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SECOND DIVISION

[G.R. No. 111890. May 7, 1997]

CKH INDUSTRIAL AND DEVELOPMENT CORPORATION and RUBI SAW, *petitioners, vs.* THE COURT OF APPEALS, (FORMER 13TH DIVISION), THE REGISTER OF DEEDS OF METRO MANILA — DISTRICT III (VALENZUELA), CENTURY-WELL PHIL. CORPORATION, LOURDES CHONG, CHONG TAK KEI and UY CHI KIM, *respondents.*

SYLLABUS

1. **REMEDIAL LAW; EVIDENCE; PAROLE EVIDENCE RULE, CONSTRUED.**— Section 9 of Rule 130 of the Rules of Court states that "when the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, between the parties and their successors-in-interest, no evidence of such terms other than the contents of the written agreement." The so-called "parole evidence rule" forbids any addition to or contradiction of the terms of a written instrument by testimony or other evidence purporting to show that, at or before the execution of the parties' written agreement, other or different terms were agreed upon by the parties, varying the purport of the written contract. When an agreement has been reduced to writing, the parties cannot be permitted to adduce evidence to prove alleged practices which to all purposes would alter the terms of the written agreement. Whatever is not found in the writing is understood to have been waived and abandoned.

2. **ID.; ID.; ID., EXCEPTIONS.**— The rule is not without exceptions, however, as it is likewise provided that a party to an action may present evidence to modify, explain, or add to the terms of the written agreement if he puts in issue in his pleadings: (a) an intrinsic ambiguity, mistake or imperfection in the written agreement; (b) The failure of the written agreement to express the true intent and agreement of the parties thereto; (c) The validity of the written agreement; or (d) The existence of other terms agreed too by the parties or their successors in interest after the execution of the written agreement.

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3. **CIVIL LAW; OBLIGATIONS AND CONTRACTS; EXTINGUISHMENT OF OBLIGATION; MODES.**— Under Article 1231 of the Civil Code, an obligation may be extinguished: (1) by payment or performance; (2) by the loss of the thing due, (3) by the condonation or remission of the debt; (4) by the confusion or merger of the rights of creditor and debtor, (5) by compensation; or (6) by novation. Other causes of extinguishment of obligations include annulment, rescission, fulfillment of a resolutory condition and prescription.

4. **ID.; ID.; ID.; LEGAL COMPENSATION; REQUISITES.**— Compensation may take place by operation of law (legal compensation), when two persons, in their own right, are creditors and debtors of each other. Article 1279 of the Civil Code provides for the requisites of legal compensation: "Article 1279. In order that compensation may be proper, it is necessary: (1) that each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other; (2) That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated; (3) That the two debts be due; (4) That they be liquidated and demandable; (5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor."

5. **ID.; ID.; ID.; CONVENTIONAL COMPENSATION; REQUISITES.**— Compensation may also be voluntary or conventional, that is, when the parties, who are mutually creditors and debtors agree to compensate their respective obligations, even though not all the requisites for legal compensation are present. Without the confluence of the characters of mutual debtors and creditors, contracting parties cannot stipulate to the compensation of their obligations, for then the legal tie that binds contracting parties to their obligations would be absent. At least one party would be binding himself under an authority he does not possess. As observed by a noted author, the requirements of conventional compensation are (1) that each of the parties can dispose of the credit he seeks to compensate, and (2) that they agree to the mutual extinguishment of their credits.

6. **ID.; ID.; ID.; ID.; WILL NOT APPLY WHERE THE CONTRACTING PARTIES ARE NOT MUTUALLY BOUND AS CREDITORS AND DEBTORS IN THEIR OWN NAME.**— In the instant case, there can be no valid

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compensation of the purchase price with the obligations of Cheng Kim Heng reflected in the promissory notes, for the reason that CKH and Century-Well the principal contracting parties, are not mutually bound as creditors and debtors in their own name. A close scrutiny of the promissory notes does not indicate the late Cheng, as then president of CKH, acknowledging any indebtedness to Century-Well. In fact, there is no indication at all, that such indebtedness was contracted by Cheng from Choi and Kei as stockholders of Century-Well. Choi and Kei, in turn, are not parties to the Deed of Absolute Sale. They are merely stockholders of Century-Well, and as such, are not bound principally, not even in a representative capacity, in the contract of sale. Thus, their interest in the promissory notes cannot be off-set against the obligations between CKH and Century-Well arising out of the deed of absolute sale, absent any allegation, much less, even a scintilla of substantiation, that Choi and Kei's interest in Century-Well are so considerable as to merit a declaration of unity of their civil personalities. Under present law, corporations, such as Century-Well, have personalities separate and distinct from their stockholders, except only when the law sees it fit to pierce the veil of corporate identity, particularly when the corporate fiction is shown to be used to defeat public convenience, justify wrong, protect fraud or defend crime, or where a corporation the mere alter ego or business conduit of a person. The court cannot, in this instance make such a ruling absent a demonstration of the merit of such a disposition.

