HEIRS OF FE TAN UY (REPRESENTED BY HER HEIR, MANLING UY LIM), PETITIONERS, VS. INTERNATIONAL EXCHANGE BANK, RESPONDENT.

G.R. No. 166282. February 13, 2013

Ponente: MENDOZA, J.

Read online (full-text search, related cases, audio case brief): https://batas.org/library/g-r-no-166282/

MENDOZA, J.:

Before the Court are two consolidated petitions for review on certiorari under Rule 45 of the l997 Revised Rules of Civil Procedure, assailing the August 16, 2004 Decision[1] and the December 2, 2004 Resolution[2] of the Court of Appeals (CA) in CA-G.R. CV No. 69817 entitled "International Exchange Bank v. Hammer Garments Corp., et al."

The Facts

On several occasions, from June 23, 1997 to September 3, 1997, respondent International Exchange Bank (iBank), granted loans to Hammer Garments Corporation (Hammer), covered by promissory notes and deeds of assignment, in the following amounts:[3]

Date of Promissory Note	Amount
June 23, 1997	P 5,599,471.33
July 24, 1997	2,700,000.00
July 25, 1997	2,300,000.00
August 1, 1997	2,938,505.04
August 1, 1997	

3,361,494.96

August 14, 1997

980,000.00

August 21, 1997

2,527,200.00

August 21, 1997

3,146,715.00

September 3, 1997

1,385,511.75

Total

P24,938,898.08

These were made pursuant to the Letter-Agreement,[4] dated March 23,

1996, between iBank and Hammer, represented by its President and General Manager, Manuel Chua (Chua) a.k.a. Manuel Chua Uy Po Tiong, granting Hammer a P 25 Million-Peso Omnibus Line.[5] The loans were secured by a P 9 Million-Peso Real Estate Mortgage[6] executed on July 1, 1997 by Goldkey Development Corporation (Goldkey) over several of its properties and a P 25 Million-Peso Surety Agreement[7] signed by Chua and his wife, Fe Tan Uy (Uy), on April 15, 1996.

As of October 28, 1997, Hammer had an outstanding obligation of P25,420,177.62 to iBank.[8] Hammer defaulted in the payment of its loans, prompting iBank to foreclose on Goldkey's third-party Real Estate Mortgage. The mortgaged properties were sold for P 12 million during the foreclosure sale, leaving an unpaid balance of P 13,420,177.62.[9] For failure of Hammer to pay the deficiency, iBank filed a Complaint[10] for sum of money on December 16, 1997 against Hammer, Chua, Uy, and Goldkey before the Regional Trial Court, Makati City (RTC).[11]

Despite service of summons, Chua and Hammer did not file their respective answers and were declared in default. In her separate answer, Uy claimed that she was not liable to iBank because she never executed a surety agreement in favor of iBank. Goldkey, on the other hand, also denies liability, averring that it acted only as a third-party mortgagor and that it was a corporation separate and distinct from Hammer.[12]

Meanwhile, iBank applied for the issuance of a writ of preliminary attachment which was granted by the RTC in its December 17, 1997 Order.[13]

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

The Notice of Levy on Attachment of Real Properties, dated July 15, 1998, covering the properties under the name of Goldkey, was sent by the sheriff to the Registry of Deeds of Quezon City.[14]

The RTC, in its Decision,[15] dated December 27, 2000, ruled in favor of iBank. While it made the pronouncement that the signature of Uy on the Surety Agreement was a forgery, it nevertheless held her liable for the outstanding obligation of Hammer because she was an officer and stockholder of the said corporation. The RTC agreed with Goldkey that as a third-party mortgagor, its liability was limited to the properties mortgaged. It came to the conclusion, however, that Goldkey and Hammer were one and the same entity for the following reasons: (1) both were family corporations of Chua and Uy, with Chua as the President and Chief Operating Officer; (2) both corporations shared the same office and transacted business from the same place, (3) the assets of Hammer and Goldkey were co-mingled; and (4) when Chua absconded, both Hammer and Goldkey ceased to operate. As such, the piercing of the veil of corporate fiction was warranted. Uy, as an officer and stockholder of Hammer and Goldkey, was found liable to iBank together with Chua, Hammer and Goldkey for the deficiency of P13,420,177.62.

