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23 May 2025

To the Independent Board Committee and the Shareholders

First Pacific Company Limited
24th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong

Dear Sir or Madam,

POSSIBLE MAJOR TRANSACTION IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF MAYNILAD WATER SERVICES, INC. ON THE PHILIPPINE STOCK EXCHANGE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off and Listing. Details of the Proposed Spin-off and Listing are set out in the "Letter from the Board" contained in the circular of the Company dated 23 May 2025 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

As stated in the Letter from the Board, the Company submitted a proposal on the Proposed Spin-off and Listing to the Stock Exchange pursuant to PN15, and the Stock Exchange confirmed that the Company may proceed with the Proposed Spin-off and Listing under PN15. On 17 March 2025, Maynilad also submitted an application for the Philippines Share Offer and listing on the Philippine Stock Exchange to the Philippine Stock Exchange and the Philippine Securities and Exchange Commission.

香港中環永和街21號

The Proposed Spin-off and Listing is expected to be effected by way of an offering, comprising issue of new shares and/or sales of shares by existing shareholders, involving, subject to market conditions, up to 2,288,974,000 shares of Maynilad (the "**Offer Shares**"), representing up to 30.33% of the enlarged issued share capital of Maynilad immediately upon completion of the Proposed Spin-off and Listing.

The Offer Shares to be offered are expected to comprise:

		Offer Shares
(a)	initially common shares for public offering (the "**Firm Shares**") by way of primary offer	1,660,317,400
(b)	common shares (the "**Reserved Shares**") under preferential offering to be offered to the Company (the "**Preferential Offering**") for the purpose of Assured Entitlement by way of primary offer	up to 24,904,800
(c)	an over-allotment option (the "**Over-allotment Option**") of common shares (the "**Over-allotment Option Shares**") by way of primary offer	up to 249,047,600
(d)	an upsize option (the "**Upsize Option**") of common shares (the "**Upsize Option Shares**") by way of secondary offer of common shares held by MWHCI	up to 354,704,200
	Total	**2,288,974,000**

We also noted that there is a requirement under the Legislative Franchise for the Maynilad Water Business that Maynilad must offer to relevant investors at least 30% of its outstanding capital stock in any securities exchange in the Philippines by 21 January 2027 ("**Mandatory Listing Requirement**"). Please refer to the Letter from the Board for the detailed terms of the Offer Shares and the Mandatory Listing Requirement.

As at the Latest Practicable Date, the Proposed Spin-off and Listing was under review by the relevant authorities (including the Philippine Securities and Exchange Commission and the Philippine Stock Exchange). Subject to the approval of the Philippine Securities and Exchange Commission and the Philippine Stock Exchange and market conditions, it is currently expected that the offer period of the Proposed Spin-off and Listing will take place in late June or early July 2025, and the listing is expected to be completed in July 2025.

LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, Maynilad is a Philippine affiliate of the Group with its results consolidated by the Group. Maynilad is being held as to (i) 94.4% by MWHCI, which is in turn a non-wholly owned subsidiary held as to 51.3% by MPIC, and (ii) 5.3% by MPIC. Immediately following the completion of the Proposed Spin-off and Listing, assuming the Firm Shares are issued in full, the Preferential Offering are subscribed in full and the Over-allotment Option and the Upsize Option are exercised in full, Maynilad will be held as to 69.8% by the Group directly or indirectly, and will remain as a Philippine affiliate of the Group with the results of Maynilad consolidated by the Group upon completion of the Proposed Spin-off and Listing.

As one or more applicable percentage ratios (as defined under the Listing Rules) in respect of the Proposed Spin-off and Listing is expected to exceed 25% but be less than 75%, the Proposed Spin-off and Listing, if consummated, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to the reporting, announcement and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Rule 14.40 of the Listing Rules.

It is expected that after the Proposed Spin-off and Listing, certain transactions between the SpinCo Group on one hand and the Remaining Group (on the other hand) will continue to take place (the "**Transactions with SpinCo Group**"). These transactions include provision of water services by the SpinCo Group to the Remaining Group, provision of non-regulated business ("**NRB**") services by the SpinCo Group to the Remaining Group, construction of plants, facilities and buildings by the Remaining Group for the SpinCo Group, and contractual services for booster pump by the Remaining Group for the SpinCo Group. As the SpinCo will not become a "connected subsidiary" (as defined under the Listing Rules) of the Company upon completion of the Proposed Spin-off and Listing, the Transactions with SpinCo Group will not constitute connected transaction or continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Prof. Edward K.Y. Chen, *GBS, CBE, JP*, Margaret Leung Ko May Yee, *SBS, JP*, Philip Fan Yan Hok, Madeleine Lee Suh Shin and Blair Chilton Pickerell has been established to advise the Shareholders as to whether the Proposed Spin-off and Listing is (i) fair and reasonable and in the interests of the Company and its Shareholders, and (ii) how the Shareholders should vote in respect of the proposed resolution at the SGM to approve the Proposed Spin-off and Listing and the transactions contemplated thereunder, taking into account the recommendation from the Independent Financial Adviser.

INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Shareholders as to (i) whether the terms of the Proposed Spin-off and Listing are fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Shareholders should vote in respect of the resolution relating to the Proposed Spin-off and Listing to be proposed at the SGM.

We have not acted as independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Proposed Spin-off and Listing is at market level and not conditional upon successful passing of the resolution to be proposed at the SGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling Shareholder(s) or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**") and the annual report of the Company for the year ended 31 December 2024 (the "**2024 Annual Report**"); (ii) the draft of the preliminary prospectus of Maynilad in relation to the Philippines Share Offer dated 14 March 2025 ("**Draft Preliminary Prospectus**"); and (iii) other information contained or referred to in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in this circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the Latest Practicable Date. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular are accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice, we have considered the following principal factors and reasons:

1. Background and financial information of the Group

1.1. Background of the Group

The Group is a Hong Kong-based investment holding company with investments located in Asia Pacific. Its principal investments are in consumer food products, telecommunications, infrastructure and natural resources. These principal investments are held through Indofood, MPIC, PLDT, PacificLight Power and Philex.

1.2. Historical financial performance of the Group

Set out below is a table summarising certain key financial information of the Group for its financial years ended 31 December ("**FY**") 2022, 2023 and 2024 ("**FY2022**", "**FY2023**" and "**FY2024**"), as extracted from the 2023 Annual Report and the 2024 Annual Report.

Selected items of Consolidated Income Statement

US$ million	**FY2024** (audited)	**FY2023** (audited)	**FY2022** (audited)
Turnover	**10,057.2**	**10,510.7**	**10,304.9**
Cost of sales	(6,402.9)	(7,136.1)	(7,248.4)
Gross profit	**3,654.3**	**3,374.6**	**3,056.5**
Profit before taxation	2,027.1	1,819.3	1,372.9
Taxation	(423.8)	(477.9)	(323.3)
Profit for the year	**1,603.3**	**1,341.4**	**1,049.6**
– attributable to owners of the Parent	*600.3*	*501.2*	*391.6*
– non-controlling interests	*1,003.0*	*840.2*	*658.0*

Contribution and Profit Summary of Principal Investments

US$ million		Turnover			Contribution to Group profit[i]	
	FY2024	FY2023	FY2022	FY2024	FY2023	FY2022
Indofood	7,290.4	7,338.4	7,429.8	333.3	285.1	265.8
PLDT[ii]	–	–	–	148.5	143.2	133.7
MPIC	1,274.0	1,103.8	934.1	199.4	159.8	104.4
FPM Power	1,492.8	2,029.2	1,747.6	96.9	118.8	82.4
Philex[ii]	–	–	–	4.8	7.6	13.4
FP Natural Resources	–	39.3	193.4	(6.4)	(13.0)	(6.4)
Contribution from Operations[iii]	**10,057.2**	**10,510.7**	**10,304.9**	**776.5**	**701.5**	**593.3**
Head office items:						
– corporate overhead				(20.1)	(19.4)	(22.2)
– net interest expense				(76.9)	(71.4)	(54.8)
– other expenses				(7.0)	(6.9)	(7.5)
Recurring profit				**672.5**	**603.8**	**508.8**
Foreign exchange and derivative (losses)/gains, net[iv]				(40.2)	19.5	(97.5)
Non-recurring items[v]				(32.0)	(122.1)	(19.7)
Profit attributable to owners of the Parent				**600.3**	**501.2**	**391.6**

Notes:

(i) After taxation and non-controlling interests, where appropriate.

