

**VICENTE M. COLEONGCO, PLAINTIFF AND APPELLANT, VS.  
EDUARDO L. CLAPAROLS, DEFENDANT AND APPELLEE.***G.R. No. 18616. March 31, 1964*

Ponente: REYES, J.B.L., J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-18616/>**REYES, J.B.L., J.:**

Appeal by plaintiff Vicente Coleongco from a decision of the Court of First Instance of Negros Occidental (in its Civil Case No. 4170). dismissing plaintiff's action for damages, and ordering him to pay defendant Eduardo Claparols the amount of P81,387.27 plus legal interest from the filing of the counterclaim till payment thereof; P50,000 as moral and compensatory damages suffered by defendant; and costs.

A writ of preliminary attachment for the sum of P100,000 was subsequently issued against plaintiff's properties, in spite of opposition thereto.

Plaintiff Coleongco, not being in conformity with the judgment, appealed to this Court directly, the claims involved being in excess of P200,000.

The antecedent facts, as found by the trial court and shown by the records, are as follows:

Since 1951, defendant-appellee, Eduardo L. Claparols, operated a factory for the manufacture of nails in Talisay, Occidental Negros, under the style of "Claparols Steel & Nail Plant". The raw material, nail wire, was imported from foreign sources, specially from Belgium; and Claparols had a regular dollar allocation therefor, granted by the Import Control Commission and the Central Bank. The marketing of the nails was handled by the "ABCD Commercial" of Bacolod, which was owned by a chinaman named Kho To.

Losses compelled Claparols in 1953 to look for someone to finance his imports of nail wire. At first, Kho To agreed to do the financing, but on April 25, 1953, the Chinaman introduced his compadre, appellant Vicente Coleongco, to the appellee, recommending said appellant to be the financier in the stead of Kho To. Claparols agreed, and on April 25 of that year a contract (Exhibit B) was perfected between them whereby Coleongco undertook to finance and put up the funds required for the importation of the nail wire, which Claparols bound himself to convert into nails at his plant. It was agreed that Coleongco would have the exclusive distribution of the product, and the "absolute care in the marketing of these nails and the promotion of sales all over the Philippines", except the Davao Agency; that Coleongco would "share the control of all the cash" from sales or deposited in banks; that he would have a representative in the management; that all contracts and transactions should be jointly approved by both parties; that proper books would be kept and annual accounts rendered; and that profits and losses would be shared" on a 50-50 basis". The contract was renewed from year to year until 1958, and Coleongco's share subsequently increased by 5% of the net profit of the factory (Exhibits D, E, F).

Two days after the execution of the basic agreement, Exhibit "B", on April 27, 1953, Claparols executed in favor of Coleongco, at the latter's behest, a special power of attorney (Exhibit C) to open and negotiate letters of credit, to sign contracts, bills of lading, invoices, and papers covering transactions; to represent appellee and the nail

factory; and to accept payments and cash advances from dealers and distributors. Thereafter, Coleongco also became the assistant manager of the factory, and took over its business transactions, while Claparols devoted most of his time to the nail manufacture processes.

Around mid-November of 1956, appellee Claparols was disagreeably surprised by service of an alias writ of execution to enforce a judgment obtained against him by the Philippine National Bank, despite the fact that on the preceding September he had submitted an amortization plan to settle the account. Worried and alarmed, Claparols immediately left for Manila to confer with the bank authorities. Upon arrival, he learned to his dismay that the execution had been procured because of derogatory information against appellee that had reached the bank from his associate, appellant Coleongco. On July 6, 1956, the latter, without appellee's knowledge, had written to the bank-

"in connection with the verbal offer --- for the acquisition by me of the whole interest of Mr. Eduardo L. Claparols in the Claparols Steel & Nail Plant and the Claparols Hollow Blocks Factory" (Exhibit 36) ;

and later, on October 29, 1956, Coleongco had written against the bank another letter (Exhibit 35), also behind the back of appellee, wherein Coleongco charged Claparols with taking machines mortgaged to the bank, and added-

"In my humble personal opinion I presume that Mr. Eduardo L. Claparols is not serious in meeting his obligations with your bank, otherwise he had not taken these machines and equipments a sign of bad faith since the factory is making a satisfactory profit of my administration."

Fortunately, Claparols managed to arrange matters with the bank and to have the execution levy lifted. Incensed at what he regarded as disloyalty of his attorney-in-fact, he consulted lawyers. The upshot was that appellee revoked the power of attorney (Exhibit "C"), and informed Coleongco thereof (Exhibits T, T-1), by registered mail, demanding a full accounting at the same time. Coleongco, as would be expected, protested these acts of Claparols, but the latter insisted, and on the first of January, 1957 wrote a letter to Coleongco dismissing him as assistant manager of the plant and asked C. Miller & Company, auditors, to go over the books and records of the business with a view to adjusting the accounts of the associates. These last steps were taken in view of the revelation made by his machinery superintendent, Romulo Agsam, that in the course of the preceding New Year celebrations Coleongco had drawn Agsam aside and proposed that the latter should pour acid on the machinery to paralyze the factory. The examination by the auditors, summarized in Exhibits 80 and 87, found that Coleongco owed the Claparols Nail Factory the amount of P87,387.37, as of June 30, 1957.

