# VICENTE ONG LIM SING, JR.,PETITIONER, VS. FEB LEASING & FINANCE CORPORATION, RESPONDENT.

*G.R. No. 168115. June 08, 2007*

Ponente: NACHURA, J.

Read online (full-text search, related cases, audio case brief): https://batas.org/library/g-r-no-168115/

**NACHURA, J.:**

This is a petition for review on certiorari assailing the Decision[1] dated March 15, 2005 and the Resolution[2] dated May 23, 2005 of the Court of Appeals (CA) in CA-G.R. CV No. 77498.

The facts are as follows:

On March 9, 1995, FEB Leasing and Finance Corporation (FEB) entered into a lease[3] of equipment and motor vehicles with JVL Food Products (JVL). On the same date, Vicente Ong Lim Sing, Jr. (Lim) executed an Individual Guaranty Agreement[4] with FEB to guarantee the prompt and faithful performance of the terms and conditions of the aforesaid lease agreement. Corresponding Lease Schedules with Delivery and Acceptance Certificates[5] over the equipment and motor vehicles formed part of the agreement. Under the contract, JVL was obliged to pay FEB an aggregate gross monthly rental of One Hundred Seventy Thousand Four Hundred Ninety-Four Pesos (P170,494.00).

JVL defaulted in the payment of the monthly rentals. As of July 31, 2000, the amount in arrears, including penalty charges and insurance premiums, amounted to Three Million Four Hundred Fourteen Thousand Four Hundred Sixty-Eight and 75/100 Pesos (P3,414,468.75). On August 23, 2000, FEB sent a letter to JVL demanding payment of the said amount. However, JVL failed to pay.[6]

On December 6, 2000, FEB filed a Complaint[7] with the Regional Trial Court of Manila, docketed as Civil Case No. 00-99451, for sum of money, damages, and replevin against JVL, Lim, and John Doe.

In the Amended Answer,[8] JVL and Lim admitted the existence of the lease agreement but asserted that it is in reality a sale of equipment on installment basis, with FEB acting as the financier. JVL and Lim claimed that this intention was apparent from the fact that they were made to believe that when full payment was effected, a Deed of Sale will be executed by FEB as vendor in favor of JVL and Lim as vendees.[9] FEB purportedly assured them that documenting the transaction as a lease agreement is just an industry practice and that the proper documentation would be effected as soon as full payment for every item was made. They also contended that the lease agreement is a contract of adhesion and should, therefore, be construed against the party who prepared it, i.e., FEB.

In upholding JVL and Lim's stance, the trial court stressed the contradictory terms it found in the lease agreement. The pertinent portions of the Decision dated November 22, 2002 read:

> A profound scrutiny of the provisions of the contract which is a contract of adhesion at once exposed the use of several contradictory terms. To name a few, in Section 9 of the said contract – disclaiming warranty, it is stated that the lessor is not the manufacturer nor the latter's agent and therefore does not guarantee any feature or

aspect of the object of the contract as to its merchantability. Merchantability is a term applied in a contract of sale of goods where conditions and warranties are made to apply. Article 1547 of the Civil Code provides that unless a contrary intention appears an implied warranty on the part of the seller that he has the right to sell and to pass ownership of the object is furnished by law together with an implied warranty that the thing shall be free from hidden faults or defects or any charge or encumbrance not known to the buyer.

In an adhesion contract which is drafted and printed in advance and parties are not given a real arms' length opportunity to transact, the Courts treat this kind of contract strictly against their architects for the reason that the party entering into this kind of contract has no choice but to accept the terms and conditions found therein even if he is not in accord therewith and for that matter may not have understood all the terms and stipulations prescribed thereat. Contracts of this character are prepared unilaterally by the stronger party with the best legal talents at its disposal. It is upon that thought that the Courts are called upon to analyze closely said contracts so that the weaker party could be fully protected.