(ii) Associated companies.

(iii) Represents recurring profit contributed to the Group by its operating companies.

(iv) Foreign exchange and derivative losses/gains, net represent the net gains/losses on foreign exchange translation differences on the Group's unhedged foreign currency denominated net liabilities and the changes in the fair value of derivatives.

(v) Please refer to the 2023 Annual Report and 2024 Annual Report for details of non-recurring items.

FY2023 vs FY2022

The Group recorded 2.0% increase in turnover in FY2023 as MPIC and FPM Power respectively recorded 18.2% and 16.1% increase in turnover, driven by (i) higher volume of electricity sold; (ii) higher revenue from sales of gas; and (iii) growth in toll roads and water businesses. Such increase was offset by a 1.2% turnover decline of Indofood, which was the largest contributor to turnover, due to depreciation of Rupiah against US$; despite revenue growth in Rupiah terms. Profit for the year increased by 27.8% from US$1,049.6 million in FY2022 to US$1,341.4 million in FY2023. Profit attributable to owners of the Parent increased at a similar rate from US$391.6 million to US$501.2 million.

More specifically, gross profit increased at a higher rate of 10.4% as profit margins improved. Similarly, contribution to Group profit by various principal investments was higher by 18.2%, rising from US$593.3 million in FY2022 to US$701.5 million in FY2023. The Group's higher profitability can be explained by contribution to Group profit of Indofood which increased by 7.3% despite lower turnover, while MPIC and FPM Power recorded significant increase in contribution to Group profit of 53.1% and 44.2% respectively along with their higher turnover. Profit contribution of PLDT, an associated company, was also 7.1% higher in FY2023 compared to FY2022. These were offset by lower contribution from Philex due to lower metal output and ore grades, while losses at FP Natural Resources widened. In terms of head office items, while net interest expense rose, corporate overhead and other expenses were lower. Consequently, the Group's recurring profit rose by 18.7% from US$508.8 million FY2022 to US$603.8 million in FY2023.

Non-recurring losses for FY2023 increased substantially due to, among others (i) higher overall impairment provisions; (ii) write-down of assets at PLDT and Meralco; and (iii) PLDT's manpower rightsizing costs. The Group however recorded net foreign exchange gains in FY2023 instead of a loss as recorded in FY2022. As a result of the combination of factors above, profit attributable to owners of the parent recorded growth of approximately 28.0% in FY2023 compared with FY2022.

FY2024 vs FY2023

The Group's turnover declined by 4.3% in FY2024 due mainly to lower revenue contribution from FPM Power as stabilisation of electricity measures resulted in lower average selling prices. Turnover contribution from MPIC increased underpinned by higher billed water volume and effective water tariff of the SpinCo Group and higher traffic volume and tolls. Cost of sales decreased by a larger extent of 10.3%, resulting in gross profit improving by 8.3% in FY2024 despite lower turnover.

In terms of segments of principal investments, contribution to Group profit increased across Indofood, PLDT and MPIC. In particular, profit contribution of Indofood increased 16.9% despite lower turnover due to improvement of gross profit margin while profit contribution from MPIC rose strongly by 24.8%. This was offset by reduced contribution of FPM Power. Head office items of corporate overhead and other expenses in FY2024 remained largely at similar levels compared with FY2023 while net interest expense rose marginally by 7.7%. Consequently, recurring profit improved by 11.4% in FY2024 to US$672.5 million.

Compared to a gain in FY2023, non-cash foreign exchange loss which was mostly a result of depreciation of Rupiah against US$ was recorded in FY2024. Meanwhile the Group recorded lower non-recurring losses associated with lower impairment provision for investments and write-down of assets. As a result of the combination of factors above, profit attributable to owners of the parent recorded increase of approximately 19.8% in FY2024 compared with FY2023.

Overall, we observed that the Group had recorded continued improvements in its operating and financial performance in the last three financial years. Its financial position had also remained sound during the aforesaid period. It is also observed that the SpinCo Group, which is part of the MPIC segment of principal investments, did not constitute significant portion of the Group's overall business operations, investment and financial positions.

Selected items of Consolidated Statement of Financial Position

US$ million	**As at 31 December**		
	2024	**2023**	**2022**
	(audited)	(audited)	(audited)
Non-current assets			
Property, plant and equipment	3,634.8	3,730.3	3,758.6
Associated companies and joint ventures	5,867.3	5,283.8	5,316.2
Goodwill and other intangible assets	11,049.7	10,807.0	9,926.8
Others	1,390.1	1,478.4	1,305.7
Total non-current assets	**21,941.9**	**21,299.5**	**20,307.3**
Current assets			
Cash and cash equivalents, short-term deposits and restricted cash	3,437.8	3,161.2	2,729.1
Account receivable, other receivable and prepayments	1,302.0	1,208.3	1,189.5
Inventories	1,319.1	1,087.7	1,136.8
Others	677.1	600.8	129.1
Total current assets	**6,736.0**	**6,058.0**	**5,184.5**
Current liabilities			
Short-term borrowings	(2,548.7)	(2,195.3)	(1,824.3)
Account payable, other payables and accruals	(1,930.6)	(1,814.9)	(1,737.3)
Others	(513.7)	(582.4)	(547.0)
Total current liabilities	**(4,993.0)**	**(4,592.6)**	**(4,108.6)**
Non-current liabilities			
Long-term borrowings	(9,987.6)	(9,416.2)	(9,398.0)
Deferred tax and other liabilities, provisions and payables	(1,767.1)	(1,781.8)	(1,619.4)
Total non-current liabilities	**(11,754.7)**	**(11,198.0)**	**(11,017.4)**
Total equity	**11,930.2**	**11,566.9**	**10,365.8**

The main component of the Group's non-current assets is goodwill arising from acquisition activities and other intangible assets of concession assets relating to toll roads, water distribution and rail. The other principal items were (i) property, plant and equipment; and (ii) associated companies and joint ventures, which include PLDT and Philex. The carrying value of these items had recorded gradual increases between 31 December 2022 and 31 December 2024 reflecting the Group's continued investments.

The Group's current assets comprised principally its cash holdings in the form of short-term deposits, cash and cash equivalents as well as restricted cash which had increased from the amount on 31 December 2022 to the amount on 31 December 2024 due to cash generated from operations as well as drawdown of loans. Other current assets items had remained stable between the two dates.

The Group's current liabilities comprised mainly short-term borrowings which had increased between 31 December 2022 and 31 December 2024 as a higher proportion of the Group's borrowings were coming due within 12-month period. Long-term borrowings which formed the principal component of the Group's non-current liabilities also increased as the Group had net drawdown of loans.

As a combination of the above reasons and taking into account dividends declared between 31 December 2022 and 31 December 2024, the Group's total equity had increased from US$10,365.8 million as at 31 December 2022 to US$11,930.2 million as at 31 December 2024.

Overall, we observed that the carrying value of both its assets and liabilities as at 31 December 2022, 31 December 2023 and 31 December 2024 had been relatively steady, a testament to the Group's stable financial position.

1.3. Historical financial performance of the SpinCo Group

The SpinCo Group is principally engaged in the establishment, operation and maintenance of waterworks and sewerage systems and the provision of sanitation services in the "West Zone" of Greater Manila Area ("**West Zone**") which covers 11 cities in Metro Manila, the Philippines, and three cities and three municipalities in the Province of Cavite, the Philippines. It is a pure-play and integrated primary provider of sustainable water and wastewater services.

A concession agreement was entered into between Metropolitan Waterworks and Sewerage System ("**MWSS**") and the SpinCo in 1997 (as amended from time to time including the latest revisions dated 18 May 2021 and on 10 May 2023 ("**RCA**")) pursuant to which the SpinCo was granted the exclusive right to manage, operate, repair, decommission and refurbish all fixed and movable assets required to distribute potable water and provide sewerage services for the West Zone for a concession period until 31 July 2037. The Republic Act No. 11600 (the "**Act**") took effect on 22 January 2022, which granted the SpinCo a 25-year legislative franchise ("**Legislative Franchise**") to establish, operate and maintain, for commercial, and other purposes, water pipeline distribution systems for distribution of potable water, and for the establishment and maintenance of sewerage system and sanitation services in the West Zone up until 21 January 2047 under a certificate of public convenience and necessity, license, or permit ("**CPCN**") from the MWSS Regulatory Office or its legal successor. The RCA serves as the CPCN until a new regulatory framework for water service providers is established by law or when required by the MWSS Regulatory Office, whereupon the SpinCo shall apply for a new CPCN which shall supersede the RCA.

