Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

CARLOS J. VALDES, GABRIEL A.S. VALDES, FATIMA DELA CONCEPTION AND ASUNCION V. MERCADO,* *Petitioners,* *- versus -* **LA COLINA DEVELOPMENT CORPORATION (LCDC), PHILIPPINE COMMUNICATION SATELLITE, INC. (PHILCOMSAT), LA COLINA RESORTS CORPORATION (LCRC), MONTEMAR RESORTS AND DEVELOPMENT CORPORATION (MRDC), JOSE MARI CACHO, HONORIO A. POBLADOR III, and ALFREDO L. AFRICA,** *Respondents.*	**G.R. No. 208140** Present: LEONEN, *J.*, *Chairperson,* HERNANDO, INTING, ROSARIO,** and LOPEZ, J.Y., *JJ.* Promulgated: July 12, 2021

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DECISION

HERNANDO, *J.*:

This Petition for Review on *Certiorari*[1] seeks to reverse and set aside the October 31, 2012 Decision[2] and July 16, 2013 Resolution[3] of the Court

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* Carlos J. Valdes, Gabriel A. S. Valdes, Fatima Dela Conception and Asuncion V. Mercado were named as petitioners in the caption but only Gabriel A. S. Valdes filed and signed the Petition.

** Per Special Order No. 2833 dated June 29, 2021.

1 *Rollo*, Vol. I, pp. 19-87.

2 Id. at 92-135; penned by Associate Justice Ramon A. Cruz and concurred in by Associate Justices Noel G. Tijam (now a retired Member of the Court) and Romeo F. Barza.

3 Id. at 136-143.

of Appeals (CA) in CA-G.R. CV No. 94713 that reversed and set aside the October 26, 2009 Decision[4] of the Regional Trial Court (RTC), Branch 2, Balanga City, Bataan in Civil Case No. 6134.

The RTC declared as null and void the Memorandum of Agreement[5] dated September 3, 1992 involving respondents La Colina Resorts Corporation (LCRC), La Colina Development Corporation (LCDC), Montemar Beach Club, Inc. (MBCI), and Philippine Communication Satellite, Inc. (Philcomsat), and the Consolidated Deed of Sale[6] dated August 31, 1992 executed by LCRC and LCDC in favor of Montemar Resort and Development Corporation (MRDC).

The July 16, 2013 Resolution of the CA denied petitioners' Motion for Reconsideration.[7]

Factual Antecedents:

The facts, culled from the records and Decision of the CA, are as follows:

Carlos Valdes (Carlos, Sr.)[8] and his children, herein petitioners Gabriel A. S. Valdes (Gabriel), Carlos J. Valdes, Antonio A.S. Valdes, Fatima de la Concepcion, Asuncion Mercado, and Virginia A.S. Valdes (Valdeses), are the stockholders of Bataan Resorts Corporation (BARECO), which owned a large tract of land in Bagac, Bataan under Transfer Certificates of Title Numbers 45864, 45865, 45867, 45868, and 45869 of the Registry of Deeds of Bataan.[9]

Sometime in 1974, Carlos, Sr. invited Francisco Cacho (Francisco) and his son, individual respondent Jose Mari Cacho (Jose Mari), to visit and assess the property's suitability for a beach resort project (Montemar Project). Having received a favorable response from Francisco, both Carlos, Sr. and Francisco proceeded to carry out the Montemar Project, which included the development and improvement of the beach basin as a beach resort (Montemar Beach Club), and the conversion of the remaining land area into a residential subdivision (Montemar Villas).[10]

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4 CA *rollo*, pp. 99-170; penned by Judge Manuel M. Tan.
5 *Rollo*, Vol. II, pp.776-790.
6 Id. at 735-737.
7 Id. at 1088-1111.
8 Carlos Valdes was the principal participant in the transactions with the Cachos and LCDC. He has given Gabriel a power of attorney sometime in December 1978 to act in his stead when transacting with the Cachos and LCDC. In this regard, Carlos Valdes, petitioner, and the Valdeses may be used interchangeably as the transactions subject of this case involve the Valdes family.
9 *Rollo*, Vol. I, p. 93.
10 *Rollo*, Vol. II, pp. 732-733.

To implement the project, the Valdeses transferred and conveyed their shares of stock in BARECO in favor of LCDC, a fully-owned corporation of the Cacho family, through a Deed of Sale[11] dated May 24, 1975, for a consideration of ₱20 Million. LCDC then made a partial payment thereof in the amount of ₱2.5 Million from February 1975 to December 1979,[12] while the remaining balance amounting to ₱17.5 Million was covered by promissory notes.[13]

The ₱17.5 Million was to be paid by way of an Assignment of Rights[14] dated October 30, 1975, wherein LCDC: (1) assigned to the Valdeses three million worth of shares in LCRC, the corporation established by LCDC to market and sell the shares of the beach resort; and (2) undertook to pay the Valdeses (50%) of the net proceeds (later reduced 40%) from the sale of the Montemar Villas lots inside BARECO, as previously acquired by LCDC.

Since Carlos, Sr. did not intend to use all BARECO real properties for the Montemar Project, he prepared a Deed of Partition,[15] whereby only the real properties intended to be part of the project were transferred to LCDC. These properties, now owned by LCDC through its purchase of the BARECO shares were, in turn, transferred by LCDC to LCRC in exchange for fifty thousand LCRC shares issued in favor of LCDC.

By virtue of the aforementioned Assignment of Rights, LCDC and Carlos, Sr. became seventy percent (70%) and thirty (30%) shareholders of LCRC, respectively.[16]

Meanwhile, LCDC, as sole shareholder of BARECO, amended BARECO's Articles of Incorporation and dissolved BARECO by shortening its term of existence up to June 30, 1975.[17] Thereafter, MBCI, a non-stock, non-profit club, was organized to develop the Montemar Project. Proprietary shares in MBCI were later sold by LCRC to the general public. Meanwhile, LCDC obtained loans to finance the construction and development of the Montemar Villas, including the building and facilities in the Montemar Beach Club. The loans were obtained from the Development Bank of the Philippines (DBP) – subsequently the Asset Privatization Trust (APT), Metrobank, and General Credit Corporation (GCC), formerly the Commercial Credit Corporation.[18]

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[11] *Rollo*, Vol. I, pp. 144-148.
[12] Id. at 149-151
[13] Id. at 152.
[14] Id., unpaginated-173.
[15] Id. at 153-170.
[16] Id. at 94.
[17] Id. at 153.
[18] Id. at 95.

