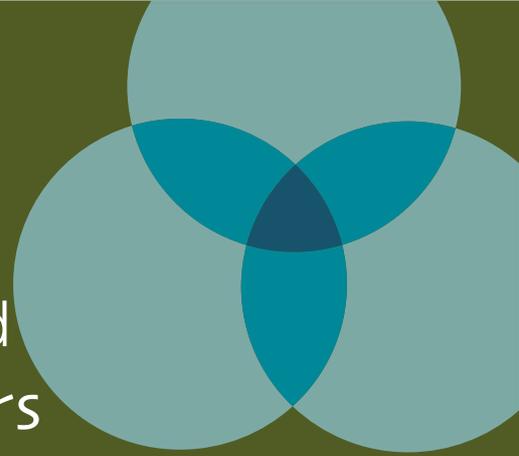


Australian Ethical Investment Ltd
Annual report to shareholders



for year ending 30 June 2007



australianethical[®] 

investment + superannuation

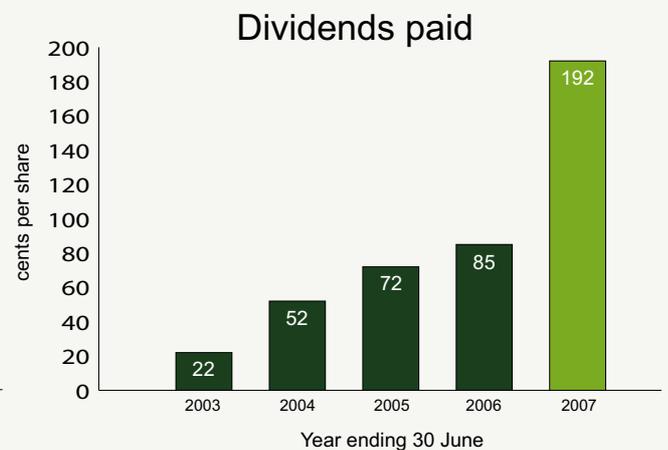
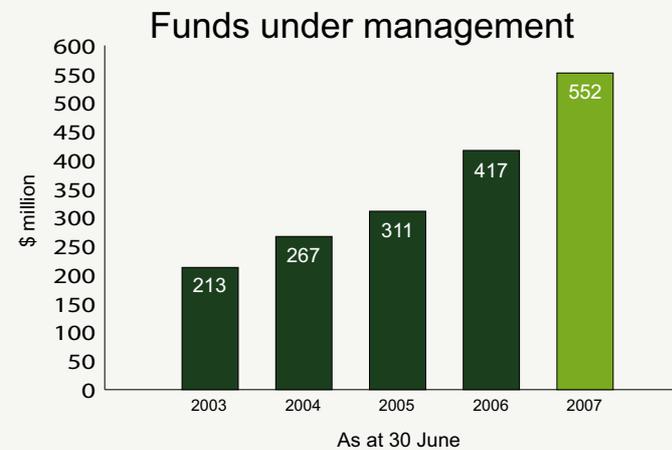
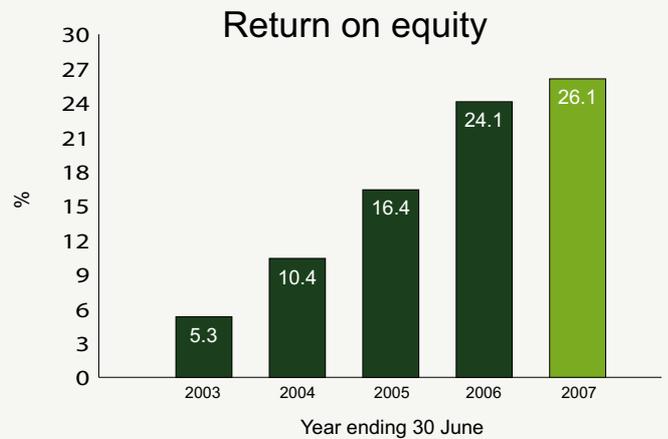
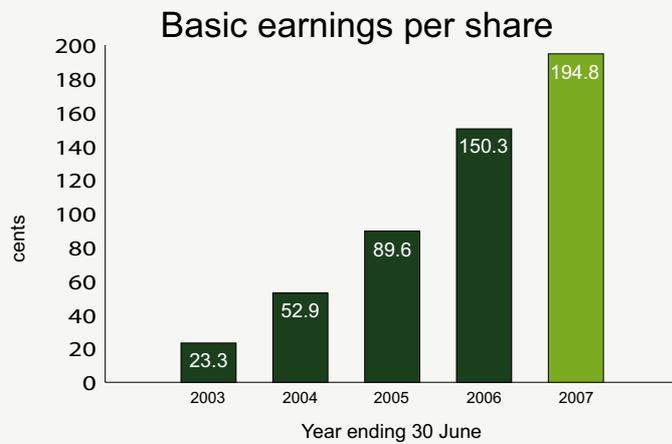
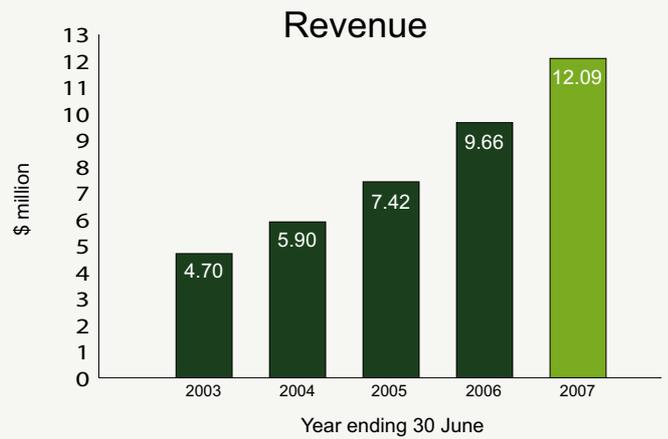
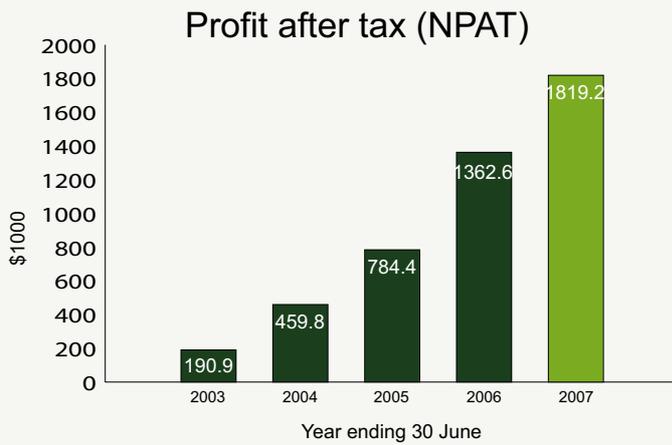
© Registered trademark of Australian Ethical Investment Limited.

for investors, society and the environment



Financial summary to 30 June 2007

as at	30 June 2007	30 June 2006	30 June 2005	30 June 2004
Current assets (\$'000)	5 174	5 176	5 833	5 074
Non-current assets (\$'000)	4 879	3 103	701	517
Current liabilities (\$'000)	2 293	1 928	1 456	974
Non-current liabilities (\$'000)	76	77	31	75
Net assets (\$'000)	7 684	6 274	5 047	4 542



2005 figures in the above tables and graphs have been adjusted where necessary as for first time adoption of Australian equivalents to International Financial Reporting Standards (AIFRS).



Contents

Chair's report	4
Chief executive officer's report	6
Sustainability report	7
Corporate governance statement 2007	10
Directors' report	14
Financial statements	26
Shareholder information	52
Corporate directory	53
Corporate vision and mission	53

The Australian Ethical Charter[©]

The Company will order its affairs so as to provide for and to 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 Company will also order its affairs so as to avoid activity 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.



Chair's report

An excellent year and a sound outlook



The board is pleased to report that the Australian Ethical Investment group has had another strong year in terms of profit and growth in funds under management, with a record dividend declaration of \$1.92 per share. The growth in return to our shareholders has been achieved without any compromise to our deep green investment strategy or our commitment to the Australian Ethical Charter. Our balance sheet remains strong with the ability to finance our change in superannuation administrator and to extend our marketing reach over 2008 as discussed below.

Climate change

In 2007 we have seen climate change become a mainstream concern. While overdue, this concern is positive for focusing consumer, government and corporate attention. Perhaps the Stern report of October 2006 created the tipping point in climate change awareness when it stated that 'climate change is the greatest and widest ranging market failure ever seen'. More positively, it reports that the benefits of strong, early action considerably outweigh the costs.

Australian Ethical has for a long time been a major investor in companies that are helping to prevent climate change.

World Trust

After many years with an unchanged product offering, we launched a new retail product, the Australian Ethical World Trust, in July. The World Trust aims to provide investors with long-term growth through investment in overseas companies which meet our Charter. The World Trust enables investors to support a wide range of socially and environmentally attractive activities that are not available for investment in Australia. Providing a specialised international

product gives investors more choice in achieving an ethical and appropriately diversified investment strategy.

The World Trust makes its investments through our new international wholesale trust, the Australian Ethical International Equities Trust.

Staff and management worked very hard to launch the new products on time, and the board has been pleased with interest in the World Trust to date.

Trevor Pearcey House

In March 2007, we moved into our refurbished premises at Block E Trevor Pearcey House in the Canberra suburb of Bruce. The refurbishment is a significant statement to the commercial building sector of how energy and resource intensity can be significantly reduced with appropriate forethought. The fact that the building is a refurbishment rather than a new building demonstrates that the existing cohort of conventional commercial buildings can be reworked to produce better environmental and productivity outcomes. An application has been lodged with the Green Building Council of Australia for a Green Star rating. So far our building has won two prizes – a highly commended in the United Nations Association of Australia World Environment Day Awards and the Commercial Winner and Overall Winner in the Keep Australia Beautiful ACT Sustainable Cities Awards.

Community grants

Our company's growing profits means greater returns to the community through our community grants program. The 2006–07 record profit translates into a grant of \$225 000. In 2007, for the first time, a major project grant of \$50 000 was made to The Australia Institute. The Institute will develop teaching materials on climate change for secondary schools. We chose to support this major project as it ties in with our charter commitment to education, the environment and to achieving long term positive change in society.

Our commitment to supporting grass roots community groups also continues. In 2007 grants were made to 40 organisations involved in a wide range of conservation and charitable activities in Australia and overseas.

Corporate governance

The board has focused considerable effort in strengthening our company's corporate governance. With the departure of Pauline Vamos to take on a full-time role at ASFA, we have initiated a major review of our corporate governance at board level, including:

- actively seeking at least one additional independent director;
- a skills audit of current and prospective directors;



- performance assessments of current directors;
- investigating ways to improve board, committee and management function;
- a continuing commitment to our stated objective of achieving a majority of independent directors, assuming the availability of suitable candidates.

I am very much looking forward to my new role as chair. The staff, management and board of Australian Ethical are hard working, innovative and passionate about our group's goals. It is an exciting time for the group as we push to implement our growth strategies. Wise use of the planet's resources has never been more important, and by growing our customer base and our funds under management we will contribute positively to this goal.

Year ahead – strategic plans

In March 2007, the board and senior management conducted a review of the Australian Ethical group's strategy. As a result of this review, we are aiming to broaden our marketing reach beyond our traditional support base. Strategies are in place to target a more mainstream retail market and the associated adviser distribution channels. Greater resources will also be allocated to attracting institutional investment. This is a new direction in terms of our marketing effort, but not in terms of our commitment to being Australia's most ethical and deep green fund manager.