APPEARANCES OF COUNSEL

Dumlao, Farolan and Ignacio Law Offices for petitioners.
Arturo S. Santo for private respondents.
Estrella-Bautista & Associates for respondent Uy Chi Kim.

D E C I S I O N

TORRES, JR., *J.*:

The present petition springs from a civil action instituted by herein petitioners, to rescind and/or annul the sale of two parcels of land, from petitioner CKH Industrial and Development Corporation (CKH, for brevity) to private respondent Century-Well Phil. Corporation (Century-Well, for brevity), for failure to pay the stipulated price of P800,000.00.

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Petitioners specifically assail the Decision[1] of the respondent Court of Appeals, which denied the annulment of the sale. The appellate court found that there was payment of the consideration by way of compensation, and ordered petitioners to pay moral damages and attorney's fees to private respondents. The dispositive portion of the questioned decision reads:

"WHEREFORE, in view of all the foregoing, the appealed Decision is REVERSED. The complaint is DISMISSED with costs against the plaintiffs. The plaintiffs jointly and severally are required to pay each of the defendants Lourdes Chong, Chong Tak Kei, and Uy Chi Kim moral damages of P20,000.00; and further requiring the plaintiffs, jointly and severally, to pay to each of the defendants Century-Well Phil. Corporation, Lourdes Chong, Chong Tak Kei and Uy Chi Kim attorney's fees of P20,000.00

With costs in this instance against the plaintiffs-appellees.

SO ORDERED."[2]

The said decision reversed the disposition of the Regional Trial Court of Valenzuela, Branch 172 in Civil Case No. 2845-V-88 entitled "CKH Industrial & Development Corporation *vs.* Century-Well Philippine Corporation, Lourdes Chong, Chong Tak Kei, Uy Chi Kim, and the Register of Deeds of Metro Manila, District III (Valenzuela)." The trial court's decision stated pertinently:

"WHEREFORE, in view of the foregoing, judgment is hereby rendered in favor of plaintiff:

1. Ordering the rescission/annulment of the Deed of Absolute Sale of Realty.

2. Ordering defendants Lourdes Chong, Chong Tak Kei and Century-Well to pay plaintiffs moral damages in the sum of P200,000.00;

3. Ordering defendants Lourdes Chong, Chong Tak Kei and Century Well to pay plaintiffs Attorney's fees in the amount of 15% of the agreed price of P800,000.00 plus appearance fees of P500.00 per appearance;

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[1] Annex "A" Petition, p. 66, *Rollo*; Justice Cezar D. Francisco, *ponente*; concurred in by Justices Pedro A. Ramirez and Corona Ibay-Somera.

[2] *Ibid.*, at p. 87, *Rollo*.

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4. Ordering defendants Lourdes Chong, Chong Tak Kei and Century Well to pay the costs of suit;

5. As the writ of preliminary injunction was denied, the defendant Register of Deeds of Valenzuela is hereby ordered to cancel the certificates of title issued to Century-Well by virtue of the Deed of Absolute Sale of Realty and to reissue a new title in the name of CKH.

The case is dismissed as far as defendant Uy Chi Kim is concerned. His counterclaim is likewise dismissed considering that by his mediation he took it upon himself to assume the damages he allegedly suffered.

SO ORDERED."[3]

The records disclose that petitioner CKH is the owner of two parcels of land, consisting of 4,590 sq. m. and 300 sq. m. respectively, located in Karuhatan, Valenzuela, and covered by Transfer Certificates of Title Nos. 8710 and 8711, Register of Deeds of Caloocan City (now Register of Deeds District III [Valenzuela]).[4] CKH is a corporation established under Philippine law by the late Cheng Kim Heng (Cheng), an immigrant of Chinese descent. Upon Cheng's demise, control over the petitioner corporation was transferred to Rubi Saw, also of Chinese descent, and Cheng's second wife.

It also appears that before coming to the Philippines, Cheng Kim Heng was married to Hung Yuk Wah (Wah), who lived in Hongkong together with their children, Chong Tak Kei (Kei), Chong Tak Choi (Choi), and Chong Tak Yam (Yam). After Cheng immigrated to the Philippines in 1976, and married Rubi Saw in 1977, he brought his first wife, Heng, and their children to this country, and established himself and his Chinese family as naturalized Filipino citizens. Heng died in 1984.

