Australian Ethical Investment Ltd

Annual report to shareholders

for year ending 30 June 2006

australianethical

investment + superannuation

for investors, society and the environment

new head office

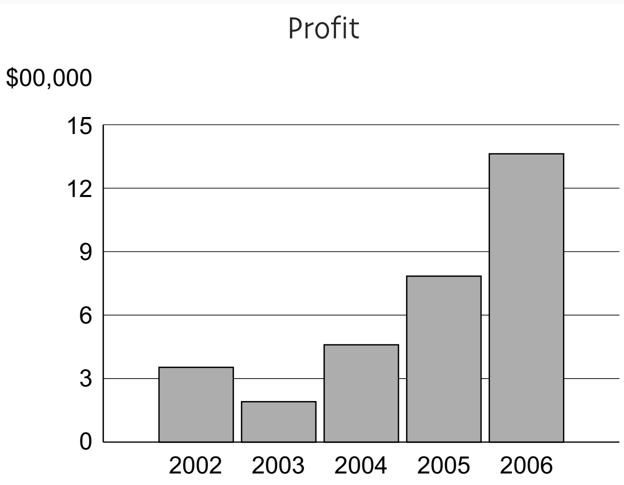
The company has purchased a building for use as its head office. Block E of Trevor Pearcey House is in the Canberra suburb of Bruce, an area of industries based on knowledge and high technology. The building is being refurbished to meet high standards of energy efficiency and comfort.

see pages 4 and 6

record profit

For the 2005–06 year, Australian Ethical Investment Ltd, including Australian Ethical Superannuation Pty Ltd, has recorded a net profit after tax of $1 362 612. This represents a 74 per cent increase over the previous year's record profit of $784 419.

see page 4

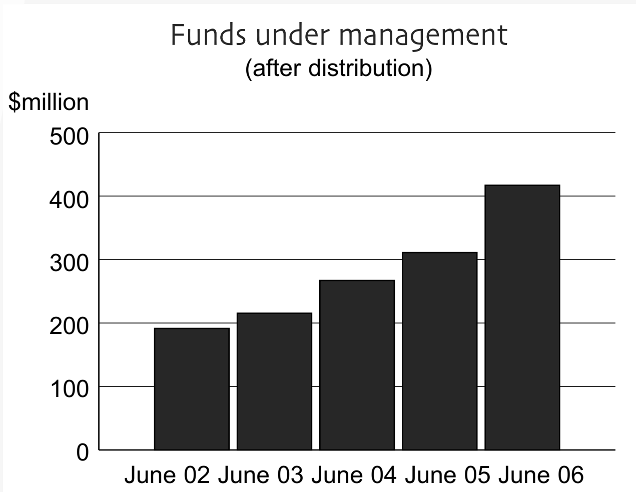


Past performance is not a reliable indicator of future performance.

growing funds

Growth in funds under management was strong, with good inflow from trust and super investors and positive returns from investments. Funds under management grew from $311 million in June 2005 to $417 million in June 2006 (after distribution). The distribution amount this year was $41 million, compared to $48 million the previous year.

see page 4



ethical decision-making

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

see page 8

more community grants

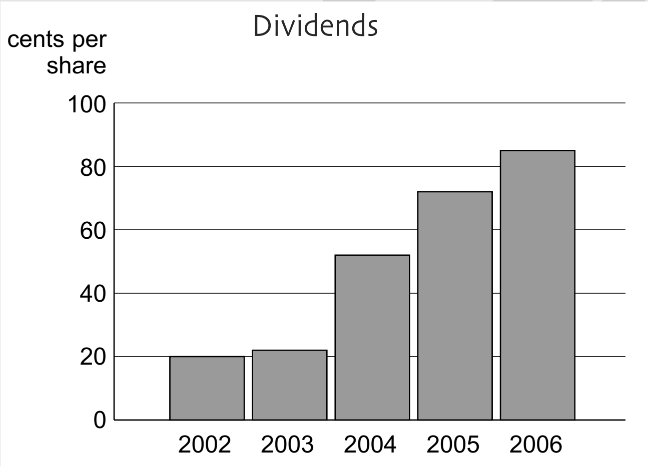
In 2005 Australian Ethical donated a total of $98 227 to 44 community organisations. In 2006 the company will grant $170 132 to 50 groups. Since 1997 this program has made available grants worth over $400 000.

see page 6

higher dividends

The dividend recommended by directors for the 2005–06 year is 85 cents per share (35 cents paid in March 2006, 50 cents to be paid in December 2006, subject to approval by the annual general meeting). The previous year's dividend was 72 cents per share.

