

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 SEPTEMBER 2014 - UNAUDITED**

	Current Period Quarter ended		Cumulative Quarter 9 months ended	
	30.09.14 (RM'000)	30.09.13 (RM'000)	30.09.14 (RM'000)	30.09.13 (RM'000)
Continuing operations				
Revenue	7,491	12,572	26,812	39,778
Cost of sale	(5,466)	(9,230)	(17,289)	(31,826)
Gross profit	2,025	3,342	9,523	7,952
Operating expenses	(11,130)	(92,935)	(24,377)	(117,962)
Other operating income	13,932	19	14,138	84
Interest expense	(147)	(354)	(576)	(1,166)
Interest income	69	89	361	389
Profit/ (loss) before taxation	4,749	(89,839)	(931)	(110,703)
Income tax expense	(2)	(1)	(7)	(5)
Profit/ (loss) from continuing operations	4,747	(89,840)	(938)	(110,708)
Discontinued operation				
Gain / (loss) from discontinued operations, net of tax	1,594	(14,597)	(2,655)	(24,146)
Profit/ (loss) for the period	6,341	(104,437)	(3,593)	(134,854)
Other comprehensive expense, net of tax				
Fair value of available-for-sale financial assets	-	405	(1,812)	(3,695)
Fair value of available-for-sale land & buildings	-	27,308	-	27,308
Total comprehensive expense for the period	6,341	(76,724)	(5,405)	(111,241)
<u>Profit/ (loss) attributable to:-</u>				
Owners of the Company	6,421	(104,410)	(3,379)	(134,827)
Non-controlling interests	(80)	(27)	(214)	(27)
Profit/ (loss) for the period	6,341	(104,437)	(3,593)	(134,854)
<u>Comprehensive income/ (expense) attributable to:-</u>				
Owners of the Company	6,421	(76,697)	(5,191)	(111,214)
Non-controlling interests	(80)	(27)	(214)	(27)
Total comprehensive income/ (expense) for the period	6,341	(76,724)	(5,405)	(111,241)
Basic earnings/ (loss) per ordinary share (Sen) :				
from continuing operations	1.19	(21.91)	(0.18)	(27.00)
from discontinued operation	0.39	(3.56)	(0.65)	(5.89)
	1.58	(25.47)	(0.83)	(32.89)

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 2013 and the accompanying explanatory notes attached to the interim financial statements.

MASTERSKILL EDUCATION GROUP BERHAD

(Company No. 746920-M)

(Incorporated in Malaysia)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2014 - UNAUDITED**

	As at 30-Sep-14 Unaudited (RM'000)	As at 31-Dec-13 Audited (RM'000)
NON-CURRENT ASSETS		
Property, plant and equipment	99,699	134,304
Other investments	-	4,866
Total Non-Current Assets	99,699	139,170
CURRENT ASSETS		
Available-for-sale land & buildings	126,679	97,431
Receivables, deposits and prepayments	35,109	37,834
Current tax asset	77	1,636
Cash and cash equivalents	36,933	43,071
Total Current Assets	198,798	179,972
TOTAL ASSETS	298,497	319,142
EQUITY		
Share capital	76,969	81,981
Share premium	140,578	144,225
Reserves	22,847	28,021
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	240,394	254,227
Non-controlling interests	(236)	(22)
TOTAL EQUITY	240,158	254,205
LIABILITIES		
Borrowings (secured)	35,321	39,342
Total Non-Current Liabilities	35,321	39,342
Payables and accruals	17,594	19,550
Borrowings (secured)	5,407	6,028
Income tax payable	17	17
Total Current Liabilities	23,018	25,595
TOTAL LIABILITIES	58,339	64,937
TOTAL EQUITY AND LIABILITIES	298,497	319,142
Net assets per share attributable to owners of the parent (1) (RM)	0.624	0.620

Note:

(1) computed based on the net assets of the Group divided by 384,844,780 as at 30 September 2014 and 409,905,780 as at 31 December 2013 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 2013 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 SEPTEMBER 2014 - UNAUDITED

← Equity Attributable to Owners of the Company →

	Non-distributable			Distributable	Non-Controlling Interests	Total RM'000
	Share Capital RM'000	Share Premium RM'000	Fair Value Reserve RM'000	Retained Earnings RM'000	RM'000	
Balance as at 1 January 2013 (audited)	81,981	144,225	7,048	189,020	131	422,405
Fair value of available-for-sale financial assets	-	-	(5,236)	-	-	(5,236)
Loss for the year	-	-	-	(162,811)	(153)	(162,964)
Balance as at 31 December 2013 / 1 January 2014 (audited)	81,981	144,225	1,812	26,209	(22)	254,205
Fair value of available-for-sale financial assets	-	-	(1,812)	-	-	(1,812)
Fair value of available-for-sale land & buildings	-	-	-	-	-	-
Loss for the period	-	-	-	(3,379)	(214)	(3,593)
Dividends to owners of the Company	-	-	-	-	-	-
Changes in ownership interest in a subsidiary	-	-	-	17	-	17
Treasury shares	(5,012)	(3,647)	-	-	-	(8,659)
Balance as at 30 September 2014	76,969	140,578	-	22,847	(236)	240,158

	Non-distributable			Distributable	Non-Controlling Interests	Total RM'000
	Share Capital RM'000	Share Premium RM'000	Fair Value Reserve RM'000	Retained Earnings RM'000	RM'000	
Balance as at 1 January 2012 (audited)	81,981	144,225	7,156	282,942	-	516,304
Fair value of available-for-sale financial assets	-	-	(108)	-	-	(108)
Loss for the year	-	-	-	(28,192)	-	(28,192)
Dividends to owners of the Company	-	-	-	(65,749)	-	(65,749)
Changes in ownership interests in a subsidiary	-	-	-	19	131	150
Balance as at 31 December 2012/1 January 2013 (audited)	81,981	144,225	7,048	189,020	131	422,405
Fair value of available-for-sale financial assets	-	-	(5,236)	-	-	(5,236)
Loss for the year	-	-	-	(162,811)	(153)	(162,964)
Balance as at 31 December 2013	81,981	144,225	1,812	26,209	(22)	254,205

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 2013 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 SEPTEMBER 2014 - UNAUDITED**

	As at 30-Sep-14 (Unaudited) (RM'000)	As at 31-Dec-13 (Audited) (RM'000)
Cash flows from operating activities		
(Loss) / Profit before tax		
- continuing operations	(931)	(124,984)
- discontinued operations	(2,655)	(37,956)
	(3,586)	(162,940)
Adjustments for:		
Depreciation of property, plant and equipment	4,518	19,864
Impairment loss on :		
- property, plant and equipment	(955)	71,212
- trade receivables	4,508	13,599
- goodwill		42,286
Interest expense	1,700	3,297
Interest income	(361)	(545)
Loss / (Gain) on disposal of property, plant and equipment	484	(16,098)
Loss / (Gain) on disposal of subsidiary	17	-
Loss / (Gain) on disposal of other investment	(13,684)	-
Property, plant and equipment written off	555	7,496
Operating profit before changes in working capital	(6,804)	(21,829)
Change in receivables, deposits and prepayments	(1,784)	11,984
Change in payables and accruals	(1,957)	(8,718)
Cash generated from operating activities	(10,545)	(18,563)
Income tax paid	(7)	(75)
Income tax refund	1,559	7,410
Interest paid	(1,700)	(3,297)
Interest received	361	545
Net cash generated from operating activities	(10,332)	(13,980)
Cash flows from investing activities		
Acquisition of other investments	(20,953)	-
Share buy back	(8,659)	
Pledged deposits withdrawn from licensed banks	(83)	568
Acquisition of property, plant and equipment	(2,260)	(12,657)
Proceeds from disposal of other investment	37,691	
Proceeds from disposal of property, plant and equipment	3,017	60,408
Net cash used in investing activities	8,753	48,319
Cash flows from financing activities		
Repayment of borrowings	(3,781)	(19,839)
Repayment of finance lease liabilities	(860)	(3,056)
Net cash used in financing activities	(4,641)	(22,895)
Net decrease in cash and cash equivalents	(6,220)	11,444
Cash and cash equivalents at 1 January	42,728	31,284
Cash and cash equivalents at end of reporting period	36,508	42,728

