



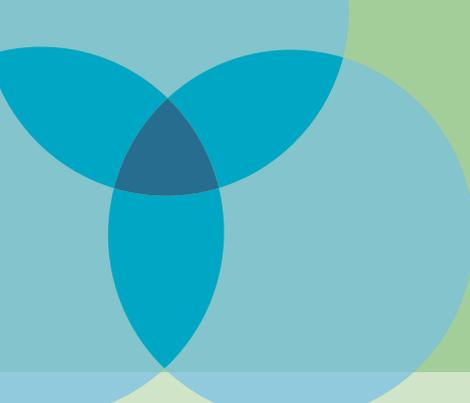
Australian Ethical[®] Investment Ltd

ABN: 47 003 188 930

**Annual report to shareholders
for year ending 30 June 2005**



for investors, society and the environment



award-winning returns

**FUND
AWARDS
2005
AUSTRALIA**



WINNER

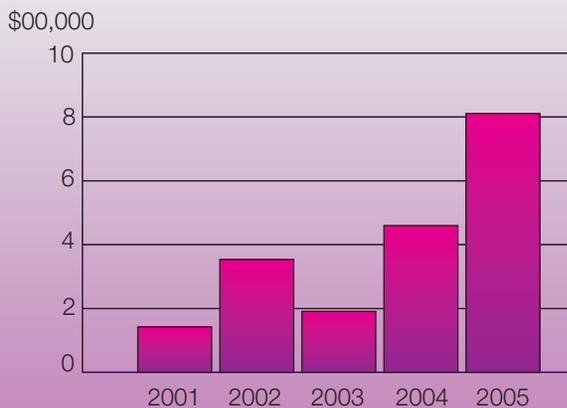
**Balanced Funds
—Neutral**

**STANDARD
& POOR'S**

During the year Australian Ethical's Balanced Trust and Large Companies Share Trust have performed at or near the top of their fund categories. The Balanced Trust won Standard and Poor's 2005 Australian Fund Award for Balanced Fund – Neutral. This is awarded for consistent risk-adjusted performance relative to peers, which include mainstream investment funds.

see page 2

Profit



sustainable operations

The company tries to conduct its own operations in accordance with the Australian Ethical Charter. Full details of our economic, social and environmental performance will be published in the company's sustainability report in November 2005.

see page 6

record profit

For the 2004–05 year, Australian Ethical Investment Ltd, including Australian Ethical Superannuation Pty Ltd, has recorded a net profit after tax of \$810,900. This almost doubles the previous year's profit of \$459,761.

see page 4

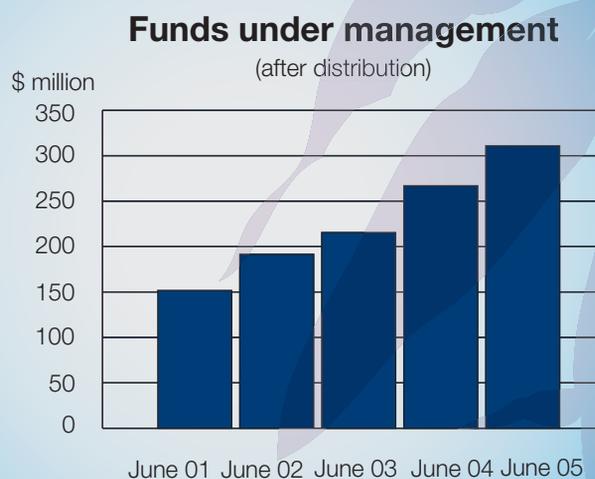
Past performance is not a reliable indicator of future performance.

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growing funds

The record profit is a result of good fund performance combined with continuing growth in the amounts we manage on behalf of trust and super investors. Funds under management grew from \$267 million in June 2004 to \$311 million in June 2005 (after distribution). The distribution amount this year was \$48 million, compared to a distribution the previous year of \$8 million.



see page 4

lower costs

The company's costs to income ratio has fallen from 88 per cent in 2004 to 83 per cent in 2005. Return on equity has increased from 10.4 per cent to 16.9 per cent.

see page 14

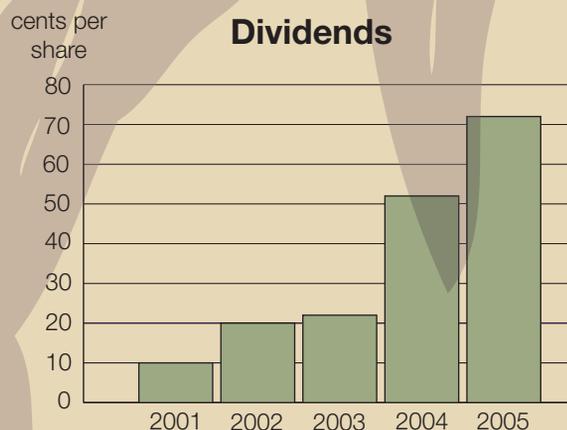
more community grants

In 2004 Australian Ethical donated a total of \$58,262 to 30 community organisations. In 2005 the company will grant \$98,227 to 45 groups. Since 1997 this program has made available grants worth over \$250,000.

see page 6

higher dividends

The dividend recommended by directors for the 2004–05 year is 72 cents per share (30 cents paid in March 2005, 42 cents to be paid in December 2005, subject to annual general meeting approval). The previous year's dividend was 52 cents per share.



see page 2

new investments

While obtaining good returns for shareholders, trust investors and super members, the company has maintained its commitment to promote ecologically sustainable and ethical investment. New investments approved over the year include:

- Geodynamics, which is aiming to produce clean electricity by running water through hot rocks in the Cooper Basin
- renewable energy company, Novera
- maker of biodegradable packaging, Pro-Pac
- remote communications equipment company, Codan
- Ceramic Fuel Cells.

see www.austethical.com.au/howWeInvestYourFunds/portfolio_listings



CHAIR'S REPORT

New highs in an award-winning year



On behalf of your board, I am pleased to report another good year for Australian Ethical Investment Ltd. The company has climbed to new highs in numbers of investors, funds under management, profit and dividends paid to shareholders.

To cap the year, the balanced trust has won the 2005 Standard & Poor's Australian Fund Award in the Balanced Funds – Neutral category. The Standard & Poor's award is based on the fund's performance over three years to the end of June 2005. The balanced and large companies trusts and super strategies have performed at or near the tops of their categories over three and five years.*

2

Our shareholders benefit from the growing profits through increased dividends and, hopefully, a stronger share price. Our trust investors benefit from good investment returns through larger distributions of income and higher unit prices. Our superannuation members benefit from good returns through increases in account balances to support income in retirement.

No compromise on ethics

One of the challenges that can come with good returns and strong growth in funds under

* see for example the multisector 60 and multisector equity categories of managed investments and super in *Money Management*, 18 August 2005, and *The Australian Financial Review*, 24 August 2005. Note that past performance is not a reliable indicator of future performance.

management is pressure to maintain performance by relaxing the criteria for selecting ethical investments. Your company has resisted and will continue to resist such pressures.

Earlier in this financial year some socially responsible funds were criticised for having holdings in James Hardie, which has large liabilities for asbestos compensation. More recently, BHP Billiton has acquired uranium mines. Some funds have decided to keep their BHP shares, arguing that nuclear energy does not enhance the greenhouse effect.

Your board listens to the views of shareholders, trust investors and super members on these and other ethical issues. What we have heard is that you don't want to compromise. We have maintained Australian Ethical's longstanding position of avoiding investments in asbestos, uranium and other industries that damage people and the environment. We also select investments that contribute to happiness and to society. We believe this position does not adversely affect fund performance but is more likely to improve it.

What we have heard is that you don't want to compromise.

As shown above, social responsibility means different things to different people. Some managers seem to treat it as a convenient source of funds. Australian Ethical makes a serious effort to research and monitor the activities of companies against the Australian Ethical Charter. In a report prepared for Australian Ethical in 2004, the research firm, Lonsec, said of our large companies share trust, 'This level of screening is the most rigorous in the Australian marketplace.' Investments in our other three trusts are subjected to the same ethical screens.

Contributing to the community

This year's profit will allow Australian Ethical to expand its community grants program further than last year. This program directs 10 per cent



of the company's profit back into the community, through grants to local and national welfare and environment groups. From 1997 to date this program has made available grants worth over \$250,000, generating widespread goodwill towards the company. The provision for the tithe this year is approximately \$98,000 and 252 groups have applied for grants.

To show whether your company is behaving sustainably and to encourage improvement, the company produces an annual sustainability report on its economic, environmental and social performance. The 2004 sustainability report is on our website. A preview of the 2005 report is contained in this annual report.

But the time and money required to comply with inconsistent and changing regulations is a penalty disproportionately borne by smaller companies and their customers.

Costs of regulation

The growth in funds and numbers of investors has come despite challenges in the company's operating environment. A particular challenge is the rising cost of meeting government regulations. The intention behind the regulations – to protect consumers – is admirable. But the time and money required to comply with inconsistent and changing regulations is a penalty disproportionately borne by smaller companies and their customers. Ironically, the results sometimes make consumers even more confused.

Australian Ethical Superannuation Pty Ltd recently lodged an application with the prudential regulator, the Australian Prudential Regulation Authority, for a licence to operate our superannuation fund. A licence from the authority had not been required before. Preparation and lodgement of this licence will cost in the order of \$120,000. Next year we will have to revise our product disclosure statements. While we support appropriate consumer safeguards

and protections, frequent regulatory shifts increase our costs and divert attention away from our core business – finding investments that are good for society and the environment and ensuring that all our investors continue to enjoy good returns.

Looking ahead

The 2005–06 financial year has begun with the Australian government extending the number of employees who can choose their superannuation fund. This is a welcome change because it permits many members of superannuation funds to choose socially responsible investment. The company has responded with national advertising of our superannuation fund. I expect that, given our history of good investment returns, new investors will be attracted to Australian Ethical.

We have offered loyal investors in our trusts and in our superannuation fund a discounted contribution fee for new investments in the trusts; the offer expires at the end of 2005.

Australian Ethical has a clear-sighted and dynamic chief executive, Anne O'Donnell, an award-winning investment team and staff who are devoted to the growth, profitability and sustainability of the company and to its ethical charter. Our experience is that the best way to get good ethical and financial outcomes in the future is to invest in good people today. We are doing that.

There is a global trend towards ethical investment. It is built on increasing community awareness that investing ethically does not require sacrificing returns.

Your board and I look forward to the continuing support of shareholders and fund investors in providing investments that benefit investors and contribute to human health and wellbeing and the conservation of the natural environment.

George Pooley
Chair



CHIEF EXECUTIVE OFFICER'S REPORT

Capital growth leads to record profit



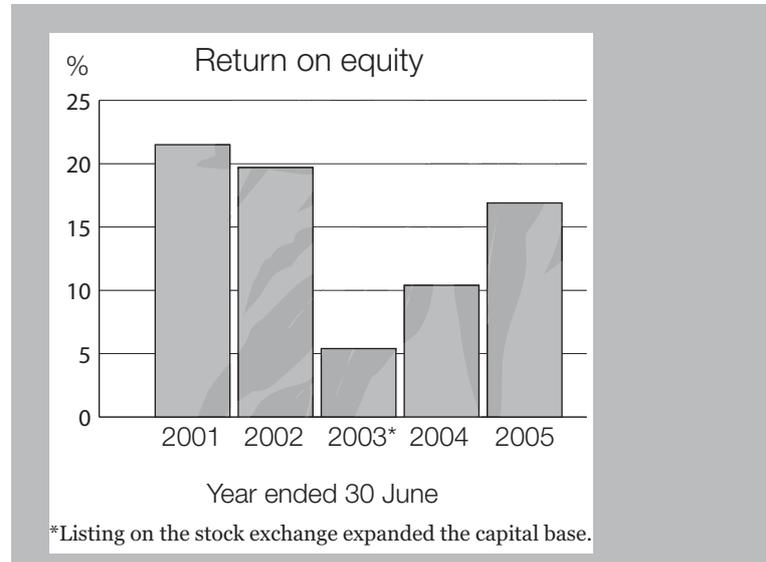
The Australian Ethical Investment Group has made a record profit for the financial year ended 30 June 2005.

Funds inflow and expenditure were in line with projections. Capital growth exceeded expectations. This increased the amount of funds under management, leading to increased revenue and, in turn, increased profit. In the first six months of the financial year the company performed strongly, both in terms of inflow and capital growth. Early in 2005 there was some slowing but the year finished strongly.

