



Republic of the Philippines  
Supreme Court  
Baguio City

FIRST DIVISION

SAN MIGUEL FOODS, INC,  
Petitioner,

G.R. No. 234849

Present:

- versus -

GESMUNDO, CJ.,  
Chairperson,  
HERNANDO,  
ZALAMEDA,  
ROSARIO, and  
MARQUEZ, JJ.

SPOUSES RAMON AND MA.  
NELIA FABIE, AND FRESH  
LINK, INC.,

Promulgated:

Respondents.

APR 03 2024

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DECISION

**HERNANDO, J.:**

Before this Court is a Petition for Review on *Certiorari*<sup>1</sup> filed by petitioner San Miguel Foods, Inc. (SMFI) seeking to reverse and set aside the Decision<sup>2</sup> and the Resolution<sup>3</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 104501, which affirmed with modifications the Decision<sup>4</sup> and the Resolution<sup>5</sup> of the

<sup>1</sup> *Rollo*, pp. 11–45.

<sup>2</sup> *Id.* at 31–50. The May 18, 2017 Decision in CA-G.R. CV No. 104501 was penned by Associate Justice Carmelita Salandanan Manahan and concurred in by Associate Justices Magdangal M. De Leon and Elihu A. Ybañez of the Sixth Division, Court of Appeals, Manila.

<sup>3</sup> *Id.* at 51–54. The October 18, 2017 Resolution in CA-G.R. CV No. 104501 was penned by Associate Justice Carmelita Salandanan Manahan and concurred in by Associate Justices Magdangal M. De Leon and Elihu A. Ybañez of the Former Sixth Division, Court of Appeals, Manila.

<sup>4</sup> RTC records, vol. 3, pp. 1443–1456. The July 21, 2014 Decision in Civil Case No. 99-1147 was penned by Presiding Judge Winlove M. Dumayas of Branch 59, Regional Trial Court, Makati City.

<sup>5</sup> Dated November 17, 2014. *Id.* at 1531.

Regional Trial Court (RTC), Branch 59, Makati City in Civil Case No. 99-1147. The Resolution of the CA denied SMFI's Motion for Reconsideration.<sup>6</sup>

### *The Antecedents*

The instant petition arose from a Complaint for Breach of Contract and Damages with Prayer for [a] Temporary Restraining Order and/or Preliminary Injunction<sup>7</sup> filed by respondent Fresh Link, Inc. (Fresh Link), a corporation owned by respondent spouses Ramon and Nelia Fabie, against SMFI, and Alandro del Rosario and Eugene De la Paz, Area Sales Manager and Business Development Officer, respectively, of SMFI.

Based on the lone testimony of respondent Nelia Fabie, on October 27, 1992, Fresh Link entered into a Complementary Distributorship Agreement with SMFI under which Fresh Link was appointed as the exclusive distributor of SMFI products to specific territories or accounts for a period of six months. Under the contract, Fresh Link was required to guarantee payment for its purchases of SMFI products subject to sale and distribution. Initially, respondent spouses offered their house and lot as collateral to guarantee payment for their purchases under the contract. This was later replaced by postdated checks and a credit line under a Credit Line Agreement for PHP 800,000.00 worth of purchases extended by SMFI to Fresh Link, which was secured by a standby letter of credit issued by a bank in favor of SMFI. Since October 1992, the contract has been renewed or extended yearly under the same terms and conditions, including the rights and obligations of the parties.<sup>8</sup>

On May 15, 1998, the contract was once again renewed for a period of one year from May 1, 1998, pursuant to a Memorandum of Agreement on Complementary Distributorship. The renewed contract substantially provided the same obligations for SMFI as the previous agreement, particularly: (a) maintaining the exclusivity of the distributorship agreement by not selling or offering for sale any of the specified products to any person or persons within the geographic territory assigned to Fresh Link other than the latter; and (b) using its best endeavors to safeguard the sale and exclusive rights granted to Fresh Link. Under the renewed contract, the geographic territory or account assigned to Fresh Link was Makati (except for *talipapas* or stalls located in Kalayaan, Sacramento, Pio del Pilar, Tejeros, and Bangkal) and the Guadalupe Wet Market.<sup>9</sup>

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<sup>6</sup> CA rollo, pp. 230-244.

<sup>7</sup> RTC records, vol. 1, pp. 1-17.

