Supreme Court E-Library

to *reclusion perpetua*, with all its accessory penalties of the law, and to pay the heirs of the deceased Glorito Aquino ₱50,000.00 as moral damages and another ₱50,000.00 as civil indemnity, and costs; and

2. In the absence of proof beyond reasonable doubt, accused-appellants Wilfredo Baracas *alias* "Adiong" and Jaime Baril *alias* "Metong" are *ACQUITTED*, with costs *de oficio*. The Court *ORDERS* their immediate release from custody unless they are held for other causes. The Director of Corrections is directed to notify this Court within ten (10) days from receipt of his compliance with this order.

SO ORDERED.

Davide, Jr., C.J., Kapunan, and *Ynares-Santiago, JJ.*, concur.

Puno, J., took no part.

FIRST DIVISION

[G.R. No. 125497. November 20, 2000]

UNICANE FOOD PRODUCTS MANUFACTURING, INC., *petitioner, vs.* **HON. COURT OF APPEALS, SPOUSES PABLO & FELISA MANESE, SPOUSES NICANOR & LUTGARDA VELASQUEZ and CICERON MANESE,** *respondents.*

SYNOPSIS

Petitioner Unicane Food Products Manufacturing, Inc. and private respondent Felisa Manese entered into a contract of lease with option to buy a parcel of land covered by Transfer Certificate of Title No. 121058-R in the name of private

Supreme Court E-Library

respondent. The lease was for a period of fifteen (15) years, from June 6, 1975 to June 7, 1990, at a yearly rental of ten thousand (₱10,000.00) pesos. In the course of the lease agreement, UNICANE and Felisa Manese verbally agreed to extend the term of the lease up to December 7, 1997, and UNICANE paid advance rental in the amount of twenty thousand pesos (₱20,000.00) on July 3, 1987, for the extended term. Felisa promised that she would execute an extended lease contract. However, on September 6, 1978, upon the persuasion of her two daughters Lutgarda and Ciceron Manese, Felisa sold her three (3) parcels of land for fifteen thousand pesos (₱15,000.00), without the consent of her husband Pablo, to her daughters who were in financial difficulties. The sale was with the undertaking that the parcels of land would be returned to Felisa after the two daughters had overcome their financial problems. When petitioner learned about the Deed of Absolute Sale of the property covered by the lease, it demanded that the deed of absolute sale be disregarded as he was deprived of his preferential option to buy, as stated in paragraph 7 of the contract of lease. However, Lutgarda and Ciceron Manese warned petitioner UNICANE that they would no longer extend the lease agreement beyond 1990, which was contrary to UNICANE's agreement with Felisa that the lease would be extended up to December 7, 1997. However, respondents Manese refused to sell. Hence, UNICANE filed with the Regional Trial Court, San Fernando, Pampanga, Branch 46, a complaint for annulment of the deed of absolute sale against respondents. The trial court rendered a decision in favor of petitioner. The trial court extended the lease contract up to December 7, 1997 and ordered the rescission of the Deed of Absolute Sale between defendant Felisa Feliciano Manese, on the one hand, and defendants Lutgarda Manese Velasquez, on the other hand. On appeal, the Court of Appeals reversed the ruling of the trial court. Petitioner Unicane filed a motion for reconsideration of the decision, but the Court of Appeals denied the motion. Hence, the present petition.

The Supreme Court found the petition unmeritorious. The Court did not consider the advance rentals covered by receipts as evidence of the extension of the lease agreement. The Court stressed that Felisa Manese was an elderly illiterate woman, who at the time of payment of the "advance rentals" was not

Supreme Court E-Library

aware of what was written in the receipts that she signed. Unicane prepared the receipts and did not explain the contents to Felisa. Such want of explanation was inconsistent with Article 1332 of the Civil Code. Under the said provision, where a party to a contract is illiterate, or can not read or understand the language in which the contract is written, the burden is on the party interested in enforcing the contract to prove that the terms thereof are fully explained to the former in a language understood by him. The Court, however, ruled that the sale between private respondent Felisa Manese and her children was a simulated contract because there was no consideration received by the seller and was only arranged so that her children may use the property as collateral for a ₱500,000.00 loan from the Planters Development Bank. The Court then finally ruled that with the expiration of the lease contract in 1990, and its non-renewal, petitioner's option to acquire the premises no longer exists.

