

FIRST DIVISION

[G.R. No. 170679, March 09, 2016]

**TUNG HUI CHUNG AND TONG HONG CHUNG, PETITIONERS, VS.
SHIH CHIU HUANG A.K.A. JAMES SHIH, RESPONDENT.**

DECISION

BERSAMIN, J.:

A compromise agreement has the effect and authority of *res judicata* between the parties, and is immediately final and executory, unless rescinded upon grounds that vitiate consent. Once stamped with judicial *imprimatur*, it is more than a mere contract between the parties. Any effort to annul the judgment based on compromise on the ground of extrinsic fraud must proceed in accordance with Rule 47 of the *Rules of Court*.

The Case

This appeal by petition for review on *certiorari* seeks the review and reversal of the decision promulgated on September 30, 2005,^[1] whereby the Court of Appeals (CA) annulled and set aside the judicially-approved compromise agreement of August 19, 2003,^[2] and the resolution dated December 1, 2005,^[3] whereby the CA denied the motion for reconsideration, as well as the orders of January 13, 2005^[4] and February 28, 2005^[5] of the trial court denying the motion to quash the writ of execution to enforce the compromise judgment.

Antecedents

On September 6, 2001, the petitioners, both Australian citizens, filed in the Regional Trial Court (RTC), Branch 49, in Manila an amended complaint^[6] to recover from the respondent a sum of money and damages (with prayer for a writ of attachment). The suit, docketed as Civil Case No. 01-101260, involved the contract to sell dated October 30, 2000,^[7] whereby the respondent, as the vendor, undertook to deliver to the petitioners, as the vendees, shares of stock worth P10,606,266.00 in Island Information and Technology, Inc. (the corporation), a publicly listed corporation. The contract to sell pertinently stipulated:

x x x x

WHEREAS, sometime in the month of March, 2000 VENDEE remitted to VENDOR the total amount of Ten Million Six Hundred Six Thousand Two Hundred Sixty Six Philippine currency (Php10,606,266.00) which VENDOR hereby acknowledges receipt of the same;

WHEREAS, the above amount was given by VENDEE to VENDOR in

consideration for equivalent number of shares ("subject shares") of stock in the corporation, at the price specified below, which shares VENDOR will deliver to VENDEE at the time agreed upon in this Contract;

NOW, THEREFORE, for and in consideration of the foregoing premises, VENDOR and VENDEE hereby agree as follows:

1. VENDOR shall deliver to VENDEE the subject shares on either of the following dates, whichever comes sooner:

a. Upon approval by the Securities and Exchange Commission (SEC) of the application for increase of the number of shares of stocks of the Corporation; or

b. Four (4) months after the signing of this Contract.

x x x x

3. VENDOR and VENDEE hereby agree that the subject shares shall be priced at the average value thereof five (5) days prior to end of the fourth month as specified in Section 1 (b). In the event that VENDOR is able to deliver the subject shares to VENDEE prior to any of the periods given in Section 1, the subject shares shall be valued at the price mutually agreed upon in writing by both VENDOR and VENDEE at the time of actual delivery;

4. It is hereby understood that the exact number of shares to be delivered by VENDOR to VENDEE shall be that equivalent to Ten Million Six Hundred Six Thousand Two Hundred Sixty Six Philippine Currency (Php10,606,266,00),, consideration of this Contract, at the value or price thereof provided in Section 3;

5. VENDEE hereby acknowledges that VENDOR has advanced to him certain certificates of stocks of the Corporation equivalent to Thirty Four Million Two Hundred Thousand (34,200,000) shares, which are not yet transferred to his name, which number of shares shall be deducted from the subject shares to be delivered by VENDOR to VENDEE at the value provided in Section 3;^[8] (emphasis supplied)

x x x x

The petitioners alleged that under the provisions of the contract to sell, the equivalent shares of stock in the corporation should be their value as of February 22, 2001, the date corresponding to the five-day period prior to the end of the fourth month after October 30, 2000, the date of the signing of the contract to sell; that according to the Philippine Stock Exchange, Inc. (PSEI), the shares of the corporation, which stood at P0.05 for the open, high, low and closing prices on February 22, 2001, had the equivalent of 177,925,320 shares of stock; and that the respondent failed to deliver the shares of stock corresponding to the agreed amount on the date fixed by the contract.