Set out below is a table summarising certain key financial information of the SpinCo Group for its financial years ended 31 December ("**FY**") 2022, 2023 and 2024 ("**FY2022**", "**FY2023**" and "**FY2024**"), as extracted from the Draft Preliminary Prospectus dated 14 March 2025, which was prepared in accordance with the Philippine Financial Reporting Standards.

Selected items of Consolidated Statements of Comprehensive Income

P million	**FY2024** (audited)	**FY2023** (audited)	**FY2022** (audited)
Operating revenue	**33,494.5**	**27,323.2**	**22,874.7**
Water services:			
– *West Zone*	*27,143.5*	*22,169.8*	*18,569.5*
– *Outside West Zone*	*349.2*	*255.3*	*238.9*
Wastewater services:			
– *West Zone*	*5,785.4*	*4,727.1*	*3,946.1*
Others	216.4	171.0	120.2
Costs and expenses	**(14,393.7)**	**(14,101.2)**	**(11,852.8)**
Including:			
– *Amortisation of service concession assets*	*(3,028.6)*	*(2,744.8)*	*(2,459.2)*
– *Salaries, wages and benefits*	*(2,893.4)*	*(2,525.1)*	*(2,267.1)*
– *Contracted services*	*(1,642.1)*	*(1,458.7)*	*(1,139.0)*
– *Utilities*	*(1,535.4)*	*(1,665.1)*	*(1,714.0)*
– *Taxes and licenses*	*(1,026.1)*	*(834.1)*	*(662.7)*
– *Others*	*(4,268.1)*	*(4,873.4)*	*(3,610.8)*
Income before other income (expenses)	**19,100.8**	**13,222.0**	**11,021.9**
Other expenses	(2,625.2)	(1,299.0)	(3,040.2)
Income before income tax	16,475.6	11,923.0	7,981.7
Provision for income tax	(3,694.2)	(2,911.8)	(2,106.8)
Net income	**12,781.4**	**9,011.2**	**5,874.9**

FY2023 vs FY2022

Operating revenue of the SpinCo Group increased by 19.4% in FY2023 compared to FY2022 due mainly to 19.4% and 19.8% revenue increases in water services and wastewater services for West Zone. The smaller amount of water services outside West Zone remained stable.

Cost and expenses increased at a similar rate of 19.0% although key items such as amortisation of service concession assets and salaries, wages and benefits increased at lower rates of about 11% to 12%. This was due to contracted services which were 28.1% higher as the SpinCo Group incurred higher costs for read-and-bill charges, increased disconnection and reconnection services as well as higher costs for use of water tankers as there were more water service interruptions. It also made a substantially larger provision for expected credit losses in FY2023. Consequently, income before other income (expenses) similarly increased by about 20.0%.

SpinCo Group's other expenses reduced by 57.3% as it recorded foreign currency differential adjustments (FCDA) income in FY2023 compared with FCDA losses in FY2022 and an increase in interest income. Consequently, income before income tax was 49.4% higher in FY2023 compared with FY2022. While provision for income tax was higher by 38.2% in FY2023, the rate of increase was lower. As a result, net income was 53.4% higher in FY2024 than in FY2023.

FY2024 vs FY2023

In FY2024, the SpinCo Group's operating revenue increased by 22.6%, underpinned by (i) higher operating revenue from water services in the West Zone which increased by 22.4% primarily due to implementation of the second tranche of the MWSS-approved basic rate adjustment effective 1 January 2024 and increased billed volume. Operating revenue from wastewater services in West Zone similar increased due to higher tariffs and number of commercial customers.

Cost and expenses increased by a lesser extent of 2.1% in FY2024 compared to FY2023. The higher number of service concession assets from projects completed in FY2024, relevant amortisation expenses increased by 10.3%. Salaries, wages and benefits expenses increased by 14.6% following increases in number of employees, accrued personnel-related costs and employer contributions due to higher insurance premiums. Higher costs of janitorial and security services and hauling services for sludge resulted in 12.6% increase in expenses for contracted services. Utilities costs however decreased due to a lower rate of the fuel cost recovery adjustment and lower electricity consumption. Higher other expenses were incurred in FY2024 compared to FY2023 due to higher net foreign exchange losses, an increase in foreign currency differential adjustments, and a reversal from an income to expense situation for Others-net item.

In line with an increase operating revenue while cost and expenses increased by a lesser extent, net income increased by 41.8% in FY2024 compared to FY2023.

Selected items of Consolidated Statement of Financial Position

₱ million	As at		
	31 December 2024 (audited)	**31 December 2023** (audited)	**31 December 2022** (audited)
Non-current assets			
Service concession assets	168,339.4	140,919.5	121,187.9
Others	13,071.6	12,395.9	6,100.0
Total non-current assets	**181,411.0**	**153,315.4**	**127,287.9**
Current assets			
Cash and cash equivalents	10,519.5	4,902.6	10,438.7
Trade and other receivables	2,722.9	2,418.1	2,831.4
Others	3,517.2	3,067.5	2,820.0
Total current assets	**16,759.6**	**10,388.2**	**16,090.1**
Current liabilities			
Trade and other payables	(24,157.1)	(20,567.7)	(22,116.2)
Current portion of interest-bearing loans	(4,186.1)	(2,587.7)	(3,806.3)
Current portion of service concession obligation payable to MWSS	(1,027.2)	(874.6)	(940.9)
Income tax payable	(787.9)	(530.7)	(631.4)
Total current liabilities	**(30,158.3)**	**(24,560.7)**	**(27,494.8)**
Non-current liabilities			
Interest bearing loans – net of current portion	(79,461.5)	(59,214.2)	(43,107.8)
Service concession obligation payable to MWSS – net of current portion	(6,294.5)	(6,489.0)	(6,069.2)
Others	(6,901.3)	(5,269.4)	(3,768.7)
Total non-current liabilities	**(92,657.3)**	**(70,972.6)**	**(52,945.7)**
Total equity	**75,355.0**	**68,170.3**	**62,937.5**

SpinCo Group's non-current assets principally consisted of service concession assets which consisted of the present value of total estimated concession fee payments and rehabilitation works. Between 31 December 2022 and 31 December 2024, service concession assets had increased by 38.9% due to an increase in the number of completed projects and facilities during this period in accordance with its capital expenditure plan.

Cash and cash equivalents made up most of the SpinCo Group's current assets followed by trade and other receivables. Cash and cash equivalents decreased from ₱10,438.7 million as at 31 December 2022 to ₱4,902.6 million as at 31 December 2023 due to higher capital expenditure disbursements. Such an amount increased to ₱10,519.5 million as cash was generated from operating activities and financing activities, including SpinCo's maiden 5-year blue bonds issuance of ₱9,000 million and 10-year blue bonds issuance of ₱6,000 million in July 2024 ("**Blue Bonds**"). Such an increase was partially offset by cash dividends paid, partial loan repayments and cash deployed for capital expenditure. Meanwhile, trade and other receivables, which consisted of company advances and receivables from residential customers, had generally been stable as at 31 December 2022, 31 December 2023 and 31 December 2024.

SpinCo Group's current liabilities consisted mainly of trade and other payables and, to lesser extent, current portions of (i) interest-bearing loans; and (ii) service concession obligation payable to MWSS. Trade and other payables decreased between 31 December 2022 and 31 December 2023 due to reversal of the provision for water interruptions that occurred in 2022. The amount then increased as at 31 December 2024 as there were higher accruals in construction and retention payables as well as payables arising from purchase orders for its operations. SpinCo Group made a significant repayment of short-term loans in 2023 resulting in lower balance of current portion of interest-bearing loans as at 31 December 2023. Such balance increased as at 31 December 2024 as SpinCo Group had obtained additional loans from the Metropolitan Bank and Trust Company.

Interest bearing loans – net of current portion constituted a substantial portion of SpinCo Group's non-current liabilities. In line with the growth of its service concession assets, its interest-bearing loans had increased between 31 December 2022 and 31 December 2024. Due to the combined effects of the above, total equity of SpinCo Group had increased from ₱62,937.5 million as at 31 December 2022 to ₱75,355.0 million as at 31 December 2024 which generally reflected SpinCo Group's profitability recorded between those dates and net off return to its shareholders in the form of dividends.

We observed that SpinCo Group has maintained steady growth in operating revenue and profits which is consistent with the business model of a utilities company which continues to invest in new project facilities and infrastructures. SpinCo Group has also maintained a reasonable financial position by funding its capital expenditure with a mix of debt and profits generated from operating activities.

