



global witness

Spin and secrecy in the Caribbean

How ex-England cricket star Phil Edmonds used anonymously-owned shell companies and tax havens to rip off investors¹

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This is a story about how anonymously-owned companies can be used to scam pension funds, savings funds, or any other investments that use stock exchanges.

The fact that company ownership information is kept secret in many places makes it extremely difficult for ordinary people or the authorities to detect this sort of scam. Hidden company ownership is not just a tool used to scam investors, but also a tool used by others to evade tax, launder money and even finance terrorism, as the recent Panama Papers revelations have laid bare.

The solution is simple, and the UK and US governments hold the key. The names of the people who own and control companies – the so-called beneficial owners – need to be collected and made public for all to see.

Several countries, including the Netherlands, Ukraine, France, Norway, Kenya, South Africa, Nigeria, Afghanistan and the UK, have committed to do this. Now the UK needs to ensure that its Crown Dependencies and Overseas Territories, some of the most widely-abused secrecy jurisdictions in the world, do the same. The US Congress should also pass the bipartisan Incorporation Transparency and Law Enforcement Assistance Act (H.R. 4450 and S. 2489; [House](#) and [Senate](#) bill fact sheets) currently before it without delay. This law would require all American companies, with a number of exceptions, to disclose the real people who own or control them when they are formed, and to keep that information updated.

Here's how the scam works. You float a company on a stock exchange, which you use to generate revenue from unsuspecting investors. At the same time, you set up another group of companies in secretive locations like the British Virgin Islands, Delaware and other tax havens. Without telling investors you also own this second group of companies, you use them to sell a series of assets – land, property, planes, for example – to your listed company

¹ This briefing document is an accompaniment to the longer Global Witness briefing document *The Deceivers* which contains full references for all the allegations made here. www.globalwitness.org/thedeceivers

at vastly inflated prices. You then pocket the difference between what they're actually worth and what you sold them for.

Investors lose out, and you win big, all thanks to secret company ownership. If you own both parties to a deal it is known as a 'related party transaction' and stock market and accountancy rules insist that such deals are disclosed in order to ensure fair play. But it is easy to avoid these rules as there are plenty of places in the world, such as most of the UK's Overseas Territories and in all 50 US states where details of who owns and controls companies are kept secret.

Global Witness has gathered evidence of exactly this sort of scam. It was pulled off a number of times by Phil Edmonds, former star player for the England cricket team, and his business partner Andrew Groves. They floated a number of companies on London's junior stock market, the Alternative Investment Market (AIM). Most of the companies they set up made huge losses, but nevertheless Edmonds and Groves still profited at the expense of their companies' investors.

"Mr Edmonds and Mr Groves deny any allegations of wrongdoing," their lawyers said in a joint response to questions, telling Global Witness that they are "committed to ensuring that all their business is conducted in a responsible and ethical manner".

One of the companies, African Medical Investments, bought property in Mozambique from a company that was secretly owned by a British Virgin Islands company, a hospital firm that was secretly owned by a Mauritius company, and a jet plane that appears to have been secretly owned by Groves via a Delaware company and then a British Virgin Islands company. The Mozambique deal netted the pair's family trusts \$2.2 million in shares, through the hospitals deal they were earmarked \$1.2 million of shares, and the jet appears to have netted Groves at least \$1.2 million. For more detail on these scams, see the annexes at the end of this briefing, and for more detail on these and other scams pulled off by the duo, see [Global Witness' full report](#) on Edmonds and Groves.

In a [joint letter](#) to Global Witness, Edmonds and Groves said the land in Mozambique was originally purchased not by them but by trusts for their relatives, acting independently. They said the deal was "in the best interests of shareholders as a whole". Their lawyer, Philip Enoch, said the jet deal was later cleared in an investigation by a law firm. Of the deal over the hospital firm he said that the shares were held for eventual distribution to African Medical's management team and were not assigned to Edmonds and Groves.

Phil Edmonds and Andrew Groves

This isn't the first time that Phil Edmonds and Andrew Groves have been in the spotlight for controversial business deals.

