



MASTERSKILL EDUCATION GROUP BERHAD

(Company No. 746920-M)
(Incorporated in Malaysia)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 JUNE 2012 - UNAUDITED

	Current Period Quarter ended		Cumulative Quarter 6 months ended	
	30.6.2012 (RM'000)	30.6.2011 (RM'000)	30.6.2012 (RM'000)	30.6.2011 (RM'000)
Revenue	39,366	65,785	83,475	139,469
Cost of sale	(24,992)	(32,946)	(51,409)	(60,482)
Gross profit	14,374	32,839	32,066	78,987
Operating expenses	(21,355)	(22,839)	(43,654)	(44,353)
Other operating income	29	126	43	187
Interest expense	(763)	(819)	(1,479)	(1,703)
Interest income	918	1,258	1,855	2,326
Profit before taxation	(6,797)	10,565	(11,169)	35,444
Income tax expense	1,948	1,012	3,399	(1,278)
Profit for the period	(4,849)	11,577	(7,770)	34,166
Other comprehensive income, net of tax Fair value of available-for-sale financial assets	(2,268)	7,117	2,010	7,117
Total comprehensive income for the period	(7,117)	18,694	(5,760)	41,283
<i>Profit attributable to:-</i>				
Owners of the Company	(4,849)	11,577	(7,770)	34,166
Non-controlling interests	-	-	-	-
Profit for the period	(4,849)	11,577	(7,770)	34,166
<i>Comprehensive income attributable to:-</i>				
Owners of the Company	(7,117)	18,694	(5,760)	41,283
Non-controlling interests	-	-	-	-
Total comprehensive income for the period	(7,117)	18,694	(5,760)	41,283
Basic earnings per ordinary share (Sen)	(1.18)	3.00	(1.90)	8.00
Diluted earnings per ordinary share (Sen)	(1.18)	3.00	(1.90)	8.00

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the annual financial statements for the financial year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.



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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012 - UNAUDITED**

	As at 30-Jun-12 Unaudited (RM'000)	As at 31-Dec-11 Audited (RM'000)
NON-CURRENT ASSETS		
Property, plant and equipment	355,986	335,394
Intangible assets	42,286	42,286
Other investments	12,220	10,210
Total Non-Current Assets	410,492	387,890
CURRENT ASSETS		
Receivables, deposits and prepayments	92,135	125,559
Current tax asset	17,662	17,775
Cash and cash equivalents	43,412	110,586
Total Current Assets	153,209	253,920
TOTAL ASSETS	563,701	641,810
EQUITY		
Share capital	81,981	81,981
Share premium	144,225	144,225
Reserves	218,604	290,098
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	444,810	516,304
Non-controlling interests	135	-
TOTAL EQUITY	444,945	516,304
LIABILITIES		
Borrowings (secured)	48,170	43,312
Deferred tax liabilities	3,901	7,666
Total Non-Current Liabilities	52,071	50,978
Payables and accruals	47,582	63,664
Borrowings (secured)	19,103	10,864
Total Current Liabilities	66,685	74,528
TOTAL LIABILITIES	118,756	125,506
TOTAL EQUITY AND LIABILITIES	563,701	641,810
Net assets per share attributable to owners of the parent (1) (RM)	1.09	1.26

Note:

(1) computed based on the net assets of the Group divided by 409,905,780 as at 30 June 2012 and 31 December 2011 respectively.

The condensed consolidated statement of financial position should be read in conjunction with the annual financial statements for the financial year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.



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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE QUARTER ENDED 30 JUNE 2012 - UNAUDITED**

← Equity Attributable to Owners of the Company →

	Non-distributable			Distributable	Non-Controlling Interests	Total
	Share Capital RM'000	Share Premium RM'000	Fair Value Reserve RM'000	Retained Earnings RM'000	RM'000	
Balance as at 1 January 2011 (audited)	81,981	144,225	-	294,315	-	520,521
Fair value of available-for-sale financial assets	-	-	7,156	-	-	7,156
Profit for the year	-	-	-	38,144	-	38,144
Dividends to owners of the Company	-	-	-	(49,517)	-	(49,517)
Balance as at 31 December 2011 / 1 January 2012 (audited)	81,981	144,225	7,156	282,942	-	516,304
Fair value of available-for-sale financial assets	-	-	2,010	-	-	2,010
Loss for the period	-	-	-	(7,770)	-	(7,770)
Dividends to owners of the Company	-	-	-	(65,749)	-	(65,749)
Adjustment in relation to part disposal of equity interest in subsidiary company	-	-	-	15	135	150
Balance as at 30 June 2012	81,981	144,225	9,166	209,438	135	444,945

