

LECA REALTY CORPORATION, PETITIONER, VS. MANUELA CORPORATION AND MS. MARILOU O. ADEA, AS REHABILITATION RECEIVER FOR MANUELA CORPORATION, RESPONDENTS.

G.R. No. 166800 & 168924. September 25, 2007

Ponente: SANDOVAL-GUTIERREZ, J.

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SANDOVAL-GUTIERREZ, J.:

These are consolidated petitions for review on certiorari filed by Leca Realty Corporation (LECA), petitioner, assailing the separate related Decisions of the Court of Appeals in CA-G.R. SP No. 87185 and CA-G.R. SP No. 80861.

G.R. No. 168924

In a petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure, as amended, petitioner LECA assails the Decision of the Court of Appeals (Special 8[th] Division) dated April 28, 2005 and its Resolution of July 15, 2005 in CA-G.R. SP No. 87185.

In its Decision, the Court of Appeals sustained the Rehabilitation Plan of Manuela Corporation (Manuela), respondent. Petitioner now contends that the Rehabilitation Plan has impaired its contract of lease with respondent over a tract of land consisting of almost three (3) hectares. Petitioner is the owner of the property situated on Shaw Boulevard, Mandaluyong City.

G.R. No. 166800

This is a petition for review on certiorari under the same Rule questioning the Decision dated September 30, 2004 of the Court of Appeals (17[th] Division) and its Resolution dated January 25, 2005 in CA-G.R. SP No. 80861.

In its Decision, the Court of Appeals affirmed the trial court's Order denying petitioner's motion for extension of time to file its Record on Appeal in Civil Case No. LP-02-0028, entitled "In the Matter of the Petition for Rehabilitation of Manuela Corporation."

As found by the Court of Appeals in CA-G.R. SP No. 87185, the antecedent facts, common to both petitions, are:

On January 31, 2002, respondent filed with the Regional Trial Court (RTC), Branch 253, Las Piñas City, a Petition for Rehabilitation, docketed as Civil Case No. LP-02-0028.

The petition alleges inter alia that respondent is a corporation duly organized and existing under the laws of the Republic of the Philippines, primarily engaged in the business of leasing to retailers commercial spaces in shopping malls. Its principal office address is Alabang-Zapote Road, Pamplona, Las Piñas City.

Respondent is the owner and operator of the following malls strategically located in Metro Manila:

- a) M Star One

- b) M Star
- c) Starmall
- d) Metropolis Star
- e) Pacific Mall

Respondent has assets valued at P12.43 billion and total liabilities of P4.87 billion as of December 31, 2001.

However, due to reasons that shall be discussed below, respondent is now having severe cash flow problems which prevent it from paying its debts as they fall due.

In order to finance the costs of building the Metropolis Star and the Pacific Mall, respondent obtained several loans from two syndicates of lenders. The first syndicate is composed of Bank of Philippine Islands, BPI Family Bank, Metropolitan Bank and Trust Company, Allied Bank, and Bank of Commerce; the second syndicate is composed of Allied Bank, Bank of Commerce, Philippine National Bank, and Equitable PCI Bank. Respondent's loans are governed by the Loan Agreement dated July 5, 1995 and the Syndicated Loan Agreement dated December 16, 1996.

Respondent's total outstanding loan from the syndicates (e.g., principal plus interest) is P2.174 billion as of December 31, 2001. These loans are secured by a mortgage over M Star One and M Star, both located in Las Piñas City.

Respondent also has liabilities to the Hero Holdings, Inc. and its trade suppliers and other parties in the sum of P1.476 billion as of December 31, 2001.

At the onset of the Asian financial crisis in 1997, the banks stopped their lending activities to borrowers, including respondent. This event took its toll upon respondent since its malls failed to operate sufficiently resulting in heavy losses.

Matters finally came to a head in 1997 when respondent could no longer pay its trade suppliers for maturing obligations. Neither could it pay its creditor banks. The adjusted interest rates on its outstanding loans, as a result of the Asian financial crisis, were between 18% to 30% which added to respondent's liquidity problems.

Nonetheless, respondent has been acting in good faith and has exerted earnest efforts to avert its worsening financial problems. It closed down non-income generating businesses, concentrated on its business of leasing commercial spaces, intensified collection efforts, reduced personnel, negotiated for restructuring of loans with creditors, and worked out a viable payment scheme without giving undue preference to any creditor. Despite its efforts, respondent could no longer pay its suppliers and the maturing interests on its loans.