In the meantime, Claparols had found in the factory files certain correspondence in February, 1955 between Coleongco and the nail dealer Kho To whereby the former proposed to Kho that the latter should cut his monthly advances to Claparols from P2,000 to P1,000 a month, because -

"I think it is time that we do our plan to take advantage of the difficulties of Eddie with the banks for our benefit. If we can squeeze him more, I am sure that we can extend our contract with him before it ends next year, and perhaps on better terms. If we play well our cards we might yet own his factory" (Exhibit 32) ;

and conformably to Coleongco's proposal, Kho To had written to Claparols that "due to present business conditions" the latter could only be allowed to draw P1,000 a month beginning April, 1955 (Exhibit 33).

As the parties could not amicably settle their accounts, Coleongco filed a suit against Claparols charging breach of contract, asking for accounting, and praying for P528,762.19 as damages, and attorney's fees, to which Claparols answered, denying the charge, and counter claiming for the rescission of the agreement with Coleongco for P561,387.39 by way of damages. After trial, the court rendered judgment, as stated at the beginning of this opinion.

In this appeal, it is first contended by the appellant Coleongco that the power of attorney (Exhibit "C") was made to protect his interest under the financing agreement (Exhibit "B"), and was one coupled with an interest that the appellee Claparols had no legal power to revoke. This point can not be sustained. The financing agreement itself already contained clauses for the protection of appellant's interest, and did not call for the execution of any power of attorney in favor of Coleongco. But granting appellant's view, it must not be forgotten that a power of attorney can be made irrevocable by contract only in the sense that the principal may not recall it at his pleasure; but coupled with interest or not, the authority certainly can be revoked for a just cause, such as when the attorney-in-fact betrays the interest of the principal, as happened in this case. It is not open to serious doubt that the irrevocability of the power of attorney may not be used to shield the perpetration of acts in bad faith, breach of confidence, or betrayal of trust, by the agent, for that would amount to holding that a power, coupled with an interest authorizes the agent to commit frauds against the principal.

Our new Civil Code, in Article 1172, expressly provides the contrary in prescribing that responsibility arising from fraud is demandable in all obligations, and that any waiver of action for future fraud is void.

It is also on this principle that the Civil Code, in its Article 1800, declares that the powers of a partner, appointed as manager, in the articles of copartnership are irrevocable without just or lawful cause; and an agent with power coupled with an interest can not stand on better ground than such a partner in so far as irrevocability of the power is concerned.

That the appellant Coleongco acted in bad faith towards his principal Claparols is, on the record, unquestionable. His letters to the Philippine National Bank (Exhibits 35 and 36) attempting to undermine the credit of the principal and to acquire the factory of the latter, without the principal's knowledge; Coleongco's letter to his cousin, Kho To (Exhibit 32), instructing the latter to reduce to one-half the usual monthly advances to Claparols on account of nail sales in order to squeeze said appellee and compel him to extend the contract entitling Coleongco to share in the profits of the nail factory in better terms, and ultimately "own his factory", a plan carried out by Kho's letter, Exhibit "33", reducing the advances to Claparols; Coleongco's attempt to have Romulo Aksam pour acid on the machinery; his illegal diversion of the profits of the factory to his own benefit; and the subreptitious disposition of the Yates band resaw machine in favor of his cousin's Hong Shing Lumber Yard, made while Claparols was in Baguio in July and August of 1956, are plain acts of deliberate sabotage by the agent that fully justified the revocation of the power of attorney (Exhibit "C") by Claparols and his demand for an accounting from his agent Coleongco.

Appellant attempts to justify his letters to the Philippine National Bank (Exhibits 35 and 36), claiming that Claparols' mal-administration of the business endangered the security for the advances that he had made under the financing contract (Exhibit "B"). But if that were the case, it is to be expected that Coleongco would have first protested to Claparols himself, which he never did. Appellant likewise denies the authorship of the letter to Kho (Exhibit 32) as well as the attempt to induce Aksam to damage the machinery of the factory. Between the testimony of Aksam and Claparols and that of Coleongco, the court below chose to believe the former, and we see no reason to alter the lower court's conclusion on the value of the evidence before it, considering that Kho's letter to Claparols (Exhibit 33) plainly corroborates and dovetails with the plan outlined in Coleongco's own letter (Exhibit 32), signed by him, and that the credibility of Coleongco is affected adversely by his own admission of his having been previously convicted of estafa (t.s.n., p. 139, 276), a crime that implies moral turpitude. Even disregarding Coleongco's letter to his son-in-law (Exhibit 82) that so fully reveals Coleongco's lack of business scruples, the clear preponderance of evidence is against appellant.