<sup>8</sup> Rollo, pp. 117-118.

<sup>9</sup> *Id.* at 118-120.

In April 1999, the parties once again renewed the Complementary Distributorship Agreement (Agreement) for another period, which will expire on March 31, 2000. Meanwhile, the Credit Line Agreement in favor of Fresh Link remained in effect and subsisting until March 31, 2000. Although the respondents signed the Agreement with SMFI, and the latter executed a Credit Line Agreement in favor of Fresh Link, respondents alleged that they were not given a copy of the Agreement. Respondents requested from SMFI a copy of the said contract since it was needed for the release of the Irrevocable Domestic Standby Letter of Credit to be issued by the Bank of the Philippines Islands (BPI) in favor of SMFI as a guarantee for the Credit Line Agreement. However, respondents' request was supposedly not acted upon by SMFI or any of its officers.<sup>10</sup>

On June 2, 1999, and June 3, 1999, respondents complained to SMFI regarding the supposed withholding of discounts or rebates due to them, the proliferation of Magnolia chicken in the wet market within their assigned geographic territory at prices lower than the invoice price given to them, and SMFI's refusal to furnish them with a copy of the renewed Agreement. Thereafter, on June 4, 1999, SMFI ceased delivery of its products on credit to Fresh Link.<sup>11</sup> This action constrained respondents to file the instant Complaint against SMFI.

For its part, SMFI presented four of its officers as witnesses: Alvin Tabbu, Account Receivables Head; Oscar Caronongan, IT Head; Eugene de la Paz, Business Development Officer; and Alandro del Rosario, Area Sales Manager.<sup>12</sup>

In addition to refuting the allegations made by respondent Nelia Fabie, SMFI claimed that Fresh Link made numerous purchases from SMFI between March 23, 1999, and subsequent dates. It is noteworthy that, according to the Agreement, Fresh Link had a 30-day period from the date of purchase to settle its accounts with SMFI, totaling PHP 1,899,645.97, which, according to SMFI, had already become due and payable. Despite repeated demands from SMFI, Fresh Link supposedly failed to fulfill its obligations. Furthermore, contrary to the assertions of respondent Nelia Fabie, SMFI pointed out that the collateral provided by Fresh Link in the form of a letter of credit had expired on May 31, 1999.<sup>13</sup> Hence, on June 4, 1999, SMFI argued that it was compelled to deliver products to Fresh Link only upon receipt of cash payment.<sup>14</sup>

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<sup>10</sup> *Id.*

<sup>11</sup> *Id.* at 120-121.

<sup>12</sup> *Id.* at 36.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.* at 11.

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*Proceedings before the Regional Trial Court*

Pending the resolution of the instant Complaint, respondents prayed that a temporary restraining order and/or writ of preliminary injunction be issued by the RTC to restrain SMFI from appointing another distributor within the geographical territory assigned to Fresh Link under the Agreement, and to maintain the status quo until the case is resolved. After trial and hearing for the issuance of a temporary restraining order and/or writ of preliminary injunction, an Order dated October 8, 1998 was issued by Judge Jose R. Bautista of the RTC, Branch 136 of Makati City, which denied respondents' prayer for lack of merit.<sup>15</sup>

On July 21, 2014, the RTC rendered a Decision<sup>16</sup> in favor of respondents. The dispositive portion of the said Decision states:

**WHEREFORE**, premises considered, judgment is hereby rendered in favor of plaintiffs and against defendants as follows:

- a.) [PHP] 5,800,000.00 – as compensation for actual damages;
- b.) [PHP] 500,000.00 – as moral damages;
- c.) [PHP] 500,000.00 – as exemplary damages;
- d.) [PHP] 100,000.00 – for attorney's fees, plus ten percent (10%) of the damages awarded to the plaintiffs.
- e.) Costs of suits.

**DONE IN CHAMBER**, this 21<sup>st</sup> day of July 2014 at Makati City.

**SO ORDERED.**<sup>17</sup>

The RTC concluded that there was a clear violation of specific provisions of the Agreement entered into by the parties, resulting in damage and prejudice to respondents, particularly when SMFI unilaterally terminated the agreement without just cause. Additionally, the trial court determined that SMFI's repeated violation of its contractual obligations and abrupt suspension or termination of product deliveries, despite the effectivity of the Agreement, caused respondents to suffer actual losses in the amount of PHP 5,800,000.00.