The petition further alleges that respondent can only be brought back to its financial viability if its proposed Rehabilitation Plan is approved and that it is given a respite from its creditors' demands through the issuance of a Stay Order. The successful implementation of the proposed Rehabilitation Plan will enable it to settle its remaining obligations in an orderly manner, restore its financial viability, and allow it to resume its normal operations.

On February 5, 2002, the trial court issued a Stay Order,[1] thus:

x x x

- a) a stay in the enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, against petitioner MANUELA, its guarantors and sureties not solidarily liable with

it;

b) prohibiting MANUELA from selling, encumbering, transferring or disposing in any manner any of its properties except in the ordinary course of business;

c) prohibiting MANUELA from making any payment of its liabilities outstanding as of the filing of the instant petition;

d) prohibiting MANUELA's suppliers of goods and services from withholding supply of goods and services in the ordinary course of business as long as MANUELA makes payments for the goods and services supplied after the issuance of this Stay Order; and

e) directing the payment in full of all administrative expenses incurred after the issuance of this Stay Order.[2]

In the same Stay Order, the trial court appointed Marilou Adea, also a respondent, as Rehabilitation Receiver. On February 12, 2002, respondent Adea accepted her appointment.

In its Order dated May 21, 2002, the trial court referred the petition to respondent Adea for evaluation and recommendation. On September 28, 2002, she submitted to the trial court her Report and Recommendation finding respondent Manuela's Rehabilitation Plan viable and feasible and recommending its approval.

Respondent Adea then held several consultative meetings with respondent Manuela's creditors to discuss their respective concerns and suggestions relative to its rehabilitation. For their part, the creditors filed their various comments/oppositions to respondent Manuela's Petition for Rehabilitation and Rehabilitation Plan.

On July 31, 2002, petitioner filed with the trial court its Comment and/or Formal Claim with Leave of Court against respondent Manuela amounting to P193,724,262.34 as of February 28, 2002, representing unpaid rentals, security deposits, interests, and penalty charges.

On September 30, 2002, respondent Adea issued a Notice informing all creditors, claimants, suppliers, lot and/or house buyers, counsels, oppositors, and other parties that copies of her Report and Recommendation on respondent Manuela's Petition for Rehabilitation are available and on file with the trial court for distribution to all parties concerned.

On October 22, 2002, petitioner filed its comment on respondent Adea's Report and Recommendation. Petitioner opposed her recommendation to reduce respondent Manuela's liability, considering its contractual nature which cannot be impaired during the process of rehabilitation.

On July 28, 2003, the trial court issued an Order approving the Rehabilitation Plan, the dispositive portion of which reads:

WHEREFORE, the Rehabilitation Plan submitted by the Rehabilitation Receiver, pp. 120 to 165 of the Report and Recommendation on Manuela Corporation (Manuela)'s Petition for Rehabilitation revised June 9, 2003, is APPROVED. Petitioner is strictly enjoined to abide by its terms and conditions and the Rehabilitation Receiver shall, unless directed otherwise, submit a quarterly report on the progress of the implementation of the Rehabilitation Plan.[3]

Aggrieved, petitioner filed with the trial court its Notice of Appeal with Motion for Extension of Time to File Record on Appeal.[4]

However, the trial court issued an Order denying the Motion for Extension of Time to File Record on Appeal, thus:

Before the Court is a Notice of Appeal with Motion for Extension of Time filed by creditor Leca Realty

Corporation praying for a period of thirty (30) days from August 21, 2003 to September 20, 2003 to file its intended record on appeal.

However, under Rule 3, Section 1 of the Interim Rules of Procedure on Corporate Rehabilitation, a motion for extension is a prohibited pleading.

WHEREFORE, the subject motion is DENIED.

SO ORDERED.

Petitioner then elevated the case to the Court of Appeals through a Petition for Certiorari and Mandamus, docketed as CA-G.R. SP No. 80861 and assigned to the 17th Division.

On September 30, 2004, the Court of Appeals rendered a Decision dismissing the petition for lack of merit.^[5]

Petitioner then filed a motion for reconsideration but it was denied by the appellate court in its Resolution dated January 25, 2005.^[6]

Hence, the instant petition for review on certiorari, docketed as G.R. No. 166800.