The group recorded a consolidated net profit of \$810,900, up from \$459,761 in 2003–04. This 76 per cent rise is especially pleasing given that the 2004 result was also a significant increase on the previous year.

Funds under management were \$311 million on 30 June 2005, after a distribution of \$48 million. Approximately 78 per cent of the distribution was reinvested.

A decrease in the company's cost to income ratio, from 88 per cent in 2004 to 83 per cent in 2005, is most gratifying. We have had some success in pursuing economies of scale and will continue to do this. Efficiency gains are made difficult by the increasing cost of compliance with government regulations.



Return on equity has increased from 10.4 per cent to 16.9 per cent.

In previous years the board of directors paid out 100 per cent of the profit in dividends. This year they consider it prudent to retain some of the profit to invest in future growth of the company. The directors will recommend to the annual general meeting that a final dividend of 42 cents per ordinary share (fully franked) be paid to shareholders. Added to the interim dividend of 30 cents per share, the total dividend in respect of the 2004–05 financial year will be 72 cents per share, an increase of 38 per cent over the previous year.

Award-winning trust

A very important event was winning the Standard and Poor's 2005 Australian Fund Award and the subsequent publicity. Against competition from much larger fund managers, the Australian Ethical Balanced Trust won the category, Balanced Funds – Neutral, for consistent high returns over three years. I hope this has finally laid to rest arguments about performance being compromised by the ethical selection of investments.

Australian Ethical's success as a company depends on the success of our trusts. For the year to 30 June 2005, the Balanced Trust returned 14.9 per cent, the 5th highest return out of 42 funds in its peer group. As the Standard and Poor's award shows, it did even better over longer periods.



The three other trusts have also performed well. The Large Companies Share Trust returned 23.8 per cent for the year, the highest of 19 funds in its peer group. The Equities Trust returned 19.3 per cent for the year, which was 154th in its peer group of 170. The Income Trust returned 4.9 per cent for the year, 35th out of 43 funds. (These rankings have been calculated by Australian Ethical Investment Ltd using data from ASSIRT Pty Ltd current as at 30 June 2005.)

Funds under management reached \$380 million in September 2005.

These returns have come with decreasing month-to-month volatility, due to the greater diversification of the trusts. This indicates that the returns are not a result of increased risk-taking.

The diverse ethical investments which provide the returns include clean transport, renewable energy, water quality, plantation timber, recycling and waste management, natural foods, low-income mortgages, medical technology, telecommunications, independent publishing and schools.

Shareholders may recall that, in 2002, Australian Ethical entered an investment management agreement with Ascalon Capital Management. Due to structural changes this did not work as expected; the agreement was terminated by mutual agreement in 2005.

Outlook

The 2005–06 financial year has started strongly, with good trust returns to the end of August. As expected, extended choice of superannuation fund from 1 July 2005 has brought positive results, with many employees taking the opportunity to switch their savings to ethical investments. Funds under management reached \$380 million in September 2005.

We have submitted an application for a registrable superannuation entity licence for our wholly owned subsidiary, Australian Ethical Superannuation Pty

Ltd. As anticipated last year, this has proved to be a costly and time-consuming exercise.

Negotiations continue on the construction of an environmentally exemplary building to house the company in Canberra. There is no definitive agreement to date.

There are no planned changes to our core functions or management structure.

The company results outlined above could not have been achieved without the work of the Australian Ethical team. Staff have done a great job. Many thanks.

We will continue to seek efficiencies that reduce costs and opportunities to build the business. To shareholders, thank you for your support and I look forward to seeing you at the annual general meeting on 24 November 2005.

Anne O'Donnell
Chief Executive Officer



Sustainability

Our commitment

Australian Ethical is committed to conducting its operations in accordance with the Australian Ethical Charter. In particular we seek to:

- ensure our promotional material is comprehensive, transparent and readily understood
- achieve a high standard of administrative service for investors in our products
- ameliorate wasteful or polluting practices in our business operations
- encourage, care for and provide educational opportunities for our workers, and respect their individual needs and aspirations
- nurture staff participation in the ownership and control of Australian Ethical.

Sustainability report

Full details of Australian Ethical's economic, social and environmental performance will be published in the company's 2005 sustainability report in November 2005. The 2004 report is available on the company's website (www.austethical.com.au). As with our three previous sustainability reports, the 2005 report will be prepared with reference to the Global Reporting Initiative 2002 sustainability reporting guidelines.

Community grants

As part of Australian Ethical's constitution, 10 per cent of the company's profit is donated to non-profit charities, benevolent and conservation organisations through the community grants scheme. In 2004, the company donated a total of \$58 262 to 30 organisations (see table). Grants ranged from \$950 to \$5000.

A number of these groups are not generally recognised by the public at large, making fundraising difficult. Our grants help to ensure their survival and ability to continue their excellent work. Australian Ethical would like to see other listed companies showing similar regard to the community and the environment from which they derive their profits. If all companies donated even a fraction of their profits, the positive impact would be enormous.

Grants to community organisations

\$5000	Salvation Army (Oasis Support Network) The Fred Hollows Foundation
\$3000	Amnesty International Médecins Sans Frontières TEAR Australia The Australia Institute The Wilderness Society Youth Off the Streets
\$1990	Australian Marine Conservation Society Dolphin Research Institute Friends of the Earth Huon Valley Environment Centre Refugee Council of Australia Tarkine National Coalition Total Environment Centre Vietnam Children's Project World Wildlife Fund
\$950	Australia for UNHCR (the United Nations Refugee Agency) Australian Bush Heritage Fund Australian Aid for Cambodia Fund Clean Ocean Foundation Environment East Gippsland Food-Share – Illawarra GeneEthics Network International Women's Development Agency Margaret River Community Resource Centre Queensland Conservation Council Relatives and Friends of People with Mental Illness The Coastwatchers Association Women's Refugee Education Network



In 2005, Australian Ethical expects to donate \$98,227 to community organisations – our largest grant ever. This means that since first making a profit in 1997, Australian Ethical will have donated over \$250,000 back into the community. Recipients of the 2005 grants will be announced in October 2005. Further information on the community grants scheme, including application guidelines and selection criteria, can be found on the company’s website.

Sustainability seminar

In June, Australian Ethical staff attended a sustainability training seminar conducted by Matthew Green from (SF)² (Step Forward to a Sustainable Future). The seminar focused on the Natural Step Framework which helps organisations address key environmental issues from a systems perspective. It focuses on first-order principles at the beginning of cause-effect relationships. The seminar provided staff with a deeper understanding of sustainability issues.

Volunteering

As part of its commitment to the Australian Ethical Charter, the company supports staff volunteering their time to organisations whose aims are consistent with the charter. Under the volunteering policy, staff are able to undertake one day of volunteer work each year (or blocks of time equivalent to one day) with approved organisations instead of their normal work. Organisations currently on the approved list include the Red Cross and Greening Australia. A number of staff have taken the opportunity to volunteer their time in 2005.

Staff survey

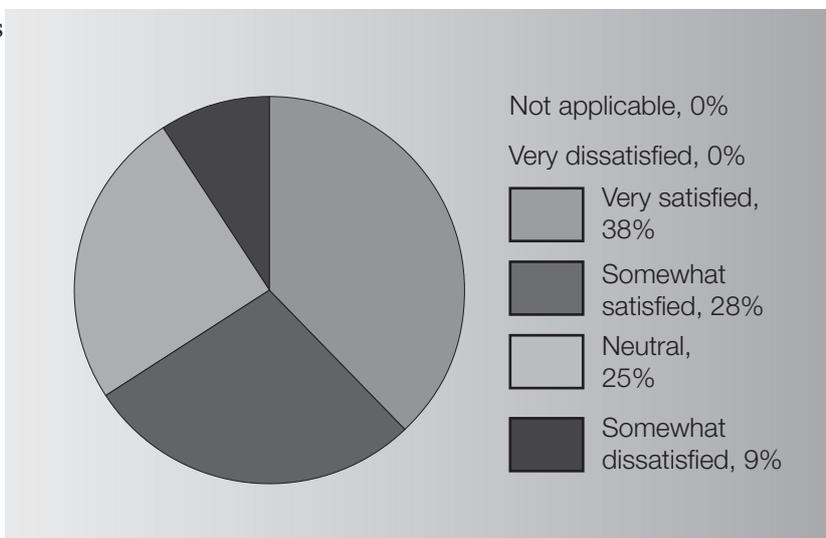
Australian Ethical seeks to encourage, care for and provide educational opportunities for its workers, and respect their individual needs, aspirations and idiosyncrasies. In keeping with this goal, Australian Ethical conducts regular staff surveys to address the question: does the company practice what it preaches?

The 2005 survey included questions from previous surveys (referring to the charter) plus a number

of new questions relating to areas required by the global reporting initiative. These covered:

- job security
- pay and benefits
- work-life balance
- training and development
- internal communications
- the company’s social and environmental performance.

The survey was conducted by the Centre for Australian Ethical Research in February 2005. Overall, the majority of staff were satisfied with Australian Ethical. Staff rated the company highly in a number of areas including job security, flexibility of hours, benefits and communication (from both their supervisors and the company). Areas with a moderate level of dissatisfaction included orientation and training, workload, the bonus, mentoring and the performance appraisal process. Areas receiving the lowest satisfaction levels included salary, the connection between pay and performance, and the physical working environment. Salary concerns have been addressed through minor adjustments following a survey of pay rates elsewhere and negotiations on the construction of an environmentally exemplary building are likely to lead to an improvement in the physical working environment. Australian Ethical does not currently link pay and performance.



Overall satisfaction of staff with Australian Ethical.



Corporate governance statement

This statement discloses the extent to which Australian Ethical Investment Ltd ('Australian Ethical') has followed the best practice recommendations set down by the Australian Stock Exchange Corporate Governance Council during the reporting period.

The council's Principles of Good Corporate Governance and Best Practice Recommendations provide a framework for good governance set out in 10 core principles and 28 specific recommendations.

While the Australian Stock Exchange Listing Rules only require exception reporting against the specific recommendations, Australian Ethical has provided information on its corporate governance practices against all recommendations.

Lay solid foundations for management and oversight

Australian Ethical has formalised the functions reserved to the board and those delegated to management. Responsibility for any function not delegated to management remains with the board.

The primary responsibilities of the board include:

- appointment and appraisal of the performance of the chief executive officer
- the approval of annual financial statements
- the establishment of the goals of the company and strategic plans to achieve those goals
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a regular basis, and
- risk management, including ensuring that the company has implemented adequate systems of internal controls, together with appropriate monitoring of compliance activities.

Structure the board to add value

Independent directors

The time in office, skills, experience and expertise of each director in office as at the date of this report is included in the directors' report.

The company regards an independent director as a director who is not a member of management (that is, a non-executive director) and who:

1. is not a substantial shareholder (as defined in section 9 of the *Corporations Act 2001*) of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
2. has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment
3. within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided
4. is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
5. has no material contractual relationship with the company or another group member other than as a director of the company
6. has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Unless there are specific qualitative factors relevant to the relationship, the board is generally of the view that a quantitative materiality threshold arises at 10 per cent of the relevant amount – considered from both the company's perspective and that of the other party.

The board of Australian Ethical does not comprise a majority of independent directors.



As at the date of this report, of a total of six directors, two are independent. The two independent directors are George Pooley and Naomi Edwards. Howard Pender, Caroline Le Couteur and James Thier are executive directors. Ray De Lucia is a non-executive director but is not considered independent as he is an officer of a company, Ascalon Capital Managers Ltd ('Ascalon'), which is a significant shareholder of the company (13 percent).

This board composition is a result of the way in which the company has developed, the long-standing commitment of the executive directors and the contribution that they make to board deliberations. Since listing on the Australian Stock Exchange, the board has sought change in its own composition and structure and continues to do so. During the reporting period, the appointment of one non-independent director ended, and an additional independent director was appointed.

Decisions on future board composition will be guided by whether the board considers it has the right balance of director competencies for governance, for furtherance of the Australian Ethical Charter and for assisting with and monitoring company performance. Over time, and assuming the availability of suitable candidates, the board expects to move towards a majority of independent directors.