On May 8, 1988, Rubi Saw and Lourdes Chong, the wife of Cheng's son, Kei, met at the 1266 Soler St., Sta. Cruz, Manila, the residence of Cheng's friend, Uy Chi Kim, and executed a Deed of Absolute Sale,[5] whereby Rubi Saw, representing CKH, agreed

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[3] Record, p. 421; penned by Judge Teresita Dizon-Capulong.

[4] Annexes "A" and "B", Complaint, pp. 13-14, Record.

[5] Exhibit 11, p. 46, Folder of Exhibits.

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to sell the subject properties to Century-Well, a corporation owned in part by Lourdes Chong, Kei and Choi.[6]

The pertinent portions of the Deed of Sale are hereby reproduced:

"KNOW ALL MEN BY THESE PRESENTS:

This Deed of Absolute Sale of Realty executed by and between:

CKH INDUSTRIAL & DEVELOPMENT CORPORATION, a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with business address at 553 Bermuda St., Sta. Cruz, Manila, represented in this act by its authorized representative, Ms. RUBI SAW, hereinafter referred to as VENDOR,

- in favor of -

CENTURY-WELL PHIL. CORPORATION, a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines at least sixty (60%) percent of the subscribed capital stock of which is owned by Filipino citizens, duly qualified to own and acquire lands in the Philippines, with office and business address at 66 F Bautista St., Valenzuela, Metro Manila and represented in this act by its Treasurer and authorized representative, Ms. Lourdes Chong, hereinafter referred to as VENDEE,

WITNESSETH:

That vendor is the registered owner of two adjacent parcels of residential land situated in the Bo. of Karuhatan, Municipality of Valenzuela, Metro Manila, covered by Transfer Certificates of Titles Nos. B-8710 and B-8711 of the Registry of Deeds for Metro Manila District III, and more particularly described as follows:

x x x x x x x x x

That for and in consideration of the sum of EIGHT HUNDRED THOUSAND (P800,000.00) PESOS, Philippine Currency, paid by VENDEE to VENDOR, receipt of which is hereby acknowledged by the latter to its entire satisfaction, said VENDOR, by these presents, has SOLD, CEDED, TRANSFERRED, and CONVEYED by way of absolute sale unto said VENDEE, its successors and assigns, the two parcels of land above described and any and all improvements therein;

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That the above-described parcels of land are free from liens and encumbrances of whatever kind and nature.

IN WITNESS WHEREOF, the parties hereto and their instrumental witnesses have hereunto set their hand on _____ at _____"

Rubi Saw signed on behalf of CKH, while Lourdes Chong signed for Century Well.[7] The document was notarized the day after the parties signed the same, i. e., March 9, 1988.[8]

Claiming that the consideration for the sale of the subject properties was not paid by the private respondent-vendee despite several demands to do so, Petitioners CKH and Rubi Saw filed the instant complaint[9] on May 23, 1988, with the Regional Trial Court of Valenzuela, Branch 172, against Century-Well, Lourdes Chong, Chong Tak Kei and Uy Chi Kim. Petitioners prayed for the annulment/rescission of the Deed of Absolute Sale, and in the meantime, for the issuance of a writ of preliminary injunction restraining the Register of Deeds of Valenzuela from registering the Certificates of Title over the subject properties in the name of the private respondent Century-Well.

The trial court synthesized the petitioners' submissions as follows:

"The complaint alleges the following:

Lourdes Chong and Rubi Saw agreed that the full payment of P800,000.00 as purchase price shall be in the form of a Manager's Check, to be delivered to Rubi Saw upon the execution of the Deed of Sale, the preparation of which, Lourdes Chong undertook. On May 8, 1988, the date agreed upon for the execution of the Deed of Sale, plaintiff Rubi Saw, accompanied by her friend Aurora Chua Ng, went to 1266 Soler St., Sta. Cruz, Manila which is the residence and place of business of defendant Uy Chi Kim, an elderly man of Chinese ancestry and the place suggested by Lourdes Chong as their meeting

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[6] See Articles of Incorporation of Century-Well, pp. 15-21, Folder of Exhibits.

[7] Exhibit 11-B, p. 48, Folder of Exhibits.

[8] Exhibit 11-C, p. 49, Folder of Exhibits.

[9] Record, P. 1.

