

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 31 DECEMBER 2014 - UNAUDITED**

	Current Period Quarter ended		Cumulative Quarter 12 months ended	
	31.12.14 (RM'000)	31.12.13 (RM'000)	31.12.14 (RM'000)	31.12.13 (RM'000)
Continuing operations				
Revenue	5,618	8,067	32,430	47,845
Cost of sale	(6,958)	(7,707)	(24,247)	(39,533)
Gross (loss) / profit	(1,340)	360	8,183	8,312
Operating expenses	(35,858)	(30,163)	(60,235)	(148,125)
Other operating income	42	15,679	14,180	15,763
Interest expense	(181)	(313)	(757)	(1,479)
Interest income	145	156	506	545
(Loss) before taxation	(37,192)	(14,281)	(38,123)	(124,984)
Income tax expense	(7)	(19)	(14)	(24)
(Loss) from continuing operations	(37,199)	(14,300)	(38,137)	(125,008)
Discontinued operation				
(Loss) from discontinued operations, net of tax	(2,909)	(13,810)	(5,564)	(37,956)
(Loss) for the period	(40,108)	(28,110)	(43,701)	(162,964)
Other comprehensive expense, net of tax				
Fair value of available-for-sale financial assets	-	(1,541)	(1,812)	(5,236)
Fair value of available-for-sale land & buildings	-	-	-	-
Total comprehensive expense for the period	(40,108)	(29,651)	(45,513)	(168,200)
(Loss) attributable to:-				
Owners of the Company	(39,935)	(27,957)	(43,314)	(162,811)
Non-controlling interests	(173)	(153)	(387)	(153)
(Loss) for the period	(40,108)	(28,110)	(43,701)	(162,964)
Comprehensive (expense) attributable to:-				
Owners of the Company	(39,935)	(29,498)	(45,126)	(168,047)
Non-controlling interests	(173)	(153)	(387)	(153)
Total comprehensive (expense) for the period	(40,108)	(29,651)	(45,513)	(168,200)
Basic (loss) per ordinary share (Sen) :				
from continuing operations	(9.27)	(3.45)	(9.45)	(30.46)
from discontinued operation	(0.73)	(3.37)	(1.39)	(9.26)
	(10.00)	(6.82)	(10.85)	(39.72)

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.

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(Incorporated in Malaysia)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014 - UNAUDITED**

	As at 31-Dec-14 Unaudited (RM'000)	As at 31-Dec-13 Audited (RM'000)
NON-CURRENT ASSETS		
Property, plant and equipment	25,581	134,304
Other investments	-	4,866
Total Non-Current Assets	25,581	139,170
CURRENT ASSETS		
Available-for-sale land & buildings	193,149	97,431
Receivables, deposits and prepayments	18,047	37,834
Current tax asset	77	1,636
Cash and cash equivalents	22,510	43,071
Total Current Assets	233,783	179,972
TOTAL ASSETS	259,364	319,142
EQUITY		
Share capital	75,218	81,981
Share premium	138,700	144,225
Reserves	(17,088)	28,021
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	196,830	254,227
Non-controlling interests	(409)	(22)
TOTAL EQUITY	196,421	254,205
LIABILITIES		
Borrowings (secured)	33,921	39,342
Total Non-Current Liabilities	33,921	39,342
Payables and accruals	23,585	19,550
Borrowings (secured)	5,420	6,028
Income tax payable	17	17
Total Current Liabilities	29,022	25,595
TOTAL LIABILITIES	62,943	64,937
TOTAL EQUITY AND LIABILITIES	259,364	319,142
Net assets per share attributable to owners of the parent (1) (RM)	0.522	0.620

Note:

(1) computed based on the net assets of the Group divided by 376,087,880 as at 31 December 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 31 DECEMBER 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	-	-	-	(43,314)	(387)	(43,701)
Dividends to owners of the Company	-	-	-	-	-	-
Changes in ownership interest in a subsidiary	-	-	-	17	-	17
Treasury shares	(6,763)	(5,525)	-	-	-	(12,288)
Balance as at 31 December 2014	75,218	138,700	-	(17,088)	(409)	196,421

	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 31 DECEMBER 2014 - UNAUDITED**