Naomi Edwards
Chair

Grants to community organisations

\$6600 \$10 000 \$50 000

Major project grant

The Australia Institute: teaching materials on climate change for Australian schools

National Trust of Australia (ACT) – St John's Church Heritage Conservation Fund: conservation of the Golden Sun Moth and its habitat
Engineers Without Borders
Friends of the Earth Australia: anti-nuclear campaigns

ACT Eden-Monaro Cancer Support Group
Barefoot Economy
Australian Marine Conservation Society
Camp Quality
Australians for Disability and Diversity Employment
Pedal Power ACT
WIRES (NSW Wildlife Information, Rescue and Education Service)
Bicycle Federation of Australia
NRMA CareFlight
WaterAid Australia

\$2900

Aid/Watch
Animal Liberation NSW
Animals Asia Foundation (Australia)
Asylum Seeker Resource Centre
Australian Crohn's & Colitis Association
Australian Drug Foundation
Canberra Environment and Sustainability Resource Centre
Chrysalis Insight Incorporated
Conservation Council south east region and Canberra
Edgar's Mission
Fair Trade Association of Australia and New Zealand
Head High
Hepburn Wildlife Shelter
HopeStreet Urban Compassion
International Women's Development Agency
Kids Under Cover
Mineral Policy Institute
National Parks Association of New South Wales
Rainforest Rescue
Respite Care Bega Valley
New Internationalist Publications
Prison Fellowship Australia (Victoria)
Vulcana Women's Circus
Darling Range Wildlife Shelter
Marine Stewardship Council (Asia Pacific)
The Friends of Oolong
Wildlife Preservation Society of Queensland



Chief Executive Officer's report

Strong performance



The Australian Ethical Investment group continued to perform strongly in the second half of the 2006–07 financial year. I am very pleased to report a consolidated net profit of \$1 819 177. This trading result represents an increase of 34% over the previous financial year's net profit of \$1 362 612. The result continues the group's trend of an increased profit every year since 2003.

Growth in funds under management was again strong with good investor inflow and positive returns from investments. At 30 June 2007, funds under management, after a distribution of \$59 million, stood at \$552 million.

Increasing funds under management is essential for the company as it results in increased revenue and assists in building economies of scale. The company's cost to income ratio continues to fall with a decrease from 77.4% in 2005–06 to 76.1% in 2006–07. This is a particularly pleasing result given the increased employment costs we have experienced. As a result of the improved profit, return on equity has increased from 24.1% to 26.1%.

The continued success and growth of our business is dependant on the performance of the Australian Ethical trusts. 2006–07 saw solid returns across all of the Australian Ethical trusts. The Australian Ethical Equities Trust was the star performer with a return of 36.9%, buoyed by a strong performance from its small company investments. The other three Australian Ethical trusts also performed strongly against their peer groups. The Australian Ethical World Trust was launched in July 2007 and we have been pleased with the response to date. We remain committed to investing in quality companies taking into account ethical, governance and financial strength and ensuring our returns are commensurate with the risk profile of the individual trust.

Historically the Australian Ethical Retail Superannuation Fund has experienced significant and steady growth. This strong growth continued during the financial year as people took advantage of choice of funds and recent changes to legislation.

Last year the directors took the decision to retain some of the profits to invest in the future growth of the company and to rebuild liquidity following the purchase of Block E Trevor Pearcey House. These aims have now been achieved. Mindful of the significant franking credits held by the company, the directors have decided that shareholders will be paid a final dividend (fully franked) of \$1.52 per ordinary share. Added to the interim dividend of 40 cents per share, the total dividend for the 2006–07 financial year will be \$1.92 per share, an increase of 126% over the previous year.

As many of you would be aware we refurbished Block E of Trevor Pearcey House to meet high standards of energy efficiency and to provide our staff with a comfortable and productive working environment. We are now well settled into our new home and I am pleased to advise it is everything we hoped for in terms of amenity and resource efficiency.

Outlook

As previously flagged, we are keen to attract increased non-retail investment and are working through strategies which will allow us to do this better. Rest assured this will not be at the expense of our existing retail customers who continue to be great supporters of the Australian Ethical trusts.

The share market can be a volatile creature. This has been amply demonstrated in recent months by the reaction of global financial markets to the poor lending practices of American sub-prime mortgage providers. Australian Ethical does not invest in any sub-prime mortgage debt in our fixed interest portfolio. We have no obvious exposure to 'at risk' issuers of sub-prime mortgages. However, sharp movements in markets inevitably affect investor sentiment and it seems likely that we are yet to see the full extent of the fallout from these problems. Other challenges facing the company include keeping investors informed about how the volatility of markets affects their savings and finding and retaining talented staff in Canberra's tight labour market.

We have made considerable progress in attaining greater efficiencies in our business. The transfer of trust assets to a single custodian is largely complete. We plan to transition the administration of the superannuation fund to a new service provider in 2008. This move will have a significant impact in reducing the cost of that service in future years and enabling an improvement in service standards.



Funds under management stood in excess of \$600 million in early September 2007 but recent volatility has taken a toll on capital growth and it has not been as strong as we would have liked. Management and the board have put considerable effort into developing a marketing strategy to attract new inflows and we are hopeful this will produce long-term results. In the mean time I am cautiously optimistic about our outlook for the current year.

I would like to thank all the staff for their work in achieving yet another great result. I would also like to thank you

our shareholders for your on-going support and I look forward to seeing you at the annual general meeting on 22 November.

Anne O'Donnell
Chief Executive Officer

Sustainability report

Australian Ethical is committed to conducting our own operations in accordance with the Australian Ethical Charter. During the year, there were a number of sustainability highlights, two of which are detailed below. Further information on Australian Ethical's social, environmental and economic performance will be provided in the company's 2007 sustainability report.

Our new home

In March 2007, Australian Ethical moved into its refurbished business premises, Block E of Trevor Pearcey House. The office refurbishment was undertaken within the ethos of the Australian Ethical Charter, and designed to achieve environmental benefits and resource efficiency as well as increased staff comfort and productivity. Here are some facts and figures about our new home:



Trevor Pearcey house

The Building

Block E, Trevor Pearcey House, Traeger Court, 34 Thynne Street, Bruce ACT 2617

- part of the Fern Hill Technology Park, about 5km from the Canberra CBD
- one block in a complex of five near identical, square two storey blocks. Prior to refurbishment it was a standard 20-year-old commercial office building

- purchased strata title 2006, occupied March 2007
- net lettable area: about 1000m²
- we envisage it will be sufficient for about 65 staff
- designated parking spaces for small cars and motorbikes
- enclosed bicycle storage for staff and visitor bicycle racks.

Project cost

- about \$4 million in total including refurbishment
- \$2.3 million for purchase of base building

Staff health, comfort and control

Four dimensions of the refurbishment reflect this aim:

- better access to natural light
 - four internal 'stacks' with glass brick sides to allow natural light into (and to allow hot air to exit from) the middle of the first floor



The kitchen, showing the internal 'stacks'.

- opened barrel vault roof, installed louvered windows and a cathedral ceiling



- limited internal office partitioning
- better access to natural ventilation
- openable windows – over 90% of the floor space is naturally ventilated
- more comfortable feeling of warmth/‘coolth’
- building is now heated by hydronic radiators
- downstairs the slab has been exposed and insulated to avoid the need for mechanical cooling
- improved indoor air quality
- use of paints and sealants with low volatile organic compounds (VOC)
- low VOC emissions from reconditioned (post-consumer) carpet
- very low formaldehyde (E0) composite wood products.

Environmental savings

Studies into green buildings have clearly shown their environmental benefits. These include a reduction in waste going to landfill through the reuse and recycling of materials, a reduction in energy and water consumption and lower greenhouse gas emissions. Occupants of green buildings benefit from improved air quality and a more natural office environment, translating into greater productivity, and less staff turnover.



The reception area

Ratings

An application for a Green Star Office Design rating has been submitted.

The Green Star rating system, an initiative of the Green Building Council of Australia, evaluates the environmental design and performance of Australian buildings based on a number of criteria, including energy and water efficiency, quality of indoor environments and resource conservation.



Keep Australia Beautiful 2007 ACT Sustainable Cities Award.

Awards

In June 2007, Australian Ethical received a ‘special commendation’ in the United Nations Association of Australia World Environment Day Awards 2007 – Szencorp Green Building Award.

In August 2007, Australian Ethical was awarded ‘Overall Winner’ in the Keep Australia Beautiful 2007 ACT Sustainable Cities Awards. The award recognises the sustainable refurbishment of our Trevor Pearcey House premises.

Refurbishment features

Energy usage

Features intended to save energy and reduce ongoing green house gas emissions:

- passive cooling and ventilation combined with a wider thermal comfort band (19–26°C) reducing demand on mechanical systems
- double glazing
- external walls are reverse brick veneer – thermal mass on the inside is insulated (75mm) from the outside air temperature
- R5 insulation under the metal deck roof
- improvements to the shading panels
- exposing the ground floor slab
- evacuated tube solar water heating.



The building is designed to be passively cooled in summer by a night purge. When the night temperature drops well below the internal temperature the windows open automatically to draw cool air into the building. Hot air is exhausted via the stacks and the louvered windows in the barrel vault.

Water usage

Water efficient features incorporated into the building:

- taps upgraded to 4L per minute, showerheads to 5A fittings – 6L per minute
- upgrade of the existing single flush toilets to dual flush with a 9/4.5L system.
- urinals upgraded with a Sani-Sleeve low water use system reducing water use by 95%
- rainwater tanks collecting from the roof and plumbed for use in flushing the toilets
- garden drip irrigation with moisture sensor.

Waste

Some of the uses of recycled material:

- glass blocks used in the original structure were reused for the stacks and wall partition;
- 250m² of carpet tiles were reused
- all ceiling tiles used were already on the site
- noise insulation in the ceiling from the old fit out was reused in partition walls
- metal shade structures were re-modelled and repainted, in some cases had new mesh installed
- floor tiles in the old computer room were painted and reused for wall decoration
- reused large quantities of v-jointed plasterboard, doors and some air conditioning ducting from original fit-out
- materials which could not be reused were, in general, sent to recycling.

Recycling rate for the project of >80% by weight.

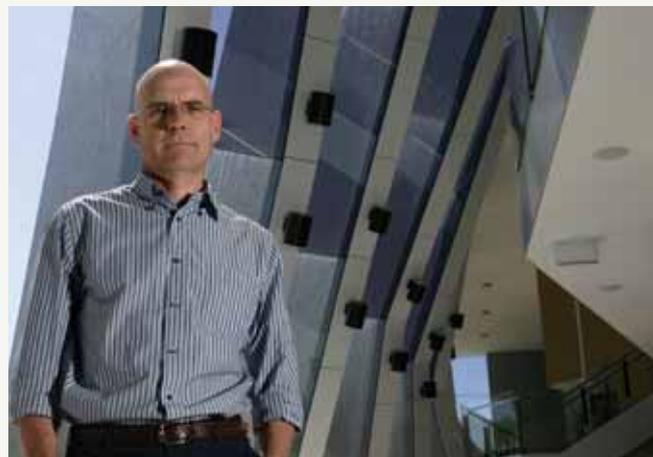
Community grants program

As prescribed in the company's constitution, 10% of profit must be donated to charitable, benevolent and conservation purposes. Recipients of the grants are involved in a wide range of environmental, charitable and community activities, which the company seeks to support as an important contribution to a positive and sustainable society. In 2007 a record \$224 964 has been paid to 41 organisations, an increase that is close to \$55 000 from the previous year.

The board has reviewed the structure of the grants for 2007 and future years. The grants now consist of two components – the payment of two major project grants per year and around 25 smaller grants. The large major project grants will typically be made to one social and one conservation project each year. However, as 2007 is the first year in which a major project grant is being paid, only one project has been selected and 40 organisations have received grants as outlined on page 5.

As the company is increasingly able to support the community with larger grants, the board wants to ensure that it supports larger projects that have a lasting tangible impact. Significant projects that can be supported over a number of years are sought. A grant committee has been established to short list potential projects, and invite and review applications.

The major project grant for 2007 is The Australia Institute's 'Teaching materials on climate change for Australian schools' project, which involves the production and dissemination of a series of discrete teaching materials on the scientific, economic, political and ethical aspects of climate change for students in the early years of high school.



Clive Hamilton of The Australia Institute, major project grant winner for 2007.



Corporate governance statement 2007

This statement discloses the extent to which Australian Ethical Investment Ltd has followed the best practice recommendations set down by the ASX 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 ten core principles and 28 specific recommendations.

While the ASX 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 CEO;
- 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 shareholder¹ 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% of the relevant amount – considered from both the company's perspective and that of the other party.

