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## **FIRST PACIFIC COMPANY LIMITED**

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

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

**(Stock Code: 00142)**

### **ANNOUNCEMENT**

**(1) MAJOR ACQUISITION – THE ACQUISITION BY BEACON ELECTRIC ASSET HOLDINGS, INC. OF SHARES IN MANILA ELECTRIC COMPANY FROM PILIPINO TELEPHONE CORPORATION AND THE SUBSCRIPTION OF NEW SHARES IN BEACON ELECTRIC ASSET HOLDINGS, INC. BY PILIPINO TELEPHONE CORPORATION**

**(2) POSSIBLE MAJOR ACQUISITION – POSSIBLE ACQUISITION OF 74,700,000 SHARES IN MANILA ELECTRIC COMPANY BY BEACON ELECTRIC ASSET HOLDINGS, INC. IF BEACON ELECTRIC ASSET HOLDINGS, INC. WERE TO EXERCISE A CALL OPTION GRANTED TO BEACON ELECTRIC ASSET HOLDINGS, INC.**

#### **Overview**

The Company is pleased to announce that MPIC, Piltel and Beacon Electric entered into an Omnibus Agreement on 1 March 2010, pursuant to which MPIC and Piltel have agreed to restructure their current shareholdings in Meralco. It is intended that, upon completion of the transactions contemplated by the Omnibus Agreement, Beacon Electric will become a 50:50 joint venture of MPIC and Piltel.

MPIC is a Philippine listed company in which the Group has an approximately 55.6% economic interest through its Philippine affiliate, MPHI. Piltel is a Philippine listed indirect subsidiary of PLDT, a 26.5% owned associate of the Group. Beacon Electric is a wholly beneficially owned special purpose vehicle of MPIC set up with the sole purpose of holding shares in Meralco.

Under the Omnibus Agreement, MPIC and Piltel will consolidate approximately 163.6 million common shares of Meralco (representing an approximately 14.5% interest in Meralco) and 154.2 million common shares of Meralco (representing an approximately 13.7% interest in Meralco), respectively, under Beacon Electric; thus giving Beacon Electric an approximately 28.2% interest in Meralco and making it the single largest shareholder of Meralco.

The Company is also pleased to announce that the Call Option referred to in the Company's 10 November 2009 announcement, to be granted by FPHC to MPIC and conferring the right to purchase common shares of Meralco representing approximately 6.6% of Meralco, was granted to Beacon Electric on 1 March 2010.

### **The Omnibus Agreement**

The Omnibus Agreement contemplates the following principal transactions:

- (1) the sale by MPIC to Beacon Electric of 163,602,961 common shares of Meralco, representing approximately 14.5% of the issued share capital of Meralco, for a total consideration of PhP24,540,444,150 (equivalent to approximately US\$531.2 million and approximately HK\$4,143.2 million), which is equal to PhP150 (equivalent to approximately US\$3.25 and approximately HK\$25.3) per common share of Meralco;
- (2) **MPIC-Beacon Electric Subscription** – the subscription by MPIC of an additional 1,156,500,000 common shares of Beacon Electric at the subscription price of PhP20 (equivalent to approximately US\$0.43 and approximately HK\$3.38) per common share and 801,044,415 preferred shares of Beacon Electric at the subscription price of PhP10 (equivalent to approximately US\$0.22 and approximately HK\$1.69) per preferred share of Beacon Electric, which results in an aggregate subscription consideration of PhP31,140,444,150 (equivalent to approximately US\$674.0 million and approximately HK\$5,257.5 million);
- (3) **Meralco Share Acquisition from Piltel** – the purchase by Beacon Electric from Piltel of 154,200,000 common shares of Meralco, representing approximately 13.7% of the issued share capital of Meralco for a total consideration of PhP23,130,000,000 (equivalent to approximately US\$500.6 million and approximately HK\$3,905.1 million), which is equal to PhP150 (equivalent to approximately US\$3.25 and approximately HK\$25.3) per common share of Meralco;
- (4) **Piltel-Beacon Electric Subscription** – the subscription by Piltel of 1,156,500,000 common shares of Beacon Electric at the subscription price of PhP20 (equivalent to approximately US\$0.43 and approximately HK\$3.38) per common share of Beacon Electric, which results in an aggregate subscription consideration of PhP23,130,000,000 (equivalent to approximately US\$500.6 million and approximately HK\$3,905.1 million);

- (5) **MPIC-Piltel Beacon Electric Share Sale** – the sale by MPIC to Piltel (upon completion of the transactions referred to in (1) to (4) above) of 12,500 common shares of Beacon Electric for a consideration per common share equal to their par value of PhP1.00 (equivalent to approximately US\$0.02 and approximately HK\$0.17) per common share of Beacon Electric; and
- (6) the assignment by MPIC to Beacon Electric of a right to be granted a call option in respect of 74,700,000 common shares of Meralco (representing approximately 6.6% of the issued share capital of Meralco) owned by FPHC.

Items (1) and (2) relating to MPIC's injection of Meralco shares in Beacon Electric and subscription of new shares in Beacon Electric are part of an internal reorganisation of the Group's holdings of interests in Meralco.

Items (3), (4) and (5) above are collectively referred to hereinafter as the "Piltel Investment".

#### **The Piltel Investment**

The Piltel Investment consists of the purchase by Beacon Electric of common shares of Meralco from Piltel (described in (3) above) and the acquisition of a 50% interest in Beacon Electric by Piltel pursuant to a subscription for new shares and purchase of existing shares of Beacon Electric (described in (4) and (5) above). The Piltel Investment is likely to be completed some time in May 2010.