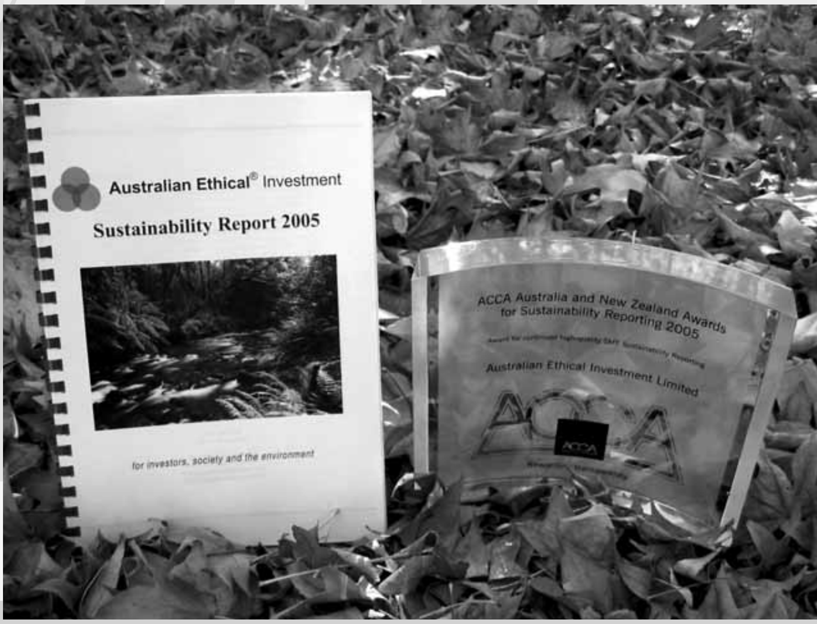
see page 2



sustainability reporting award

The Association of Chartered Certified Accountants gave Australian Ethical the award for continued high quality sustainability reporting for a small to medium-sized enterprise.

see page 6



contents

lower costs

The company's costs to income ratio has fallen from 83 per cent in 2005 to 78 per cent in 2006. Return on equity has increased from 16.4 per cent to 24.1 per cent.

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new ethical investments

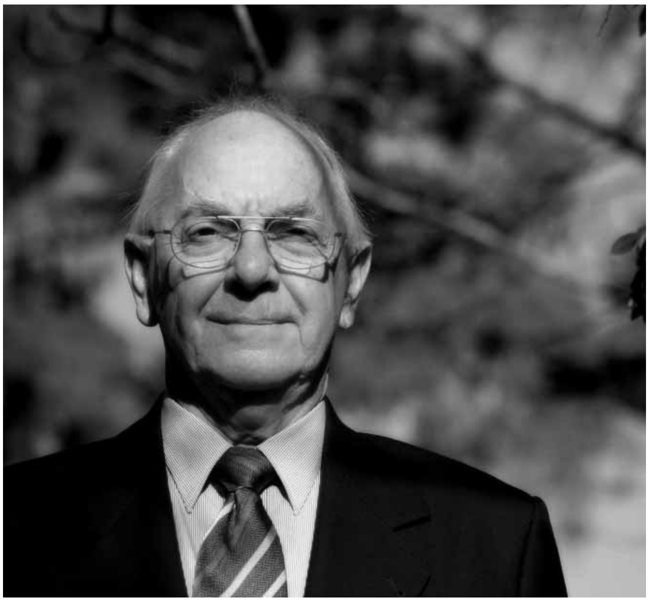
The company has maintained its commitment to promote ecologically sustainable and ethical investment while obtaining good returns for shareholders, trust investors and super members. New investments have been made in energy, property, health care, transport and publishing:

- wind energy producer, Babcock and Brown Wind Partners
- Spanish wind turbine maker, Gamesa Corp Tecnologica
- German solar companies, SolarWorld and Conergy
- US geothermal energy company, Ormat Technologies
- coal seam gas companies, Arrow Energy and Eastern Star Gas
- aged care services provider, DCA Group
- ING Community Living Fund
- ING Healthcare Fund
- Swiss hearing aid company, Phonak
- Danish hearing aid companies, William Demant Holdings and GN Store Nord
- Dutch bicycle manufacturer, Accell
- US bus operator, Laidlaw International
- newspaper and magazine publisher, Fairfax (John) preference shares.

