

Is Fraud a Brain Game?

by David Levy

January 6, 2002



Raymond Keene and the London based company **Brain Games Network plc** (BGN) are the subject of fraud allegations made in an article entitled “Cheque Mates”, published in the current issue of the magazine *Private Eye* (Number 1044: Dec 28th-Jan 10th, page 27). The amounts in question total £510,000 (approximately \$750,000), in addition to which the “Eye” discusses some fees totalling a further £201,000. This present contribution for Kasparovchess.com makes extensive use (by permission) of extracts and paraphrases of the *Private Eye* article.

When it was launched in the Spring of 2000 BGN attracted £3 million in investment, but within weeks more than £500,000 had been siphoned out of the company. *Private Eye* point out that **Sir Jeremy Hanley**, who has been Chairman of BGN since March 2000 (and is a former Chairman of the Conservative Party), “apparently did nothing to prevent” the frauds. He also appears to have decided, for whatever reason, not to bring them to the attention of the police. It was only when the company’s first set of published accounts were sent to shareholders in late November that some shareholders spotted the two transactions totalling £510,000 and their fraudulent nature.

In one transaction BGN purchased “the entire share capital” (to quote from the BGN accounts) of three virtually worthless companies for £220,000. These three companies were sold to Brain Games by **Keene (its Games Director)** together with a Swiss based company, **Giloberg Finance Ltd**. Keene, who is chess columnist of *The Times*, *The Sunday Times* and *The Spectator*, is not only a director of BGN but also a shareholder in the company. The phrase “the entire share capital”, used in the notes to the company’s accounts, appears to be designed to impart significant value to the three virtually worthless companies bought by BGN.

The fraudulent nature of this £220,000 transaction is transparent. None of the three companies: **Praetor Ltd**, **Brain Games Ltd** and **Havendisc Ltd** (now called **Chess Associates Ltd**), had ever traded prior to their purchase by BGN. **Praetor Ltd** was incorporated on December 7th 1999, only weeks before it was sold to BGN, and had a total value (capital and reserves) of £1,000. Similarly, **Braingames Ltd** (a private limited company, not the same company as BGN which is “public”) was also incorporated on December 7th 1999 and it too had a total value (capital and reserves) of £1,000. **Havendisc** had been incorporated on September 7th 1998 but was dormant thereafter. Its total value (capital and reserves) was £300. But despite these three companies having a total capital and reserves of only £2,300, **Keene and**

Giloberg extracted “a total consideration of £220,000” from **Brain Games** for their sale (again, the quote is from BGN’s published accounts). Uncovering this particular fraud needed only the germ of suspicion and a visit to the **Companies House web site** where all of the above company details are available for anyone to see, upon payment of a very modest fee.

Another fraudulent transaction is described in BGN’s annual accounts as the purchase of “domains and a web-site for a total consideration of £290,000.” The web site in question is **www.internetchess.com** and was offered for sale by **Chess & Bridge Ltd**, a London company of excellent repute. Chess & Bridge Ltd, which owns a popular games shop in London’s Euston Road and publishes the UK’s leading chess and bridge magazines, sold this web site together with two domain names worth a few tens of pounds on May 5th 2000. However, that sale was not to BGN itself but to Giloberg, the transaction being negotiated on behalf of BGN (or was it Giloberg?) by **Don Morris**, a shareholder and former director of BGN and a friend of Keene’s. The sale price for the package was \$100,000 (approximately £60,000 at that time). But before signing the purchase contract with Chess & Bridge Ltd Giloberg had, unbeknown to Chess & Bridge, already agreed to sell BGN that very same Web site and those very same domain names (**www.brainrating.com** and **www.brainranking.com**) for £290,000. By arranging for BGN to purchase of the site in two stages Giloberg, which is itself a shareholder in BGN, made an instant profit of approximately £230,000, the difference between the asking price from Chess & Bridge and the price actually paid by BGN. Giloberg’s profit was Brain Games’ loss – all £230,000 of it.

In addition to these transactions Keene received fees of £50,000 within a few days of BGN receiving its £3 million investment income. One of the surprising aspects of this £50,000 payment is that it does not appear as a liability of the company in its **Private Placement Memorandum** – the document put out by BGN to attract investors. The company’s investors were therefore unaware at the time they put in their money that Keene was going to receive this payment immediately thereafter.