Sales of the MBCI proprietary shares and the lots in the Montemar Villas, including the patronage in the Montemar Beach Club were bringing adequate income for some time. The loans obtained by LCDC were serviced and the remittances of the agreed share of the Valdeses in the sale of the Montemar Villas lots were made on a regular basis. The Montemar Beach Club, on the other hand, was able to sustain regular operations. However, during the years 1981 up to 1985, there was a delay in the remittances of the shares to the Valdeses in the net proceeds from the sale of the Montemar Villas lots. The records, however, would bear that a portion of the purchase price of ₱20 Million, or ₱16,125,717.31, was eventually paid to the Valdeses.[19]

The foregoing notwithstanding, Carlos, Sr. filed a Complaint[20] dated July 13, 1987 for Annulment or Rescission of Contract or Specific Performance and Damages with Prayers for Receivership Pendente Lite and Preliminary Injunction against LCDC before the RTC of Balanga, Bataan, docketed as Civil Case No. 5558. The case was settled on a Joint Motion to Dismiss[21] dated April 26, 1990 filed by both parties pursuant to a letter agreement[22] dated February 21, 1990.

In the said letter agreement, LCDC vowed to continue to undertake the marketing of the Montemar Villas lots for the purpose of remitting to the Valdeses their 40% share in the sale of the said lots until full payment of the purchase price of BARECO shares amounting to ₱20 Million. The RTC thus dismissed the case with prejudice in its Order[23] dated April 27, 1990.

Meanwhile, as the loans obtained by LCDC from DBP/APT remained unpaid, the mortgaged properties of LCDC, LCRC, and MBCI were eventually foreclosed by DBP/ATP.[24]

Sometime in 1992, LCDC and LCRC initiated negotiations with Philcomsat, a prospective investor of the Montemar Project. In this regard, Philcomsat presented a Memorandum of Intent[25] dated August 18, 1992, which embodied the terms and conditions agreed upon by LCDC, LCRC, MBCI, and Philcomsat. This was with a view toward the latter investing on the project, and, concurrently, bailing out LCDC, LCRC and MBCI from their loan obligations with APT, GCC, and Philcomsat. The Memorandum of Intent was presented in the board and stockholders' meeting of MBCI. A project profile was also furnished to the board members of MBCI, wherein MRDC, a proposed new corporation, would transform and develop the unsold Montemar Villas lots into a golf course and sports complex.[26]

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19 Id.
20 Id. at 267-283.
21 Id. at 298-299.
22 Id. at 300-301.
23 *Rollo*, Vol. II, p. 718; penned by Judge Mario M. Dizon.
24 *Rollo*, Vol. I, p. 96.
25 *Rollo*, Vol. II, pp. 753-760.
26 *Rollo*, Vol. I, pp. 362, 457-529, 541-630.

Under the said agreement, Philcomsat vowed to settle the outstanding loans of LCDC, LCRC, and MBCI with APT, GCC, and Philcomsat. In consideration thereof, the ownership over the properties of LCDC and LCRC, including their shares in MBCI, would be transferred to MRDC. MRDC would then proceed with the improvement of the facilities and services of MBCI and development of the properties conveyed to it by LCDC and LCRC into a sports or recreation complex, which includes a gold course and a country club.

Meanwhile, to obtain from APT an extension of the period to pay the outstanding obligation of LCDC and LCRC, Philcomsat paid APT the amount of ₱4 Million. During the extension period, Philcomsat eventually decided to invest in the new project, subject to conditions, particularly, that the Valdeses: (1) give their conformity to the new project; and (2) forego their claim to the proceeds of the sale of the Montemar Villas lots.[27]

To convince Gabriel, acting attorney-in-fact of Carlos, Sr. to conform to the conditions set by Philcomsat, Rafael Cacho (Rafael), the brother of Francisco, presented orally and in writing to petitioner two (2) scenarios:[28]

> Scenario A- Philcomsat will not come in as an investor and all the properties will be sold at public auction and all the parties will be left with nothing.
>
> Scenario B – Philcomsat will invest and bail out LCDC, MBCI, and the Valdeses and the Cachos from their indebtedness to their creditors. They will incorporate Montemar Resorts Development Corporation ("MRDC"), which will develop the beach project under a new concept that includes a gold course, with Philcomsat owning (70%) of MRDC. The balance of thirty percent (30%) will be distributed among the Valdeses (owning 7.5% out of the 30%) and the Cachos and creditors GCC (the remaining 22.5% of the 30%).[29]

In response Gabriel approached Honorio Poblador III (Poblador), president of Philcomsat, and presented an unsigned draft letter,[30] which contained, among others, the following statement:

> We understand that while the sale of the above is not consummated, the existing contract between La Colina Development Corp. and Amb. Carlos J. Valdes per Assignment of Rights dated October 30, 1975 is still in force and effect.[31]

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[27] Id. at 97.
[28] Id. at 631.
[29] Id. at 98.
[30] *Rollo*, Vol. II, p. 761.
[31] Id.

Poblador did not agree to the draft letter and the same was rejected by LCDC, LCRC, and Cacho. After further discussion between Rafael and Gabriel, and after the aforementioned portion of the letter was deleted, a letter-conformity[32] dated August 27, 1992 was eventually finalized. Pertinent portions of the letter-conformity dated August 27, 1992 reads as follows:

> Dear Gabby,
>
> This is to confirm your support to the new concept of the Montemar Project which will involve the entry of Philcomsat as an investor.
>
> However you have indicated to us your preference to sell all your holding in:
>
> a) All your shareholdings in La Colina Resorts Corporation
> b) All your rights as an unpaid seller of the Montemar Villas (which is now conceived to be a future golf course consisting of approximately over 60 hectares)
>
> x x x x
>
> Your indicative price you have set for the above is P35M (negotiable). Kindly issue the necessary authority.
>
> Very truly yours,
>
> (signed)
> RAFAEL M. CACHO
>
> (signed)
> JOSE MARI CACHO
>
> CONFORME:
>
> (signed)
> GABRIEL A.S. VALDES
> Attorney-in-fact of Carlos J. Valdes

Thereafter, pursuant to the Memorandum of Intent dated August 18, 1992 and the letter-conformity dated August 27, 1992, Philcomsat, together with LCDC, LCRC, and MBCI executed a Memorandum of Agreement[33] dated September 3, 1992 essentially identical to the Memorandum of Intent dated August 18, 1992 executed by and between LCDC, LCRC, MBCI, and Philcomsat. Meanwhile, on August 31, 1992, LCRC and LCDC, through a Consolidated Deed of Absolute Sale,[34] conveyed and sold to MRDC all their real and personal properties situated in Bagac, Bataan.