Another instance is when the alleged lessee was required to insure the thing against loss, damage or destruction.

In property insurance against loss or other accidental causes, the assured must have an insurable interest, 32 Corpus Juris 1059.

x x x x

It has also been held that the test of insurable interest in property is whether the assured has a right, title or interest therein that he will be benefited by its preservation and continued existence or suffer a direct pecuniary loss from its destruction or injury by the peril insured against. If the defendants were to be regarded as only a lessee, logically the lessor who asserts ownership will be the one directly benefited or injured and therefore the lessee is not supposed to be the assured as he has no insurable interest.

There is also an observation from the records that the actual value of each object of the contract would be the result after computing the monthly rentals by multiplying the said rentals by the number of months specified when the rentals ought to be paid.

Still another observation is the existence in the records of a Deed of Absolute Sale by and between the same parties, plaintiff and defendants which was an exhibit of the defendant where the plaintiff sold to the same defendants one unit 1995 Mitsubishi L-200 STRADA DC PICK UP and in said Deed, The Court noticed that the same terms as in the alleged lease were used in respect to warranty, as well as liability in case of loss and other conditions. This action of the plaintiff unequivocally exhibited their real intention to execute the corresponding Deed after the defendants have paid in full and as heretofore discussed and for the sake of emphasis the obscurity in the written contract cannot favor the party who caused the obscurity.

Based on substantive Rules on Interpretation, if the terms 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, their contemporaneous and subsequent acts shall be principally considered. If the doubts are cast upon the principal object of the contract in such a way that it cannot be known what may have been the intention or will of the parties, the contract shall be null and void.[10]

Thus, the court concluded with the following disposition:

In this case, which is held by this Court as a sale on installment there is no chattel mortgage on the thing sold, but it appears amongst the Complaint's prayer, that the plaintiff elected to exact fulfillment of the obligation.

For the vehicles returned, the plaintiff can only recover the unpaid balance of the price because of the previous payments made by the defendants for the reasonable use of the units, specially so, as it appears, these returned vehicles were sold at auction and that the plaintiff can apply the proceeds to the balance. However, with


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

> respect to the unreturned units and machineries still in the possession of the defendants, it is this Court's view and so hold that the defendants are liable therefore and accordingly are ordered jointly and severally to pay the price thereof to the plaintiff together with attorney's fee and the costs of suit in the sum of Php25,000.00.
>
> SO ORDERED.[11]

On December 27, 2002, FEB filed its Notice of Appeal.[12] Accordingly, on January 17, 2003, the court issued an Order[13] elevating the entire records of the case to the CA. FEB averred that the trial court erred:

> - When it ruled that the agreement between the Parties-Litigants is one of sale of personal properties on installment and not of lease;
>
> - When it ruled that the applicable law on the case is Article 1484 (of the Civil Code) and not R.A. No. 8556;
>
> - When it ruled that the Plaintiff-Appellant can no longer recover the unpaid balance of the price because of the previous payments made by the defendants for the reasonable use of the units;
>
> - When it failed to make a ruling or judgment on the Joint and Solidary Liability of Vicente Ong Lim, Jr. to the Plaintiff-Appellant.[14]

On March 15, 2005, the CA issued its Decision[15] declaring the transaction between the parties as a financial lease agreement under Republic Act (R.A.) No. 8556.[16] The fallo of the assailed Decision reads:

> WHEREFORE, the instant appeal is GRANTED and the assailed Decision dated 22 November 2002 rendered by the Regional Trial Court of Manila, Branch 49 in Civil Case No. 00-99451 is REVERSED and SET ASIDE, and a new judgment is hereby ENTERED ordering appellees JVL Food Products and Vicente Ong Lim, Jr. to solidarily pay appellant FEB Leasing and Finance Corporation the amount of Three Million Four Hundred Fourteen Thousand Four Hundred Sixty Eight Pesos and 75/100 (Php3,414,468.75), with interest at the rate of twelve percent (12%) per annum starting from the date of judicial demand on 06 December 2000, until full payment thereof. Costs against appellees.
>
> SO ORDERED.[17]

