

SHRIMP SPECIALISTS, INC., PETITIONER, VS. FUJI-TRIUMPH AGRI-INDUSTRIAL CORPORATION, RESPONDENT.

G.R. No. 168756. December 07, 2009

Ponente: CARPIO, J.

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CARPIO, J.:

The Case

This is a consolidation of two separate petitions. In G.R. No. 168756, Shrimp Specialists, Inc. (Shrimp Specialists) filed a Petition for Review on Certiorari[1] assailing the Court of Appeals' Decision[2] dated 28 June 2005 in CA-G.R. CV No. 57420. In the assailed decision, the Court of Appeals (CA) ordered Shrimps Specialists to pay Fuji-Triumph Agri-Industrial Corporation (Fuji) the following:

1. the sum of P767,427.00 representing the principal amount for the deliveries made by plaintiff from June to July 1989 inclusive plus six percent (6%) thereon per annum computed from extrajudicial demand, February 2, 1990, until the finality of the judgment plus twelve percent (12%) interest thereon per annum, computed from the finality of this judgment until the amount is fully paid;

the sum of P30,000.00 as reasonable attorney's fees; and the cost of this suit.[3]

The CA modified the Regional Trial Court's Decision[4] dated 15 April 1997 by dismissing the case against Eugene Lim, President of Shrimp Specialists.

In G.R. No. 171476, Fuji filed a Petition for Review on Certiorari[5] assailing the CA Resolution dated 26 January 2006 in CA-G.R. CV No. 57420, denying Fuji's Motion for Reconsideration of the CA Decision dated 28 June 2005.

The Facts

Shrimp Specialists and Fuji entered into a Distributorship Agreement, under which Fuji agreed to supply prawn feeds on credit basis to Shrimp Specialists. The prawn feeds would be used in prawn farms under Shrimp Specialists' technical supervision and management. In 1987, Shrimp Specialists began purchasing prawn feeds from Fuji and paid for them in the regular course of business.[6]

From 3 June 1989 to 24 July 1989, Fuji delivered prawn feeds, and Shrimp Specialists issued 9 postdated checks as payment.[7]

Shrimp Specialists alleges that it issued a stop-payment order for the checks because it discovered that earlier deliveries were contaminated with aflatoxin. Shrimp Specialists claims that it verbally informed Fuji about the contamination and Fuji promised to send stocks of better quality. Shrimp Specialists states that it continued to purchase prawn feeds from Fuji, but the stocks were still contaminated with aflatoxin.[8]

Fuji denies that the feeds were contaminated. Fuji asserts that Shrimp Specialists requested to put on hold the deposit of the checks due to insufficient funds. Fuji adds that when the checks were presented for payment, the

drawee bank dishonored all the checks due to a stop-payment order.[9]

In January 1990, Ervin Lim, Fuji's Vice-President and owner, and Edward Lim, Shrimp Specialists' Finance Officer, met in Ozamiz City to discuss the unpaid deliveries. After the meeting, both agreed that Shrimp Specialists would issue another set of checks to cover the ones issued earlier. This agreement was reduced into writing and signed by both parties on behalf of their corporations.[10] The agreement reads:

Received from SSI the ff. checks representing full payment of the previous stopped (sic) payment checks to Fuji as follows:

Ck # 158002 - P 153,485.40

003 - 153,485.40

004 - 153,485.40

005 - 153,485.40

006 - 153,485.40

To inform in advance in case the above checks cannot be deposited for failure to replace the defective feeds.