1.4. Outlook of SpinCo Group

The SpinCo has commissioned GlobalData Plc ("**GlobalData**"), an industry consultant, to conduct independent market research on the water and wastewater industry. GlobalData is a data, insights, and analytics platform and consulting company headquartered in London, England and is listed on the London Stock Exchange's Alternative Investment Market.

GlobalData reported that the Philippines' favourable economic environment and government commitment to infrastructure development would create strong growth prospects for the water, wastewater, and solid waste sectors. Wastewater treatment coverage is projected to grow from 15.4% in 2023 to 19.9% by 2029, among the fastest rates in Southeast Asia.

According to GlobalData, total distributed water is expected to record 4.0% compound annual growth rate ("**CAGR**") from 2024 to 2029, rising from 2,970 million m^3 in 2024 to 3,613 million m^3 in 2029. The market growth is attributed to favourable government initiatives such as the Philippine Water Supply and Sanitation Master Plan launched in September 2021. Meanwhile in 2023, the Philippines collected 10,430.4 million m^3 of wastewater, of which only 15.4% underwent treatment before being discharged into the environment. This represents a large untapped market for further growth where with investments in wastewater treatment infrastructure, the proportion of treated wastewater is projected to rise to almost 20% of the total volume by 2029.

GlobalData stated that SpinCo Group is the largest concessionaire in Philippines in terms of population served where its storage capacity is expected to increase by about 22% from 779 million litres as at September 2024 to 962 million litres by 2026.

Having considered the financial performance and financial position of the Group and the SpinCo Group in their past three financial years, and the outlook of SpinCo Group's business operations, we believe SpinCo Group is at a reasonable juncture to pursue the listing, augmented by its leading position in Philippine's water utilities industry and the tenure of its concession under the RCA and the Legislative Franchise.

2. Reasons and benefits for the Proposed Spin-off and Listing

The Directors believe that the Proposed Spin-off and Listing is fair and reasonable, and in the interests of the Company and the SpinCo Group as a whole. This has been based on the following considerations: (i) ensuring continuity of the Legislative Franchise in compliance with the Mandatory Listing Requirement, (ii) enhancing transparency, (iii) allowing independent fundraising, (iv) improving management efficiency, (v) enabling distinct investment appraisals, and (vi) boosting the Group's image and investor base. For further details, see the section headed "Reasons for and benefits of the Proposed Spin-off and Listing" in the Letter from the Board.

We note that the Philippines water utilities sector has shown robust growth opportunities supported by increasing tariffs and volume demand. As discussed in the section headed "1.3 Historical financial performance of the SpinCo Group" above, SpinCo Group's operating revenues increased 22.6% year-on-year in FY2024 with net income growth of 41.8%. At the same time, SpinCo Group has continued to invest heavily through capital expenditure in developing its infrastructure projects which, alongside a substantial capital expenditure program of ₱163.3 billion (US$2.8 billion) between 2023 and 2027, involves commitments to develop additional water treatment plants and service expansions to proximate areas of the West Zone. This has been a notable increase from the SpinCo's historical capital expenditure spending in the three years between FY2020 and FY2022, being an aggregate amount of ₱31.7 billion (US$0.55 billion), which had largely limited by movement restriction brought on by the COVID-19 pandemic.

In parallel, the Proposed Spin-off and Listing is expected to further solidify SpinCo Group's strategic position by providing continuity to the Legislative Franchise governing SpinCo Group's operation in the West Zone in accordance with the Mandatory Listing Requirement. As a result, this exclusive water concession, will remain effective for a further term of approximately 22 years until 21 January 2047, and is anticipated to offer a stable income stream for the near future. Since the Group will continue to hold a significant equity stake in SpinCo Group and consolidate its financial results, it will also commercially benefit from the profits generated from the underlying business and dividend payouts.

In respect of SpinCo Group's asset-intensive capital investments and income generation capacity, the Proposed Spin-off and Listing would grant SpinCo Group flexibility to independently access equity capital markets, thereby positioning SpinCo Group more effectively to support its own long-term sustainable growth of its core business in the water utilities industry while diversifying its funding sources beyond debt financing. From the Group's perspective, SpinCo Group's enhanced equity and debt capital raising ability could potentially relieve the Remaining Group of capital contribution obligations if and when SpinCo Group has funding needs in future.

In terms of attracting potential investors, we believe that the Proposed Spin-off and Listing would broaden SpinCo's shareholder base, largely supported by two main factors. First, the Proposed Spin-off and Listing would provide the investment market and rating agencies with greater clarity on Maynilad's profile and financial status. As Maynilad's assets would be delineated from the Remaining Group's portfolio, future assessments of its assets on a stand-alone basis and directly with industry-specific performance metrics may further encourage fundraising interest due to improved transparency. Greater freedom may thereby be afforded to investors when valuing Maynilad in direct comparison to its pure-play peers in the water utilities sector. Secondly, unbundling Maynilad from the Group's diverse portfolio positions Maynilad alongside increasing global interest in the emerging markets of Asia, and, in particular, empowering investors seeking exposure to the stable, long-term growth characteristics of water utilities to invest directly in Maynilad's unique market position in the Philippines. As such, depending on the level of focused equity funding raised, this may potentially provide a lower cost of capital for Maynilad over the long term to support its core operations, benefiting also the Group.

In view of more efficient resource management within the Group, we concur with the Management's view that distinguishing Maynilad from the Remaining Group's varied portfolio is expected to permit a clearer delineation of strategies, risks, and returns associated solely with the water utilities operations. This facilitates more efficient capital allocation as well as provides an avenue for attracting investors with an interest in environmental, social, and governance (ESG) criteria, given the SpinCo's documented involvement in areas such as renewable energy integration and wastewater treatment.

In addition, Maynilad operating as an independent entity could also align Maynilad's management incentives more closely with performance metrics specific to the water concession operations. The Proposed Spin-off and Listing can therefore provide greater transparency and resource management of Maynilad, differentiating it among the Group's other entities, allowing Maynilad and the Group to pursue their own growth strategies without necessary consideration of the other.

Despite the dilution in the Group's effective equity interests in Maynilad following the Proposed Spin-off and Listing, the results of Maynilad will continue to be consolidated by the Group, allowing the Group to continue benefiting from any future advancements and growth in Maynilad's business operations. For further details, see the paragraph headed "5. Delineation of business between the Remaining Group and the SpinCo Group" below.

Having holistically considered (i) the above factors, taking into account the Board's stated rationale for the Proposed Spin-off and Listing, (ii) the financial performance and financial position of the Group and the outlook of SpinCo Group's business operations, and (iii) that the benefits of the Proposed Spin-off and Listing to the SpinCo Group will continue to accrue to the Group and its Shareholders, we are of the view that the Proposed Spin-off and Listing will provide a viable framework for supporting SpinCo Group's targeted capital investments and to implement SpinCo Group's long-term expansion without compromising the financial interests of the Company and/or the Shareholders, while also providing investors with clarity regarding the operational and financial profile of SpinCo Group's business.

3. Condition of the Proposed Spin-off and Listing

As set out in the Letter from the Board, the completion of the Proposed Spin-off and Listing will be conditional upon, among other things, the following:

(1) the approval of the Shareholders of the Proposed Spin-off and Listing at the SGM;

(2) the final decisions of the management of Maynilad on the terms and conditions of the Proposed Spin-off and Listing;

(3) the approvals of the Philippine Securities and Exchange Commission and the Philippine Stock Exchange in relation to the Proposed Spin-off and Listing; and

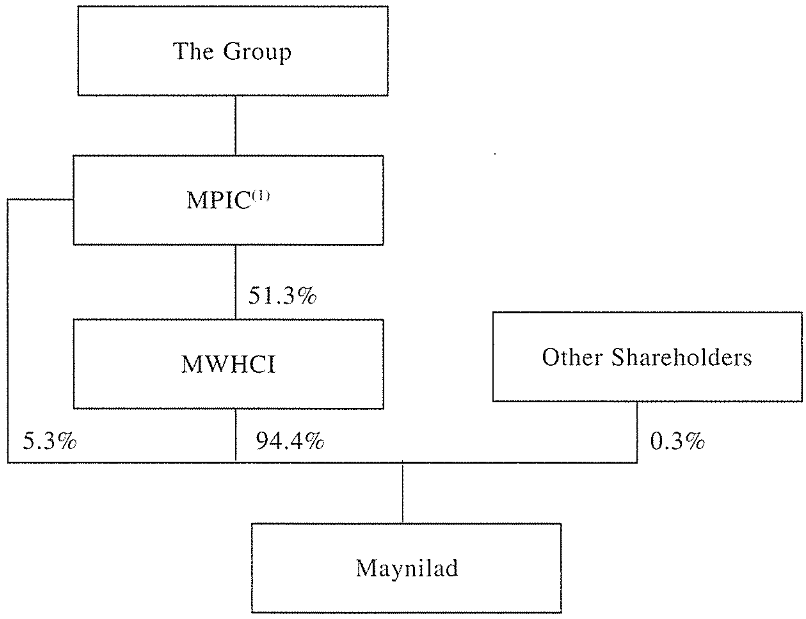
(4) the market conditions and other considerations.