The board is of the view that the board's current composition well serves the interests of shareholders. The board carries out its responsibilities according to its constitution, regulatory requirements, and an overall mandate, including the following:

- the board must comprise at least three and not more than 10 directors
- the board is bound by the Australian Ethical Charter that is set out in the Australian Ethical Constitution. The charter sets out 23 ethical principles to be applied to the operations and activities of the company
- each director is committed to the Australian Ethical Code of Conduct that governs the conduct of employees and directors. The code is consistent with the recommendations that

form part of the Corporate Governance Council's Principles 3 and 10

- all available information on items to be discussed at a board meeting is provided to each director prior to that meeting
- the board has adopted a policy for the management of conflicts of interest
- in respect of the Ascalon investment, the board believes Ascalon's interests are independent of management and are aligned with shareholders, and
- with the prior approval of the chairperson, each director has the right to seek independent legal and other professional advice at the company's expense on any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Chair of the board

The company's chairperson is currently an independent director.

Nomination committee

During the period the company had no nomination committee. The board does not intend to establish such a committee because such a move would be inefficient, given the company's size. The functions normally performed by a nomination committee will be performed by the board as a whole, or will be delegated to the chairperson of the board.

Promote ethical and responsible decision making

Code of conduct

The company has a code of conduct which applies to all staff. It is available on the company's website.

Share trading

The company's code of conduct covers share trading. It requires that as a general rule *'staff and directors should not buy or sell Australian Ethical shares between the close of the financial year or half-year and the publication of the company's results'*.



In accordance with the *Corporations Act 2001* and the Australian Stock Exchange Listing Rules, directors must advise the Australian Stock Exchange of any transactions conducted by them in securities of the company which they own or in which they have a relevant interest.

Directors, employees and their associates must not engage in insider trading, nor the disclosing of inside information to third parties. The company periodically conducts seminars about its share trading policy and educates staff about the offence of insider trading.

Safeguard integrity in financial reporting

Chief executive officer and chief financial officer sign-off of financial reports

The company requires the chief executive officer and the chief financial officer to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operating results and are in accordance with relevant accounting standards.

Audit committee

Throughout the period, the board had an audit committee consisting of two non-executive directors, George Pooley and Ray De Lucia, and the company secretary.

The qualifications of those appointed to the audit committee are provided in the directors' report, as are the number of meetings of the committee and attendances at those meetings.

The audit committee does not consist of only non-executive directors (the company secretary being a member and not a director) and does not have a majority of independent directors (George Pooley is independent, Ray De Lucia is not). The chairperson of the committee is Mr De Lucia.

The audit committee provides a forum for effective communication between the board and the external auditors. The role of the committee is to advise the board on the maintenance of an appropriate

framework of financial internal control and appropriate discharge of trading company fiduciary obligations for the company and its subsidiary, Australian Ethical Superannuation Pty Ltd.

A charter for the audit committee appears on the company's website.

The board is of the view that notwithstanding that the audit committee does not comply with all the corporate governance recommendations on membership, it is nonetheless able to perform its functions with independence and diligence.

In particular:

- while Mr De Lucia is not strictly an independent director because of the substantial shareholding of Ascalon in the company, Ascalon's interests are independent of management, and hence Ascalon's interests (and those of Mr De Lucia) are aligned with shareholders
- the committee includes the company secretary who is responsible to the board chairperson and the board generally on governance matters
- at each meeting the committee speaks directly to the external auditor in the absence of executive management.

The audit committee considers the performance and independence of the external auditor over the course of a reporting period. In selecting an external auditor the board seeks competence, industry experience, integrity and independence. In normal circumstances, appointment of the external auditor will typically continue for a significant number of years. Rotation of external audit engagement partners will occur in accordance with the rotation requirements of the *Corporations Act 2001*.

Make timely and balanced disclosure

The company has written policies and procedures designed to ensure compliance with the Australian Stock Exchange Listing Rule disclosure requirements. This material was not on the company's website during the reporting period, but will be published on the website before the end of the year.



Respect the rights of shareholders

The company maintains a comprehensive and informative investor relations section on its website which provides shareholders (and others) with up to date information about the corporate activities of the company. The website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings.

Australian Ethical maintains a newsletter, *Aim High*, for unitholders and shareholders and, since listing, has introduced a chief executive officer information sheet for shareholders. It has revised its annual general meeting arrangements to promote participation and dissemination of information and has ensured access to the external auditor at these meetings.

Australian Ethical also produces a sustainability report for shareholders and other stakeholders on the triple-bottom-line performance of Australian Ethical (available on the Australian Ethical website).

The company complies with the corporate governance guidelines for notices of meeting.

Recognise and manage risk

The board is responsible for the company's system of internal controls. The board monitors the operational and financial aspects of the company's activities and, through the audit committee, the board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

The board ensures that appropriate action is taken to ensure that the company has an appropriate internal control environment in place to manage the key risks identified. It has appointed a director as risk management officer and established a formal Statement on Risk Management, together with supporting documents, AEI Guide for Risk Management and section risk registers, that document the major risks facing the company and the way in which these risks are to be managed. The risk registers are updated regularly and the criteria and working standards set out in the guide are periodically reviewed.

A description of the company's risk management policy and internal compliance and control systems is on the company's website.

The chief executive officer, risk management officer and compliance officer certify to the board that its internal control and risk management systems are operating efficiently and effectively throughout the group and that the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control.

The chief financial officer did not provide a statement to the board in accordance with Recommendation 7.2 of the corporate governance guidelines. The chief executive officer, risk management officer and compliance officer take primary responsibility for the operation of the company's risk management systems. The chief financial officer provides a statement as to the integrity of the financial reports in accordance with Recommendation 4.1 of the corporate governance guidelines.

Encourage enhanced performance

Board and director evaluation

The directors undertake an annual self-assessment of their collective and individual performance and seek specific feedback from the senior management team. An assessment was undertaken in the relevant period.

A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results collected by the board chairperson. The board as a whole then considers and discusses the results of the questionnaire at a board meeting. The board chairperson also talks to each director individually about their performance and generally on the evaluation and comments received from their peers. The results of the questionnaire are examined from both a qualitative and quantitative perspective.

The results and any action plans are documented in board minutes.



Key executive evaluation

The performance of executives is evaluated in accordance with the company's annual performance review guidelines. For the chief executive officer, the review is conducted by the board chairperson. For other executives, the review is undertaken by the chief executive officer.

The process is as follows:

- receive comments from staff (and directors if applicable)
- review comments once received and incorporate them into the annual review as considered appropriate. Emphasis is to be on themes or perceptions rather than specific comments
- complete a draft of the annual performance review and provide to the executive for discussion
- discuss the annual performance review with the executive – cover key responsibilities, overall performance, key behaviours, review achievements against previous year's objectives, discuss objectives for the coming year, discuss aspirations and areas for improvement
- review competencies and qualifications to ensure they remain applicable to the position. If not, a training program must be developed to bring the executive to the appropriate level, and
- investigate what specific training may be suitable and available.

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In respect of the chief executive officer, the chairperson presents the results of the review to the board, the board has an opportunity to provide feedback to the chief executive officer and to consider recommendations from the chair on the chief executive officer's remuneration package.

Remunerate fairly and responsibly

Remuneration policy

The remuneration policy of Australian Ethical must accord with the principles of the Australian Ethical Charter. This charter encourages workers' participation and control and specifically prohibits 'the payment of low wages or the provision of poor working conditions'.

Australian Ethical has a mix of full-time and part-time staff. It provides flexible employment options within business needs. It currently offers no salary packaging arrangements other than optional salary sacrifice into superannuation. Australian Ethical seeks to treat all staff in an equitable fashion. All permanent staff (including the chief executive officer and executive directors) are paid a cash salary and participate in bonus and employee share ownership arrangements. These arrangements are reviewed annually and are not subject to individual performance hurdles.

All permanent staff are eligible to participate in the staff bonus, which is determined under the constitution. Each year the bonus is set with reference to the profit of the company. Each full-time staff member receives the same amount and part-time staff receive a pro-rata amount. The constitution provides that the bonus may be (and often has been at the election of staff) satisfied by the issue of shares.

Under the Employee Share Ownership Plan, a pool of options, which would, if exercised, amount to 5 per cent of the existing ordinary share capital, is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The price at which the options can be exercised is set at 10 per cent above the market price of the shares. The number of options received by an individual staff member depends on his or her salary level. Options are not exercisable for a period of three years from the date of grant of the option and are generally forfeited upon an employee leaving Australian Ethical.

Australian Ethical's remuneration policy is also set out on the Australian Ethical website.

Remuneration committee

The board did not have a remuneration committee during all of the reporting period. The board was of the view during the reporting period that the company was of a size that made the appointment of a remuneration committee inappropriate. However, considering the company's growth, towards the end of the reporting period the board appointed a remuneration committee. The members of the remuneration committee are



George Pooley (independent director) and Caroline Le Couteur (executive director). The charter for the remuneration committee will be made available on the company's website.

Details of remuneration

Details of remuneration paid to directors and executives during the reporting period is set out in the directors' report. The reporting distinguishes between the structure of non-executive director remuneration and that of executive directors.

Equity-based remuneration

Equity-based remuneration for executive directors has previously been approved by shareholders. The Employee Share Ownership Plan was established by the board prior to the company's listing on the stock exchange and hence thresholds have not been approved by shareholders. The terms of the Employee Share Ownership Plan were clearly set out in the prospectus issued prior to listing.

the board is committed to the highest standards of conduct and ethical practices in guiding the business activities of Australian Ethical

Recognise the legitimate interests of stakeholders

The proper purpose of Australian Ethical is to promote ethical and socially responsible investment. By the very nature of Australian Ethical, the board is committed to the highest standards of conduct and ethical practices in guiding the business activities of Australian Ethical and its subsidiary. This includes transparency in the way in which it does business and clarity of communication to its members and other stakeholders. Its code of conduct, as mentioned earlier in this report, expects this of each employee and each director.

The company has developed a corporate governance section for its website. The board has directed that detailed and comprehensive information on the company's corporate governance arrangements and copies of relevant policies and charters are to be placed on that website. It welcomes comments and suggestions from stakeholders on any element of its corporate governance program.



Directors' report

The directors of Australian Ethical Investment Ltd, the controlling entity, present their report on the company and its controlled entity for the financial year ended 30 June 2005. In compliance with the *Corporations Act 2001*, the directors report as follows.

Directors

The names of each person who has been a director during the year ended 30 June 2005 and to the date of this report are:

Name	Time in office	
George Pooley	4 years	
Ray De Lucia	3 years	
Trevor Lee	14 years	Ceased 24 November 2004
Caroline Le Couteur	14 years	
James Thier	14 years	
Howard Pender	14 years	
Naomi Edwards	6 months	Commenced 1 February 2005

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

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Company secretaries

The names of each person who was a company secretary of the company as at the end of the financial year are:

Name
Philip George
Mark Bateman

Principal activities

The principal activity of the controlling entity during the financial year was to manage four public ethical investment trusts. There was no significant change in the nature of these activities during the year.

Operating results

The consolidated entity (Australian Ethical Investment Ltd and its wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd) has recorded a consolidated net profit after income tax expense for the year ending 30 June 2005 of \$810,900. This result is a significant increase on the result of \$459,761 for the previous financial year.

Review of operations

The 2004–05 result is an excellent one.

In summary, the company experienced strong performance in the first half of the year, some slowing in the early part of 2005 and then resurgent performance towards the end of the financial year.

Australian Ethical Superannuation Pty Ltd contributed significantly to the excellent result and superannuation continues to be a growth engine of the business. We expect choice of superannuation to underpin further growth in the coming year.

The company has experienced continued growth in funds under management and as a consequence improved revenue and profitability. As at 30 June 2005 funds under management totaled \$311 million (ex distribution). This compares with funds under management of \$267 million (ex distribution) as at 30 June 2004. The distribution amount for the current period was \$48 million, compared to a distribution the previous year of \$8 million.

The company has maintained its commitment to promote ecologically sustainable and ethical investment whilst at the same time obtaining an acceptable level of return for all our stakeholders. We have continued our focus on servicing and growing our retail clients and expanded our distribution channels by seeking to build additional relationships with advisers and platform providers.

Each year the directors set internal projections and key performance indicators for the company as part of the budgeting process. This year's result exceeds the internal projections and continues the improvement in a number of the key indicators: for example, our costs to income ratio has reduced from 88 per cent in the previous year to 83 per cent



this year (tithes expense is not included in costs when calculating the costs to income ratio). Return on equity has increased from 10.4 per cent to 16.9 per cent.

Factors key to our success as a company are the performance of the investment trusts and overall confidence in the investment markets. Both are dependent on market and investor sentiment, making forward projections difficult.