Lim filed the instant Petition for Review on Certiorari under Rule 45 contending that:

> I
>
> THE HONORABLE COURT OF APPEALS ERRED WHEN IT FAILED TO CONSIDER THAT THE UNDATED COMPLAINT WAS FILED BY SATURNINO J. GALANG, JR., WITHOUT ANY AUTHORITY FROM RESPONDENT'S BOARD OF DIRECTORS AND/OR SECRETARY'S CERTIFICATE.
>
> II
>
> THE HONORABLE COURT OF APPEALS ERRED WHEN IT FAILED TO STRICTLY APPLY SECTION 7, RULE 18 OF THE 1997 RULES OF CIVIL PROCEDURE AND NOW ITEM 1, A(8) OF A.M. NO. 03-1-09 SC (JUNE 8, 2004).
>
> III
>
> THE HONORABLE COURT OF APPEALS ERRED IN NOT DISMISSING THE APPEAL FOR FAILURE OF THE RESPONDENT TO FILE ON TIME ITS APPELLANT'S BRIEF AND TO SEPARATELY RULE ON THE PETITIONER'S MOTION TO DISMISS.
>
> IV
>
> THE HONORABLE COURT OF APPEALS ERRED IN FINDING THAT THE CONTRACT BETWEEN

THE PARTIES IS ONE OF A FINANCIAL LEASE AND NOT OF A CONTRACT OF SALE.

V

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE PAYMENTS PAID BY THE PETITIONER TO THE RESPONDENT ARE "RENTALS" AND NOT INSTALLMENTS PAID FOR THE PURCHASE PRICE OF THE SUBJECT MOTOR VEHICLES, HEAVY MACHINES AND EQUIPMENT.

VI

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE PREVIOUS CONTRACT OF SALE INVOLVING THE PICK-UP VEHICLE IS OF NO CONSEQUENCE.

VII

THE HONORABLE COURT OF APPEALS FAILED TO TAKE INTO CONSIDERATION THAT THE CONTRACT OF LEASE, A CONTRACT OF ADHESION, CONCEALED THE TRUE INTENTION OF THE PARTIES, WHICH IS A CONTRACT OF SALE.

VIII

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE PETITIONER IS A LESSEE WITH INSURABLE INTEREST OVER THE SUBJECT PERSONAL PROPERTIES.

IX

THE HONORABLE COURT OF APPEALS ERRED IN CONSTRUING THE INTENTIONS OF THE COURT A QUO IN ITS USAGE OF THE TERM MERCHANTABILITY.[18]

We affirm the ruling of the appellate court.

First, Lim can no longer question Galang's authority as FEB's authorized representative in filing the suit against Lim. Galang was the representative of FEB in the proceedings before the trial court up to the appellate court. Petitioner never placed in issue the validity of Galang's representation before the trial and appellate courts. Issues raised for the first time on appeal are barred by estoppel. Arguments not raised in the original proceedings cannot be considered on review; otherwise, it would violate basic principles of fair play.[19]

Second, there is no legal basis for Lim to question the authority of the CA to go beyond the matters agreed upon during the pre-trial conference, or in not dismissing the appeal for failure of FEB to file its brief on time, or in not ruling separately on the petitioner's motion to dismiss.

