

RIO GRANDE RUBBER ESTATE COMPANY, INC., PLAINTIFF AND APPELLANT, VS. BOARD OF LIQUIDATORS, ET AL., DEFENDANTS AND APPELLEES.

G. R. No. L-11321. November 28, 1958

Ponente: BAUTISTA ANGELO, J.

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BAUTISTA ANGELO, J.:

Plaintiff is a corporation organized under the laws of the Philippines, its assets consisting of a rubber plantation grown on two parcels of land situated at Kabacan, Cotabato. Shortly after it was organized, the corporation contracted an obligation of P93,928.56 with the Agricultural & Industrial Bank. In October, 1943, the stockholders sold their entire stockholding to Ohta Development Co., a Japanese corporation, for the sum of P370,000.00, of which the amount of P93,928.56 was applied to the payment of its indebtedness to the Agricultural & Industrial Bank and the balance of P276,071.44 was distributed among its stockholders and applied to other expenses of the corporation.

Following the transfer of the entire stock of plaintiff corporation, the Ohta Development Co. took possession of and operated the rubber plantation belonging to it which continued during the Japanese occupation until the liberation of Cotabato in June, 1945, when the United States Army, through its Alien Property Custodian, took over the custody of the plantation. By virtue of Vesting Order No. P-3 issued by the United States Army on January 7, 1946, the Alien Property Custodian took over the stock and assets of the Ohta Development Co., which included the assets of the Rio Grande Rubber Estate Co., Inc. The control and ownership of this corporation were later transferred to the Republic of the Philippines in accordance with the Philippine Property Act of 1946 (Act of Congress of the United States of July 3, 1946) and Republic Act No. 8. The Rio Grande Rubber Estate Co., Inc., together with other enemy-owned corporations, was abolished by Executive Order No. 372 promulgated by the President of the Philippines on November 24, 1950 pursuant to the powers vested in him by Republic Act No. 422, although it was continued as a body corporate for a period of three years for the purpose of prosecuting and defending suits by or against it and of enabling the Board of Liquidators, which was created to exercise the powers, functions and duties of its Board of Directors, to settle and close its affairs. And on June 20, 1952, Republic Act No. 763 was approved establishing the Mindanao Institute of Technology to which the two parcels of land formerly belonging to the Rio Grande Rubber Estate Co., Inc. were transferred for the purposes mentioned therein.

After their efforts to secure the return of their share-holding in the Rio Grande Rubber Estate Co., Inc. proved futile, its former stockholders commenced the present action on June 17, 1953 in the Court of First Instance of Cotabato in the name of the corporation against the Board of Liquidators in its capacity as the Board of Directors of the National Abaca & Other Fibers Corporation (NAFCO) and the Mindanao Institute of Technology seeking the recovery of the possession and ownership of the two parcels of land which were originally owned by plaintiff corporation and which were later transferred to the Mindanao Institute of Technology under Republic Act No. 763. The complaint is founded on the claim that the certificates of title of the two parcels of land are still in the

name of the plaintiff corporation and as such should be returned to its possession, and that Section 11 of Republic Act No. 763 transferring them to the Mindanao Institute of Technology is unconstitutional. Forthwith, plaintiff also filed an ex parte petition for the appointment of a receiver, and after an ex parte hearing, the court appointed the Kawilihan Corporation upon the filing of a bond of P50,000.00

On July 31, 1953, defendants filed a motion to dismiss based on the following grounds: (1) the court has no jurisdiction over the Mindanao Institute of Technology; (2) the action is not authorized by the governing body of plaintiff corporation and so it has no legal capacity to sue; and (3) the complaint states no cause of action. Simultaneously, defendants likewise filed a petition to discharge the receiver on the ground that its appointment was procured without sufficient cause. The petition to discharge was granted upon defendants' filing a bond in the amount of P60,000.00, but the motion to dismiss was set for hearing to give the parties an opportunity to present evidence. At the hearing, however, only defendants, appeared who thereupon presented their' evidence. Thereafter, the court issued on May 25, 1954, an order sustaining the motion and dismissing the complaint on the ground that plaintiff does not have the character and representation which it claims to possess, whereupon plaintiff took the present appeal.