The condensed consolidated statement of cash flows should be read in conjunction with the annual financial statements for the financial year ended 31 December 2013 and the accompanying explanatory notes attached to the interim financial statements.

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i) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise:

	As at 30-Sep-14 (Unaudited) (RM'000)	As at 31-Dec-13 (Audited) (RM'000)
Deposits placed with licensed banks	425	36,642
Cash and bank balances	36,508	6,429
Cash and cash equivalents	36,933	43,071
Less: Deposits pledged with licensed banks	(425)	(343)
Cash and cash equivalents	36,508	42,728

The condensed consolidated statement of cash flows should be read in conjunction with the annual financial statements for the financial year ended 31 December 2013 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 2013.

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 2013.

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 Segments**

30.09.2014	← Discontinued →						Total RM'000
	Cheras RM'000	Kota Kinabalu RM'000	Kuching RM'000	Kota Bharu RM'000	Pasir Gudang RM'000	Ipoh RM'000	
Segment (loss)/profit before tax	(6,217)	(7,099)	383	(2,952)	(562)	859	(15,588)
Included in the measure of segment (loss)/profit are:							
Revenue from external customers	16,980	5,519	3,784	671	2,458	1,268	30,680
Impairment of property, plant and equipment	(1,835)	-	-	563	1,277	950	955
Interest expense	(582)	6	-	(527)	(594)	(3)	(1,700)
Interest income	317	-	-	-	-	-	317
Depreciation of property, plant and equipment	(2,771)	(1,160)	(192)	(114)	(43)	(109)	(4,389)

30.09.2013	← Discontinued →						Total RM'000
	Cheras RM'000	Kota Kinabalu RM'000	Kuching RM'000	Kota Bharu RM'000	Pasir Gudang RM'000	Ipoh RM'000	
Segment (loss)/profit before tax	(43,299)	(20,892)	(3,057)	(12,361)	(5,851)	(5,933)	(91,393)
Included in the measure of segment (loss)/profit are:							
Revenue from external customers	19,636	13,380	6,629	3,758	1,239	6,658	51,300
Impairment of property, plant and equipment	(19,193)	(14,858)	(2,774)	(3,840)	(2,834)	(2,476)	(45,975)
Interest expense	(1,164)	(2)	-	(592)	(671)	(127)	(2,556)
Interest income	322	-	-	-	-	-	322
Depreciation of property, plant and equipment	(6,611)	(3,532)	(947)	(3,173)	(1,007)	(2,694)	(17,964)

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**7. Operating Segment (continued)**

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

	30.09.2014	30.09.2013
	RM'000	RM'000
Profit or loss		
Total (loss)/profit for reportable segments	(15,588)	(91,393)
Other non-reportable segments	92,002	(43,523)
Elimination of inter-segment transactions or balance	(80,000)	67
Consolidated (loss)/profit before tax	(3,586)	(134,849)
Revenue		
Total revenue for reportable segments	30,680	51,300
Other non-reportable segments	529	133
Consolidated revenue	31,209	51,433
Interest Income		
Total interest income for reportable segments	317	322
Other non-reportable segments	44	67
Consolidated total interest income	361	389
Depreciation of property, plant and equipment		
Total depreciation for reportable segments	(4,389)	(17,964)
Other non-reportable segments	(129)	(2)
Consolidated total depreciation	(4,518)	(17,966)

8. Material Subsequent Events

Announcement was made that certain properties will be disposed off and a leaseback arrangement will be made. This arrangement will ensure adequate cashflow is available to develop the business activities and retire the existing bank borrowings. This proposal will require the approval of the shareholders and relevant authorities.