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place. During the meeting, Uy Chi Kim who was there presented to Rubi Saw a Deed of Absolute Sale in favor of defendant Century Well for her signature. Before Rubi Saw signed the Deed of Absolute Sale she inquired about the payment of the P800,000.00. Defendant Uy Chi Kim presented to her a personal check but she refused the same because it was contrary to her arrangement with Lourdes Chong that the payment would be in the form of Manager's Check. Uy Chi Kim then explained to Rubi Saw that since it was a Sunday that day, they were unable to obtain the Manager's Check. He assured her that he had sufficient cash money at the first floor of his residence which is a store owned by Uy Chi Kim. Before Uy Chi Kim left on the pretext of getting the money, he persuaded plaintiff Rubi Saw to sign the Deed of Absolute Sale and give the same to Lourdes Chong together with the two Certificates of Title. Since Uy Chi Kim is an elderly Chinese whom Rubi Saw had no reason to mistrust, following Chinese custom, plaintiff Rubi Saw acceded to the request of Uy Chi Kim, trusting that he had sufficient cash amounting to P800,000.00 kept in the first floor of his residence. When Uy Chi Kim returned, he told Rubi Saw that he had only P20,000 on hand. He assured plaintiff, however, that there was no cause for her to worry (as) he was certain he would have the entire amount ready by the next day when the banks would be open. Again, trusting the elderly defendant Uy Chi Kim, Rubi Saw did not object and did not insist on the return of the Deed of Absolute Sale that she signed, together with the Certificate of Title which she delivered to Lourdes Chong. The next day, May 9, 1988 Rubi Saw called Lourdes Chong and Uy Chi Kim over the telephone but was told they were not around. She could not go to the residence of Uy Chi Kim because she could not leave her office due to business concerns. On May 10, 1988 Rubi Saw repeatedly called the two but was informed they were not around. On May 11, 1988 already anxious, she personally went to the residences and offices of the two defendants but they were not around. On May 12, 1988 Rubi Saw wrote defendant Century Well advising Lourdes Chong of the rescission and cancellation of the Deed of Absolute Sale because of lack of consideration. Lourdes Chong refused to receive the letter. Thereafter, several demand letters were sent to the defendants but they refused to pay plaintiffs. Worried that defendants might surreptitiously transfer the certificates of title to their names, Rubi Saw wrote the public defendant Register of Deeds on May 16, 1988, giving information about the circumstances of the sale and requesting not to allow registration of the Deed of Absolute Sale, together with an Affidavit of Adverse Claim. On May 20, 1988, plaintiffs' representative was informed by the Register of Deeds that defendants have made representations with defendant to Register the Deed of Absolute Sale on May 23, 1988.

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Plaintiff Rubi Saw filed this Complaint alleging that Lourdes Chong and Uy Chi Kim maliciously misled her to believe that they would pay the P800,000 as consideration when in fact they had no intention to pay plaintiffs, and prayed that they should be awarded moral damages; that defendants be restrained from registering the Deed of Absolute Sale, and be ordered to return to them the 2 titles of the properties together with the Deed of Absolute Sale."[10]

On the other hand, private respondents Century-Well, Lourdes Chong, and Chong Tak Kei alleged that:

". . . the consideration for the two parcels of land was paid by means of off-setting or legal compensation in the amount of P700,000 thru alleged promissory notes executed by Cheng Kim Heng in favor of his sons Chong Tak Choi and Chong Tak Kei (Exhs. 6, 7, & 8) and payment of P100,000.00 in cash.

The defendant Century Well filed its Answer stating that during the operation of plaintiff CKH, the latter borrowed from Chong Tak Choi and Chong Tak Kei the total sum of P700,000.00 paying interest on P300,000.00 while the remaining P400,000.00 was interest free, and upon the death of Cheng Kim Heng, it stopped making said payments. Defendant tried to prove that the source of this P700,000 was Hung Yuk Wah while she was still residing in Hongkong, sent via bank draft from Hongkong to Chong Tak Choi and Chong Tak Kei on a bank to bank transfer. Defendant likewise tried to prove that after the death of Cheng Kim Heng, Rubi Saw unilaterally arrogated to herself the executive positions in plaintiff corporation such as President, Secretary, Treasurer and General Manager; thus effectively shunting aside Hung Yuk Wah and her children in the management of plaintiff corporation. Family differences (arose) between Rubi Saw on one hand, and Hung Yuk Wah and her children on the other hand which turned to worst after the death of Cheng Kim Heng. This brought about the entry of Chinese mediators between them, one of whom is defendant Uy Chi Kim, a reason why the execution of the Deed of Absolute Sale was to be done at the residence and business address of Uy Chi Kim."[11]

Uy Chi Kim, on the other hand, answered on his behalf, that:

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[10] Record, p. 422-423.

[11] *Ibid.*, p. 423-424.

