



Republic of the Philippines  
**Supreme Court**  
 Manila

**FIRST DIVISION**

**TUNG HUI CHUNG and TONG  
 HONG CHUNG,**  
 Petitioners,

**G.R. No. 170679**

Present:

-versus-

SERENO, C.J.,  
 LEONARDO-DE CASTRO,  
 BERSAMIN,  
 PERLAS-BERNABE, and  
 CAGUIOA, JJ.

Promulgated:

**SHIH CHIU HUANG a.k.a. JAMES  
 SHIH,**  
 Respondent.

**MAR 09 2016**

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**DECISION**

**BERSAMIN, J.:**

A compromise agreement has the effect and authority of *res judicata* between the parties, and is immediately final and executory, unless rescinded upon grounds that vitiate consent. Once stamped with judicial *imprimatur*, it is more than a mere contract between the parties. Any effort to annul the judgment based on compromise on the ground of extrinsic fraud must proceed in accordance with Rule 47 of the *Rules of Court*.

**The Case**

This appeal by petition for review on *certiorari* seeks the review and reversal of the decision promulgated on September 30, 2005,<sup>1</sup> whereby the Court of Appeals (CA) annulled and set aside the judicially-approved compromise agreement of August 19, 2003,<sup>2</sup> and the resolution dated

<sup>1</sup> *Rollo*, pp. 52-62; penned by Associate Justice Jose L. Sabio, Jr. (retired/deceased), concurred in by Associate Justice Jose C. Mendoza (now a Member of the Court) and Associate Justice Arturo G. Tayag (retired).

<sup>2</sup> *Id.* at 104.

December 1, 2005,<sup>3</sup> whereby the CA denied the motion for reconsideration, as well as the orders of January 13, 2005<sup>4</sup> and February 28, 2005<sup>5</sup> of the trial court denying the motion to quash the writ of execution to enforce the compromise judgment.

### **Antecedents**

On September 6, 2001, the petitioners, both Australian citizens, filed in the Regional Trial Court (RTC), Branch 49, in Manila an amended complaint<sup>6</sup> to recover from the respondent a sum of money and damages (with prayer for a writ of attachment). The suit, docketed as Civil Case No. 01-101260, involved the contract to sell dated October 30, 2000,<sup>7</sup> whereby the respondent, as the vendor, undertook to deliver to the petitioners, as the vendees, shares of stock worth ₱10,606,266.00 in Island Information and Technology, Inc. (the corporation), a publicly listed corporation. The contract to sell pertinently stipulated:

X X X X

WHEREAS, sometime in the month of March, 2000 VENDEE remitted to VENDOR the total amount of Ten Million Six Hundred Six Thousand Two Hundred Sixty Six Philippine currency (Php10,606,266.00) which VENDOR hereby acknowledges receipt of the same;

WHEREAS, the above amount was given by VENDEE to VENDOR in consideration for equivalent number of shares (“subject shares”) of stock in the corporation, at the price specified below, which shares VENDOR will deliver to VENDEE at the time agreed upon in this Contract;

NOW, THEREFORE, for and in consideration of the foregoing premises, VENDOR and VENDEE hereby agree as follows:

1. VENDOR shall deliver to VENDEE the subject shares on either of the following dates, whichever comes sooner:
  - a. Upon approval by the Securities and Exchange Commission (SEC) of the application for increase of the number of shares of stocks of the Corporation; or
  - b. Four (4) months after the signing of this Contract.

X X X X

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<sup>3</sup> Id. at 63-64.

<sup>4</sup> Id. at 154.

<sup>5</sup> Id. at 162.

<sup>6</sup> Id. at 65-69.

<sup>7</sup> Id. at 78-80.