During the 2004–05 financial year the company did not make any significant changes to its core funds management operations. There were no significant changes in management or organisational structure. There were no unusual events or transactions which affected the financial result for the period ended 30 June 2005.

Financial position

The company's capital structure and policies are relatively simple. The company currently has no debt and our capital is invested conservatively. Certain levels of capital are a condition of the company's Australian financial services licence. As the trusts and funds under management grow, the company is required to hold increasing levels of capital, up to a maximum of \$5.0 million. In the future, the company may require additional capital. At this time the company plans to retain some earnings to meet these requirements. Other than possible capital expenditure on a building, the company has no plans for any significant capital expenditure in the next 12 months.

The company has a comprehensive risk management process designed to deal with significant operational risks as identified by management and the directors.

Business strategies, future prospects and likely developments

At this time the company has no plans to make any significant changes to its core operations in the coming financial year. Our continued focus will be on building and servicing our clients and streamlining our processes, ensuring scalability of operations and seeking cost efficiencies.

Shareholders should be aware that the company is still pursuing arrangements to construct an environmentally exemplary building in which the company would become an anchor tenant. Potential arrangements may include some significant capital expenditure. It is not possible to provide any further details at this time as no specific arrangement has been finalised.

Australian Ethical Superannuation Pty Ltd has lodged with the Australian Prudential Regulation Authority an application for a registrable superannuation entity licence. Such a licence is required from 1 July 2006 for the continued operation of the superannuation fund.

Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Australian Ethical Investment Ltd and its controlled entity, the results of those operations or the state of affairs of Australian Ethical Investment Ltd in financial years subsequent to the financial year ended 30 June 2005, other than as outlined in this report.

Directors' indemnification

The constitution of the controlling entity provides a general indemnity for officers of the company against liabilities incurred in that capacity, including costs and expenses in successfully defending legal proceedings.

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary and all officers of the company and of any related body corporate against a liability incurred as such a director, secretary or officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any



related body corporate against a liability incurred as such an officer or auditor.

Directors' particulars

Qualifications, experience and special responsibilities

George Pooley
B.Sc.(Econ), M.A.
Non-Executive Chairperson

George has served as executive assistant to the Secretary to the Treasury, as a Treasury representative at the Australian Embassy in Washington DC, as a director of the Export Finance and Insurance Corporation, as executive director of the Foreign Investment Review Board and as a first assistant secretary responsible for policy advice in respect of banking, coinage and non-banks. From 1992 he was the Commissioner of the Insurance and Superannuation Commission (since merged into the Australian Prudential Regulation Authority). George is now a part-time consultant, mainly on insurance and superannuation matters. George is a director of Australian Ethical Superannuation Pty Ltd, the controlled entity of Australian Ethical Investment, is chair of the board's compliance

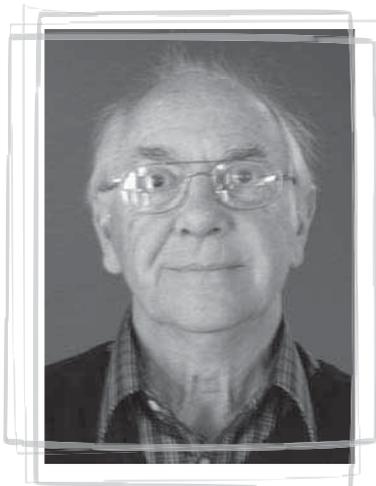
committee and is a member of the board's audit, finance and remuneration committees.

Ray De Lucia
B.Com.(Hons), M.Com, FCPA, FAIB, FAICD
Non-Executive Director

Ray is the chief executive of Ascalon Capital Managers Ltd, St George Bank, and is responsible for investments in the boutique fund managers which form the stable of managers accessible through Ascalon. With over 26 years in the finance industry, Ray has background experience in venture capital, investment banking, funds management and treasury management. Ray was formerly with the Commonwealth Bank, most recently as head of business financing products/general manager CBFC. Ray is also a director of MacarthurCook Limited, an Australian Stock Exchange-listed company. Ray is chair of the company's audit committee.

Caroline Le Couteur
B.Ec., B.Bus., Grad.Dip.(Env.&Dev.Man.), FAICD
Executive Director

Caroline has been committed to environmental conservation and social justice throughout her life. She is a member of the national council of the Australian Conservation Foundation and has been a candidate for the Greens in both Australian Capital Territory and federal elections. Caroline has held senior government positions in information





management. She is the company's information technology manager and, until September 2002, was also the funds administrator. Caroline is the company's risk management officer. Caroline is also on the board's remuneration committee.

James Thier
B.Sc.(Hons)
Executive Director

James has had academic experience as a researcher and has taught in the faculties of economics, environmental studies and geography at the University of New South Wales. He has held senior positions in local government and the credit union movement, lastly as research manager with Credit Union Services Corporation (Aust.) Ltd, the national body for affiliated credit unions. James is the company's business development manager. James is also a director of Australian Ethical Superannuation Pty Ltd and is on the board's investment committee.

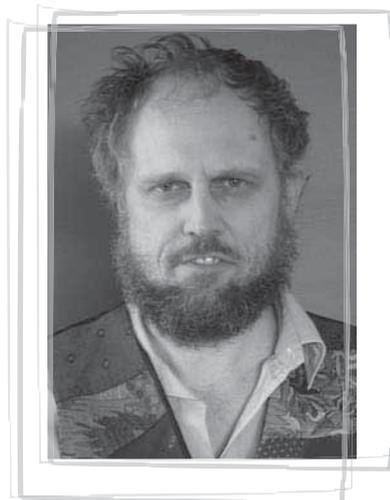
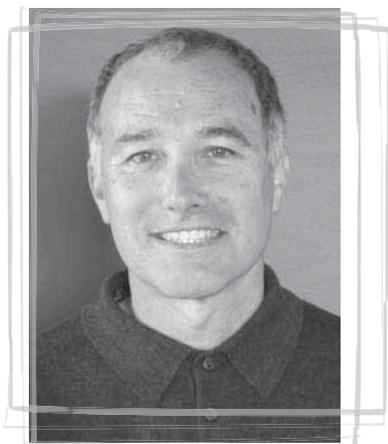
Howard Pender
B.A.(Hons)
Executive Director

Howard received a university medal in economics from the Australian National University. He worked at the Commonwealth Treasury and then as senior economist at Bankers Trust in Sydney. From 1992 to 1997, he was a visiting fellow in the Centre for International and Public Law at the Australian

National University. Howard has been a director of two other Australian Stock Exchange-listed companies. Howard is a director of Australian Ethical Superannuation Pty Ltd and is a member of the board's finance and investment committees.

Naomi Edwards
BSc (Hons) FIA FIAA FNZSA
Non-Executive Director

Naomi is a fellow of the Institute of Actuaries and has a high level of financial experience with practical conservation and environmental links. Naomi was partner in charge of the financial services industry group within Deloitte Touche Tohmatsu in Sydney and leader of the financial services practice for Trowbridge Consulting for many years. She has recently undertaken pro bono work providing actuarial assistance for environmental and social organisations. Naomi is also a director of Australian Ethical Superannuation Pty Ltd.





Directors' meetings

The number of directors' meetings (including meetings of committees of directors of which not all directors are members) and the number of meetings attended by each of the directors of the controlling entity during the financial year have been:

	Board meetings		Audit Committee		Finance Committee		Investment Committee	
	No. eligible to attend	No. attended						
James Thier	7	7	-	-	-	-	4	4
Trevor Lee	3	3	-	-	-	-	-	-
Howard Pender	7	7	-	-	8	8	4	4
Caroline Le Couteur	7	7	-	-	-	-	-	-
Naomi Edwards	3	2	-	-	-	-	-	-
George Pooley	7	7	5	5	8	7	-	-
Ray De Lucia	7	6	5	5	-	-	-	-

Directorships held in other listed entities in the last three years

Name	Entity
Howard Pender	Advanced Energy Systems Ltd SoftLaw Corporation Ltd
Ray De Lucia	MacarthurCook Ltd

Under the constitution, directors are also entitled to be paid reasonable expenses, remuneration for extra services, retirement benefits and superannuation contributions.

There are currently no arrangements to pay any director a retirement benefit.

Company secretaries, senior managers, executive directors and group executives

The company's fundamental remuneration policy is to treat all staff (including company secretaries, senior managers, executive directors and group executives) in an equitable fashion and not to have special remuneration arrangements (including individual performance-based arrangements) for particular staff. All permanent staff (including the chief executive officer, executive directors and company secretaries) receive a cash salary and participate in a staff bonus and employee share ownership scheme. These arrangements do not apply to non-executive directors.

Remuneration policy also accords with the Australian Ethical Charter, as set out in the

Remuneration report

Remuneration policy

Directors

The aggregate amount of remuneration payable to directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on director remuneration to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.



constitution of the company. It is designed to ensure the company does not

exploit people through the payment of low wages or the provision of poor working conditions

and to facilitate

the development of workers' participation in the ownership and control of their work organisations and places.

The company reviews individual remuneration annually and externally benchmarks remuneration levels every two years. Individual staff remuneration is then considered with reference to the benchmarks and in accordance with guidelines approved by the board. The board aims to remunerate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay current employees a bonus which is set by reference to the profit of the company for that year (see note 18 in the attached financial report). Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant (see note 18 in the attached financial report). The number of options received by an individual staff member depends on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three-year period, options must be exercised within a three-month exercise window or they lapse. In most circumstances, options will

also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

The company currently offers no salary packaging arrangements other than salary sacrifice of superannuation.

Performance-based remuneration and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year (see note 18 in the attached financial report). Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Options issued under the employee share ownership plan have an exercise price which is 10% greater than the market value of the underlying shares as at the date of grant (see note 18 in the attached financial report). In addition, in most cases, a staff member must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company, and if the market value of the underlying shares increases by 10% between the period of grant and the period when the options can be exercised.

The remuneration policy discussed above has broadly been in place for the current and the previous four financial years.

Dividends through the same period have increased from a dividend out of the profits of the 2000–01 year of 10 cents per share to a dividend out of the 2003–04 year profits of 52 cents per share. The dividend recommended by the directors for the 2004–05 year is 72 cents per share. An interim dividend of 30 cents per share was paid in March 2005 so, if the recommended dividend is approved at the annual general meeting, the final payment to shareholders will be 42 cents per share.

The company's shares have traded on the Australian Stock Exchange since 17 December 2002. Movements in the closing share price at the beginning and end of financial years since listing have been as follows:



Date	Closing daily price*
17 December 2002	\$12.50
30 June 2003	\$11.30
30 June 2004	\$13.00
30 June 2005	\$17.20

* Where shares were not traded on the day specified, the price quoted is the closing daily price when trades did occur on the day earlier than and closest to the date specified.

The company's earnings over the last five years have been as follows:

Year	Earnings
2000-01	\$142,131
2001-02	\$353,276
2002-03	\$190,921
2003-04	\$459,761
2004-05	\$810,900

Audited remuneration report information

The information which follows this heading through to the end of the section headed 'Shareholdings' is subject to audit by the external auditor.

Names and positions of parent entity directors, named executives and specified executives at any time during the financial year

Parent entity directors

Name	Position
George Pooley	Chairperson, non-executive
Ray De Lucia	Director, non-executive
Trevor Lee	Director, non-executive
	Ceased 24 November 2004
Caroline Le Couteur	Director, executive
James Thier	Director, executive
Howard Pender	Director, executive
Naomi Edwards	Director, non-executive
	Commenced 1 February 2005

Named and specified executives

Name	Position
Anne O'Donnell	Chief executive officer
David Ferris	Investment manager
Mark Bateman	Chief financial officer
Philip George	Company secretary/legal counsel
	Commenced 26 October 2004
Christopher Lee	Company secretary
	Resigned 25 October 2004
Ruth Medd	Director of wholly-owned entity

Remuneration details for the year ended 30 June 2005

Parent entity directors' remuneration

2005	Primary				Post Employ- ment Super	Equity Options	Total	
	Salary	Director's Fees	Committee Fees	Consulting Fees *				Bonus
	\$	\$	\$	\$				\$
George Pooley	-	42,964	3,000	-	-	-	45,964	
Ray De Lucia	-	12,974	-	-	-	-	12,974	
Trevor Lee	-	5,000	-	-	-	450	5,450	
Caroline Le Couteur	105,252	12,974	-	-	3,500	10,639	135,506	
James Thier	85,153	24,474	-	-	2,800	9,802	124,802	
Howard Pender	43,990	24,474	-	41,082	1,225	6,132	117,979	
Naomi Edwards	-	16,689	-	5,000	-	1,502	23,191	
Total	234,395	139,549	3,000	46,082	7,525	28,525	465,866	

* Howard Pender (through Wandoo Economics) has a contract with the parent entity for the provision of management services as required. Naomi Edwards had a one off contract with the wholly owned entity to provide an outsourcing review. The terms and conditions of these contracts are no more favourable than those that it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual.