In 2005, they set off a stock market bubble after their company White Nile negotiated an oil deal with rebels in war-torn Sudan. "White Nile fever" raged on the London's junior stock exchange until it turned out the oil block claimed by Edmonds and Groves already belonged to the French oil company Total.

Three years later, their mining firm Camec – also listed on London's junior stock exchange – lent \$100 million to Robert Mugabe's regime on the eve of his victory in a crooked and violent election.

Conclusions and recommendations: companies and investors need to know who they are doing business with

It is well-documented that anonymously-owned companies are widely used by tax evaders, arms smugglers and drugs cartels – in short, by anyone wishing to hide dirty money. What is less well-known is that anonymously-owned companies pose systemic risks to investors.

This case study shows how the secrecy sold by the British Virgin Islands and other places has probably been used to rip off investors in publicly-listed companies. The scam is not specific to this company; it could easily be used to rip off investors in other companies too.

Although related party transactions are meant to be disclosed, hidden company ownership makes it extremely difficult to detect.

The British Virgin Islands has [recently announced](#) that it will centralise information on who ultimately owns and controls the companies they incorporate, and that it will share this information with UK law enforcement. A [few other UK secrecy jurisdictions](#) such as Gibraltar, Anguilla, Montserrat and the Isle of Man will share the information with a wider range of law enforcement. In the US, an alternative approach to collecting ownership information has been [proposed by the Administration](#), but has not been introduced as legislation.

This, however, is not enough. Companies and investors need to know who they're doing business with. Investors rely on access to reliable and accurate information in order to vet their corporate holdings and to fulfil their own obligations as responsible business actors. Opaque corporate structures are not just an obstacle for law enforcement, but also inhibit investors' ability to identify and manage risk.

The business community agrees: a recent [survey by Ernst and Young](#) shows that 91% of senior executives around the world (and 98% of those in the UK) think it is important to know the beneficial owners of businesses they do business with. In a recent report, [Fortune 500 business leaders](#) have demonstrated how “the business impetus for beneficial ownership transparency goes beyond compliance, contributing to risk management, and even in some instances, competitive advantage.” Some examples include the value of beneficial ownership information to an employer, as well as to identify and manage certain tax risks, as well as health and safety issues.

The British public also agrees. [A ComRes poll commissioned by Oxfam and Global Witness](#) found overwhelming support among British adults for UK government action on the UK’s tax havens. Four in five British adults agree with the statement that “David Cameron has a moral responsibility to ensure that the UK’s Overseas Territories are as transparent as possible” and almost the same number (79%) want the UK government to legally oblige the Overseas Territories to uphold the same transparency standards for companies registered there as the UK.

The solution is clear:

- **All countries should require companies to make their beneficial information public, just as the UK has done.** It is especially important that countries that specialise in secret incorporation and that are frequently used by fraudsters, such as the British Virgin Islands and US make company ownership information public.
- **If the UK’s tax havens refuse to make company ownership information transparent, as appears to be the case, the UK should require them to open up.** The UK has the legal powers to require such changes in its Crown Dependencies and Overseas Territories, and has used them in the past to, for example, require Caribbean Territories to abolish the death penalty in 1991 and decriminalise homosexuality in 2000.

Investors should:

- **Call on governments to make beneficial information public for all to see.** The destabilizing nature of the abuses caused by secret companies can disrupt operating environments, create an imbalance in markets and increase financial and non-financial risks for investors.
- **Assess the steps taken by companies in their universe to publicly disclose their own beneficial owners and to uncover the beneficial owners among their business partners and supply chains.** For responsible companies, information on the ultimate ownership of partners can help them to carry out due diligence. A company’s ability to conduct the necessary due diligence to understand the actors in its supply chains, partners and its own corporate structure is a basic component of its commitment to governance. This goes to the heart of a company’s integrity and ethics. Overall

secrecy is not conducive to successful investing or business. Any company that cannot determine the beneficial owners of companies with which it does business, or which feature in its supply chains, is not in a position to ensure it is not making illicit payments in corrupt countries. This raises the very real risk of subsequent sanction through judicial action following criminal investigations into corruption. Given the scale of corruption in many countries, this suggests a vast pool of potential examples for which investors have no idea of the risks they currently face.