Sir Jeremy Hanley was appointed a Director of Brain Games on March 2nd 2000, a few days before the £50,000 payment to Keene, a few weeks before the purchase of Havendisc Ltd and two months prior to the Web site fraud. Why Hanley and some of the other members of his Board turned a blind eye to these transactions is unclear. **Morris** had already resigned as a director when these transactions took place but was subsequently so closely involved with the company’s activities that in any legal action involving the company he is likely to be classed as a “shadow director”. But being a friend of Keene’s it is perhaps not so very surprising that he kept his mouth shut. More bizarre is the behaviour of **Dr Irving Finkel**, a deputy keeper of antiquities in the Western Asiatic Department of the **British Museum**. Finkel is a friend of Keene’s and a man of many and varied interests, including ancient magic and the history of board games. Finkel’s fees from BGN for being a director of the company were set at £7,500 p.a. – it is difficult to understand why he would keep quiet over so much for so little. Another director at the time, **Michael Gelb**, is yet another friend of Keene’s. Gelb lives in **Chevy Chase, Maryland**, he visits London only occasionally and, I suspect, was most likely unaware of what was going on in the company.

Hanley’s own director’s fees were agreed at £12,500 p.a., not a vast sum for one so prominent.

He has certainly given BGN its money's worth, having been the public face of the company since its launch and presiding over the press conference in April 2000 when the **Kasparov-Kramnik** chess match was formally announced. In BGN's first annual return, lodged at **Companies House**, Hanley was not acknowledged as being the beneficial owner of any shares in the company (nor were Finkel or Gelb). There were, however, **19 blocks of shares** held by various nominees **in Switzerland, the British Virgin Islands, Guernsey and elsewhere**, and it is not easy to identify the beneficial owners of most of these nominee accounts.

Only one person in BGN had the courage to raise the question of fraud. **Suzanne Martin**, who was appointed **Chief Executive Officer** in mid-July 2000, came across a mass of documents in December 2000 that revealed the fraudulent transactions. But when she attempted to bring these matters out into the open in company meetings she was muzzled. So Martin turned to her solicitor who advised her to inform the police, which she did in mid-February 2001, having been **fired on February 9th**. Eleven days later **Brain Games** obtained a court order, compelling Martin to give up any company documents in her possession. Naturally this included any documents that could vindicate her allegations and prove anyone's guilt. Martin has since launched an **Employment Tribunal** action against the company, due to be heard **on January 14th and 15th**.

Last year the police investigated **Brain Games Network plc** for possible money laundering and they interviewed **Sir Jeremy Hanley**. They found no evidence of money laundering and indeed there seems to be no reason why they should. What has been happening in BGN appears to be far simpler. It is fraud. But the evidence of this fraud only became publicly available when BGN's first annual return was sent to **Companies House** in September, some time after the police investigation had been suspended. Now, with this new evidence becoming public, the police may need to think again.

In the meantime it appears to be business as usual for BGN. At an **Extraordinary General Meeting held on December 18th**, the company passed motions to retrospectively "ratify" the fraudulent transactions, though exactly how the word "ratify" can be used for transactions completed more than 18 months ago is difficult to understand. The company also plans to change its status from a plc (public company) to a private limited company, then to hive off assets into an offshoot called **Brain Games Asia** (which is registered in the **British Virgin Islands**) and to "reverse" into **Einstein Group plc**, a company quoted on **London's Alternative Investment Market**. This particular brand of magic, if successful, will leave the current holders of BGN's worthless shares owning instead some tradable stock in Einstein, possibly worth as much as £1 million. All this while BGN is being pursued, not only by Martin but also by some angry creditors. The fashionable **London club, Home House**, was awarded judgement against BGN at **Central London County Court on October 25th**, over the non-payment of £31,085.37p owed for the opening and closing parties of the **Kasparov-Kramnik** chess match one year ago. (Case number: CL108400. **Brain Games Network plc** has lodged an appeal, **due to be heard on January 23rd**.) Another thorn in the company's side is **Apco Asia Ltd**, a **Hong Kong company** that was involved in Brain Games' "sponsorship" of a major Chinese Chess tournament last June. (Chinese Chess, which differs from the western form of the game, is probably the world's most popular board game, being played by half the population of China.) **Apco Asia** has been pressing for payment of invoices going back more than one year and

totalling US\$92,945.96 (approximately £64,000).