3. VENDOR and VENDEE hereby agree that the subject shares shall be priced at the average value thereof five (5) days prior to end of the fourth month as specified in Section 1 (b). In the event that VENDOR is able to deliver the subject shares to VENDEE prior to any of the periods given in Section 1, the subject shares shall be valued at the price mutually agreed upon in writing by both VENDOR and VENDEE at the time of actual delivery;

4. It is hereby understood that the exact number of shares to be delivered by VENDOR to VENDEE shall be that equivalent to Ten Million Six Hundred Six Thousand Two Hundred Sixty Six Philippine Currency (Php10,606,266.00), consideration of this Contract, at the value or price thereof provided in Section 3;

5. VENDEE hereby acknowledges that VENDOR has advanced to him certain certificates of stocks of the Corporation equivalent to Thirty Four Million Two Hundred Thousand (34,200,000) shares, which are not yet transferred to his name, which number of shares shall be deducted from the subject shares to be delivered by VENDOR to VENDEE at the value provided in Section 3;<sup>8</sup> (emphasis supplied)

x x x x

The petitioners alleged that under the provisions of the contract to sell, the equivalent shares of stock in the corporation should be their value as of February 22, 2001, the date corresponding to the five-day period prior to the end of the fourth month after October 30, 2000, the date of the signing of the contract to sell; that according to the Philippine Stock Exchange, Inc. (PSEI), the shares of the corporation, which stood at ₱0.05 for the open, high, low and closing prices on February 22, 2001, had the equivalent of 177,925,320 shares of stock; and that the respondent failed to deliver the shares of stock corresponding to the agreed amount on the date fixed by the contract.

On October 10, 2001, the RTC issued an amended order granting the petitioners' application for the writ of preliminary attachment.<sup>9</sup> On December 27, 2001, the respondent submitted his answer with counterclaim.<sup>10</sup>

Later on, the parties filed their *Joint Motion for Approval of a Compromise Agreement* dated August 19, 2003.<sup>11</sup> The compromise agreement, which was signed by the respondent and by Eduard Alcorido, as the attorney-in-fact of the petitioners, with the assistance of their respective counsels, stipulated that the parties agreed to settle their respective claims and counterclaims, and the respondent acknowledged therein his obligation

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<sup>8</sup> Id.

<sup>9</sup> Id. at 87-88.

<sup>10</sup> Id. at 81-85.

<sup>11</sup> Id. at 91-94.

to the petitioners in the amount of \$250,000.00, which he promised to pay in US\$ currency, as follows:

1. The amount of Twenty Thousand Dollars (US\$20,000.00) on or before November 15, 2003;
2. The amount of Sixty Five Thousand Dollars (US\$65,000.00) on or before November 15, 2004;
3. The amount of Sixty Five Thousand Dollars (US\$65,000.00) on or before November 15, 2005;
4. The amount of Fifty Thousand Dollars (US\$50,000.00) on or before November 15, 2006; and
5. The amount of Fifty Thousand Dollars (US\$50,000.00) on or before November 15, 2007.<sup>12</sup>

The parties further agreed that upon payment of the first installment of US\$20,000.00, both of them would jointly move for the partial lifting of the writ of attachment issued by the RTC against the properties of the respondent.

The RTC approved the compromise agreement on October 20, 2003.<sup>13</sup>

Upon the respondent's payment of the initial amount of US\$20,000.00, the parties filed their *Joint Motion to Partially Lift the Preliminary Attachment* dated December 16, 2003 in accordance with the compromise agreement.<sup>14</sup> The RTC granted the joint motion.

But the respondent did not pay the November 15, 2004 second installment despite demand. Instead, he filed in the CA a petition for annulment of judgment dated November 25, 2004 (C.A.-G.R. SP No. 87768),<sup>15</sup> thereby seeking to nullify the amended order dated October 10, 2001 granting the application for the writ of attachment, and the order dated October 20, 2003 approving the compromise agreement.

Meanwhile, the petitioners sought the execution of the judgment upon the compromise agreement through their motion for execution dated December 2, 2004 on the ground of the respondent's failure to pay the second installment.<sup>16</sup> The RTC granted their motion for execution on

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<sup>12</sup> Id. at 91.

<sup>13</sup> Id. at 104.

<sup>14</sup> Id. at 105-106.

<sup>15</sup> Id. at 113-132.

<sup>16</sup> Id. at 109-110.

December 14, 2004,<sup>17</sup> and issued the writ of execution,<sup>18</sup> commanding the sheriff to demand from the respondent the immediate payment of the full amount of \$230,000.00 as indicated in the compromise agreement.