The same remarks apply to the finding of the trial court that it was appellant Coleongco, and not Claparols, who disposed of the band resawing equipment, since said machine was received in July, 1956 and sold in August of

that year to the Hong Shing Lumber Co., managed 'SI by appellant's cousin, Vicente Kho. The untruth of Coleongco's charge that Claparols, upon his return from Baguio in September, 1956, admitted having sold the machines behind his associate's back is further evidenced by (a) Coleongco's letter, Exhibit "V", dated October 29, 1956, inquiring the whereabouts of the resaw equipment from Claparols (an inquiry incompatible with Claparols previous admission); (b) by the undenied fact that the appellee was in Baguio and Coleongco was acting for him during the months of July and August when the machine was received and sold; and (c) the fact that as between the two it is Coleongco who had a clear interest in selling the sawing machine to his cousin Kho To's lumber yard. If Claparols wished to sell the machine without Coleongco's knowledge, he would not have picked the latter's cousin for a buyer.

The action of plaintiff-appellant for damages and lost profits due to the discontinuance of the financing agreement, Exhibit "B", may not prosper, because the record shows that the appellant likewise breached his part of the contract. It will be recalled that under paragraph 2 of the contract, Exhibit "B", it was stipulated:

"That the Party of the Second Part (Coleongco) has agreed to finance and put up all the necessary money which may be needed to pay for the importation of the raw material needed by such nail factory and allocated by the ICC from time to time either in cash or with whatever suitable means which the Party of the Second Part may be able to make by suitable arrangements with any well known banking institution recognized by the Central Bank of the Philippines."

Instead of putting up all the necessary money needed to finance the imports of raw material, Coleongco merely advanced 25% in cash on account of the price and had the balance covered by surety agreements executed by Claparols and others as solidary (joint and several) guarantors (see Exhibits G, H, I). The upshot of this arrangement was that Claparols was made to shoulder 3/4 of the payment for the imports, contrary to the financing agreement. Paragraph 11 of the latter expressly denied Coleongco any power or authority to bind Claparols without previous consultation and authority. When the balances for the cost of the importations became due, Coleongco in some instances, paid it with the dealers' advances to the nail factory against future sales without the knowledge of Claparols (Exhibits "K" to K-11, K-13). Under paragraphs 8 and 11 of the financing agreement, Coleongco was to give preference to the operating expenses before sharing profits, so that until the operating costs were provided for, Coleongco had no right to apply the factory's income to pay his own obligations.

Again, the examination of the books by accountant Atienza of C. Miller and Co., showed that from 1954 onwards Coleongco (who had the control of the factory's cash and bank deposits, under paragraph 11 of Exhibit "B") never liquidated and paid in full to Claparols his half of the profits, so that by the end of 1956 there was due to Claparols P38,068.41 on this account (Exhibit 91). For 1957 to 1958 Claparols financed the imports of nail wire without the help of appellant, and in view of the latter's infringement of his obligations, his acts of disloyalty previously discussed, and his diversions of factory funds (he even bought two motor vehicles with them), we find no justification for his insistence in sharing in the factory's profit for these years, nor for the restoration of the revoked power of attorney.

The accountant's reports and testimony (specially Exhibits 80 and 87) prove that as of June 30, 1957, Coieongco owed to Claparols the sum of P83,466.34 that after some adjustment was reduced to P81,387.37, practically accepted even by appellant's auditor. The alleged discrepancies 1(, between the general ledger and the result thus arrived at was satisfactorily explained by accountant Atienza in his Vj testimony (t.s.n., 1173-1178).

No error was, therefore, committed by the trial court in declaring the financing contract (Exh. B) properly resolved by Claparols or in rendering judgment against appellant in favor of appellee for the said amount of P81,387.37. The basic rule of contracts requires parties to act loyally toward each other, in the pursuit of the

common end, and appellant clearly violated the rule of good faith prescribed by Art. 1315 of the new Civil Code.

The lower court also allowed Claparols P50,000 for damages, material, moral and exemplary, caused to the appellant Coleongco's acts in maliciously undermining appellee's credit that led the Philippine National Bank to secure a writ of execution against Claparols. Undeniably, the attempts of Coleongco to discredit and "squeeze" Claparols out of his own factory and business could not but cause the latter mental anguish and serious anxiety, as found by the court below, for which he is entitled to compensation; and the malevolence that lay behind appellee's actions justified also the imposition of exemplary or deterrent damages (Civ. Code, Art. 2232). While the award could have been made larger without violating the canons of justice, the discretion in fixing such damages primarily lay in the trial court, and we feel that the same should be respected.

IN VIEW OF THE FOREGOING, the decision appealed from is affirmed. Costs against appellant Vicente Coleongco.

Bengzon, C. J., Padilla, Bautista Angelo, Labrador, Concepcion, Barrera, Paredes, Dizon, Regala, and Makalintal, JJ., concur.

**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.