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". . . his only participation in the transaction was as a mediator, he being one of the closest friends of Cheng Kim Heng; that because the heirs of Cheng Kim Heng could not settle their problems he, together with Machao Chan and Tomas Ching tried to mediate in accordance with Chinese traditions; that after long and tedious meetings the parties finally agreed to meet at his residence at 1266 Soler St., Sta. Cruz, Manila for the purpose of pushing thru the sale of the properties in question as part of the settlement of the estate. Defendant Uy Chi Kim corroborated the defense of his co-defendants that the purchase price of the properties was P800,000.00 the payment of which consists in the form of P100,000.00 in cash Philippine Currency; and the balance of P700,000.00 will be applied as a set-off to the amount borrowed by plaintiff CKH from Chong Tak Choi and Chong Tak Kei. He advanced the amount of P100,000.00 by way of his personal check to Rubi Saw but because Rubi Saw refused, he gave Rubi Saw P100,000 in the form of P100 bills which Rubi Saw and Jacinto Say even counted. After the P100,000.00 cash was given and the promissory notes, Rubi Saw signed the document of sale. It was during the registration of the sale that a problem arose as to the payment of the capital gains (tax) which Rubi Saw refused to pay. The buyer likewise refused to pay the same. The complaint against him is baseless and which besmirched his reputation. Hence his counterclaim for damages."[12]

The trial court denied the petitioners' prayer for issuance of the writ of preliminary injunction in its Order dated August 4, 1988.[13]

After trial, the lower court rendered its Decision on February 4, 1991, finding that the annulment of the Deed of Absolute Sale was merited, as there was no payment of the stipulated consideration for the sale of the real properties involved to Rubi Saw.

In the first place, said the court, the Deed of Sale itself, which is the best evidence of the agreement between the parties, did not provide for payment by off-setting a portion of the purchase price with the outstanding obligation of Cheng Kim Heng to his sons Chong Tak Choi and Chong Tak Kei. On the contrary, it provided for payment in cash, in the amount of P800,000.00. The evidence

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[12] *Ibid.*

[13] Record, p. 113.

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presented, however, did not disclose that payment of the said amount had ever been made by the private respondent. Moreover, there cannot be any valid off-setting or compensation in this case, as Article 1278 of the Civil Code[14] requires, as a prerequisite for compensation, that the parties be mutually bound principally as creditors and debtors, which is not the case in this instance. The rescission of the contract is, therefore, called for, ruled the court.

Upon appeal, the respondent Court of Appeals reversed the findings and pronouncements of the trial court. In its Decision[15] dated April 21, 1993, the appellate court expressed its own findings, that the execution of the Deed of Absolute Sale was in settlement of a dispute between Rubi Saw and the first family of Cheng Kim Heng, which arose upon Cheng's death. The appellate court described the history of their dispute as follows:

"In 1977, Heng formed plaintiff-appellee CKH Industrial & Development Corporation (CKH), with his first wife Wah, children Choi and Kei, and second wife Rubi as his co-incorporators/stockholders, along with other individuals (Exhs. C and D; *ibid.*, p. 9 and pp. 10-13. respectively). On April 15 and July 17 the following year, Heng, on behalf of CHK [sic], obtained loans of P400,000.00 and P100.000.00 from Choi, for which Heng executed two promissory notes in Choi's favor (Exhs. 6 and 7; *ibid.*, p. 40 and p. 41, respectively). On November 24, 1981, Heng obtained from his other son, Kei, another loan this time in the sum of P200,000.00 on behalf of CKH for which he issued another promissory note (Exh. 8, *ibid.*, p. 42).

After its incorporation, CKH acquired two parcels of land situated in Karuhatan, Valenzuela, Bulacan (now Metro Manila) covered by Transfer Certificates of Title Nos. B-8710 (Annex A-Complaint; Record, p. 13) and B-8711 (Annex B-Complaint; *ibid.*, p. 14), which are now the subject of litigation in instant case.

On October 11, 1982, Kei was married to defendant-appellant Lourdes Chong nee Lourdes Gochico Hai Huat (Lourdes). During their marriage, Kei and Lourdes resided in the house on Tetuan St., Sta. Cruz,

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[14] Art. 1278. Compensation shall take place when two persons, in their own right, are creditors and debtors of each other. (1159)

[15] *Supra.*

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Manila, which CKH was then utilizing as its office. At about this time, Heng and Rubi had moved residence from Valenzuela, Metro Manila, to Bermuda St., Sta. Cruz, Manila.

Two years later, or in late 1984, Heng died. Thenceforth, there appeared to be a falling out between Heng's first wife Wah and their three children on the one hand, and his second wife Rubi, on the other, which came to a head when, Rubi as president of CKH wrote a letter dated August 21, 1985 to the mayor of Valenzuela, Metro Manila, to prevent issuance of a business permit to American Metals managed by Chong Tak Choi, stating that CKH has not allowed it to make use of the property, and on November 7, 1985, when CKH, through counsel, demanded that Wah, Choi and Yam vacate the residential and factory buildings and premises owned by CKH and located on one of the subject lots on 76 F. Bautista St., Valenzuela, which the three and the corporation (of which two of them were stockholders), had been allegedly illegally occupying (Exhs. 10 and 10-A; Folio, pp. 44-45).