SMFI filed a Motion for Reconsideration<sup>18</sup> of the July 21, 2014 Decision, which was denied by the RTC in a Resolution<sup>19</sup> dated November 17, 2014.

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<sup>15</sup> *Id.* at 32.

<sup>16</sup> RTC records, vol. 3, pp. 1443–1456.

<sup>17</sup> *Id.* at 1456.

<sup>18</sup> *Id.* at 14587–1480.

<sup>19</sup> *Id.* at 1531. The November 17, 2014 Resolution in Civil Case No. 99-1147 was penned by Presiding Judge Winlove M. Dumayas of Branch 59, Regional Trial Court, Makati City.

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Aggrieved, SMFI appealed<sup>20</sup> before the CA.

*Proceedings before the Court of Appeals*

In the assailed Decision,<sup>21</sup> the CA denied the appeal for lack of merit. The dispositive portion of the said Decision reads:

**WHEREFORE**, premises considered, the Appeal is **DISMISSED**. The **Decision** of the Regional Trial Court of Makati City, Branch 59 in Civil Case No. 99-1147 dated July 21, 2014 is **AFFIRMED with MODIFICATIONS**.

**Accordingly**, the defendants-appellants are hereby ordered to pay the plaintiffs-appellees the following:

1. The amount of [PHP] 1,000,000.00 as temperate damages;
2. [PHP] 500,000.00 as moral damages;
3. [PHP] 500,000.00 as exemplary damages; and
4. [PHP] 100,000.00 as attorney's fees.

In addition, all the amounts hereby awarded shall earn interest of 6% per *annum* from the finality of this *Decision* until fully paid. Costs of suit to be paid by the defendants-appellants.

**SO ORDERED.**<sup>22</sup>

The CA made the following findings: (1) SMFI pre-terminated the Agreement in violation of its provisions on contract termination; (2) the provision on contract termination is null and void as it violates the principle of the mutuality of contracts; and (3) despite the nullity of the provision, SMFI failed to provide any grounds justifying the pre-termination of the Agreement.<sup>23</sup>

The CA also held SMFI accountable for its failure to fulfill obligations outlined in the Agreement, including underpricing, undersupplying, and allowing distributors to sell SMFI products within Fresh Link's geographic territory, as well as for not promptly addressing these complaints. Consequently, the CA found SMFI liable to respondents under Article 1170 of the Civil Code.<sup>24</sup>

However, the CA reversed the RTC's findings in awarding actual damages to respondents considering the lack of competent proof on the specific amounts of actual losses suffered by Fresh Link. In lieu of actual damages, the CA

<sup>20</sup> *Id.* at 1532–1534.

<sup>21</sup> *Rollo*, pp 31–50.

<sup>22</sup> *Id.* at 48–49.

<sup>23</sup> *Id.* at 40–45.

<sup>24</sup> CIVIL CODE, art. 1170 states:

ARTICLE 1170. Those who in the performance of their obligations are guilty of fraud, negligence, or delay, and those who in any manner contravene the tenor thereof, are liable for damages.

awarded temperate damages to respondents in the amount of PHP 1,000,000.00.<sup>25</sup>

Aggrieved, SMFI moved for reconsideration, which was, however, denied in a Resolution<sup>26</sup> dated October 18, 2017.

SMFI thus filed the instant Petition,<sup>27</sup> raising the following issues for resolution:

[Whether the Honorable Court of Appeals erred in altogether not passing upon the counterclaims of SMFI;]

[Whether the Honorable Court of Appeals erred when it invalidated Article VI of the Agreement, for supposed violation of the rule on mutuality of contracts, even if the validity of the said provision was not challenged by any of the parties;]

[Whether the Honorable Court of Appeals, as with the trial court, erred in not discussing altogether SMFI's arguments against the letter of credit submitted by Respondents, including the latter's categorical and judicial admission of not renewing the same; and]

[Whether the Honorable Court of Appeals erred in awarding temperate and other damages to respondents, as well as attorney's fees.]<sup>28</sup>

In its Petition, SMFI contends that the lower courts, in their respective decisions, failed to rule on its counterclaims raised in its Answer<sup>29</sup> filed with the RTC. In this regard, SMFI prayed for actual damages representing unpaid accounts by Fresh Link in the amount of PHP 1,899,645.97, which has allegedly ballooned to PHP 2,109,499.40 as of July 5, 1999.<sup>30</sup>

Moreover, SMFI insists that there was no pre-termination of the Agreement but rather a mere modification of the payment terms for the purchased products attributed to Fresh Link's failure to obtain a replacement letter of credit or an extension thereof. Even if it is assumed, without conceding, that Fresh Link did acquire a replacement or an extension of the letter of credit, SMFI claims that respondents failed to inform SMFI about its existence. Consequently, SMFI could not be faulted for insisting on cash payments for the products acquired by Fresh Link.

