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FIRST DIVISION

[G.R. No. 187581, October 20, 2014]

PHILIPPINE BANK OF COMMUNICATIONS, PETITIONER, VS. BASIC POLYPRINTERS AND PACKAGING CORPORATION, RESPONDENT.

D E C I S I O N

BERSAMIN, J.:

This appeal is taken from the decision promulgated on December 16, 2008 in C.A.-G.R. CV No. 102484 entitled *Philippine Bank of Communications, v. Basic Polyprinters and Packaging Corporation*,[1] whereby the Court of Appeals (CA) affirmed the order issued on January 11, 2008 by the Regional Trial Court (RTC), Branch 21, in Imus, Cavite, *viz*:

> **WHEREFORE**, the instant petition is hereby **DISMISSED**. **ACCORDINGLY**, the Order dated January 11, 2008 of the Regional Trial Court of Imus, Cavite, Branch 21, is hereby **AFFIRMED**.
>
> **SO ORDERED**.[2]

Antecedents

Respondent Basic Polyprinters and Packaging Corporation (Basic Polyprinters) was a domestic corporation engaged in the business of printing greeting cards, gift wrappers, gift bags, calendars, posters, labels and other novelty items.[3]

On February 27, 2004, Basic Polyprinters, along with the eight other corporations belonging to the Limtong Group of Companies (namely: Cuisine Connection, Inc., Fine Arts International, Gibson HP Corporation, Gibson Mega Corporation, Harry U. Limtong Corporation, Main Pacific Features, Inc., T.O.L. Realty & Development Corp., and Wonder Book Corporation), filed a joint petition for suspension of payments with approval of the proposed rehabilitation in the RTC (docketed as SEC Case No. 031-04).[4] The RTC issued a stay order, and eventually approved the rehabilitation plan, but the CA reversed the RTC on October 25, 2005,[5] and directed the petitioning corporations to file their individual petitions for suspension of payments and rehabilitation in the appropriate courts.

Accordingly, Basic Polyprinters brought its individual petition,[6] averring therein that: (*a*) its business since incorporation had been very viable and financially profitable; (*b*) it had obtained loans from various banks, and had owed accounts payable to various creditors; (*c*) the Asian currency crisis, devaluation of the Philippine peso, and the current state of affairs of the Philippine economy, coupled with: (*i*) high interest rates, penalties and charges by its creditors; (*ii*) low demand for gift items and cards due to the economic recession and the use of cellular phones; (*iii*) direct competition from stores like SM, Gaisano, Robinson and other malls; and (*iv*) the fire of July 19, 2002 that had destroyed its warehouse containing inventories worth P264,000,000.00, resulting in difficulty of meeting its obligations; (*d*) its operations would be hampered and would render rehabilitation difficult should its creditors enforce their claims through legal actions, including foreclosure proceedings; (*e*) included in its overall Rehabilitation Program was the full payment of its outstanding loans in favor of petitioner Philippine Bank of Communications (PBCOM), RCBC, Land Bank, EPCIBank and AUB via repayment over 15 years with moratorium of two-years for the interest and five years for the principal at 5% interest *per annum* and a *dacion en pago* of its affiliate property in favor of EPCIBank; and (*f*) its assets worth P15,374,654.00 with net liabilities amounting to P13,031,438.00.[7]

Finding the petition sufficient in form and substance, the RTC issued the stay order dated August 31, 2006.[8] It appointed Manuel N. Cacho III as the rehabilitation receiver, and required all creditors and interested parties, including the Securities and Exchange Commission (SEC), to file their comments.

After the initial hearing and evaluation of the comments and opposition of the creditors, including PBCOM, the RTC gave due course to the petition and referred it to the rehabilitation receiver for evaluation and recommendation.[9]

On October 18, 2007, the rehabilitation receiver submitted his report recommending the approval of the rehabilitation plan. On December 19, 2007, the rehabilitation receiver submitted his clarifications and corrections to his report and recommendations.[10]

Ruling of the RTC

On January 11, 2008, the RTC issued an order approving the rehabilitation plan,[11] the pertinent portion of which reads:

> Petitioner’s primary business is in the printing business. Based on its updated financial report, the financial condition has greatly improved.
>
> However, because of the indebtedness and the slowdown in sales brought about by a depressed economy, the present income from the operations will be insufficient to pay off its maturing obligations. Thus, the success of the rehabilitation plan largely depends on its ability to reduce its debt obligation to a manageable level by the suspension of payments of obligations and the proposed “dacion en pago.”
>
> The projected cash flow attached to the report and the repayment program demonstrates the ability of the company to settle its debt liability.
>
> Other factors which justify the approval of the Rehabilitation Plan are as follows:

> 1. The petitioner has a positive net worth and inventory that can be converted into resources.
>
> 2. The Plan ensures preservation of assets, optimizes recovery of creditors' claims and provides of an orderly payment of debts.
>
> 3. The plan will restore petitioner to profitability and solvency and maintain it as an on-going concern to the benefit of the stockholders, investors and creditors.
>
> 4. The rehabilitation and the continuous operation of the company will generate employment.
>
> 5. The plan is endorsed by the Rehabilitation Receiver.

> CONSIDERING THE FOREGOING, the Court hereby approves the detailed Rehabilitation Plan including the Receiver's Report and Recommendations and its clarifications and corrections and enjoins the petitioner to comply strictly with the provisions of the plan, perform its obligations thereunder and take all actions necessary to carry out the plan, failing which, the Court shall either, upon motion, motu proprio or upon the recommendation of the Rehabilitation Receiver, terminate the proceedings pursuant to Section 27, Rule 1 of the Interim Rules of Procedure on Corporate Rehabilitation.
>
> The Rehabilitation Receiver is directed to strictly monitor the implementation of the Plan and submit a quarterly report on the progress thereon.
>
> SO ORDERED.