	As at 31-Dec-14 (Unaudited) (RM'000)	As at 31-Dec-13 (Audited) (RM'000)
Cash flows from operating activities		
(Loss) / Profit before tax		
- continuing operations	(38,123)	(124,984)
- discontinued operations	(5,564)	(37,956)
	(43,687)	(162,940)
Adjustments for:		
Depreciation of property, plant and equipment	5,707	19,864
Impairment loss on :		
- property, plant and equipment	9,272	71,212
- trade receivables	13,209	13,599
- goodwill		42,286
Interest expense	2,230	3,297
Interest income	(506)	(545)
Loss / (Gain) on disposal of property, plant and equipment	274	(16,098)
Loss on disposal of subsidiary	17	-
(Gain) on disposal of other investment	(13,684)	-
Property, plant and equipment written off	1,251	7,496
Operating (loss) before changes in working capital	(25,917)	(21,829)
Change in receivables, deposits and prepayments	6,577	11,984
Change in payables and accruals	4,035	(8,718)
Cash generated from operating activities	(15,305)	(18,563)
Income tax paid	(14)	(75)
Income tax refund	1,559	7,410
Interest paid	(2,230)	(3,297)
Interest received	506	545
Net cash used in operating activities	(15,484)	(13,980)
Cash flows from investing activities		
Acquisition of other investments	(20,953)	-
Share buy back	(12,289)	-
Pledged deposits withdrawn from licensed banks	(87)	568
Acquisition of property, plant and equipment	(7,629)	(12,657)
Proceeds from disposal of other investment	37,691	
Proceeds from disposal of property, plant and equipment	4,131	60,408
Net cash generated from investing activities	864	48,319
Cash flows from financing activities		
Repayment of borrowings	(5,076)	(19,839)
Repayment of finance lease liabilities	(952)	(3,056)
Net cash used in financing activities	(6,028)	(22,895)
Net decrease in cash and cash equivalents	(20,648)	11,444
Cash and cash equivalents at 1 January	42,728	31,284
Cash and cash equivalents at end of reporting period	22,080	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

i) Cash and cash equivalents

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

	As at 31-Dec-14 (Unaudited) (RM'000)	As at 31-Dec-13 (Audited) (RM'000)
Deposits placed with licensed banks	430	36,642
Cash and bank balances	22,080	6,429
Cash and cash equivalents	22,510	43,071
Less: Deposits pledged with licensed banks	(430)	(343)
Cash and cash equivalents	22,080	42,728

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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, except for impairment on trade receivables is based on six(6) months in comparison to the previous year which is based on twelve(12) months ageing.

6. Changes in Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayment of debt for the current financial period-to-date. During the year the company have bought back 33,817,900 shares, which represent 8.25% of the total issued shares.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**7. Operating Segments**

31.12.2014	← 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	(35,059)	(11,067)	(3,221)	(4,350)	240	(1,454)	(54,911)
Included in the measure of segment (loss)/profit are:							
Revenue from external customers	20,193	6,545	4,757	913	3,818	1,276	37,502
Impairment of property, plant and equipment	(12,066)	-	3	367	1,474	950	(9,272)
Interest expense	(763)	6	-	(692)	(778)	(3)	(2,230)
Interest income	322	-	-	-	-	-	322
Depreciation of property, plant and equipment	(3,659)	(1,336)	(257)	(123)	(43)	(144)	(5,563)

31.12.2013	← 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	(34,524)	(40,604)	(6,122)	(19,927)	(7,350)	(10,679)	(119,206)
Included in the measure of segment (loss)/profit are:							
Revenue from external customers	24,089	13,909	9,606	5,715	1,697	8,173	63,189
Impairment of property, plant and equipment	(13,228)	(31,459)	(4,874)	(11,954)	(2,825)	(6,872)	(71,212)
Interest expense	(1,476)	(3)	-	(778)	(883)	(157)	(3,297)
Interest income	462	-	-	-	-	-	462
Depreciation of property, plant and equipment	(7,564)	(4,211)	(1,068)	(3,204)	(1,026)	(2,775)	(19,848)

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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

	31.12.2014	31.12.2013
	RM'000	RM'000
Profit or loss		
Total (loss)/profit for reportable segments	(54,911)	(119,206)
Other non-reportable segments	91,224	(1,521)
Elimination of inter-segment transactions or balance	(80,000)	(42,237)
Consolidated (loss)/profit before tax	(43,687)	(162,964)
Revenue		
Total revenue for reportable segments	37,502	63,189
Other non-reportable segments	935	241
Consolidated revenue	38,437	63,430
Interest Income		
Total interest income for reportable segments	322	462
Other non-reportable segments	184	83
Consolidated total interest income	506	545
Depreciation of property, plant and equipment		
Total depreciation for reportable segments	(5,563)	(19,848)
Other non-reportable segments	(144)	(16)
Consolidated total depreciation	(5,707)	(19,864)

8. Material Subsequent Events

Announcement on corporate proposed as at 19 January 2015, where notification to the shareholders' of Masterskill Education Group Berhad, on the conditional take over offer is ongoing as of this reporting date.