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[32] *Rollo*, Vol. I, p. 365.
[33] Id. at 209-219.
[34] Id. at 220-224.

Notably, after executing the letter-conformity dated August 27, 1992, Gabriel appointed Jose Mari and Rafael on August 28, 1992 to sell the shareholdings of Carlo, Sr. in LCRC and other real properties of the Valdeses.[35] Thereafter, on November 18, 1992, Rafael informed Gabriel that Philcomsat offered to purchase Carlo, Sr.'s shareholdings in LCRC and the Valdeses' other real properties for a consideration of ₱24,771,800.00,[36] which petitioners rebuffed. Gabriel then visited Poblador to request for a higher offer, but nothing materialized from their negotiations.

Proceedings before the Regional Trial Court:

On April 6, 1993, the Valdeses filed before the RTC a Complaint for Reconveyance, Annulment and/or Rescission of Contract, Specific Performance and Damages with Prayer for Temporary Restraining Order and Writ of Preliminary Injunction against LCDC, LCRC, Philcomsat, MRDC, Jose Mari, including Poblador and Alfredo L. Africa (Africa), in their capacities as officers for Philcomsat and MRDC (herein collectively referred to as respondents).[37]

MRDC, Poblador, and Africa filed their Joint Answer on May 19, 1993 and an Omnibus Motion for Issuance of Amended Order and to Admit Joint Answer on May 21, 1993. Meanwhile Philcomsat filed its Answer on May 21, 1993. LCDC, LCRC, and Cacho filed their Answer on June 3, 1993.[38]

Meanwhile, trial on the application for preliminary injunction ensued. On May 2, 1995, the RTC issued an Order, directing the issuance of a writ of injunction against respondents. The dispositive potion of the Order reads:

> **WHEREFORE**, in view of all the foregoing, the application of plaintiffs for the issuance of a writ of preliminary injunction is hereby granted and defendants and all those claiming rights under them are enjoined from:
>
> 1) Alienating, disposing, or otherwise encumbering the properties subject matter of this case, that is, the parcels of land registered under the name of Montemar Resorts and Development Corporation listed in Exhibit "PP-Inj." To PP-3-Inj.";
>
> 2) Implementing the provisions of the Memorandum of Agreement (Exhibit "Q-Inj.") sought to be nullified; and
>
> 3) Introducing improvements or otherwise transforming the aforesaid properties into a golf course or a commercial or industrial complex upon posting of a bond by plaintiffs in the amount of PhP100,000.00

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[35] Id. at 303.
[36] Id. at 304.
[37] Id. at 99.
[38] Id. at 100.

SO ORDERED.[39]

The RTC then resumed pre-trial proceedings and, thereafter, conducted trial on the main case. On October 26, 2009, the trial court rendered a Decision[40] declaring the Memorandum of Agreement dated September 3, 1992 and the Consolidated Deed of Absolute Sale dated August 31, 1992 null and void. The dispositive portion of the said Decision states:

> **WHEREFORE**, foregoing considered, judgment is hereby rendered:
>
> 1. Declaring *null and void* the Memorandum of Agreement dated September 3, 1992 between LCRC, LCDC and MBCI and PHILCOMSAT being contrary to the spirit, intent and obligation of the original joint venture agreement and without consent and approval by the plaintiffs;
>
> 2. Declaring *null and void* the Consolidated Deed of Sale dated August 31, 1992 executed by LCRC, LCDC thru its President Jose Mari Cacho as vendor in favor of MRDC as vendee, represented by defendant Alfredo Africa for lack of consent of the plaintiffs and for having been entered into in bad faith by herein defendants. All the properties involved in the transaction should, therefore, revert back to LCDC;
>
> 3. Denying plaintiffs' prayer for damages for lack of factual basis;
>
> 4. Ordering the defendants, to pay attorney's fees amounting to 10% of any recovery and as well as the expenses of litigation and costs of suit, jointly and severally.
>
> SO ORDERED.[41]

The RTC found that the Valdeses and LCDC entered into a joint venture agreement, whereby the former would contribute to the joint venture the BARECO properties in Bagac, Bataan, and in return, LCDC would develop and improve them into a residential subdivision or the Montemar Villas. The proceeds of the sale of the Montemar Villas lots would then be divided between them in the following manner: 60% to LCDC, and 40% to the Valdeses.[42]

The trial court further found that despite the Valdeses' refusal to allow Philcomsat to take part in the joint venture agreement, LCDC, LCRC, MBCI, and Philcomsat, unknowingly to the Valdeses, executed the September 3, 1992 Memorandum of Agreement, an agreement that effectively disregarded the rights and interests of the Valdeses, particularly, their forty percent (40%) share in the proceeds of the sale of the Montemar Villas lots. Moreover, the agreement, without the conformity of the Valdeses, set aside the original intent of the joint venture agreement only to

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[39] Id. at 101-102.
[40] Supra note 4.
[41] *Rollo*, Vol. I, pp. 169-170.
[42] Id. at 168.

be replaced by respondents' plan to convert the Montemar Villas lots into a golf course and sports complex.[43]

Considering the foregoing, the RTC held that the two (2) agreements are null and void. It considered the lack of consent on the part of the Valdeses to the said contracts and the evident bad faith, which attended their execution, thus:

> These transactions in so far as they involve the properties of the plaintiffs are null and void for lack of consent of the plaintiffs and for having been entered into bad faith because the parties were all aware of the rights of plaintiffs and the need to obtain from them their consent which was already evident from the beginning. This Court must strike down these transactions and restore the properties to where they were when the rights of plaintiffs and the obligations of the co-joint venturers [sic] were clear and unmolested.
>
> There was indeed a joint venture agreement between plaintiffs and the Cachos and this was expressly admitted by defendant LCDC (Exhibit V) which would bind PHILCOMSAT and MRDC being the successor of LCDC. This being the case, fiduciary relationship exists among the joint ventures [sic]. Utmost good faith is demanded of the party in possession of the property or profits and he should not be allowed to obtain any unfair advantage of the other co-adventurers. In this light alone, LCDC did not have any right to execute the [Memorandum of Agreement] and the Consolidated Deed of Sale in derogation of the rights of the plaintiffs under their covenant with LCDC so that the execution of said [Memorandum of Agreement] and Consolidated Deed of Sale constituted a gross breach of trust and of the contracts with the plaintiffs which at the time obtained for the violators unfair advantage over the plaintiffs. LCDC should not be allowed to breach with impunity its covenants with plaintiffs and when it did in conspiracy with the rest of the defendants the plaintiffs are entitled to obtain from the Court the reliefs they demanded.
>
> The defendants were at all times aware of the obligation regarding the BARECO properties and the restrictions on their use and still they cooperated in disregarding them and in instituting moves which undeniably deprived the plaintiffs of their rights. This systematic divestment of rights took several steps, all without the consent of or knowledge of the plaintiffs, and even against their manifest will.
>
> x x x x
>
> The Court, in view of the foregoing disquisitions, holds that plaintiffs' rights to the Bagac properties have been violated when LCRC and the rest of the defendants in a series of maneuvers deprived them their right of ownership and their rights to possession, use and benefits therefrom. All transactions executed and entered into by defendants who violated plaintiffs' rights and deprived them of the same by means of fraud and violations of trust are hereby declared null and void. All properties should revert to LCDC.[44]

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[43] Id.