Respected mediators from the Chinese community in the persons of defendant-appellant Uy Chi Kim, Ma Chao, Tomas Cheng and Johnny Saw, were called in to mediate. The mediation efforts which resulted in the withdrawal by Rubi Saw of her letter about the withholding of a license to American Metals, Inc. and much later, had culminated in the transaction now under litigation.

The formula for settlement in the dispute was for the Valenzuela properties of CKH to be sold to Century Well for the amount of P800,000.00, P100,000.00 of which will be paid in cash and the balance of P700,000.00 to be set-off by the three (3) promissory notes executed in behalf of CKH in favor of Chong Tak Choi and Chong Tak Kei (Exhs. 6, 7 and 8) the accumulated interests thereon to be waived as unstated consideration of the sale.

Having reached such agreement, on May 8, 1988, the parties met at the residence of Kim at Soler St., where the corresponding deed of absolute sale of realty was executed (Exhs. 11, 11-A to 11-C; *ibid.*, pp. 46-49), with mediator Cheng and CKH stockholder and Rubi's secretary, Jacinto Say, signing as instrumental witnesses. After having received the cash consideration of P100,000.00 and the promissory notes amounting to P700,000.00 Rubi had signed the deed, and thereafter delivered to Lourdes the document of sale and the owner's copies of the certificates of title for the two lots. The deed having been executed on a Sunday, the parties agreed to have the same notarized the following

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day, May 9, 1988. The parties again met the next day, May 9, 1988, when they acknowledged the deed before a notary public."[16]

In sum, the appellate court found that there was indeed payment of the purchase price, partially in cash for P100,000.00 and partially by compensation by off-setting the debt of Cheng Kim Heng to his sons Choi and Kei for P500,000.00 and P200,000.00 respectively, against the remainder of the stipulated price. Such mode of payment is recognized under Article 1249[17] of the Civil Code.

As observed by the appellate court:

"We are of the considered view that the appellees have not established what they claim to be the invalidity of the subject deed of sale. The appellees are therefore neither entitled to the rescission or annulment of the document nor to the award made in their favor in the decision under question and those other reliefs they are seeking."[18]

The question the Court is now tasked to answer is whether or not there was payment of the consideration for the sale of real property subject of this case. More specifically, was there a valid compensation of the obligations of Cheng Kim Heng to his sons with the purchase price of the sale?

To resolve this issue, it is first required that we establish the true agreement of the parties.

Both parties take exception to the provisions of the Deed of Absolute Sale to bolster their respective claims. Petitioners, while

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[16] *Rollo*, pp. 68-70.

[17] Art. 1249. The payment of debts in money shall be made in the currency stipulated, and if it is not possible to deliver such currency, then in the currency which is legal tender in the Philippines.

The delivery of promissory notes payable to order, or bills of exchange or other mercantile documents shall produce the effect of payment only when they have been cashed, or when through the fault of the creditor they have impaired.

In the meantime, the action derived from the original obligation shall be held in abeyance. (1170)

[18] *Rollo*, p. 86.

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submitting that as worded, the Deed of Absolute Sale does not provide for payment by compensation, thereby ruling out the intention of the parties to provide for such mode of payment, submit on the other hand, that they had not received payment of the stipulated cash payment of P800,000.00. The testimony of Rubi Saw during the hearings for preliminary injunction and during trial was submitted to advance the submission that she was never paid the price of the subject lots, in cash or in promissory notes.

On the other side of the fence, private respondents, who, ironically, were the parties who drafted the subject document, claim that the Deed of Sale does not express the true agreement of the parties, specifically with regard to the mode of payment. Private respondents allege that the execution of the deed of absolute sale was the culmination of mediation of the dispute of the first and second families of Cheng Kim Heng, over the properties of the decedent; that the price of the real property subject of the contract of sale was partly in cash, and the reminder to be compensated against Cheng's indebtedness to his sons Choi and Kei, reflected in the promissory notes submitted as Exhibits 6, 7 and 8 during the trial; that by virtue of such compensation, the sale has been consummated and the private respondent Century-Well is entitled to the registration of the certificates of title over the subject properties in its name.

These contrasting submissions of the circumstances surrounding the execution of the subject document have led to this stalemate of sorts. Still, the best test to establish the true intent of the parties remains to be the Deed of Absolute Sale, whose genuineness and due execution, are unchallenged.[19]

Section 9 of Rule 130 of the Rules of Court states that "when the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, between the parties and their successors-in-interest, no evidence of such terms other than the contents of the written agreement."

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[19] See petitioner's comments and/or objections to defendant's Formal Offer of Evidence, p. 101, Record.

