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Auditor Cited Doubts on Firm Sold by IMDB to Chinese Buyer

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KUALA LUMPUR, Malaysia—An audit of a key energy group sold by troubled state investment fund **IMDB** to a Chinese state-owned nuclear-power company flagged deep uncertainty over the company's viability.

Notes from auditor Deloitte in the 140-page financial accounts of **Edra Global Energy Bhd.** for the year ended March 31, 2015, said the audit found "an existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern."

The auditor's notes, reviewed by The Wall Street Journal, are part of the most detailed account of Edra's finances at the time that **China General Nuclear Power Corp.** purchased the firm for 9.83 billion ringgit (\$2.4 billion) last November as the fund,

known as IMDB, was struggling to meet its debt obligations.

The sale relieved pressure on IMDB and Prime Minister Najib Razak's government and came during competition between countries including China and Japan for contracts to build a multibillion-ringgit high-speed rail link between

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the Malaysian capital Kuala Lumpur and Singapore. The official tender process for the rail contract hasn't opened. A consortium that included China Railway Engineering Corp., the Malaysian unit of **China Railway Group Ltd.**, purchased a majority stake in a real-estate project, situated at the site of an old air-force

base on the edge of Kuala Lumpur's city center, from IMDB around the same time.

IMDB didn't respond to a request to comment on the financial health of Edra.

The investments have raised speculation that China hopes to increase its leverage to win the rail contract, part of a strategic drive in several other Asian countries to build high-speed trains and create a vast new transportation network.

"China takes long-term views and that diplomacy is akin to 'check book' diplomacy," Malaysian opposition parliamentarian Wong Chen said. "It is not surprising that there is maybe a link to the IMDB bailout to the award of the high-speed railway project to China."

China's State Council Information Office didn't respond to a request for comment on whether the deal was made to support the high-speed rail-

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way bid. Both China General Nuclear and China Railway are Chinese state-owned companies.

China Railway Engineering Managing Director Cai Zemin said at a news conference in December in Kuala Lumpur that the company was eager to obtain the railway project.

IMDB was launched by Mr. Najib in 2009 to promote economic development, and it began buying power assets in 2012 in what it said was a plan to build sustainable businesses and promote green technologies. The fund began selling assets in 2015 after accumulating more than \$11 billion in debt.

The fund is the focus of investigations in at least six countries including Malaysia. Authorities in Switzerland and Singapore are among those investigating alleged misappropriation of funds from IMDB.

IMDB has denied any wrongdoing and said it would cooperate with the investigations.

Edra's financial accounts were due to be submitted to the Companies Commission of Malaysia by Sept. 30 last year. But the filing was delayed after Deloitte sought further clarifications and more documents from IMDB, the owner of Edra at that time, according to IMDB President and group Executive Director Arul Kanda Kandasamy in a local news report in October.

This came following allegations of mismanagement at IMDB by former Prime Minister Mahathir Mohamad and other opposition political leaders. IMDB denied those allegations.

A Deloitte spokeswoman declined to comment on the matter due to client confidentiality.

The financial accounts showed that not only was Edra incurring more losses for the financial year ended March 31, 2015, from a year earlier, but the company seemed to be having difficulty meeting its debt obligations.

Its debt obligations due within a year from its financial year ended March 31, 2015, were 38% higher than its current assets as of March 31, 2015, while net current liabilities amounted to some 84% of cash generated from operations, the audited accounts of Edra showed. Net losses jumped nearly eightfold to 475.07 million ringgit compared with a net loss of 60.3 million ringgit a year earlier, mainly as higher finance costs and an impairment loss in goodwill ate into profit. Revenue rose 33% on-year, according to the audited accounts of Edra.

China General Nuclear bought Edra for 9.83 billion ringgit in cash based on a valuation dated March 31, 2015, the notes in Edra's audit financial accounts showed, even with the power company having negative book value and price-to-earnings ratio.

The Chinese firm also assumed all of Edra's debt obli-

gation of 11.5 billion ringgit. China General Nuclear outbid state-run power company **Tenaga Nasional Bhd.**, which is 30%-owned by Malaysia's sovereign-wealth fund, Khazanah Nasional Bhd.

Tenaga didn't respond to a request to comment.

A China General Nuclear representative said the company "doesn't have any information to share at this stage" about its IMDB deal.

Concerns about IMDB have derailed Edra's IPO plans, which could have helped pare down its debts and help raise money for future expansions, according to the Kuala Lumpur-based analyst.

IMDB sold its 70% stake in its crown jewel and potential earnings driver—a planned 2,000 megawatt coal-fired power project that was never built—to Tenaga in June last year for 47 million ringgit.

The sale of Edra came amid reports by the Journal that global investigators believed that more than \$1 billion originating from IMDB landed in the private bank accounts of Mr. Najib.

Mr. Najib has denied wrongdoing or taking money for personal gain. The Malaysian leader has said money he received was a political donation from Saudi Arabia and that most of it was returned. Malaysia's attorney general agreed the money came from Saudi Arabia legally and that most of the money was returned, and cleared Mr. Najib of wrongdoing.

—Celine Fernandez contributed to this article.