

## FIRST DIVISION

[ G.R. NO. 157959, March 28, 2007 ]

**HEIRS OF VICENTE REYES, REPRESENTED BY DOMINADOR REYES; HEIRS OF APOLONIA REYES SAMSON, REPRESENTED BY MILAGROS FRANCISCO; MONICO REYES PALMARIO; FELICISIMA REYES CHING-CUANCO; JULIA REYES; LEONORA REYES; EDILBERTA REYES; MAXIMA REYES; BIENVENIDO REYES; HEIRS OF MANUEL REYES SAMSON, REPRESENTED BY ZENADIA FRILLES; MARIO SAMSON; GLISERIO SAMSON; CRISPIN SAMSON; NUMERIANO SAMSON; FERMENIA SAMSON, HEIRS OF MARTIN SAMSON, REPRESENTED BY MA. CLARA SAMSON; ELPIDIO SAMSON; RICARDO SAMSON; VICTORINO SAMSON; EMILIANO SAMSON, JR.; CARMELITA SAMSON VERGARA; SHEILA ANN SAMSON; FRANCISCO SAMSON AND MAGNO SARREAL, REPRESENTED BY THE SUBSTITUTED HEIRS, AIDA SARREAL AND THE HEIRS OF CELERINA SARREAL KAMANTIGUE, REPRESENTED BY LAURA S. KAMANTIGUE, PETITIONERS, VS. THE HONORABLE COURT OF APPEALS, ANATALIA REYES AND GLORIA REYES-PAULINO, RESPONDENTS.**

### DECISION

**AZCUNA, J.:**

This is a petition for review on *certiorari*<sup>[1]</sup> assailing the Decision<sup>[2]</sup> and Resolution<sup>[3]</sup> of the Court of Appeals (CA) dated February 10, 2003 and April 28, 2003, respectively, in CA-G.R. CV No. 71807.

The case stemmed from the action for partition and accounting filed by the children of the siblings of the late Eustaquia Reyes<sup>[4]</sup> against Magno Sarreal, Anatalia Reyes and Gloria Reyes-Paulino, Eustaquia's husband and nieces, respectively, in relation to a parcel of land situated in Balintawak, Quezon City, with an area of Seven Thousand Four Hundred Eighty-Four (7,484) square meters (the "property").

The property was originally registered in the name of Eustaquia under Transfer Certificate of Title (TCT) No. 26031 issued by the Registry of Deeds of Quezon City and was inherited by her prior to her marriage to Magno Sarreal.

On June 5, 1963, Eustaquia leased a portion of the property to ACME Abrasive Manufacturing Corporation (ACME) for a period of twenty (20) years commencing on June 1, 1963 until June 1, 1983.<sup>[5]</sup> The lease contract provided that ACME as the lessee shall have the right to build, construct and place additional improvements within the property during the term of the lease subject to the condition, among others, that upon the expiration of such term, the ownership of all the improvements found within the leased property would automatically be transferred

to the lessor without need for reimbursement.<sup>[6]</sup> The contract was thumbmarked by Eustaquia as the lessor, with Magno Sarreal likewise affixing his signature to the instrument to indicate his marital consent to the transaction.<sup>[7]</sup>

On January 24, 1979, Eustaquia purportedly sold the property to private respondents Anatalia Reyes and Gloria Reyes-Paulino in a notarized document entitled "*Patuluyang Pagbibili ng Lupa*" (Deed of Absolute Sale).<sup>[8]</sup> In the second paragraph of the deed, Eustaquia expressly stated that the property was paraphernal or exclusive in character and did not belong to the conjugal partnership because it formed part of her inheritance. Accordingly, it was only her signature and thumbmark which appeared on the deed. Anatalia and Gloria subsequently divided the property between themselves and registered their respective shares under their own names.<sup>[9]</sup>

Eustaquia died of natural causes on May 7, 1987.<sup>[10]</sup>

On May 17, 1993, the children of the siblings of Eustaquia who predeceased her filed a complaint with the Regional Trial Court (RTC) of Quezon City for partition and accounting with receivership against Magno Sarreal and private respondents herein, Anatalia Reyes and Gloria Reyes-Paulino. They allegedly just discovered that the property was clandestinely, fraudulently and unlawfully divided between private respondents who caused its registration in their names under TCT Nos. 272976 and 272977 by means of simulated or fictitious and unlawful conveyances. They contended that, not having waived or repudiated their lawful shares and participation in the property, they are co-owners of the resulting subdivision lots with private respondents, the same being held in trust by the latter for the co-ownership. Similarly, the rents from the market stalls on the property belong not only to private respondents but also to them and private respondents should be made to account for all rents received from the date of Eustaquia's death. They further prayed that the property be placed under receivership pending the resolution of the case.<sup>[11]</sup>

Private respondents filed a joint answer<sup>[12]</sup> to the complaint claiming, among others, that 1) the complaint does not state any cause of action; 2) they are the owners in fee simple of the property under TCT Nos. 272977 and 272976; 3) complainants are not compulsory heirs of Eustaquia; and 4) the title to the property has been transferred in the names of private respondents pursuant to a valid sale long before the death of Eustaquia.