SYLLABUS

1. CIVIL LAW; CONTRACTS; ADVANCE RENTALS COVERED BY RECEIPTS CANNOT BE CONSIDERED AS EVIDENCE OF AN EXTENSION OF THE LEASE AGREEMENT; LESSOR WAS AN ELDERLY ILLITERATE WOMAN, WHO AT THE TIME OF THE PAYMENT WAS NOT AWARE OF WHAT WAS WRITTEN IN THE RECEIPTS THAT SHE SIGNED; CASE AT BAR.— We rule that the advance rentals covered by receipts can not be considered as evidence of an extension of the lease agreement. It must be emphasized that Felisa Manese was an elderly illiterate woman, who at the time of the payment of the "advance rentals" was not aware of what was written in the receipts that she signed. Unicane prepared the receipts and did not explain the contents to Felisa. We fully agree with the appellate court when it held that: "Such want of explanation is inconsistent with Article 1332 of the Civil Code, which provides: 'When one of then parties is unable to read, or if the contract is in a language not understood by him, and mistake or fraud is alleged, the person enforcing the contract must show that the terms thereof have been fully explained to the former.' Under the foregoing provisions, where a party to a contract is illiterate, or can not read or understand the language in which the contract

Supreme Court E-Library

is written, the burden is on the party interested in enforcing the contract to prove that the terms thereof are fully explained to the former in a language understood by her *(Sales v. Court of Appeals*, 120 SCRA 897; *Bunyi v. Reyes*, 39 SCRA 504). In all contractual, property or other relations, when one of the parties is at a disadvantage on account of his physical, mental or other handicap, the courts must be careful and vigilant for his protection (Civil Code of the Philippines, Art. 24; *Rural Bank of Caloocan, Inc. vs. Court of Appeals*, 104 SCRA 151)." It is obvious that what the corporation wanted was to extend the lease agreement without fully apprising Felisa Manese of the implications of the receipt of the "advance rentals." Unicane simply wanted to get the lease extended at all cost.

2. ID.; ID.; SALE; BADGES OF A SIMULATED CONTRACT OF SALE; PRESENT IN CASE AT BAR.— It is not uncommon among Filipino families to extend a helping hand to a family member in financial need. Here is a mother's sincere desire to help alleviate the financial woes of her daughters. During the trial, respondents proved that the sale was simulated because there was no consideration paid to Felisa Manese. The sale was arranged without any pecuniary benefit for Felisa. It was done so that the property may be used as collateral for a ₱500,000.00 loan from Planters Development Bank. Not a single centavo was given to Felisa Manese, how then can this be considered a sale when there was no consideration received by the seller? We agree with the appellate court that this was a simulated sale, where the parties agreed that the title would revert back to Felisa Manese once her daughters Lutgarda and Ciceron Manese were financially capable. In *Roman Catholic Archbishop of Manila v. Court of Appeals*, we held that "from the language of Article 1670 of the Civil Code, an implied new lease may be created only where (1) the continued enjoyment of the thing by the lessee is with acquiescence of the lessor, and (2) no notice to the contrary has been given by the lessor." In the case at bar, both requisites are wanting. As early as 1989, the sisters Lutgarda and Ciceron Manese told Unicane that they were no longer extending the lease after 1990.

APPEARANCES OF COUNSEL

Cesar T. Verano and *Cirilo J. Nepuscua* for petitioner.
Laureano B. Carlos for private respondents.