The acquisition of shares in Meralco from Piltel by Beacon Electric is an acquisition by the Group of further interests in Meralco under the Listing Rules. The acquisition of a 50% interest in Beacon Electric by Piltel pursuant to a subscription for new shares and purchase of existing shares of Beacon Electric constitute a disposal of part of the Group's interest in Beacon Electric. Pursuant to Rule 14.24 of the Listing Rules, in the case of a transaction involving both acquisition and disposal elements, the transaction should be classified by reference to the larger of the acquisition or the disposal.

One or more of the percentage ratios applicable to each of the disposal element of the transaction and the acquisition element of the transaction exceeds 25% but each of the percentage ratios applicable to each of the disposal and the acquisition is less than 75% or 100%, respectively. Accordingly, each of the disposal element and the acquisition element of the Piltel Investment constitutes a major transaction for the Company under the Listing Rules. Therefore, the Piltel Investment is subject to the approval of the Company's shareholders. The acquisition element of the Piltel Investment (when aggregated with the Group's previous acquisitions of interests in Meralco) is the larger of the two elements of the Piltel Investment, which is, therefore, classified as a major acquisition under the Listing Rules.

The Company does not expect to record any gain or loss in respect of the Piltel Investment.

Following completion of the Piltel Investment, Beacon Electric would cease to be a subsidiary of MPIC and would become a 50:50 joint venture between MPIC and Piltel. The Group currently has an approximately 14.5% effective interest in Meralco and would have an approximately 14.1% effective interest in Meralco through Beacon Electric upon completion of the Piltel Investment (but without taking into account the possible exercise of the Call Option, described below).

### **Proposed governance arrangements of Beacon Electric as a joint venture and shareholders' rights under the Omnibus Agreement**

The Omnibus Agreement provides for certain governance arrangements in respect of Beacon Electric as a joint venture between MPIC and Piltel and certain shareholders' rights, if the Piltel Investment is completed. The governance arrangements and shareholders' rights are made subject to the Company's shareholders' approval having been obtained. The principal terms of those arrangements are summarised below in this announcement.

### **Call Option and Option Agreement**

Reference is made to the announcement of the Company dated 10 November 2009, relating to the agreement by FPHC to grant to MPIC the right to acquire the Call Option. The Call Option is an option to purchase from FPHC shares in Meralco representing an approximately 6.6% interest in Meralco. To the best of the directors' knowledge, information and belief, having made all reasonable enquiries, FPHC and its respective ultimate beneficial owner(s) are third parties independent of the Company and its connected persons. FPHC's major business segments are in power generation, roads and tollways operations, construction and sale of merchandise, and real estate in the Philippines. The agreement by FPHC to grant to MPIC the right to acquire the Call Option was announced as a discloseable transaction for the Company.

Reference is also made to the Company's announcement dated 29 January 2010 pursuant to which it was announced that the date of the grant of the Call Option by FPHC to MPIC had been extended to 28 February 2010. Given that the deadline for the grant of the Call Option, being 28 February 2010, was a Sunday it has been agreed between the parties that the deadline for the grant of the Call Option is deemed to be the business day immediately following 28 February 2010, i.e., 1 March 2010.

Under the Omnibus Agreement, MPIC has agreed to assign its right to be granted the Call Option, to Beacon Electric. Accordingly, on 1 March 2010, FPHC and Beacon Electric entered into an Option Agreement, the principal terms which are summarised below in this announcement. The exercise period of the Call Option commences on 15 March 2010 and ends on 15 May 2010 and the exercise price is PhP300 (equivalent to approximately US\$6.49 and approximately HK\$50.65) per share of Meralco purchased under the Call Option.

No decision has been made at this time as to whether or not the Call Option will be exercised and any such decision is a matter for the respective boards of directors of MPIC and Beacon Electric to deliberate. Shareholders should note, however, that the exercise period of the Call Option is relatively short and expires on 15 May 2010. If the Call Option is exercised before the Piltel Investment is completed, the exercise of the Call Option would constitute a further acquisition of shares in Meralco by a wholly beneficially owned subsidiary of MPIC and, on that basis, would be classified as a major transaction (acquisition) for the Company under the Listing Rules. That is on the basis that one or more of the applicable percentage ratios (on an aggregated basis) would exceed 25% but all of the applicable percentage ratios would be less than 100%.

In order to allow the respective boards of directors of MPIC and Beacon Electric to have the flexibility to exercise the Call Option, should they decide to do so, the Company proposes to ask its shareholders to approve a possible future exercise of the Call Option as a major transaction for the Company under the Listing Rules. However, shareholders and other investors should note that no decision has been taken as to whether or not the Call Option will be exercised and there is no assurance that the Option Shares will be acquired.

The Group currently has an approximately 14.5% effective interest in Meralco and would have an approximately 17.4% effective interest in Meralco if the Call Option is exercised (in respect of which no decision has yet been made) and if the Piltel Investment is completed.

If the Call Option is exercised and if the Piltel Investment and the transfer of MPIC Meralco Shares to Beacon Electric are all completed, Beacon Electric would hold approximately 34.8% of the issued common share capital of Meralco.

If the Call Option were to be exercised, the exercise price would be partly funded by a fixed term bank loan of 10 years in the amount of PhP18 billion (equivalent to approximately US\$389.6 million and approximately HK\$3,039.0 million) to be provided to Beacon Electric by a syndicate of banks pursuant to a term sheet entered into between Beacon Electric and the bank syndicate. The bank loan would be without recourse to the shareholders of Beacon Electric. The facility, which would be secured by a certain number of Meralco shares to be acquired by Beacon Electric, would be divided into a fixed rate tranche of PhP11.8 billion (equivalent to approximately US\$255.4 million and approximately HK\$1,992.2 million) and a floating rate tranche of up to PhP6.2 billion (equivalent to approximately US\$134.2 million and approximately HK\$1,046.8 million). The term sheet is expressed to be subject to contract and subject to certain internal approvals having been obtained.