G.R. No. 168924

In the meantime, petitioner seasonably filed with the Court of Appeals a petition for review under Rule 43 of the 1997 Rules of Civil Procedure, as amended, alleging that the RTC erred in approving respondent Manuela's Rehabilitation Plan as it violates its (petitioner's) constitutional right to non-impairment of contract and the Interim Rules of Procedure on Corporate Rehabilitation.

On April 28, 2005, the Court of Appeals (Special 8th Division) promulgated its Decision denying the petition, holding that:

x x x The pendency of the rehabilitation proceedings cannot be interpreted to impair the contractual obligations previously entered into by the contracting parties because the automatic stay of all actions is sanctioned by P.D. 902-A which provides that "all actions for claims against corporations, partnerships or associations under management or receivership pending before any court, tribunal, board or body shall be suspended accordingly [Rubberworld (Phils.), Inc. v. NLRC, 391 Phil. 318 (2000)].

On May 20, 2005, petitioner filed with the Court of Appeals a motion for reconsideration but it was denied in its Resolution dated July 15, 2005.

Hence, petitioner filed with this Court a Petition for Review on Certiorari, docketed as G.R. No. 168924.

In view of the identity of parties and the inter-relationship of the issues involved in G.R. No. 166800 and G.R. No. 168924, we resolved to consolidate the two petitions.

The issue posed before us in G.R. No. 166800 for certiorari and mandamus is whether the trial court erred in ruling that a motion for extension of time to file record on appeal is a prohibited pleading under Section 1 of the Interim Rules of Procedure on Corporate Rehabilitation which provides:

Section 1. Nature of Proceedings. - Any proceeding initiated under these Rules shall be considered in rem. Jurisdiction over all those affected by the proceedings shall be considered as acquired upon publication of the notice of the commencement of the proceedings in any newspaper of general circulation in the Philippines in the manner prescribed by these Rules.

The proceedings shall also be summary and non-adversarial in nature. The following pleadings are prohibited:
a. Motion to Dismiss;

- b. Motion for Bill of Particulars;
- c. Motion for New Trial or For Reconsideration;
- d. Petition for Relief;
- e. Motion for Extension;
- f. Memorandum;
- g. Motion for Postponement;
- h. Reply or Rejoinder;
- i. Third Party Complaint;
- j. Intervention;

xxx xxx xxx

The prohibited pleadings enumerated above are those filed in the rehabilitation proceedings. Once the trial court decides the case and an aggrieved party appeals, the procedure to be followed is that prescribed by the Rules of Court as mandated by Section 5, Rule 3, of the same Interim Rules, thus:

The review of any order or decision of the court or on appeal therefrom shall be in accordance with the Rules of Court.

In this connection, Section 11, Rule 11, of the Rules of Court (now the 1997 Rules of Civil Procedure, as amended), states:

Extension of time to plead. - Upon motion and on such terms as may be just, the court may extend the time to plead provided in these Rules.

The court may also, upon like terms, allow an answer or other pleading to be filed after the time fixed by these Rules.

Verily, the trial court erred in denying petitioner's motion for extension of time to file record on appeal. At any rate, this petition has become moot considering that the Court of Appeals gave due course to LECA's petition for review (CA-G.R. SP No. 80861) which eventually reached this Court via a petition for review on certiorari, docketed as G.R. No. 168924.

In G.R. No. 168924, petitioner ascribes to the Court of Appeals the following assignment of errors:

- THE COURT OF APPEALS GRIEVOUSLY ERRED IN RULING THAT THE "PENDENCY OF THE REHABILITATION PROCEEDINGS CANNOT BE INTERPRETED TO IMPAIR THE CONTRACTUAL OBLIGATIONS PREVIOUSLY ENTERED INTO BY THE CONTRACTING PARTIES BECAUSE THE AUTOMATIC STAY OF ALL ACTIONS IS SANCTIONED BY P.D. 902-A WHICH PROVIDES THAT "ALL ACTIONS FOR CLAIMS AGAINST CORPORATIONS, PARTNERSHIPS OR ASSOCIATIONS UNDER MANAGEMENT OR RECEIVERSHIP PENDING BEFORE ANY COURT, TRIBUNAL, BOARD OR BODY SHALL BE SUSPENDED ACCORDINGLY," CITING RUBBERWORLD (PHILS.), INC. V. NLRC, G.R. NO. 128003, JULY 26, 2000, 336 SCRA 433.