Prepared by: Received by:

(signed) Edward Lim (signed) Ervin Lim[11]

Fuji states that it accepted the checks in good faith and believed that the account would finally be paid since Edward Lim assured Ervin Lim of the payment. However, upon presentment of the replacement checks, these were again dishonored due to another stop-payment order issued by Shrimp Specialists.[12]

Shrimp Specialists argues that despite the written agreement, Fuji deposited these checks without first replacing the defective feeds or at least informing Shrimp Specialists in advance that it would not replace the defective feeds. Thus, Shrimp Specialists contends that it was constrained to issue another stop-payment order for these checks.[13]

Fuji claims that despite repeated demands for payment, Shrimp Specialists failed to comply with its obligation to make good the replacement checks.[14]

Fuji filed criminal charges against the officers of Shrimp Specialists who signed the checks for violation of the Anti-Bouncing Checks Law. The charges were all dismissed.[15]

On 26 October 1990, Fuji filed a civil complaint for sum of money against Shrimp Specialists and Eugene Lim. On 15 April 1997, the Regional Trial Court of Quezon City (trial court), Branch 76, rendered a decision finding Shrimp Specialists and Eugene Lim solidarily liable to pay P767,427 representing the deliveries made from June to July 1989 plus interests. Fuji was also awarded P30,000 as reasonable attorney's fees and the cost of the suit.[16]

Shrimp Specialists and Eugene Lim elevated the case to the CA. On 28 June 2005, the CA rendered a decision modifying the trial court's decision. The CA affirmed the trial court's decision to hold Shrimp Specialists liable to pay Fuji P767,427 for the prawn feeds delivered plus interests, P30,000 as attorney's fees and cost of suit. However, the CA absolved Eugene Lim from any liability.

Aggrieved by the decision, both Shrimp Specialists and Fuji elevated the case before this Court.

The Ruling of the Regional Trial Court

In the Decision dated 15 April 1997, the trial court found Shrimp Specialists liable to pay Fuji P767,427 for the

prawn feeds delivered from June to July 1989. The trial court stated that since Eugene Lim negotiated with Fuji and signed the Distributorship Agreement in his capacity as President of Shrimp Specialists, Eugene Lim was privy to the agreement and hence, was also liable.[17]

After hearing the testimonies of Alphonsus Faigal, Fuji's Internal Auditing Division manager,[18] Salvador P. Sequitin, Fuji's liaison officer,[19] Esteban del Mar, Shrimp Specialists' managing director,[20] Jose Marquez, Provincial Fishery Officer of Misamis Occidental and a member of the International Aquaculture Consultancy (IAC),[21] Joan Maria Antonia Sato, owner of seven prawn ponds,[22] and Edward Lim, Shrimp Specialists' finance officer,[23] the trial court made the following findings:

- Shrimp Specialists did not submit a proper complaint to Fuji when it found out that the prawn growers allegedly experienced tremendous losses in their prawn harvest due to the defective feeds.
- Shrimp Specialists did not find it necessary to seek representation from Fuji to form part of the group which conducted the inspection.
- IAC's findings were not reduced into writing as to put in question the veracity of its report. Jose Marquez's testimony that he was part of the group who conducted the inspection on the prawn ponds is not a substitute to the absence of a written report by IAC.
- The alleged inspection was conducted on four prawn ponds only. Prawn ponds are exposed to the harsh elements of nature. The supply of water, bacterial content, salinity, and temperature are other factors which may contribute to the high mortality rate of prawns.
- The inspection was directed on the prawn ponds and not on the questioned feeds itself. Hence, IAC's findings that the feeds were contaminated with aflatoxin when these feeds were not subjected to examination is without basis.
- IAC's existence as an entity was not duly proven. Fuji disputed the existence of IAC through a certification issued by the Securities and Exchange Commission certifying that IAC was not registered as a corporation or partnership. Further, no representative from IAC was presented during the hearing to testify on its existence, expertise and authenticity of its findings.[24]

The trial court ruled that the written agreement signed by Edward Lim and Ervin Lim does not suffice to convince the court that the feeds delivered by Fuji were defective. The trial court explained that even if the agreement mentions Fuji as having to replace the defective feeds, this statement is not tantamount to an express admission of the defective quality of the feeds that were delivered.[25]