It appears that in October, 1943, the stockholders of plaintiff corporation sold their entire stockholding as well as its assets to Ohta Development Co., a Japanese corporation, for the sum of P370,000.00, of which the amount of P93,928.56 was applied to the payment of plaintiff's indebtedness to the Agricultural & Industrial Bank and the balance of P276,071.44 was distributed among the stockholders and applied to other expenses of the corporation. It is for this reason that the lower court made in its order of dismissal the conclusion that these stockholders "could not validly organize themselves into a board to act for the corporation inasmuch as they could no longer claim as stockholders because they already sold and disposed of all their stockholdings to the Ohta Development Co." We find this conclusion to be correct unless it be shown, which is not the case, that said stockholders reacquired their stockholdings before the institution of the present action.

It is true that there is an intimation on the part of plaintiff that the sale of its stockholding in favor of Ohta Development Co. was made thru force, duress and intimidation, but that was a mere claim which has not been proven. And even if the same were true, that will not ipso facto have the effect of reverting the ownership of the stock to its original owner before any judicial declaration to that effect, for under the law, a contract where consent is vitiated by mistake, violence or intimidation, is not void ab initio but is merely voidable (Article 1330, New Civil Code). More than that, under the law, a contract entered into under those circumstances is binding upon the parties unless annulled by proper action in court. And the contract is even susceptible of ratification (Article 1390, Idem.)[1] For these reasons, we find correct the following finding of the lower court: "Assuming arguendo that the sale was forced upon the vendors, nevertheless there is no judicial declaration that the transaction was null and void due to the alleged force and intimidation in securing the consent of the stockholders. So far, the sale still stands valid until such time when the same is declared null and void by the Courts. A mere allegation on their part that the sale was consummated thru intimidation will not ipso facto revert to them the ownership of those stocks without any judicial declaration."

Indeed, plaintiff's claim that the sale is inexistent or void ab initio cannot be sustained, it appearing that out of its consideration of P370,000.00 plaintiff applied; the amount of P93,928.56 to pay its prewar indebtedness to the Agricultural & Industrial Bank and distributed the balance of 9276,071.44 among its stockholders. This is a clear indication that the sale, even if vitiated, is merely voidable and as such cannot have revertible effects unless proper action is brought for its annulment. As this Court has aptly said:

"Had the plaintiff desired to set aside the contracts of conveyance made by his father, he should have instituted a special action for that purpose. (Arts. 1300 to 1314, Civil Code.) He can not have said documents annulled in

a subsidiary action. * * * One who desires to recover lands as the owner from another upon the theory that the deeds held by the other are null and void must first ask that such alleged fraudulent deeds be set aside.” (Llacer vs. Muñoz de Bustillo and Achaval, 12 Phil., 328, 334).

We have taken note of plaintiff's claim that the original stockholders should now be considered as the owners of their respective stock for the reason that they were able to secure from the corporation new certificates of stock and that these certificates were duly approved by the Securities and Exchange Commission. And on the strength of this claim, plaintiff now contends that the original stockholders have now the requisite power and authority to act in behalf of the corporation, including the institution of the present action. The least we can say with regard to these new certificates is that the same were secured thru misrepresentation and as such cannot be considered valid under Republic Act No. 62. Thus, it appears that these certificates were obtained upon the claim that the original ones were lost or destroyed during the last war and that in spite of diligent efforts to locate them they could not be found, which certainly is not true upon the view we take of the case. Evidently, the Securities and Exchange Commission was led into approving those certificates in view of this misrepresentation.

Premises considered, we find correct the conclusion of the lower court "that the plaintiff does not have the character and representation which it claims to possess", and hence it does not have the necessary authority to bring the present action.

Wherefore, the order appealed from is affirmed, with costs against plaintiff.

Paras, C. J., Bengzon, Montemayor, Labrador, Concepcion, Reyes, J. B. L., and Endencia, JJ., concur.

[1]Article 1330 of the new Civil Code is merely based on Article 1265 of the Spanish Civil Code while Article 1390 of the new Civil Code was taken from Article 1330 of the Spanish Civil Code. The new provisions simply clarify the law.

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