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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](http://www.firstpacific.com)

**(Stock Code: 00142)**

## **CONTINUING CONNECTED TRANSACTION**

### **SERVICE CONTRACT BETWEEN MAYNILAD WATER SERVICES, INC. AND THE AA-DMCI LAGUNA LAKE CONSORTIUM**

Reference is made to the Company's announcement dated 10 October 2019 in relation to, among other things, the Framework Agreement between DMCI and Maynilad.

This announcement contains details of the Service Contract entered into between Maynilad and the AA-DMCI Laguna Lake Consortium on 28 January 2020, being a service contract entered into pursuant to the terms of the Framework Agreement. As set out in the Company's announcement dated 10 October 2019, the transactions contemplated under the Framework Agreement (including the entering into of the Service Contract) 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. Pursuant to Rule 14A.101 of the Listing Rules, the execution of the Framework Agreement (and the revision of the annual caps for 2019 and 2020 in respect of the transactions contemplated under the Framework Agreement as described in the Company's announcement dated 10 October 2019) is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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.

## **INTRODUCTION**

Reference is made to the Company's announcement dated 10 October 2019 in relation to, among other things, the Framework Agreement between DMCI and Maynilad.

The Service Contract entered into between Maynilad and the AA-DMCI Laguna Lake Consortium on 28 January 2020 is a service contract entered into pursuant to the terms of the Framework Agreement. As set out in the Company's announcement dated 10 October 2019, the transactions contemplated under the Framework Agreement (including the entering into of the Service Contract) 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. Pursuant to Rule 14A.101 of the Listing Rules, the execution of the Framework Agreement (and the revision of the annual caps for 2019 and 2020 in respect of the transactions contemplated under the Framework Agreement as described in the Company's announcement dated 10 October 2019) is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **SERVICE CONTRACT BETWEEN MAYNILAD AND THE AA-DMCI LAGUNA LAKE CONSORTIUM**

Pursuant to the terms of the Framework Agreement and following an open competitive bidding process in accordance with Maynilad's standard bidding process, Maynilad will award a contract for a project to the AA-DMCI Laguna Lake Consortium in relation to the design and build of a 150-MLD (million litres per day) Laguna Water Treatment Plant (the "**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 or process units, testing, commissioning and process-proving of the Facility including but not limited to, the installation of an intake system from, and a brine discharge system into, Laguna Lake, treated water reservoir and pumping station and the connection of the Facility to the distribution network.

In relation to the Project, Maynilad and the AA-DMCI Laguna Lake Consortium entered into a service contract on 28 January 2020 which sets 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, project milestone dates and confidentiality.

The Service Contract shall have a term of 1,679 calendar days effective from the commencement date (which is expected to be on 28 January 2020) to the issuance of the Performance Certificate, comprising an initial period during which the AA-DMCI Laguna Lake Consortium is to perform the scope of work under the terms of the Service Contract, followed by a defects notification period of 730 days which runs concurrently with a process-proving period of 365 days.

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 and Awards Committee ("CAC") which approves contracts (of more than Php5 million which is equivalent to approximately US\$0.1 million or approximately HK\$0.8 million) on behalf of Maynilad. The President must be present for approval of projects worth more than Php500 million (equivalent to approximately US\$9.8 million or approximately HK\$76.5 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\$19.6 million or approximately HK\$152.9 million) or by the board of Maynilad for projects worth at least Php1 billion (equivalent to approximately US\$19.6 million or approximately HK\$152.9 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 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 five 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 two Comparable Projects were entered into with contractors which were joint ventures where DMCI was a partner (the "**Joint Ventures**") (the "**Previous DMCI Projects**"). Given that DMCI is a member common to both Joint Ventures, the Previous DMCI Projects constituted continuing connected transactions of the Company under the definition of the Listing Rules.

Somerley has noted that the duration of the three Comparable Projects with independent contractors ranged from 1,303 calendar days (i.e. around three and a half years) to 1,853 calendar days (i.e. around five years) from the commencement date to the date of return of the performance security. The Previous DMCI Projects also had durations of approximately 1,853 and 2,078 calendar days (i.e. around five and six years) respectively from the commencement date to the date of return of the performance security. 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 1,679 calendar days (i.e. approximately five years) from the commencement date to the date of return of the performance security to the contractor. This timetable is within the range of timeline based on the Comparable Projects. As such, Somerley considers 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 a longer period of over 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 facility and/or its process being identified after the facility 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 two 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.

**GENERAL**

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, which is a subsidiary of DMCI Holdings (and therefore a connected person of the Company), 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.

AA-DMCI Laguna Lake Consortium is a consortium formed between DMCI and Acciona Agua, S.A., 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:

“AA-DMCI Laguna Lake Consortium”	AA-DMCI Laguna Lake Consortium, a consortium between Acciona Agua, S.A. and DMCI;
“Board”	board of Directors of the Company;
“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;
“Facility”	has the meaning given to it under the paragraph headed “Service Contract between Maynilad and the AA-DMCI Laguna Lake Consortium” in this announcement;
“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, and as amended by the letter agreement dated 10 October 2019 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 Holding 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;
“Project”	has the meaning given to it under the paragraph headed “Service Contract between Maynilad and the AA-DMCI Laguna Lake Consortium” in this announcement;
“Service Contract”	the Contract Agreement entered into between Maynilad and the AA-DMCI Laguna Lake Consortium on 28 January 2020, 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, 29 January 2020

*Unless stated otherwise, translations of quoted currency values are made on an approximate basis and at the rate of US\$1.00 = Php51.00 = 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