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## **FIRST PACIFIC COMPANY LIMITED**

### **第一太平洋有限公司**

*(Incorporated with limited liability under the laws of Bermuda)*

Website: <http://www.firstpacific.com>

**(Stock Code: 00142)**

## **CONTINUING CONNECTED TRANSACTION**

### **RENEWAL OF FRAMEWORK AGREEMENT BETWEEN MAYNILAD WATER SERVICES, INC. AND D.M. CONSUNJI, INC.**

#### **RENEWAL OF FRAMEWORK AGREEMENT**

Reference is made to the announcement of the Company dated 16 January 2015 in relation to, among other things, the execution of the Framework Agreement between DMCI and Maynilad dated 13 January 2015.

The Framework Agreement expired in accordance with its terms on 31 December 2017. In order to continue performance of the Services under the Framework Agreement and allow DMCI to continue to submit proposals for business put out to competitive tender by Maynilad, DMCI and Maynilad have entered into a Renewal Agreement, pursuant to which DMCI and Maynilad have agreed to renew the Framework Agreement for a period of three years. Save for the new annual caps set for the years ending 31 December 2018, 2019 and 2020, all other terms and conditions of the Framework Agreement will remain in full force and effect.

Details of the Framework Agreement (as renewed by the Renewal Agreement) are set out below in this announcement.

#### **DIRECTORS' VIEW**

The Directors (including the independent non-executive Directors) consider the terms of the Framework Agreement (as renewed by the Renewal Agreement) to be fair and reasonable and that the execution of the Renewal Agreement is on normal commercial terms (or better, as far as the Company is concerned), in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

The Group has an 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 execution of the Renewal Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The Renewal Agreement is 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 execution of the Renewal Agreement, and the independent non-executive Directors have confirmed that its terms are fair and reasonable and that its execution is on normal commercial terms or better (as far as the Company is concerned) 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 Renewal Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **RENEWAL OF FRAMEWORK AGREEMENT**

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The key terms of the Framework Agreement, as renewed by the Renewal Agreement, are set out below:

Date of contract:	12 March 2018
Parties:	Maynilad as customer and DMCI as supplier of construction services
Term:	1 January 2018 to 31 December 2020
Services to be rendered:	Engineering, procurement and/or construction services to be provided by DMCI to Maynilad

**Provision of Services:** If Maynilad requires any Services from DMCI, it may enter into a specific service contract with DMCI prior to the provision of the relevant services. The service contract and the relevant service order, once executed, shall form part of the Framework Agreement (as renewed by the Renewal Agreement), provided that aggregate consideration under all service contracts entered into by DMCI and Maynilad under the Framework Agreement (as renewed by the Renewal Agreement) shall not exceed 25% of Maynilad’s annual budget for CAPEX projects in respect of the years ending 31 December 2018, 2019 and 2020. For purposes of the Framework Agreement (as renewed by the Renewal 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.

**Payment:** The Framework Agreement (as renewed by the Renewal Agreement) provides that details of all fees and payments due to DMCI shall be specified in each service contract.

Under Rule 14A.53 of the Listing Rules, an annual cap is required to be set for each continuing connected transaction. The proposed annual caps in respect of the Framework Agreement (as renewed by the Renewal Agreement) for the years ending 31 December 2018, 2019 and 2020 are set out below:

<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>US\$ million</i> <i>(HK\$ million)</i>	<i>US\$ million</i> <i>(HK\$ million)</i>	<i>US\$ million</i> <i>(HK\$ million)</i>
43.5 (339.3)	84.0 (655.2)	109.9 (857.2)

The annual caps are, in each case, 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 in 2015, 2016 and 2017. In 2015, the projects awarded to DMCI amounted to US\$36.8 million (equivalent to approximately HK\$287.0 million), representing approximately 10% of the CAPEX budget of US\$387.0 million (equivalent to approximately HK\$3.0 billion) for the year 2015. In 2016, the projects awarded to DMCI amounted to US\$27.0 million (equivalent to approximately HK\$210.6 million), representing approximately 14% of the CAPEX budget of US\$193.6 million (equivalent to approximately HK\$1.5 billion) for the year 2016. In 2017, the projects awarded to

DMCI amounted to US\$38.2 million (equivalent to approximately HK\$298.0 million), representing approximately 23% of the CAPEX budget of US\$167.0 million (equivalent to approximately HK\$1.3 billion) for the year 2017.