Through its resolution promulgated on December 29, 2004,<sup>19</sup> the CA dismissed C.A.-G.R. SP No. 87768 for having no substantial merit. Although the respondent filed a *Motion for Reconsideration with Leave of Court*,<sup>20</sup> he later withdrew the motion. The CA granted his motion to withdraw on March 7, 2005.<sup>21</sup>

During the pendency of C.A.-G.R. SP No. 87768, the respondent filed a *Motion to Quash Writ of Execution* dated December 20, 2004,<sup>22</sup> which the RTC denied on January 13, 2005.<sup>23</sup> The RTC later denied the motion for reconsideration with finality.<sup>24</sup>

The RTC's denial of the motion for reconsideration with finality impelled the respondent to go to the CA on *certiorari* (C.A.-G.R. SP No. 88804) on March 7, 2005,<sup>25</sup> alleging that the RTC committed grave abuse of discretion amounting to lack of jurisdiction in issuing: (1) the writ of execution in Civil Case No. 01-101260; (2) the order dated January 13, 2005 denying the *Motion to Quash Writ of Execution*; and (3) the order dated February 28, 2005 denying the motion for reconsideration. He claimed that the compromise agreement was patently unjust, one-sided, unfair, fraudulent and unconscionable; hence, the RTC should not have issued the writ of execution.

On September 30, 2005, the CA promulgated the assailed decision,<sup>26</sup> whereby it disposed as follows:

WHEREFORE, the petition, having merit in fact and in law is hereby GIVEN DUE COURSE. Resultantly, the assailed February 28, 2005 and January 18, 2005 orders of the trial court are hereby ANNULLED and SET ASIDE for having been issued without jurisdiction. The judicially approved compromise agreement of August 19, 2003 is likewise annulled and set aside due to fraud and lack of valid consent on the part of petitioner. The trial court is directed to bring the parties together, if so desired by them, for a possible valid compromise agreement reflective of the true and real intent of the parties and in the alternative to proceed with the hearing and trial of Civil Case No. 01-101260 with dispatch. No costs.

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<sup>17</sup> Id. at 112.

<sup>18</sup> Records, p. 26.

<sup>19</sup> *Rollo*, pp. 136-137.

<sup>20</sup> Id. at 138-143.

<sup>21</sup> Id. at 145.

<sup>22</sup> Id. at 148-152.

<sup>23</sup> Id. at 154.

<sup>24</sup> Id. at 162.

<sup>25</sup> Id. at 163-183.

<sup>26</sup> *Supra* note 1.

SO ORDERED.<sup>27</sup>

The CA opined that based on the huge difference between the obligation of \$250,000.00 as stated in the compromise agreement and the relief prayed for in the amended complaint worth ₱10,606,266.00, there could be no other conclusion than that the respondent had been deceived into entering into the compromise agreement; and that, in addition, the writ of execution was void for varying the terms of the judgment by directing the payment of the entire \$230,000.00 obligation, thereby including sums that were not yet due and demandable.

The petitioners moved for reconsideration,<sup>28</sup> but the CA denied their motion.<sup>29</sup>

Hence, this appeal.

### Issues

On the procedural aspect, the petitioners contend that the judicial compromise agreement could no longer be assailed through *certiorari*; that the lapse of time between the approval of the compromise agreement on October 20, 2003 and the filing of the petition for *certiorari* in C.A.-G.R. SP No. 88804 on March 7, 2005 had rendered the compromise agreement conclusive and immutable.

On the substantive aspect, the petitioners insist that there was no fraud in the execution of the compromise agreement; that contrary to the findings of the CA, there was nothing appalling in the amount agreed upon in the compromise agreement that amounted to fraud considering that their amended complaint had prayed for ₱10,606,266.00, an amount that could be equal to \$212,125.00, exclusive of amount of damages, interest and cost of suit, due to the exchange rate at the time of the discussion of the terms and conditions of the compromise agreement being ₱50.00 to \$1.00; and that the amount of \$250,000.00 stated in the compromise agreement was fair and reasonable under the circumstances.

In addition, the petitioners assert that based on the resolution promulgated in C.A.-G.R. SP No. 87768, the controlling legal rule between the parties was that there had been no extrinsic fraud as the ground to annul the order dated October 20, 2003 approving the compromise agreement; that the respondent's payment of the initial US\$20,000.00 in accordance with the compromise agreement had rendered him in estoppel; and that the fact that

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<sup>27</sup> Id. at 60-61.