As it happens I am a stockholder in **Einstein Group plc** and am therefore entitled to ask reasonable questions about the company's activities. In that capacity I wrote to Einstein's CEO, **Steve Timmins**, on December 13th 2001, asking how his company could be seriously considering the acquisition of BGN and listing many of the reasons why, in my view, it should not happen (principally the frauds described above). I copied the letter to all of the individuals listed as being directors of **Einstein Group plc**, as well as to the company that advises Einstein and to the **UK Financial Services Authority**. Around lunchtime on December 17th I received a letter from **Atlantic Law**, a firm of solicitors acting for BGN. They said of my letter of December 13th: "*... quite apart from being wholly untrue, is seriously defamatory of Braingames Network Plc for whom we act and a number of parties associated with it.*"

Atlantic Law's letter gave me until the close of business that day, i.e. some 4 hours later, to "*... retract in writing all of the allegations made in your letter not to repeat or publish such allegations in any form whatsoever and to make a contribution of £1,000 to a charity of Braingames' choice...Should you not do so we are instructed to bring injunctive proceedings against you without further notice on Tuesday morning [i.e. the following day – DL] in the High Court.....*"

Receiving a lawyer's letter was not wholly unexpected and I was therefore not exactly quaking with fear when I discussed the matter by telephone with one of the partners at my own solicitors. I then sent the following reply by fax, so as to arrive in time for Atlantic Law's "close of business" deadline. [The notes in square brackets, marked "-DL", are corrections and an addition for this article.]

December 17th 2001

Atlantic Law,
1, Great Cumberland Place,
London W1H 7AL.

Dear Sirs,

I am in receipt of your letter (ref: ALG/EJH107) of December 14th regarding **Brain Games Network plc** (Brain Games).

I am replying to you myself as the principal partner at my solicitors is away until Wednesday.

Far from retracting all the allegations contained in my letter of December 13th to

which you refer, I hereby reaffirm them. My defence to any defamation action brought by your clients will be on the basis of justification. Some of the sources on which I shall seek to rely in the justification defence are as follows:

The allegation that Brain Games bought three companies from **Raymond Keene** and **Giloberg Finance Ltd** for £220,000 is confirmed by a statement to that effect in the company's own documents filed at **Companies House**.

The allegation that one of Brain Games' directors is declared to have an interest in Giloberg Finance Ltd is confirmed by a statement to that effect in the company's own documents filed at Companies House.

The allegation that Giloberg Finance Ltd is a Swiss company is based, inter alia, on Giloberg's address being given as in Zurich on the list of shareholders in Brain Games filed with the company's own documents at Companies House.

The allegation that the three companies in question are virtually worthless is based on their own documents filed at companies house. These show that in two out of the three cases (**Brain Games Ltd and Praetor Ltd**) the companies were incorporated on December 7th 1999 and sold to Brain Games Network plc on February 15th 2000, with no returns filed to indicate that any trading was conducted by either company during the intervening 10 weeks. Furthermore, share transfer certificates, all signed by Raymond Keene, a director of **Brain Games Network plc**, and dated February 15th 2000, show that 18 million shares of 1p each in Brain Games Network plc, were given by that company in compensation for the entire share capital of **Praetor Ltd** and **Brain Games Ltd** – the beneficiaries of the shares in Brain Games Network plc being: **Marine Capital Corporation of Zurich, Willbro Nominees Ltd** of London, **Strategic Investment Management SA** of Tortola, **British Virgin Islands, Master Nominees Ltd** of London, **Don Morris** (one of the company's directors in February 1999 [A typo. It was 2000 – DL] according to its own Private Placement Memorandum), **Raymond Keene** (another director of the company) and **Pensacola Securities Inc** of Nyon, Switzerland.