### **Possible subscription by MPHI for Convertible Bonds of MPIC**

If the Call Option were to be exercised, it is contemplated that the remainder of the funding required to pay the exercise price would be financed from the proceeds of a possible subscription by MPIC for preferred shares of Beacon Electric. In order to enable MPIC to provide that financing to Beacon Electric, if the Call Option is exercised, MPHI and MPIC entered into a binding CB Term Sheet on 1 March 2010, pursuant to which MPIC can (by a “drawdown notice” given by MPIC to MPHI at any time during the Call Option exercise period) require MPHI to subscribe an aggregate amount of up to PhP6.6 billion (equivalent to approximately US\$142.9 million and approximately HK\$1,114.3 million) of Convertible Bonds to be issued by MPIC, the principal terms of which are summarised below in this announcement. MPHI is a Philippine affiliate of the Group.

If the possible subscription for Convertible Bonds of MPIC proceeds, the exercise of the Convertible Bonds would constitute a transaction for the Company under the Listing Rules. The Company would comply with all applicable Listing Rules requirements, as and when required, in connection with any future exercise of the Convertible Bonds.

### **Shareholders’ circular**

A circular containing, among other things, further details of the Piltel Investment, the Option Agreement and the Call Option, an accountants’ report and financial information on Meralco as required by the Listing Rules and financial information on the Group will be despatched to the Company’s shareholders as soon as practicable.

### **Reasons for the Piltel Investment**

The effect of the Piltel Investment is to consolidate MPIC’s and Piltel’s shareholdings in Meralco into Beacon Electric with a view to making Beacon Electric the single largest shareholder of Meralco and to allow Beacon Electric to access bank loan financing for additional purchase of Meralco Shares.

### **Reasons for seeking shareholders’ approval for a possible exercise of the Call Option and, if applicable, the reasons for subscribing for the Convertible Bonds**

By seeking First Pacific shareholders’ advance approval of a possible exercise of the Call Option, the Company intends to give the respective boards of directors of Beacon Electric and MPIC the ability (if they decide to do so) to exercise the Call Option during the Call Option Exercise Period and to complete the Call Option in accordance with the terms of the Option Agreement; which would not otherwise be possible if the approval of First Pacific’s shareholders was only sought after an exercise of the Call Option. The Convertible Bonds will only be subscribed by MPHI if Beacon Electric and MPIC make a decision to exercise the Call Option. However, in that event, the directors of the Company consider that the proposed terms of the Convertible Bonds are reasonable terms upon which to provide further financing to MPIC.

### **Views of the Directors**

The directors of the Company believe that the transactions contemplated under the Omnibus Agreement, the Piltel SPA, the Piltel Subscription Agreement, the Call Option and the Option Agreement are (or, in the case of those transactions which are only possible transactions, would if implemented in accordance with the terms summarised in this announcement be) on normal commercial terms and have been (or, in the case of those transactions which are only possible transactions, would if implemented in accordance with the terms summarised in this announcement be) entered into following arm's length negotiations between the parties. The directors of the Company also believe that the terms of those transactions (or possible transactions) are (or, in the case of the possible transactions, would if implemented in accordance with the terms summarised in this announcement be) fair and reasonable and in the interests of the Company's shareholders as a whole.

### **Introduction**

First Pacific Company Limited (the "Company" or "First Pacific") is pleased to announce that on 1 March 2010, Metro Pacific Investments Corporation ("MPIC"), Rightlight Holdings, Inc. (to be renamed Beacon Electric Asset Holdings, Inc.) ("Beacon Electric") and Pilipino Telephone Corporation ("Piltel") entered into an agreement (the "Omnibus Agreement"), in relation to the reorganisation of the current shareholdings of MPIC and Piltel in the Manila Electric Company ("Meralco") with a view to consolidating their Meralco shareholdings in a new holding company, Beacon Electric.

As at the date of this announcement, all of the issued shares of Beacon Electric, being 25,000 common shares, are beneficially owned by MPIC. It is intended that upon completion of the transactions contemplated by the Omnibus Agreement, Beacon Electric will become a 50:50 joint venture of MPIC and Piltel and will be the single largest shareholder in Meralco, holding an approximately 28.2% interest in Meralco.

MPIC is a Philippine listed company in which the First Pacific group ("Group") has an approximately 55.6% economic interest through its Philippine affiliate, Metro Pacific Holdings, Inc. ("MPHI"). Piltel is a Philippine listed indirect subsidiary of Philippine Long Distance Telephone Company ("PLDT"), a 26.5% owned associate of the Group.

### **The Omnibus Agreement**

The Omnibus Agreement contemplates the following principal transactions:

- (1) the sale by MPIC to Beacon Electric of 163,602,961 common shares of Meralco ("MPIC Meralco Shares"), representing approximately 14.5% of the issued share capital of Meralco, for a total consideration of PhP24,540,444,150 (equivalent to approximately US\$531.2 million and approximately HK\$4,143.2 million), which is equal to PhP150 (equivalent to approximately US\$3.25 and approximately HK\$25.3) per common share of Meralco;