<sup>28</sup> *Rollo*, pp. 195-215.

<sup>29</sup> Id. at 63-64.

both parties had been assisted by their respective counsels during the execution and submission of the compromise agreement for judicial approval negated the existence of fraud.

In his comment dated April 12, 2006,<sup>30</sup> the respondent counters that the petitioners had taken advantage of his unfamiliarity with the English language and the trust and confidence he had reposed in them as his friends when they made him sign a document containing stipulations contrary to what they had agreed upon; that the document turned out to be the contract to sell; that the petitioners then used such fraudulent contract in having his properties attached; that as a businessman, he was forced to enter into the compromise agreement to recover his properties; and that the RTC erred in approving the compromise agreement despite its being one-sided, unfair, fraudulent and unconscionable.

The respondent contends that the payment of \$20,000.00 did not constitute his ratification of the compromise agreement as to estop him because the void contracts could not be ratified; and that it would be unjust to have the errors of his previous counsel bind him, most especially if the errors were blatant and gross, causing grave and irreparable injury to him.

In other words, the Court shall determine and resolve whether or not the CA was correct in nullifying and setting aside the judgment based on the compromise agreement dated August 19, 2003.

### **Ruling of the Court**

The appeal is meritorious.

The CA annulled the August 19, 2003 final and executory compromise agreement on the ground of fraud and vitiated consent, observing:

Indeed we are persuaded by the arguments of petitioner that the compromise agreement was tainted with fraud and that the consent of petitioner therein was not freely given. We carefully compared the amended complaint filed by plaintiff-private respondent and the answer with counterclaim filed by petitioner defendant with the approved compromise agreement and we are all the more convinced of the presence of fraud, deceit or lack of consideration therein.

It is simply incredible and beyond any reason how all of a sudden, in the compromise agreement, petitioner becomes liable in the amount of Two Hundred Fifty Thousand (\$250,000.00) Dollars while in the prayer

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<sup>30</sup> Id. at 224-257.

contained in the amended complaint, plaintiff-private respondent only prayed for Ten Million Six Hundred Six Thousand and Two Hundred Sixty Six (₱10,606,266.00) Pesos plus damages of Eight Hundred Thousand (₱800,000.00) Pesos plus costs of the suit. How did petitioner become liable for such an amount without any other transaction having been entered into. The only explanation for such mind-boggling discrepancy is that petitioner was defrauded into agreeing to the proposed compromise agreement.

A judicial compromise may be annulled or modified on the ground of vitiated consent or forgery. We find petitioners' argument on the matter very compelling, hence we adopt it as our own.<sup>31</sup> (citations and underscoring omitted)

The annulment by the CA was legally and factually unwarranted.

To start with, a compromise agreement is a contract whereby the parties make reciprocal concessions to avoid litigation or to put an end to one already commenced.<sup>32</sup> It is an accepted, nay, even highly encouraged practice in the courts of law of this jurisdiction.<sup>33</sup> It attains the authority and effect of *res judicata* upon the parties upon its execution,<sup>34</sup> and becomes immediately final and executory, unless rescinded by grounds which vitiate consent.<sup>35</sup> Once stamped with judicial imprimatur, it ceases to be a mere contract between the parties, and becomes a judgment of the court, to be enforced through writ of execution.<sup>36</sup>

The CA did not recognize that what it was asked to annul and set aside in C.A.-G.R. SP No. 88804 was no longer the compromise agreement of the parties but already the judgment based on the compromise agreement. The failure to recognize led the CA into granting the unprecedented relief of annulling the compromise agreement on the ground of fraud and lack of consent. In so doing, the CA acted without jurisdiction. First of all, the action before the CA was a special civil action for *certiorari* that had been brought on March 7, 2005, which was way beyond the period of 60 days from the rendition of the judgment based on the compromise agreement on October 20, 2003. The long delay grossly violated Section 4, Rule 65 of the *Rules of Court*, which allowed the petition for *certiorari* to be filed not later than 60 days from notice of the judgment being assailed. Moreover, the grounds relied upon by the respondent in his petition for *certiorari* in C.A.-G.R. SP No. 88804 – that the RTC had committed grave abuse of discretion tantamount to excess or lack of jurisdiction for issuing the writ of execution that was patently unjust, one-side, unfair, fraudulent and unconscionable

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<sup>31</sup> Id. at 55-56.