Aggrieved, the heirs of Uy and Goldkey (petitioners) elevated the case to the CA. On August 16, 2004, it promulgated its decision affirming the findings of the RTC. The CA found that iBank was not negligent in evaluating the financial stability of Hammer. According to the appellate court, iBank was induced to grant the loan because petitioners, with intent to defraud the bank, submitted a falsified Financial Report for 1996 which incorrectly declared the assets and cashflow of Hammer.[16] Because petitioners acted maliciously and in bad faith and used the corporate fiction to defraud iBank, they should be treated as one and the same as Hammer.[17]

Hence, these petitions filed separately by the heirs of Uy and Goldkey. On February 9, 2005, this Court ordered the consolidation of the two cases.[18]

The Issues
Petitioners raise the following issues:

> Whether or not a trial court, under the facts of this case, can go out of the issues raised by the pleadings;[19]
>
> Whether or not there is guilt by association in those cases where the veil of corporate fiction may be pierced;[20] and
>
> Whether or not the “alter ego” theory in disregarding the corporate personality of a corporation is applicable to Goldkey.[21]

Simplifying the issues in this case, the Court must resolve the following: (1) whether Uy can be held liable to iBank for the loan obligation of Hammer as an officer and stockholder of the said corporation; and (2) whether Goldkey can be held liable for the obligation of Hammer for being a mere alter ego of the latter.

The Court’s Ruling

The petitions are partly meritorious.

Uy is not liable; The piercing of the
veil of corporate fiction is not justified

The heirs of Uy argue that the latter could not be held liable for being merely an officer of Hammer and Goldkey because it was not shown that she had committed any actionable wrong[22] or that she had participated in the transaction between Hammer and iBank. They further claim that she had cut all ties with Hammer and her husband long before the execution of the loan.[23]

The Court finds in favor of Uy.

Basic is the rule in corporation law that a corporation is a juridical entity which is vested with a legal personality separate and distinct from those acting for and in its behalf and, in general, from the people comprising it. Following this principle, obligations incurred by the corporation, acting through its directors, officers and employees, are its sole liabilities. A director, officer or employee of a corporation is generally not held personally liable for obligations incurred by the corporation.[24] Nevertheless, this legal fiction may be disregarded if it is used as a means to perpetrate fraud or an illegal act, or as a vehicle for the evasion of an existing obligation, the circumvention of statutes, or to confuse legitimate issues.[25]

This is consistent with the provisions of the Corporation Code of the Philippines, which states:

> Sec. 31. Liability of directors, trustees or officers. – Directors or trustees who wilfully and knowingly vote for or assent to patently unlawful acts of the corporation or who are guilty of gross negligence or bad faith in directing the affairs of the corporation or acquire any personal or pecuniary interest in conflict with their duty as such directors or trustees shall be liable jointly and severally for all damages resulting therefrom suffered by the corporation, its stockholders or members and other persons.

Solidary liability will then attach to the directors, officers or employees of the corporation in certain circumstances, such as:

> 1. When directors and trustees or, in appropriate cases, the officers of a corporation: (a) vote for or assent to patently unlawful acts of the corporation; (b) act in bad faith or with gross negligence in directing the corporate affairs; and (c) are guilty of conflict of interest to the prejudice of the corporation, its stockholders or members, and other persons;
>
> 2. When a director or officer has consented to the issuance of watered stocks or who, having knowledge thereof, did not forthwith file with the corporate secretary his written objection thereto;
>
> 3. When a director, trustee or officer has contractually agreed or stipulated to hold himself personally and solidarily liable with the corporation; or
>
> 4. When a director, trustee or officer is made, by specific provision of law, personally liable for his corporate action.[26]

Before a director or officer of a corporation can be held personally liable for corporate obligations, however, the following requisites must concur: (1) the complainant must allege in the complaint that the director or officer assented to patently unlawful acts of the corporation, or that the officer was guilty of gross negligence or bad faith; and (2) the complainant must clearly and convincingly prove such unlawful acts, negligence or bad faith.[27]