9. Changes in the Composition of the Group

There were no changes in the composition of the Group during the current quarter.

10. Changes in Contingent Liabilities and Contingent Assets

There were no material contingent liabilities or contingent assets as at 30 September 2014.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**11. Commitments on Capital Expenditure**

The capital commitments of the Group as at 30 September 2014 are as follow:

	As at 30.09.2014 (unaudited) RM'000	As at 31.12.2013 (audited) RM'000
Capital commitments		
Property, plant and equipment		
Contracted but not provided for	1,318	2,343

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 favorable than those available to other third parties.

	Transaction Value 9 months ended		Balance outstanding as at	
	30.09.2014 RM'000	30.09.2013 RM'000	30.09.2014 RM'000	30.09.2013 RM'000
With a former Director				
Rental expense for premises	-	252	-	-

13. Review of Performance

For the third quarter ended 30 September 2014, Masterskill Education Group Berhad (MEGB) recorded a revenue and profit before tax of approximately RM7.5 million and RM4.7 million respectively excluding the results from discontinued operations. The lower revenue was attributed to a lower number of student enrolment, however the gains from disposal of investment in Hong Kong Shares resulted into a profitable position.

14. Comparison with Preceding Quarter's Results

During the current quarter, the Group achieved a profit of RM6.3 Million against the loss of RM5.6 million in the preceding quarter. The Gain in disposal of Gayety Shares which was traded in the Hong Kong Exchange during the quarter cause the profitable position for the quarter despite reduction in the student enrolment in the quarter.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. Commentary on Prospects

The continuous group's cost cutting initiatives has resulted in reduced operating costs. However, due to continued sluggishness in student enrolments the financial position still in the operating loss position. MEGB have implemented in phasing out of its' operations in Ipoh, Pasir Gudang and Kota Bharu and concentrate on its' campuses in Cheras, Kota Kinabalu and Kuching. This exercise improved the Company's Balance Sheet as we sell the premises and keep the group in a better financial position.

The properties that are not currently occupied are planned for disposal and the Group is actively looking for the buyers who will offer a good price. The campus in Ipoh has been tenanted with an option to sell.

The consolidation of campuses to Cheras, has started to reduce the operating cost of the company.

We have announced a proposal to dispose certain properties which are under operation, with sale and leaseback arrangement. This proposal is subject to the approval of the shareholders and relevant authorities. The basis of this proposal is to generate adequate cashflow for immediate settlement of bank borrowings and carry out aggressive promotion exercise by mid of next year and attract higher student enrolment.

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	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
Income and deferred tax	2	1	7	5

Deferred tax asset is not recognized for unabsorbed tax losses and Investment Tax Allowance because it is not probable that sufficient taxable profit from the qualifying segments will be available against which the benefit can be utilized.

18. Status of Corporate Proposals

The last corporate proposal is as per our announcement on 12 November 2014. There is no further corporate proposal as to the release date of this quarterly result.

MASTERSKILL EDUCATION GROUP BERHAD

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**19. Group Borrowings and Debt Securities**

Save as disclosed below, there were no other borrowings or debt securities in the Group as at 30 September 2014.

Borrowings (secured)	As at 30.09.2014 (unaudited) RM'000	As at 31.12.2013 (audited) RM'000
Non-current		
Finance lease liabilities	-	36
Secured term loan (Islamic)	35,321	39,306
	35,321	39,342
Current		
Finance lease liabilities	128	952
Secured term loan (Islamic)	5,279	5,076
	5,407	6,028
	40,728	45,370

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 had instructed for this case to be consolidated and heard together with case no. S-22-589-2008, as it involved same subject matter and same parties.
- Trial will be continued on 19.11.2014, 12.12.2014 and 19.12.2014.