The board of Australian Ethical did not comprise a majority of independent directors during the reporting period. For five months of the reporting period, the board comprised a majority of executive directors (three out of five directors on the board). For the remaining months of the reporting period, the board comprised an equal number of independent and executive directors (three of each).

Pauline Vamos has resigned effective 31 August 2007. With Pauline's resignation the board comprises three executive directors and two independent directors. The independent directors are Naomi Edwards and Justine Hickey. Howard Pender, Caroline Le Couteur and James Thier are the executive directors.

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. In particular, the executive directors have a strong understanding of the Australian Ethical Charter and the implementation of the Charter over a long period. The executive directors play a pivotal role in pursuing the aims of the Charter at all levels of the business.

Since listing on the Australian Securities Exchange, the board has undergone change in its composition and structure.

¹ As defined in section 9 of the *Corporations Act 2001*



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 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 ten 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;
- with the prior approval of the chair, 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 chair was an independent director throughout the reporting period.

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 chair 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 AEI 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 ASX Listing Rules, directors must advise the ASX 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

CEO and CFO 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 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). The chair of the committee is Naomi Edwards.

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:

- the committee includes the company secretary who is responsible to the chair of the board and the board generally on governance matters;



- at a number of meetings 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 ASX Listing Rule disclosure requirements. The disclosure policy appears on the company's website.

Respect the rights of shareholders

The company maintains a comprehensive and informative 'shareholder centre' 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 produces a newsletter, *Aim High*, for trust and superannuation investors, and since listing the company has introduced a shareholder newsletter. 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 company's 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 monitors that appropriate actions are taken to ensure the company has an appropriate internal control environment in place to manage the key risks identified. Recently the board has delegated to its Compliance and Risk Committee the responsibility:

- to oversee and monitor the implementation of the company's risk management systems;

- to review on a quarterly basis the company's risk registers and recommend to the board any changes to those risk registers.

The company has 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 and chief financial officer certify to the board that the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control.

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.

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 chair. The board as a whole then considers and discusses the results of the questionnaire at a board meeting. The board chair 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.

Where discussed at a board meeting, 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 chair. For other executives, the review is undertaken by the chief executive officer.

The process is as follows:

- receive 360° comments from staff (and directors if applicable);
- review comments once received and incorporate into the annual review as considered appropriate. Emphasis is 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.

In respect of the chief executive officer, the chair 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

Australian Ethical's remuneration policy is designed to accord with the principles of the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure Australian Ethical 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'

Australian Ethical's fundamental remuneration policy is to treat all staff in an equitable fashion and not to have special remuneration arrangements for particular staff. All permanent staff (including the chief executive officer and executive directors) receive a cash salary and participate in the staff bonus and employee share ownership scheme. Remuneration is not subject to set performance hurdles.

All permanent staff are eligible to participate in the staff bonus which is determined by 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, part-time staff receive a pro-rata amount. The constitution provides that the bonus can be (and often has been) satisfied by the issue of shares.

Under the employee share ownership plan a pool of options, which would if exercised, amount to 5% of the existing ordinary share capital is issued to staff. All permanent staff are eligible to participate in the plan. The price at which the options can be exercised is set 10% in excess of the market price of the shares. The number of

options received by an individual staff member depends on their salary level. Options are not exercisable for a period of three years from their date of grant.

Australian Ethical has a mix of full-time and part-time staff and endeavours to provide flexible employment arrangements within business needs.

Australian Ethical monitors employee's salaries against the wider market and reviews salary levels annually. The company adopts an in-principle guideline of paying individual staff a total fixed remuneration based on 80% to 120% range of the 50th percentile identified in a biennial salary survey, with an unweighted average of 95–105% and with appropriate macro economic indexation of comparator benchmarks over time.

The guideline would not be implemented in such a way that salaries would reduce where there was a market crash in relevant salaries.

Remuneration committee

The board has a remuneration committee. The members of the remuneration committee at the end of the reporting period were Naomi Edwards and Pauline Vamos. The charter for the remuneration committee is 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 approved by shareholders at the annual general meeting held in November 2005.

Recognise the legitimate interests of stakeholders

The proper purpose of Australian Ethical is to promote ethical/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 on 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' report and financial statements were lodged with the Australian Securities Exchange on 31 August 2007).

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 2007. In compliance with the *Corporations Act 2001*, the directors report as follows:

Directors

The name of each person who has been a director during the year ended 30 June 2007 and to the date of this report are:

Name	Time in office	
George Pooley	5 years	Resigned 13 October 2006
Caroline Le Couteur	16 years	
James Thier	16 years	
Howard Pender	16 years	
Naomi Edwards	2 years	
Pauline Vamos	1 year	Notice of resignation, effective 31 August 2007
Justine Hickey	<1 year	Appointed 1 March 2007

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

Company secretaries

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

Name
Philip George

Principal activities

The principal activity of the controlling entity during the financial year was to manage four public offer ethical investment trusts (registered managed investment schemes). The controlling entity's wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd, was trustee of the Australian Ethical Retail Superannuation Fund during the financial year. During the course of the year, the controlling entity established two further registered managed investment schemes – the Australian Ethical International Equities Trust and the Australian Ethical World Trust. The International Equities Trust is a wholesale trust which aims to offer exposure to high quality companies listed on global share markets and aims to provide long-term growth through such investments. The World Trust is a public offer trust that will hold units in the International Equities Trust.

Other than as described, there were no other significant changes in the nature of the controlling entities 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 2007 of \$1 819 177. This result is a 34% increase on the result of \$1 362 612 for the previous financial year.

Review of operations

The 2007 result continues a trend of excellent results.

The company has continued to experience growth in funds under management and as a consequence improved revenue and profitability. As at 30 June 2007, funds under management totalled \$552M (ex. distribution). This compares with funds under management of \$417M (ex. distribution) as at 30 June 2006. The aggregate distribution amount paid for the current period was \$59M, compared to a distribution the previous year of \$41M.

The costs to income ratio¹ has reduced from 78% in the previous year to 76% this year and return on equity has increased from 24.1% to 26.1%.

The superannuation business (Australian Ethical Superannuation Pty Ltd) again contributed significantly to the excellent result and superannuation continues to be a growth engine of the business. The June 2007 inflow for the Australian Ethical Retail Superannuation Fund was over five times the average monthly inflow experienced for the 11 months to May 2007.

The company continues to apply the principles of the Australian Ethical Charter in its investment and business activities.

As required under the company's constitution, an amount of \$224 964 has been provisioned as tithe for this year and will be donated to a number of non-profit organisations for useful charitable, benevolent or conservation purposes.

Except as described under *Principal activities* above, during the 2006–07 financial year the company did not make any significant changes to its core funds management operations. Gary Leckie replaced Mark Bateman as chief financial officer in February 2007. There were no other significant changes in management or organisational structure.

During the year the company relocated to Block E, Trevor Pearcey House, Traeger Court, 34 Thynne Street, Bruce ACT 2617. The relocation followed an environmentally exemplary refurbishment of the premises at Trevor Pearcey House. Refurbishment costs including fit-out totalled \$1.8M.

¹Tithes expense is not included in costs when calculating this ratio.



Other than the refurbishment of the building and the inflows into the superannuation fund in June 2007, there were no unusual events or transactions which affected the financial result for the period ended 30 June 2007.

Financial position

The company's capital structure and policies remain relatively simple. The company currently has no debt and capital not required for working purposes is held as an investment in Trevor Pearcey House and an investment portfolio comprising triple A securities, senior bank debt and corporate rated debt.

Maintenance of a certain level of capital is a condition of the company's Australian Financial Services Licence. The company currently meets the \$5M capital requirement above which no extra capital is required as a result of increased funds under management.

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

To date a significant portion of the investment in the Australian Ethical trusts has come from retail clients. Following a review of strategic options in early 2007 the directors have taken the decision to put resources into broadening the appeal of the Australian Ethical products. Expenditure related to this expansion of focus is likely to impact on our cost to income ratio given the expected time lag between work carried out and the inflow of funds. We can expect some deviation from the downward trend which the costs to income ratio has experienced over the past three years.

The company will continue to focus on building and servicing its clients and streamlining its processes, ensuring scalability of operations and seeking cost efficiencies. The company reviews its product offerings annually and this analysis forms the basis of decisions regarding product offerings.

At this time the company has no plans to make any significant changes to its core operations in the coming financial year.

Other information relating to business strategies and likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

Events subsequent to balance date

Pauline Vamos has advised the company that she will resign from all positions with the company with effect from 31 August 2007, to take up full-time employment.

The directors have declared that a final dividend of \$1.52 per ordinary share (fully franked) be paid to shareholders. This is in addition to the interim dividend of 40 cents per

ordinary share paid in March 2007. The total dividend for the year will be \$1.92 per share, an increase of 126% over the 85 cents per ordinary share paid in respect of the previous financial year.

The board notes that the declaration and quantum of any future dividend will depend on the company's ongoing performance and capital requirements. In particular, no inference should be drawn about the quantum of any future dividend based on the quantum of 2006–07 dividend, or on the dividend payout ratio for the 2006–07 year.

No other 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 2007, 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.

During the year the company entered into deeds of indemnity, insurance and access with directors and officers which provides a general indemnity against liabilities incurred in that capacity to the extent permitted by the *Corporations Act 2001*.

The deed obligates the company to use its reasonable endeavours to obtain and maintain insurance for the benefit of a director or officer of the company and any subsidiary, to the extent that such coverage is available in the market on terms which the company reasonably considers financially prudent and on terms consistent with the practice of comparable companies operating in similar markets.

The deed also provides that the company will pay on behalf of the director or officer or lend to the director or officer the amount necessary to pay the reasonable legal costs incurred by the director or officer in defending an action for a liability incurred as a director or officer of the company or a subsidiary on such terms as the company reasonably determines. The director or officer must repay to the company such legal costs if they become legal costs for which the company was not permitted by law to indemnify the director or officer. The company need not pay or provide a loan to the director or officer to the extent that the director



or officer is actually reimbursed for legal costs as they fall due under an insurance policy or otherwise.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify a director, officer or auditor of the company or of any related body corporate against a liability incurred as such director, officer or auditor.

Directors' particulars

Qualifications, experience and special responsibilities

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 ACT 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.

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 NSW. He has held senior positions in local government and within peak bodies of the credit union movement. James is the company's business development manager.

James is also a director

of Australian Ethical Superannuation Pty Ltd and is on the investment and compliance committees. James has recently undertaken a Churchill Fellowship to examine the mechanisms of shareholder advocacy.

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 ASX listed companies. Howard is a director of Australian Ethical Superannuation Pty Ltd and is a member of the finance and investment committees.



Naomi Edwards B.Sc. (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 a director of Australian Ethical Superannuation Pty Ltd, chairs the audit committee and is a member of the investment and remuneration committee.

Pauline Vamos B.A. LLB
AACI
Non-Executive Chairperson

Pauline is a qualified lawyer and an Associate of the Australasian Compliance Institute. She has over 20 years experience in the financial services industry, in particular financial planning, superannuation, funds management and both life and general insurance. For





the six years prior to March 2004, Pauline was with ASIC and played key roles in relation to the implementation of the Managed Investments legislation and Financial Services Reform. Pauline currently provides strategic compliance solutions for various clients. Pauline is a director of Australian Ethical Superannuation Pty Ltd, the controlled entity of AEI, is chair of the compliance committee, chair of the remuneration committee and is a member of the audit and finance committees.

*Justine Hickey B.Com. GAICD SAFin ASIP(UK)
Non-Executive Director*

Justine has over 15 years experience in investment and funds management, as an equities portfolio manager and in senior management. She was Head of Equities

at Suncorp Investment Management in Brisbane until 2004 and previously a Portfolio Manager at Flemings Investment Management (now JP Morgan) in the UK. Justine is a director of Hyperion Flagship Investments Ltd and chairs the Youth Enterprise Trust Foundation – which supports disadvantaged youth. She also is a member of the investment committees of Dalton Nicol Reid and the University of Melbourne. Justine chairs the investment committee.