[44] Id. at 168-169.

Philcomsat, MRDC, and Poblador filed a Motion for Reconsideration of the RTC Decision on November 11, 2009. They later filed a Supplemental Motion for Reconsideration on December 18, 2009. However, the trial court denied the Motion for Reconsideration and the Supplemental Motion for Reconsideration on January 4, 2010.[45]

Proceedings before the Court of Appeals:

On October 31, 2012, the CA rendered its assailed Decision, which reversed and set aside the aforesaid RTC ruling. The dispositive portion of the Decision reads:

> **WHEREFORE**, premises considered, the appeal is GRANTED. The Decision dated October 26, 2009 rendered by the Regional Trial Court of Balanga City, Bataan, Branch 2, declaring null and void the Memorandum of Agreement dated September 3, 1992 between LCRC, LCDC, and MBCI and Philcomsat and the Consolidated Deed of Sale dated August 31, 1992 executed by LCRC, LCDC as vendor in favor of MRDC as vendee is REVERSED and SET ASIDE. The Writ of Preliminary Injunction issued by the RTC dated May 2, 1995 is **LIFTED** and **SET ASIDE**. The Complaint in Civil Case No. 6134 is **DISMISSED**.
>
> **SO ORDERED.**[46]

The CA found that the Deed of Sale dated May 24, 1975, promissory notes executed by LCDC, and the Assignment of Rights dated October 30, 1975, negated the existence of a joint venture agreement between the Valdeses and LCDC.[47] In this regard, the CA held that the relationship between the Valdeses and LCDC was, instead, one of vendor-vendee. As explained by the appellate court, "there was no contract to contribute properties to a common fund so as to share the profits between themselves. There is even no common fund to speak of. LCDC's obligation to pay persists as long as it is able to sell the subdivision lots even if the corporation itself is experiencing losses."[48]

The CA also found that Gabriel was well aware of the new concept of the Montemar Project and consented to the entry of Philcomsat as a new investor. Considering Gabriel's express conformity to the new concept of the Montemar Project, as embodied in the August 27, 1992 letter, the appellate court thus ruled that the obligation of LCDC to sell the Montemar Villas lots and remit the proceeds thereof to the Valdeses has been extinguished. It then held that the August 31, 1992 Consolidated Deed of Absolute Sale and the September 3, 1992 Memorandum of Agreement are valid contracts. The CA explained the foregoing in this wise:

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45 *Rollo*, Vol. I, p. 104.
46 Id. at 127.
47 Id. at 110.
48 Id. at 112.

> To dispose all or substantial all or a substantial amount of its properties and assets, a corporation, through a majority vote of its board of directors, is required to be authorized by the vote of at least two-thirds (2/3) of the outstanding capital stock of the members in a stockholder's meeting duly called for the purpose.
>
> x x x x
>
> The requirement before LCRC can dispose of all or a substantial amount of its properties has been complied with when the stockholders of LCRC approved the new concept of the Montemar project, as shown by the Certification of the Corporate Secretary of LCRC dated August 27, 1992 x x x x[49]
>
> x x x x
>
> As we have previously mentioned, this new concept of the Montemar Project has been discussed extensively in MBCI meetings which [petitioner] attended or which minutes he signed. Carlos Valdes, 30% owner of LCRC, therefore assented to the transfer.[50]

According to the CA, neither bad faith nor fraud attended the execution of the August 31, 1992 Consolidated Deed of Sale and September 3, 1992 Memorandum of Agreement. As such, ordering their rescission or cancellation would be improper considering that the Valdeses have already been substantially paid in cash and properties.[51]

Petitioners sought reconsideration of the October 31, 2012 Decision of the CA, which was, however, denied by the appellate court in its July, 16 2013 Resolution.[52]

Issues

Hence, this instant petition, raising the following assignment of errors:

> THE [CA] SERIOUSLY ERRED WHEN IT GRANTED THE APPEAL AND SET ASIDE THE DECISION DATED OCTOBER 26, 2009 RENDERED BY THE REGIONAL TRIAL COURT OF BATAAN, WHICH DECLARED THE MEMORANDUM OF AGREEMENT DATED 3 SEPTEMBER 1992 NULL AND VOID BETWEEN LCRC, LCDC, MBCI AND PHILCOMSAT; AND THE CONSOLIDATED DEED OF SALE DATED 31 AUGUST 1992 EXECUTED BY LCRC, LCDC AS VENDORS IN FAVOR OF MRDC AS VENDEE, BASED ON THE FOLLOWING GROUNDS:

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[49] Id. at 119.
[50] Id. at 120.
[51] Id. at 121-126.
[52] Supra note 3.

I.

THE [CA] SERIOUSLY ERRED WHEN IT RULED THAT THERE IS NO JOINT VENTURE AGREEMENT TO BEGIN WITH AND THAT THE CONTRACT ENTERED INTO BY THE VALDESES AND CACHOS WAS THAT OF A SIMPLE SALE. CONTRARY TO ITS FINDINGS AND AS APTLY POINTED OUT BY THE LOWER COURT, THE ASSIGNMENT OF RIGHTS DATED 30 OCTOBER 1975 CLEARLY STATES THE TERMS AND CONDITIONS OF THE PARTIES WHICH MUST BE FAITHFULLY COMPLIED WITH, IN SUPPORT OF THE ORIGINAL DEED OF SALE.

II.

THE [CA] SERIOUSLY ERRED WHEN IT RULED THAT THE RESPONDENT LCDC, LCRC AND CACHOS, TO THE EXCLUSION OF THE PETITIONERS, HAVE THE RIGHT TO MORTGAGE THE SUBJECT PROPERTIES, BEING THE OWNERS THEREOF.

III.