Each of the aforementioned conditions is not waivable, and as of the Latest Practicable Date, none of these conditions have been fulfilled. If any of these and other applicable conditions is not fulfilled, if applicable, prior to the dates and times to be specified, the Proposed Spin-off and Listing will not proceed and an announcement will be published by the Company as soon as practicable thereafter.

4. Principal terms of the Proposed Spin-off and Listing

4.1. Structure of the Proposed Spin-off and Listing and effects on the Group's shareholding in Maynilad

As disclosed in the Letter from the Board, Maynilad is a Philippine affiliate of the Group with its results consolidated by the Group. The shareholding structure of Maynilad as at the Latest Practicable Date, which represents the expected shareholding structure of Maynilad immediately prior to the completion of the Proposed Spin-off and Listing, is set out below:

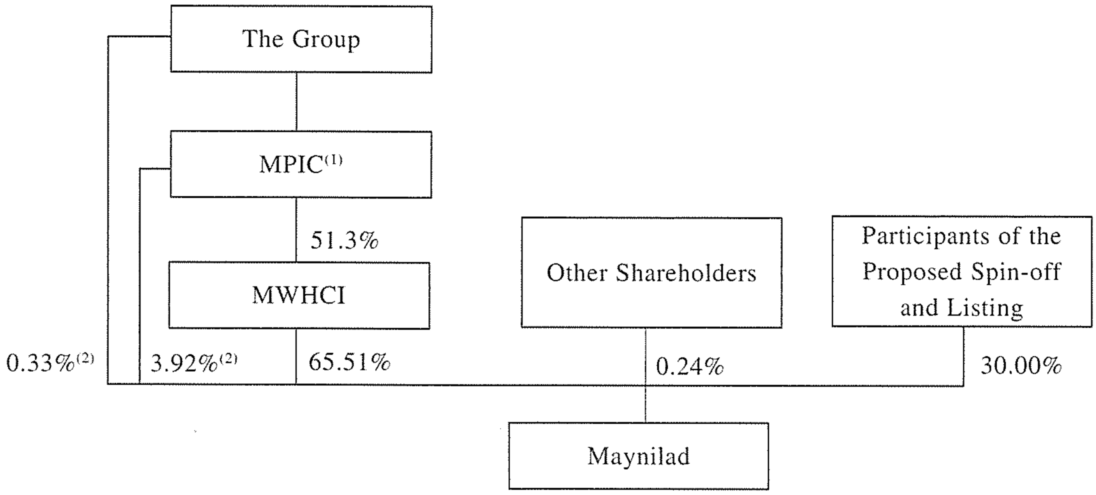


Note:

(1) MPIC is a Philippine affiliate of the Company, in respect of which the Company indirectly holds an approximate 49.9% economic interest.

Effects of the Proposed Spin-off and Listing on the shareholding structure of Maynilad

Assuming the Firm Shares are issued in full, the Preferential Offering are subscribed in full, the Over-allotment Option and the Upsize Option are exercised in full, the expected shareholding structure of Maynilad immediately after the completion of the Proposed Spin-off and Listing is set out below:



Notes:

(1) MPIC is a Philippine affiliate of the Company, in respect of which the Group indirectly holds an approximate 49.9% economic interest.

(2) Representing the common shares subscribed by the Company for the purpose of the Assured Entitlement.

Based on the above, despite the fact that the shareholding of the Group in Maynilad may be diluted to not less than 69.8% upon completion of the Proposed Spin-off and Listing, the results of Maynilad will continue to be consolidated by the Group upon completion of the Proposed Spin-off and Listing. Assuming the Upsize Option is exercised in full, the Remaining Group will also be receiving sale proceeds, which will enhance the Group's liquid financial resources.

4.2. Offer Price

According to the Letter from the Board, the maximum Offer Price and the proceeds to be raised are subject to, among other things, market conditions closer to the launch of the Proposed Spin-off and Listing. The final Offer Price and the proceeds to be raised from the Proposed Spin-off and Listing will only be determined after completion of the book-building and securing regulatory approvals.

We have had discussions with the underwriters of the Proposed Spin-off and Listing (the "**Underwriters**") who will be organising the aforesaid book-building process. The Underwriters informed us that in determining the final Offer Price, they together with SpinCo shall take into account, among others, (i) SpinCo Group's historical operating results and financial performance; (ii) SpinCo Group's business prospects; (iii) SpinCo Group's expansion plan and capital needs; and (iv) investor's views on valuation and investment appetite as indicated by the then responses to price consultation during the book-building process.

Based on our market understanding, book-building in an initial public offering ("**IPO**") is a method for determining the offer price based on investor interests. Underwriters, typically consisting of investment banks, will gather bids from institutional investors such as corporations, fund managers and family offices indicating the number of shares and price which they are willing to pay. This price discovery process enables the IPO issuer and underwriters to gauge the price which sufficient investors will pay to ensure a successful IPO, eliminating potential overpricing or undervaluing an IPO. We understand this method has been commonly adopted for pricing of Philippine IPOs, especially those of larger scale such as the Proposed Spin-off and Listing.

It is generally recognised that book-building will allow more accurate and fair valuation of the IPO based on market demand instead of a fixed price arbitrarily determined by the underwriters and the IPO issuer. Such transparency will typically attract larger investor participation and importantly, reduce the probability of under-pricing and ensure fairer allocation of shares.

In this case, we understand that during the book-building process, SpinCo and the Underwriters will first determine a price range based on various valuation metrics including, among others, price-to-earnings ratio ("**P/E Ratio(s)**") and/or enterprise value over earnings before interest, tax, depreciation and amortisation ("**EV/EBITDA Ratio(s)**") by making reference to comparable companies listed in the Philippines operating in similar public utilities industry. Additionally, SpinCo and the Underwriters may also make reference to utilities companies in other countries or listed in other stock exchanges if it is deemed appropriate. This price range will form the basis of valuation to be used for the purposes of sounding out investors during the book-building process. As stated in the Letter from the Board, it is currently expected that the Offer Price of the Proposed Spin-off and Listing will be up to ₱20 (i.e. approximately US$0.35 or HK$2.72) per share. To assess the reasonableness of the aforesaid price, we have conducted a comparable analysis as follows:

Industry comparable analysis – the implied P/E Ratio and EV/EBITDA Ratio of Maynilad

As stated in the Letter from the Board, the Offer Price will be up to ₱20 (i.e. approximately US$0.35 or HK$2.72) where the maximum Offer Price is subject to, among other things, the market conditions closer to the launch of the Proposed Spin-off and Listing. The final Offer Price will only be determined after completion of the book-building process.

To assess the Offer Price and to provide the Shareholders with a general reference regarding the valuation of Maynilad (based on the maximum Offer Price) compared with the valuation of companies listed on the Philippine Stock Exchange with similar businesses to Maynilad, we have first conducted a search, on a best effort basis, for listed companies engaging in the public water utility sector (the "**Comparable Company(ies)**") and analysed their P/E Ratio(s) and EV/EBITDA Ratio(s) which are commonly adopted valuation parameters.

We have identified one Comparable Company listed on the Philippine Stock Exchange, being Manila Water Company (stock code: MWC), based on the following criteria: (i) companies listed on the Philippine Stock Exchange; (ii) companies primarily engaged in the water utility sector in the Philippines with concession rights to distribute water utility; and (iii) companies whose revenue generated in the latest financial year was more than US$100 million.