While it is true that the determination of the existence of any of the circumstances that would warrant the piercing of the veil of corporate fiction is a question of fact which cannot be the subject of a petition for review on certiorari under Rule 45, this Court can take cognizance of factual issues if the findings of the lower court are not supported by the evidence on record or are based on a misapprehension of facts.[28]

In this case, petitioners are correct to argue that it was not alleged, much less proven, that Uy committed an act as an officer of Hammer that would permit the piercing of the corporate veil. A reading of the complaint reveals that with regard to Uy, iBank did not demand that she be held liable for the obligations of Hammer because she was a corporate officer who committed bad faith or gross negligence in the performance of her duties such that the lifting of the corporate mask would be merited. What the complaint simply stated is that she, together with her errant husband Chua, acted as surety of Hammer, as evidenced by her signature on the Surety Agreement which

was later found by the RTC to have been forged.[29]

Considering that the only basis for holding Uy liable for the payment of the loan was proven to be a falsified document, there was no sufficient justification for the RTC to have ruled that Uy should be held jointly and severally liable to iBank for the unpaid loan of Hammer. Neither did the CA explain its affirmation of the RTC's ruling against Uy. The Court cannot give credence to the simplistic declaration of the RTC that liability would attach directly to Uy for the sole reason that she was an officer and stockholder of Hammer.

At most, Uy could have been charged with negligence in the performance of her duties as treasurer of Hammer by allowing the company to contract a loan despite its precarious financial position. Furthermore, if it was true, as petitioners claim, that she no longer performed the functions of a treasurer, then she should have formally resigned as treasurer to isolate herself from any liability that could result from her being an officer of the corporation. Nonetheless, these shortcomings of Uy are not sufficient to justify the piercing of the corporate veil which requires that the negligence of the officer must be so gross that it could amount to bad faith and must be established by clear and convincing evidence. Gross negligence is one that is characterized by the lack of the slightest care, acting or failing to act in a situation where there is a duty to act, wilfully and intentionally with a conscious indifference to the consequences insofar as other persons may be affected.[30]

It behooves this Court to emphasize that the piercing of the veil of corporate fiction is frowned upon and can only be done if it has been clearly established that the separate and distinct personality of the corporation is used to justify a wrong, protect fraud, or perpetrate a deception.[31] As aptly explained in Philippine National Bank v. Andrada Electric & Engineering Company:[32]

> Hence, any application of the doctrine of piercing the corporate veil should be done with caution. A court should be mindful of the milieu where it is to be applied. It must be certain that the corporate fiction was misused to such an extent that injustice, fraud, or crime was committed against another, in disregard of its rights. The wrongdoing must be clearly and convincingly established; it cannot be presumed. Otherwise, an injustice that was never unintended may result from an erroneous application.[33]

Indeed, there is no showing that Uy committed gross negligence. And in the absence of any of the aforementioned requisites for making a corporate officer, director or stockholder personally liable for the obligations of a corporation, Uy, as a treasurer and stockholder of Hammer, cannot be made to answer for the unpaid debts of the corporation.

Goldkey is a mere alter ego of Hammer

Goldkey contends that it cannot be held responsible for the obligations of its stockholder, Chua.[34] Moreover, it theorizes that iBank is estopped from expanding Goldkey's liability beyond the real estate mortgage.[35] It adds that it did not authorize the execution of the said mortgage.[36] Finally, it passes the blame on to iBank for failing to exercise the requisite due diligence in properly evaluating Hammer's creditworthiness before it was extended an omnibus line.[37]

The Court disagrees with Goldkey.

There is no reason to discount the findings of the CA that iBank duly inspected the viability of Hammer and satisfied itself that the latter was a good credit risk based on the Financial Statement submitted. In addition, iBank required that the loan be secured by Goldkey's Real Estate Mortgage and the Surety Agreement with Chua and Uy. The records support the factual conclusions made by the RTC and the CA.

