third parties and the remaining project (the “**2017 Project**”) was entered into with VA Tech Wabag - D.M. Consunji, Inc. Joint Venture, in which DMCI is a member.

Somerley has noted that the duration of the three Comparable Projects with independent contractors ranged from 1,331 calendar days (i.e. around three and a half years) to 1,881 calendar days (i.e. around five years). The 2017 Project also had a duration of 1,881 calendar days (i.e. around 5 years). Somerley also noted that the duration of the agreements of each of the Comparable Projects included a 365-day process-proving period and a 730-day defects notification period (as it commences with the start of the process-proving period and lasts up to 365 calendar days following the end of the process-proving period) (collectively, the “**730-day PP & DN Period**”) which, according to the management of Maynilad, is common and industry practice for contracts of this type.

Somerley noted the Project is expected to take around 2,099 calendar days (i.e. approximately six years) from the issuance of the letter of acceptance to the return of the performance security to the contractor. This timetable is longer than the range of timeline based on the Comparable Projects. Somerley understands from the management of Maynilad that the Project requires a particularly lengthy period for the overall design and construction (i.e. around 1,230 days) as compared with those of the Comparable Projects (i.e. generally less than 1,000 days) because, based on a preliminary geotechnical study that was conducted at the site of the CAMANA WRF, the soil is liquefiable around the area and as such, there is a need to install a deep structural founding (extending about 20 metres below the ground), e.g. bored piles, mat foundation, diaphragm wall, to ensure the CAMANA WRF’s resilience against strong earthquakes. Based on the above, Somerley considers the fact that the range of duration of the Comparable Projects has demonstrated that it is not unusual for expansion/rehabilitation projects for water plants and facilities with comparable complexity and technical requirements as the Project to take longer than a period of three years.

Based on the above, having considered that (i) the inclusion of the 730-day PP & DN Period in the Service Contract is in accordance with normal business and industry practice; and (ii) the Service Contract has a similar duration as the other agreement for a similar project with comparable nature and scope of work, Somerley is of the view that the duration of the Service Contract can be considered in accordance with normal business practice for contracts of this type.

(2) *Duration of the Service Contract coincides with completion of the Project*

Somerley has discussed with the management of the Group that works to be carried out according to work plan under the Service Contract, from structural design to actual implementation of engineering and construction works, and from test-running to defects notification, are integral and indispensable parts for achieving a smooth progress of construction and successful completion of the Project. In addition, Somerley is further advised that the process-proving period and the defects notification period are also of utmost importance and beneficial as well to Maynilad because during such periods, Maynilad will be warranted of remedies and rectification pursuant to the terms of the Service Contract in case of defects or malfunctioning of the plant and/or its process being identified after the refurbished plant is handed over by the Contractor.

Given that (i) the planned time for completion of the Project, which includes time for completion of design and construction works of over three years and process-proving and defects notification of around two years, is over three years; (ii) the process-proving period and the defects notification period are considered essential for ensuring the proper functioning of the facility and are beneficial to Maynilad as during which the constructor will be obliged to remedy any defect or damage at its own costs; and (iii) as discussed in the paragraph headed “Comparable Projects” above, the inclusion of the 730-day PP & DN Period in the Service Contract is in accordance with normal business practice, Somerley considers the duration of the Service Contract of longer than a three-year term, coinciding with the completion of the Project, is required.

Based on the reasons and principal factors considered as set out above, Somerley is of the opinion that the duration of the Service Contract, being longer than three years, is required and is in accordance with normal business practice for contracts of this type.

IMPLICATIONS UNDER THE LISTING RULES AND DIRECTORS' VIEW

The Group has approximately 51.3% interest in MWHC, the holding company of Maynilad. DMCI Holdings, being the 27.2% shareholder of MWHC, is a connected person of the Company. DMCI is a subsidiary of DMCI Holdings and is, therefore, a connected person of the Company. Accordingly, the transactions contemplated under the Revised Framework Agreement (including the entering into of the Service Contract) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The transactions contemplated under the Revised Framework Agreement are on normal commercial terms or better (as far as the Company is concerned) and DMCI is a connected person of the Company at the subsidiary level.