	Non-distributable			Distributable	Non-Controlling Interests	Total
	Share Capital RM'000	Share Premium RM'000	Fair Value Reserve RM'000	Retained Earnings RM'000	RM'000	
Balance as at 1 January 2010 (audited)	70,635	1,124	-	220,865	-	292,624
Conversion of irredeemable convertible preference shares to ordinary shares	3,146	9,739	-	-	-	12,885
Issuance of new ordinary shares in conjunction with the initial public offering	8,200	139,435	-	-	-	147,635
Share issue expenses	-	(6,073)	-	-	-	(6,073)
Profit for the year	-	-	-	102,143	-	102,143
Dividends to owners of the Company	-	-	-	(28,693)	-	(28,693)
Balance as at 31 December 2010/1 January 2011 (audited)	81,981	144,225	-	294,315	-	520,521
Fair value of available-for-sale financial assets	-	-	7,117	-	-	7,117
Profit for the period	-	-	-	34,166	-	34,166
Dividends to owners of the Company	-	-	-	(32,382)	-	(32,382)
Balance as at 30 June 2011	81,981	144,225	7,117	296,099	-	529,422

The condensed consolidated statement of changes in equity should be read in conjunction with the annual financial statements for the financial year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.



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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 JUNE 2012 - UNAUDITED**

	As at 30-Jun-12 (Unaudited) (RM'000)	As at 30-Jun-11 (Unaudited) (RM'000)
Cash flows from operating activities		
(Loss) / Profit before tax	(11,169)	35,444
Adjustments for:		
Depreciation of property, plant and equipment	12,555	11,726
Interest expense	1,479	1,703
Interest income	(1,855)	(2,326)
Loss / (Gain) on disposal of property, plant and equipment	470	(3)
Property, plant and equipment written off	242	-
Operating profit before changes in working capital	1,722	46,544
Change in receivables, deposits and prepayments	33,575	14,019
Change in payables and accruals	(16,082)	(15,199)
Cash generated from operating activities	19,215	45,364
Income tax paid	(254)	(9,254)
Interest paid	(1,479)	(1,703)
Interest received	1,855	2,326
Net cash generated from operating activities	19,337	36,733
Cash flows from investing activities		
Acquisition of subsidiaries	-	(49)
Acquisition of other investments	-	(3,054)
Pledged deposits placed with licensed banks	(71)	266
Acquisition of property, plant and equipment	(33,916)	(27,965)
Proceeds from disposal of property, plant and equipment	57	3
Net cash used in investing activities	(33,930)	(30,799)
Cash flows from financing activities		
Proceeds from loans or borrowings	21,200	18,600
Repayment of borrowings	(5,949)	(3,289)
Repayment of finance lease liabilities	(2,154)	(1,413)
Dividend paid to owners of the Company	(65,749)	(32,382)
Net cash used in financing activities	(52,652)	(18,484)
Net decrease in cash and cash equivalents	(67,245)	(12,550)
Cash and cash equivalents at 1 January	109,735	143,825
Cash and cash equivalents at end of reporting period	42,490	131,275

The condensed consolidated statement of cash flows should be read in conjunction with the annual financial statements for the financial year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.



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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 JUNE 2012 - UNAUDITED**

- i) Cash and cash equivalents
Cash and cash equivalents included in the cash flow statements comprise:

	As at 30-Jun-12 (Unaudited) (RM'000)	As at 30-Jun-11 (Unaudited) (RM'000)
Deposits placed with licensed banks	39,427	91,796
Cash and bank balances	3,985	40,285
Cash and cash equivalents	43,412	132,081
Less: Deposits pledged with licensed banks	(922)	(806)
Cash and cash equivalents	42,490	131,275

The condensed consolidated statement of cash flows should be read in conjunction with the annual financial statements for the financial year ended 31 December 2011 and the accompanying explanatory notes attached to the interim financial statements.



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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with applicable disclosure provisions of Main Market Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

These are the Group's condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS framework annual financial statements and MFRS1, First-time Adoption of Malaysian Financial Reporting Standards has been applied. The adoption of MFRS1 has no impact in the reported financial position and financial performance of the Group.

2. Accounting Policies

The accounting policies adopted by the Group in these condensed consolidated interim financial statements are consistent with those adopted by the Group's in its consolidated audited financial statements for the financial year ended 31 December 2011.

3. Seasonal or Cyclical Factors

The Group does not experience significant fluctuations in operations due to seasonal factor.