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<sup>25</sup> *Rollo*, p. 48.

<sup>26</sup> *Id.* at 51-54.

<sup>27</sup> *Id.* at 11-45.

<sup>28</sup> *Id.* at 12-13.

<sup>29</sup> RTC records, vol. 1, pp. 142-143.

<sup>30</sup> *Id.*

For their part, respondents maintain that the lower courts correctly invalidated Article VI of the Agreement for being violative of the principle of mutuality of contracts, and did not err in setting aside SMFI's arguments against the renewal of Fresh Link's letter of credit.

### Our Ruling

After a judicious deliberation, We find the Petition meritorious.

*The Court can conduct its own factual findings if there is insufficient evidence or if the parties failed to substantiate their claims*

In civil cases, the party having the burden of proof must establish its cause of action by a preponderance of evidence,<sup>31</sup> or that "evidence which is of greater weight or is more convincing than that which is in opposition to it."<sup>32</sup> Preponderance of evidence "does not mean absolute truth; rather, it means that the testimony of one side is more believable than that of the other side, and that the probability of truth is on one side than on the other."<sup>33</sup>

A determination of where the preponderance of evidence lies constitutes a factual matter, which, as a rule, cannot be considered in a Rule 45 petition.<sup>34</sup> This is because the Court is not a trier of facts; the function of the Court in petitions for review on *certiorari* under Rule 45 of the Rules of Court is limited to reviewing errors of law that may have been committed by the lower courts. However, there are exceptions to this rule, including instances where: (1) the conclusion is a finding grounded entirely on speculation, surmise, and conjectures; (2) the inference made is manifestly mistaken; (3) there is grave abuse of discretion; (4) the judgment is based on misapprehension of facts; and (5) the findings of fact are premised on the absence of evidence and are contradicted by evidence on record.<sup>35</sup>

Here, the lower courts' decisions rest heavily on the testimony of one witness, namely Nelia Fabie. Thus, this Court will embark on its own factual analysis and will, if necessary, reverse the rulings of the lower courts if the facts of the case suggest a lack or absence of evidence consistent with the fifth exception cited above, or if it finds that respondents in this case have failed to

<sup>31</sup> RULES OF COURT, rule 133, sec. 1.

<sup>32</sup> *Bank of the Philippine Islands v. Reyes*, 568 Phil. 188, 197 (2008) [Per J. Austria-Martinez, Third Division].

<sup>33</sup> *Id.*; *Cathay Pacific Steel Corp. v. Uy, Jr.*, G.R. No. 219317, June 14, 2021 [Per J. Hernando, Third Division].

<sup>34</sup> *DST Movers Corp. v. People's General Insurance Corp.*, 778 Phil. 235, 238 (2016) [Per J. Leonen, Second Division].

<sup>35</sup> *Heirs of Villanueva v. Heir of Syquia Mendoza*, 810 Phil. 172, 178–179 (2017) [Per J. Peralta, Second Division].

substantiate their claims by preponderance of evidence and, thus, are not entitled to the award of damages.

*SMFI is not entitled to its counterclaims*

To be clear, SMFI's claim of actual damages due to Fresh Link's supposed non-payment of SMFI products is the primary defense interposed by SMFI against respondents' complaint for breach of contract. On this point, a perusal of the RTC and CA decisions reveals that both the lower courts found that SMFI had no reason to cease delivery of SMFI products to Fresh Link.<sup>36</sup> This suggests that both the RTC and CA deemed SMFI's defense of non-payment as lacking in merit, leading to the denial of its counterclaims against respondents. Hence, it was incorrect for SMFI to argue that the lower courts disregarded or failed to address its counterclaims.