PBCOM appealed to the CA in due course.

Ruling of the CA

In the assailed decision promulgated on December 16, 2008,[12] the CA affirmed the questioned order of the RTC, agreeing with the finding of the rehabilitation receiver that there were sufficient evidence, factors and actual opportunities in the rehabilitation plan indicating that Basic Polyprinters could be successfully rehabilitated in due time.[13]

Emphasizing the equitable and rehabilitative purposes of rehabilitation proceedings, the CA stated that Presidential Decree No. 902-A, as amended, sought to "effect a feasible and viable rehabilitation by preserving a foundering business as going concern" because it would be more valuable to preserve the assets of the corporation[14] rather than to pursue its liquidation; and observed in closing:

> One last word. The purpose of rehabilitation proceedings is to enable the company to gain new lease on life and thereby allows creditors to be paid

their claims from its earnings. Rehabilitation contemplates a continuance of corporate life and activities in an effort to restore and reinstate the financially distressed corporation to its former position of successful operation and solvency. This is in consonance with the State's objective to promote a wider and more meaningful equitable distribution of wealth to protect investments and the public. The approval of the Rehabilitation Plan by the trial court is precisely in furtherance of the rationale behind the Interim Rules of Corporate Rehabilitation is to effect a feasible and viable rehabilitation of ailing corporations which affect the public welfare. [15]

PBCOM moved for reconsideration,[16] but its motion was denied.

Issues

Hence, this appeal by PBCOM upon the following issues, namely:

I

THE COURT OF APPEALS GRAVELY ERRED IN DISMISSING PETITIONER'S PETITION FOR REVIEW AND AFFIRMING THE ORDER DATED JANUARY 11, 2008, CONSIDERING THAT:

A

A PETITION FILED PURSUANT TO THE INTERIM RULES OF PROCEDURE ON CORPORATE REHABILITATION PRESUPPOSES THAT THE PETITIONING CORPORATION HAS SUFFICIENT PROPERTY TO COVER ALL ITS INDEBTEDNESS. RESPONDENT IS INSOLVENT AS ITS ASSETS ARE LESS THAN ITS OBLIGATIONS;

B

THE "DETAILED REHABILITATION PLAN" DOES NOT PROVIDE MATERIAL FINANCIAL COMMITMENTS FROM RESPONDENT ITSELF OR WOULD-BE INVESTORS

C

THE TERMS AND CONDITIONS OF THE "APPROVED REHABILITATION PLAN" ARE TOO ONEROUS PARTICULARLY THE REHABILITATION TERM OF FIFTEEN (15) YEARS AS WELL AS THE "WAIVER" OF ALL INTEREST AND PENALTIES BEGINNING FEBRUARY 2004 UP TO THE TIME OF ITS APPROVAL.[17]

The petitioner claims that the CA did not pass upon the issues presented in its petition, particularly Basic Polyprinters' liquidity that was material in proceedings for corporate rehabilitation; that a petition for rehabilitation presupposed that the petitioning corporation had sufficient property to cover all its indebtedness, but

Basic Polyprinters did not show so because its assets were much less than its outstanding obligations; that Basic Polyprinters had under-declared its outstanding loans, *i.e.,* its total loan obligations with the petitioner was at P118,411,702.70 as of June 30, 2006, and not just P71,315,086.00 as it claimed; that the independent appraisal by the Professional Asset Valuers, Inc. (PAVI) on Basic Polyprinters' machineries and printing equipment mortgaged to it (PBCOM) had a fair market value of only P6,531,000.00, and a prompt sale value of only P4,572,000.00, as compared to the fair market value of P15,110,000.00 declared by Basic Polyprinters; that the rehabilitation plan did not contain the material financial commitments required by Section 5, Rule 4 of the Interim Rules of Procedure for Corporate Rehabilitation (Interim Rules); that, accordingly, the proposed repayment scheme did not constitute a material financial commitment, and the proposed *dacion en pago* was not proper because the property subject thereof had been mortgaged in its favor; and that the absence of capital infusion rendered impossible the proposal to invest in new machineries that would increase sales and improve quality and capacity.[18]

The petitioner posits that the assailed decision of the CA effectively gave Basic Polyprinters a moratorium for seven years on both interest and principal payments counted from the issuance of the stay order in 2004 that effectively prejudiced its creditors.[19]

Basic Polyprinters refutes the petitioner, saying that the petitioner raises factual issues improper under Rule 45 of the *Rules of Court*; that as long as the rehabilitation court found that the petitioning corporation could still be rehabilitated, its findings of fact should be binding when they were supported by substantial evidence; that the independent appraisal report by PAVI was unauthorized by the RTC; and that the validity of the rehabilitation plan could be upheld for its complete satisfaction of the requirements of Section 5, Rule 4 of the Interim Rules.

In fine, we shall determine whether the approval of the rehabilitation plan was proper despite: (*a*) the alleged insolvency of Basic Polyprinters; and (*b*) absence of a material financial commitment pursuant to Section 5, Rule 4 of the Interim Rules.

Ruling

We reverse the judgment of the CA.

I
Liquidity was not an issue
in a petition for rehabilitation

The petitioner contends that the sole issue in corporate rehabilitation is one of liquidity; hence, the petitioning corporation should have sufficient assets to cover all its indebtedness because it only foresees the impossibility of paying the indebtedness falling due. It claims that rehabilitation became inappropriate because Basic Polyprinters was insolvent due to its assets being inadequate to cover the outstanding obligations.[20]

We disagree with the contention of the petitioner.