2004

George Pooley	-	38,150	2,000	-	-	-	40,150
Ray De Lucia	-	10,762	-	-	-	-	10,762
Trevor Lee	50	10,762	-	-	193	968	12,364
Caroline Le Couteur	58,102	10,762	-	56,980	1,750	6,163	137,964
James Thier	94,569	20,762	-	-	1,400	10,325	130,354
Howard Pender	37,834	20,762	-	3,188	613	5,240	69,000
Alistair Clark	63,111	6,190	-	-	1,400	5,206	79,022
Total	253,666	118,150	2,000	60,168	5,356	27,902	479,616

Named and specified executives remuneration

2005	Primary				Post Employ- ment Super	Equity Options	Total
	Salary	Director's Fees	Committee Fees	Bonus			
	\$	\$	\$	\$			
Anne O'Donnell	142,361	-	-	3,500	12,695	3,581	162,137
David Ferris	123,415	-	-	3,500	11,025	3,189	141,129
Mark Bateman	123,568	-	-	3,500	10,766	2,498	140,332
Philip George	72,909	-	-	-	6,545	-	79,454
Christopher Lee	29,569	-	-	3,291	2,449	-	35,309
Ruth Medd	-	11,500	6,000	-	1,035	-	18,535
Total	491,822	11,500	6,000	13,791	44,515	9,268	576,896

2004

Anne O'Donnell	125,172	-	-	1,750	11,219	4,455	142,596
David Ferris	112,988	-	-	1,750	9,989	3,972	128,699
Mark Bateman	87,157	-	-	1,750	7,823	3,120	99,850
Ruth Medd	-	10,000	5,000	-	900	-	15,900
John Ford	-	9,083	-	-	-	-	9,083
Total	325,317	19,083	5,000	5,250	29,931	11,547	396,128



Options granted as remuneration

	Granted No.	Grant Date	Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date	Granted as Part of Remuneration \$	Options Remuneration Represented by Options %	Total Options Exercised \$	Options Lapsed (\$)	Total \$
Parent Entity Directors											
George Pooley	-	-	-	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-	-	-	-
Caroline Le Couteur	2,513	23.09.04	1.25	16.28	23.09.07	22.12.07	3,141	2%	-	-	3,141
James Thier	2,058	23.09.04	1.25	16.28	23.09.07	22.12.07	2,573	2%	-	-	2,573
Howard Pender	861	23.09.04	1.25	16.28	23.09.07	22.12.07	1,076	1%	-	-	1,076
Naomi Edwards	-	-	-	-	-	-	-	-	-	-	-
	<u>5,432</u>						<u>6,790</u>				<u>6,790</u>
Named and Specified Executives											
Anne O'Donnell	2,865	23.09.04	1.25	16.28	23.09.07	22.12.07	3,581	2%	3,721	-	7,302
David Ferris	2,551	23.09.04	1.25	16.28	23.09.07	22.12.07	3,189	2%	3,149	-	6,338
Mark Bateman	1,998	23.09.04	1.25	16.28	23.09.07	22.12.07	2,498	2%	4,914	-	7,412
Philip George	-	-	-	-	-	-	-	-	-	-	-
Christopher Lee	-	-	-	-	-	-	-	-	-	(3,938)	(3,938)
Ruth Medd	-	-	-	-	-	-	-	-	-	-	-
	<u>7,414</u>						<u>9,268</u>		<u>11,784</u>	<u>(3,938)</u>	<u>17,114</u>

Estimates of the maximum and minimum possible total value of option grants

	2005/06		2006/07		2007/08	
	Max.	Min.	Max.	Min.	Max.	Min.
Parent Entity Directors						
George Pooley	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-
Caroline Le Couteur	3,571	-	4,207	-	3,141	-
James Thier	2,718	-	3,298	-	2,573	-
Howard Pender	1,579	-	1,363	-	1,076	-
Naomi Edwards	-	-	-	-	-	-
Named and Specified Executives						
Anne O'Donnell	4,218	-	4,455	-	3,581	-
David Ferris	3,724	-	3,972	-	3,189	-
Mark Bateman	2,821	-	3,120	-	2,498	-
Philip George	-	-	-	-	-	-
Christopher Lee	-	-	-	-	-	-
Ruth Medd	-	-	-	-	-	-

Note: Values are based on a valuation performed on the options at grant date using the Black-Scholes model.

Option holdings

	Balance 01.07.04	Granted as Remun- eration	Options Exercised	Net Change Other	Balance 30.06.05	Total Vested 30.06.05	Total Exer- cisable 30.06.05	Total Unexer- cisable 30.06.05
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-
Caroline Le Couteur	4,864	2,513	-	-	7,377	-	-	7,377
James Thier	3,762	2,058	-	-	5,820	-	-	5,820
Howard Pender	1,838	861	-	-	2,699	-	-	2,699
Naomi Edwards	-	-	-	-	-	-	-	-
Named and Specified Executives								
Anne O'Donnell	6,853	2,865	(1,431)	-	8,287	-	-	8,287
David Ferris	6,022	2,551	(1,211)	-	7,362	-	-	7,362
Mark Bateman	5,604	1,998	(1,890)	-	5,712	-	-	5,712
Philip George	-	-	-	-	-	-	-	-
Christopher Lee *	4,109	-	-	(4,109)	-	-	-	-
Ruth Medd	-	-	-	-	-	-	-	-
Total	33,052	12,846	(4,532)	(4,109)	37,257	-	-	37,257

* Christopher Lee forfeited 100% of options granted upon leaving the employment of Australian Ethical Investment Limited

Options held, as disclosed above, will be capable of being exercised in the financial years 2005/2006, 2006/2007 and 2007/2008.

Shareholdings

	Balance 01.07.04	Shares in lieu of Cash Bonus	Options Exercised	Net Change Other *	Balance 30.06.05
Parent Entity Directors					
George Pooley	-	-	-	-	-
Ray De Lucia	519	-	-	200	719
Trevor Lee	39,174	-	-	-	39,174
Caroline Le Couteur	41,633	236	-	-	41,869
James Thier	59,842	68	-	200	60,110
Howard Pender	56,024	83	-	(5,000)	51,107
Naomi Edwards	-	-	-	-	-
Named and Specified Executives					
Anne O'Donnell	1,458	236	1,431	-	3,125
David Ferris	584	236	1,211	-	2,031
Mark Bateman	1,422	236	1,890	(1,280)	2,268
Phil George	375	-	-	-	375
Christopher Lee	1,596	222	-	-	1,818
Ruth Medd	-	-	-	-	-
Total	202,627	1,317	4,532	(5,880)	202,596

* Net change other refers to shares purchased or sold during the financial year.



Holdings in registered schemes made available by the company

Caroline Le Couteur holds 741,0761 units in the Australian Ethical Balanced Trust.

Explanation of relative proportions of elements of remuneration that are related to performance

Non-executive directors receive their total remuneration as cash or superannuation contributions. No element is dependent on performance.

The remuneration of executive directors, company secretaries and senior managers is not subject to individual performance conditions. People holding these positions are entitled to participate in the staff bonus and employee share ownership scheme described above. These make up a very small proportion of the overall remuneration of people holding these positions.

Employment contracts of directors and senior executives

For each individual whose remuneration has been disclosed in this report and is employed under an employment contract, the details of the employment contract are as follows:

Name	Duration of contract	Period of termination notice required	Termination payment provided for under the contract
Caroline Le Couteur	Ongoing	As per minimum requirements under the Workplace Relations Act 1996	None except for accrued leave and any payment in lieu of notice
James Thier			
Howard Pender			
Anne O'Donnell			
David Ferris			
Mark Bateman			
Philip George			

Company secretary particulars

Philip George (BSc LLB)

Philip has experience in commercial law, corporate governance and project management. He has been a company secretary and legal counsel for listed companies for over four years. He was a senior associate at the national law firm Minter Ellison and conducted a commercial legal practice in partnership for two years.

Mark Bateman (BBus, CPA)

Mark is a Certified Practising Accountant and is currently Chair of the CPA Australia SME and Corporate Committee (ACT Division). Mark is Chief Financial Officer of Australian Ethical Investment Ltd and is responsible for the fiscal management of the consolidated entity. Mark has worked in commerce as a financial professional for over 11 years.

Options

Options over unissued shares as at the date of this report are as follows:

Options Reference	Number of options on issue	Exercise Period	Exercise Price
AEFAO	29,286	10/10/05 to 9/1/06	\$18.26
AEFAK	33,778	15/10/06 to 14/1/07	\$14.11
AEFAI	36,504	23/9/07 to 22/12/07	\$16.28
Totals	99,568		

All options are over unissued shares in the company. No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

The following ordinary shares of the company were issued during the year ended 30 June 2005 on the exercise of options granted under the company's employee share ownership plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.



Shares issued upon exercise of options	Amount paid per share
19,781	\$16.50

Auditor’s declaration

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and follows at the end of the report.

Non-audit services

The directors, in accordance with advice from the audit committee, are satisfied that the provision of the non-audit services by the auditor during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed in the financial report did not compromise the external auditor’s independence because the provision of non-audit services is minor and in most cases is ancillary or related to audit activities. The directors are not aware of any circumstances that would prevent the external auditor from exercising objective and impartial judgement in relation to the conduct of the audit.

Details of non-audit services provided by the auditor are set out in Note 2 of the attached financial report.

Other specific information

Other specific information as required has been disclosed in the attached financial report as referenced in the table below:

Disclosure	Financial Statement Reference
Dividends	Note 5
Options – issued during the financial year and since the end of the financial year*	Note 18

*The financial statements show options issued during the financial year. No options have been issued since the end of the financial year to the date of this report.

Signed in accordance with a resolution of the Board of Directors.

George Pooley
 Director
 Dated: 31 August 2005



**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

THOMAS DAVIS & CO

R.C. GEEVES PARTNER

Date 25 August 2005

Liability limited by a scheme approved under Professional Standards Legislation



Financial statements

for year ended 30 June 2005

Statement of financial position as at 30 June 2005

	Notes	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Current assets					
Cash assets	7	1,824,746	1,470,261	1,016,042	826,930
Receivables	8	813,495	607,363	779,529	566,532
Other financial assets	9	3,037,021	2,875,429	3,037,021	2,875,429
Other	10	157,845	120,901	111,404	83,832
Total current assets		<u>5,833,107</u>	<u>5,073,954</u>	<u>4,943,996</u>	<u>4,352,723</u>
Non-current assets					
Plant & equipment	11	282,903	200,002	282,903	200,002
Other financial assets	9	200,000	150,000	516,000	350,000
Deferred tax assets	12	217,603	167,047	217,603	167,047
Total non-current assets		<u>700,506</u>	<u>517,049</u>	<u>1,016,506</u>	<u>717,049</u>
Total assets		<u>6,533,613</u>	<u>5,591,003</u>	<u>5,960,502</u>	<u>5,069,772</u>
Current liabilities					
Payables	13	451,767	334,414	509,552	361,846
Tax liabilities	14	309,615	151,743	309,615	151,743
Provisions	15	694,484	488,162	694,484	488,162
Total current liabilities		<u>1,455,866</u>	<u>974,319</u>	<u>1,513,651</u>	<u>1,001,751</u>
Non-current liabilities					
Tax liabilities	14	-	6,306	-	6,306
Provisions	15	30,861	68,662	30,861	68,662
Total non-current liabilities		<u>30,861</u>	<u>74,968</u>	<u>30,861</u>	<u>74,968</u>
Total liabilities		<u>1,486,727</u>	<u>1,049,287</u>	<u>1,544,512</u>	<u>1,076,719</u>
Net assets		<u>5,046,886</u>	<u>4,541,716</u>	<u>4,415,990</u>	<u>3,993,053</u>
Equity					
Contributed equity	16	4,113,706	3,787,847	4,113,706	3,787,847
Retained profits	17	933,180	753,869	302,284	205,206
Total equity		<u>5,046,886</u>	<u>4,541,716</u>	<u>4,415,990</u>	<u>3,993,053</u>

The accompanying notes form part of these financial statements.