Citing Article 1249[26] of the Civil Code of the Philippines, the trial court held that the obligation of Shrimp Specialists to pay Fuji still subsists because Edward Lim, Fuji's finance officer, issued a stop-payment order, hence, the checks were never cashed.[27]

The trial court held that Eugene Lim is solidarily liable with Shrimp Specialists. The trial court reasoned that Eugene Lim negotiated with Fuji and signed the Distributorship Agreement in his capacity as president of Shrimp Specialists, hence, he is privy to the agreement.[28]

The Ruling of the Court of Appeals

In resolving the petition, the CA agreed with the trial court that Shrimp Specialists failed to prove with certainty that Fuji delivered defective feeds. Based on the records, the inspection and discovery of the alleged defect in Fuji's prawn feeds were made as early as March 1989 while the feeds subject of this case were delivered to Shrimp Specialists only from 3 June to 24 July 1989. The CA added that Shrimp Specialists' argument is inconsistent with the delivery receipts where the representative from Shrimp Specialists acknowledged receipt of

the feeds in good order and condition.[29]

The CA stated that the findings of the trial court deserve utmost consideration. The CA held that there was no credible evidence showing that the feeds were contaminated with aflatoxin. No technical or scientific evidence was shown. In fact, no laboratory tests were conducted. Only four ponds were inspected and on those occasions, there was no representative from Fuji.[30]

The CA declared that the portion in the agreement, which states "to inform in advance in case the same checks cannot be deposited for failure to replace the defective feeds," is too nebulous to be taken as an admission on the part of Fuji's representative that the feeds earlier delivered were defective. The CA doubted if Fuji really acknowledged that its earlier feeds were defective because the agreement was just to acknowledge receipt of the checks. The qualification was not clear as to its true import. To be an admission of any breach of warranty, the evidence must be clear and convincing.[31]

The CA dismissed the case against Eugene Lim. The CA found that based on a review of the evidentiary records, there was no reason to pierce the corporate veil. The CA reasoned that the evidence should be more than just signing on behalf of the corporation because these artificial entities cannot act except through a natural person. The CA added that there is no evidence that Eugene Lim and Shrimp Specialists are one and the same and they dealt with Fuji in bad faith or that Eugene Lim assumed solidary obligation with Shrimp Specialists for any liability which might arise under the Distributorship Agreement.[32]

The Issue

In G.R. No. 168576, Shrimp Specialists assigns this error for our consideration: whether the CA erred in interpreting the provision "to inform in advance in case the same checks cannot be deposited for failure to replace the defective feeds."

In G.R. No. 171476, Fuji presents this sole issue: whether the CA erred in dismissing the case against respondent Eugene Lim and freeing him from solidary liability with Shrimp Specialists.

The Ruling of the Court

An Admission must be expressed
in definite and unequivocal language

Shrimp Specialists maintains that the provision "to inform in advance in case the same checks cannot be deposited for failure to replace the defective feeds" clearly shows that Fuji admitted that the feeds delivered were defective, otherwise, there would be no reason to include the statement in an agreement that merely acknowledged receipt of the checks.[33] On the other hand, Fuji asserts that the statement is too ambiguous to be considered an admission that Fuji delivered defective feeds to Shrimp Specialists when there is evidence to support the contrary.[34]

In *CMS Logging, Inc. v. Court of Appeals*,[35] we held:

It is a rule that 'a statement is not competent as an admission where it does not, under a reasonable construction, appear to admit or acknowledge the fact which is sought to be proved by it.' An admission or declaration to be competent must have been expressed in definite, certain and unequivocal language.