To the Court's mind, Goldkey's argument, that iBank is barred from pursuing Goldkey for the satisfaction of the unpaid obligation of Hammer because it had already limited its liability to the real estate mortgage, is completely

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

absurd. Goldkey needs to be reminded that it is being sued not as a consequence of the real estate mortgage, but rather, because it acted as an alter ego of Hammer. Accordingly, they must be treated as one and the same entity, making Goldkey accountable for the debts of Hammer.

In fact, it is Goldkey who is now precluded from denying the validity of the Real Estate Mortgage. In its Answer with Affirmative Defenses and Compulsory Counterclaim, dated January 5, 1998, it already admitted that it acted as a third-party mortgagor to secure the obligation of Hammer to iBank.[38] Thus, it cannot, at this late stage, question the due execution of the third-party mortgage.

Similarly, Goldkey is undoubtedly mistaken in claiming that iBank is seeking to enforce an obligation of Chua. The records clearly show that it was Hammer, of which Chua was the president and a stockholder, which contracted a loan from iBank. What iBank sought was redress from Goldkey by demanding that the veil of corporate fiction be lifted so that it could not raise the defense of having a separate juridical personality to evade liability for the obligations of Hammer.

Under a variation of the doctrine of piercing the veil of corporate fiction, when two business enterprises are owned, conducted and controlled by the same parties, both law and equity will, when necessary to protect the rights of third parties, disregard the legal fiction that two corporations are distinct entities and treat them as identical or one and the same.[39]

While the conditions for the disregard of the juridical entity may vary, the following are some probative factors of identity that will justify the application of the doctrine of piercing the corporate veil, as laid down in Concept Builders, Inc. v NLRC:[40]

> (1) Stock ownership by one or common ownership of both corporations;
> (2) Identity of directors and officers;
> (3) The manner of keeping corporate books and records, and
> (4) Methods of conducting the business.[41]

These factors are unquestionably present in the case of Goldkey and

Hammer, as observed by the RTC, as follows:

> 1. Both corporations are family corporations of defendants Manuel Chua and his wife Fe Tan Uy. The other incorporators and shareholders of the two corporations are the brother and sister of Manuel Chua (Benito Ng Po Hing and Nenita Chua Tan) and the sister of Fe Tan Uy, Milagros Revilla. The other incorporator/share holder is Manling Uy, the daughter of Manuel Chua Uy Po Tiong and Fe Tan Uy.
>
> The stockholders of Hammer Garments as of March 23, 1987, aside from spouses Manuel and Fe Tan Uy are: Benito Chua, brother Manuel Chua, Nenita Chua Tan, sister of Manuel Chua and Tessie See Chua Tan. On March 8, 1988, the shares of Tessie See Chua Uy were assigned to Milagros T. Revilla, thereby consolidating the shares in the family of Manuel Chua and Fe Tan Uy.
>
> 2. Hammer Garments and Goldkey share the same office and practically transact their business from the same place.
>
> 3. Defendant Manuel Chua is the President and Chief Operating Officer of both corporations. All business transactions of Goldkey and Hammer are done at the instance of defendant Manuel Chua who is authorized to do so by the corporations.
>
> The promissory notes subject of this complaint are signed by him as Hammer’s President and General Manager. The third-party real estate mortgage of defendant Goldkey is signed by him for Goldkey to secure the loan obligation of Hammer Garments withplaintiff "iBank". The other third-party real estate mortgages

> which Goldkey executed in favor of the other creditor banks of Hammer are also signed by Manuel Chua.
>
> 4. The assets of Goldkey and Hammer are co-mingled. The real properties of Goldkey are mortgaged to secure Hammer's obligation with creditor hanks.
>
> The proceeds of at least two loans which Hammer obtained from plaintiff "iBank", purportedly to finance its export to Wal-Mart are instead used to finance the purchase of a manager's check payable to Goldkey. The defendants' claim that Goldkey is a creditor of Hammer to justify its receipt of the Manager's cheek is not substantiated by evidence. Despite subpoenas issued by this Court, Goldkey thru its treasurer, defendant Fe Tan Uy and or its corporate secretary Manling Uy failed to produce the Financial Statement of Goldke.
>
> 5. When defendant Manuel Chua "disappeared", the defendant Goldkey ceased to operate despite the claim that the other "officers" and stockholders like Benito Chua, Nenita Chua Tan, Fe Tan Uy, Manling Uy and Milagros T. Revilla are still around and may be able to continue the business of Goldkey, if it were different or distinct from Hammer which suffered financial set back.[42]

Based on the foregoing findings of the RTC, it was apparent that Goldkey was merely an adjunct of Hammer and, as such, the legal fiction that it has a separate personality from that of Hammer should be brushed aside as they are, undeniably, one and the same.