- (2) the subscription by MPIC of an additional 1,156,500,000 common shares of Beacon Electric at the subscription price of PhP20 (equivalent to approximately US\$0.43 and approximately HK\$3.38) per common share and 801,044,415 preferred shares of Beacon Electric at the subscription price of PhP10 (equivalent to approximately US\$0.22 and approximately HK\$1.69) per preferred share of Beacon Electric, which results in an aggregate subscription consideration of PhP31,140,444,150 (equivalent to approximately US\$674.0 million and approximately HK\$5,257.5 million) (the “MPIC-Beacon Electric Subscription”);
- (3) the purchase by Beacon Electric from Piltel of 154,200,000 common shares of Meralco (“Piltel Meralco Shares”), representing approximately 13.7% of the issued share capital of Meralco for a total consideration of PhP23,130,000,000 (equivalent to approximately US\$500.6 million and approximately HK\$3,905.1 million), which is equal to PhP150 (equivalent to approximately US\$3.25 and approximately HK\$25.3) per common share of Meralco (“Meralco Share Acquisition from Piltel”);
- (4) the subscription by Piltel of 1,156,500,000 common shares of Beacon Electric at the subscription price of PhP20 (equivalent to approximately US\$0.43 and approximately HK\$3.38) per common share of Beacon Electric, which results in an aggregate subscription consideration of PhP23,130,000,000 (equivalent to approximately US\$500.6 million and approximately HK\$3,905.1 million) (the “Piltel-Beacon Electric Subscription”);
- (5) the sale by MPIC to Piltel (upon completion of transactions referred to in (1) to (4) above) of 12,500 common shares of Beacon Electric for a consideration per common share equal to their par value of PhP1.00 (equivalent to approximately US\$0.02 and approximately HK\$0.17) per common share of Beacon Electric, resulting in Beacon Electric becoming a 50:50 joint venture of MPIC and Piltel (the “MPIC-Piltel Beacon Electric Share Sale”); and
- (6) the assignment by MPIC to Beacon Electric of a right to be granted a call option (the “Call Option”) in respect of 74,700,000 common shares of Meralco (representing approximately 6.6% of the issued common share capital of Meralco) owned by First Philippine Holdings Corporation (“FPHC”).

Items (1) and (2) relating to MPIC’s injection of Meralco shares in Beacon Electric and subscription of new shares in Beacon Electric are part of an internal reorganisation of the Group’s holdings of interests in Meralco.

Items (3), (4) and (5) above are collectively referred to hereinafter as the “Piltel Investment”.



## **The Piltel Investment**

The Piltel Investment consists of the Meralco Share Acquisition from Piltel, the Piltel-Beacon Electric Subscription and the MPIC-Piltel Beacon Electric Share Sale and is likely to be completed some time in May 2010.

### *A. The Meralco Share Acquisition from Piltel*

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the Meralco Share Acquisition from Piltel is an acquisition by the Group of further interests in Meralco. The Meralco Share Acquisition from Piltel is further documented in a sale and purchase agreement entered into between Piltel and Beacon Electric (the “Piltel SPA”) on 1 March 2010. Completion of the Meralco Share Acquisition from Piltel is subject to the following conditions:

- (a) approval of the board of directors of Piltel, the board of directors of MPIC and the board of directors of the Company;
- (b) approval of the shareholders of the Company; and
- (c) approval of the shareholders of Piltel.

The consideration for the Meralco Share Acquisition from Piltel was determined based on the price at which MPIC contributed Meralco shares to Beacon Electric (i.e. MPIC’s average investment cost in Meralco) and represents a 17.6% discount to the share price of Meralco as at 1 March 2010, being PhP182 (equivalent to approximately US\$3.94 and approximately HK\$30.73) per Meralco share.

The rights, title and interest that will be transferred to Beacon Electric by Piltel pursuant to the Piltel Investment shall include (i) all shares issued by Meralco by way of stock dividends on the Piltel Meralco Shares from 1 March 2010; (ii) all property or cash dividends declared or paid on the Piltel Meralco Shares from 1 March 2010, except for the Property Dividend (as defined below under the heading “***Call Option and Option Agreement***” in this announcement) in respect of the Piltel Meralco Shares; (iii) all other rights accruing on the Piltel Meralco Shares from 1 March 2010; and (iv) the proceeds of the foregoing. Piltel may, at some future time and under such terms and conditions as may be agreed between Piltel and Beacon Electric, transfer to Beacon Electric its remaining 68,800,000 Meralco common shares.

The same rights, title and interest in respect of the MPIC Meralco Shares will be transferred to Beacon Electric. For the avoidance of doubt, the rights, title and interest in respect of the MPIC Meralco Shares will also exclude the Property Dividend (as defined below under the heading “***Call Option and Option Agreement***” in this announcement) in respect of the MPIC Meralco Shares.

*B. The Piltel-Beacon Electric Subscription and the MPIC-Piltel Beacon Electric Share Sale*

The Piltel-Beacon Electric Subscription and the MPIC-Piltel Beacon Electric Share Sale are disposals of part of the Group's interest in Beacon Electric, on completion of which Beacon Electric would become a 50:50 joint venture of MPIC and Piltel.

The Piltel-Beacon Electric Subscription is further documented in a subscription agreement entered into between Piltel and Beacon Electric (the "Piltel Subscription Agreement") on 1 March 2010. The Piltel-Beacon Electric Subscription and the MPIC-Piltel Beacon Electric Share Sale are subject to the following conditions:

- (a) approval of the board of directors of Piltel, the board of directors of MPIC and the board of directors of the Company;
- (b) approval of the shareholders of the Company; and
- (c) approval of the shareholders of Piltel.

The consideration for the Piltel-Beacon Electric Subscription was determined based on the pricing of the MPIC-Beacon Electric Subscription.

The consideration for the MPIC-Piltel Beacon Electric Share Sale was determined based on the original investment cost of MPIC in Beacon Electric, i.e. the par value (PhP1.00 (equivalent to approximately US\$0.02 and approximately HK\$0.17) of the initial 25,000 common shares of Beacon Electric held by MPIC) and is intended to ensure that, upon completion of the Piltel Investment, MPIC and Piltel will each hold 50% of Beacon Electric's common share capital.

*C. Listing Rules Implications of the Piltel Investment*

The Meralco Share Acquisition from Piltel is an acquisition by the Group of further interests in Meralco under the Listing Rules. The Piltel-Beacon Electric Subscription and the MPIC-Piltel Beacon Electric Share Sale are disposals of part of the Group's interest in Beacon Electric. Pursuant to Rule 14.24 of the Listing Rules, in the case of a transaction involving both acquisition and disposal elements, the transaction should be classified by reference to the larger of the acquisition or the disposal.