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The so-called "parol evidence rule" forbids any addition to or contradiction of the terms of a written instrument by testimony or other evidence purporting to show that, at or before the execution of the parties' written agreement, other or different terms were agreed upon by the parties, varying the purport of the written contract. When an agreement has been reduced to writing, the parties cannot be permitted to adduce evidence to prove alleged practices which to all purposes would alter the terms of the written agreement. Whatever is not found in the writing is understood to have been waived and abandoned.[20]

The rule is not without exceptions, however, as it is likewise provided that a party to an action may present evidence to modify, explain, or add to the terms of the written agreement if he puts in issue in his pleadings: (a) An intrinsic ambiguity, mistake or imperfection in the written agreement; (b) The failure of the written agreement to express the true intent and agreement of the parties thereto; (c) The validity of the written agreement; or (d) The existence of other terms agreed to by the parties or their successors in interest after the execution of the written agreement.[21]

We reiterate the pertinent provisions of the deed:

"That for and in consideration of the sum of EIGHT HUNDRED THOUSAND (P800,000.00) PESOS, Philippine Currency, paid by VENDEE to VENDOR, receipt of which is hereby acknowledged by the latter to its entire satisfaction, said VENDOR, by these presents, has SOLD, CEDED, TRANSFERRED, and CONVEYED by way of absolute sale unto said VENDEE, its successors and assigns, the two parcels of land above described and any and all improvements therein;"[22]

The foregoing stipulation is clear enough in manifesting the vendor's admission of receipt of the purchase price, thereby lending sufficient, though reluctant, credence to the private respondents' submission that payment had been made by off-setting P700,000.00 of the purchase price with the obligation of

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[20] *Soriano vs. Compania General de Tabacos de Filipinas*, 125 Phil 80.

[21] Paragraph 2, Section 9, Rule 130, Rules of Court.

[22] *Supra.*

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Cheng Kim Heng to his sons Choi and Kei. By signing the Deed of Absolute Sale, petitioner Rubi Saw has given her *imprimatur* to the provisions of the deed, and she cannot now challenge its veracity.

However, the suitability of the said stipulations as benchmarks for the intention of the contracting parties, does not come clothed with the cloak of validity. It must be remembered that agreements affecting the civil relationship of the contracting parties must come under the scrutiny of the provisions of law existing and effective at the time of the execution of the contract.

We refer particularly to the provisions of the law on compensation as a mode of extinguishment of obligations. Under Article 1231 of the Civil Code, an obligation may be extinguished: (1) by payment or performance; (2) by the loss of the thing due; (3) by the condonation or remission of the debt; (4) by the confusion or merger of the rights of creditor and debtor; (5) by compensation; or (6) by novation. Other causes of extinguishment of obligations include annulment, rescission, fulfillment of a resolutory condition and prescription.

Compensation may take place by operation of law (legal compensation), when two persons, in their own right, are creditors and debtors of each other.[23] Article 1279 of the Civil Code provides for the requisites of legal compensation:

"Article 1279. In order that compensation may be proper, it is necessary:

(1) That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other;

(2) That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated;

(3) That the two debts be due;

(4) That they be liquidated and demandable;

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[23] Article 1278, Civil Code.

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(5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor."

Compensation may also be voluntary or conventional, that is, when the parties, who are mutually creditors and debtors agree to compensate their respective obligations, even though not all the requisites for legal compensation are present. Without the confluence of the characters of mutual debtors and creditors, contracting parties cannot stipulate to the compensation of their obligations, for then the legal tie that binds contracting parties to their obligations would be absent. At least one party would be binding himself under an authority he does not possess. As observed by a noted author, the requirements of conventional compensation are (1) that each of the parties can dispose of the credit he seeks to compensate, and (2) that they agree to the mutual extinguishment of their credits.[24]

In the instant case, there can be no valid compensation of the purchase price with the obligations of Cheng Kim Heng reflected in the promissory notes, for the reason that CKH and Century-Well the principal contracting parties, are not mutually bound as creditors and debtors in their own name. A close scrutiny of the promissory notes does not indicate the late Cheng, as then president of CKH, acknowledging any indebtedness to Century-Well. As worded, the promissory notes reveal CKH's indebtedness to Chong Tak Choi and Chong Tak Kei.

Exhibit 6

Metro Manila, Philippines
April 15, 1978

For Value Received, We, CKH INDUSTRIAL & DEVELOPMENT CORPORATION, a duly registered corporation with postal address at Rm. 330, MTM Bldg. 1002 C. M. Recto Avenue, Manila, promises [sic] to pay on demand to Mr. CHONG TAK CHOI, the sum of FOUR HUNDRED THOUSAND PESOS, Philippine currency (P400,000.00)

To certify the correctness of the indebtedness to the party, I, CHENG KIM HENG, President of CKH INDUSTRIAL & DEVELOPMENT

[24] IV Tolentino, Civil Code of the Philippines, 1985 ed., p. 368.