In any case, We find that SMFI is not entitled to its claim of actual damages. "For one to be entitled to actual damages, it is necessary to prove the actual amount of loss with a reasonable degree of certainty, premised upon competent proof and the best evidence obtainable by the injured party."<sup>37</sup> Hence, to justify an award of actual damages, there must be competent proof of the actual amount of loss.

In this regard, SMFI claims that Fresh Link's outstanding obligation amounts to PHP 1,899,645.97. In support of its claims, SMFI presented photocopies of the following: (1) Fresh Link's schedule of purchases from SMFI,<sup>38</sup> (2) SMFI charge sales invoice for its products purchased by Fresh Link,<sup>39</sup> and (3) various checks issued by Fresh Link to SMFI for payment of SMFI products, which allegedly bounced for insufficiency of funds.<sup>40</sup>

This Court observes, however, that the documents submitted by SMFI are mere photocopies. The best evidence rule requires that when the subject of inquiry is the contents of a document, no evidence is admissible other than the original document itself<sup>41</sup> except in the instances mentioned in Section 3, Rule 30 of the Rules of Court.<sup>42</sup> As such, mere photocopies of documents are

<sup>36</sup> RTC records, vol. 3, p. 1450; *rollo*, p. 42.

<sup>37</sup> *Lim v. Tan*, 801 Phil. 13, 23 (2016) [Per J. Reyes, Third Division].

<sup>38</sup> RTC records, vol. 1, pp. 182–188.

<sup>39</sup> RTC records, vol. 3, pp. 1243–1299.

<sup>40</sup> *Id.* at 1207–1211, 1213–1221, 1223–1227, 1229–1231, and 1233–1236.

<sup>41</sup> *Spouses Tapayan v. Martinez*, 804 Phil. 523, 534 (2017) [Per J. Caguioa, First Division].

<sup>42</sup> RULES OF COURT, rule 130, sec. 3 states:

*Original document must be produced; exceptions.* — When the subject of inquiry is the contents of a document, no evidence shall be admissible other than the original document itself, except in the following cases:

(a) When the original has been lost or destroyed, or cannot be produced in court, without bad faith on the part of the offeror;

inadmissible pursuant to the best evidence rule. SMFI cannot simply substitute mere photocopies of the subject documents for the original copies without showing the Court that any of the exceptions under Section 3, Rule 130 of the Rules of Court applies. Accordingly, being the only proof presented for its claim of actual damages, SMFI's counterclaims must necessarily be denied.

*The foregoing notwithstanding, respondents failed to prove by preponderance of evidence that SMFI unilaterally terminated the Agreement with Fresh Link*

Respondents' complaint for breach of contract centers on SMFI's alleged unilateral pre-termination of the Agreement by halting deliveries of SMFI products to Fresh Link on June 4, 1999. It appears that during the proceedings in the lower courts, respondents emphasized additional breaches committed by SMFI, such as underpricing and undersupplying of its products, and permitting other distributors to operate within Fresh Link's geographical area. These were mentioned to support respondents' claim that their complaints regarding these breaches prompted SMFI to terminate the Agreement pursuant to Article VII thereof:

#### ARTICLE VII TERMINATION

SECTION 7.1 Notwithstanding the provision of Article II, Section 1 [hereof], the COMPANY reserves the right to terminate this Agreement **for any violation of this Agreement or for any cause at any time by giving the COMPLEMENTARY DISTRIBUTOR at least thirty (30) days advance notice in writing before the intended date of termination.**<sup>43</sup> (Emphasis supplied)

At the outset, this Court is not inclined to strike down as void the above-quoted clause under the Agreement. While the said clause appears to be silent on the requirement of a legal cause, that is, "for any cause," before SMFI could terminate the same, it is basic that the law is deemed written into every contract.<sup>44</sup> This notwithstanding, the said clause is not a blanket authority for SMFI to terminate the contract, but the same must be made under the following

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(b) When the original is in the custody or under the control of the party against whom the evidence is offered, and the latter fails to produce it after reasonable notice;

(c) When the original consists of numerous accounts or other documents which cannot be examined in court without great loss of time and the fact sought to be established from them is only the general result of the whole; and

(d) When the original is a public record in the custody of a public officer or is recorded in a public office.

<sup>43</sup> RTC records, vol. 3, p. 1192. Termination Clause is numbered as Article VI in the May 18, 2017 Decision of the CA.