<sup>32</sup> Article 2028 of the *Civil Code*.

<sup>33</sup> Article 2029 of the *Civil Code* provides:

Article 2029. The court shall endeavour to persuade the litigants in a civil case to agree upon some fair compromise.

<sup>34</sup> Article 2037 of the *Civil Code*.

<sup>35</sup> *Gadrinab v. Salamanca*, G.R. No. 194560, June 11, 2014, 726 SCRA 315, 326.

<sup>36</sup> Article 2037 of the *Civil Code*.



compromise agreement; and for issuing the writ of execution of the compromise agreement that lacked consideration – were not proper grounds for assailing the judgment based on the compromise agreement. Even assuming that such grounds for the petition for *certiorari* were true, which they were not, the judgment based on the compromise agreement could not be assailed on that basis. As the foregoing excerpt of the assailed decision bears out, the annulment of the judgment based on the compromise agreement was premised on fraud and lack of consent on the part of the respondent as a contracting party, which were far from the jurisdictional error on which the petition for *certiorari* should have rested.

The impropriety of the petition for *certiorari* in C.A.-G.R. SP No. 87768 to demand the annulment of the compromise agreement was blatant and unquestionable. The RTC, after finding the August 19, 2003 compromise agreement to be in order and not contrary to law, morals, good customs and public policy, issued the October 20, 2003 order *approving* the compromise agreement. With this stamp of judicial approval, the compromise agreement became more than a mere contract of the parties. The judicially approved agreement was thereby turned into a final judgment, immutable and unalterable, regardless of whether or not it rested on erroneous conclusions of fact and law, and regardless of whether the change would be by the court that rendered it or the highest court of the land.<sup>37</sup> This doctrine of immutability is grounded on fundamental considerations of public policy and sound practice, for, at the risk of occasional errors, judgments of the courts must become final at some definite date set by law.<sup>38</sup> The doctrine exists for the reason that every litigation must come to an end at some time, for it is necessary for the proper enforcement of the rule of law and the administration of justice that once a judgment attains finality, the winning party should not be denied the favorable result. Clearly, the element of public policy and public interest has diluted the purely private interest of the parties before the compromise agreement was approved by the trial court.

And, secondly, if the ground of the respondent to assail the judgment based on the compromise agreement was extrinsic fraud, his action should be brought under Rule 47 of the *Rules of Court*. Under Section 2 of Rule 47, the original action for annulment may be based only on extrinsic fraud or lack of jurisdiction, but extrinsic fraud, to be valid ground, should not have been availed of, or could not have been availed of in a motion for new trial or petition for relief. If the ground relied up is extrinsic fraud, the action must be filed within four years from the discovery of the extrinsic fraud; if the ground is lack of jurisdiction, the action must be brought before it is barred by laches or estoppels.<sup>39</sup> Regardless of the ground for the action, the

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<sup>37</sup> *Government Service Insurance System (GSIS) v. Group Management Corp. (GMC)*, G.R. No. 167000, and G.R. No. 169971, June 8, 2011, 651 SCRA 279, 305.

<sup>38</sup> *Id.*

<sup>39</sup> Section 3, Rule 47, *Rules of Court*.

remedy under Rule 47 is to be availed of only if the ordinary remedies of new trial, appeal, petition for relief or other appropriate remedies are no longer available through no fault of the petitioner.<sup>40</sup> Ostensibly, the respondent could have availed himself of the petition for relief from judgment under Rule 38 of the *Rules of Court*. Hence, his failure to resort to such remedy precluded him from availing himself of the remedy to annul the judgment based on the compromise agreement.