THE [CA] SERIOUSLY ERRED WHEN IT RULED THAT THE PETITIONERS CONSENTED TO THE MONTEMAR PROJECT, WHICH AS A RESULT, EXTINGUISHED/NOVATED THE OBLIGATION OF LCDC TO SELL MONTEMAR VILLAS LOTS AND REMIT THE PROCEEDS.

IV.

THE [CA] SERIOUSLY ERRED WHEN IT RULED THAT THE CONSOLIDATED DEED OF SALE DATED 31 AUGUST 1992 AND DEED OF ABSOLUTE SALE AND MEMORANDUM OF AGREEMENT DATED 3 SEPTEMBER 1992 ARE VALID IN SPITE OF LACK OF KNOWLEDGE ON THE PART OF THE PETITIONERS.

V.

THE [CA] SERIOUSLY ERRED IN APPLYING THE PRINCIPLE OF INNOCENT PURCHASER FOR VALUE AND IN GOOD FAITH. EVIDENTLY, RESPONDENTS PHILCOMSAT AND MRDC KNEW OF THE IMPENDING RIGHTS AND INTEREST OF THE ORIGINAL OWNERS WHEN THE CONSOLIDATED DEED OF SALE AND THE MEMORANDUM OF AGREEMENT FOR THE ENTRY OF PHILCOMSAT, WERE CONSUMMATED.[53]

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[53] *Rollo,* vol. I, pp. 59-61.

In sum, the issues are whether: (1) there was a joint venture between LCDC and the Valdeses; (2) there was a novation of the May 24, 1975 Deed of Sale between LCDC and the Valdeses that would result in the extinguishment of LCDC's liability to the Valdeses; (3) Philcomsat and MRDC are purchasers in good faith and for value of the subject properties in Bataan; and (4) petitioner can avail of the remedy of rescission of the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale.

Petitioners' Arguments:

Petitioners contend that the original agreement between the Valdeses and LCDC required the Valdeses to contribute the BARECO properties to the Montemar Project. In consideration thereof, LCDC shall form LCRC to develop and improve the said properties. Meanwhile, both the Valdeses and LCRC shall sell the properties and share proportionately in the profits realized. This scenario, petitioners insist, is the very joint venture agreement executed by and between the Valdeses and LCRC, which is supposedly reflected in the Deed of Sale dated May 24, 1975, the promissory notes issued to the Valdeses, including the Assignment of Rights dated October 30, 1975 and a Memorandum of Agreement.[54] Taking all these documents together, petitioners emphasize that the joint venture agreement between the Valdeses and LCDC is not a one-time transaction, but a recurring promise to share in the proceeds of the sale of the Montemar Villas lots.[55]

From the foregoing, petitioners argue that LCDC cannot, without violating the existing fiduciary relationship between it and the Valdeses, encumber or mortgage the properties subject of the joint venture agreement without their consent and approval. They further claim that any act committed by LCDC, as co-venturer, without the express authority of the Valdeses, is not binding upon the latter.[56]

In this connection, the entrance of Philcomsat as a new investor in the Montemar Project and the execution of the September 3, 1992 Memorandum of Agreement between LCRC, LCDC, MBCI and Philcomsat, including the execution of the August 31, 1992 Consolidated Deed of Sale by LCRC and LCDC in favor MRDC, are acts in violation of the true intent and purpose of the joint venture *i.e.,* that LCDC and the Valdeses shall share in the proceeds of the sale of the Montemar Villas lots, in proportion of sixty percent (60%) and forty percent (40%), respectively. Petitioners insist that these acts cannot bind the Valdeses since they are in violation of their rights under the joint venture agreement, and in disregard of their forty percent (40%) share in the sale of the Montemar Villas lots.[57]

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[54] Id. at 66.
[55] Id. at 69.
[56] Id. at 73.
[57] Id. at 71-72.

Petitioners further point out that the CA committed serious error of fact and law when it concluded that there was novation, which produced the effect of extinguishing the contract of sale between the Valdeses and LCDC given that the supposed substitution of creditors *i.e.,* the entry of Philcomsat, was never declared in clear and unequivocal terms.[58] Also, Philcomsat and MRDC could not be considered as innocent purchasers for value considering that they had knowledge of the impending rights and interest of the Valdeses over the subject properties when the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale were consummated.[59]

Considering the foregoing recitals, petitioners thus maintain that the Valdeses are entitled to the: (1) rescission of the September 3, 1992 Memorandum of Agreement and August 31, 1992 Consolidated Deed of Sale; (2) reconveyance of the subject properties from LCDC; and (3) payment of their forty percent (40%) share in the income derived from sale of the Montemar Villas lots.

Respondents' Arguments:

For their part, respondents LCDC, LCRC, and Cacho argue that being a lawyer and accountant, nothing should have prevented Carlos, Sr. from manifesting in unequivocal terms in any of the documents presented by petitioners that he intended to form a joint venture between the Valdeses and LCDC. Respondents, in this regard, maintain that the contract executed by and between the Valdeses and LCDC was a contract of sale, whereby the Valdeses, for a consideration of ₱20 Million, conveyed to LCDC, and later, to LCRC, the BARECO properties in Bataan. As owner in fee simple of the said BARECO properties by virtue of a Deed of Sale dated May 24, 1975, LCDC had full disposal of the said properties, which necessarily included the right to convey, sell, encumber, or mortgage the same.[60]

Respondents also agreed with the CA that the August 27, 1994 letter-conformity of Gabriel, who signed the said document for himself and on behalf of the other Valdeses, manifested his unqualified recognition that the rights of the Valdeses as unpaid sellers have been novated into participation and sharing in the new concept of the Montemar Project. Notably, such fact was supposedly confirmed when Gabriel authorized the Cacho family to sell Carlos, Sr.'s shareholdings in LCRC and other real properties of the Valdeses. Furthermore, Gabriel was a member of the MBCI board to whom the entry of Philcomsat as a new investor was extensively discussed during a board meeting called for such purpose, and that the fact Gabriel himself

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[58] Id. at 73-78.
[59] Id. at 81-84.
[60] *Rollo,* Vol. II, pp. 1199-1200.

signed the minutes of the meeting ultimately signifies his knowledge of the proposed new concept of the Montemar Project.[61]

Meanwhile, respondents Philcomsat and MRDC essentially raise the same arguments as respondents LCDC, LCRC, and Jose Mari, and further argue that Gabriel cannot avail of the remedy of rescission of the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale, as he failed to satisfactorily prove that the Valdeses cannot, in any manner, collect the unpaid obligation of LCDC.[62]

Our Ruling

Factual findings of the CA are generally not subject to this Court's review under a Rule 45 petition. However, the general rule on the conclusiveness of the factual findings of the CA is also subject to well-recognized exceptions such as where the CA's findings of facts contradict those of the RTC, as in this case.[63] All these considered, we are compelled to review factual questions thus presented.