One or more of the percentage ratios applicable to each of the disposal element of the transaction and the acquisition element of the transaction exceeds 25% but each of the percentage ratios applicable to each of the disposal and the acquisition is less than 75% or 100%, respectively. Accordingly, each of the disposal element and the acquisition element of the Piltel Investment constitutes a major transaction for the Company under the Listing Rules. Therefore, the Piltel Investment is subject to the approval of the Company's shareholders. The acquisition element (when aggregated with the Group's previous acquisitions of interest in Meralco) is the

larger of the two elements of the Piltel Investment, which is, therefore, classified as a major acquisition under the Listing Rules.

The Company does not expect to record any gain or loss in respect of the Piltel Investment.

Following completion of the Piltel Investment, Beacon Electric would cease to be a subsidiary of MPIC and would become a 50:50 joint venture between MPIC and Piltel. The Group currently has an approximately 14.5% effective interest in Meralco and would have an approximately 14.1% effective interest in Meralco through Beacon Electric upon completion of the Piltel Investment (but without taking into account the possible exercise of the Call Option, described below).

### **Proposed governance arrangements of Beacon Electric as a joint venture and shareholders' rights under the Omnibus Agreement**

The Omnibus Agreement also provides for certain governance arrangements in respect of Beacon Electric as a joint venture between MPIC and Piltel and certain shareholders' rights, if the Piltel Investment is completed. The governance arrangements and shareholders' rights are made subject to the Company's shareholders' approval having been obtained. The principal terms of those arrangements are summarised below:

#### *Board composition*

The board of directors of Beacon Electric shall comprise five (5) directors, two of whom shall be nominated by MPIC (for so long as MPIC holds 50% of the outstanding common shares of Beacon Electric) and two of whom shall be nominated by Piltel (for so long as Piltel holds 50% of the outstanding common shares of Beacon Electric). The remaining director shall be nominated by the shareholders of Beacon Electric, provided that both MPIC and Piltel shall agree to nominate and vote in favour of the election of Mr. Manuel V. Pangilinan as the fifth (5<sup>th</sup>) director of Beacon Electric for as long as Mr. Manuel V. Pangilinan is the Chairman of MPIC and Piltel.

#### *Quorum and Voting*

A majority in number of the directors of Beacon Electric shall constitute a quorum for meetings of the board, provided that such quorum shall include one nominee of MPIC and one nominee of Piltel.

Matters presented to the board of directors of Beacon Electric shall be approved upon receiving affirmative majority votes of the total number of directors specified by the articles of association of Beacon Electric, provided that the following matters, amongst others, shall require an affirmative vote of a nominee director of each of MPIC and Piltel:

- (i) disposition or encumbrance of all or substantially all of the shares in Meralco owned by Beacon Electric or the acquisition of additional Meralco shares which requires funding support from shareholders of Beacon Electric;

- (ii) any material change in Beacon Electric's business or ceasing to carry on Beacon Electric's business or any substantial part thereof;
- (iii) any merger or consolidation of Beacon Electric, or the reconstruction or amalgamation of Beacon Electric or any of its business;
- (iv) promoting or approving a resolution that a vote of the director of Meralco nominated by Beacon Electric to be taken at any meeting of the board of directors of Meralco for the approval of (a) any material change in the business of Meralco or any substantial part thereof or (b) any merger or consolidation of Meralco with or into any other company or entity or the reconstruction or amalgamation of Meralco or any of its business, (c) the winding up of Meralco and (d) certain creditors related matters;
- (v) promoting or taking any steps to effect the winding up of Beacon Electric or passing a resolution to liquidate Beacon Electric;
- (vi) applying to any court, administrative agency or tribunal to order a meeting of creditors or any class of creditors or members or any class of members or to sanction any compromise or arrangement between creditors or shareholders of Beacon Electric;
- (vii) acquisition of capital stock, equity interest, obligation or other security, or capital contribution or other investment in any corporation or person, whether as guarantor, surety or otherwise, or acquisition of all or substantially all of the assets of (i) such corporation or person or (ii) a business engaged in by such person, in each case whether directly or indirectly, involving an amount, or requiring funding commitment from Beacon Electric in an amount, exceeding US\$50,000,000 (equivalent to approximately HK\$390 million);
- (viii) any direct or indirect investment in or financial support to any subsidiary or affiliate in excess of US\$10,000,000 (equivalent to approximately HK\$78 million);
- (ix) capital expenditure (whether in a single transaction or a series of related transactions) exceeding US\$50,000,000 (equivalent to approximately HK\$390 million);
- (x) creation of an executive committee or other committees and delegation of any power of the board of directors of Beacon Electric to an executive committee;
- (xi) amendment of articles of incorporation;
- (xii) increase or decrease of capital stock;
- (xiii) adoption and amendment of bye-laws;

- (xiv) sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of Beacon Electric's assets or property;
- (xv) incurring, creating or increasing bonded indebtedness;
- (xvi) merger or consolidation of Beacon Electric with another corporation or corporations;
- (xvii) investment of corporate funds in any other corporation or business or for a purpose other than the primary purpose for which Beacon Electric was organised;
- (xviii) dissolving Beacon Electric; and
- (xix) declaration or issuance of stock dividends.

#### *Shareholder Approval*

Save for certain reserved matters which would require the affirmative votes of at least 2/3 of the outstanding capital stock of Beacon Electric, all corporate acts submitted for shareholders' approval must be approved by way of a majority of the outstanding capital stock of Beacon Electric, provided such majority shall always include at least one (1) common share of Beacon Electric held by MPIC and one (1) common share of Beacon Electric held by Piltel.