**Statement of financial performance
for the year ended 30 June 2005**

	Notes	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from ordinary activities	3	7,424,520	5,892,861	6,089,743	4,830,557
Commissions paid to advisers		(236,900)	(231,443)	(69,973)	(95,128)
External services		(1,634,208)	(1,265,477)	(766,608)	(628,494)
Employee benefits expense (includes bonus - see note 18)		(3,279,692)	(2,809,240)	(3,261,224)	(2,783,980)
Depreciation		(93,071)	(72,584)	(93,071)	(72,584)
Occupancy costs		(233,722)	(224,824)	(229,801)	(221,588)
Communication costs		(413,131)	(372,463)	(370,224)	(332,555)
Other expenses from ordinary activities		(270,804)	(199,284)	(227,361)	(165,441)
Profit from ordinary activities before tithe and income tax expense		1,262,992	717,546	1,071,481	530,787
Tithes expense	1 (h)	(98,227)	(58,262)	(98,227)	(58,262)
Profit from ordinary activities before income tax expenses	2	1,164,765	659,284	973,254	472,525
Income tax expense relating to ordinary activities	4	(353,865)	(199,523)	(244,587)	(125,191)
Net profit from ordinary activities after related income tax expense attributable to members of the parent entity	17	810,900	459,761	728,667	347,334
Total changes in equity other than those resulting from transactions with owners as owners		810,900	459,761	728,667	347,334
Basic Earnings per share (cents per share)	6	92.6	52.9		
Diluted earnings per share (cents per share)	6	91.7	52.9		

The accompanying notes form part of these financial statements.



**Statement of cash flows
for the year ended 30 June 2005**

	Notes	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from operations		7,748,477	6,370,975	6,265,276	5,053,972
Payment to suppliers & employees		(6,521,646)	(5,678,473)	(5,301,037)	(4,561,723)
Dividends received		-	-	172,427	60,000
Interest received		260,137	244,677	226,336	215,053
Income tax paid		(252,855)	(156,745)	(178,262)	(106,580)
Bonus		(82,945)	(32,857)	(82,945)	(32,857)
Tithe		(58,262)	(24,742)	(58,262)	(24,742)
Net cash provided by/(used in) operating activities	23 (b)	<u>1,092,906</u>	<u>722,835</u>	<u>1,043,533</u>	<u>603,123</u>
Cash flows from investing activities					
Proceeds from sale of property, plant & equipment		2,243	-	2,243	-
Proceeds from sale of investments		3,104,170	1,124,571	3,104,170	1,124,571
Payments for property, plant & equipment		(194,182)	(93,881)	(194,182)	(93,881)
Payment for purchase of investment securities		(3,265,762)	(1,000,000)	(3,265,762)	(1,000,000)
Payment for purchase of subsidiary shares		-	-	(116,000)	-
Loans to other entities		(50,000)	(50,000)	(50,000)	(50,000)
Net cash provided by/ (used in) investing activities		<u>(403,531)</u>	<u>(19,310)</u>	<u>(519,531)</u>	<u>(19,310)</u>
Cash flows from financing activities					
Proceeds from share issue		326,387	-	326,387	-
Share buy-back payment		(29,688)	-	(29,688)	-
Dividends paid		(631,589)	(278,069)	(631,589)	(278,069)
Net cash provided by/ (used in) financing activities		<u>(334,890)</u>	<u>(278,069)</u>	<u>(334,890)</u>	<u>(278,069)</u>
Net increase in cash held		354,485	425,456	189,112	305,744
Cash at beginning of year		1,470,261	1,044,805	826,930	521,186
Cash at end of year	23 (a)	<u>1,824,746</u>	<u>1,470,261</u>	<u>1,016,042</u>	<u>826,930</u>

The accompanying notes form part of these financial statements.



Notes to the financial statements for the year ended 30 June 2005

Note 1 - Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Australian Ethical Investment Limited and wholly owned entity Australian Ethical Superannuation Pty Ltd. Both Companies are incorporated and domiciled in Australia.

The financial report has been prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) Plant and equipment

Plant and equipment are brought to account at cost, less accumulated depreciation. The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

The depreciable amount of all fixed assets, is depreciated over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Furniture, fittings and equipment	10% to 40%	Straight line/Diminishing Value
Software	18% to 40%	Straight line/Diminishing Value

b) Income tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

**Notes to the financial statements for the year ended 30 June 2005****Note 1 - Statement of significant accounting policies - continued****b) Income tax - continued**

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Ltd have formed an income tax consolidated group under the Tax Consolidation System. Australian Ethical Investment Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Tax Office (ATO) on 24 March 2004 that it had formed an income tax consolidated group to apply from 1 July 2002. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. Under the tax sharing agreement Australian Ethical Superannuation Pty Ltd agrees to pay its share of the income tax payable to Australian Ethical Investment Limited on the same day that Australian Ethical Investment Limited pays the ATO for group tax liabilities.

c) Investments

Investments are carried at cost.

The carrying amount of current and non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets for those investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amount.

Dividends are brought to account in the statement of financial performance when received.

d) Employee benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year have been measured at their nominal amount. Employee benefits expected to be settled after one year are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred.

A liability for employee benefits in the form of an employee bonus plan is recognised in provisions in line with requirements of the Australian Ethical Investment Limited Constitution.

Employees have the option of taking the bonus in either cash or shares in the Company. Details of the employee bonus plan are provided at note 18.



Notes to the financial statements for the year ended 30 June 2005

Note 1 - Statement of significant accounting policies - continued

e) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in at call deposits with banks.

f) Principles of consolidation

The consolidated financial statements comprise the financial statements of Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Limited.

A controlled entity is any entity controlled by Australian Ethical Investment Limited of which it has the capacity to dominate the decision-making in relation to the financial and operating policies of that entity so that entity operates with Australian Ethical Investment Limited to achieve the objectives of Australian Ethical Investment Limited.

All inter-company balances and transactions between entities in the economic entity, have been eliminated on consolidation.

g) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

h) Tithes expense

The Company's Constitution states that "the directors before recommending any dividend to be paid out of the profits of any one year must have first:-

32 (i) paid to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted" (see Note 18).

(ii) "gifted an amount equivalent to ten percent (10%) of what the profit for that year would have been had not the above mentioned bonus and amount gifted been deducted".

Tithes expense represents	2005	2004
	\$	\$
Provision for gifted amount from current years profits	98,227	58,262
	<u>98,227</u>	<u>58,262</u>

i) Guarantee

Guarantee in respect of debts of the wholly owned entity to a maximum of \$100,000 (2004 - \$100,000).

The parent entity has an obligation to ensure that the wholly owned entity has capital of 0.6% of the total value of the Australian Ethical Superannuation Fund portfolio.



Notes to the financial statements for the year ended 30 June 2005

Note 1 - Statement of significant accounting policies - continued

j) Comparative figures

Where required comparative figures have been adjusted to conform with changes in presentation for the current financial year.

k) Adoption of Australian equivalents to International Financial Reporting Standards

The company is preparing and managing the transition to Australian equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, along with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. The economic entity's Finance Committee is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows: Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's Finance Committee.

Share-based Payments

Currently the economic entity does not recognise as an expense, or increase in equity, the value of share options granted to employees under the Employee Share Ownership Plan. In terms of pending AASB 2: Share based Payments, the entity will be required to recognise an expense for the value of those options that were issued to employees after 7 November 2002 but that had not vested by 1 January 2005.

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If the policy required by AASB 2 had been applied during the year ended 30 June 2005, consolidated and parent entity retained profits at 30 June 2005 would have been \$12,160 lower, with a corresponding increase in the option reserve. This recognises options expense prior to the year ended 30 June 2005 direct into retained profits. For the year ended 30 June 2005, the consolidated and parent entity profit after tax would have been \$26,495 lower reflecting the options expense for the year, with a corresponding increase in the net movement in the option reserve.

Financial Instruments

The economic entity will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the economic entity to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 139 financial assets will be classified as either at fair value through profit or loss, held to maturity, available for sale or loans and receivables and, depending on classification, measured at fair value or amortised cost. This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount with changes recognised in profit or loss.



Notes to the financial statements for the year ended 30 June 2005

Note 1 - Statement of significant accounting policies - continued

k) Adoption of Australian equivalents to International Financial Reporting Standards - continued

Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112, Income Taxes the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Directors have assessed the impact of AASB 112 and believe that there is no impact on the comparative figures for the 30 June 2006 financial report.

On transition to AIFRS the estimated cumulative financial effect of the reliably known differences on the parent and economic entity's reported net profit and equity as at 30 June 2005 is summarised below. As noted above, these amounts represent management's best estimates, and could differ from actuals.

	Economic Entity 2005 \$	Parent Entity 2005 \$
Reconciliation of net profit		
Net profit reported under Australian Accounting Standards	810,900	728,667
Key transitional adjustments		
- recognition of options expense under share based payments	(26,495)	(26,495)
Total transitional adjustments	<u>(26,495)</u>	<u>(26,495)</u>
Net profit under AIFRS	<u>784,405</u>	<u>702,172</u>
Reconciliation of equity		
Total equity reported under Australian Accounting Standards	5,046,886	4,415,990
Retrospective adjustments to equity at 1 July 2004		
- recognition of options expense under share based payments	(12,160)	(12,160)
- increase in option reserve	12,160	12,160
	<u>5,046,886</u>	<u>4,415,990</u>
- decrease in current year profit resulting from transition to AIFRS	(26,495)	(26,495)
- increase in option reserve	26,495	26,495
Total equity under AIFRS	<u>5,046,886</u>	<u>4,415,990</u>

**Notes to the financial statements for the year ended 30 June 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

Note 2 - Profit from ordinary activities

Profit from ordinary activities before income tax expense has been determined after

(a) Charging as expense:

Depreciation of non-current assets:

- Plant & equipment **93,071** 72,584 **93,071** 72,584

Employee bonus **141,309** 115,605 **141,309** 115,605

Tithe **98,227** 58,262 **98,227** 58,262

Remuneration of the auditors for:

Audit services

- Auditing the financial report **11,550** 9,846 **10,000** 8,364

- Auditing the Australian Ethical Superannuation Fund **24,600** 11,900 - -

- Auditing the sustainability report **4,100** 4,000 **4,100** 4,000

Non-audit services

- tax and other accounting advice **2,750** 3,954 **2,000** 3,636

(b) Crediting as income:

Interest from:

- Other persons **266,741** 242,595 **232,940** 214,562

Profit/(loss) on sale of plant and equipment **(2,595)** (780) **(2,595)** (780)

35**Note 3 - Revenue**

Operating activities

- Management fees net of rebates **5,681,009** 4,374,468 **3,255,805** 2,639,344

- Entry fees **1,088,198** 916,802 **366,721** 327,898

- Other fees **337,024** 293,498 **337,024** 293,498

- Dividend from wholly owned subsidiary - - **172,427** 60,000

- Interest **266,741** 242,595 **232,940** 214,562

- wholly owned entity fee - - **1,676,983** 1,229,757

- Other revenue **49,305** 65,498 **45,600** 65,498

7,422,277 **5,892,861** **6,087,500** **4,830,557**

Non-operating activities

- Proceeds from sale of plant & equipment **2,243** - **2,243** -

2,243 - **2,243** -

Total revenue

7,424,520 5,892,861 **6,089,743** 4,830,557


Notes to the financial statements for the year ended 30 June 2005

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Note 4 - Income tax expense				
The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2004:30%)				
- economic entity	349,429	197,785	-	-
- parent entity	-	-	291,976	141,757
- other members of the income tax consolidated group net of intercompany transactions	-	-	109,181	74,028
Non-allowable items				
- economic entity	740	586	-	-
- parent entity	-	-	643	282
- other members of the income tax consolidated group net of intercompany transactions	-	-	97	304
	350,169	198,371	401,897	216,371
Tax effect of:				
- rebateable fully franked dividends	-	-	(51,728)	(18,000)
- under provision for income tax in prior year	3,696	1,152	3,696	1,152
Income tax expense attributable to profit from ordinary activities	353,865	199,523	353,865	199,523
Allocation of income tax expense to wholly owned entity under the tax sharing agreement			(109,278)	(74,332)
Income tax attributable to parent entity			244,587	125,191

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Note 5 - Dividend paid

Final fully franked dividend of 42 (2004: 22) cents per share franked at the tax rate of 30% (2004:30%)

364,965	191,172	364,965	191,172
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Interim fully franked dividend of 30 (2004: 10) cents per share franked at the tax rate of 30% (2004:30%)

266,624	86,897	266,624	86,897
631,589	278,069	631,589	278,069

Proposed final fully franked dividend of 42 (2004: 42) cents per share franked at the tax rate of 30% (2004: 30%)

373,273	364,965	373,273	364,965
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Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.