After a judicious review of the records of the case, this Court finds that the CA committed no error in setting aside the October 26, 2009 Decision of the RTC. The Court, therefore, denies the instant Petition.

The Valdeses and LCDC did not enter into a joint venture agreement. The agreement entered into by the parties is a contract of sale.

As discussed above, petitioners contend that while Carlos, Sr. and LCDC appeared to have entered into a contract of sale *i.e.,* Deed of Sale dated May 24, 1975, the parties intended to enter into a joint venture agreement to develop the BARECO properties into a beach resort and residential subdivision. In particular, the determination of whether both parties entered into such agreement is necessary to address the side of issue of whether LCDC wrongfully mortgaged the subject properties to various financial institutions without the authority and consent of its co-venturers or partners, and the main issue of whether the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale were entered into in violation of the terms of the joint venture agreement.

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[61] Id. at 1200-1203.
[62] Id. at 1198-1218.
[63] *Gatan v. Vinarao*, 820 Phil. 257, 265-267 (2017).

Article 1370 of the Civil Code sets forth the first rule in the interpretation of contracts. The article reads:

> Art. 1370. If the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control.
>
> If the words appear to be contrary to the evident intention of the parties, the latter shall prevail over the former.

As embodied in Article 1370 of the Civil Code, the cardinal rule in the interpretation of contracts is that when the terms of the contract are clear, its literal meaning shall control. Thus, in *Norton Resources and Development Corporation v. All Asia Bank Corporation,*[64] this Court held that:

> x x x A court's purpose in examining a contract is to interpret the intent of the contracting parties, as objectively manifested by them. The process of interpreting a contract requires the court to make a preliminary inquiry as to whether the contract before it is ambiguous. A contract provision is ambiguous if it is susceptible of two reasonable alternative interpretations. **Where the written terms of the contract are not ambiguous and can only be read one way, the court will interpret the contract as a matter of law.** If the contract is determined to be ambiguous, then the interpretation of the contract is left to the court, to resolve the ambiguity in the light of the intrinsic evidence.[65] (Emphasis supplied)

Thus, in interpreting the agreement between the Valdeses and LCDC, the inquiry is not what contract the parties *intended* to enter into, but what contract *did* they enter into. Notably, the Deed of Sale, if read in conjunction with the promissory notes issued to the Valdeses and the Assignment of Rights dated October 30, 1975, leaves no room for interpretation as to the exact intention of the parties – they entered into a contract of sale.

A contract of sale is defined under Article 1458 of the Civil Code:

> By the contract of sale one of the contracting parties obligates himself to transfer the ownership of and to deliver a determinate thing, and the other to pay therefore a price certain in money or its equivalent.

"The elements of a contract of sale are: (a) consent or meeting of the minds, that is, consent to transfer ownership in exchange for the price; (b) determinate subject matter; and (c) price certain in money or its equivalent."[66]

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[64] 620 Phil. 381 (2009).
[65] Id. at 388, citing *Benguet Corporation v. Cabildo*, 585 Phil. 23 (2008).
[66] *Akang v. Municipality of Isulan,* 712 Phil. 420, 434 (2013).

The Deed of Sale executed by Carlos, Sr. and LCDC resulted in a perfected contract of sale, all its elements being present. There was a mutual agreement between them, wherein 4,000 shares of stock of the Valdeses in BARECO were sold to LCDC for a consideration of ₱20 Million. To be clear, the foregoing amount was paid in cash and the balance covered by promissory notes to be paid by way of an Assignment of Rights. Specifically, ₱2.5 Million of the ₱20 Million purchase price was paid in cash, while the balance of ₱17.5 Million was covered by promissory notes and settled through the Assignment of Rights.

Notably, a perusal of the Assignment of Rights would show that the same constituted full payment of the BARECO shares of stock, thus: "That the ASSIGNEE hereby accepts this assignment in full payment of the aforementioned promissory note."[67] There is, therefore, in this case, an absolute transfer of ownership of the BARECO shares to LCDC for a consideration of ₱20 Million.

Significantly, there is nothing in the abovementioned documents, nor in any of the subsequent contracts between the parties that indicates that the transaction entered by and between them was a joint venture. The transaction between the parties was clearly a sale of property.

In contrast, a joint venture has been defined by this Court as follows:

> The legal concept of a joint venture is of common law origin. It has no precise legal definition, but it has been generally understood to mean an organization formed for some temporary purpose. x x x It is in fact hardly distinguishable from the partnership, since their elements are similar – **community of interest in the business, sharing of profits and losses, and a mutual right of control.** x x x The main distinction cited by most opinions in common law jurisdictions is that the partnership contemplates a general business with some degree of continuity, while the joint venture is formed for the execution of a single transaction, and is thus of a temporary nature. x x x This observation is not entirely accurate in this jurisdiction, since under the Civil Code, a partnership may be particular or universal, and a particular partnership may have for its object a specific undertaking. x x x It would seem therefore that under Philippine law, a joint venture is a form of partnership and should be governed by the law of partnerships. The Supreme Court has however recognized a distinction between these two business forms, and has held that although a corporation cannot enter into a partnership contract, it may however engage in a joint venture with others. x x x[68]

A joint venture, therefore, is akin to a partnership, the essential elements of which are as follows: (1) an agreement to contribute money, property, or industry to a common fund; and (2) an intent to divide the profits among the contracting parties. On account thereof, petitioners insist

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[67] *Rollo*, Vol. I, p. 172.

[68] *Philex Mining Corp. v. Commissioner of Internal Revenue*, 574 Phil. 571, 580 (2008) citing *Aurbach v. Sanitary Wares Manufacturing Corporation*, 259 Phil. 606 (1989).

that the parties had all along entered into a joint venture agreement. This can be gleaned from fact that LCDC undertook to divide the net proceeds from the sale of the Montemar Villas lots between LCDC and the Valdeses, in proportion to 60% and 40%, respectively. This fact was later affirmed by the February 21, 1990 letter agreement between the parties.

We disagree. A perusal of the Assignment of Rights and the February 21, 1990 letter agreement clearly shows that the Valdeses' share in the sale of the subdivision lots was the manner of paying, or mode of payment of the ₱20 Million consideration for the 4,000 BARECO shares. While we understand that this type of provision may be peculiar to a contract of sale, this profit-sharing scheme, as explained by LCDC, was a means for the latter to acquire the necessary funds to develop and improve the said lots.