#### *Dividends and Distributions*

All unrestricted retained earnings of Beacon Electric shall be promptly distributed as dividends subject to any applicable dividend restrictions imposed by Beacon Electric's bank creditors. The board of directors of Beacon Electric shall (a) declare dividends on the preferred shares of Beacon Electric from the unrestricted retained earnings within three (3) months following the completion of its audited accounts, and (b) upon the motion of any nominee director of the holders of the common shares, declare as dividends in favour of the holders of the common shares the remaining unrestricted retained earnings of Beacon Electric (after payment of the dividends payable in respect of the preferred shares of Beacon Electric).

#### *Deadlock*

There are deadlock provisions in the event that the parties reach an impasse in respect of material decisions affecting the structure, management or conduct of the business of Beacon Electric in respect of certain matters set out in the articles of Beacon Electric which by its continuance for an unbroken period of six calendar months prevents Beacon Electric from operating profitably. In such event, a termination notice may be given which provides for the parties to meet to discuss appropriate solutions to the impasse, including the sale of shares by one party. The obligation of a party to acquire all or a part of the shares of the other party shall be subject to compliance with applicable

laws and regulations and obtaining any necessary regulatory approvals and consents, including any approvals and consents required under the rules of any relevant stock exchange.

#### *Preferred share rights*

The preferred shares of Beacon Electric are non-voting, redeemable by Beacon Electric and have no pre-emptive rights to any share or convertible debt securities or warrants issued by Beacon Electric. The preference shareholder is entitled to dividends and liquidation preference.

#### *Other terms of the Omnibus Agreement*

The Omnibus Agreement sets out customary provisions in respect of rights of first refusal in relation to transfer of shares in Beacon Electric as well as tag-along rights in the event of a transfer of shares in Beacon Electric by a shareholder to any third party.

#### **Call Option and Option Agreement**

Reference is made to the announcement of the Company dated 10 November 2009, relating to the agreement by FPHC to grant to MPIC the right to acquire the Call Option. The Call Option is an option to purchase from FPHC 74,700,000 common shares of Meralco (the “Option Shares”), representing approximately 6.6% of Meralco’s issued common share capital. The agreement by FPHC to grant to MPIC the right to acquire the Call Option was announced as a discloseable transaction of the Company.

Reference is also made to the Company’s announcement dated 29 January 2010 pursuant to which it was announced that the date of the grant of the Call Option by FPHC to MPIC had been extended to 28 February 2010. Given that the deadline for the grant of the Call Option, being 28 February 2010, was a Sunday it has been agreed between the parties that the deadline for the grant of the Call Option is deemed to be the business day immediately following 28 February 2010, i.e. 1 March 2010.

To the best of the directors’ knowledge, information and belief, having made all reasonable enquiries, FPHC and its respective ultimate beneficial owner(s) are third parties independent of the Company and its connected persons. FPHC’s major business segments are in power generation, roads and tollways operations, construction and sale of merchandise, and real estate in the Philippines.

Under the Omnibus Agreement, MPIC has agreed to assign its right to be granted the Call Option, to Beacon Electric. Accordingly, on 1 March 2010, FPHC and Beacon Electric entered into an option agreement (“Option Agreement”), the principal terms which are summarised below:

Parties: FPHC as grantor of the Call Option and Beacon Electric as grantee.

Option Shares: 74,700,000 shares of common stock of Meralco, listed on the Philippine Stock Exchange, Inc (the “PSE”), representing approximately 6.6% of the issued share capital of Meralco.

Exercise Price: Php300 (equivalent to approximately US\$6.49 or approximately HK\$50.65) per Option Share, which equates to an aggregate price of Php22,410,000,000 (equivalent to approximately US\$485.1 million and approximately HK\$3,783.5 million) for all the Option Shares.

The Exercise Price was determined based on arms’ length negotiations between MPIC and FPHC, having regard to the trend of the market price and anticipated future business prospects of Meralco.

Exercise period: The Call Option is exercisable only in full (and not in part), at the option of Beacon Electric, during the period from 15 March 2010 up to midnight on 15 May 2010.

Call Option Premium: An amount of Php3,000,000 (equivalent to approximately US\$64,935 and approximately HK\$506,494) has been paid by Beacon Electric for the grant of the Call Option. The Call Option premium has been determined by arms’ length negotiation.

As part of the terms of the Call Option, FPHC will have the benefit of being assigned certain property dividend that may be declared and distributed in respect of the MPIC Meralco Shares, the Piltel Meralco Shares and the remaining 68,800,000 Meralco common shares held by Piltel, subject to Beacon Electric exercising the Call Option and acquiring the Option Shares. In respect of the Option Shares, in the event that the Call Option is exercised by Beacon Electric, FPHC will have the benefit of retaining certain property dividend that may be declared and distributed in respect of such Option Shares. The estimated value attributable to FPHC’s right of potential property dividend assignment or retention is approximately Php2.94 (equivalent to approximately US\$0.064 and approximately HK\$0.496) per Meralco share (the “Property Dividend”).

No decision has been made at this time as to whether or not the Call Option will be exercised and any such decision is a matter for the respective boards of directors of MPIC and Beacon Electric to deliberate. Shareholders should note, however, that the exercise period of the Call Option is relatively short and expires on 15 May 2010. If the Call Option is exercised before the Piltel Investment is completed, the exercise of the Call Option would constitute a further acquisition of shares in Meralco by a wholly beneficially owned subsidiary of MPIC and, on that basis, would be classified as a major transaction (acquisition) for the Company under the Listing Rules. That is on the basis that one or more of the applicable percentage ratios (on an aggregated basis) would exceed 25% but all of the applicable percentage ratios would be less than 100%.