Supreme Court E-Library

DECISION

PARDO, *J.*:

The case before us is a petition for review on *certiorari* of the decision of the Court of Appeals reversing the appealed decision and dismissing petitioner's complaint.[1]

The facts taken from the decision of the Court of Appeals are as follows:

On June 6, 1975, Felisa Feliciano Manese and Roberto Regala Keh Yung entered into a contract of lease[2] with option to buy a parcel of land covered by Transfer Certificate of Title No. 121058-R[3] in the name of Felisa Feliciano Manese, as her paraphernal property, consisting of thirty-eight thousand twenty seven (38,027) square meters, more or less, located at Bo. San Isidro, San Fernando, Pampanga. The lease was for a period of fifteen (15) years, from June 6, 1975 to June 7, 1990, at a yearly rental of ten thousand (₱10,000.00) pesos.

Three days after the execution of the lease, the parties agreed to an amendment[4] in the contract of lease. The parties mutually agreed that the real and actual LESSEE of the premises is the UNICANE FOOD PRODUCTS MANUFACTURING, INC., (hereinafter UNICANE for brevity) but all the other terms of the original contract of lease remain the same. Both contracts of lease were registered in the memorandum of encumbrance on TCT No. 121058-R, as entries 1340 and 2191, respectively.

Subsequently, UNICANE faithfully complied with the terms and conditions of the lease agreement, paying in advance its

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[1] In CA-G. R. CV No. 39610, promulgated on February 29, 1996, Lipana-Reyes, *J.*, *ponente*, Benipayo, and Ibay-Somera, *JJ.*, concurring, *Rollo*, pp. 34-42.

[2] RTC Record, pp. 12-15.

[3] *Ibid.*, pp. 16-17.

[4] *Ibid.*, pp. 18-19.

Supreme Court E-Library

yearly rentals. In the course of the lease agreement, UNICANE and Felisa Manese verbally agreed to extend the term of the lease up to December 7, 1997, and UNICANE paid advance rental in the amount of twenty thousand pesos (₱20,000.00) on July 3, 1987, for the extended term. Felisa promised that she would execute an extended lease contract.

However, on September 6, 1978, upon the persuasion of her two daughters Lutgarda and Ciceron Manese, Felisa sold her three (3) parcels of land for fifteen thousand pesos (₱15,000.00), without the consent of her husband Pablo, to her daughters who were in financial difficulties. The sale was with the undertaking that the parcels of land would be returned to Felisa after the two daughters had overcome their financial problems.

Due to the sale, a new certificate of title[5] was issued in the name of Lutgarda and Ciceron Manese, and, on January 25, 1989, Lutgarda and Ciceron mortgaged the property with the Planters Development Bank in consideration of a loan. Not a single centavo of the mortgage proceeds ever went to Felisa.

Petitioner after realizing that Felisa was not keen on issuing an amended lease contract decided to have the receipts for its advance payments of the rentals registered as an encumbrance on the property.

It was at this time that petitioner learned about the Deed of Absolute Sale of the property covered by the lease to Lutgarda Manese-Velasquez, married to Nicanor Velasquez and Ciceron Manese for the sum of fifteen thousand (₱15,000.00) pesos, and that Lutgarda and Ciceron Manese had obtained a Transfer Certificate of Title in their names on August 1988, under TCT No. 265688-R, over ten years after the deed of absolute sale was executed.

UNICANE then demanded that the deed of absolute sale between Felisa Manese and Lutgarda and Cicero Manese be disregarded as he was deprived of his preferential option to

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[5] *Ibid.*, Transfer Certificate of Title No. 265688-R, pp. 24-25.

Supreme Court E-Library

buy as stated in paragraph 7 of the contract of lease. However, Lutgarda and Ciceron Manese even warned petitioner UNICANE that they would no longer extend the lease agreement beyond 1990, which is contrary to UNICANE's agreement with Felisa that the lease would be extended up to December 7, 1997. Petitioner also wanted to exercise its option to buy the premises at the same price it was sold to Lutgarda and Ciceron Manese.