In the case of the third company, now known as **Chess Associates Ltd** but at the time of the transaction known as **Havendisc Ltd**, that company filed dormant accounts and there is no evidence filed at Companies House of it having traded at the time of the transaction in question. Furthermore, share transfer certificates, both signed by **Raymond Keene**, a director of Brain Games Network plc, and dated March 20th 2000, show that 4 million shares of 1p each in Brain Games Network plc, were given by that company in compensation for the entire share capital of **Havendisc Ltd** – the beneficiaries of the shares in Brain Games Network plc being: **Raymond**

Keene (1 million shares) and **Giloberg Finance Ltd** (3 million shares).

You will note that the total number of shares in **Brain Games Network plc** referred to in the previous two paragraphs is 22 million, the value of 22 million shares @ 1p each being £220,000, reconfirming the consideration stated in the company's own documentation filed at Companies House.

The allegation that Brain Games appear to be planning to have the Havendisc transaction "ratified" at their forthcoming EGM on December 18th is based on a statement to that effect in the letter from the Chairman dated November 23rd 2001 (see page 9 of the company's own documentation sent to its shareholders).

Incidentally, although the company is seeking to have the Havendisc transaction (for 4 million shares) "ratified" at tomorrow's EGM, it is interesting that no attempt is being made to "ratify" the Brain Games Ltd and Praetor transactions (for 18 million shares).

The allegation that Brain Games paid Giloberg Finance Ltd £290,000, in return for a web site plus a couple of domain names is confirmed by a statement to that effect in the company's own documents filed at Companies House. The cost of the domain names in question at that time would be at most £50 or thereabouts, probably less. My letter of December 13th states that the web site was priced at approximately £60,000 – the supporting note shows that this approximation is based on the actual price of \$100,000 at which **Chess & Bridge Ltd** sold the site and domain names to **Giloberg Finance Ltd**. The contract between Giloberg Finance Ltd and Chess & Bridge Ltd was negotiated on behalf of Giloberg by **Don Morris** and the agreed price was widely rumoured in circles surrounding the organisation of Brain Games' match (October 2000) to be \$100,000. For the purposes of defending any legal action my solicitors would seek discovery of the sale agreement between Giloberg and Chess & Bridge Ltd, and would call as witnesses (under subpoena if necessary) **Mr Henry Mutkin** and **Mr Malcolm Pein**, the two **partners of Chess & Bridge Ltd**, both of whom could testify as to the date of the transaction and the amount paid by Giloberg for the site.

The allegation that Brain Games appear to be planning to have this transaction "ratified" at their forthcoming EGM on December 18th is based on a statement to that effect in the letter from the Chairman dated November 23rd 2001 (see page 10 of the company's own documentation sent to its shareholders).

The allegation that substantial consultancy fees were paid out within days of the receipt by Brain Games of £3 million in investment income is confirmed as follows.

The company's own documents filed at **Companies House** state that **Raymond Keene** received fees of £50,000 in the period ended December 31st 2000 (note 17 to the consolidated financial statements). The company's solicitors at that time, **Edwin Coe**, were asked by my solicitors (**Teacher Stern Selby**) about a payment of £50,000 dated March 8th 2000 made by a cheque drawn by **Edwin Coe** in favour of a company called **Mind Sports Olympiad Ltd**, of which Raymond Keene was Chief Executive Officer at that time. Edwin Coe's reply was that (their instructions were that) the £50,000 was money owed by Brain Games to Raymond Keene and that Keene had requested Edwin Coe to make the cheque payable to Brain Games. [A finger slip. It was of course to Mind Sports Olympiad Ltd – DL] As to the date on which Brain Games received its £3 million in investment – I was told by Keene on or around March 9th 2000 that the money had been received the previous week. Brain Games bank statements will be sought by discovery and will be able to confirm the exact date in order to verify that the phrase “within days” is accurate.

The allegation that no such liabilities (the £50,000 paid to Keene) had been declared in the company's Private Placement Memorandum is simply proved by referring to the PPM itself.