The Board has approved the Revised Framework Agreement and the revised Annual Caps for 2019 and 2020 in respect of the transactions contemplated under the Revised Framework Agreement. To the best of the Directors' knowledge and information, no Director has any material interest in, or otherwise is required to abstain from voting on, the Board resolutions considering and approving the Revised Framework Agreement (including the term thereto), the revised Annual Caps for 2019 and 2020, and the Service Contract.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Revised Framework Agreement and the revised Annual Caps for 2019 and 2020 in respect of the transactions contemplated under the Revised Framework Agreement are fair and reasonable, are on normal commercial terms or better, in the ordinary and usual course of business of Maynilad and in the interests of the Company and its shareholders as a whole. Therefore, pursuant to Rule 14A.101 of the Listing Rules, the execution of the Revised Framework Agreement and the revision of the Annual Caps for 2019 and 2020 in respect of the Revised Framework Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

DMCI, which is a subsidiary of DMCI Holdings, is a leading construction and engineering company in the Philippines. It has been engaged in the construction business for more than five decades.

DMCI Holdings was incorporated in 1995 to consolidate the business interests of the Consunji family in construction and engineering, real estate (property development), power, water and mining. DMCI Holdings' shares have been listed on the Philippine Stock Exchange since 1995.

DMCI-JFE Consortium is a consortium formed between DMCI and JFE Engineering Corporation, an independent third party.

Maynilad is a company incorporated in the Philippines and holds an exclusive concession granted by the MWSS on behalf of the Philippine Government, to provide water and sewerage services in the West Zone of the MWSS service area which includes certain parts of the province of Cavite.

The Company is a Hong Kong-based investment management and holding company with operations located in Asia-Pacific. Its principal business interests relate to consumer food products, infrastructure, natural resources and telecommunications.

DEFINITIONS

In this announcement, the following terms and expressions have the following meanings, unless the context requires otherwise:

| | |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| “2018 Announcement” | the Company’s announcement dated 12 March 2018; |
| “Annual Cap(s)” | the estimated maximum annual value in relation to a continuing connected transaction, as required by Rule 14A.53 of the Listing Rules; |
| “Board” | board of Directors of the Company; |
| “CAMANA Water Reclamation Facility” or “CAMANA WRF” | has the meaning given to it under the paragraph headed “Service Contract” in this announcement; |
| “CAPEX” | capital expenditure; |
| “Company” | First Pacific Company Limited, an exempted company incorporated in Bermuda and having its shares listed on The Stock Exchange of Hong Kong Limited; |
| “Director(s)” | the director(s) of the Company; |
| “DMCI” | D.M. Consunji, Inc., a company incorporated in the Philippines; |
| “DMCI-JFE Consortium” | DMCI-JFE Consortium, a consortium between DMCI and JFE Engineering Corporation; |
| “DMCI Holdings” | DMCI Holdings Inc., a company incorporated in the Philippines; |

| | |
|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Framework Agreement” | the framework agreement dated 13 January 2015 entered into between DMCI and Maynilad in relation to the provision of services by DMCI to Maynilad, as renewed by the renewal agreement dated 12 March 2018 entered into between DMCI and Maynilad; |
| “Group” | the Company, and/or its subsidiaries, and/or its Philippine affiliates, from time to time; |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China; |
| “Independent Financial Adviser” or “Somerley” | Somerley Capital Limited, a corporation licensed to carry on business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company for the purpose of Rule 14A.52 of the Listing Rules in relation to the Service Contract; |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| “Maynilad” | Maynilad Water Services, Inc., a company incorporated in the Philippines; |
| “MWHC” | Maynilad Water Holdings Company Inc., a company incorporated in the Philippines; |
| “MWSS” | the Metropolitan Waterworks and Sewerage System; |
| “Php” | Philippine Peso, the lawful currency of the Republic of the Philippines; |
| “Project” | has the meaning given to it under the paragraph headed “Service Contract” in this announcement; |
| “Revised Framework Agreement” | the Framework Agreement as amended by the letter agreement dated 10 October 2019 between DMCI and Maynilad; |

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|--------------------|-----------------------------------------------------------------------------------------------------------------------------|
| “Service Contract” | the Design and Build Contract to be entered between Maynilad and the DMCI-JFE Consortium as described in this announcement; |
| “US\$” | United States dollars, the lawful currency of the United States of America; and |
| “%” | per cent. |

By Order of the Board
First Pacific Company Limited
Nancy L.M. Li
Company Secretary

Hong Kong, 10 October 2019

Unless stated otherwise, translations of quoted currency values are made on an approximate basis and at the rate of US\$1.00 = Php52.0 = HK\$7.8. Percentages and figures expressed have been rounded.

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:

Manuel V. Pangilinan, *Managing Director and Chief Executive Officer*
Christopher H. Young, *Chief Financial Officer*

Non-executive Directors:

Anthoni Salim, *Chairman*
Benny S. Santoso
Tedy Djuhar

Independent Non-executive Directors:

Prof. Edward K.Y. Chen, *GBS, CBE, JP*
Margaret Leung Ko May Yee, *SBS, JP*
Philip Fan Yan Hok
Madeleine Lee Suh Shin