There was a 27% decline in the amount of projects awarded to DMCI in 2016 compared to 2015. The amount of projects awarded to DMCI was higher in 2015 because in addition to primary pipelaying projects and construction of water facilities where DMCI was relatively more competitive, DMCI won a project involving the installation of a sewerage network in that year. On the other hand, the main driver of the 41% increase in the amount of projects awarded to DMCI in 2017 compared to 2016 was the Design and Build contract for the rehabilitation, retrofitting and process improvement of La Mesa Water Treatment Plant 2, one of the three existing water treatment plants of Maynilad, pursuant to which DMCI will provide structural design and undertake civil works and pipe-laying services.

The Renewal Agreement was entered into on normal commercial terms, in the ordinary course of business of Maynilad and DMCI, and on an arm's length basis. The contracts to be awarded to DMCI under the Framework Agreement (as renewed by the Renewal Agreement) will be in accordance with Maynilad's standard bidding process which is fair and reasonable and made on an arm's length basis. Payments to be made by Maynilad to DMCI pursuant to such contracts will, in Maynilad's reasonable opinion, satisfy the efficiency and prudence test imposed by the concession agreement entered between Maynilad and the MWSS on behalf of the Philippine government.

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 one 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 designated signing authorities, usually its CAC, which approves and enters into contracts and other binding documents on behalf of Maynilad. The President must be present for approval of projects worth more than Php500 million (equivalent to approximately US\$9.7 million or HK\$75.4 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\$19.3 million or approximately HK\$150.9 million) or by the Board for projects worth at least Php1 billion (equivalent to approximately US\$19.3 million or approximately HK\$150.9 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 further requirements, the contract agreement is entered into, and the notice to proceed is issued to the contractor.

Having considered Maynilad's standard competitive bidding process described above, the Directors are of the view that the transactions under the Framework Agreement (as renewed by the Renewal Agreement) will be conducted on normal commercial terms and not prejudicial to the interest of the Company and its shareholders. In addition, the pricing and annual caps of the transactions will be subject to annual reviews by the Company's external auditors and the Audit and Risk Management Committee pursuant to the requirements under the Listing Rules.

## **DIRECTORS' VIEW**

The Directors (including the independent non-executive Directors) consider the terms of the Framework Agreement (as renewed by the Renewal Agreement) to be fair and reasonable and that the execution of the Renewal Agreement is on normal commercial terms (or better, as far as the Company is concerned), in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

In view of the continuing nature of the transactions which are the subject of the Framework Agreement (as renewed by the Renewal Agreement), the Directors (including the independent non-executive Directors) believe that the execution of the Renewal Agreement has the benefit of reducing the administrative burden and costs associated with compliance with laws and regulations by the Group.

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 Renewal Agreement and the transactions contemplated thereunder.

## **IMPLICATIONS UNDER THE LISTING RULES**

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## **GENERAL**

DMCI, which is a subsidiary of DMCI Holdings, is a leading construction and engineering company in the Philippines.

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.

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:

“Board”	board of Directors of the Company;
“CAC”	Contracts and Awards Committee;
“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 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;
“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;
“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”	Metropolitan Waterworks and Sewerage System;
“Php”	Philippine Peso, the lawful currency of the Republic of the Philippines;
“Renewal Agreement”	the renewal agreement dated 12 March 2018 entered into between DMCI and Maynilad in relation to the Framework Agreement for the provision of Services by DMCI to Maynilad;
“Services”	the engineering, procurement and/or construction services provided by DMCI to Maynilad under the Framework Agreement;
“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, 12 March 2018

*Unless stated otherwise, translations of quoted currency values are made on an approximate basis and at the rate of US\$1.00 = Php51.7 = 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 CEO*  
Robert C. Nicholson  
Christopher H. Young

***Non-executive Directors:***

Anthoni Salim, Chairman  
Benny S. Santoso  
Tedy Djuhar  
Ambassador Albert F. del Rosario

***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