**B. Shah Alam High Court Suit No.: 22-783-2010
Ratatek (M) Sdn Bhd -v- Masterskill (M) Sdn Bhd**

- High Court on 16.07.2013 allowed part of Ratatek's claim ie. RM306,000, interest on the judgement sum at 4% p.a. calculated from 02.06.2010 until 16.07.2013, interest on the judgement sum at 5% p.a. calculated from 17.07.2013 until full settlement and cost of RM15,000.00.
- An appeal (against the judgement dated 16.07.2013) to the Court of Appeal had been filed. Our appeal for conditional stay of execution pending appeal has been granted by the Court of Appeal on 04.10.2013.

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- The appeal which was fixed on 18.08.2014 was adjourned as we had filed in an application to amend our Memorandum of Appeal on 05.08.2014 ("our application"). As such, the court has fixed the hearing for our application on 31.03.2015. The date for hearing for the proper appeal will only be fixed once our application is heard.

**C. Masterskill Education Group Berhad ("MEGB" or "The Company")
-Notice pursuant to Section 218 of the Companies Act, 1965 served on
Masterskill (M) Sdn. Bhd., a wholly owned subsidiary of MEGB**

The Company refers to the Notice pursuant to Section 218 of the Companies Act, 1965 dated 20 October 2014 ("the Notice") served on Masterskill (M) Sdn. Bhd. ("MMSB"), a wholly owned subsidiary of the Company, by Messrs J.S. Pillay & Mohd Haaziq, the solicitors for Khidmat Jujur Sekuriti (M) Sdn. Bhd. ("KJS") and we have appointed Messrs BH Lawrence & Co. to resolve and/or defend against this matter.

21. Dividends

No dividend was paid or declared during the current year quarter.

22. (Loss)/ Earnings per Share

Basic (loss)/ earnings per ordinary share

The basic (loss)/ earnings per ordinary share as at 30 September 2014 is calculated based on the net profit attributable to ordinary shareholders of RM6,421,000 (30.09.2013 – (RM104,410,000)) and the weighted average number of ordinary shares in issue during the quarter 407,121,224 (30.09.2013 – 409,905,780).

	Current Period		Cumulative Quarter	
	Quarter ended		9 months ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
(Loss)/Profit for the period attributable to ordinary equity shareholders (RM'000)	6,421	(104,410)	(3,379)	(134,827)
Weighted average number of ordinary shares at 30 Sept ('000)	407,121	409,906	407,121	409,906
Basic earnings per ordinary share (Sen)	1.58	(25.47)	(0.83)	(32.89)

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 2013.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**24. Additional notes to the Statement of Comprehensive Income**

	Current Period		Cumulative Quarter	
	Quarter ended		9 months ended	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
Results from operation activities is arrived at after charging:				
• Depreciation of property, plant and equipment	1,593	5,208	4,518	17,966
• Impairment loss for receivables	1,097	2,311	4,508	5,132
• Interest expense	509	822	1,700	2,556
• Loss/(Gain) on disposal of property, plant and equipment	257	(635)	484	(919)
• Property, plant and equipment written off	544	1,955	555	3,010
• Impairment losses for goodwill and PPE	(839)	88,212	(955)	88,212
and crediting:				
• Interest income	69	89	361	389

25. Disclosure of Realised and Unrealised Profits

	9 months ended 30.09.2014	12 months ended 31.12.2013 (audited)
	RM'000	RM'000
Total retained earnings of Masterskill Education Group Berhad and its subsidiaries		
-Realised	45,181	48,758
-Unrealised	-	-
Less: Consolidation adjustment	(22,334)	(22,549)
Total	22,847	26,209

BY ORDER OF THE BOARD