The allegation that the statement that Brain Games Network plc “owns the global rights to the World Chess Championships” is a lie, this can be refuted in very many ways, including witnesses and documentation from FIDÉ. Perhaps the simplest way to demonstrate that Brain Games Network own no such thing would be to refer to the various web sites reporting on the **World Chess Championships, organized by FIDÉ**, which are currently in progress in **Moscow**. So far as I am aware Brain Games has not so much as suggested that it “owns” this event, and if an officer of the company would care to do so under oath it would be extremely easy to disprove.

The allegation that **Garry Kasparov** has publicly castigated **Raymond Keene**, the **Games Director of Brain Games**, and the company itself, in relation to their treatment of him following the Brain Games World Chess Championship match in 2000, particularly in regard to a return match, is on the Internet for all to see. I give the reference in my letter of December 13th. Similarly, the allegation that Kasparov's manager, **Owen Williams**, published an open letter to **David Massey** (CEO of Brain Games), on several web sites, explaining why Kasparov has declined Brain Games' invitation to compete in a qualifying event in Dortmund next year, is also on the Internet for all to see. Again, I give the reference in my letter of December 13th.

The allegation that a court judgement was made against Brain Games on October 25th 2001 in relation to an outstanding debt of approximately £31,000 is surely beyond doubt. It is a matter of court record (Central London County Court).

The allegation that **Apco Asia Ltd**, a **Hong Kong company**, has been pressing for payment of invoices totalling USA\$92,945.96, covering the period October 2000 to July 2001, can be substantiated by a fax from **Apco Asia Ltd** to **David Massey**, CEO of **Brain Games Network**, dated August 16 2001, subject “Outstanding account”, which starts with the words: “Our records show that the following invoice(s) is still outstanding. We sent our statements to your office repeatedly but have not yet received the payment. I should be grateful if you could settle this immediately. Please let us know if you have any reason for withholding your payment.” The invoices referred to are stated in that fax to be (all sums in US dollars): \$243.72 from October 31st 2000, \$33,157.83 from April 30th 2001, \$47,416.10 from July 13 2000 and \$12,128.31 from July 31st 2001.

The above refutes your assertion that my allegations are “wholly untrue” and clearly proves the contrary.

When seeking an injunction on behalf of your clients you will, of course, be presenting this reply to the Court.

Yours sincerely,

David Levy

My final sentence was to remind BGN’s solicitors of a point of English Law. Had they indeed applied to the High Court for an injunction against me they would have been legally obliged to present to the Court the correspondence between us, in order to show the Court what they had demanded of me and how I had responded.

Late that same day, December 17th, I received a fax from **Atlantic Law** in response to my own fax to them. Their fax began:

“We are carefully reviewing the factual information contained in your letter of 17 December 2001. We are instructed that much of it is inaccurate and in due course will respond with details.

“Your letter, however, fails to address the central issue. You have alleged in your letter to **Einstein** that there was a fraud. None of the items referred to in your letter of 17 December in any way particularise the issue of fraud. As you are aware, allegations

of fraud must be pleaded with the utmost particularity. It may be that they were commercial transactions upon which different people might take a different view but the essence of fraud is a deliberate intention to defraud. There is no evidence of this.

“We therefore again call upon you to confirm that you accept that no fraud has taken place and that you wholly withdraw any such allegations.

“We look forward to hearing from you by close of business tomorrow. Until we have so heard we are prepared to refrain from taking any action for an injunction, although we have advised our clients that nothing in your letter will prevent a successful application for an injunction and an award of costs against you....”

When I read this fax I felt that I was already making some progress. Despite assuring me that much of the factual material in my fax to them was “wholly inaccurate”, Atlantic Law had not indicated one single allegation that their clients claimed they could immediately refute. But I had to respond to this second communication and did so as follows:

December 18th 2001

Mr Andrew Greystoke,
Atlantic Law,
1, Great Cumberland Place,
London W1H 7AL.

Dear Mr Greystoke,

I am in receipt of your letter (ref: ALG/JT6698) of December 17th regarding Brain Games Network plc (Brain Games).

I must first apologise for two very minor typing errors in my fax of yesterday. Firstly, in the first paragraph on page 2, line 7, the year should be 2000 and not 1999. Second, on page 3 paragraph 3, line 11, it should of course read “to Mind Sports Olympiad Ltd” and not “to Brain Games”. The reason for the errors is that I received your letter only at lunchtime yesterday and had only a few hours in which to discuss the matter with my solicitors and prepare a detailed response by your deadline.