On October 10, 2001, the RTC issued an amended order granting the petitioners'

application for the writ of preliminary attachment.^[9] On December 27, 2001, the respondent submitted his answer with counterclaim.^[10]

Later on, the parties filed their *Joint Motion for Approval of a Compromise Agreement* dated August 19, 2003.^[11] The compromise agreement, which was signed by the respondent and by Eduard Alcorido, as the attorney-in-fact of the petitioners, with the assistance of their respective counsels, stipulated that the parties agreed to settle their respective claims and counterclaims, and the respondent acknowledged therein his obligation to the petitioners in the amount of \$250,000.00, which he promised to pay in US\$ currency, as follows:

1. The amount of Twenty Thousand Dollars (US\$20,000.00) on or before November 15, 2003;
2. The amount of Sixty Five Thousand Dollars (US\$65,000.00) on or before November 15, 2004;
3. The amount of Sixty Five Thousand Dollars (US\$65,000.00) on or before November 15, 2005;
4. The amount of Fifty Thousand Dollars (US\$50,000.00) on or before November 15, 2006; and
5. The amount of Fifty Thousand Dollars (US\$50,000.00) on or before November 15, 2007.^[12]

The parties further agreed that upon payment of the first installment of US\$20,000.00, both of them would jointly move for the partial lifting of the writ of attachment issued by the RTC against the properties of the respondent.

The RTC approved the compromise agreement on October 20, 2003.^[13]

Upon the respondent's payment of the initial amount of US\$20,000.00, the parties filed their *Joint Motion to Partially Lift the Preliminary Attachment* dated December 16, 2003 in accordance with the compromise agreement.^[14] The RTC granted the joint motion.

But the respondent did not pay the November 15, 2004 second installment despite demand. Instead, he filed in the CA a petition for annulment of judgment dated November 25, 2004 (C.A.-G.R. SP No. 87768),^[15] thereby seeking to nullify the amended order dated October 10, 2001 granting the application for the writ of attachment, and the order dated October 20, 2003 approving the compromise agreement.

Meanwhile, the petitioners sought the execution of the judgment upon the compromise agreement through their motion for execution dated December 2, 2004 on the ground of the respondent's failure to pay the second installment.^[16] The RTC granted their motion for execution on December 14, 2004,^[17] and issued the writ of execution,^[18] commanding the sheriff to demand from the respondent the immediate payment of the full amount of \$230,000.00 as indicated in the

compromise agreement.

Through its resolution promulgated on December 29, 2004,^[19] the CA dismissed C.A.-G.R. SP No. 87768 for having no substantial merit. Although the respondent filed a *Motion for Reconsideration with Leave of Court*,^[20] he later withdrew the motion. The CA granted his motion to withdraw on March 7, 2005.^[21]

During the pendency of C.A.-G.R. SP No. 87768, the respondent filed a *Motion to Quash Writ of Execution* dated December 20, 2004,^[22] which the RTC denied on January 13, 2005.^[23] The RTC later denied the motion for reconsideration with finality.^[24]

The RTC's denial of the motion for reconsideration with finality impelled the respondent to go to the CA on *certiorari* (C.A.-G.R. SP No. 88804) on March 7, 2005,^[25] alleging that the RTC committed grave abuse of discretion amounting to lack of jurisdiction in issuing: (1) the writ of execution in Civil Case No. 01-101260; (2) the order dated January 13, 2005 denying the *Motion to Quash Writ of Execution*; and (3) the order dated February 28, 2005 denying the motion for reconsideration. He claimed that the compromise agreement was patently unjust, one-sided, unfair, fraudulent and unconscionable; hence, the RTC should not have issued the writ of execution.