4. Unusual Significant Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current financial year-to-date.

5. Changes in Estimates

There were no changes in estimates of amounts reported in prior financial year that had a material effect in the current quarter and year-to-date results.

6. Changes in Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities for the current financial period-to-date.



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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. Operating Segment

	University Colleges RM'000	Colleges RM'000	Total RM'000
30.6.2012			
Segment (loss)/profit before tax	(17,731)	5,583	(12,148)
Included in the measure of segment (loss)/profit are:			
Revenue from external customers	27,433	56,007	83,440
Interest income	541	-	541
Interest expense	(899)	(580)	(1,479)
Depreciation of property, plant and equipment	(6,031)	(6,524)	(12,555)
Segment assets	316,948	189,542	506,490
Included in the measure of segment assets are:			
Additions to non-current assets other than financial instruments and deferred tax assets	23,549	(2,957)	20,592
Segment liabilities	(258,205)	(275)	(258,480)
30.6.2011			
Segment profit before tax	654	33,963	34,617
Included in the measure of segment profit are:			
Revenue from external customers	55,263	84,192	139,455
Interest income	967	-	967
Interest expense	(1,703)	-	(1,703)
Depreciation of property, plant and equipment	(5,880)	(5,846)	(11,726)
Segment assets	335,245	180,345	515,590
Included in the measure of segment assets are:			
Additions to non-current assets other than financial instruments and deferred tax assets	2,355	13,900	16,255
Segment liabilities	(126,093)	(387)	(126,480)



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7. Operating Segment (continued)

Reconciliations of reportable segment profit or loss, revenue, assets, liabilities and other material items

	30.6.2012 RM'000	30.6.2011 RM'000
Profit or loss		
Total (loss)/profit for reportable segments	(12,148)	34,617
Other non-reportable segments	438	827
Interest income	541	-
Consolidated (loss)/profit before tax	(11,169)	35,444
Revenue		
Total revenue for reportable segments	83,440	139,455
Other non-reportable segments	35	14
Consolidated revenue	83,475	139,469
Interest Income		
Total interest income for reportable segments	541	967
Other non-reportable segments	1,314	1,359
Consolidated total interest income	1,855	2,326
Assets		
Total assets for reportable segments	506,490	515,590
Other non-reportable segments	239,705	238,709
Elimination of inter-segment	(182,494)	(96,885)
Consolidated total assets	563,701	657,414
Liabilities		
Total liabilities for reportable segments	(258,480)	(126,480)
Other non-reportable segments	(861)	(1,512)
Elimination of inter-segment	140,585	-
Consolidated total liabilities	(118,756)	(127,992)

8. Material Subsequent Events

There were no material subsequent events as of the date of this report.



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9. Changes in the Composition of the Group

Pursuant to our announcement dated 1 June 2012, the Group announces an internal restructuring involving:-

- a) Acquisition of seventy percent (70%) issued and paid-up share capital of Masterskill Worldwide Management Sdn Bhd (756126-W) (“MWMSB”) comprising seven (7) ordinary shares of RM1.00 each (“OS”) by Masterskill Education Group Berhad (“MEGB”) from Masterskill (M) Sdn Bhd (442341-P) (“MMSB”) for cash consideration of RM7.00; and
- b) Disposal of thirty percent (30%) issued and paid-up share capital of MWMSB comprising three (3) OS from MMSB to Dato’ Abd Rashid Bin Mohd Sharif.

MWMSB was a wholly-owned subsidiary of MMSB which in turn was a wholly-owned subsidiary of MEGB.

10. Changes in Contingent Liabilities and Contingent Assets

There were no material contingent liabilities or contingent assets as at 30 June 2012.

11. Commitments on Capital Expenditure

The capital commitments of the Group as at 30 June 2012 are as follow:

	As at 30.6.2012 (unaudited) RM’000	As at 31.12.2011 (audited) RM’000
Capital commitments		
Property, plant and equipment		
Contracted but not provided for	22,230	54,091

12. Related Party Transactions

Related parties are those defined under MFRS 124: Related Party Disclosures. The Directors are of the opinion that the related party transactions and balances, described below were carried out in the ordinary course of business and commercial terms that are no more favourable than those available to other third parties.

	Transaction Value 6 months ended		Balance outstanding as at	
	30.6.2012 RM’000	30.6.2011 RM’000	30.6.2012 RM’000	30.6.2011 RM’000
With a Director				
Rental expense for premises	168	168	-	-



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13. Review of Performance

For the second quarter ended 30 June 2012, Masterskill Education Group Bhd (MEGB) recorded a revenue and loss before tax of approximately RM39.4 million and RM6.8 million respectively, which were lower than the results for the same period of the preceding year.