Directors' meetings

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

	Board meetings		Audit committee		Finance committee		Investment committee		Remuneration committee		Compliance committee	
	No. eligible to attend	No. attended										
George Pooley	2	2	1	1	1	1	-	-	1	1	-	-
Caroline Le Couteur	8	8	-	-	-	-	-	-	2	2	-	-
James Thier	8	6	-	-	-	-	5	3	-	-	4	3
Howard Pender	8	8	-	-	7	7	5	5	-	-	-	-
Naomi Edwards	8	6	3	3	-	-	-	-	3	3	-	-
Pauline Vamos	8	8	2	2	5	5	-	-	1	1	4	3
Justine Hickey	2	2	-	-	-	-	2	2	-	-	-	-

Directorships held in other listed entities in the last three years

Name	Entity
Howard Pender	SoftLaw Corporation Limited
Pauline Vamos	Plan B Group Holdings Limited
Justine Hickey	Hyperion Flagship Investments Limited



Remuneration report

The information which follows through to the end of the section titled *Employment contracts of directors and senior executives* is subject to audit by the external auditor.

Names and positions of key management personnel (directors and named executives) at any time during the financial year

Parent entity directors

Name	Position	
George Pooley	Chairperson, non-executive	Resigned 13 October 2006
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Pauline Vamos	Chairperson, non-executive	
Justine Hickey	Director, non-executive	Appointed 1 March 2007

Executives

Name	Position	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	Resigned 2 February 2007
Philip George	Company secretary/ legal counsel	
Ruth Medd	Director of wholly-owned entity	
Gary Leckie	Chief financial officer	Appointed 2 February 2007

AASB 124 'Related Party Disclosures' requires disclosure of compensation of key management personnel. Key management personnel is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The *Corporations Act 2001* requires disclosure of the remuneration of:

1. each director of the company; and
2. each of the five named company executives who receive the highest remuneration for that year;
3. if consolidated financial statements are required – each of the five named relevant group executives who receive the highest remuneration for that year.

With the exception of Ruth Medd, the above named directors and executives are key management personnel of the company. Ruth Medd is a group executive.

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. It also has regard to recommendations from its Remuneration Committee. 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.

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.

Secretaries, senior managers, executive directors and group executives

The company's fundamental remuneration policy is to treat all staff (including 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 CEO, executive directors and 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 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 a bonus² to current employees which is set by reference to the profit of the company for that year. 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 options³ 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. 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. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options 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.

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. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options issued under the employee share ownership plan are set out under remuneration policy above. Options are performance based in two ways. Firstly, in most cases, staff 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. Secondly, option value can only be realised if the market value of the underlying shares increase 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 five financial years.

Dividends through the same period have increased from a dividend out of the profits of the 2001–02 year of 20 cents per share to a dividend out of the 2005–06 year profits of 85 cents per share. The dividend declared by the directors for the 2006–07 year is 192 cents per share.⁴

The company’s shares have traded on the ASX since 17 December 2002. Movements in closing share price at the beginning and end of financial years since listing are as follows:

Date	Closing daily price ⁵
17 December 2002	\$12.50
30 June 2003	\$11.30
30 June 2004	\$13.00
30 June 2005	\$17.20
30 June 2006	\$28.50
30 June 2007	\$48.00

The company’s earnings over the last five years are as follows:

Year	Earnings
2002–03	\$190 921
2003–04	\$459 761
Adoption of AIFRS	
2004–05	\$784 419
2005–06	\$1 362 612
2006–07	\$1 819 177

⁴An interim dividend of 40 cents per share was paid in March 2007, so the final payment to shareholders will be 152 cents per share.

⁵Where 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.

²See Note 1(k) in the attached financial report

³See Note 25 in the attached financial report



Remuneration details for the year ended 30 June 2007

Parent entity directors' remuneration

	Short-term employee benefits			Post employment benefits	Other long-term benefits	Termination benefits	Share-based payment		Total
	Cash salary and fees	Bonus cash	Other	Super			Bonus shares	Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
2007									
George Pooley	19,749	-	-	-	-	-	-	-	19,749
Caroline Le Couteur	142,449	5,500	-	12,017	3,431	-	-	7,907	171,304
James Thier	143,516	-	-	11,804	2,016	-	3,759	5,928	167,023
Howard Pender	138,954	3,575	-	11,633	2,089	-	-	6,082	162,333
Naomi Edwards*	39,300	-	-	3,150	-	-	-	-	42,450
Pauline Vamos	52,223	-	-	4,205	-	-	-	-	56,428
Justine Hickey*	17,314	-	-	741	-	-	-	-	18,055
Total	553,505	9,075	-	43,550	7,536	-	3,759	19,917	637,342

*Naomi Edwards had a one off contract with the company to assist in establishing a product profitability model. Justine Hickey had a one off contract with the company to provide consulting service on an integrated IFSA project. The terms and conditions of these contracts are no more favourable than those that is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual. Naomi Edwards also received sponsorship money totalling \$2,500 in relation to a conservation and social justice event.

2006									
George Pooley	57,188	-	-	-	-	-	-	-	57,188
Ray De Lucia	3,259	-	-	-	-	-	-	-	3,259
Caroline Le Couteur	131,882	-	-	11,484	3,196	-	4,300	7,536	158,398
James Thier	124,586	2,153	-	10,300	1,638	-	1,000	6,048	145,725
Howard Pender	113,237	-	-	10,291	1,791	-	1,613	3,128	130,060
Naomi Edwards	28,420	-	-	2,558	-	-	-	-	30,978
Total	458,572	2,153	-	34,633	6,625	-	6,913	16,712	525,608

Named executives remuneration (including other key management personnel)

	Short-term employee benefits			Post employment benefits	Other long-term benefits	Termination benefits	Share-based payment		Total
	Cash salary and fees	Bonus cash	Other	Super			Bonus shares	Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
2007									
Anne O'Donnell	190,804	5,500	-	17,259	5,659	-	-	12,043	231,265
David Ferris	158,681	-	-	13,843	5,046	-	5,290	9,307	192,167
Mark Bateman	140,481	5,500	-	7,076	-	-	-	7,916	160,973
Philip George	162,880	5,500	-	14,088	3,503	-	-	9,754	195,725
Ruth Medd	28,500	-	-	1,800	-	-	-	-	30,300
Gary Leckie	118,374	5,500	-	10,257	2,849	-	-	5,974	142,954
Total	799,720	22,000	-	64,323	17,057	-	5,290	44,994	953,384
2006									
Anne O'Donnell	172,147	-	-	15,225	4,817	-	4,300	10,100	206,589
David Ferris	134,878	-	-	11,764	3,044	-	4,135	8,773	162,594
Mark Bateman	113,643	4,300	-	10,008	3,287	-	-	7,076	138,314
Philip George	140,622	2,718	-	12,330	2,926	-	-	5,208	163,804
Ruth Medd	24,710	-	-	1,459	-	-	-	-	26,169
Total	586,000	7,018	-	50,786	14,074	-	8,435	31,157	697,470



Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The bonuses were paid on 22 September 2006. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

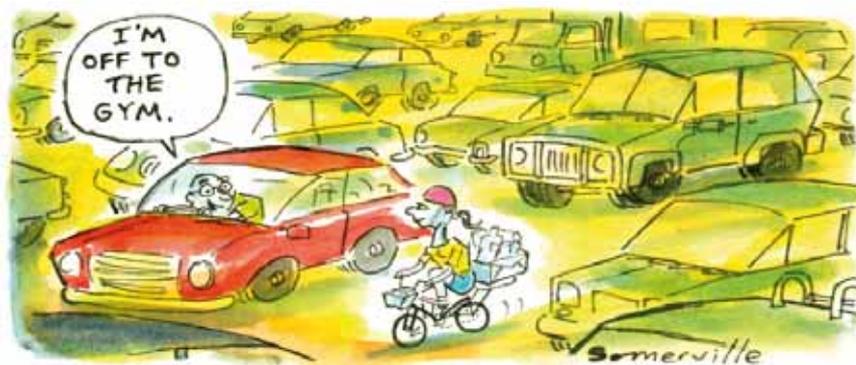
Options granted as remuneration – disclosures required under AASB 124

	Vested no.	Granted no. ^(a)	Grant date	Value per option at grant date ^(b) \$	Exercise price \$	First exercise date	Last exercise/ expiry date
Parent entity directors							
George Pooley	-	-	-	-	-	-	-
Caroline Le Couteur	2,646	1,910	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
James Thier	2,074	1,432	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
Howard Pender	857	1,469	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
Naomi Edwards	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-
	5,577	4,811					
Named executives (including other key management personnel)							
Anne O'Donnell	2,802	2,909	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
David Ferris	2,498	2,248	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
Mark Bateman	1,962	1,912	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
Philip George	-	2,356	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
Ruth Medd	-	-	-	-	-	-	-
Gary Leckie	819	1,443	22.09.2006	4.14	32.50	22.09.2009	22.12.2009
	8,081	10,868					

(a) Each option above is granted by Australian Ethical Investment Ltd (AEI) and is for one ordinary share in AEI.

(b) Options were granted as part of remuneration and the recipient did not otherwise pay for the grant of the options.

Our latest 'deep green' ad campaign.



Investments which unclog your arteries and unclog the roads?
Invest with us in industries, healthy for you and the planet.

1800 021 227 • austethical.com.au

australianethical 
investment + superannuation

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 RSEL L0001441. Product disclosure statements are available from our website or by calling us and should be considered before deciding whether to acquire, or continue to hold, units in the trusts or interests in the fund. Australian Ethical® is a registered trademark of AEI.



Details of shareholdings – changes to shareholdings, including as a result of the exercise of options granted as compensation

	Balance 01.07.06	Share in lieu of cash bonus	Options exercised/ shares issued ⁽¹⁾	Net change other ⁽²⁾	Balance 30.06.07 ^{(3)&(4)}
Parent entity directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	44,277	-	2,646	-	46,923
James Thier	60,154	127	2,074	(200)	62,155
Howard Pender	51,178	-	857	(370)	51,665
Naomi Edwards	-	-	-	-	-
Pauline Vamos	-	-	-	-	-
Justine Hickey	-	-	-	700	700
Named executives (including other key management personnel)					
Anne O'Donnell	3,315	-	2,802	-	6,117
David Ferris	2,762	179	2,498	-	5,439
Mark Bateman	982	-	1,962	(1,962)	982
Philip George	375	-	-	-	375
Ruth Medd	-	-	-	-	-
Gary Leckie	-	-	819	(819)	-
Total	163,043	306	13,658	(2,651)	174,356

(1) The amount paid for shares issued on exercise of options is \$14.11 in all cases.

(2) Net change other refers to shares purchased or sold during the financial year.

(3) Shares issued are fully paid.

(4) Balance represents shareholdings by directors and named executives including their related parties as required by AASB 124 Related Party Disclosures. Relevant interests required by the *Corporations Act 2001* would result in the balance changing for James Thier to 47,681, Howard Pender to 49,634 and Philip George to 250.