Courts have the prerogative to relax procedural rules of even the most mandatory character, mindful of the duty to reconcile both the need to speedily put an end to litigation and the parties' right to due process. In numerous cases, this Court has allowed liberal construction of the rules when to do so would serve the demands of substantial justice and equity.[20] In Aguam v. Court of Appeals, the Court explained:

> The court has the discretion to dismiss or not to dismiss an appellant's appeal. It is a power conferred on the court, not a duty. The "discretion must be a sound one, to be exercised in accordance with the tenets of justice and fair play, having in mind the circumstances obtaining in each case." Technicalities, however, must be avoided. The law abhors technicalities that impede the cause of justice. The court's primary duty is to render or dispense justice. "A litigation is not a game of technicalities." "Lawsuits unlike duels are not to be won by a rapier's thrust. Technicality, when it deserts its proper office as an aid to justice and becomes its great hindrance and chief enemy, deserves scant consideration from courts." Litigations must be decided on their merits and not on technicality. Every party litigant must be afforded the amplest opportunity for the proper and just determination of his cause, free from the unacceptable plea of technicalities. Thus, dismissal of appeals

> purely on technical grounds is frowned upon where the policy of the court is to encourage hearings of appeals on their merits and the rules of procedure ought not to be applied in a very rigid, technical sense; rules of procedure are used only to help secure, not override substantial justice. It is a far better and more prudent course of action for the court to excuse a technical lapse and afford the parties a review of the case on appeal to attain the ends of justice rather than dispose of the case on technicality and cause a grave injustice to the parties, giving a false impression of speedy disposal of cases while actually resulting in more delay, if not a miscarriage of justice.[21]

Third, while we affirm that the subject lease agreement is a contract of adhesion, such a contract is not void per se. It is as binding as any ordinary contract. A party who enters into an adhesion contract is free to reject the stipulations entirely.[22] If the terms thereof are accepted without objection, then the contract serves as the law between the parties.

In Section 23 of the lease contract, it was expressly stated that:

> SECTION 23. ENTIRE AGREEMENT; SEVERABILITY CLAUSE
>
> 23.1. The LESSOR and the LESSEE agree this instrument constitute the entire agreement between them, and that no representations have been made other than as set forth herein. This Agreement shall not be amended or altered in any manner, unless such amendment be made in writing and signed by the parties hereto.

Petitioner's claim that the real intention of the parties was a contract of sale of personal property on installment basis is more likely a mere afterthought in order to defeat the rights of the respondent.

The Lease Contract with corresponding Lease Schedules with Delivery and Acceptance Certificates is, in point of fact, a financial lease within the purview of R.A. No. 8556. Section 3(d) thereof defines "financial leasing" as:

> [A] mode of extending credit through a non-cancelable lease contract under which the lessor purchases or acquires, at the instance of the lessee, machinery, equipment, motor vehicles, appliances, business and office machines, and other movable or immovable property in consideration of the periodic payment by the lessee of a fixed amount of money sufficient to amortize at least seventy (70%) of the purchase price or acquisition cost, including any incidental expenses and a margin of profit over an obligatory period of not less than two (2) years during which the lessee has the right to hold and use the leased property with the right to expense the lease rentals paid to the lessor and bears the cost of repairs, maintenance, insurance and preservation thereof, but with no obligation or option on his part to purchase the leased property from the owner-lessor at the end of the lease contract.

FEB leased the subject equipment and motor vehicles to JVL in consideration of a monthly periodic payment of P170,494.00. The periodic payment by petitioner is sufficient to amortize at least 70% of the purchase price or acquisition cost of the said movables in accordance with the Lease Schedules with Delivery and Acceptance Certificates. "The basic purpose of a financial leasing transaction is to enable the prospective buyer of equipment, who is unable to pay for such equipment in cash in one lump sum, to lease such equipment in the meantime for his use, at a fixed rental sufficient to amortize at least 70% of the acquisition cost (including the expenses and a margin of profit for the financial lessor) with the expectation that at the end of the lease period the buyer/financial lessee will be able to pay any remaining balance of the purchase price."[23]

The allegation of petitioner that the rent for the use of each movable constitutes the value of the vehicle or equipment leased is of no moment. The law on financial lease does not prohibit such a circumstance and this alone does not make the transaction between the parties a sale of personal property on installment. In fact, the value of the lease, usually constituting the value or amount of the property involved, is a benefit allowed by law to the lessor for the use of the property by the lessee for the duration of the lease. It is recognized that the value of