Notably, LCDC was contractually obliged to remit to the Valdeses' their 40% share in the sale of the Montemar Villas lots despite the fact that LCDC may be experiencing losses. This runs counter to a partnership or joint venture relationship. The essence of a true partnership is that the partners share in the profits and losses of the business. This is clearly not the case here. As correctly found by the CA:

> There was no contract to contribute properties to a common fund so as to share the profits between themselves. There is even no common fund to speak of. LCDC's obligation to pay persists as long as it is able to sell subdivision lots even if the corporation itself is experiencing losses, as what happened. x x x x Hence, there is nothing here that may be said to be akin to a joint venture in its legal definition.[69]

Thus, as the sole stockholder of BARECO pursuant to the Deed of Sale dated May 24, 1975, LCDC, had full disposal of the BARECO properties in Bataan, including the right to encumber and mortgage the same as attributes of ownership. Along the same lines, considering that some of properties of LCDC were transferred and conveyed to LCRC, the latter likewise had every right to mortgage these properties. The rights and interests of the Valdeses, lie only on the proceeds of the sale of the Montemar Villas lots. They could not also question the mortgages constituted on the properties after the titles have already passed to LCDC and LCRC.

Given the foregoing recitals, this Court cannot nullify the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale on the sole ground that they were supposedly entered into in violation of the joint venture between the Valdeses and LCDC, where, from the outset, such relationship is clearly non-existent between the parties. Failing to substantiate their claim of a joint venture or partnership, petitioners' argument has no leg to stand on.

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[69] *Rollo*, Vol. I, p. 112.

There was a valid novation of the initial agreement between LCDC and the Valdeses to develop and sell the Montemar Villas lots which thereby extinguished LCDC's original obligation to the Valdeses.

It is undisputed that LCDC, by virtue of the May 24, 1975 Deed of Absolute Sale and October 30, 1975 Assignment of Rights, was obligated to sell the Montemar Villas lots and remit a portion of the proceeds thereof to the Valdeses. On the basis of this finding, the next question is whether the implementation of the new Montemar Project, through the execution of the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale, resulted in the novation of the terms and conditions contained in the initial agreements between the parties.

Relevantly, novation is defined "as the extinguishment of an obligation by the substitution or change of the obligation by a subsequent one which terminates the first, either by changing the object or principal conditions, or by substituting the person of the debtor, or subrogating a third person in the rights of the creditor."[70] In this regard, Article 1292 of the Civil Code provides:

> Article 1292. In order that an obligation may be extinguished by another which substitute the same, it is imperative that it be so declared in unequivocal terms, or that the old and the new obligations be on every point incompatible with each other.

It is well settled that "[t]he cancellation of the old obligation by the new one is a necessary element of novation which may be effected either expressly or impliedly. While there is really no hard and fast rule to determine what might constitute sufficient change resulting in novation, the touchstone, however, is irreconcilable incompatibility between the old and the new obligations."[71] Notably, "[i]n the absence of an express provision to this effect, a contract may still be considered as novated if it passes the test of incompatibility, that is, whether the contracts can stand together, each one having an independent existence."[72]

On this point, it must be stressed that the new concept of the Montemar Project would entail the development of a golf course or sports complex on the unsold lots of the Montemar Villas. Necessarily, the implementation of this new concept is incompatible with the old obligation of LCDC under their previous agreement. The construction of these new sports facilities

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[70] *CCC Insurance Corp. v. Kawasaki Steel Corp.*, 761 Phil. 1, 31 (2015), citing *Reyes v. BPI Family Savings Bank, Inc.*, 520 Phil. 801, 806-807 (2006).

[71] Id.

[72] *Ever Electrical Manufacturing, Inc. v. Philippine Bank of Communications*, 792 Phil. 311, 321 (2016).

will effectively halt the development and eventual sale of the Montemar Villas lots and render unavailing LCDC's original obligation to remit to the Valdeses' their 40% share in the proceeds derived from the sale of the said lots.

Was there a valid novation in this case?

For a valid novation to take place, the following requisites must concur: "(1) a previous valid obligation; (2) the agreement of all the parties to the new contract; (3) the extinguishment of the old contract; and (4) validity of the new one. There must be consent of all the parties to the substitution, resulting in the extinction of the old obligation and the creation of a valid new one."[73]

There is no question that the new concept of the Montemar Project, as intimated in the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale, was wholly incompatible with its original concept earlier agreed upon by the Valdeses and LCDC. At that point, what was required for the validity of the new concept was Valdeses' express conformity thereto, with full knowledge that its implementation will denote that their rights to the 40% share of the proceeds derived from the sale of the Montemar Villa lots will be novated and converted into a 7.5% equity in MRDC.

In light of the foregoing facts, this Court finds that Gabriel, as the representative of the Valdeses, had knowledge of the new concept of the Montemar Project, and consented to the entry of Philcomsat as a new investor, this finding is based on the following established facts: (1) the August 27, 1992 letter-conformity which bore Gabriel's signature on the *conforme* portion thereof; (2) several minutes of the board meetings of MBCI, where MBCI directors, including Gabriel, discussed the entry of Philcomsat as a possible investor of the Montemar Project; and (3) the notices sent to the LCRC stockholders and directors of scheduled meetings for the purpose of discussing the proposed new concept of the said project. We agree with the findings of the CA that the wordings in the notices sent to Gabriel sufficiently apprised him of the changes in the Montemar Project.[74]

It cannot be overemphasized that Gabriel, being a director of the MBCI board, never questioned the proposed new concept of the Montemar Project and the entry of Philcomsat as a new investor. More importantly, his signature in the *conforme* portion of the August 27, 1992 letter shows his explicit acknowledgment and recognition of the novation by the parties (Valdeses and LCDC) of their earlier agreement of selling the Montemar Villas lots to the public. His authorization to the Cachos to sell their

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[73] *CCC Insurance Corp. v. Kawasaki Steel Corp.*, supra note 60 at 31 citing *Garcia v. Llamas*, 462 Phil. 779 (2003).

[74] *Rollo*, Vol. I, pp. 119-120.

shareholdings in LCDC also confirms this recognition. Notably, it was only after Philcomsat failed to offer an agreeable purchase price for Carlos, Sr.'s shareholdings in LCRC and the Valdeses' other real properties that the Valdeses filed the instant complaint against respondents.[75]

With the express conformity of Gabriel to the new concept of the Montemar Project, the obligation of LCDC to sell the Montemar Villas lots, and remit the proceeds to the Valdeses has been extinguished.