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, 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. Options granted during the financial year, when valued using a Black-Scholes valuation methodology as at grant date, 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 <i>Workplace Relations Act 1996</i>	None except for accrued leave and any payment in lieu of notice
James Thier			
Howard Pender			
Anne O'Donnell			
David Ferris			
Gary Leckie			
Philip George			



Options granted as remuneration – disclosures required under the Corporations Act 2001

	Granted no.	Grant date	Value per option at grant date \$	Granted as part of remuneration ⁽¹⁾ \$	Option remuneration as a % of total remuneration	Value of options exercised in fin year ⁽²⁾ \$	Value of options lapsed in fin year ⁽³⁾ \$	Total value ⁽⁴⁾ \$
Parent entity directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	1,910	22.09.2006	4.14	7,907	5%	81,735	-	89,642
James Thier	1,432	22.09.2006	4.14	5,928	4%	64,066	-	69,994
Howard Pender	1,469	22.09.2006	4.14	6,082	4%	14,046	-	20,128
Naomi Edwards	-	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-	-
	4,811			19,917		159,847	-	179,764
Named executives (including other key management personnel)								
Anne O'Donnell	2,909	22.09.2006	4.14	12,043	5%	45,925	-	57,968
David Ferris	2,248	22.09.2006	4.14	9,307	5%	40,942	-	50,249
Mark Bateman	1,912	22.09.2006	4.14	7,916	5%	32,157	128,501	168,574
Philip George	2,356	22.09.2006	4.14	9,754	5%	-	-	9,754
Ruth Medd	-	-	-	-	-	-	-	-
Gary Leckie	1,443	22.09.2006	4.14	5,974	4%	13,423	-	19,397
	10,868			44,994		132,447	128,501	305,942

- (1) Values are based on a valuation performed on the options at grant date using the Black-Scholes model. None of the value of the options granted was paid to the key management personnel in the financial year. Key management personnel may realise value from this option grant in the 2009–10 year when the options are exercisable.
- (2) Values are based on the number of options exercised by Directors/ Executives multiplied by the difference between the share price at exercise date and the exercise price. Under the terms of the share based payment arrangement exercise date and therefore share price can vary between option holders.
- (3) Mark Bateman forfeited 100% of options granted, upon leaving the employment of Australian Ethical Investment Ltd. The amounts listed in this column do not represent remuneration paid to Director/ Executives.
- (4) This column is required by s300A1(e)(v) of the Corporations Act 2001. It requires the aggregation of amounts in the above table notwithstanding that one amount is a Black-Scholes estimation of value received, one amount is the difference between share sale price and option exercise price, and one amount is a Black-Scholes estimate of value forgone as at date of an employees cessation of employment.

Our latest mainstream ad campaign.



Ethical investment is... **healthy.**

Our investment portfolio will have you feeling better in no time:

- Sonic Healthcare (Australia) • Celesio (Germany) •
- Getinge (Sweden) • William Demant Holding (Denmark) •

australianethical
investment + superannuation

1800 021 227 • austethical.com.au

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 RSEL L0001441. Product disclosure statements are available from our website or by calling 1800 021 227 and should be considered before deciding whether to acquire, or continue to hold, units in the trusts or interests in the fund. Australian Ethical® is a registered trademark of AEI.



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

	2007–08		2008–09		2009–10	
	Max \$	Min \$	Max \$	Min \$	Max \$	Min \$
Parent entity directors						
George Pooley	-	-	-	-	-	-
Caroline Le Couteur	3,141	-	7,536	-	7,907	-
James Thier	2,573	-	6,048	-	5,928	-
Howard Pender	1,076	-	3,128	-	6,082	-
Naomi Edwards	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-
Named executives (including other key management personnel)						
Anne O'Donnell	3,581	-	10,100	-	12,043	-
David Ferris	3,189	-	8,773	-	9,307	-
Mark Bateman	-	-	-	-	-	-
Philip George	-	-	5,208	-	9,754	-
Ruth Medd	-	-	-	-	-	-
Gary Leckie	1,594	-	4,660	-	5,974	-

Maximum amounts are calculated using Black-Scholes estimation as at option grant date in respect of options exercisable in future years.

Holdings in registered schemes made available by the company

Caroline Le Couteur holds 828.6873 units in the Australian Ethical Balanced Trust.

Naomi Edwards holds 17,877.9573 units in the Australian Ethical Equities Trust and 15,475.9946 units in the Australian Ethical Large Companies Share Trust.

Issue of shares and options to executive directors – ASX Listing Rule 10.14

The number of shares and options issued to executive directors under the employee share ownership plan is detailed in this Report. Shareholder approval for the issue of shares and options to executive directors was obtained under ASX listing rule 10.14 at the Annual General Meeting held in November 2006.

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 six years. He was a senior associate at the national law firm Minter Ellison and conducted a commercial legal practice in partnership for two years.

Options as at the date of this report

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
AEFAI	34,506	23.9.07 to 22.12.07	\$16.28
AEFAQ	41,558	21.9.08 to 20.12.08	\$24.82
AEFAS	41,396	22.09.09 to 21.12.09	\$32.50
Totals	117,460		

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

Shares issued upon the exercise of options

The following ordinary shares of the company were issued during the year ended 30 June 2007 on the exercise of options granted under the company's employee share ownership plan. No further shares have been issued since that date to the date of this report. No amounts are unpaid on any of the shares.



Shares issued upon exercise of options	Amount paid per share
33,778	\$14.11

Other specific information

Other specific information 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 ⁶	Note 25

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

Howard Pender
Director

Dated: 31 August 2007

⁶The 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.

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.

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 2007 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.

P.L. WHITEMAN PARTNER

Date 31 August 2007

Liability limited by a scheme approved under Professional Standards Legislation



Financial statements

for year ended 30 June 2007

Balance Sheet as at 30 June 2007

	Notes	Consolidated entity		Parent entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	7	1,672,464	1,479,234	643,525	373,231
Trade and other receivables	8	1,487,185	1,038,994	1,379,251	1,042,972
Financial assets	9	1,830,430	2,518,405	1,830,430	2,518,405
Other current assets	10	183,644	139,708	162,275	94,243
Total current assets		5,173,723	5,176,341	4,015,481	4,028,851
Non-current assets					
Property, plant & equipment	11	4,328,138	2,613,153	4,328,138	2,613,153
Financial assets	9	158,000	174,484	474,000	490,484
Deferred tax assets	12	392,435	315,246	391,385	309,396
Total non-current assets		4,878,573	3,102,883	5,193,523	3,413,033
Total assets		10,052,296	8,279,224	9,209,004	7,441,884
Current liabilities					
Trade and other payables	13	1,681,284	1,352,010	1,869,901	1,433,154
Current tax liabilities		279,307	356,008	279,307	356,008
Short-term provisions	15	331,953	219,970	331,953	219,970
Total current liabilities		2,292,544	1,927,988	2,481,161	2,009,132
Non-current liabilities					
Deferred tax liabilities	14	33,248	30,896	33,248	30,896
Other long-term provisions	15	42,371	46,557	42,371	46,557
Total non-current liabilities		75,619	77,453	75,619	77,453
Total liabilities		2,368,163	2,005,441	2,556,780	2,086,585
Net assets		7,684,133	6,273,783	6,652,224	5,355,299
Equity					
Issued capital	16	4,949,532	4,628,423	4,949,532	4,628,423
Reserves	16	200,687	93,948	200,687	93,948
Retained earnings	16	2,533,914	1,551,412	1,502,005	632,928
Total equity		7,684,133	6,273,783	6,652,224	5,355,299

The accompanying notes form part of these financial statements.



Income Statement for the year ended 30 June 2007

	Notes	Consolidated entity		Parent entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Revenue	3	12,086,455	9,661,723	9,870,632	7,768,390
Commissions paid to advisers		(260,467)	(271,327)	(61,390)	(101,281)
External services		(2,422,346)	(2,018,108)	(1,077,421)	(913,490)
Employee benefits expense		(4,976,651)	(3,986,460)	(4,956,578)	(3,972,997)
Depreciation		(225,320)	(143,407)	(225,320)	(143,407)
Occupancy costs		(316,447)	(280,710)	(310,894)	(275,792)
Communication costs		(597,178)	(456,324)	(543,537)	(426,969)
Other expenses		(407,195)	(347,044)	(380,558)	(296,154)
Profit before tithe and income tax expense		2,880,851	2,158,343	2,314,934	1,638,300
Tithe expense	1 (k)	(224,964)	(170,132)	(224,964)	(170,132)
Profit before income tax		2,655,887	1,988,211	2,089,970	1,468,168
Income tax expense	4	(836,710)	(625,599)	(384,218)	(393,144)
Profit for the year	16	1,819,177	1,362,612	1,705,752	1,075,024
Profit attributable to members of the parent entity		1,819,177	1,362,612	1,705,752	1,075,024
Basic earnings per share (cents per share)	6	194.8	150.3		
Diluted earnings per share (cents per share)	6	185.6	145.1		

The accompanying notes form part of these financial statements.



Ethical investment is... **smart.**

Wise up to ethical investment. Our smart portfolio includes:

- Fairfax Media (Australia) • Scholastic Corporation (USA) •
- Benesse Corporation (Japan) • Pearson (UK) •

australianethical
investment + superannuation

1800 021 227 • austethical.com.au

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 RSEL L0001441. Product disclosure statements are available from our website or by calling 1800 021 227 and should be considered before deciding whether to acquire, or continue to hold, units in the trusts or interests in the fund. Australian Ethical® is a registered trademark of AEI.



Statement of changes in equity for the year ended 30 June 2007

	Notes	Consolidated entity		Parent entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Total equity at beginning of financial period		6,273,783	5,046,886	5,355,299	4,415,990
Available-for-sale investments:					
Valuation gains/(losses) taken to equity		3,811	(6,632)	3,811	(6,632)
Transferred to profit or loss on sale		7,464	-	7,464	-
Employee share options		96,607	59,961	96,607	59,961
Income tax on items taken directly to or transferred directly from equity		(1,143)	1,989	(1,143)	1,989
Net income recognised directly in equity		106,739	55,318	106,739	55,318
Profit for the financial year		1,819,177	1,362,612	1,705,752	1,075,024
Total recognised income and expense for the period		1,925,916	1,417,930	1,812,491	1,130,342
Transactions with equity holders in their capacity as equity holders:					
Contribution of equity, net of transaction costs		321,109	514,717	321,109	514,717
Dividends provided for or paid		(836,675)	(705,750)	(836,675)	(705,750)
		(515,566)	(191,033)	(515,566)	(191,033)
Total equity at the end of the financial period	16	7,684,133	6,273,783	6,652,224	5,355,299
Total recognised income and expense for the financial year is attributable to:					
Equity holders of the parent		1,925,916	1,417,930	1,812,491	1,130,342
		1,925,916	1,417,930	1,812,491	1,130,342

The accompanying notes form part of these financial statements.



Ethical investment is... **global.**

Find out more about our World Trust – ethical on a global scale.

1800 021 227 • austethical.com.au

australianethical
investment + superannuation

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 RSEL L0001441. Product disclosure statements are available from our website or by calling 1800 021 227 and should be considered before deciding whether to acquire, or continue to hold, units in the trusts or interests in the fund. Australian Ethical® is a registered trademark of AEI.



Cash flow statement for the year ended 30 June 2007

	Notes	Consolidated entity		Parent entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from operations		12,535,315	10,066,362	9,679,684	8,009,981
Payment to suppliers & employees		(9,467,091)	(7,706,749)	(7,770,366)	(6,350,434)
Dividends received		-	-	942,248	254,660
Interest/ distributions received		286,760	279,928	232,674	233,391
Income tax paid		(992,589)	(643,963)	(644,781)	(449,319)
Bonus		(192,285)	(108,998)	(192,285)	(108,998)
Tithe		(173,132)	(98,227)	(173,132)	(98,227)
Net cash provided by (used in) operating activities	22 (b)	1,996,978	1,788,353	2,074,042	1,491,054
Cash flows from investing activities					
Proceeds from sale of investments		1,192,683	2,971,130	1,192,683	2,971,130
Purchase of property, plant & equipment		(1,974,986)	(2,446,806)	(1,974,986)	(2,446,806)
Purchase of investments		(500,000)	(2,443,421)	(500,000)	(2,443,421)
Repayment of loans		15,070	11,657	15,070	11,657
Net cash provided by (used in) investing activities		(1,267,233)	(1,907,440)	(1,267,233)	(1,907,440)
Cash flows from financing activities					
Proceeds from share issue		392,921	479,325	392,921	479,325
Share buy-back payment		(92,761)	-	(92,761)	-
Dividends paid		(836,675)	(705,750)	(836,675)	(705,750)
Net cash provided by (used in) financing activities		(536,515)	(226,425)	(536,515)	(226,425)
Net increase (decrease) in cash held		193,230	(345,512)	270,294	(642,811)
Cash at beginning of financial year		1,479,234	1,824,746	373,231	1,016,042
Cash at end of financial year	22 (a)	1,672,464	1,479,234	643,525	373,231

The accompanying notes form part of these financial statements.



Notes to the financial statements for the year ended 30 June 2007

Note 1 – Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the consolidated entity of Australian Ethical Investment Ltd and its wholly owned entity Australian Ethical Superannuation Pty Ltd and Australian Ethical Investment Ltd as an individual parent entity. Australian Ethical Investment Ltd is a listed public company and both the parent and wholly owned entity are incorporated and domiciled in Australia.