Given the scarcity of water utility companies listed on the Philippine Stock Exchange, we expanded the above criteria (ii) to include electricity utility companies which distribute electricity utility in the Philippines. This was made considering that companies operating in both the water and electricity utility sectors (a) operate under similar regulated frameworks such as concession or franchise frameworks for distributing utilities to retail markets in the Philippines; and (b) have business models which are subject to government price controls. As such, we believe the inclusion of electricity utility companies can provide Shareholders with a broader and enhanced set of Comparable Companies to assess the fairness and reasonableness of the Offer Price. Based on the expanded criteria, we have identified two more Comparable Companies, being Aboitiz Power Corporation (stock code: AP) and Manila Electric Company (stock code: MER).

The below list is exhaustive based on the above criteria. Shareholders should note that despite the aforesaid criteria, the business and scale of operations of Maynilad are not exactly the same as those of the Comparable Companies, and we have not conducted any in-depth investigation into the business and operations of the Comparable Companies. We consider the Comparable Companies to be fair and representative samples for the purpose of P/E Ratio and EV/EBITDA Ratio analysis, and the research on the Comparable Companies provides a meaningful analysis for the Shareholders.

Stock Code	Company name	Market capitalisation *(Note 1)* *(US$)*	Net profit *(Note 2)* *(US$)*	P/E Ratio *(Note 3)* *(times)*	EV/EBITDA Ratio *(Note 4)* *(times)*
AP (Philippine Stock Exchange)	Aboitiz Power Corporation	4,594,965,294	591,626,248	7.72	6.24
MER (Philippine Stock Exchange)	Manila Electric Company	11,290,595,116	800,331,588	14.11	8.70
MWC (Philippine Stock Exchange)	Manila Water Company	1,498,245,654	183,240,326	8.18	7.97
			Maximum	14.11	8.70
			Minimum	7.72	6.24
			Average	10.00	7.64
			Median	8.18	7.97
N/A	**Maynilad**	**2,634,170,087**	**223,061,326**	**11.81** *(Note 5)*	**10.16**

Source: *the website of the Philippine Stock Exchange (https://www.pse.com.ph/) and Comparable Companies' websites*

Notes:

1. *Market capitalisation of the Comparable Companies is calculated based on the share closing price times the total number of outstanding shares as at the Latest Practicable Date. Where applicable, for illustrative purpose, P has been translated into US$ with exchange rate of US$1.0 = P57.30.*

2. *The net profit attributable to shareholders of the Comparable Companies are extracted from their respective latest published annual report prior to the Latest Practicable Date. Where applicable, for illustrative purpose, P has been translated into US$ with exchange rate of US$1.0 = P57.30.*

3. *P/E Ratios of the Comparable Companies are calculated based on their respective market capitalisation as described in note 1 above and divided by their respective net profit as described in note 2 above.*

4. *EV/EBITDA Ratios of the Comparable Companies and the implied EV/EBITDA Ratio of Maynilad are calculated based on their respective enterprise value for FY2024, derived as the sum of their market capitalization (as detailed in note 1 above and note 5 below) and net debt. Net debt is calculated based on total debt (comprising short-term and long-term debts) less cash and cash equivalents, as extracted from their latest published annual report or Draft Preliminary Prospectus before the Latest Practicable Date; and divided by their respective EBITDA for FY2024, which are calculated based on their net income before tax, and adding back net interest expense and other financing charges, depreciation and amortization (including any amortization of service concession assets), as extracted from their respective latest published annual report or Draft Preliminary Prospectus before the Latest Practicable Date.*

5. *For illustrative purpose, the implied P/E ratio of Maynilad are based on (i) the implied market capitalisation of approximately US$2,634 million, as computed by multiplying the expected maximum Offer Price of ₱20 (i.e. approximately US$0.35) by the expected maximum enlarged share capital upon completion of the Proposed Spin-off and Listing; and (ii) the net income of Maynilad for FY2024 based on financial information extracted from the Draft Preliminary Prospectus. Where applicable, for illustrative purpose, ₱ has been translated into US$ with exchange rate of US$1.0 = ₱57.30.*

As shown in the table above, the historical P/E ratios of the Comparable Companies range from approximately 7.72 times to 14.11 times respectively, with average and median of approximately 10.00 times and 8.18 times respectively. The implied P/E ratio of Maynilad is 11.81 times, which is within the range of the Comparable Companies' P/E Ratios and is higher than the average and median of the Comparable Companies' P/E Ratios.

From an EV/EBITDA Ratio perspective, the implied EV/EBITDA Ratio of Maynilad of approximately 10.16 times is higher than the range of the Comparable Companies' EV/EBITDA Ratios of approximately 6.24 times to 8.70 times.

From the perspective of industry comparable analysis based on the commonly adopted references (i.e. P/E Ratio and EV/EBITDA Ratio), it can be shown that the indicative maximum Offer Price is fair and reasonable. It is also fair and reasonable that the final Offer Price (which may be lower than the maximum Offer Price above) is to be determined based on a rigorous book building process.

Comparison analysis of P/E Ratio of Maynilad and the Company

In terms of the P/E Ratios, calculating the Company's market capitalisation by using the price of Shares traded on the Stock Exchange as at the Latest Practicable Date, and based on its net profit attributable to owners of the parent for the year ended 31 December 2024, the Company's P/E Ratio stood at approximately 5.06 times. This is significantly lower than the implied P/E ratio of Maynilad for the Proposed Spin-off and Listing of approximately 11.81 times.

In the context of efficiency of equity capital fund raising, the aforesaid higher implied valuation of Maynilad would be favourable to the Company and the Shareholders as a whole. This is because Maynilad can effectively raise the same amount of proceeds from the Proposed Spin-off and Listing by issuing less of its shares at higher valuation compared to the Company having to issue more Shares at lower valuation. From the above comparison analysis, it can be concluded that the indicative maximum Offer Price is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

4.3. Proceeds to be raised and proposed use of proceeds

As mentioned in the Letter from the Board, it is currently expected that the Offer Price will be up to ₱20 (i.e. approximately US$0.35 or HK$2.72), with the proceeds to be received from the Proposed Spin-off and Listing expected to primarily fund Maynilad's government-approved capital expenditure program for 2025 and 2026, as well as general corporate purposes. The balance of the funding requirements that would not be funded from the proceeds of the Proposed Spin-off and Listing will be sourced from internally generated cash of Maynilad, and project financing facilities with banks.

However, as further mentioned in the Letter from the Board, investors should be aware that the final Offer Price and the proceeds to be raised from the Proposed Spin-off and Listing will only be determined after the completion of the book-building and securing the regulatory approvals, subject to, among other things, the market conditions closer to the launch of the Proposed Spin-off and Listing. Therefore, the proceeds to be raised from the Proposed Spin-off and Listing cannot be ascertained at the current stage and may vary from the estimated amount above.

Notwithstanding this, we are of the view that the separate listing of Maynilad will provide immediate funds to meet Maynilad's present capital expenditure needs and to provide funding required for its ongoing business development as mentioned above, and will also enable Maynilad to independently raise equity funds to finance its future business plans. The Proposed Spin-off and Listing is also beneficial to the Group as a whole given that the Remaining Group would have more flexibility to deploy its own financial resources to fund its other core businesses and/or any other suitable investment opportunities in the future.

4.4. Assured Entitlement and Distribution in Specie

Pursuant to paragraph 3(f) of PN15, the Company must have due regard to the interests of its Shareholders by providing them with an assured entitlement to the Maynilad Shares being offered in the offering, either by way of a distribution of the Maynilad Shares in specie or by way of preferred application for the Maynilad Shares in the offering by the Shareholders. We note that such assured entitlement requirement serves to mitigate the dilution impact on the Shareholders' indirect ownership in Maynilad post-spin-off. As described below, the assured entitlement in this case would allow Shareholders to either have a direct stake in the SpinCo and/ or be compensated in cash.

As stated in the Letter from the Board, the Company will subscribe to such Maynilad Shares which constitute approximately 1.5% of the Firm Shares under the Proposed Spin-off and Listing pursuant to the Preferential Offering and then allow the Shareholders to elect to receive (i) such number of Maynilad Shares pro rata to their shareholdings in the Company in specie or (ii) a cash alternative in lieu. In addition, as detailed in the Letter from the Board, qualifying shareholders may elect to receive Maynilad shares or cash in lieu of all or part of such Maynilad Shares to which they would otherwise be entitled pursuant to a prescribed formula, while qualifying shareholders holding less than a single board lot as at the record date will receive cash in lieu of the Maynilad Shares pursuant to a prescribed formula. Shareholders should note that details of such assured entitlement have not yet been finalised.