In *Dare Adventure Farm Corporation v. Court of Appeals*,<sup>41</sup> the Court has discoursed on the nature of the remedy of annulment of judgment under Rule 47 in the following manner:

A petition for annulment of judgment is a remedy in equity so exceptional in nature that it may be availed of only when other remedies are wanting, and only if the judgment, final order or final resolution sought to be annulled was rendered by a court lacking jurisdiction or through extrinsic fraud. Yet, the remedy, being exceptional in character, is not allowed to be so easily and readily abused by parties aggrieved by the final judgments, orders or resolutions. The Court has thus instituted safeguards by limiting the grounds for the annulment to lack of jurisdiction and extrinsic fraud, and by prescribing in Section 1 of Rule 47 of the *Rules of Court* that the petitioner should show that the ordinary remedies of new trial, appeal, petition for relief or other appropriate remedies are no longer available through no fault of the petitioner. A petition for annulment that ignores or disregards any of the safeguards cannot prosper.

The attitude of judicial reluctance towards the annulment of a judgment, final order or final resolution is understandable, for the remedy disregards the time-honored doctrine of immutability and unalterability of final judgments, a solid corner stone in the dispensation of justice by the courts. The doctrine of immutability and unalterability serves a two-fold purpose, namely: (a) to avoid delay in the administration of justice and thus, procedurally, to make orderly the discharge of judicial business; and (b) to put an end to judicial controversies, at the risk of occasional errors, which is precisely why the courts exist. As to the first, a judgment that has acquired finality becomes immutable and unalterable and is no longer to be modified in any respect even if the modification is meant to correct an erroneous conclusion of fact or of law, and whether the modification is made by the court that rendered the decision or by the highest court of the land. As to the latter, controversies cannot drag on indefinitely because fundamental considerations of public policy and sound practice demand that the rights and obligations of every litigant must not hang in suspense for an indefinite period of time.

**WHEREFORE**, the Court **GRANTS** the petition for review on *certiorari*; **ANNULS** and **SETS** aside the assailed decision promulgated on September 30, 2005; **REINSTATES** the judgment issued by the Regional

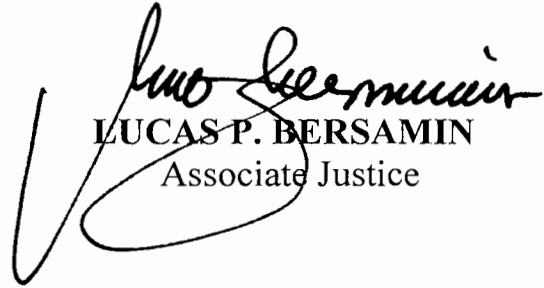
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<sup>40</sup> Section 1, Rule 47, *Rules of Court*.

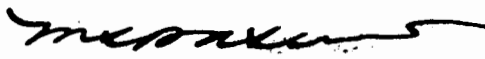
<sup>41</sup> G.R. No. 161122, September 24, 2012, 681 SCRA 580.

Trial Court, Branch 49, of Manila based on the compromise agreement of August 19, 2003 in Civil Case No. 01-101260; and **ORDERS** the respondent to pay the costs of suit.


**SO ORDERED.**

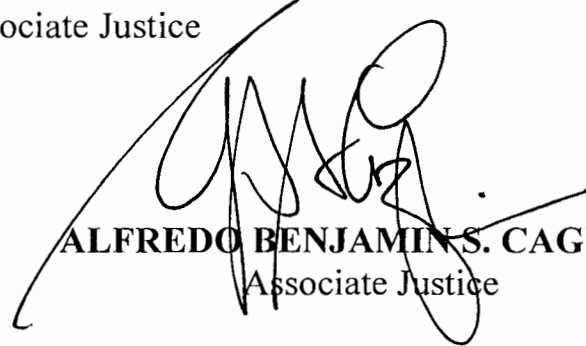
  
**LUCAS P. BERSAMIN**  
Associate Justice

**WE CONCUR:**

  
**MARIA LOURDES P. A. SERENO**  
Chief Justice

  
**TERESITA J. LEONARDO-DE CASTRO**  
Associate Justice

  
**ESTELA M. BERLAS-BERNABE**  
Associate Justice

  
**ALFREDO BENJAMIN S. CAGUIOA**  
Associate Justice

**CERTIFICATION**

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

  
**MARIA LOURDES P. A. SERENO**  
Chief Justice