<sup>44</sup> *Halili v. Justice for Children International*, 769 Phil. 456, 462 (2015) [Per J. Perlas-Bernabe, First Division].

conditions: *first* there must be a legal cause for terminating it; and *second*, SMFI notifies Fresh Link in writing at least 30 days prior to the intended date of termination.

Be that as it may, before the Court can apply this provision to determine whether there was a breach by SMFI that entitles Fresh Link to damages, it is imperative to ascertain whether the facts of the case demonstrate SMFI's decision to pre-terminate the Agreement with Fresh Link. Without first establishing SMFI's decision to terminate the Agreement prematurely, the application of this provision in the present case would be futile. Thus, a thorough examination of the parties' actions and respective contentions leading up to the alleged termination is necessary to determine the validity of Fresh Link's claims.

"In civil cases, the basic rule is that the party making allegations has the burden of proving them by a preponderance of evidence."<sup>45</sup> In this regard, "[p]reponderance of evidence is the weight, credit, and value of the aggregate evidence on either side and is usually considered to be synonymous with the term 'greater weight of the evidence' or 'greater weight of the credible evidence.' Preponderance of evidence is a phrase which, in the last analysis, means probability of the truth. It is evidence which is more convincing to the court as worthier of belief than that which is offered in opposition thereto."<sup>46</sup>

In this case, the Court observes that respondents have failed to establish, by a preponderance of evidence, that SMFI unilaterally terminated the Agreement with Fresh Link. Notably, the lower courts' findings rested solely on Nelia Fabie's testimony and complaints sent by respondents to SMFI. Nelia Fabie's assertion regarding SMFI's unilateral termination of the Agreement cannot be deemed as definitive proof without additional compelling evidence to corroborate this assertion. Her unsubstantiated claim does not automatically warrant credibility. Unfortunately, besides her allegations, both the lower courts have not discussed or appreciated other sufficient grounds or factual circumstances to demonstrate that SMFI did indeed terminate the Agreement. Concrete evidence, such as marketing materials or announcements introducing a new distributor in Makati City's territory, or testimonies from other individuals, such as Fresh Link employees, providing firsthand accounts of events leading to the supposed termination of the Agreement, would have been crucial in corroborating Nelia Fabie's testimony.

Meanwhile, an examination of the instant Complaint reveals that the Agreement was not terminated but, rather, Fresh Link was simply denied credit purchases:

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<sup>45</sup> *Tan, Jr. v. Hosana*, 780 Phil. 258, 266 (2016) [Per J. Brion, Second Division].

<sup>46</sup> *Evangelista v. Spouses Andolong*, 800 Phil. 189, 195 (2016) [Per J. Perlas-Bernabe, First Division].

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27. On June 4, 1999, in apparent retaliation, defendant del Rosario, with the full knowledge and approval of defendant de la Paz, ordered that no more chicken be supplied for sale to Plaintiffs' distributorship **unless this was paid in cash.**<sup>47</sup> (Emphasis supplied)

This was corroborated by the testimony of SMFI's Business Development Officer, Mr. Eugene Dela Paz, thus:

Q: Since the check payments of [Fresh Link] bounced and the letter of credit expired on [May 31, 1999], was [Fresh Link] still allowed to purchase from SMFI?

A: Yes, they were still allowed to make purchases on cash basis. What they could no longer do was purchase items on credit, precisely because one of the conditions of the credit line agreement was that it would be at all times supported by a standby letter of credit. Without a letter of credit, there is effectively no credit line to speak of.

Q: If at all, did [Fresh Link] make purchases of items in cash?

A: They did not.<sup>48</sup>

Notably, Nelia Fabie herself affirmed this arrangement in her testimony before the RTC:

Q: No, Ms. Witness[.] My question is, you agree that you can pay in cash, correct?

A: Anytime, sir.<sup>49</sup>

Furthermore, although respondents contend that SMFI's failure to provide written notice to Fresh Link at least 30 days before the purported termination of the Agreement constitutes a breach of contract by SMFI, in Our view, this factual circumstance reinforces the conclusion that SMFI never intended to terminate the Agreement with Fresh Link.