- THE COURT OF APPEALS ERRED IN SUSTAINING THE LOWER COURT'S APPROVAL OF RESPONDENT MANUELA'S REHABILITATION PLAN EVEN IF SUCH PLAN IS NOT VIABLE OR FEASIBLE BECAUSE RESPONDENT MANUELA CORPORATION COULD NOT EVEN COMPLY WITH THE TERMS AND PROVISIONS OF THE COURT-APPROVED REHABILITATION PLAN.

- THE COURT OF APPEALS ALSO ERRED IN NOT ADDRESSING THE ISSUE OF THE LOWER COURT'S FAILURE TO ACT, THAT IS, APPROVE OR DISAPPROVE, THE REHABILITATION PLAN OF MANUELA CORPORATION WITHIN EIGHTEEN MONTHS AFTER THE FILING OF THE PETITION FOR REHABILITATION.

Petitioner contends that the approved Rehabilitation Plan drastically altered the terms of its lease contract with respondent Manuela, hence, should be declared void.

The contract of lease between petitioner and respondent Manuela[7] for twenty-five years, from August 1, 1995 to July 31, 2020, stipulates that the rates of rental on the leased parcel of land are as follows:

Year Rent/Sq. M. Monthly Rent Yearly Rent

1	60.00	1,607,400.00	19,288,800.00
2	64.20	1,719,918.00	20,639,016.00
3	68.40	1,832,436.00	21,989,232.00
4	72.60	1,944,954.00	23,339,448.00
5	76.80	2,057,472.00	24,689,664.00
6	82.94	2,221,962.00	26,663,551.20
7	89.08	2,386,453.20	28,637,438.40
8	95.23	2,552,211.70	30,614,540.40
9	101.37	2,715,702.30	32,588,427.60
10	107.52	2,880,460.80	34,565,529.60
11	117.19	3,139,520.10	37,674,241.20
12	126.87	3,398,847.30	40,786,167.60
13	136.54	3,657,906.60	43,894,879.20
14	146.22	3,917,233.80	47,006,805.60
15	155.90	4,176,561.00	50,118,732.00
16	174.60	4,677,534.00	56,130,408.00
17	193.30	5,178,507.00	62,142,084.00
18	212.00	5,679,480.00	68,153,760.00
19	230.70	6,180,453.00	74,165,436.00
20	260.69	6,983,885.10	83,806,621.20
21	290.68	7,787,317.20	93,447,806.40
22	320.67	8,590,749.30	103,088,991.60
23	365.56	9,793,352.40	117,520,288.80
24	410.45	10,995,955.50	131,951,466.00

25 455.34 12,198,558.60 146,382,703.20

On the other hand, the Rehabilitation Plan prescribes the following rental rates:

Year

Yearly Rent

1[st] year 2003-2004 RENT FREE

2[nd] year 2004-2005 P 5,000,000.00

3[rd] year 2005-2006 5,000,000.00

4[th] year 2006-2007 5,000,000.00

5[th] year 2007-2008 19,288,800.00

6[th] year 2008-2009 20,639,016.00

7[th] year 2009-2010 21,639,016.00

8[th] year 2010-2011 23,339,445.00

9[th] year 2011-2012 24,689,664.00

10[th] year 2012-2013 26,663,544.00

Clearly, there is a gross discrepancy between the amounts of rent agreed upon by the parties and those provided in the Rehabilitation Plan.

In its Decision, the Court of Appeals rejected petitioner's contention that the approved Rehabilitation Plan impairs the obligation of contract, ratiocinating that the automatic stay of all actions is sanctioned by Section 5 (c) of Presidential Decree (P.D.) No. 902-A which provides that "all actions for claims against corporations, partnerships or associations under management or receivership pending before any court, tribunal, board or body shall be suspended accordingly."

Petitioner, in support of its contention, cites in its Memorandum the treatises of Ateneo Law Dean Cesar L. Villanueva and former SEC Commissioner Danilo L. Concepcion, both known authorities on Corporation Law. In his Article which appeared in the Ateneo Law Journal, Dean Villanueva said:

The nature and extent of the power of the SEC to approve and enforce a rehabilitation plan is certainly an important issue. Often, a rehabilitation plan would require a diminution, if not destruction, of contractual and property rights of some, if not most of the various stakeholders in the petitioning corporation. In the absence of clear coercive legal provisions, the courts of justice and much less the SEC would have no power to amend or destroy the property and contractual rights of private parties, much less relieve a petitioning corporation from its contractual commitments.[8]

On the other hand, Professor Concepcion stated that what is allowed in rehabilitation proceedings is only the suspension of payments, or the stay of all actions for claims of distressed corporations, and upon its successful rehabilitation, the claims must be settled in full.[9]

We agree with petitioner.

