

Title:

Luis Juan L. Virata and Cavitec Infrastructure Corporation vs. Alejandro Ng Wee, et al.

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Facts:

Alejandro Ng Wee (Ng Wee), a long-time client of Westmont Bank, in 1998 was persuaded by bank officials to invest in various financial placements with Westmont Investment Corporation (Wincorp), an affiliate organization of the bank. These investments comprised “sans recourse” transactions where corporate borrowers were approved for financial assistance by Wincorp. Wincorp, in turn, matched these borrowers with investors like Ng Wee.

Ng Wee’s investment was initially funneled into loans extended to Hottick Holdings Corporation (Hottick), which defaulted on its obligations during the Asian financial crisis. Following Hottick’s collapse, Wincorp reassured Ng Wee, promising to absorb the losses and redirected his investments to a new entity, Power Merge Corporation (Power Merge). Virata, a primary figure in the scenario, was the majority stockholder of Power Merge and had previously pledged to guarantee Hottick’s debts.

In 1999, Power Merge was provided a credit facility first amounting to Php 1,300,000,000 and later increased to Php 2,500,000,000 by Wincorp’s board. Subsequently, Power Merge issued promissory notes to Wincorp equaling Php 2,183,755,253.11, broken into six separate drawdowns. Wincorp then issued Confirmation Advices worth Php 213,290,410.36 to Ng Wee’s trustees, implicitly ensuring returns from loans funded through Power Merge.

However, unbeknownst to Ng Wee and the investors, explicit side agreements between Power Merge and Wincorp essentially nullified the former’s repayment obligations, effectively releasing Power Merge from liability. This fraudulent concealment by Wincorp and the eventual default triggered the legal dispute.

Ng Wee resorted to courts to recover the financial damages. On October 19, 2000, Ng Wee filed a Complaint for Sum of Money with Damages with the RTC of Manila, Branch 39. Despite several procedural defenses, including motions to dismiss by the defendants claiming the plaintiff lacked standing, the lower court found in favor of Ng Wee. This prompted multiple appeals to the Court of Appeals (CA), each reaffirming the RTC’s decision, culminating in the consolidated appeal before the Supreme Court.

Issues:

1. **Procedural Standing**: Whether Ng Wee had the legal standing to prosecute the case.
2. **Fraud**: Whether accusations of fraud against Wincorp and Power Merge were substantiated.
3. **Corporate Veil**: Whether piercing the corporate veil to hold directors and officers personally liable was justified.
4. **Legal Liability**: Determining the specific legal liabilities of all petitioners, either collectively as corporate entities or individually as directors or officers.
5. **Damages**: The propriety and amount of damages awarded to Ng Wee.

Court's Decision:

1. **Procedural Standing**:

- **Ruling**: The Court upheld that Ng Wee was the real party in interest based on substantive evidence, including declarations that showed trustees were holding funds for Ng Wee's benefit.

2. **Fraud**:

- **Ruling**: The Court affirmed Wincorp's liability for fraudulently concealing side agreements, which had the net effect of misleading investors about the viability of the financial vehicle (Power Merge).

- **Power Merge**, in contrast, although involved in transactions designed to benefit Virata's interests, primarily served as an instrument manipulated by Wincorp to facilitate fraudulent misrepresentation. Consequently, Power Merge's liability was predominant in the contractual sphere rather than deceit.

3. **Corporate Veil**:

- **Ruling**: The Court justified piercing the corporate veil concerning Power Merge, attributing its liability to Virata by virtue of his absolute control over the company, thus merging personal and corporate interests.

- **UEM-MARA** (Cavitex Infrastructure): Held not liable as there was insufficient evidence linking the use of funds in contravention to its obligations.

4. **Legal Liability**:

- **Wincorp**: Held solidarily liable for fraudulent misrepresentations materially affecting Ng Wee's investments.

- **Virata**: Personally liable, tethered directly to Power Merge and his control resulting in investor losses.

- **Other Directors and Officers**: Various directors and officers, including Anthony Reyes, Simeon Cua, and Henry & Vicente Cualoping, were found liable due to either direct involvement or gross negligence in corporate governance safety mechanisms.

5. **Damages**:

- **Ruling**: The awarded compensatory damages by the lower courts were affirmed but modified to align with statutory interest rates (12% until June 30, 2013, and 6% thereafter).

Doctrine:

1. **Fraudulent Representation and Misrepresentation**:

- **Fraud** is broadly defined as any act that misleads or deceives another, especially when false claims about the financial security of an investment are involved leading to buyer's detriment.

2. **Piercing Corporate Veil**:

- **Separate Legal Personality** can be disregarded where entities are merely business conduits or when domination by one person results in fraud or injustice, necessitating equity to hold responsible parties accountable.

Class Notes:

1. **Agency Principles**: Agents must act within the scope of authority; excursions beyond (e.g., waiving debtor obligations unilaterally) can result in personal liability for fraudulence.

2. **Investment Contracts and Quasi-Banking Rules**: Financial entities must adhere to strict statutory guidelines, including adequate disclosures to investors about the inherent risks and actual financial conditions.

3. **Director Liability**: Under Section 31 of the Corporate Code, directors who endorse patently illegal acts or are grossly negligent can face solidary liability.

4. **Doctrine of Res Judicata and Law of Case**: Procedural rulings settled at earlier stages preclude repetitive relitigation.

Historical Background:

The 1997 Asian financial crisis precipitated widespread borrower defaults, significantly impacting corporate investment schemes, risking investor losses globally. This case typifies the legal attempts to address corporate malfeasance where financial entities undertook deceptive practices to safeguard their assets at investors' expense. The ensuing rigid legal scrutiny aimed to redress breaches of fiduciary duties, promoting equity and bolstering investor protection frameworks.