

Case Brief

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Title:

****Metroplex Berhad and Paxell Investment Limited vs. Sinophil Corporation, Belle Corporation, and Securities and Exchange Commission Representatives****

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Facts:

1. ****Entities Involved****: Petitioners Metroplex Berhad (a Malaysian corporation) and Paxell Investment Limited (a Western Samoa corporation), engaged in a Share Swap Agreement (Swap Agreement) in August 1998 with Respondent Sinophil Corporation.
2. ****Transactions****: In the Swap Agreement, Metroplex and Paxell transferred 40% of their shareholdings in Legend International Resorts Limited for a 35.5% stake in Sinophil, receiving 3.87 billion Sinophil shares in return.
3. ****Pledged Shares****: Metroplex pledged 2 billion Sinophil shares to secure loans for Legend with Union Bank and Asian Bank.
4. ****Unwinding Agreement****: On August 23, 2001, Sinophil and Belle rescinded the Swap Agreement, but Metroplex could not return 1.87 billion Sinophil shares and additionally, another 2 billion shares remained pledged.
5. ****Capital Reduction****: Sinophil shareholders approved to reduce the authorized capital stock on February 18, 2002, and June 3, 2005.
6. ****SEC Approvals****: SE (Securities and Exchange Commission) Operating Departments approved the reduction on March 28, 2006, and June 24, 2008, with disclosures to the PSE (Philippine Stock Exchange).
7. ****Petition for Review****: Petitioners sought SEC review on July 21, 2008, citing unfair reduction of shares and non-compliance with legal prerequisites (including notice, hearing, and creditor approval).

Procedural History:

- ****SEC Order****: On February 26, 2009, SEC denied petitioners' petition, affirming CRMD and CFD approvals.
- ****Court of Appeals Decision****: On January 29, 2013, the CA upheld SEC's decision.
- ****Supreme Court Appeal****: Petitioners sought a review by the Supreme Court on the grounds of improper CA and SEC actions, non-compliance with statutory requisites, and the need for injunctive relief.

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Issues:

1. **Validity of CRMD and CFD Actions**: Did the SEC Operating Departments properly approve Sinophil's capital reduction?
 2. **Legal and Procedural Compliance**: Did the reduction meet all legal and procedural requirements, including notice and stockholder and creditor approval?
 3. **Business Judgment and Fraud Claims**: Did the approvals constitute business judgments beyond courts' purview, and were there any fraudulent actions amounting to grave abuse of discretion by SEC departments?
 4. **Eligibility for Injunctive Relief**: Do petitioners deserve a Temporary Restraining Order or injunctive relief against the respondents?
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Court's Decision:

1. **Compliance with Legal Requirements**:
 - The Supreme Court affirmed that the decrease complied with **Section 38 of the Corporation Code**, requiring:
 - Majority Board Approval.
 - Stockholders' Meeting with 2/3 vote in favor.
 - Written Notice.
 - SEC Approval.
 - No prejudice to creditors' rights.
 - Sinophil fulfilled these by submitting necessary documents and holding mandated meetings.
2. **Ministerial Role of SEC**:
 - SEC's role was administrative: verifying compliance with documentary requisites, noting no need for separate judicial or quasi-judicial interference.
3. **Rejection of Petitioners' Claims**:
 - Arguments about fraudulent reduction and failure in procedural fairness were dismissed, noting SEC's adherence to administrative duties.
 - Petitioners' invocation of Section 13 of the Securities Regulation Code and the Trust Fund Doctrine lacked relevance in this context.
4. **Denial of Injunctive Relief**:

- The Court found petitioners failed to establish irreparable injury or fraud that warranted a TRO. Disclosure to PSE sufficed for informing public investors.

Ultimately, the Supreme Court denied the petition for review and affirmed the CA and SEC orders.

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Doctrine:

- **Section 38 Compliance**: Corporations may decrease capital stock upon fulfilling statutory requirements, involving stockholder approval, SEC approval, and creditor protection.
- **Ministerial Role of SEC**: SEC's role in capital adjustments is limited to verifying legal compliance, absent discretion to interfere with corporate business decisions.
- **Business Judgment Rule**: Courts should not interfere with corporate decisions made in good faith within directors' domain.

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Class Notes:

Key Concepts:

1. **Corporation Code Section 38**: Enumerates procedural requirements — majority board vote, stockholder meeting with 2/3 vote, written notice, SEC approval, and no creditor prejudice.
2. **Ministerial Functions of SEC**: SEC's duties in capital reduction are administrative — checking compliance with formalities, not substantive merits.
3. **Business Judgment Rule**: Protects corporate decisions from judicial interference unless acted in bad faith or fraud.
4. **Injunctive Relief**: Requires proving irreparable harm or unlawful acts threatening applicants' rights.

Statutory Provisions:

- **Corporation Code Section 38**: Specifically operates procedural mechanisms for capital variations in corporations.
- **Rule 58, Section 3 of the Rules of Court**: Lists criteria for granting TRO/injunction — necessity, prevention of injustice, protection of litigant rights during trial.

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Historical Background:

The case signifies a substantial adherence to procedural requirements and business judgment principles governing corporate actions in the Philippines. This aligns with broader practices in corporate governance emphasizing transparency, shareholder engagement, and regulatory oversight to maintain market integrity and company lawfulness in capital and structural adjustments.