In order to allow the respective boards of directors of MPIC and Beacon Electric to have the flexibility to exercise the Call Option, should they decide to do so, the Company proposes to ask its shareholders to approve a possible future exercise of the Call Option as a major transaction for the Company under the Listing Rules. However, shareholders and other investors should note that no decision has been taken as to whether or not the Call Option will be exercised and there is no assurance that the Option Shares will be acquired.

The Group currently has an approximately 14.5% effective interest in Meralco and would have an approximately 17.4% effective interest in Meralco if the Call Option is exercised (in respect of which no decision has yet been made) and if the Piltel Investment is completed.

If the Call Option is exercised and if the Piltel Investment and the transfer of MPIC Meralco Shares to Beacon Electric are all completed, Beacon Electric would hold approximately 34.8% of the issued common share capital of Meralco.

*Shareholders' Agreement of Meralco and board representation of Meralco in case the Call Option is exercised*

If Beacon Electric exercises the Call Option, the Amended, Consolidated and Restated Cooperation Agreement dated 20 November 2009 ("Amended Shareholders' Agreement of Meralco") among Lopez Inc. ("Lopez"), FPHC, First Philippine Utilities Corporation, Piltel, MPIC and PLDT would be amended to include Beacon Electric as a party and would provide for a pooling of votes among the parties to the Amended Shareholders' Agreement of Meralco in respect of matters presented for approval of shareholders of Meralco.

Under the Amended Shareholders' agreement, if the Call Option is exercised, the Lopez group will be able to nominate one Meralco director for their remaining approximately 6.6% Meralco common shares while Beacon Electric and Piltel will be able to nominate four Meralco directors. Together the Lopez group and Beacon Electric/Piltel will be able to nominate five out of nine non-independent directors of Meralco.

If the Call Option were to be exercised, the Exercise Price would be partly funded by a fixed term bank loan of 10 years in the amount of PhP18 billion (equivalent to approximately US\$389.6 million and approximately HK\$3,039.0 million) to be provided to Beacon Electric by a syndicate of banks pursuant to a term sheet entered into between Beacon Electric and bank syndicate (the "Bank Loan Term Sheet"). The bank loan would be without recourse to the shareholders of Beacon Electric. The facility, which would be secured by a certain number of Meralco shares owned or to be acquired by Beacon Electric, would be divided into a fixed rate tranche of up to PhP11.8 billion (equivalent to approximately US\$255.4 million and approximately HK\$1,992.2 million) and a floating rate tranche of up to PhP6.2 billion (equivalent to approximately US\$134.2 million and approximately HK\$1,046.8 million). The Bank Loan Term Sheet is expressed to be subject to contract and subject to certain internal approvals having been obtained.



### **Possible subscription by MPHI for Convertible Bonds of MPIC**

If the Call Option was to be exercised, it is contemplated that the remainder of the funding required to pay the Exercise Price would be financed from the proceeds of a possible subscription by MPIC for additional preferred shares of Beacon Electric, as described in paragraph (2) under the heading “*The Omnibus Agreement*” in this announcement. In order to enable MPIC to provide that financing to Beacon Electric, if the Call Option is exercised, MPHI and MPIC entered into a binding term sheet (“CB Term Sheet”) on 1 March 2010, pursuant to which MPIC can (by a “drawdown notice” given by MPIC to MPHI at any time during the Call Option Exercise Period) require MPHI to subscribe an aggregate amount of up to PhP6.6 billion (equivalent to approximately US\$142.9 million and approximately HK\$1,114.3 million) of convertible bonds to be issued by MPIC, having the principal terms summarised below (the “Convertible Bonds”). MPHI is a Philippine affiliate of the Group.

The principal terms of the Convertible Bonds can be summarised as follows:

- |                      |   |  |
|----------------------|---|--|
| Maturity             | : | 3 years from the date of issue.  |
| Status               | : | Senior, unsecured.   |
| Coupon               | : | 4.5% p.a. payable semi-annually in arrears.  |
| Issue Price per unit | : | PhP100.00 (equivalent to approximately US\$2.16 and approximately HK\$16.88).  |
| Conversion           | : | Convertible into new common shares of MPIC at an initial conversion price of PhP3.25 (equivalent to approximately US\$0.07 and approximately HK\$0.55) per common share of MPIC, subject to customary adjustments for matters affecting the share capital of MPIC. |
|                      |   | The initial conversion price represents a premium of 14.0% to the closing share price of MPIC as at 1 March 2010, being PhP2.85 (equivalent to approximately US\$0.06 or approximately HK\$0.48) per share.  |
| Closing Date         | : | The date of issuance of the Convertible Bonds and receipt by MPIC of the subscription amount (the “CB Closing Date”).  |
| Conversion period    | : | At any time from the date immediately following the first anniversary of the CB Closing Date up to and including the 10th business day immediately preceding the final redemption date.  |

- Early redemption at the option of MPIC : At any time from the date immediately following the first anniversary of the CB Closing Date, Convertible Bonds, MPIC has the right (by giving not less than 30 days nor more than 60 days' irrevocable notice) to redeem the Convertible Bonds at the accreted value of the Convertible Bonds plus any accrued interest thereon if the closing price of a common share of MPIC, quoted on the PSE for any consecutive period of not less than 30 trading days, is not less than 140% of the conversion price applicable during that period. or at least 90% in principal amount of the Convertible Bonds has already been converted, redeemed, purchased and cancelled. However, MPHI shall be entitled to convert the Convertible Bonds at any time during the conversion period and such right shall override the redemption right of MPIC.
- Final redemption : To occur on the date which falls on the 3rd anniversary of the CB Closing Date and at the final redemption price of PhP103.21 (equivalent to approximately US\$2.23 and approximately HK\$17.3) per unit.