To compare such level of assured entitlement with market precedents, we have searched the website of the Stock Exchange to identify spin-off exercises by Hong Kong listed companies (the "**Precedent Spin-offs**"), based on the following criteria: (a) the Precedent Spin-offs were announced and completed in the past 12 months immediately prior to the Announcement, ensuring the analysis reflects the most recent market conditions and precedents; (b) with offer size larger than HK$1.0 billion, considering the offer size under the Proposed Spin-off and Listing of up to approximately HK$6.2 billion; and (c) with assured entitlement by way of a distribution in specie of shares to their respective shareholders. The Precedent Spin-offs represent an exhaustive list of spin-off exercises that we were able to identify from the website of the Stock Exchange. We believe the two Precedent Spin-offs below can provide a fair and representative analysis given that the substantial scale of the Proposed Spin-off and Listing with the maximum offer size exceeding HK$6.2 billion is in itself unique under current market conditions. The table below sets out details of the Precedent Spin-offs.

Listing date	Parent company name (stock code)	Spun-off company name (stock code)	Offer size *(HK$ million) (Note 1)*	Assured entitlement as % of global/ public offering	Assured entitlement as % of the total issued shares of spun-off company as enlarged by the public offering
28 January 2025	WH Group Limited ("**WH**") (288.HK)	Smithfield Foods Inc ("**Smithfield**") (SFD.US)	4,461	4.82% *(Note 2)*	0.35% *(Note 3)*
10 May 2024	Geely Automobile Holdings Limited ("**Geely**") (175.HK)	ZEEKR Intelligent Technology Holding Limited ("**ZEEKR**") (ZK.US)	3,440	2.18% *(Note 4)*	0.18% *(Note 5)*
			Maximum	4.82%	0.35%
			Minimum	2.18%	0.18%
			Average	3.50%	0.27%
			Median	3.50%	0.27%
	The Company (142.HK)	**Maynilad**	**6,226**	**1.09%** *(Note 6)*	**0.33%** *(Note 7)*

Source: *Relevant announcement, circular and/or prospectus of the respective companies*

Notes:

1. *The offer size of Smithfield's and ZEEKR's public offerings is calculated by multiplying their respective number of offer shares by their respective offer price (including the exercise of the over-allotment option). The offer size of the Proposed Spin-off and Listing is calculated by multiplying the maximum of 2,288,974,000 Maynilad Shares to be issued by the maximum offer price of approximately HK$2.72 (i.e. P20). Where applicable, for illustrative purpose, US$ has been translated into HK$ with exchange rate of US$1.0 = HK$7.80.*

2. *Calculated by dividing (i) the size of assured entitlement of 1,379,593 shares, which is derived by dividing the total number of 12,830,219,550 shares of WH by the distribution ratio (one share of Smithfield for every 9,300 shares of WH held), as per WH's announcement dated 6 February 2025; by (ii) the total number of Smithfield's offer shares during the public offering of 28,593,894 shares (including the over-allotment option exercised) based on WH's announcements dated 28 January 2025 and 21 February 2025.*

3. *Calculated by dividing (i) the size of assured entitlement of 1,379,593 shares, which is derived by dividing the total number of 12,830,219,550 shares of WH by the distribution ratio (one share of Smithfield for every 9,300 shares of WH held), as per WH's announcement dated 6 February 2025; by (ii) the total number of Smithfield's common stock outstanding after the public offering of 393,112,711 shares (regardless of whether the over-allotment option is exercised) based on Smithfield's prospectus dated 27 January 2025.*

4. *Calculated by dividing (i) the size of assured entitlement of 4,574,264 shares, which is derived by dividing the total number of 10,063,382,383 shares of Geely by the distribution ratio (10 shares of ZEEKR for every 22,000 shares of Geely held), as per Geely's announcement dated 16 May 2024; by (ii) the total number of ZEEKR's offer shares during the public offering of 210,000,000 shares (no over-allotment option was exercised) based on Geely's announcement dated 10 May 2024.*

5. *Calculated by dividing (i) the size of assured entitlement of 4,574,264 shares, which is derived by dividing the total number of 10,063,382,383 shares of Geely by the distribution ratio (10 shares of ZEEKR for every 22,000 shares of Geely held), as per Geely's announcement dated May 16, 2024; by (ii) the total number of ZEEKR's ordinary shares outstanding after the public offering of 2,475,846,254 shares (no over-allotment option was exercised) based on ZEEKR's prospectus dated 9 May 2024.*

6. *Calculated by dividing (i) the size of assured entitlement of up to 24,904,800 shares to be offered to the Company for the purpose of Assured Entitlement; by (ii) the number of Offer Shares of up to 2,288,974,000 shares.*

7. *Calculated by dividing (i) the size of assured entitlement of up to 24,904,800 shares to be offered to the Company for the purpose of Assured Entitlement; by (ii) the enlarged issued share capital of Maynilad immediately upon completion of the Proposed Spin-off and Listing of up to 7,546,897,300 shares.*

From the above table, we note that the level of Assured Entitlement as a percentage of the offer size of approximately 1.09% under the Proposed Spin-off and Listing is expected to be lower than the level of assured entitlements offered in the two Precedent Spin-offs, being 4.82% and 2.18% respectively. This could be attributed to the offer size under the Proposed Spin-off and Listing, which accounts for 30.33% of its enlarged total issued shares after completion, being significantly higher than the offer sizes of the two Precedent Spin-offs, which represent less than 10% of their respective enlarged total issued shares post-listings. We note that the monetary value of the offer size under the Proposed Spin-off and Listing is significantly larger than those of the two Precedent Spin-offs.

Therefore, we have also considered the percentages of the respective assured entitlement over the enlarged total issued shares of those spun-off companies. We note that the level of Assured Entitlement as a percentage of the total issued shares of Maynilad enlarged by the public offering (assuming the Over-allotment Option and Upsize Option are exercised in full) of 0.33% under the Proposed Spin-off and Listing is expected to be within the range of the two Precedent Spin-offs, being 0.35% and 0.18% respectively, and is expected to be higher than the average (and median) of the two Precedent Spin-offs, being 0.27%. Based on the above, we are of the view that the Assured Entitlement and Distribution in Specie is fair and reasonable so far as the Shareholders are concerned.

Having primarily considered the following factors: (i) the final number of Maynilad Shares to be issued and final Offer Price will make reference to a robust book-building process; (ii) the implied P/E Ratio and EV/EBITDA Ratio of Maynilad are higher than the average and median of the Comparable Companies' P/E Ratios and EV/EBITDA Ratio; (iii) the implied P/E Ratio of Maynilad is higher than that of the Company; (iv) the level of Assured Entitlement under the Proposed Spin-off and Listing is expected to be higher than the average (and median) of the two Precedent Spin-offs; and (v) the background of and reasons for the Proposed Spin-off and Listing as aforementioned, we are of the view that the terms (including the pricing with reference to the price discovery process by mean of book-building) of the Proposed Spin-off and Listing are fair and reasonable so far as the Shareholders are concerned.

5. Delineation of business between the Remaining Group and the SpinCo Group

The SpinCo Group's largest business is its operation of a concession to distribute potable water through its pipeline network and provide sewerage and sanitation services to customers in the West Zone. The only other company within the Group that operates water and wastewater-related business is MWIC, a wholly-owned subsidiary of MPIC. MWIC Group primarily provides water and wastewater solutions services outside the West Zone. We observed that the Board has set out a number of factors regarding the delineation of business between the Remaining Group and the SpinCo Group, which we have provided a summary below. For further details, see the disclosure under the heading "III. Information on the Group and the SpinCo Group" in the Letter from the Board.

Services

As stated above, the SpinCo Group is mainly engaged in the operation of a concession to distribute potable water through its pipeline network to customers within the West Zone. It also provides sewerage and sanitation services to customers in the West Zone, including collecting and treating domestic wastewater and releasing the effluent. For residential customers in the West Zone not connected to the sewerage network, SpinCo offers sanitation services for septage, involving desludging septic tanks and treating the sludge. Outside the RCA and during the Relevant Period, SpinCo provided non-regulated water-related and wastewater solution services, such as supplying and installing water meters outside the West Zone, detecting water pipe leakage, and treating septage from commercial and industrial customers (of domestic wastewater quality) both in and outside the West Zone. This contributed to less than 1% of the total revenue of the SpinCo for the Relevant Period and is of negligible scale compared to the West Zone concession business.

Notably, the SpinCo Group has not provided any EPC or O&M services for wastewater treatment facilities and the management team of the SpinCo Group has no plans to do so in the near future.