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

these movables depreciates through wear and tear upon use by the lessee. In Beltran v. PAIC Finance Corporation,[24] we stated that:

> Generally speaking, a financing company is not a buyer or seller of goods; it is not a trading company. Neither is it an ordinary leasing company; it does not make its profit by buying equipment and repeatedly leasing out such equipment to different users thereof. But a financial lease must be preceded by a purchase and sale contract covering the equipment which becomes the subject matter of the financial lease. The financial lessor takes the role of the buyer of the equipment leased. And so the formal or documentary tie between the seller and the real buyer of the equipment, i.e., the financial lessee, is apparently severed. In economic reality, however, that relationship remains. The sale of the equipment by the supplier thereof to the financial lessor and the latter's legal ownership thereof are intended to secure the repayment over time of the purchase price of the equipment, plus financing charges, through the payment of lease rentals; that legal title is the upfront security held by the financial lessor, a security probably superior in some instances to a chattel mortgagee's lien.[25]

Fourth, the validity of Lease No. 27:95:20 between FEB and JVL should be upheld. JVL entered into the lease contract with full knowledge of its terms and conditions. The contract was in force for more than four years. Since its inception on March 9, 1995, JVL and Lim never questioned its provisions. They only attacked the validity of the contract after they were judicially made to answer for their default in the payment of the agreed rentals.

It is settled that the parties are free to agree to such stipulations, clauses, terms, and conditions as they may want to include in a contract. As long as such agreements are not contrary to law, morals, good customs, public policy, or public order, they shall have the force of law between the parties.[26] Contracting parties may stipulate on terms and conditions as they may see fit and these have the force of law between them.[27]

The stipulation in Section 14[28] of the lease contract, that the equipment shall be insured at the cost and expense of the lessee against loss, damage, or destruction from fire, theft, accident, or other insurable risk for the full term of the lease, is a binding and valid stipulation. Petitioner, as a lessee, has an insurable interest in the equipment and motor vehicles leased. Section 17 of the Insurance Code provides that the measure of an insurable interest in property is the extent to which the insured might be damnified by loss or injury thereof. It cannot be denied that JVL will be directly damnified in case of loss, damage, or destruction of any of the properties leased.

Likewise, the stipulation in Section 9.1 of the lease contract that the lessor does not warrant the merchantability of the equipment is a valid stipulation. Section 9.1 of the lease contract is stated as:

> 9.1 IT IS UNDERSTOOD BETWEEN THE PARTIES THAT THE LESSOR IS NOT THE MANUFACTURER OR SUPPLIER OF THE EQUIPMENT NOR THE AGENT OF THE MANUFACTURER OR SUPPLIER THEREOF. THE LESSEE HEREBY ACKNOWLEDGES THAT IT HAS SELECTED THE EQUIPMENT AND THE SUPPLIER THEREOF AND THAT THERE ARE NO WARRANTIES, CONDITIONS, TERMS, REPRESENTATION OR INDUCEMENTS, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, MADE BY OR ON BEHALF OF THE LESSOR AS TO ANY FEATURE OR ASPECT OF THE EQUIPMENT OR ANY PART THEREOF, OR AS TO ITS FITNESS, SUITABILITY, CAPACITY, CONDITION OR MERCHANTABILITY, NOR AS TO WHETHER THE EQUIPMENT WILL MEET THE REQUIREMENTS OF ANY LAW, RULE, SPECIFICATIONS OR CONTRACT WHICH PROVIDE FOR SPECIFIC MACHINERY OR APPARATUS OR SPECIAL METHODS.[29]