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CORPORATION, do hereby signed [sic] in behalf of the Corporation.

CKH INDUSTRIAL & DEVELOPMENT
CORPORATION

signed:

CHENG KIM HENG"

Exhibit 7

Manila,
July 17, 1978

For Value received, we, CKH INDUSTRIAL & DEVELOPMENT CORPORATION, a duly registered domestic corporation in the City of Manila, represented by its president, CHENG KIM HENG with residence certificate no. 118824650 issued at Manila, on 2-28-78 do promise to pay on demand the sum of ONE HUNDRED THOUSAND PESOS ONLY (P100,000.00), Philippine currency with interest from the date hereof at the rate of ten per cent (10%) per annum to Mr. CHONG TAK CHOI.

In witness hereof on the consents [sic] of the parties to this promissory note, I, CHENG KIM HENG, president of CKH INDUSTRIAL & DEVELOPMENT CORPORATION do hereby affixed [sic] my signature below.

signed:

CHENG KIM HENG"

Exhibit 8

Manila, Philippines,
November 24, 1981

I, CHENG KIM HENG, President of CKH INDUSTRIAL & DEVELOPMENT CORPORATION, 831 Tetuan St. (2nd floor) Sta. Cruz, Manila, promises to pay to CHONG TAK KEI, with postal address at 76 F. Bautista St., Valenzuela, Metro Manila, the sum of PESOS: *TWO HUNDRED THOUSAND ONLY* (P200,000.00) Philippine Currency, with interest at the rate of *Ten* per cent (10%) per annum from date stated above to a period of one year and I hereby consent to

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any renewal, or extension of same amount to a same period which may be requested by any one of us for the payment of this note.

I also acknowledge the receipt of the above sum of money today from MR. CHONG TAK KEI.

CKH IND. & DEV. CORP.

signed:

CHENG KIM HENG
President

In fact, there is no indication at all, that such indebtedness was contracted by Cheng from Choi and Kei as stockholders of Century-Well. Choi and Kei, in turn, are not parties to the Deed of Absolute Sale. They are merely stockholders of Century-Well,[25] and as such, are not bound principally, not even in a representative capacity, in the contract of sale. Thus, their interest in the promissory notes cannot be off-set against the obligations between CKH and Century-Well arising out of the deed of absolute sale, absent any allegation, much less, even a scintilla of substantiation, that Choi and Kei's interest in Century-Well are so considerable as to merit a declaration of unity of their civil personalities. Under present law, corporations, such as Century-Well, have personalities separate and distinct from their stockholders,[26] except only when the law sees it fit to pierce the veil of corporate identity, particularly when the corporate fiction is shown to be used to defeat public convenience, justify wrong, protect fraud or defend crime, or where a corporation the mere alter ego or business conduit of a person.[27] The Court cannot, in this instance make such a ruling absent a demonstration of the merit of such a disposition.

Considering the foregoing premises, the Court finds it proper to grant the prayer for rescission of the subject deed of sale, for failure of consideration.[28]

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[25] See Articles of Incorporation of Century-Well, *supra*.

[26] See Section 2, Corporation Code.

[27] *Yu vs. National Labor Relations Commission*, G.R. Nos. 111810-11, June 16, 1995, 245 SCRA 134.

[28] Article 1191, Civil Code.

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IN VIEW WHEREOF, the Court hereby RESOLVED to GRANT the present petition. The decision of the Court of Appeals dated April 21, 1993, is hereby REVERSED and SET ASIDE. The decision of the Regional Trial Court of Valenzuela, Branch 173 dated February 4, 1991, is hereby REINSTATED, with the MODIFICATION that the award of moral damages and attorney's fees to Rubi Saw, and the order for payment of costs are DELETED.

The parties shall bear their respective costs.

SO ORDERED.

Regalado (Chairman), Romero, Puno, and *Mendoza, JJ.,* concur.

THIRD DIVISION

[G.R. No. 112986. May 7, 1997]

PEOPLE OF THE PHILIPPINES, *plaintiff-appellee, vs.* **ANSELMO O. BUTRON** *alias* **"ANSING",** *accused-appellant.*

SYLLABUS

1. **REMEDIAL LAW; EVIDENCE; THREE SETTLED PRINCIPLES THAT GUIDE THE COURT IN REVIEWING RAPE CASES.** — "In reviewing the evidence of this case, this Court was guided by the three (3) settled principles in reviewing rape cases, namely, (1) an accusation for rape can be made with facility, it is difficult to prove but more difficult for the person accused, though innocent, to disprove it; (2) in view of the intrinsic nature of the crime of rape where only two persons are usually involved, the testimony of the complainant must be scrutinized with extreme caution; (3) the evidence for the