The nature of the operations and principal activities of the consolidated entity are described at note 19.

The financial report of Australian Ethical Investment Ltd and its wholly owned entity, and Australian Ethical Investment Ltd as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

Basis of preparation

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Accounting policies

a) Principles of consolidation

A controlled entity is any entity Australian Ethical Investment Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

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

b) Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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 consolidated 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 Ltd 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 Ltd is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Taxation 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 Ltd on the same day that Australian Ethical Investment Ltd pays the ATO for group tax liabilities.



Notes to the financial statements for the year ended 30 June 2007

Note 1 – Statement of significant accounting policies – continued

c) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Leasehold land and buildings are shown at cost less any accumulated depreciation and any accumulated impairment losses.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors 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 that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings, is depreciated over their estimated useful lives to the consolidated 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
Buildings	2.5–20%	Straight line
Furniture, fittings and equipment	10% to 37.5%	Straight line/ diminishing value
Software	18.75% to 40%	Straight line/ diminishing value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

d) Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Available-for-sale financial assets

The consolidated entity holds only available for sale financial assets. Available for sale financial assets are assets not classified as financial assets at fair value through profit and loss, loans and receivables, or held-to-maturity investments. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

e) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related



Notes to the financial statements for the year ended 30 June 2007

Note 1 – Statement of significant accounting policies – continued

on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Share options

Share based compensation benefits are provided to employees via the Australian Ethical Investment Ltd employee share ownership plan. Share options have been granted annually to employees and details are disclosed in the annual financial report.

Share options granted before 7 November 2002 and/ or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Share options granted on or after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Australian Ethical Investment Ltd employee share ownership plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period.

At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the options reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

Employee bonus

The group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

g) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

h) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

i) Revenue

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

j) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. 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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

k) Tithes expense

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

- i. paid or provisioned for payment 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'
- ii. gifted or provisioned for gifting 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'.

l) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of the interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares



Notes to the financial statements for the year ended 30 June 2007

Note 1 – Statement of significant accounting policies – continued

assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

m) Comparative figures

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

Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates – annual leave and long service leave provision

Future average salary increases have been estimated at 4%. This increase has been incorporated into the annual leave and long service leave provision.

Key judgements

Australian Ethical Investment Ltd has a loan receivable from the Centre for Australian Ethical Research recorded as an asset on its balance sheet for \$173 272. The directors have determined that no provision for doubtful debt is required for this loan.

Note 2 – Auditors' remuneration

	Consolidated entity		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Remuneration of the auditors for:				
Audit services				
Auditing the financial report	30,500	52,400	27,000	46,900
Auditing the Australian Ethical Superannuation Fund	-	16,500	-	-
Auditing the sustainability report	4,600	8,600	4,600	8,600
Non-audit services				
Tax and other accounting advice	3,450	5,500	3,000	5,100
Internal control and risk review	16,500	15,000	15,000	15,000

Note 3 – Revenue

Operating activities				
Management fees net of rebates	9,429,699	7,274,591	4,935,178	4,020,460
Entry fees	1,837,914	1,508,963	484,170	509,935
Other fees	453,283	457,117	453,283	457,117
Dividend from wholly owned subsidiary	-	-	942,248	254,660
Interest/ distributions	275,292	309,873	221,205	263,337
Wholly owned entity fee	-	-	2,752,623	2,163,664
Other revenue	90,267	109,312	81,925	97,350
	12,086,455	9,659,856	9,870,632	7,766,523
Non-operating activities				
Gain on disposal of financial assets	-	1,867	-	1,867
	-	1,867	-	1,867
Total revenue	12,086,455	9,661,723	9,870,632	7,768,390



Notes to the financial statements for the year ended 30 June 2007

Note 4 – Income tax expense

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
a) The components of tax expense comprise:				
Current tax	915,888	690,357	468,196	452,052
Deferred tax	(79,178)	(64,758)	(83,978)	(58,908)
	836,710	625,599	384,218	393,144
b) 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% (2006:30%)				
Consolidated entity	796,766	596,463	-	-
Parent entity	-	-	626,991	440,450
Other members of the income tax consolidated group net of intercompany transactions	-	-	452,641	232,455
Add: tax effect of:				
Other non-allowable items	1,455	860	1,413	816
Share options expensed during year	28,982	17,988	28,982	17,988
Under provision for income tax in prior year	11,119	12,237	11,119	12,237
	838,322	627,548	1,121,146	703,946
Less: tax effect of:				
Rebateable fully franked dividends	-	-	(282,675)	(76,398)
Non-assessable income	(738)	(635)	(738)	(635)
Franking and foreign tax credits	(874)	(1,314)	(874)	(1,314)
Income tax expense attributable to entity	836,710	625,599	836,859	625,599
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	-	-	(452,641)	(232,455)
Income tax expense attributable to entity	836,710	625,599	384,218	393,144

The applicable weighted average effective tax rates are as follows: **32%** 31% **18%** 27%

The decrease in the weighted average effective tax rate for 2007 for the parent entity is a result of the wholly owned entity paying a large fully franked dividend to the parent .



Ethical investment is... **moving people efficiently.**

Get moving with our efficient transport investments:

- Shimano (Japan) • Accell (The Netherlands) •
- Stagecoach (UK) • SMRT Corp (Singapore) •



Notes to the financial statements for the year ended 30 June 2007

Note 5 – Dividends

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Distributions paid				
Final fully franked dividend of 50 (2006: 42) cents per share franked at the tax rate of 30% (2006:30%)	458,631	384,955	458,631	384,955
Interim fully franked dividend of 40 (2006: 35) cents per share franked at the tax rate of 30% (2006:30%)	378,044	320,795	378,044	320,795
	836,675	705,750	836,675	705,750
Declared final fully franked dividend of 152 (2006: 50) cents per share franked at the tax rate of 30% (2006: 30%)	1,436,566	458,280	1,436,566	458,280
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.			1,543,029	983,028
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			615,671	196,406
			927,358	786,622

Note 6 – Earnings per share

(a) Earnings used to calculate basic EPS and dilutive EPS	1,819,177	1,362,612
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	934,002	906,720
Weighted average number of options outstanding	45,960	32,291
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	979,962	939,011

Note 7 – Cash and cash equivalents

Cash on hand	300	300	300	300
Cash at bank	32,114	16,534	3,165	115
Deposits at call	1,640,050	1,462,400	640,060	372,816
	1,672,464	1,479,234	643,525	373,231

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates.

Note 8 – Trade and other receivables

Trade receivables	1,446,758	988,512	1,114,818	833,799
Other	40,427	50,482	40,427	50,482
Amounts receivable – wholly owned entity	-	-	224,006	158,691
	1,487,185	1,038,994	1,379,251	1,042,972



Notes to the financial statements for the year ended 30 June 2007

Note 9 – Financial assets

	Consolidated entity		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Available-for-sale financial assets	1,815,158	2,504,546	2,131,158	2,820,546
Loans	173,272	188,343	173,272	188,343
	1,988,430	2,692,889	2,304,430	3,008,889
Less non-current portion	158,000	174,484	474,000	490,484
Current portion	1,830,430	2,518,405	1,830,430	2,518,405

a. Available-for-sale financial assets comprise:

Money market deposit at cost	500,000	500,000	500,000	500,000
Mortgage backed security at fair value	408,502	501,765	408,502	501,765
Bank note at fair value	502,030	504,145	502,030	504,145
Corporate bond at fair value	-	603,054	-	603,054
Units in unit trust at fair value	404,626	395,582	404,626	395,582
Shares in wholly owned entity at cost	-	-	316,000	316,000
	1,815,158	2,504,546	2,131,158	2,820,546

The money market deposit is at a fixed interest rate of 6.45%, has a maturity date of 21 August 2007 and is investment grade rated by S&P.

The mortgage backed security is at a floating interest rate of BBSW + 0.39, has a maturity date of 26 October 2009 and is investment grade rated by S&P.

The bank note is at a floating interest rate of BBSW + 0.70, has a maturity date of 20 May 2008 and is investment grade rated by S&P.

b. Loans comprise

Loan to other entity	173,272	188,343	173,272	188,343
	173,272	188,343	173,272	188,343

The loan is provided to an independent entity.

The loan is at a fixed interest rate of 9.0% and matures 1 August 2015.

Note 10 – Other current assets

Other	22,160	2,843	22,160	2,843
Prepayments	161,484	136,865	140,115	91,400
	183,644	139,708	162,275	94,243

Ethical investment is... **clean energy.**

Clean energy is a breeze with our investment portfolio:

- Vestas Wind Systems [Denmark] • Conergy [Germany] •
- Geodynamics [Australia] • Ceramic Fuel Cells [Australia] •





Notes to the financial statements for the year ended 30 June 2007

Note 11 – Property, plant and equipment

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Land and buildings				
<i>Leasehold land</i>				
At cost	230,000	230,000	230,000	230,000
Total land	230,000	230,000	230,000	230,000
<i>Buildings</i>				
At cost	2,784,117	2,079,077	2,784,117	2,079,077
Accumulated depreciation	(83,191)	(22,642)	(83,191)	(22,642)
Total buildings	2,700,926	2,056,435	2,700,926	2,056,435
Total land and buildings	2,930,926	2,286,435	2,930,926	2,286,435
Plant and equipment				
At cost	1,991,339	850,546	1,991,339	850,546
Accumulated depreciation	(594,127)	(523,828)	(594,127)	(523,828)
Total plant and equipment	1,397,212	326,718	1,397,212	326,718
Total property, plant and equipment	4,328,138	2,613,153	4,328,138	2,613,153
Movements in carrying amounts				
Land				
Balance at the beginning of year	230,000	-	230,000	-
Additions		230,000		230,000
Disposals	-	-	-	-
Carrying amount at the end of year	230,000	230,000	230,000	230,000
Buildings				
Balance at the beginning of year	2,056,435	-	2,056,435	-
Additions	705,040	2,079,077	705,040	2,079,077
Disposals	-	-	-	-
Depreciation expense	(60,549)	(22,642)	(60,549)	(22,642)
Carrying amount at the end of year	2,700,926	2,056,435	2,700,926	2,056,435
Plant and equipment				
Balance at the beginning of year	326,718	282,903	326,718	282,903
Additions	1,244,747	166,732	1,244,747	166,732
Disposals	(9,482)	(2,152)	(9,482)	(2,152)
Depreciation expense	(164,771)	(120,765)	(164,771)	(120,765)
Carrying amount at the end of year	1,397,212	326,718	1,397,212	326,718
Total	4,328,138	2,613,153	4,328,138	2,613,153



Notes to the financial statements for the year ended 30 June 2007

Note 12 – Deferred tax assets

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	313,517	246,048	313,517	246,048
Tithe	67,488	51,939	67,488	51,939
Audit fees	11,430	15,270	10,380	9,420
	392,435	313,257	391,385	307,407
Amounts recognised directly in equity				
Financial asset revaluations	-	1,989	-	1,989
	392,435	315,246	391,385	309,396
Movements				
Opening balance at 1 July	315,246	217,603	309,396	217,603
Credited (charged) to the income statement	79,178	95,654	83,978	89,804
Credited (charged) to equity	(1,989)	1,989	(1,989)	1,989
Closing balance at 30 June	392,435	315,246	391,385	309,396

Note 13 – Trade and other payables

Trade payables	300,249	242,383	195,764	121,841
Sundry payables and accrued expenses	1,143,015	896,393	974,252	790,688
Employee bonus	238,020	213,234	238,020	213,234
Amounts payable to wholly owned entity	-	-	461,865	307,391
	1,681,284	1,352,010	1,869,901	1,433,154

Note 14 – Deferred tax liabilities

The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Stamp duty on leasehold property	30,896	30,896	30,896	30,896
Amounts recognised in equity				
Available-for-sale financial assets	2,352	-	2,352	-
	33,248	30,896	33,248	30,896
Movements				
Opening balance at 1 July	30,896	-	30,896	-
Credited/ (charged) to the income statement	-	30,896	-	30,896
Credited/ (charged) to equity	2,352	-	2,352	-
Closing balance at 30 June	33,248	30,896	33,248	30,896



Notes to the financial statements for the year ended 30 June 2007

Note 15 – Provisions

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current				
Employee benefits – long service leave	331,953	219,970	331,953	219,970
	331,953	219,970	331,953	219,970
Non-current				
Employee benefits – long service leave	42,371	46,557	42,371	46,557
	42,371	46,557	42,371	46,557

Note 16 – Movements in equity

Issued capital				
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year				
916,559 (2006 – 888,746) shares	4,628,423	4,113,706	4,628,423	4,113,706
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
703 on 22 September 2006 (share bonus)	20,949	-	20,949	-
24,146 on 31 October 2006 (options exercised)	340,700	-	340,700	-
2,781 on 28 November 2006 (options exercised)	39,240	-	39,240	-
6,851 on 15 January 2007 (option exercised)	96,667	-	96,667	-
1,563 on 21 September 2005 (share bonus)	-	35,392	-	35,392
17,275 on 31 October 2005 (options exercised)	-	315,442	-	315,442
8,975 on 29 November 2005 (options exercised)	-	163,883	-	163,883
Shares bought back during the year				
5,931 on 31 October 2006	(176,447)	-	(176,447)	-
Balance 30 June				
945,109 (2006 - 916,559) shares	4,949,532	4,628,423	4,949,532	4,628,423

At 30 June 2007 there were 945 109 fully paid ordinary shares which have no par value.