In the financial lease agreement, FEB did not assume responsibility as to the quality, merchantability, or capacity of the equipment. This stipulation provides that, in case of defect of any kind that will be found by the lessee in any of the equipment, recourse should be made to the manufacturer. "The financial lessor, being a financing company, i.e., an extender of credit rather than an ordinary equipment rental company, does not extend a warranty of the fitness of the equipment for any particular use. Thus, the financial lessee was precisely in a position to

enforce such warranty directly against the supplier of the equipment and not against the financial lessor. We find nothing contra legem or contrary to public policy in such a contractual arrangement."[30]

Fifth, petitioner further proffers the view that the real intention of the parties was to enter into a contract of sale on installment in the same manner that a previous transaction between the parties over a 1995 Mitsubishi L-200 Strada DC-Pick-Up was initially covered by an agreement denominated as a lease and eventually became the subject of a Deed of Absolute Sale.

We join the CA in rejecting this view because to allow the transaction involving the pick-up to be read into the terms of the lease agreement would expand the coverage of the agreement, in violation of Article 1372 of the New Civil Code. [31] The lease contract subject of the complaint speaks only of a lease. Any agreement between the parties after the lease contract has ended is a different transaction altogether and should not be included as part of the lease. Furthermore, it is a cardinal rule in the interpretation of contracts that if the terms of a contract are clear and leave no doubt as to the intention of the contracting parties, the literal meaning of its stipulations shall control. No amount of extrinsic aid is necessary in order to determine the parties' intent.[32]

WHEREFORE, in the light of all the foregoing, the petition is DENIED. The Decision of the CA in CA-G.R. CV No. 77498 dated March 15, 2005 and Resolution dated May 23, 2005 are AFFIRMED. Costs against petitioner.

**SO ORDERED.**

Ynares-Santiago, (Chairperson) Austria-Martinez, and Chico-Nazario, JJ., conur.

---

[1] Rollo, pp. 72-104.

[2] Id. at pp. 106-107.

[3] Lease No. 27:95:20; id. at pp. 121-126.

[4] Id. at pp. 127-128.

[5] Id. at pp. 129-144.

[6] Id. at p. 148.

[7] Id. at pp. 146-155.

[8] Id. at pp. 156-171.

[9] Id. at p. 159.

[10] Id. at pp. 218-220.

[11] Id. at p. 222.

[12] Id. at pp. 223-224.

[13] Id. at p. 225.

[14] Id. at p. 87.

[15] Penned by Associate Justice Celia C. Librea-Leagogo.

[16] An Act Amending Republic Act No. 5980, as amended, otherwise known as The Financing Company Act.

[17] Rollo, pp. 101-102.

[18] Id. at pp. 41-42.

[19] Cruz v. Fernando, Sr., G.R. No. 145470, December 9, 2005, 477 SCRA 182, 183.

[20] Barnes v. Padilla, G. R. No. 160753, June 28, 2005, 461 SCRA 539.

[21] G.R. No. 137672, May 31, 2000, 332 SCRA 789, 790.

[22] Fabrigas v. San Francisco Del Monte, Inc., G.R. No. 152346, November 25, 2005, 476 SCRA 263.

[23] Beltran v. PAIC Finance Corporation, G.R. No. 83113, May 19, 1992, 209 SCRA 118.

[24] Id.

[25] Id. at pp. 118-119.

[26] Herrera v. Petrophil Corporation, G.R. No. L-48349, December 29, 1986, 146 SCRA 389.

[27] Philippine Communications Satellite Corporation v. Globe Telecom, Inc., G.R. No. 147324, May 25, 2004, 429 SCRA 153.

[28] Rollo, p. 123.

[29] Id. at pp. 122-123.

[30] Beltran v. PAIC Finance Corporation, supra, p. 119.

[31] Article 1372. However general the terms of a contract may be, they shall not be understood to comprehend things that are distinct and cases that are different from those upon which the parties intended to agree.

[32] Inter-Asia Services Corp. (International) v. Court of Appeals, G.R. No. 106427, October 21, 1996, 263 SCRA 417.


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

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.