As correctly ruled by the CA, the statement "to inform in advance in case the same checks cannot be deposited for failure to replace the defective feeds" is not expressed in definite, certain and unequivocal language that Fuji admitted to delivering defective feeds. The CA also ruled that to be an admission of any breach of warranty, the evidence must be clear and convincing. The CA pointed out that the inspection and discovery of the alleged

defective feeds were made as early as March 1989 while the feeds subject of this case were delivered to Shrimp Specialists only from 3 June to 24 July 1989. Even assuming that Fuji admitted that the feeds delivered were defective, the question of whether Fuji had replaced the feeds is a factual matter not usually reviewable in a petition filed under Rule 45.[36]

A petition for review under Rule 45 of the Rules of Court covers only questions of law. Questions of fact are not reviewable by this Court because they are final and conclusive especially if borne out by the record or based on substantial evidence.[37] In *Paterno v. Paterno*,[38] the Court explained:

Such questions as whether certain items of evidence should be accorded probative value or weight, or rejected as feeble or spurious, or whether or not the proofs on one side or the other are clear and convincing and adequate to establish a proposition in issue, are without doubt questions of fact. Whether or not the body of proofs presented by a party, weighed and analyzed in relation to contrary evidence submitted by adverse party, may be said to be strong, clear and convincing; whether or not certain documents presented by one side should be accorded full faith and credit in the face of protests as to their spurious character by the other side; whether or not inconsistencies in the body of proofs of a party are of such gravity as to justify refusing to give said proofs weight - all these are issues of fact. Questions like these are not reviewable by this Court, which, as a rule, confines its review of cases decided by the Court of Appeals only to questions of law raised in the petition and therein distinctly set forth.

Whether Fuji delivered defective feeds, or whether the statement is tantamount to an admission that the feeds delivered were defective, or whether Fuji failed to replace defective feeds, are questions of fact which necessitate an examination of the probative value of the evidence adduced before the trial court.

The written agreement signed by Edward Lim and Ervin Lim did not convince the trial and appellate courts that the feeds supplied by Fuji were defective because evidence to the contrary exists, to wit:

- a. No proper complaint was submitted to Fuji when the prawn growers allegedly experienced tremendous losses;
- b. Fuji was not represented in the group which conducted the inspection;
- c. The existence of the IAC was not duly proven and its findings were not reduced into writing;
- d. The inspection was conducted on four prawn ponds only, which could be exposed to other harsh elements of nature; and
- e. No inspection was conducted on the prawn feeds itself, hence, the IAC's findings that the feeds were contaminated with aflatoxin is without basis.

The CA pointed out that a representative from Shrimp Specialists even acknowledged receipt of feeds in good order and condition, hence, Shrimp Specialists' argument is contrary to the evidence on record.

The factual findings of the trial court, when affirmed by the appellate court, are generally binding on the Supreme Court.[39] After a careful review of the records, the Court finds no reason to disturb the factual findings of the trial court and the appellate court.

Solidary Liability

Fuji claims that the CA erred in dismissing the case against Eugene Lim and freeing him from solidary liability with Shrimp Specialists to Fuji for the amount of the delivered feeds.[40] Fuji alleges that Eugene Lim, as President of Shrimp Specialists, was the one who solicited and negotiated with Fuji for the purchase of prawn feeds. Fuji contends that it was primarily because of Eugene Lim's representation that Fuji entered into the Distributorship Agreement with Shrimp Specialists and agreed to supply prawn feeds on credit.[41]

Shrimp Specialists asserts that Fuji has not presented any evidence to show that Eugene Lim acted in bad faith. Fuji also failed to present any evidence to prove that Eugene Lim had maliciously and deliberately caused Shrimp Specialists to default on its obligation without any valid reason. Hence, Eugene Lim cannot be made personally liable for the obligations of Shrimp Specialists.[42]

A corporation is vested by law with a personality separate and distinct from the people comprising it. Ownership by a single or small group of stockholders of nearly all of the capital stock of the corporation is not by itself a sufficient ground to disregard the separate corporate personality. Thus, obligations incurred by corporate officers, acting as corporate agents, are direct accountabilities of the corporation they represent.[43] In *Uy v. Villanueva*,[44] the Court explained:

The general rule is that obligations incurred by the corporation, acting through its directors, officers, and employees, are its sole liabilities. However, solidary liability may be incurred, but only under the following exceptional circumstances:

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; (c) are guilty of conflict of interest to the prejudice of the corporation, its stockholders or members, and other persons;

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;

When a director, trustee or officer has contractually agreed or stipulated to hold himself personally and solidarily liable with the corporation; or

When a director, trustee or officer is made, by specific provision of law, personally liable for his corporate action.[45]

In this case, none of these exceptional circumstances is present. In its decision, the trial court failed to provide a clear ground why Eugene Lim was held solidarily liable with Shrimp Specialists. The trial court merely stated that Eugene Lim signed on behalf of the Shrimp Specialists as President without explaining the need to disregard the separate corporate personality. The CA correctly ruled that the evidence to hold Eugene Lim solidarily liable should be more than just signing on behalf of the corporation because artificial entities can only act through natural persons. Thus, the CA was correct in dismissing the case against Eugene Lim.

Wherefore, we DENY both petitions. We AFFIRM the Decision of the Court of Appeals dated 28 June 2005 and the Resolution dated 26 January 2006 in CA-G.R. CV No. 57420.

SO ORDERED.

Corona[*], Leonardo-De Castro[**], Brion, and Abad, JJ., concur.

[*] Designated additional member per Special Order No. 804.

[**] Designated additional member per Special Order No. 776.

[1] Under Rule 45 of the Rules of Court.

[2] Penned by Associate Justice Jose Catral Mendoza with Presiding Justice Romeo A. Brawner and Associate Justice Edgardo P. Cruz, concurring.

[3]Rollo (G.R. No. 168756), p. 11.

[4] Penned by Judge Monina A. Zenarosa.

[5] Under Rule 45 of the Rules of Court.

[6] Rollo (G.R. No. 168756), p. 121.

[7] Rollo (G.R. No. 171476), p. 317.

[8] Id. at 220.

[9]Id. at 318.

[10]Id. at 220.

[11]Rollo (G.R. No. 168756), p. 48.

[12] Rollo (G.R. No. 171476), p. 318.

[13] Id. at 221.

[14]Id. at 318.

[15]Id. at 221.

[16]Id. at 221-222.

[17]Id. at 124.

[18] Id. at 108-110.

[19]Id. at 118.

[20]Id. at 110-112.

[21]Id. at 112-113.

[22]Id. at 113-115.

[23]Id. at 115-118.

[24] Id. at 121-123.

[25] Id. at 123.

[26] Art. 1249. x x x

The delivery of promissory notes payable to order, or bills of exchange or other mercantile documents shall produce the effect of payment only when they have been cashed, or when through the fault of the creditor they have been impaired.

x x x

[27] Rollo (G.R. No. 171476), p. 124.

[28]Id.

[29] Id. at 22.

[30]Id. at 23-24.

[31]Id. at 24.

[32] Id. at 26.

[33] Rollo (G.R. No. 168756), p. 132.

[34] Id. at 231.

[35]G.R. No. 41420, 10 July 1992, 211 SCRA 374, 380. Citing *Bank of the Philippine Islands v. Fidelity & Surety Co.*, 51 Phil. 57, 64 (1927).

[36]Omengan v. Philippine National Bank, G.R. No. 161319, 23 January 2007, 512 SCRA 305, 309.

[37]Nombrefia v. People, G.R. No. 157919, 30 January 2007, 513 SCRA 369, 375.

[38] G.R. No. 63680, 23 March 1990, 183 SCRA 630, 636-637.

[39] Titan Construction Corporation v. Uni-field Enterprises, Inc., G.R No. 153874, 1 March 2007, 517 SCRA 180, 186.

[40] Rollo (G.R. No. 171476), p. 332.

[41] Id. at 332-334.

[42] Id. at 242.

[43] Edsa Shangri-La Hotel and Resort, Inc. v. BF Corporation, G.R. No. 145842, 27 June 2008, 556 SCRA 25, 43.

[44] G.R. No. 157851, 29 June 2007, 526 SCRA 73.

[45] Id. at 89.

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