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 31 December 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 31 December 2014 are as follow:

	As at 31.12.2014 (unaudited) RM'000	As at 31.12.2013 (audited) RM'000
Capital commitments		
Property, plant and equipment		
Contracted but not provided for	822	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 12 months ended		Balance outstanding as at	
	31.12.2014 RM'000	31.12.2013 RM'000	31.12.2014 RM'000	31.12.2013 RM'000
With a former Director				
Rental expense for premises	-	308	-	-

13. Review of Performance

For the fourth quarter ended 31 December 2014, Masterskill Education Group Berhad (MEGB) recorded a revenue and Loss before tax of approximately RM5.6 million and RM37.2 million respectively excluding the results from discontinued operations. The lower revenue was attributed to a lower number of student enrolment. The losses was contributed mainly from impairment of assets amounting to RM 9.2 million, impairment of trade receivable RM 13.2million based on six (6) months ageing beside a lower revenue in the quarter.

14. Comparison with Preceding Quarter's Results

During the current quarter, groups loss of RM 39.9 million against the gain of RM6.3 million due to the impairment and fee waiver was recognized in this quarter and a gain on Hong Kong investment disposal was realized in the preceding quarter.

15. Commentary on Prospects

The group's performance have been deteriorating as continues losses was registered from 31/12/2012. Currently the group consolidated the operation and reduces the operating expenses significantly. The group's have also impaired the assets and trade receivables on the prudent manner. Plans are formulated for aggressive marketing and promotion. This promotion activities for students recruitment and enhance group's revenue. In order for the promotion activities to be carried out proposal submit to disposed non-operating assets to raise the cash.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	RM'000	RM'000	RM'000	RM'000
Income and deferred tax	7	19	14	24

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 19 January 2015. There is no further corporate proposal as to the release date of this quarterly result.

19. Group Borrowings and Debt Securities

Save as disclosed below, there were no other borrowings or debt securities in the Group as at 31 December 2014.

Borrowings (secured)	As at	As at
	31.12.2014 (unaudited) RM'000	31.12.2013 (audited) RM'000
Non-current		
Finance lease liabilities	-	36
Secured term loan (Islamic)	33,921	39,306
	33,921	39,342
Current		
Finance lease liabilities	36	952
Secured term loan (Islamic)	5,384	5,076
	5,420	6,028
	39,341	45,370

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 16.02.2015 after urgent on 19.01.2015..

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.
- 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.

21. Dividends

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**22. (Loss)/ Earnings per Share****Basic (loss)/ earnings per ordinary share**

The basic (loss)/ earnings per ordinary share as at 31 December 2014 is calculated based on the loss attributable to ordinary shareholders of RM39,935,000(31.12.2013 – (RM27,957,000)) and the weighted average number of ordinary shares in issue during the quarter 399,362,888 (31.12.2013 – 409,905,780).

	Current Period		Cumulative Quarter	
	Quarter ended		12 months ended	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
(Loss) for the period attributable to ordinary equity shareholders (RM'000)	<u>(39,935)</u>	<u>(27,957)</u>	<u>(43,314)</u>	<u>(162,811)</u>
Weighted average number of ordinary shares at 31 December ('000)	<u>399,363</u>	<u>409,906</u>	<u>399,363</u>	<u>409,906</u>
Basic earnings per ordinary share (Sen)	<u>(10.00)</u>	<u>(6.82)</u>	<u>(10.85)</u>	<u>(39.72)</u>

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		12 months ended	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	RM'000	RM'000	RM'000	RM'000
Results from operation activities is arrived at after charging:				
• Depreciation of property, plant and equipment	1,189	1,898	5,707	19,864
• Impairment loss for receivables	8,701	8,467	13,209	13,599
• Interest expense	530	741	2,230	3,297
• Loss/(Gain) on disposal of property, plant and equipment	(210)	(15,179)	274	(16,098)
• Property, plant and equipment written off	697	4,486	1,251	7,496
• Impairment losses for goodwill and PPE	8,317	25,286	9,272	113,498
and crediting:				
• Interest income	(145)	(156)	(506)	(545)

25. Disclosure of Realised and Unrealised Profits

	12 months ended 31.12.2014	12 months ended 31.12.2013 (audited)
	RM'000	RM'000
Total retained earnings of Masterskill Education Group Berhad and its subsidiaries		
-Realised	5,088	48,758
-Unrealised	-	-
Less: Consolidation adjustment	(22,176)	(22,549)
Total	(17,088)	26,209

BY ORDER OF THE BOARD