The loss can be largely attributed to lower student enrolment in the reporting period due to competition in the market. The reduction in PTPTN loan amount as well as the higher entry requirement for nursing has resulted in lower student enrollment. The quarter under review saw a higher depreciation and increase in staff cost due the ratio for teaching staff to students in line with the Malaysian Qualification Agency (MQA) requirement with programme standard in which the ratio is 1:20 for the science programmes instead of 1:30 previously. These factors in general have led to the loss for the reporting quarter.

14. Comparison with Preceding Quarter's Results

The Group's reported revenue of RM39.4 million which is a 40.1% decrease from RM65.8 million achieved in 2Q 2011. The decrease in revenue had resulted in a loss after tax of RM4.8 million compared with the preceding quarter profit after tax of RM11.6 million.

The reduction in revenue was in relation to the lower student enrollment as per para 13. The management continuously monitors, manages and improves operational efficiency that has resulted in lower accommodation and transportation cost. These prudent cost management strategies have resulted in a minimized loss for the quarter under review.

15. Commentary on Prospects

MEGB reported a loss after tax of RM4.8 million for second quarter 2012 due to lower active students' number. We continue to maintain a healthy balance sheet with cash and bank balances of RM43.4 million.

The year 2012 will be challenging for MEGB with lower forecasted GDP growth of 4.5% as well as numerous players trying to capture the student market. While Malaysia aims to maintain its competitive edge as an education hub for the region, global economic uncertainties will pose significant challenges coupled with the education sector that is only expected to grow marginally. There is also a higher level of competition with increased public universities intake as well as more private universities, university colleges and colleges offering nursing and allied health programmes in recent years.



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15. Commentary on Prospects (continued)

Moving forward, MEGB will continue to pursue growth in the domestic and international market to realize its long term growth strategy. This will be done through new and diversified product offerings such as business, hospitality and tourism as well as international market expansion. MEGB had received the approval from the Ministry of Higher Education Malaysia in June 2012 to change its educational institutions name from Masterskill University College of Health Sciences to ASEAN Metropolitan University College and Masterskill College of Nursing and Health to Masterskill Global Colleges respectively. The change in the name is in tandem with the business diversification strategy to offer non health science programmes such as Business, Tourism and Hospitality in 2013. Focus will also be given towards the degree programmes in which there is a higher demand and revenue orientation instead of the diploma programmes.

MEGB will also focus on the international market expansion via franchising and bringing in international students to its Malaysian campuses. We are in the midst of doing due diligence on an educational entity in Myanmar on exploring the possibility of franchising our programmes there. At the same time more aggressive marketing efforts has been placed for international student recruitment.

16. Variance on Profit Forecast /Profit Guarantee

The Group has not issued any profit forecast or profit guarantee for the current quarter under review.

17. Taxation

	Quarter ended		Cumulative to date	
	30.6.2012	30.6.2011	30.6.2012	30.6.2011
	RM'000	RM'000	RM'000	RM'000
Income and deferred tax	1,948	(1,012)	3,399	1,278

The effective tax rate of the Group for the current quarter and year-to-date is lower than the Malaysian statutory tax rate due mainly to utilisation of Investment Tax Allowance, a tax incentive granted under the Promotion of Investment Act, 1986.

18. Status of Corporate Proposals

There were no corporate proposals which had been announced but not yet completed.



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19. Group Borrowings and Debt Securities

Save as disclosed below, there were no other borrowings or debt securities in the Group as at 30 June 2012.

Borrowings (secured)	As at 30.6.2012 (unaudited) RM'000	As at 31.12.2011 (audited) RM'000
Non-current		
Finance lease liabilities	2,618	4,497
Secured revolving credit (Islamic)	-	1,152
Secured term loan (Islamic)	45,552	37,663
	48,170	43,312
Current		
Finance lease liabilities	2,783	3,058
Secured revolving credit (Islamic)	6,648	2,150
Secured term loan (Islamic)	9,672	5,656
	19,103	10,864
	67,273	54,176

20. Material Litigation

As of the date of this announcement, the following are the developments to the material litigations against the Group or taken by the Group.

A. Kuala Lumpur High Court Suit No. S6-22-96-2007

Masterskill (M) Sdn Bhd -v- Kemacahaya Development Sdn Bhd (First Defendant), K. Pasupathy (Second Defendant), Chin Yam Meng (Third Defendant), Leong Kok Onn (Fourth Defendant) and Syarikat Kemacahaya Sdn Bhd (Fifth Defendant)

- The Court of Appeal fixed this matter for Hearing on 14.12.2012.