However, respondents Manese refused to sell. Hence, on July 10, 1989, UNICANE filed with the Regional Trial Court, San Fernando, Pampanga, Branch 46, a complaint[6] for annulment of the deed of absolute sale against respondents.[7]

On September 8, 1992 the trial court rendered a decision in favor of petitioner, the dispositive portion of which states:

"WHEREFORE, this Court hereby holds and so orders that:

"1. The period of the contract of lease between defendant Felisa Feliciano Manese and the plaintiff was effectively extended up to December 7, 1997;

"2. The Deed of Absolute Sale (Exhibit "G") between defendant Felisa Feliciano Manese on the one hand, and defendants Lutgarda Manese Velasquez (married to Nicanor Velasquez) and Ciceron Manese, executed on September 6, 1978 is hereby rescinded or nullified;

"3. Defendant Felisa Feliciano Manese execute a deed of absolute sale over the leased premises in favor of the plaintiff at a purchase price of Fifteen Thousand Pesos (₱15,000.00) and under the same terms and conditions as the Deed of Absolute Sale she executed in favor of defendants Lutgarda Manese Velasquez and Ciceron Manese;

"4. Defendants pay, jointly and severally, plaintiff the sum of ₱50,000.00, for and as attorney's fees; and

"5. Defendants pay, jointly and severally, plaintiff the costs of suit and litigation.

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[6] RTC Record, Complaint, pp. 1-10.

[7] Docketed as Civil Case No. 8442.

Supreme Court E-Library

"SO ORDERED."[8]

On September 15, 1992, respondents filed with the trial court their notice of appeal.[9] After due proceedings, on February 29, 1996, the Court of Appeals promulgated its decision, the relevant portions of which read:

"We note that the supposed sale was between a parent, Felisa Feliciano Manese and the children Lutgarda Manese Velasquez and Ciceron Manese. It is common knowledge and practice that between relatives especially between parent and children, ways are performed in order to transfer property without incurring monetary burden on the part of both the transferor and transferee. x x x

"Thus, in 1978, when the deed of absolute sale was executed by Felisa, the latter had no intention to transfer ownership thereof. More so, there was likewise no intention to buy the property on the part of the supposed vendee as they had not paid the price of the property. x x x The fact that the actual negotiation with the bank was held ten years later is of no moment as the intention of the supposed vendor and vendees in 1978 was not to transfer ownership which is an incident of the sale. Hence the preferential option of Unicane while the contract of lease was subsisting was not violated. We hold therefore that since the intent to be bound is not present, the supposed sale is an absolutely simulated one, which the law regards as null and void. x x x

"It is, thus clear from the foregoing that no valid extension of the lease up to 1997 was entered between appellee Unicane and appellant Felisa Feliciano Manese; that the sale between Felisa Feliciano Manese and Lutgarda Manese Velasquez and Ciceron Manese is a simulated one; and that Unicane has no legal right to compel Felisa Feliciano Manese to execute a deed of absolute sale over the subject property as its preferential option was lost with the expiration of the lease contract.

"Consequently, plaintiff-appellee is not entitled to attorneys fees.

"WHEREFORE, premises considered, the complaint is DISMISSED and the appealed decision is hereby REVERSED."[10]

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[8] Petition, Annex "D", *Rollo*, pp. 46-55.

[9] RTC Record, Notice of Appeal, p. 195.

[10] Decision, CA-G. R. CV No. 39610, *supra*, Note 1.

Supreme Court E-Library

On March 26, 1996, petitioner Unicane filed a motion for reconsideration of the decision;[11] however, on June 28, 1996, the Court of Appeals denied the motion.

Hence, this petition.[12]

Petitioner raised the following issues:

1. Whether the advance rentals covered by receipts were to be construed as evidence of an extension of the contract of lease.
2. Whether the deed of absolute sale by Felisa Feliciano Manese in favor of Lutgarda Manese Velasquez and Ciceron Manese was simulated and not enforceable.
3. Whether petitioner has the right to invoke its option to buy the leased premises since the lease had expired.[13]

The petition has no merit.