If the possible subscription for Convertible Bonds of MPIC proceeds, the exercise of the Convertible Bonds would constitute a transaction for the Company under the Listing Rules. The Company would comply with all applicable Listing Rules requirements, as and when required, in connection with any future exercise of the Convertible Bonds.

### **Shareholders' circular**

A circular containing, among other things, further details of the Piltel Investment, the Option Agreement and the Call Option, an accountants' report and financial information on Meralco as required by the Listing Rules and financial information on the Group will be despatched to the Company's shareholders as soon as practicable.

### **Reasons for the Piltel Investment**

The effect of the Piltel Investment is to consolidate MPIC's and Piltel's shareholdings in Meralco into Beacon Electric with a view to making Beacon Electric the single largest shareholder of Meralco and to allow Beacon Electric to access bank loan financing for additional purchase of Meralco Shares.

### **Reasons for seeking shareholders' approval for a possible exercise of the Call Option and, if applicable, the reasons for subscribing for the Convertible Bonds**

By seeking First Pacific shareholders' advance approval of a possible exercise of the Call Option, the Company intends to give the respective boards of directors of Beacon Electric and MPIC the ability (if they decide to do so) to exercise the Call Option during the Call Option Exercise Period and to complete the Call Option in accordance with the terms of the Option Agreement; which would not otherwise be possible if the approval of First Pacific's shareholders was only sought after an exercise of the Call Option.

The Convertible Bonds will only be subscribed by MPHI if Beacon Electric and MPIC make a decision to exercise the Call Option. However, in that event, the directors of the Company consider that the proposed terms of the Convertible Bonds are reasonable terms upon which to provide further financing to MPIC.

### **Views of the Directors**

The directors of the Company believe that the transactions contemplated under the Omnibus Agreement, the Piltel SPA, the Piltel Subscription Agreement, the Call Option and the Option Agreement are (or, in the case of those transactions which are only possible transactions, would if implemented in accordance with the terms summarised in this announcement be) on normal commercial terms and have been (or, in the case of those transaction which are only possible transactions, would if implemented in accordance with the terms summarised in this announcement be) entered into following arm's length negotiations between the parties. The directors of the Company also believe that the terms of those transactions (or possible transactions) are (or, in the case of the possible transactions, would if implemented in accordance with the terms summarised in this announcement be) fair and reasonable and in the interests of the Company's shareholders as a whole.

### **General**

The Company is a Hong Kong-based investment and management company with operations located in Asia. The Company's principal business interests relate to Telecommunications, Consumer Food Products, Infrastructure and Natural Resources.

MPIC is a Philippine corporation which is part of the Group on account of the equity interests of an affiliate of the Company. MPIC's shares are listed on the PSE. The Company has an approximately 55.6% attributable economic interest in MPIC. MPIC is a flagship infrastructure company in the Philippines, with holdings in water, tollways, electricity distribution, health care enterprises and ports.

Piltel is an investment holding company which own an approximately 19.8% interest in Meralco. Piltel is held as to approximately 99.5% by Smart Communications, Inc., which in turn is wholly owned by PLDT.

FPHC's major business segments are in power generation, roads and tollways operations, construction and sale of merchandise, and real estate in the Philippines.

Meralco is a Philippine corporation with its shares listed on the PSE. It is the largest distributor of electricity in the Philippines with a service area spanning 9,337 square kilometres, where approximately a quarter of the total Philippine population resides. It has a customer base of about 4.7 million, comprising commercial, industrial and residential customers. In addition to electricity distribution, Meralco undertakes several related businesses, including operating fibre optic networks of over 1,000 kilometres and provides leased line connections, metro ethernet connections and disaster recovery transport services.

The net assets of Meralco as at 31 December 2009 were PhP57,101 million (equivalent to approximately US\$1,236.0 million and approximately HK\$9,640.4 million). The net profits of Meralco before and after taxation and extraordinary items were PhP9,262 million (equivalent to approximately US\$193.7 million and approximately HK\$1,511.1 million) and PhP6,005 million (equivalent to approximately US\$125.6 million and approximately HK\$979.7 million), respectively, for the financial year ended 31 December 2009. The net profits of Meralco before and after taxation and extraordinary items were PhP5,200 million (equivalent to approximately US\$116.4 million and approximately HK\$907.8 million) and PhP2,800 million (equivalent to approximately US\$62.7 million and approximately HK\$488.8 million), respectively, for the financial year ended 31 December 2008.

Beacon Electric is a Philippines corporation which was newly established in 2010 for the purpose of the transactions contemplated by the Omnibus Agreement. The entire issued share capital of Beacon Electric is beneficially owned by MPIC. Beacon Electric will be jointly owned by MPIC and Piltel on a 50:50 basis following completion of the Piltel Investment contemplated by the Omnibus Agreement. Given that Beacon Electric is a newly incorporated company, information in relation to the net profits of Beacon Electric for the two financial years immediately preceding the date of this announcement is not available.

By Order of the Board  
**First Pacific Company Limited**  
**Manuel V. Pangilinan**  
*Managing Director and CEO*

Hong Kong, 1 March 2010

*Unless stated otherwise, translations of quoted currency values are made on an approximate basis and at the rate of US\$1.00 = Php46.2 = HK\$7.8. Percentages and figures expressed in millions have been rounded.*

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

Anthoni Salim, *Chairman*  
Manuel V. Pangilinan, *Managing Director and CEO*  
Edward A. Tortorici  
Robert C. Nicholson  
Napoleon L. Nazareno  
Ambassador Albert F. del Rosario  
Sir David W.C. Tang\*, *KBE*

Tedy Djuhar  
Sutanto Djuhar  
Ibrahim Risjad  
Benny S. Santoso  
Graham L. Pickles\*  
Prof. Edward K.Y. Chen\* *GBS, CBE, JP*  
Jun Tang\*

\* *Independent Non-executive Directors*