595,136	461,414
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**Notes to the financial statements for the year ended 30 June 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Note 6 - Earnings per share				
(a) Earnings used in the calculation of basic and dilutive EPS	810,900	459,761		
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	875,930	868,490		
Weighted average number of options outstanding	8,404	-		
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	884,334	868,490		
(c) Classification of securities				
Options outstanding have been classified as potential ordinary shares and are included in determination of dilutive EPS.				
Note 7 - Cash assets				
Current				
Cash on hand	300	300	300	300
Cash at bank	21,423	136,783	1,672	(9,461)
Deposits at call	1,803,023	1,333,178	1,014,070	836,091
	1,824,746	1,470,261	1,016,042	826,930
Note 8 - Receivables				
Current				
Trade debtors	792,656	593,127	647,306	505,281
Other	20,839	14,236	20,839	14,236
Amounts receivable - wholly owned entity	-	-	111,384	47,015
	813,495	607,363	779,529	566,532
Note 9 - Other financial assets				
Current				
Mortgage backed securities & bank notes	3,037,021	2,875,429	3,037,021	2,875,429
	3,037,021	2,875,429	3,037,021	2,875,429
Non-current				
Unlisted investment at cost				
- Shares in controlled entity	-	-	316,000	200,000
Loan to third party	200,000	150,000	200,000	150,000
	200,000	150,000	516,000	350,000
The loan is provided to the Centre for Australian Ethical Research Pty Limited (CAER), an independent entity. CAER provides ethical research services.				
Note 10 - Other				
Current				
Other	1,450	200	1,450	200
Prepayments	156,395	120,701	109,954	83,632
	157,845	120,901	111,404	83,832


Notes to the financial statements for the year ended 30 June 2005

	Notes	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Note 11 - Plant and equipment					
Non-current					
Plant & equipment (see note 26)					
At cost		710,250	555,324	710,250	555,324
Less: accumulated depreciation		427,347	355,322	427,347	355,322
		<u>282,903</u>	<u>200,002</u>	<u>282,903</u>	<u>200,002</u>
Note 12 - Deferred tax assets					
Future income tax benefit		217,603	167,047	217,603	167,047
The future income tax benefit is made up of the following estimated tax benefit					
- timing differences		217,603	167,047	217,603	167,047
		<u>217,603</u>	<u>167,047</u>	<u>217,603</u>	<u>167,047</u>
Note 13 - Payables					
Current					
Trade creditors		213,852	81,621	129,777	78,593
Other		237,915	252,793	145,784	117,520
Amounts payable to wholly owned entity		-	-	233,991	165,733
		<u>451,767</u>	<u>334,414</u>	<u>509,552</u>	<u>361,846</u>
Note 14 - Tax liabilities					
Current					
Income tax		309,615	151,743	309,615	151,743
		<u>309,615</u>	<u>151,743</u>	<u>309,615</u>	<u>151,743</u>
Non-current					
Income tax		-	6,306	-	6,306
		<u>-</u>	<u>6,306</u>	<u>-</u>	<u>6,306</u>
Note 15 - Provisions					
Current					
Employee benefits	18	448,448	311,295	448,448	311,295
Other					
- Bonus	18	144,809	115,605	144,809	115,605
- Tithe (refer below)	1(h)	101,227	61,262	101,227	61,262
		<u>694,484</u>	<u>488,162</u>	<u>694,484</u>	<u>488,162</u>
Non-current					
Employee benefits	18	30,861	68,662	30,861	68,662
		<u>30,861</u>	<u>68,662</u>	<u>30,861</u>	<u>68,662</u>
Movements in provisions					
Tithe					
Provision for Tithe at 30 June 2004		61,262			
Provision for Tithe recognised during the year		98,227			
Tithe payments made during the year		(58,262)			
Provision for Tithe at 30 June 2005		<u>101,227</u>			

**Notes to the financial statements for the year ended 30 June 2005**

	Notes	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Note 16 - Contributed equity					
Fully paid ordinary shares at the beginning of the financial year 868,965 (2004 - 867,340) shares		3,787,847	3,766,976	3,787,847	3,766,976
Shares issued during the year under the employee share ownership plan:					
1,971 on 23 September 2004 (share bonus)	18	29,160	20,871	29,160	20,871
19,781 on 7 March 2005 (options exercised)	18	326,387	-	326,387	-
Transaction costs relating to share issues		-	-	-	-
Shares bought back during the year					
1,180 on 1 October 2004		(17,794)	-	(17,794)	-
667 on 5 October 2004		(10,005)	-	(10,005)	-
124 on 6 October 2004		(1,889)	-	(1,889)	-
At the end of the financial year 888,746 (2004 - 868,965) shares		<u>4,113,706</u>	<u>3,787,847</u>	<u>4,113,706</u>	<u>3,787,847</u>
For detailed information relating to the Australian Ethical Investment Limited employee share ownership plan, refer to Note 18.					
On 1 and 5 October 2004 the company bought back 1,847 ordinary shares on issue at \$15 each. On 6 October 2004 the company bought back 124 ordinary shares on issue at \$15.2 each. The total purchase consideration of the buy-back was \$29,688. The nature and terms of the buy-back were:					
- it was an on-market buy-back with offers made on the Australian Stock Exchange.					
- the full amount of the buy-back to be debited to contributed capital.					
- shares acquired under the buy-back were cancelled immediately after registration of the transfer to the company of the shares.					
Note 17 - Retained profits					
Retained profits at the beginning of the financial year		753,869	572,177	205,206	135,941
Net profit attributable to members of the parent entity		810,900	459,761	728,667	347,334
Dividends paid 72 (2004: 32) cents per share	5	(631,589)	(278,069)	(631,589)	(278,069)
Retained profits at the end of the financial year		<u>933,180</u>	<u>753,869</u>	<u>302,284</u>	<u>205,206</u>



Notes to the financial statements for the year ended 30 June 2005

	Notes	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Note 18 - Employee benefits					
Employee benefit and related on-costs liabilities					
Included in provisions - current (leave)	15	448,448	311,295	448,448	311,295
Included in provisions - current (bonus)	15	144,809	115,605	144,809	115,605
Included in provisions - non-current (leave)	15	30,861	68,662	30,861	68,662
Total employee benefit and related on-costs liabilities		624,118	495,562	624,118	495,562
Number of full time equivalent employees at year end		40	34	40	34

Employee Share Option Arrangement

(i) On 30 November 2001, 32,276 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. These options were either exercised (refer below) or lapsed by 27 February 2005.

(ii) On 10 October 2002, 37,612 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of \$18.26 each and a 3 month window in which to be exercised, are non transferable, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

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(iii) On 15 October 2003, 42,947 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of \$14.11 each and a 3 month window in which to be exercised, are non transferable, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

(iv) On 23 September 2004, 39,173 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of \$16.28 each and a 3 month window in which to be exercised, are non transferable, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

**Notes to the financial statements for the year ended 30 June 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	No.	No.	No.	No.

Note 18 - Employee benefits - continued

(a) Movement in the number of share options held by employees are as follows:

Opening balance	107,113	69,265	107,113	69,265
Granted during the year	39,173	42,947	39,173	42,947
Exercised during the year	(19,781)	-	(19,781)	-
Lapsed during the year	(24,640)	(5,099)	(24,640)	(5,099)
Closing balance	101,865	107,113	101,865	107,113

(b) Details of share options exercised during the year:	\$	\$	\$	\$
- Proceeds from shares issued	326,387	-	326,387	-
- Fair value, as at issue date, of shares issued during the year	377,817	-	377,817	-

Fair value of shares issued during the reporting period at their issue date is estimated to be the market price of shares of the parent entity on the Australian Stock Exchange as at close of trading on the issue dates. The fair value of shares at date of issue were:

Issue Date	Fair Value	Number of Shares Issued
07-March-2005	19.10	19,781

(c) Details of share options outstanding as at end of year:

Grant Date				
30-November-2001	-	29,783	-	29,783
10-October-2002	29,987	35,838	29,987	35,838
15-October-2003	34,582	41,492	34,582	41,492
23-September-2004	37,296	-	37,296	-
	101,865	107,113	101,865	107,113

Employee Share Arrangement

The Company's Constitution states that "the directors before recommending any dividend to be paid out of the profits of any one year must have first:- (i) paid to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted". The annual employee bonus may be taken in cash or shares.

On 23 September 2004, 1,971 ordinary shares were issued under the employee share ownership plan. The shares carry full dividend and voting rights and are not transferable for a period of 3 years, or until an employee leaves the company's employment whichever first occurs (In the comparative year 1,625 ordinary shares, with the same terms, were granted on 16 October 2003).

Date Shares Granted	No. of Shares Granted	Fair Value at Grant Date Per Share	Fair Value at Grant Date Aggregate	Proceeds Received
2005		\$	\$	\$
23-September-2004	1,971	14.80	29,160	-
2004				
16-October-2003	1,625	12.83	20,871	-

The fair value of shares issued during the reporting period is determined by obtaining the weighted average sales price of ordinary shares over the five ASX trading days immediately preceding the grant date.



Notes to the financial statements for the year ended 30 June 2005

Note 19 – Events subsequent to balance date

Since 30 June 2005, no material events that may have an impact on these financial statements have occurred.

Note 20 – Related party transactions

Australian Ethical Investment Limited owns 100% of Australian Ethical Superannuation Pty Ltd.

Transactions between Australian Ethical Investment Limited and its wholly owned entity during the financial year consisted of:

- (i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on the basis of cost recovery.
- (ii) Transactions between Australian Ethical Investment Limited and its wholly owned entity under the tax consolidation and related tax sharing agreement referred to in note 1(b) and 4.
- (iii) Transactions whereby Australian Ethical Investment Limited collects management fee income on behalf of its wholly owned entity and on-pays this management fee income to the wholly owned entity on a monthly basis.

	Notes	Parent Entity 2005 \$	2004 \$
Aggregate amount included in the determination of profit before income tax that resulted from transactions with the wholly owned entity:			
Dividend revenue	3	172,427	60,000
Aggregate amounts receivable from wholly owned entity at balance date:			
Amounts receivable - wholly owned entity (management services)	8	30,922	1,237
Amounts receivable - wholly owned entity (taxation)	8	80,462	45,778
		111,384	47,015
Aggregate amounts payable to wholly owned entity at balance date:			
Amounts payable to wholly owned entity (management fee income)	13	233,991	165,733

Note 21 - Economic dependence

The economic entity is dependent upon management fees received in its capacity as Responsible Entity of the Australian Ethical Trusts and as Trustee of the Australian Ethical Superannuation Fund.

Note 22 - Segment reporting

The company was established in 1986 and is the responsible entity of the Australian Ethical Trusts. The Company's subsidiary is Trustee of the Australian Ethical Superannuation Fund.

**Notes to the financial statements for the year ended 30 June 2005**

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Note 23 - Cash flow information				
(a) Reconciliation of cash				
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash on hand	300	300	300	300
Cash at bank	21,423	136,783	1,672	(9,461)
Deposits at call	1,803,023	1,333,178	1,014,070	836,091
	1,824,746	1,470,261	1,016,042	826,930
(b) Reconciliation of cash flow from operations with net profit from ordinary activities after income tax expense				
Net profit from ordinary activities after income tax expense	810,900	459,761	728,667	347,334
Non-cash flows in operating profit				
Depreciation	93,071	72,584	93,071	72,584
Provisions	197,681	230,609	197,681	230,609
(Profit)/loss on sale of property, plant & equipment	2,595	780	2,595	780
Changes in assets and liabilities				
(Increase)/decrease in trade debtors & other receivables	(206,133)	14,644	(212,997)	(152,555)
(Increase)/decrease in prepayments & other assets	(23,571)	(27,455)	(14,200)	(7,667)
(Increase)/decrease in future income tax benefit	(50,556)	(62,922)	(50,556)	(62,922)
Increase/(decrease) in creditors	117,353	(70,865)	147,706	47,648
Increase/(decrease) in taxes payable	151,566	105,699	151,566	127,312
Net cash provided by/(used in) operating activities	1,092,906	722,835	1,043,533	603,123

(c) Non-cash financing and investing activities

Shares in Australian Ethical Investment Limited, to the value of \$29,160 (2004: \$20,871) were issued in lieu of staff bonus.