The dispute between respondent and SMFI also hinges on the question of whether SMFI was justified in demanding cash payment from Fresh Link before delivering SMFI products, citing the expiration of the collateral provided by Fresh Link in the form of a letter of credit. However, respondents argue that a Credit Line Agreement had been renewed, thus allowing for credit transactions until March 31, 2000. This contention raises the question of whether SMFI had legal ground to enforce cash payment terms prior to the delivery of SMFI products, in light of the purported renewal of the credit agreement between the parties.

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<sup>47</sup> RTC records, vol. 1, p. 8.

<sup>48</sup> RTC records, vol. 3, p. 1123.

<sup>49</sup> TSN, Ma. Nelia Fabie, June 21, 2013, p. 8; RTC records, vol. 3, p. 1437.

In this regard, contrary to the assertions of Nelia Fabie, SMFI pointed out that the collateral provided by Fresh Link in the form of a letter of credit had expired on May 31, 1999. Consequently, on June 4, 1999, SMFI was compelled to deliver products to Fresh Link only upon receipt of cash payment for SMFI products. SMFI also contends that it was only during trial before the RTC that the existence of the renewed letter of credit was made known to it. On the other hand, respondents contend that the Credit Line Agreement was renewed and thus remained in effect and subsisting until March 31, 2000. On this matter, the appellate court found that Fresh Link complied with its part of the obligation under the Agreement by submitting an approved Credit Line Agreement in favor of SMFI in the amount of PHP 800,000.00 for another term expiring on May 31, 1999 issued by BPI on April 6, 1999.<sup>50</sup>

Regrettably, the document referenced in the CA's May 18, 2017 Decision further supports the conclusion that the letter of credit obtained by SMFI had indeed expired on May 31, 1999. This strengthens SMFI's position in demanding cash payments from Fresh Link before delivering SMFI products on June 4, 1999. The Court also observes that the approved Credit Line Agreement dated April 6, 1999 submitted by respondents is only a photocopy. As such, it is likewise inadmissible pursuant to the best evidence rule.<sup>51</sup>

Moreover, respondents' assertion is cast into doubt by their unequivocal statement in their Memorandum submitted to the RTC, where they admitted that they did not renew the standby letter of credit upon its expiration on May 31, 1999:

2. . . . As stated on June 17, 1999[,] [p]laintiff-appellees had been asking for their copy of the 1999 contract for almost three (3) months. Since defendants refused to comply with [plaintiff-appellees'] request, [plaintiff-appellees] did not renew the bank guarantee when it expired on May 31, 1999.<sup>52</sup>

Even assuming that such extension of the letter of credit was validly secured, it appears from the testimony of Nelia Fabie before the RTC that SMFI was never made aware of the existence of such extension, a fact which was not mentioned in the instant Complaint but was only raised during trial before the RTC, thus:

Court:

: Do you know if this letter, [sic] was defendant San Miguel Foods furnished a copy of this letter [sic]

<sup>50</sup> *Rollo*, p. 43; RTC records, vol. 3, p. 1202.

<sup>51</sup> RULES OF COURT, rule 130, sec. 3

<sup>52</sup> RTC records, vol. 1, p. 98.

Atty. Castillo : In short that would be my question. Did you give copy [sic] them a copy of this letter?

Witness  
A : It is not for them to read it.

Atty. Castillo  
Q : So, you did not?  
A : [It is] addressed to me.  
Q : So again, you did not?  
A : No, sir.  
Q : You will agree with me also that they are not aware of this particular letter?  
A : Nobody asked me.  
Q : So, you are saying that they are not aware?  
A : Yes, sir.<sup>53</sup>

...

Atty. Castillo  
Q : What I'm saying is that, San Miguel never receive [sic] anything in the form of a letter of credit pursuant to this particular letter?  
A : Yes, sir.<sup>54</sup>

Based on the preceding statements, it appears that SMFI did not unilaterally terminate the Agreement; rather, it merely altered the payment terms for the purchased products. To the best of SMFI's knowledge, respondents did not obtain a replacement letter of credit or an extension thereof upon its expiration on May 31, 1999. Even assuming that respondents obtained a replacement letter of credit or an extension thereof, they admittedly failed to inform SMFI about its existence. Therefore, SMFI should not be blamed for insisting on cash payments from Fresh Link for the SMFI products it acquired.