I come now to your fax of yesterday evening.

I await with interest your clients comments as to which part(s) of my fax to you are

inaccurate, and why.

Regarding the question of fraud, let us consider the two relevant transactions.

In the case of the £220,000 purchase of three companies that had not traded, this appears to be **a simple case of fraud by Keene and Giloberg on Brain Games**, with the connivance of any directors of Brain Games who knew the full circumstances, namely that the three companies purchased had not traded and were worth, at most £2,300 in toto. You say that different people might take a different view on the commerciality of the transaction – I would be most interested to know the commercial qualifications of anyone who believed that £2,300 was worth as much as £220,000. I note with interest that the Chairman's report [In the papers sent to shareholders in advance of BGN's Annual General Meeting – DL] refers to the company taking legal advice on the commerciality of the **Havendisc** transaction, but does not refer to the company taking legal advice on the commerciality of the **Praetor** and **Brain Games Ltd** transactions, which were worth far more in terms of the numbers of shares paid in compensation (18 million shares for the two as against 4 million for Havendisc alone).

Incidentally, I should also point out that although Brain Games' own valuation of the transaction for all three companies was £220,000, the 4 million shares provided for Havendisc were transferred on March 20th, **after a new share value had been established of £1 per share (the investors paid £3 million for 3 million shares)**. By this reckoning **Keene and Giloberg received £4 million worth of Brain Games shares on March 20th!!**

Let us now turn to the question of the web site transaction for £290,000. Given that not only was Giloberg a shareholder in Brain Games, but also a director of Brain Games had an interest in Giloberg, is it not fraudulent for Giloberg and that director to enter into a sale agreement at a price of £290,000 knowing that the asking price from **Chess & Bridge was only \$100,000**? If your clients could demonstrate that the site had increased in value by almost a factor of 4 between the time that the purchase took place from Chess & Bridge and the time that the sale was made to Brain Games, then it would be a different matter. But I am 100% certain that they can not.

I suggest you remind your clients that if a court finds that a fraud has taken place, and that one or more directors (or shadow directors) of Brain Games knew that the transaction was fraudulent and did nothing about it, then they too might be liable to prosecution.

Finally, it is only fair to advise you that copies of my faxes to you have been sent to the **Financial Services Authority**.

Once again, I stand by every allegation in my letter of December 13th and my fax to you of yesterday.

When you apply to the **High Court** for injunctive relief you will, of course, present this fax to the Court.

Yours sincerely,

David Levy

On December 19th I received a further fax from **Mr Greystoke** at **Atlantic Law**. In it he advised me that their clients "... have decided to consider the matter further over the Christmas period but wish to make it crystal clear that they do not accept any of your allegations."

Although no more threats were made against me concerning the possibility of an immediate action for an injunction, **Mr Greystoke** stated that: "We have continued to advise the Board that it has a valid claim against you for substantial damages for defamation and it may well be that that claim will be pursued **early in the New Year** either by injunction or by way of proceedings." Hmm. I have always understood that under English Law an application for an injunction must be made without delay, and on that basis any application for an injunction "early in the New Year" would be unlikely to succeed. But then, I'm no lawyer. What I do know for certain is that the facts contained in my original letter of December 13th and in my fax/letters to **Atlantic Law**, not only are they completely accurate but also they can be fully substantiated.

January should be one of the most interesting months in the history of **Brain Games Network plc**. Already in their schedule are the tribunal action brought against the company by **Suzanne Martin** and their own appeal against the judgement in favour of **Home House**, as well as the plan to spin off the company's Asian interests and the reverse into **Einstein Group plc**. Add the detailed preparation for the **Kramnik-Fritz** match in **Bahrain** and it looks as though a busy time will be had by all.

You can reach the author at davidlevylondon@yahoo.com

FOOTNOTE: The title of this article was inspired by the caption of a photo in the British magazine "Kingpin" <http://www.chesscenter.com/kingpin/Kingpin/>

http://ajedrez_democratico.tripod.com/Levy-Is-Fraud-a-Braingame.htm