On September 30, 2005, the CA promulgated the assailed decision,^[26] whereby it disposed as follows:

WHEREFORE, the petition, having merit in fact and in law is hereby GIVEN DUE COURSE. Resultantly, the assailed February 28, 2005 and January 18, 2005 orders of the trial court are hereby ANNULLED and SET ASIDE for having been issued without jurisdiction. The judicially approved compromise agreement of August 19, 2003 is likewise annulled and set aside due to fraud and lack of valid consent on the part of petitioner. The trial court is directed to bring the parties together, if so desired by them, for a possible valid compromise agreement reflective of the true and real intent of the parties and in the alternative to proceed with the hearing and trial of Civil Case No. 01-101260 with dispatch. No costs.

SO ORDERED.^[27]

The CA opined that based on the huge difference between the obligation of \$250,000.00 as stated in the compromise agreement and the relief prayed for in the amended complaint worth P10,606,266.00, there could be no other conclusion than that the respondent had been deceived into entering into the compromise agreement; and that, in addition, the writ of execution was void for varying the terms of the judgment by directing the payment of the entire \$230,000.00 obligation, thereby including sums that were not yet due and demandable.

The petitioners moved for reconsideration,^[28] but the CA denied their motion.^[29]

Hence, this appeal.

Issues

On the procedural aspect, the petitioners contend that the judicial compromise agreement could no longer be assailed through *certiorari*; that the lapse of time between the approval of the compromise agreement on October 20, 2003 and the filing of the petition for *certiorari* in C.A.-G.R. SP No. 88804 on March 7, 2005 had rendered the compromise agreement conclusive and immutable.

On the substantive aspect, the petitioners insist that there was no fraud in the execution of the compromise agreement; that contrary to the findings of the CA, there was nothing appalling in the amount agreed upon in the compromise agreement that amounted to fraud considering that their amended complaint had prayed for P10,606,266.00, an amount that could be equal to \$212,125.00, exclusive of amount of damages, interest and cost of suit, due to the exchange rate at the time of the discussion of the terms and conditions of the compromise agreement being P50.00 to \$1.00; and that the amount of \$250,000.00 stated in the compromise agreement was fair and reasonable under the circumstances.

In addition, the petitioners assert that based on the resolution promulgated in C.A.-G.R. SP No. 87768, the controlling legal rule between the parties was that there had been no extrinsic fraud as the ground to annul the order dated October 20, 2003 approving the compromise agreement; that the respondent's payment of the initial US\$20,000.00 in accordance with the compromise agreement had rendered him in estoppel; and that the fact that both parties had been assisted by their respective counsels during the execution and submission of the compromise agreement for judicial approval negated the existence of fraud.

In his comment dated April 12, 2006,^[30] the respondent counters that the petitioners had taken advantage of his unfamiliarity with the English language and the trust and confidence he had reposed in them as his friends when they made him sign a document containing stipulations contrary to what they had agreed upon; that the document turned out to be the contract to sell; that the petitioners then used such fraudulent contract in having his properties attached; that as a businessman, he was forced to enter into the compromise agreement to recover his properties; and that the RTC erred in approving the compromise agreement despite its being one-sided, unfair, fraudulent and unconscionable.

The respondent contends that the payment of \$20,000.00 did not constitute his ratification of the compromise agreement as to estop him because the void contracts could not be ratified; and that it would be unjust to have the errors of his previous counsel bind him, most especially if the errors were blatant and gross, causing grave and irreparable injury to him.

In other words, the Court shall determine and resolve whether or not the CA was correct in nullifying and setting aside the judgment based on the compromise agreement dated August 19, 2003.

Ruling of the Court

The appeal is meritorious.