As to the first issue, we rule that the advance rentals covered by receipts can not be considered as evidence of an extension of the lease agreement. It must be emphasized that Felisa Manese was an elderly illiterate woman, who at the time of the payment of the "advance rentals" was not aware of what was written in the receipts that she signed. Unicane prepared the receipts and did not explain the contents to Felisa.

We fully agree with the appellate court when it held that:

"Such want of explanation is inconsistent with Article 1332 of the Civil Code, which provides:

'When one of the parties is unable to read, or if the contract is in a language not understood by him, and mistake or fraud is alleged, the person enforcing the contract must show that the terms thereof have been fully explained to the former.'

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[11] Motion for Reconsideration, CA *Rollo*, pp. 100-102.

[12] Filed on August 2, 1996, Petition, *Rollo*, pp. 8-33.

[13] *Ibid.*, at p. 14.

Supreme Court E-Library

"Under the foregoing provisions, where a party to a contract is illiterate, or can not read or understand the language in which the contract is written, the burden is on the party interested in enforcing the contract to prove that the terms thereof are fully explained to the former in a language understood by her *(Sales v. Court of Appeals*, 120 SCRA 897; *Bunyi v. Reyes*, 39 SCRA 504). In all contractual, property or other relations, when one of the parties is at a disadvantage on account of his physical, mental or other handicap, the courts must be careful and vigilant for his protection (Civil Code of the Philippines, Art. 24*; Rural Bank of Caloocan, Inc. vs. Court of Appeals*, 104 SCRA 151)."[14]

It is obvious that what the corporation wanted was to extend the lease agreement without fully apprising Felisa Manese of the implications of the receipt of the "advance rentals." Unicane simply wanted to get the lease extended at all cost.

As to the second issue, it is not uncommon among Filipino, families to extend a helping hand to a family member in financial need. Here is a mother's sincere desire to help alleviate the financial woes of her daughters. During the trial, respondents proved that the sale was simulated because there was no consideration paid to Felisa Manese.

The sale was arranged without any pecuniary benefit for Felisa. It was done so that the property may be used as collateral for a ₱500,000.00 loan from Planters Development Bank. Not a single centavo was given to Felisa Manese, how then can this be considered a sale when there was no consideration received by the seller?

We agree with the appellate court that this was a simulated sale, where the parties agreed that the title would revert back to Felisa Manese once her daughters Lutgarda and Ciceron Manese were financially capable.

In *Roman Catholic Archbishop of Manila v. Court of Appeals*, we held that "from the language of Article 1670 of

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[14] Petition, Annex "A" CA Decision, CA-G. R. CV No. 39610, *Rollo*, pp. 34-42, at pp. 39-40.

Supreme Court E-Library

the Civil Code, an implied new lease may be created only where (1) the continued enjoyment of the thing by the lessee is with acquiescence of the lessor, and (2) no notice to the contrary has been given by the lessor." [15] In the case at bar, both requisites are wanting. As early as 1989, the sisters Lutgarda and Ciceron Manese told Unicane that they were no longer extending the lease after 1990.

Also during the hearing of the Unicane complaint on July 10, 1989, at the Regional Trial Court, San Fernando, Pampanga, respondent Felisa Manese declared that she was not aware of the contents of the receipts that Unicane asked her to sign. Clearly then, the lessee Unicane was put on notice that the lessor Felisa Manese was not going to extend the lease agreement beyond 1990.

With the expiration of the lease contract in 1990, and its non-renewal, petitioner's option to acquire the premises no longer exists.

IN VIEW WHEREOF, the decision of the Court of Appeals is *AFFIRMED in toto*.

No costs.

SO ORDERED.

Davide, Jr., C.J., Puno, Kapunan, and *Ynares-Santiago, JJ.*, concur.

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[15] 336 Phil. 138 [1997].