A separate answer<sup>[13]</sup> was filed on behalf of Magno Sarreal by his purported guardian *ad litem* and natural daughter, Aida Sarreal, which admitted virtually all the allegations of the complaint except the portion which stated that the property belonged exclusively to Eustaquia. It alleged that the property, while originally paraphernal, became conjugal in character because of "the improvements introduced therein from the income of the spouses and/or from the income or fruits of their separate properties."

However, at that time, it appeared that the status of Aida Sarreal as guardian *ad litem* was still in issue in two pending consolidated civil cases, namely, Civil Case No. Q-51482<sup>[14]</sup> and Special Proceeding No. 50893.<sup>[15]</sup> The appointed guardian *ad litem*

of Magno in those cases, the University of the Philippines' Office of Legal Aid, filed a motion to be appointed as guardian *ad litem* of Magno, which the RTC granted in an order<sup>[16]</sup> dated August 26, 1994. Thereafter, the Office of Legal Aid filed, on his behalf, the answer<sup>[17]</sup> dated September 5, 1994 which now denied for lack of knowledge the personal circumstances of the complainants, their relationship to their respective progenitors and to Eustaquia, and the relationship of complainants and private respondents to each other and of private respondents to Eustaquia. The paraphernal character of the property was likewise denied, with Magno now claiming that the property was part of the conjugal partnership from the very beginning.

On December 12, 1994, Magno died and was substituted as defendant by Celerina Sarreal Kamantigue, his sister, and Aida Sarreal.<sup>[18]</sup> During pre-trial, the parties agreed that the sole issue to be resolved in the case was whether the sale of the property to private respondents was simulated or fictitious.

On September 11, 1996, petitioners' separate applications for receivership were denied.<sup>[19]</sup> Thereafter, trial ensued. Petitioners presented as witnesses Celerina Sarreal Kamantigue, Monico Reyes Palmario and Aida Sarreal. The sole witness for the defense, on the other hand, was private respondent Gloria Reyes-Paulino.

After the parties presented their respective evidence, another motion for the appointment of a receiver was filed by the children of Eustaquia's siblings but before a ruling could be made thereon, the decision<sup>[20]</sup> dated September 7, 2001 was rendered by the RTC on September 12, 2001 in favor of petitioners which 1) declared the Deed of Absolute Sale executed between Eustaquia and private respondents null and void; 2) ordered the Register of Deeds of Quezon City to cancel TCT Nos. 272976 and 272977; 3) allowed the partition of the property among the legal heirs of Eustaquia and the legal heirs of her deceased husband, Magno; 4) appointed the Branch Clerk of Court as commissioner for the purpose of partitioning the property and rendering an account of all income received from the date of Eustaquia's death; 5) pending partition, appointed the Clerk of Court as receiver of the property; and 6) ordered the defendants to pay attorney's fees, litigation expenses and costs of suit.

Not satisfied, private respondents appealed the decision to the CA. On February 10, 2003, the CA reversed the decision of the RTC and rendered the assailed Decision,<sup>[21]</sup> the dispositive portion of which reads:

WHEREFORE, the appealed decision is REVERSED and SET ASIDE, and another is entered:

- a) Dismissing the complaint;
- b) Revoking the appointment of a receiver over the property in suit;
- c) Discharging forthwith the appointed receiver, Atty. Mercedes Gatmaytan, the Clerk of Court of the Regional Trial Court of Quezon City; and
- d) Ordering the discharged receiver to restore forthwith the possession of the subject property to the appellants Anatalia Reyes and Gloria Reyes-Paulino and render a full accounting and settlement of her receivership to the latter.

The CA pointed out that during pre-trial, the parties agreed that the sole issue that would limit or control the course of the trial was whether the conveyance of the property to private respondents was simulated or fictitious. The CA ruled that the burden of proof, which rested upon complainants in this instance, was not met, after finding that the testimonies of the complainants' two witnesses<sup>[22]</sup> to the effect that private respondents had no means or source of income that would enable them to buy the property and that they merely lived with the spouses Eustaquia and Magno

Sarreal during their lifetime were mere generalities and fell short of the "clear, convincing and more than merely preponderant evidence necessary to overcome the notarized deed of sale."<sup>[23]</sup> The CA, moreover, found the testimony of private respondent Gloria Reyes-Paulino more convincing in that she was able to establish she was earning an income and that she lived with her husband independently of the spouses Eustaquia and Magno.