Respondents Philcomsat and MRDC were not in bad faith in executing the the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale.

As discussed above, petitioners insist that the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale are null and void for having been executed in bad faith and for the purpose of defrauding the Valdeses.

We disagree. Jurisprudence has shown that in order to constitute fraud that provides basis to annul contracts, it must fulfill two conditions: "First, the fraud must be *dolo causante* or it must be fraud in obtaining the consent of the party," and "[s]econd, the fraud must be proven by clear and convincing evidence and not merely by a preponderance thereof."[76]

It bears noting that prior to its entry as investor of the Montemar Project, Philcomsat required the: (1) written approval of the stockholders and board members of LCDC, LCRC and MBCI of all the provisions in the September 3, 1992 Memorandum of Agreement; and (2) consent of the Valdeses to the new Montemar Project as embodied in the August 27, 1992 letter-conformity signed by Carlos, Sr. himself.[77]

Clearly, Philcomsat had to make sure that LCDC and LCRC are able to procure the assent of the Valdeses to the new concept of the Montemar Project. It was for this reason that Gabriel executed and signed the August 27, 1992 letter-conformity, which bore his written approval to the entry of Philcomsat as an investor.[78] Moreover, the Memorandum of Intent dated August 18, 1992 stated that:

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[75] Id.
[76] *ECE Realty and Development, Inc. v. Mandap*, 742 Phil. 164, 169-170 (2014).
[77] *Rollo*, Vol. I, pp. 300-302.
[78] Id. at 302.

> x x x 1. MBCI, LCRC and LCDC shall first secure the explicit approval by their respective stockholders and/or members (owning at least 2/3 of the outstanding shares) of all the provisions hereinafter enumerated on or before the middle of August 1992; x x x[79]

Clearly, the above-quoted provision also proves that Philcomsat would not have agreed to invest in the Montemar Project without first securing the consent and written approval of LCRC, LCDC, and MBCI stockholders, which included the Valdeses.

In all the foregoing circumstances, it must be stressed that petitioners have not presented to this Court how respondent Philcomsat employed fraudulent acts to deceive the Valdeses, or any of the stockholders of LCRC, LCDC, and MBCI to consent to the implementation and execution of the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale.

On the other hand, Philcomsat was able to state the steps it undertook to ensure utmost consideration of the Valdeses' rights before it decided to invest in the Monetemar Project, and, pursuant thereto, execute the September 3, 1992 Memorandum of Agreement and the August 31, 1992 Consolidated Deed of Sale. There is simply no fraud or bad faith to speak of.

Petitioners cannot avail of the remedy of rescission under the Civil Code.

Petitioners ask this Court to have the September 3, 1992 Memorandum of Agreement and August 31, 1992 Consolidated Deed of Sale rescinded as both these contracts caused damage to the interests and participation of the Valdeses of their 40% share in the proceeds of the sale of the Montemar Villas lots.

"Rescission is a remedy granted by law to the contracting parties, and even to third persons, to secure the reparation of damages caused to them by a contract, even if it should be valid" by reason of external causes resulting in a pecuniary prejudice to one of the contracting parties or their creditors, the result of which, is the "restoration of things to their condition at the moment prior to the celebration of said contract."[80] "The kinds of rescissible contracts are the following: first, those rescissible because of lesion or prejudice;[81] second, those rescissible on account of fraud or bad faith;[82] and

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79 *Rollo*, Vol. II, p. 755.
80 *Ada v. Baylon*, 692 Phil. 432, 448 (2012).
81 Civil Code of the Philippines, Articles 1381 (1) and (2) and 1098.
82 Civil Code of the Philippines, Article 1381 (3) and (4) and 1382.

third, those which, by special provisions of law,[83] are susceptible to rescission."[84]

None of the above circumstances are present in this case. As discussed above, the records of the case are replete with evidence that the Valdeses, through Gabriel, gave their express conformity to the new concept of the Montemar Project and the entrance of Philcomsat as new investor for the said project. Having expressed their consent to the changes brought about by these new contracts, and having been made aware of the effects thereof, the Valdeses cannot now feign ignorance and assert that they were prejudiced in their rights and interests. While they feel shorthanded as they will cease receiving their 40% income share from the sale of the Montemar Villas lots, the fact of the matter is that they would have maintained a share or interest in the new Montemar Project, which, however, the Valdeses opted to sell to respondent Philcomsat. Notably, it appears that nothing has materialized from their negotiations.

In this regard, we have held that "[c]ourts cannot follow one every step of his life and extricate him from bad bargains, protect him from unwise investments, relieve him from one-sided contracts, or annul the effects of foolish acts. Courts cannot constitute themselves guardians of persons who are not legally incompetent. Courts operate not because one person has been defeated or overcome by another, but because he has been defeated or overcome *illegally*. Men may do foolish things, make ridiculous contracts, use miserable judgment, and lose money by them – indeed, all they have in the world; but not for that alone can the law intervene and restore. There must be, in addition, a *violation* of the law, the commission of what the law knows as an *actionable* wrong, before the courts are authorized to lay hold of the situation and remedy it."[85]

As there was a valid consent on the part of petitioners and good faith on the part of respondents, no reversible error was committed by the CA in reversing the RTC's Decision that declared as null and void the September 3, 1992 Memorandum of Agreement and August 31, 1992 Consolidated Deed of Sale.

WHEREFORE, the petition for review on certiorari is **DENIED** for lack of merit. The October 31, 2012 Decision and July 16, 2013 Resolution of the Court of Appeals in CA-G.R. CV No. 94713 are hereby **AFFIRMED.** Costs on petitioners.

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[83] Civil Code of the Philippines, Articles 1189, 1191, 1526, 1534, 1538, 1539, 1542, 1556, 1560, 1567, and 1659.

[84] *Ada v. Baylon*, supra at 448-449.

[85] *Spouses Paguyo v. Astorga*, 507 Phil. 36, 54 (2005) citing *Spouses Buenaventura v. Court of Appeals*, 35 Phil. 769 (1916).

SO ORDERED.

RAMON PAUL L. HERNANDO
Associate Justice

WE CONCUR:

MARVIC M.V.F. LEONEN
Associate Justice
Chairperson

HENRI JEAN PAUL B. INTING
Associate Justice

RICARDO R. ROSARIO
Associate Justice

JHOSEP Y. LOPEZ
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARVIC M.V.F. LEONEN
Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ALEXANDER G. GESMUNDO
Chief Justice