For detailed information relating to the Australian Ethical Investment Ltd employee share ownership plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to note 25 *Share-based payments*.

For information related to share options issued to key management personnel during the financial year refer to the remuneration report contained within the *Directors' report*.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.



Notes to the financial statements for the year ended 30 June 2007

Note 16 – Movements in equity – continued

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Reserves				
Available-for-sale financial assets revaluation reserve				
Balance 1 July	(4,643)	-	(4,643)	-
Gross gains/ (losses)	7,464		7,464	
Revaluation – gross	3,811	(6,632)	3,811	(6,632)
Deferred tax	(1,143)	1,989	(1,143)	1,989
Balance 30 June	5,489	(4,643)	5,489	(4,643)
Share-based payments reserve				
Balance 1 July	98,591	38,630	98,591	38,630
Option expense	96,607	59,961	96,607	59,961
Balance 30 June	195,198	98,591	195,198	98,591
Total Reserves	200,687	93,948	200,687	93,948
The “Available-for-sale financial assets revaluation reserve” records revaluations to fair value of available for sale financial assets.				
The “Share-based payments reserve” records items recognised as expenses on valuation of employee share options.				
Retained earnings				
Balance 1 July	1,551,412	894,550	632,928	263,654
Profit for the period	1,819,177	1,362,612	1,705,752	1,075,024
Total for the period	1,819,177	1,362,612	1,705,752	1,075,024
Dividends	(836,675)	(705,750)	(836,675)	(705,750)
Balance 30 June	2,533,914	1,551,412	1,502,005	632,928
Total Equity	7,684,133	6,273,783	6,652,224	5,355,299

Note 17 – Events after the balance sheet date

Since the end of the financial year, no material events that may have an impact on these financial statements have occurred.

The financial report was authorised for issue on the directors’ declaration date by the board of directors.

Note 18 – Economic dependence

The consolidated 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 Retail Superannuation Fund.

Note 19 – 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 Retail Superannuation Fund.



Notes to the financial statements for the year ended 30 June 2007

Note 20 – Capital commitments

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Premises Rental licence commitments Payable	-	65,028	-	65,028
– not later than 12 months	-	65,028	-	65,028

The licence agreement provides for 4 months for termination. The comparative amount represents 4 months rent.

Note 21 – Contingent liabilities

Liabilities and assets of trusts and superannuation fund

Liabilities of the trusts and superannuation fund for which the consolidated entity and parent entity are responsible entity and trustee but not shown in the financial statements of the consolidated entity or parent entity were:

Current liabilities				
Payables	4,556,376	3,321,381	3,790,889	2,824,216
Provisions	64,692,694	43,712,715	58,707,157	40,954,235
Total liabilities	69,249,070	47,034,096	62,498,046	43,778,451
Rights of indemnities for liabilities incurred by the consolidated entity and parent entity not recorded in the financial statements were:	69,249,070	47,034,096	62,498,046	43,778,451

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 consolidated entity or parent entity acting in their own right.

Note 22 – Cash flow information

(a) Reconciliation of cash				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash on hand	300	300	300	300
Cash at bank	32,114	16,534	3,165	115
Deposits at call	1,640,050	1,462,400	640,060	372,816
	1,672,464	1,479,234	643,525	373,231
(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	1,819,177	1,362,612	1,705,752	1,075,024
Non-cash flows in operating profit				
Depreciation	225,320	143,407	225,320	143,407
Provisions	107,797	65,288	107,797	65,288
(Profit) loss on sale of property, plant & equipment	9,442	2,152	9,442	2,152
(Profit) loss on sale of investment	11,178	(1,867)	11,178	(1,867)
Share options expensed	96,607	59,961	96,607	59,961
Staff bonus paid in shares	20,949	35,392	20,949	35,392



Notes to the financial statements for the year ended 30 June 2007

Note 22 – Cash flow information – continued

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	(448,190)	(225,499)	(236,395)	(219,782)
(Increase) decrease in prepayments & other assets	(43,936)	18,136	(68,032)	17,161
(Increase) decrease in deferred tax assets	(79,178)	(95,653)	(81,989)	(89,803)
Increase (decrease) in trade & other payables	354,513	347,135	461,987	370,493
Increase (decrease) in current tax liability	(76,701)	46,393	(176,585)	2,732
Increase (decrease) in deferred tax liability	-	30,896	(1,989)	30,896
Net cash provided by (used in) operating activities	1,996,978	1,788,353	2,074,042	1,491,054

(c) Non-cash financing and investing activities

Shares in Australian Ethical Investment Ltd, to the value of \$20 949 (2006: \$35 392) were issued in lieu of staff bonus.

Note 23 – Related party transactions

Australian Ethical Investment Ltd is the ultimate parent entity and owns 100% of Australian Ethical Superannuation Pty Ltd.

Australian Ethical Investment Ltd acts as the responsible entity for the Australian Ethical Trusts (Australian Ethical Balanced Trust, Australian Ethical Equities Trust, Australian Ethical Income Trust, Australian Ethical Large Companies Share Trust, Australian Ethical International Equities Trust and Australian Ethical World Trust).

Australian Ethical Superannuation Pty Ltd acts as trustee for the Australian Ethical Retail Superannuation Fund.

Transactions between related parties are on commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Australian Ethical Superannuation Pty Ltd

a) Transactions between Australian Ethical Investment Ltd and its wholly owned entity, Australian Ethical Superannuation Pty Ltd during the financial year consisted of:

(i) Transactions whereby Australian Ethical Investment Ltd provides management services to the wholly owned entity on a cost recovery basis	-	-	2,752,622	2,163,664
(ii) Transactions between Australian Ethical Investment Ltd and its wholly owned entity under the tax consolidation and related tax sharing agreement referred to in note 1(b).	-	-	452,641	232,453
(iii) Transactions whereby Australian Ethical Investment Ltd collects management fee income on behalf of wholly owned entity and on-pays this management fee income to the wholly owned entity on a monthly basis.	-	-	4,521,499	3,285,781
(iv) Transactions whereby Australian Ethical Investment Ltd receives a dividend from the wholly owned entity referred to in note 3.	-	-	942,248	254,660



Notes to the financial statements for the year ended 30 June 2007

Note 23 – Related party transactions – continued

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity:				
Management services	-	-	-	34,568
Taxation	-	-	224,006	124,122
Amounts payable to wholly owned entity:				
Management fee income	-	-	461,865	307,391

Australian Ethical Trusts

a) Transactions between Australian Ethical Investment Ltd, as responsible entity, and the Australian Ethical Trusts during the financial year consisted of:

(i) Transactions whereby Australian Ethical Investment Ltd provides investment services to the Australian Ethical Trusts in accordance with the Trust Deed.

Australian Ethical Balanced Trust	3,980,112	3,132,193	3,980,112	3,132,193
Australian Ethical Equities Trust	3,062,362	2,407,875	3,062,362	2,407,875
Australian Ethical Income Trust	242,336	199,962	242,336	199,962
Australian Ethical Large Companies Shares Trust	2,309,552	1,668,138	2,309,552	1,668,138
Australian Ethical International Equities Trust	11,081	-	11,081	-

(ii) Transactions whereby Australian Ethical Investment Ltd provides accounting services to the Australian Ethical Trusts in accordance with the Trust Deed.

Australian Ethical Balanced Trust	109,596	109,596	109,596	109,596
Australian Ethical Equities Trust	87,684	87,684	87,684	87,684
Australian Ethical Income Trust	39,468	39,468	39,468	39,468
Australian Ethical Large Companies Shares Trust	61,392	61,392	61,392	61,392
Australian Ethical International Equities Trust	-	-	-	-

(iii) Transactions whereby Australian Ethical Investment Ltd seeks expense reimbursement from the Australian Ethical Trusts in accordance with the Trust Deed.

Australian Ethical Balanced Trust	53,633	53,644	53,633	53,644
Australian Ethical Equities Trust	51,031	50,198	51,031	50,198
Australian Ethical Income Trust	4,077	4,418	4,077	4,418
Australian Ethical Large Companies Shares Trust	43,916	37,367	43,916	37,367
Australian Ethical International Equities Trust	14	-	14	-

(iv) Transaction whereby Australian Ethical Investment Ltd purchased units in the Australian Ethical Balanced Trust

(v) Transaction whereby Australian Ethical Investment Ltd received a distribution payment from the Australian Ethical Balanced Trust

(vi) Transactions whereby Australian Ethical Investment Ltd sold interest bearing securities to the Australian Ethical Balanced Trust



Notes to the financial statements for the year ended 30 June 2007

Note 23 – Related party transactions – continued

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
b) Outstanding balances at balance date:				
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
Australian Ethical Balanced Trust	412,430	334,290	412,430	334,290
Australian Ethical Equities Trust	354,366	244,126	354,366	244,126
Australian Ethical Income Trust	27,400	24,435	27,400	24,435
Australian Ethical Large Companies Shares Trust	258,332	184,589	258,332	184,589
Australian Ethical International Equities Trust	12,204	-	12,204	-
Value of units held by Australian Ethical Investment Ltd in the Australian Ethical Balanced Trust	404,626	395,582	404,626	395,582
Distribution receivable from AEBT	26,591	32,914	26,591	32,914

Australian Ethical Retail Superannuation Fund

a) Transactions between the consolidated entity and the Australian Ethical Retail Superannuation Fund during the financial year consisted of:

(i) Transactions between Australian Ethical Superannuation Pty Ltd and the Australian Ethical Retail Superannuation Fund related to the rebate of investment services.	26,978	31,651	-	-
--	--------	--------	---	---

Outstanding balances at balance date:

Amounts payable to the Australian Ethical Retail Superannuation Fund:

Rebate of investment services fee	1,332	6,119	-	-
-----------------------------------	-------	-------	---	---

Terms and conditions

No provision for doubtful debts have been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Outstanding balances are unsecured and are repayable in cash.

Note 24 – Key management personnel compensation

a) Key management personnel

Names and positions of key management personnel (directors and named executives) at any time during the financial year

Parent entity directors		
Name	Position	
George Pooley	Chairperson, non-executive	Resigned 13 October 2006
Pauline Vamos	Chairperson, non-executive	Appointed as non-executive 1 July 06, and as Chairperson 13 October 2006
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Justine Hickey	Director, non-executive	Appointed 1 March 2007

Subsequent to year end Pauline Vamos has resigned as Chairperson and as a director of the company with effect from 31 August 2007.