*Respondents are not entitled to damages*

Respondents' failure to prove, by a preponderance of evidence, that SMFI unilaterally terminated the Agreement with Fresh Link undermines the credibility of their claim. Relying solely on Nelia Fabie's testimony and

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<sup>53</sup> TSN, Ma. Nelia Fabie, June 21, 2013, pp. 5-6.

<sup>54</sup> *Id.* at 9.

complaints without concrete evidence weakens their case. The denial of credit purchases to Fresh Link, rather than termination, was confirmed by testimony and suggests no breach of contract by SMFI. Accordingly, the absence of any other compelling evidence from respondents reinforces the view that SMFI never intended to unilaterally terminate the Agreement. Moreover, respondents' failure to inform SMFI about a replacement or extended letter of credit justifies SMFI's insistence on cash payments for their products.

As mentioned above, respondents raised other breaches committed by SMFI, including underpricing and undersupplying of its products, as well as allowing other distributors to operate in Fresh Link's geographic territory. These were cited to support respondents' argument that their complaints regarding these breaches prompted SMFI to unilaterally terminate the Agreement.

To be clear, respondents filed a complaint for breach of contract after SMFI purportedly terminated the Agreement by ceasing the delivery of SMFI products to Fresh Link on June 4, 1999. Accordingly, the Court's basis for awarding damages in favor of respondents should be grounded on this claim, which must be satisfactorily proven by respondents during trial. However, as discussed above, the Court finds that respondents failed to prove by preponderance of evidence that SMFI unilaterally terminated the Agreement.

Even if We were to regard these purported breaches as grounds for awarding damages to the respondent, it is notable that these allegations rest solely on the unsubstantiated testimony of Nelia Fabie and the complaint letters from Fresh Link to SMFI. Regrettably, the lower courts also neglected to cite other evidence to corroborate Nelia Fabie's assertions. In civil cases, it is fundamental that the party making allegations has the burden of proving them by a preponderance of evidence. Moreover, the parties must rely on the strength of their own evidence, not upon the weakness of the defense offered by their opponent.<sup>55</sup> Accordingly, without further substantiation or corroborating evidence, We find that such allegations remain insufficient to warrant the award of actual, temperate, moral, or exemplary damages in favor of the respondents. Consequently, the award of attorney's fees is also improper and should be deleted.

**ACCORDINGLY**, the Petition is **GRANTED**. The May 18, 2017 Decision and the October 18, 2017 Resolution of the Court of Appeals in CA-G.R. CV No. 104501 are **REVERSED** and **SET ASIDE**. The Complaint for Breach of Contract and Damages filed by respondents Spouses Ramon and Ma. Nelia Fabie and Fresh Link, Inc. against petitioner San Miguel Foods, Inc. is **DISMISSED** for lack of merit.

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<sup>55</sup> *Tan, Jr. v. Hosana*, 780 Phil. 258, 266 (2016) [Per J. Brion, Second Division].

**SO ORDERED.**



**RAMON PAUL L. HERNANDO**

Associate Justice  
Working Chairperson

WE CONCUR:



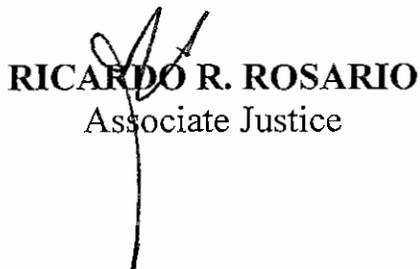
**ALEXANDER G. GESMUNDO**

Chief Justice  
Chairperson



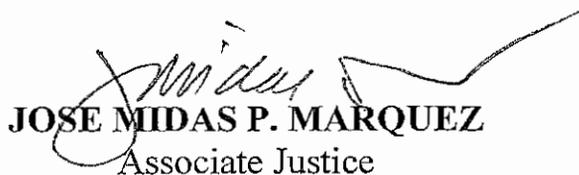
**RODIL V. ZALAMEDA**

Associate Justice



**RICARDO R. ROSARIO**

Associate Justice

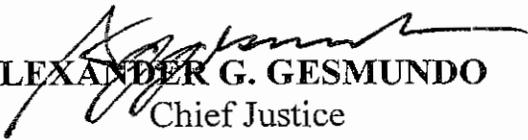


**JOSE MIDAS P. MARQUEZ**

Associate Justice

**CERTIFICATION**

Pursuant to Article VIII, Section 13 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.

  
**ALEXANDER G. GESMUNDO**  
Chief Justice