B. Kuala Lumpur High Court Suit No. S-23-41-2010

Masterskill (M) Sdn Bhd -v- Sistem Televisyen Malaysia Berhad ("STMB")

- The High Court on 28.04.2011 allowed the Plaintiff's claim with damages of RM200,000 and RM50,000 as costs.
- TV3 filed an Appeal to the Court of Appeal against the High Court decision and Masterskill filed a Cross Appeal to increase the quantum of damages to RM100,000,000.
- Awaiting the Hearing date from the Court of Appeal.



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21. Dividends

- a) A second interim single tier dividend was declared by the Directors on 28 February 2012 in respect of the financial year ended 31 December 2011 of 1.40 sen per share totaling RM5,739,000 and was paid on 9 April 2012.
- b) A first interim single tier dividend was declared by the Directors on 28 May 2012 in respect of the financial year ended 31 December 2012 of 14.64 sen per ordinary share totaling RM60,010,000 and was paid on 3 July 2012.

<u>6 months ended 30.6.2012</u>	Sen Per Share	Total RM'000	Date of payment
Second Interim Single Tier 2011 ordinary	1.40	5,739	9 April 2012
First interim Single Tier 2012 ordinary	14.64	60,010	3 July 2012
		<u>65,749</u>	

<u>6 months ended 30.6.2011</u>	Sen Per Share	Total RM'000	Date of payment
Final Single Tier 2010 ordinary	7.90	<u>32,383</u>	15 June 2011

22. Earnings per Share

Basic earnings per ordinary share

The basic earnings per ordinary share is calculated based on the net (loss) / profit attributable to ordinary shareholders of (RM7,770,000) (30.6.2011 – RM34,166,000) and the weighted average number of ordinary shares in issue during the quarter 409,905,780 (30.6.2011 – 409,905,780).

	Current Period Quarter ended		Cumulative Quarter 6 months ended	
	30.6.2012	30.6.2011	30.6.2012	30.6.2011
(Loss)/Profit for the period attributable to ordinary equity shareholders (RM'000)	<u>(4,849)</u>	<u>11,577</u>	<u>(7,770)</u>	<u>34,166</u>
Weighted average number of ordinary shares at 30 June ('000)	<u>409,906</u>	<u>409,906</u>	<u>409,906</u>	<u>409,906</u>
Basic earnings per ordinary share (Sen)	<u>(1.18)</u>	<u>3.00</u>	<u>(1.90)</u>	<u>8.00</u>



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22. Earnings per Share (continued)

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary shares at 30 June 2012 is based on (loss) / profit attributable to ordinary shareholders of (RM7,770,000) (30.6.2011 – RM34,166,000) and the weighted average number of shares outstanding after adjusting for the effects of all dilutive potential ordinary shares, calculated as follows:

	Current Period		Cumulative Quarter	
	Quarter ended		6 months ended	
	30.6.2012	30.6.2011	30.6.2012	30.6.2011
(Loss)/Profit for the period attributable to ordinary equity shareholders (RM'000)	(4,849)	11,577	(7,770)	34,166
Weighted average number of ordinary shares (diluted) at 30 June ('000)	409,906	409,906	409,906	409,906
Diluted earnings per ordinary share (Sen)	(1.18)	3.00	(1.90)	8.00

23. Auditors Report on Preceding Annual Financial Statements

There was no qualification to the preceding audited financial statements for the financial year ended 31 December 2011.



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24. Additional notes to the Statement of Comprehensive Income

	Current Period		Cumulative Quarter	
	Quarter ended		6 months ended	
	30.6.2012	30.6.2011	30.6.2012	30.6.2011
	RM'000	RM'000	RM'000	RM'000
Results from operation activities is arrived at after charging:				
• Depreciation of property, plant and equipment	6,329	6,024	12,555	11,726
• Impairment loss for receivables	1,776	1,842	4,228	3,744
• Interest expense	763	819	1,479	1,703
• Loss/(Gain) on disposal of property, plant and equipment	-	-	470	(3)
and crediting:				
• Interest income	918	1,258	1,855	2,326

25. Disclosure of Realised and Unrealised Profits

	6 months ended	12 months ended
	30.6.2012	31.12.2011
	RM'000	RM'000
Total retained earnings of Masterskill Education Group Berhad and its subsidiaries		
-Realised	293,992	297,996
-Unrealised	3,901	7,666
Less: Consolidation adjustment	(88,455)	(22,720)
Total	209,438	282,942

BY ORDER OF THE BOARD