On the other hand, the MWIC Group invests, develops, and operates water infrastructure projects in the Philippines and provides water and wastewater solutions services domestically and internationally. In the Philippines, MWIC Group's main focus is providing these services outside the West Zone, with a specific emphasis on EPC (engineering, procurement and construction) and O&M (operation and maintenance) services for wastewater treatment facilities to commercial and industrial customers in and outside the West Zone, whereas the SpinCo Group does not. The aforesaid EPC and O&M services provided within the West Zone by the MWIC Group are minimal in amounts and the Company intends to continue to hold such water operations after the completion of the Proposed Spin-off and Listing. During the financial years ended 31 December 2022, 2023 and 2024, the revenue derived from EPC and O&M services in the and outside the West Zone by the MWIC Group amounted to approximately US$0.2 million, US$1.4 million and US$2.3 million, each representing less than 0.1% of the Group's revenue for each respective year.

Customers

The SpinCo Group primarily serves residential, commercial, and industrial customers within the West Zone for its concession-based water distribution, sewerage, and sanitation services. Its non-regulated services ("**SpinCo NRB**") also cater to third parties outside the West Zone for water meter supply and installation, and commercial and industrial customers in and outside the West Zone for septage treatment.

The MWIC Group mainly provides water and wastewater solution services to commercial and industrial customers outside the West Zone in the Philippines. The MWIC Group also focuses on providing services to commercial and industrial customers across the Philippines, as well as developers and contractors for sewage treatment plants of high-rise buildings. During the Relevant Period, the MWIC Group has not provided services which are similar to the SpinCo Group, whether within or outside the West Zone.

Operational Independence

We observed that the Management intends for the SpinCo Group to maintain its own operational personnel, facilities, and resources. It independently manages its business processes, including potable water and wastewater solution services, customer relations, procurement, program management, asset management, finance, human resources, and other support services such as IT, data management, cybersecurity, corporate and communication, and legal and regulatory affairs, without reliance on or support from the Remaining Group. The SpinCo Group also independently adheres to all relevant industry standards and legal and regulatory requirements. While SpinCo's water distribution covers some mixed-use buildings where MWIC Group provides EPC and O&M services for wastewater treatment, these operations are independent of each other, and the awarding of EPC and O&M contracts to MWIC is unrelated to its relationship with SpinCo Group.

Management Independence

The management team of the SpinCo Group comprises 15 directors in the SpinCo Board and 16 other senior management personnel, which is separate from the Board and management of the Company to maintain independence in their day-to-day management and operations. In the Letter from the Board, the Management has set out the following points in particular:

1. While Mr. Manuel V. Pangilinan serves as a non-executive director and Chairman of the SpinCo Board, he is the only individual with an executive role in the Company.

2. Among SpinCo's directors, three are independent non-executive directors. The two executive directors of SpinCo, Mr. Ramoncito S. Fernandez (President and CEO) and Mr. Randolph T. Estrellado (COO), do not hold directorships or senior management positions in the Remaining Group, except that Mr. Fernandez is a non-executive director of certain companies in the MPIC Group.

3. The independent non-executive directors of SpinCo do not and are not expected to have any directorship or ongoing role in the Remaining Group. A vast majority of the SpinCo's senior management team (excluding directors) do not and are not expected to have any directorship or senior managerial role with members of the Remaining Group.

4. In case of a conflict of interest, the involved SpinCo director(s) will be required to abstain from voting, allowing SpinCo to make corporate decisions independently.

Financial Independence

The SpinCo Group has been able to independently access the debt capital markets without the help of the Remaining Group and will not be reliant on the Remaining Group for any financial assistance following the Proposed Spin-off and Listing. None of the loans raised by the SpinCo Group have been secured by the assets of the Remaining Group, and the SpinCo has not received any form of financial assistance from the Remaining Group. The SpinCo Group generates substantial revenue and profits sufficient for its operating expenditure independently. Funding for capital expenditure will be supplemented by debts, which can be independently raised. The SpinCo has and will continue to maintain its own set of financial statements independently from those of the Company and the Remaining Group, with its own bank accounts and financial reporting systems. All financial transactions are recorded and managed independently.

Following the above observations, there will be a clearer distinction between the principal businesses of the Remaining Group and the SpinCo Group following the Proposed Spin-off and Listing. Their respective business operations, geographical focus, and clienteles largely differ, particularly within the water and wastewater sectors. Furthermore, SpinCo Group's distinction to the Company in terms of its management, financial resources, operations, and administrative capabilities, may provide additional footing for both entities to operate autonomously and in the best interests of their respective stakeholders without material overlap.

In our opinion, having considered the above factors and the differences in the businesses carried out by the SpinCo Group and the Remaining Group, we concur with the Management's view that the Remaining Group and SpinCo Group would be delineated effectively.

6. Possible financial effects of the Proposed Spin-off and Listing

According to the Letter from the Board, after the Proposed Spin-off, the financial results of Maynilad will continue to be consolidated in the financial statements of the Group. The following is the expected financial impact of the Proposed Spin-off and Listing on the Group:

Effects on earnings

As mentioned in the Letter from the Board, in accordance with the HKFRS, any change in the combined net assets of the Group as a result of the changes in a parent's ownership interest in a consolidated entity that do not result in a loss of control, is recognised within equity.

Given that Maynilad's results will continue to be consolidated by the Group upon completion of the Proposed Spin-off and Listing, there will be no gain or loss arising from the Proposed Spin-off and Listing, reflected in the consolidated income statement of the Company.

Separately, as the proportion of the Company's equity interest in Maynilad will be diluted immediately after the completion of the Proposed Spin-off and Listing, the percentage of Maynilad's net profit included in the profit attributable to owners of the Company is expected to decrease, while the percentage allocated to non-controlling interests of the Company will likely increase.

Effects on the assets and liabilities

The Proposed Spin-off and Listing will increase the number of shares of Maynilad and raise funds. The net proceeds of the Proposed Spin-off and Listing will increase the cash recorded in the consolidated statement of financial position of the Group and increase the total assets of the Group correspondingly. Accordingly, working capital position of the Group would improve as a result of the Proposed Spin-off and Listing, providing the Group with more financial flexibility and strengthening its financial position. Moreover, if the Upsize Option is exercised by MWHCI, further proceeds will be generated for the Remaining Group. This additional capital influx will further enhance the Group's financial standing and potentially support future growth initiatives.

The Proposed Spin-off and Listing will not affect the liabilities of the Group given the net proceeds will be applied on Maynilad's capital expenditure program and for general corporate purposes as discussed in section head "4.3 Proceeds to be raised and proposed use of proceeds" above in this letter. The difference between the carrying amount of the equity interest that the Group deemed disposed of and the fair value of the net proceeds received from the Proposed Spin-off and Listing will be recorded in equity attributed to owners of the Company. Accordingly, assuming that the Offer Price is above the net asset value per share of the SpinCo, it is expected that the Proposed Spin-off and Listing will increase the net asset value of the Group.

The Group's gearing ratio was approximately 0.76 times as at 31 December 2024. Taking into account the expected net proceeds from the Proposed Spin-off and Listing, the Group's gearing ratio is expected to improve immediately after completion of the Proposed Spin-off and Listing.

In view of the abovementioned expected improvement in net assets, total assets and working capital position, gearing ratio and no material adverse effect on earnings, we are of the view that the Proposed Spin-off and Listing are beneficial to the Company and the Shareholders as a whole from a financial effects perspective.

CONCLUSION

Based on the information provided and the representations made to us, and having considered the aforementioned principal factors and reasons along with the analysis made by us in this letter which primarily includes, among others, that (a) the SpinCo Group is at a reasonable juncture to pursue the listing, given its financial performance and the tenure of its concession under the RCA and the Legislative Franchise; (b) the Proposed Spin-off and Listing would provide the SpinCo Group with flexibility to independently access equity capital markets to support its targeted capital investments; (c) the benefits of the Proposed Spin-off and Listing to the SpinCo Group will continue to accrue to the Group and its Shareholders; and (d) the terms (including the pricing with reference to the price discovery process by means of book-building) of the Proposed Spin-off and Listing are fair and reasonable so far as the Shareholders are concerned, we are of the view that the terms of the Proposed Spin-off and Listing (including the Assured Entitlement and Distribution in Specie) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Shareholders, as well as the Independent Board Committee to advise the Shareholders, to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Spin-off and Listing and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Responsible Officer

Chang Sean Pey
Responsible Officer

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Chang Sean Pey ("**Mr. Chang**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*