- **Directly engage their universe of holdings about their approach to beneficial ownership transparency.** Investors stand to promote meaningful and effective engagement with companies. Investors have the power to impact corporate policies and procedures in order to mitigate negative outcomes associated with their investments, and to leverage best practice. This should be standard practice among investors in order to reduce risk.

Annexes

For further information on the stories below, see Global Witness' report *The Deceivers*.

Annex I: The Mozambique property scam relied on an anonymous BVI company

In 2009, African Medical Investments bought property for a 'Trauma Centre and Well Woman Clinic' in an exclusive district of the Mozambican capital. But instead of acquiring the property directly, African Medical bought a local company that owned the site, EMP Services Limitada. The seller of EMP Services was another firm, Penrith Management Trading, registered anonymously in the British Virgin Islands.

Leaked documents show that all the companies in the chain were connected to Edmonds and Groves. The Mozambican company, EMP Services, was set up and initially owned by Edmonds and Groves' associates. EMP Services's shares were then transferred to the anonymous BVI company, which Global Witness' investigation shows was secretly controlled by Edmonds and Groves. A leaked email from African Medical's manager in Mozambique reveals who was secretly behind Penrith: when he needed Penrith to make a payment, he addressed his request to Edmonds, Groves and another business partner, Vivek Solanki. "Penrith is a company owned by Groves, Edmonds and myself," Solanki wrote in June 2012 in an email seen by Global Witness.

EMP originally bought the property in October 2008 for \$2.2 million. By the time Penrith sold EMP to African Medical less than a year later, that price had been marked up to \$5.5 million, paid for in cash and shares. Edmonds and Groves or their family trusts pocketed more than \$2 million of that at the expense of African Medical's investors.

Annex II: The hospital scam relied on an anonymous Mauritius company

In 2008, African Medical bought a business from Vivek Solanki - VIP Healthcare – with money it had raised on the stock market. The business ran private hospitals in South Africa and Zimbabwe. However, instead of purchasing the assets directly from Solanki, they arranged with him to set up a new offshore firm with management rights to the clinics.

Solanki's lawyers incorporated VIP Healthcare in the secrecy jurisdiction of Mauritius. They then secretly assigned a one-sixth stake in the company to Edmonds and Groves. When African Medical bought VIP, investors had no idea that a sixth of the purchase price – a kickback we estimate to be \$1.2 million – was heading straight back to Edmonds and Groves.

It seems from the leaked emails that the split of VIP between Solanki and Edmonds/Groves was accomplished by dividing ownership of VIP between two companies registered in the British Virgin Islands.

Annex III: The probable jet plane scam relied on an anonymous BVI company

In 2010 African Medical bought a jet aircraft to use as an ambulance. It looks like a repetition of the scams above. According to former and current African Medical chief executives, Groves ripped off African Medical's shareholders by selling the London-listed company an asset at an inflated price and siphoning off the profit.

As with the scams outlined above, it looks like the plane was over-priced. African Medical paid \$3.1 million for it, but a leaked email from the company's accountant suggests that the purchase price was going to be \$1.875 million.

It also looks as if the plane already belonged to Andrew Groves. Before the sale, the aircraft passed through a string of offshore companies—all connected with Groves. In 2006, it was owned by Delaware-registered Roston Aviation, whose sole director was Groves' pilot, Roston Gough Smith. The same year, it moved to Gough Aviation, a South African company where Roston Smith was also a director. That company belonged to Camec, listed on London's junior stock exchange by Edmonds and Groves. When Edmonds and Groves sold Camec in 2009, the jet was hived off to a South African-registered firm, Caramix, in turn owned by an anonymous British Virgin Islands firm. It was Caramix—where Roston Smith was again a director—that sold the jet to African Medical.

African Medical bought the jet for \$3.1 million but – judging by statements from the current and former African Medical CEOs and other documents – he paid less than \$1.9 million for it. It seems that Groves scooped at least \$1.2 million at the expense of African Medical's shareholders.