Notes to the financial statements for the year ended 30 June 2005

Economic Entity		Parent Entity	
2005	2004	2005	2004
\$	\$	\$	\$

Note 24 – Liabilities and assets of trusts and superannuation fund

Liabilities of the trusts and superannuation fund for which the economic entity and parent entity are Responsible Entity and Trustee but not shown in the financial statements of the economic entity or parent entity were:

Current liabilities

Payables	5,499,381	3,516,107	5,103,746	3,040,918
Provisions	51,079,088	9,337,929	47,950,427	7,796,974
Total liabilities	56,578,469	12,854,036	53,054,173	10,837,892

Rights of indemnities for liabilities incurred by the economic entity and parent entity not recorded in the financial statements were:

	56,578,469	12,854,036	53,054,173	10,837,892
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Provisions in the parent entity have increased significantly due to the large provision for distribution as at the 30 June 2005, which have been paid out at the date of this report.

The trusts and superannuation fund hold sufficient assets to meet these liabilities as and when they fall due.

The assets of the trusts and superannuation fund are not available to meet any liabilities of the economic entity or parent entity acting in their own right.

Note 25 – Capital commitments

Capital expenditure commitments contracted for	Nil	Nil	Nil	Nil
------------------------------------------------	------------	-----	------------	-----

Note 26 – Movement in carrying amounts of plant & equipment (see note 11)

44 Balance at the beginning of year	200,002	192,478	200,002	192,478
Additions	180,810	80,888	180,810	80,888
Disposals	(4,838)	(780)	(4,838)	(780)
Depreciation expense	(93,071)	(72,584)	(93,071)	(72,584)
Carrying amount at the end of year	282,903	200,002	282,903	200,002



Notes to the financial statements for the year ended 30 June 2005

Note 27 - Financial instruments

(a) Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2005	2004	2005	2004	2005	2004
	%	%	\$	\$	\$	\$
Cash	5	5	1,824,446	1,469,961	-	-
Receivables			-	-	-	-
Other financial assets - investments	6	6	3,037,021	2,875,429	-	-
Total financial assets			4,861,467	4,345,390	-	-

Payables			-	-	-	-
Total financial liabilities			-	-	-	-

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$
Cash	-	-	300	300	1,824,746	1,470,261
Receivables	-	-	813,495	607,363	813,495	607,363
Other financial assets - investments	200,000	150,000	-	-	3,237,021	3,025,429
Total financial assets	200,000	150,000	813,795	607,663	5,875,262	5,103,053
Payables	-	-	451,767	334,414	451,767	334,414
Total financial liabilities	-	-	451,767	334,414	451,767	334,414

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(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

(c) Net Fair Values

For other assets and other liabilities the net fair value approximates their carrying value.



DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 27 to 45 and the additional disclosures included in the directors' report designated as audited are in accordance with the Corporations Act 2001:
 - (a) comply with accounting standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the financial year ended on that date of the company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

46 George Pooley
Director

Dated this 31 August 2005



INDEPENDENT AUDIT REPORT TO THE MEMBERS

Scope

We have audited the financial report of Australian Ethical Investment Limited and controlled entities for the financial year ended 30 June 2005 as set out on pages 27 to 46.

The Company has disclosed information about the remuneration of Directors and Executives (“remuneration disclosures”), as required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, under the heading “Audited Remuneration Report Information” contained on pages 20 to 23 of the Directors’ Report, as permitted by the Corporations Regulations 2001.

The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entity it controlled at the year’s end or from time to time during the financial year. The Company’s Directors are responsible for the financial report and the Remuneration Disclosures contained in the Directors’ Report. We have conducted an independent audit in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company’s and the consolidated entity’s financial position, and performance as represented by the results of their operations and their cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporation Regulations 2001.

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The audit opinion expressed in this report has been formed on the above basis.

Independence

The Auditor’s Independence Declaration made in accordance with Section 307C of the Corporations Act 2001 dated 25 August, 2005 which is attached to the Directors’ Report, would be in the same terms if it had been given to the relevant Directors at the time this Audit Report was made.



Audit Opinion

In our opinion, the financial report of Australian Ethical Investment Limited is in accordance with:

1. (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June, 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.
2. The Remuneration disclosures that are contained on pages 20 to 23 of the Directors' Report designated as audited comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

THOMAS DAVIS & CO.

R.C. GEEVES PARTNER

Chartered Accountants

SYDNEY,

31 August 2005

Liability limited by a scheme approved under Professional Standards Legislation



Shareholder information

The shareholder information set out below was current as at 16 September 2005.

Substantial shareholders

Substantial shareholders of ordinary shares are specified in the table of the top 20 shareholders set out below.

Voting rights

Ordinary shares

The voting rights attaching to ordinary shares are fully set out in the company's constitution. In brief, at meetings of members each member entitled to vote may vote in person or by proxy or attorney, and:

- on a show of hands has one vote; and
- on a poll has one vote for every share held.

Options

No voting rights attach to any options on issue.

Distribution of shareholdings

Ordinary shares

Range	Holders	Units	%
1 – 1,000	483	135,001	15.19
1,001 – 5,000	73	171,736	19.32
5,001 – 10,000	13	91,495	10.30
10,001 – 100,000	12	376,366	42.35
100,000 – over	1	114,148	12.84
Totals	582	888,746	100.00
Non-marketable parcel	1	7	

Options issued under the employee options scheme

Range	Holders	Units	%
1 – 1,000	6	3,566	3.58
1,001 – 5,000	20	55,624	55.87
5,001 – 10,000	6	40,378	40.55
10,001 – 100,000	0	0	0
100,000 – over	0	0	0
Totals	32	99,568	100.00

20 largest shareholders

Ordinary shares

Name	Number of ordinary shares	%	Substantial shareholder
Ascalon Capital Managers Ltd	114,148	12.8	Yes
Mr Alistair David Clark	52,023	5.9	Yes
Mr Howard Pender	49,076	5.5	Yes
James Andrew Thier	45,436	5.1	Yes
Caroline Margaret Le Couteur	41,869	4.7	
Mr Trevor Roland Lee	39,174	4.4	
Mrs Judith Margaret Burton	35,233	4.0	
Gang - Gang Pty Ltd	31,000	3.5	
Mr Bruce Allan McGregor & Mrs Marion McGregor	24,447	2.8	
Dr Edward Arthur Iceton	16,500	1.9	
HB Sarjeant & Assoc Pty Ltd	16,301	1.8	
Daisy Thier	14,474	1.6	
Mr Peter Alexander Anderson	10,833	1.2	
Mr Michel Beuchat & Mrs Ann Beuchat	9,667	1.1	
Woodhill Farm Pty Ltd	8,334	0.9	
Mrs Jane Frances Hickling	8,200	0.9	
Ms Susie Edwards	7,941	0.9	
Mrs Hanneliese Claire Graf	7,347	0.8	
Mr Rodney Matthew Myer	7,332	0.8	
Judith Clark & Alistair Clark	7,119	0.8	



Corporate directory

Australian Ethical Investment Ltd ABN 47 003 188 930

Company secretary

Philip George

Telephone: 02 6201 1994
Facsimile: 02 6201 1988
Email: pgeorge@austethical.com.au
Mail: GPO Box 2435
Canberra ACT 2601

Principal place of business

Suite 66, Canberra Business Centre
Bradfield Street
Downer ACT 2602
Australia

Registered office

Suite 66, Canberra Business Centre
Bradfield Street
Downer ACT 2602
Australia

www.austethical.com.au

Share registry

Registries Ltd
ABN 14 003 209 836

Street: Level 2, 28 Margaret Street
Sydney NSW 2000

Telephone: 02 9290 9600

Facsimile: 02 9279 0664

Mail: Registries Ltd

PO Box R67

Royal Exchange

Sydney NSW 1223

Email: registries@registriesltd.com.au

www.registriesltd.com.au

Using the Registries Ltd website, shareholders are able to view balances, transaction history and recent dividend payments. They can also view and update email addresses, annual report elections and tax file numbers. Various forms are also available for download to assist in the management of shareholdings.

Stock exchange listing

Australian Stock Exchange Ltd
ASX code: AEF

Corporate vision and mission

Australian Ethical's vision

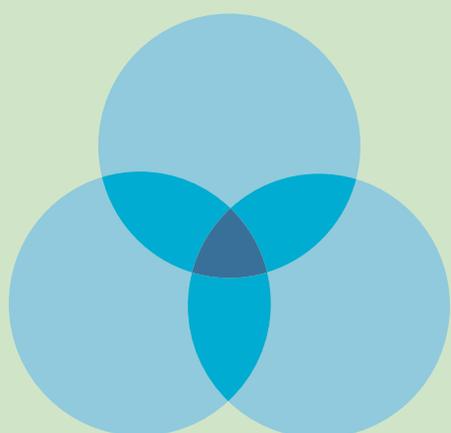
By its operations Australian Ethical will promote a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose as well as in pursuit of competitive return for chosen risk.

Australian Ethical's mission

Australian Ethical's mission is to provide those investors who share our social and environmental aims (as set out in our charter) with the means to earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment.

In order to fulfil our mission our goals are:

- to select every investment with which we are involved in accord with the Australian Ethical Charter;
- to earn a competitive return for the chosen level of risk upon every portfolio with which we are involved;
- to conduct our own operations in accord with the items of the Australian Ethical Charter, in particular we seek to:
 - nurture staff participation and control of Australian Ethical;
 - achieve a high standard of administrative service for investors in our products;
 - ameliorate wasteful or polluting practices in our own business operations;
 - encourage, care for and provide educational opportunity for our fellow workers, respect their individual needs, aspirations and idiosyncrasies;
 - and ensure our promotional material is comprehensive, transparent and readily understood.
- to generate and disseminate information regarding standards of corporate behaviour and to engage in dialogue with the corporate sector in terms of the items set out in the Australian Ethical Charter.





Save with Australian Ethical.

investments

clean transport

plantation timber

water quality

renewable energy

education

recycling

low-income mortgages

natural foods

hearing technology



Australian Ethical[®]
 Investment + Superannuation

Balanced
Trust:



Units in the trusts are offered and issued by Australian Ethical Investment Ltd ('AEI') ABN 47 003 188 930, AFSL 229949. Interests in the superannuation fund are offered by AEI and issued by the trustee of the fund, Australian Ethical Superannuation Pty Ltd ABN 43 079 259 733. Product disclosure statements are available from our website or by phone and should be considered before deciding whether to acquire, or continue to hold, units in the trusts or interests in the fund.

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Keogh's Creek, Tasmania. Photo: Philip Sloane

A recent company advertisement.

The Australian Ethical Charter[©]

The trusts shall seek out investments which provide for and support:

- a) the development of workers' participation in the ownership and control of their work organisations and places;
- b) the production of high quality and properly presented products and services;
- c) the development of locally based ventures;
- d) the development of appropriate technological systems;
- e) the amelioration of wasteful or polluting practices;
- f) the development of sustainable land use and food production;
- g) the preservation of endangered eco-systems;
- h) activities which contribute to human happiness, dignity and education;
- i) the dignity and well being of non-human animals;
- j) the efficient use of human waste;
- k) the alleviation of poverty in all its forms;
- l) the development and preservation of appropriate human buildings and landscapes.

The trusts shall avoid any investment which is considered to unnecessarily:

- i) pollute land, air or waters;
- ii) destroy or waste non-recurring resources;
- iii) extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment;
- iv) market, promote or advertise, products or services in a misleading or deceitful manner;
- v) create markets by the promotion or advertising of unwanted products or services;
- vi) acquire land or commodities primarily for the purpose of speculative gain;
- vii) create, encourage or perpetuate militarism or engage in the manufacture of armaments;
- viii) entice people into financial over-commitment;
- ix) exploit people through the payment of low wages or the provision of poor working conditions;
- x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices;
- xi) contribute to the inhibition of human rights generally.

water quality



bicycle parts



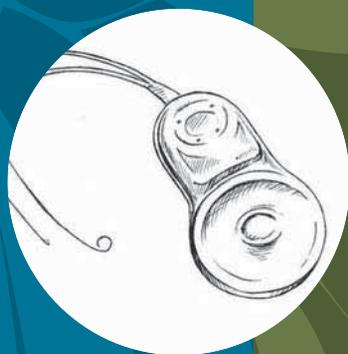
education



renewable energy



hearing technology



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