

**Shareholders'
Newsletter
February 2005**

Dear Shareholder

In keeping with our company policy of continuous disclosure we are happy to report the following events over the past few months.

Official Opening of the pilot Centre in Singapore.



Back row from the Left: *Mr Swithan Low, Chairman STU (Singapore Teachers Union), Mr Mike Thiruman, President STU, Mr Storm McGrath, Director KMEC, Mr Yeo Cheow Tong, Minister for Transport, Ms Jessie Tan, Centre Manager, Mr R. Sinna, Master Franchise Chairman, Mrs Beverley Armstrong, Mentor, Mr Lance Armstrong, Mentor, Mr Ting, Centre Teacher*
Front: *A group of students enrolled in the centre.*

The Official Opening was a huge success with over 250 people attending. We congratulate our master franchisees in Singapore for the effort they put into the opening and to Mr Yeo Cheow Tong the Singapore Minister for Transport for officially opening the centre.

Mentor Program

The International Mentoring Program is a recent addition to the high level of training provided by KMEC. The mentoring program enables master franchisees to receive hands on assistance as they commence operations in their pilot centres. We are extremely happy with the results thus far.

We congratulate and thank Ben McLean, Julia Newbery and Lance & Beverley Armstrong for successfully mentoring master franchisees in Nigeria, Mexico and Singapore.

Nigeria

The Nigerian master franchisee and key staff were in Australia in January for the second training program to allow them to sell franchises. We expect the first sales in the next few months.

Malaysia

While Storm McGrath was in Singapore (see picture) for the Official Opening he sold the master franchise for Malaysia. We expect the Malaysian pilot centre to open in June/July 2005.

Mexico

The pilot centre is doing well. Mr & Mrs McGrath will be in Mexico in May to inspect the prototype with a view to the country being able to sell franchises, probably as early as July.

Spain

KMEC has entered into a joint venture with the master franchisee in Spain. The Spanish company, "KMEC Spain S.L." will open the pilot centre at the end of March. The centre is almost ready for classes and the Spanish curriculum has been written.

China

Last year our master franchisees in China sold franchises very quickly, so we decided to put a hold on selling for six months to ensure the "back office" operations were correct. The directors of the China company (who are also our partners) will be in Australia at the end of the month. When they return they will commence selling franchises again. We still believe that China will contribute significantly to profits as we move forward.

Official number of centres is over 500

It's official! The number of centres worldwide has surpassed 500 and is increasing all the time. We said in the prospectus that we will grow the business and that is exactly what we are doing.

Achieving Our Goals

At the Annual General Meeting our CEO announced that we would sell the rights to establish master franchises for five countries this financial year, an increase of two for previous years. So far we have sold the rights to Singapore, Malaysia, Kenya and Spain. We believe we can close on at least another two.

My Water Shop

At our Annual General Meeting we announced that KMEC had signed an MOU with a company to establish a franchise system in urban water supply. KMEC has reached agreement with My Water Shop Pty Ltd to provide consulting services in franchising to help My Water Shop establish and sell franchises. KMEC has no equity in the business but will receive a percentage of revenue from the sale of franchises of My Water Shop.

Dividend

The company will pay a dividend of 2.5 cents per share (up from 2 cents per share for the half year to December 2003). The record date is 11 March 2005, with the dividend to be paid on 31 March 2005.