In *The Insular Life Assurance Company, Ltd., v. Court of Appeals, et al.*, we held:

When the language of the contract is explicit leaving no doubt as to the intention of the drafters thereof, the courts may not read into it any other intention that would contradict its plain import. The Court would be rewriting the contract of lease between Insular and Sun Brothers under the guise of construction were we to interpret the 'option to renew' clause as Sun Brothers propounds it, despite the express provision in the original contract of lease and the contracting parties' subsequent acts. As the Court has held in *Riviera Filipina, Inc. vs. Court of Appeals*, 'a court, even the Supreme Court, has no right to make new contracts for the parties or ignore those already made by them, simply to avoid seeming hardships. Neither abstract justice nor the rule of liberal construction justifies the creation of a contract for the parties which they did not make themselves or the imposition upon one party to a contract of an obligation not assumed.'^[10]

The amount of rental is an essential condition of any lease contract. Needless to state, the change of its rate in the Rehabilitation Plan is not justified as it impairs the stipulation between the parties. We thus rule that the Rehabilitation Plan is void insofar as it amends the rental rates agreed upon by the parties.

It must be emphasized that there is nothing in Section 5 (c) of P.D. No. 902-A authorizing the change or modification of contracts entered into by the distressed corporation and its creditors.

Moreover, the Stay Order issued by the trial court directed respondent Manuela to pay in full, after the issuance of such Order, all administrative expenses incurred. Administrative expenses are costs associated with the general administration of an organization and include such items as utilities, rents, salaries, postages, furniture, and housekeeping charges.^[11]

Inasmuch as rents are considered administrative expenses and considering that the Stay Order directed respondent Manuela to pay the rents in full, then it must comply at the rates agreed upon.

Respondent Manuela, therefore, must update its payment of rental arrears and continue to pay current rentals at the rate stipulated in the lease contract. The rentals shall incur interest at the legal rate of 6% per annum. Upon finality of this Decision, the legal rate shall be 12% per annum, pursuant to the following rulings of this Court:

- When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.
- When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code) but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be on the amount finally adjudged.
- When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.^[12]

WHEREFORE, we GRANT the Petition for Review in G.R. No. 168924. The assailed Decision of the Court of Appeals in CA-G.R. SP No. 87185 is AFFIRMED with MODIFICATION. The Rehabilitation Plan, insofar as it

modifies the rental rates agreed upon by petitioner LECA and respondent Manuela, is declared VOID.

Respondent Manuela is ordered to pay the rentals and all arrearages at the rates stipulated in the lease contract with interest at 6% per annum. Upon the finality of this Decision, the interest shall be 12% per annum until fully paid.

The Petition for Review on Certiorari in G.R. No. 166800 is DENIED for being moot. It has been overtaken by events. No costs.

SO ORDERED.

Puno, C.J., (Chairperson), Corona, Azcuna, and Garcia, JJ., concur.

[1] Rollo of CA-G.R. SP No. 80861, p. 643.

[2] Id., pp. 637-638.

[3] Rollo, p. 37.

[4] Id., pp. 48-49.

[5] Id., p. 72.

[6] Rollo of CA-G.R. SP No. 80861, p. 1733.

[7] Annex "C," Petition, in G.R. No. 168924.

[8] Ateneo Law Journal, Vol. XLIII, Number 2, May 1999.

[9] Concepcion, Danilo L., "Insolvency Systems in Asia: An Efficiency Perspective. Corporate Rehabilitation: The Philippine Experience"; cited in the Memorandum for the Petitioner, G.R. No. 168924, p. 23.

[10] G.R. No. 126850, April 28, 2004, 428 SCRA 79.

[11] "Administrative Expense," Dictionary of Insurance Terms. Barron's Educational Series, Answers.com 14 September 2007. [http://www.answer.com/topic/administrative expense](http://www.answer.com/topic/administrative%20expense).

[12] Victory Liner, Inc. v. Gammad, et al., G.R. No. 159636, November 25, 2004, 444 SCRA 355; citing Eastern Shipping Lines, Inc. v. Court of Appeals, 234 SCRA 78, 95-96 (1994).

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