WHEREFORE, the petitions are PARTLY GRANTED. The August 16, 2004 Decision and the December 2, 2004 Resolution of the Court of Appeals, in CA-G.R. CV No. 69817, are hereby MODIFIED. Fe Tan Uy is released from any liability arising from the debts incurred by Hammer from iBank. Hammer Garments Corporation, Manuel Chua Uy Po Tiong and Goldkey Development Corporation are jointly and severally liable to pay International Exchange Bank the sum of P13,420,177.62 representing the unpaid loan obligation of Hammer as of December 12, 1997 plus interest. No costs.

SO ORDERED.

Velasco, Jr., (Chairperson), Abad, Villarama, Jr.,[*] and Leonen, JJ. concur.

---

[*] Designated additional member in lieu of Associate Diosdado M. Peralta, per raffle, dated July 20, 2011.

[1] Rollo (G.R. No. 166283), pp. 41-54; penned by Associate Justice Josefina Guevara-Salonga and concurred in by Associate Justice Conrado M. Vazquez, Jr. and Associate Justice Fernanda Lampas Peralta of Seventh Division.[2] Id. at 56-57.

[3] Id. at 62, 325, 414-431.

[4] Id. at 106-107.

[5] Id. at 60.

[6] Id. at 432-433.

[7] Id. at 434-435.

[8] Id. at 42, 60 and 350.

[9] Id. at 60-61.

[10] Id. at 349-357.

[11] Id. at 321.

[12] Id. at 61-62.

[13] Id. at 43.

[14] Id. at 323 and 385.

[15] Id. at 60-69.

[16] Id. at 46-47.

[17] Id. at 50.

[18] Rollo (G.R. No. 166282), p. 8a.

[19] Id. at 22.

[20] Id. at 22.

[21] Rollo (G.R. No. 166283), p. 20.

[22] Id. at 253.

[23] Id. at 245-246.

[24] Garcia v. Social Security Commission Legal and Collection, G.R. No. 170735, December 17, 2007, 540 SCRA 456, 473-474.

[25] Aratea v. Suico, G.R. No. 170284, March 16, 2007, 518 SCRA 501, 507 citing Prudential Bank v. Alviar, 502 Phil. 595 (2005).

[26] Uichico v. National Labor Relations Commission, 339 Phil. 242, 252 (1997).

[27] Francisco v. Mallen, Jr., G.R. No. 173169, September 22, 2010, 631 SCRA 118, 123.

[28] Sarona v. National Labor Relations Commission, G.R. No. 185280, January 18, 2012, 663 SCRA 394, 415.

[29] Rollo (G.R. No. 166283), pp. 64 and 351.

[30] Magaling v. Ong, G.R. No. 173333, August 13, 2008, 562 SCRA 152, 169-170.

[31] Kukan International Corporation v. Reyes, G.R. No. 182729, September 29, 2010, 631SCRA 596, 628.

[32] 430 Phil. 882 (2002).

[33] Philippine National Bank v. Andrada Electric & Engineering Company, 430 Phil. 882, 894 (2002).

[34] Rollo (G.R. No. 166283), p. 257.

[35] Id. at 260.

[36] Id. at 262.

[37] Id. at 234.

[38] Id. at 367-368.

[39] General Credit Corporation v. Alsons Development and Investment Corporation, 542 Phil. 219, 231 (2007).

[40] 326 Phil. 955 (1996).

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

[41] Concept Builders, Inc. v. NLRC, 326 Phil. 955, 965 (1996).

[42] Rollo (G.R. No. 166283), pp. 66-67.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at https://batas.org

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.