The CA held that the RTC showed undue bias in favor of complainants by resolving the case on issues not agreed upon during the pre-trial, particularly with regard to the true nature of the property and whether the same was paraphernal or conjugal. It should be kept in mind that because the property was deemed conjugal, the RTC held that the Deed of Absolute Sale which did not bear Magno's signature was void.

Thereafter, separate motions for reconsideration<sup>[24]</sup> were filed by the children of Eustaquia's siblings and the heirs of Magno Sarreal. Collaborating counsel for private respondents, on the other hand, filed a notice of entry of appearance with omnibus motion.<sup>[25]</sup> The omnibus motion, attached as Annex "A" to the notice, prayed for 1) the revocation of the appointment of the receiver over the property; 2) the discharge of the appointed receiver; and 3) an order for the discharged receiver to restore possession of the property to private respondents.

After petitioners interposed their comment/opposition to the omnibus motion, another collaborating counsel for private respondents filed a notice of entry of appearance with application for damages against receiver's bond<sup>[26]</sup> on March 25, 2003 praying that the receiver's bond in the amount of P1,000,000.00 be declared liable for damages sustained by private respondents. On April 2, 2003, private respondents also filed, with leave of court, a consolidated comment to the motions for reconsideration filed by petitioners.

In the assailed Resolution dated April 28, 2003, private respondent's omnibus motion for the immediate execution of the directives regarding the receivership and accounting aspects of the CA decision was granted. Private respondents' application for damages against the receiver's bond was, on the other hand, referred to the RTC for hearing and disposition. Finally, petitioners' motions for reconsideration were denied for lack of merit.

This petition was thereupon filed on May 9, 2003. This Court issued a *status quo* order on May 15, 2003, to stop the immediate execution of the CA decision and resolution.

Petitioners anchor their petition on the following grounds:

1. Respondent Court of Appeals committed serious deviations from the law and settled jurisprudence in holding that the land in dispute did not become conjugal property of the late spouses Magno Sarreal and Eustaquia Reyes and in reversing the trial court on the issue of nullity of the deed of sale.
2. Respondent Court likewise erred most grievously in overturning the trial court's factual findings on the basis of a uniquely one-sided or lopsided treatment of the facts and in total disregard of the tenet in law that issues of credibility should be left for the trial court to resolve because unlike the appellate court, it had the opportunity to observe the demeanor of witnesses at close range.
3. Respondent Court acted in grave abuse of discretion tantamount to excess of jurisdiction when it ordered the trial court to issue forthwith a writ of execution of the directives in its decision despite their lack of finality.
4. The Resolution turns a blind eye upon the ruling of the Honorable Supreme Court in *Heirs of the Late Justice Jose B.L. Reyes vs. Court of Appeals* (338 SCRA 282), and has the deleterious effect of opening the door to a dissipation of the fruits of the property in dispute to the grave detriment of the petitioners should the assailed Decision be reversed by the Honorable Court.

The crux of the present controversy involves the resolution of validity or invalidity of the conveyance of the property to private respondents.

The trial court concluded on the basis of the evidence presented that the Deed of Absolute Sale was void for not embodying the consent of Eustaquia's husband. The conclusion was drawn upon the finding of the RTC that the property subject of the deed was conjugal in character due to the improvements constructed thereon at the expense of the conjugal partnership.

To reiterate, in reversing the decision of the trial court, the CA pointed out that the RTC had gone beyond the scope of the lone issue agreed upon by the parties during pre-trial, that is, whether the sale of the property to private respondents was simulated or fictitious.

The Court is mindful of the rule that the determination of issues at a pre-trial conference bars the consideration of other questions on appeal. A pre-trial is meant to serve as a device to clarify and narrow down the basic issues between the parties, to ascertain the facts relative to those issues and to enable the parties to obtain the fullest possible knowledge of the issues and facts before civil trials and thus prevent trials from being carried on in the dark. Thus, to obviate the element of surprise, parties are expected to disclose at a pre-trial conference all issues of law and fact which they intend to raise at the trial, except such as may involve privileged or impeaching matters.<sup>[27]</sup> The rule, however, is not to be applied with rigidity and admits of certain exceptions.<sup>[28]</sup>

There is merit in petitioners' claim that the limitation upon the issue embodied in the pre-trial order did not control the course of the trial. The issue on the nature of