Notes to the financial statements for the year ended 30 June 2007

Note 24 – Key management personnel compensation – continued

a) Key management personnel – continued

Other key management personnel			
Name	Position		
Anne O'Donnell	Chief executive officer		
David Ferris	Investment manager		
Mark Bateman	Chief financial officer	Resigned 2 February 2007	
Gary Leckie	Chief financial officer	Appointed 2 February 2007	
Philip George	Company secretary/ legal counsel		

b) Key management personnel compensation

	Consolidated entity		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short term employment benefits	1,355,800	1,029,033	1,264,631	957,025
Post-employment benefits	106,073	83,960	98,873	79,148
Other long-term benefits	24,593	20,699	24,593	20,699
Termination benefits	-	-	-	-
Share-based payments	73,960	63,217	73,960	63,217
Total compensation	1,560,426	1,196,909	1,462,057	1,120,089

The company has taken advantage of Schedule 5B of the *Corporations Regulations 2001* and has transferred details required by AASB 124: Related Party Disclosures paragraphs Aus25.4 to Aus 25.7.2 to the remuneration report contained in the directors' report.

c) Equity instrument disclosures relating to key management personnel

Option Holdings

Number of options held by key management personnel.

	Balance 01.07.06	Granted as remuneration	Options exercised	Net change other	Balance 30.06.07	Total vested 30.06.07	Total exercisable 30.06.07	Total unexercisable 30.06.07
Parent entity directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	7,402	1,910	(2,646)	-	6,666	-	-	6,666
James Thier	5,932	1,432	(2,074)	-	5,290	-	-	5,290
Howard Pender	2,649	1,469	(857)	-	3,261	-	-	3,261
Naomi Edwards	-	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-	-

Named executives (including other key management personnel)								
Anne O'Donnell	8,673	2,909	(2,802)	-	8,780	-	-	8,780
David Ferris	7,660	2,248	(2,498)	-	7,410	-	-	7,410
Mark Bateman	6,066	1,912	(1,962)	(6,016)	-	-	-	-
Philip George	1,550	2,356	-	-	3,906	-	-	3,906
Ruth Medd	-	-	-	-	-	-	-	-
Gary Leckie	3,481	1,443	(819)	-	4,105	-	-	4,105
Total	43,413	15,679	(13,658)	(6,016)	39,418	-	-	39,418



Notes to the financial statements for the year ended 30 June 2007

Note 24 – Key management personnel compensation – continued

c) Equity instrument disclosures relating to key management personnel – continued

Shareholdings

Number of shares held by key management personnel.

	Balance 01.07.06	Share in lieu of cash bonus	Options exercised/ shares issued ¹	Net change other ²	Balance 30.06.07 ^{3&4}
Parent entity directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	44,277	-	2,646	-	46,923
James Thier	60,154	127	2,074	(200)	62,155
Howard Pender	51,178	-	857	(370)	51,665
Naomi Edwards	-	-	-	-	-
Pauline Vamos	-	-	-	-	-
Justine Hickey	-	-	-	700	700
Named executives (including other key management personnel)					
Anne O'Donnell	3,315	-	2,802	-	6,117
David Ferris	2,762	179	2,498	-	5,439
Mark Bateman	982	-	1,962	(1,962)	982
Philip George	375	-	-	-	375
Ruth Medd	-	-	-	-	-
Gary Leckie	-	-	819	(819)	-
Total	163,043	306	13,658	(2,651)	174,356

¹The amount paid for shares issued on exercise of options is \$14.11 in all cases.

²Net change other refers to shares purchased or sold during the financial year.

³Shares issued are fully paid.

⁴Balance represents shareholdings by key management personnel including their related parties as required by AASB 124: Related Party Disclosures.

Note 25 – Share based payments

The following share-based payment arrangements existed at 30 June 2007:

On 23 September 2004, 39 173 share options were granted to non-probationary employees under the Australian Ethical Investment Ltd 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, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Ltd. The options hold no voting or dividend rights.

On 21 September 2005, 43 664 share options were granted to non-probationary employees under the Australian Ethical Investment Ltd 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 \$24.82 each and a 3 month window in which to be exercised, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Ltd. The options hold no voting or dividend rights.

On 22 September 2006, 45 825 share options were granted to non-probationary employees under the Australian Ethical Investment Ltd 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 \$32.50 each and a 3 month window in which to be exercised, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Ltd. The options hold no voting or dividend rights.

On 22 September 2006, 703 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 1,563 ordinary shares, with the same terms, were granted on 21 September 2005).



Notes to the financial statements for the year ended 30 June 2007

Note 25 – Share based payments – continued

	Consolidated entity				Parent entity			
	2007		2006		2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the year	113,946	18.91	101,865	16.13	113,946	18.91	101,865	16.13
Granted	45,825	32.50	43,664	24.82	45,825	32.50	43,664	24.82
Forfeited	(6,998)	25.56	(2,297)	16.12	(6,998)	25.56	(2,297)	16.12
Exercised	(33,778)	14.11	(26,250)	18.26	(33,778)	14.11	(26,250)	18.26
Expired	-	-	(3,036)	18.26	-	-	(3,036)	18.26
Outstanding at year-end	118,995	25.11	113,946	18.91	118,995	25.11	113,946	18.91
Exercisable at year-end	-	-	-	-	-	-	-	-

There were 33 778 options exercised during the year ended 30 June 2007. The weighted average share price calculated as at exercise dates of these options was \$33.73.

The options outstanding at 30 June 2007 had a weighted average exercise price of \$25.11 and a weighted average remaining contractual life of 1.55 years. Exercise prices range from \$16.28 to \$32.50 in respect of options outstanding at 30 June 2007.

The weighted average fair value of the options granted during the year was \$4.14.

This price was calculated by using the Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$32.50
Weighted average life of the option	3.25 years
Underlying share price	\$29.00
Expected share price volatility	22.50%
Risk free interest rate	5.69%

Included under employee benefits expense in the income statement is:

\$20 949 (2006: \$35 392) relating to equity-settled share-based payment transactions for staff bonus; and
\$96 607 (2006: \$59 961) relating to options issued under the employee share ownership plan.

Note 26 – Financial instruments

(a) Financial risk management

The consolidated entity's financial instruments consist of cash and cash equivalents (note 7), trade and other receivables (note 8), financial assets (note 9) and trade and other payables (note 13).

The main purpose of these financial instruments is to finance the consolidated entity's operations. The consolidated entity's has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

(b) Interest rate risk

The consolidated 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:



Notes to the financial statements for the year ended 30 June 2007

Note 27 – Financial instruments – continued

(b) Interest rate risk – continued

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2007 %	2006 %	2007 \$	2006 \$	2007 \$	2006 \$
Cash and cash equivalents	6	5	1,672,164	1,478,934	-	-
Trade and other receivables			-	-	-	-
Financial assets	7	7	1,815,158	2,504,546	15,272	13,859
Total financial assets			3,487,322	3,983,480	15,272	13,859
Trade and other payables			-	-	-	-
Total financial liabilities			-	-	-	-

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$
Cash	-	-	300	300	1,672,464	1,479,234
Trade and other receivables	-	-	1,487,185	1,038,994	1,487,185	1,038,994
Financial assets	158,000	174,484	-	-	1,988,430	2,692,889
Total financial assets	158,000	174,484	1,487,485	1,039,294	5,148,079	5,211,117
Trade and other payables	-	-	1,681,284	1,352,010	1,681,284	1,352,010
Total financial liabilities			1,681,284	1,352,010	1,681,284	1,352,010

(c) 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 balance sheet and notes to the financial statements.

(d) Net fair values

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

Note 27 – Change in accounting policy

The following Australian Accounting Standards issued or amended, which are applicable to Australian Ethical Investment Ltd, but are not yet effective and have not been adopted in preparation of the financial statements at reporting date are:

AASB Amendment	Standard Affected	Nature of change in accounting policy and impact	Application date of the standard	Application date of the company
2005-10	AASB 139: Financial Instruments: Recognition and management	No change, no impact	1-Jan-07	1-Jul-07
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-07	1-Jul-07
	AASB 114: Segment Reporting	No change, no impact	1-Jan-07	1-Jul-07
	AASB 117: Leases	No change, no impact	1-Jan-07	1-Jul-07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1-Jan-07	1-Jul-07
	AASB 133: Earnings per Share	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-07	1-Jul-07
	AASB 4: Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1023: General Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1038: Life Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1-Jan-07	1-Jul-07



Directors' declaration

The Directors of Australian Ethical Investment Ltd declare that:

1. the financial statements and notes, as set out on pages 26 to 48 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 2007 and of the performance for the year ended on that date of the company and consolidated entity;

2. the Chief Executive Officer and Chief Finance Officer have each declared:
 - a. the financial records of the company for the financial year have been properly maintained in 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.

Howard Pender
Director

Dated this 31 August 2007



Independant auditor's report to the members of Australian Ethical Investment Limited

We have audited the accompanying financial report of Australian Ethical Investment Limited (the company) and Australian Ethical Investment Limited and controlled entity (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entity it controlled at the year's end or from to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remunerations disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 18 to 24 of the directors' report and not in the financial report.

Director's Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditors Opinion

In our opinion:

- a. the financial report of Australian Ethical Investment Limited and Australian Ethical Investment Limited and Controlled Entity is in accordance with 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, 2007 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- c. the remuneration disclosures that are contained on pages 18 to 24 in the directors' report comply with Accounting Standard AASB 124.



THOMAS DAVIS & CO.



P.L. WHITEMAN PARTNER

Chartered Accountants

Sydney,
31 August 2007
Liability limited by a scheme approved under Professional Standards Legislation



Shareholder information

The shareholder information set out below was current as at 21 September 2007.

Substantial shareholders

Substantial shareholders of ordinary shares are specified in the table of the top twenty 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 1 vote; and
- on a poll has 1 vote for every share held.

Options

No voting rights attach to any options on issue.

Distribution of shareholdings

Ordinary shares

Range	Holders	Units	%
1 – 1000	632	165 483	17.509
1001 – 5000	76	168 922	17.873
5001 – 10 000	12	88 167	9.329
10 001 – 100 000	14	389 275	41.188
100 000 – over	1	133 262	14.100
Totals	735	945 109	100.000
Non-marketable parcel	1	7	

Options issued under the employee options scheme

Range	Holders	Units	%
1 – 1000	5	2527	2.151
1001 – 5000	29	80 748	68.745
5001 – 10 000	5	34 185	29.104
10 001 – 100 000	0	0	0.000
100 000 – over	0	0	0.000
Totals	39	117 460	100.000

Twenty largest shareholders

Ordinary shares

Name	Number of ordinary shares	Percentage %	Substantial shareholder
SMF Funds Management Ltd	160 060	16.94	Yes
Mr Howard Pender	49 634	5.25	Yes
James Andrew Thier	47 681	5.05	Yes
Caroline Margaret Le Couteur	46 923	4.96	
Mr Trevor Roland Lee	39 174	4.14	
Mrs Judith Margaret Burton	33 683	3.56	
Ms Judith Clark	24 912	2.64	
Mr Bruce Allan McGregor & Mrs Ann Marion McGregor	24 447	2.59	
Gang-Gang Pty Ltd	23 310	2.47	
HB Sarjeant & Assoc Pty Ltd	17 216	1.82	
Dr Edward Arthur Icceton	16 500	1.75	
Daisy Thier	14 474	1.53	
Denholm Investments Pty Ltd	13 690	1.45	
Mr Peter Alexander Anderson	10 833	1.15	
Mr Michel Beuchat & Mrs Ann Beuchat	9 667	1.02	
Mr Philip Julian Eriksen & Mr Julian Hans Eriksen	9 292	0.98	
Mrs Jane Frances Hickling	9 000	0.95	
Ms Susie Edwards	7 941	0.84	
Mr Alistair David Clark	7 622	0.81	
Est Mrs Hanneliese Claire Graf	7 347	0.78	



Corporate directory

Australian Ethical Investment Ltd
ABN 47 003 188 930

Company secretary

Philip George

Telephone: 02 6201 1994
Facsimile: 02 6201 1987
Email: pgeorge@austethical.com.au

Postal address

GPO Box 2435
Canberra ACT 2601

Registered office / place of business

Trevor Pearcey House (Block E)
Traeger Court
34 Thynne Street
Bruce ACT 2617

www.austethical.com.au

Share registry

Registries Limited
ABN 14 003 209 836

Street: Level 2, 28 Margaret Street
Sydney NSW 2000
Telephone: 02 9290 9600
Facsimile: 02 9279 0664
Mail: 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 Securities Exchange
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.