see *Trusts – annual report 2006* **at www.austethical.com.au**

Chair's report

Five years of growth and gathering strength



The board is pleased to report that the Australian Ethical Investment group has had another good year in terms of increased profits, strong growth in funds under management, increased efficiencies of operations and a strengthening of our deep green and sustainable investment strategies fully consistent with our charter. The chief executive officer's report details the activities of the past year.

The group's capital position remains strong and the board is recommending an increased dividend for 2005–06. Even so, the board recommends that a portion of the increased profits be retained to strengthen the group's liquidity. The cost of the acquisition of a building for the group's head office last year, plus the expected costs of the substantial refurbishment of the building needed to meet our desired energy and environmental ratings have been funded from reserves, thereby depleting the group's liquidity. The retained profits will do much to restore liquidity to satisfactory levels.

Shareholders may like to consider the striking progress of the group over a longer period than a year. In mid-2001 Australian Ethical had about 28 staff (full-time equivalents) investing around $150 million of investors' funds. By mid-2006, the company had three times as much money under management while the number of staff had increased by less than 50 per cent (to 41). Over the last five years, customer support and careful control of expenditures have led to efficiency gains and built the vibrant and profitable company that we have today.

Overseas investments

Three years ago, the board decided to invest abroad a portion of the funds under management to increase diversification and potentially reduce risks for the trust funds. This diversification has been sound in terms of good returns and has also helped further the ethics, greenness and sustainability aims of the charter.

The Australian Ethical Charter remains the starting point for research into the inclusion or exclusion of possible investments. The group has resisted investing in companies, such as uranium and other mining companies for example, that tempt other ethical fund managers. In spite of this, or perhaps because of it, over the years the trusts and super strategies have maintained sound and sustainable returns.

The company has been able to increase activity and profit without compromising ethics because of its intellectual investment – in ideas and methods developed over the years and in people with strong skills in social and financial analysis. This has allowed growth in the value of assets without the commitment of large additional amounts of capital or natural resources. Since listing on the Australian Stock Exchange in December 2002, the market capitalisation of the company has grown from $11 million to $26 million. Dividends have grown from 10 cents per share in 2001 to 85 cents per share in 2006.

While the growth of the company is of special interest to shareholders, it has significant benefits for other stakeholders. Most directly, it creates jobs for the staff who run the trusts and the super fund and generates returns for the customers who invest in them. The group's objectives are broader still.

Broader responsibilities

The company's mission is to earn a competitive return while contributing to a just and sustainable society and the protection of the natural environment. Our core business is the use of funds under management for the benefit of people and environments around the world. As the business grows, these benefits grow.

Every year Australian Ethical donates 10 per cent of its profit to community groups working in welfare and the environment. This year's community grants – $170 132 to 50 groups – will give more money to more groups than ever before. From the beginning of the program in 1997 until the latest round of grants, the company will have tithed over $400 000 for these purposes.

Corporate giving and business success set a good example. Businesses are increasingly recognising their social responsibilities. Fund managers are offering more sustainable options. In this way success creates new challenges. The ethical marketplace is becoming more crowded. Australian Ethical's continuing advantage is that few other companies take their broader responsibilities as seriously as we do.

The prudential and market-based regulations of the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission have greatly expanded over recent years and required the group to devote substantial board, staff and financial resources to compliance activities. Although the increase in regulation has been well intended, the cost to small fund managers has probably been disproportionate to the benefits achieved. Your group has complied with this barrage of regulation with good grace; it had no alternative, but greater thought by the regulators needs now to be given to reducing the regulatory burdens that add heavily to costs and divert the attention of boards and management from efficiency and initiative.

This year, at a cost estimated to be well over $100 000, the company's wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd, gained a licence to continue to operate the superannuation fund that was started in 1998. Such a costly overhead could only be borne by a company much larger than the one that existed five years ago. Smaller superannuation funds have left the business.

The year ahead

It is as unwise as ever to forecast with any confidence the group's profitability for the coming year. The board has been considering a range of possibilities to expand the group's business and increase efficiency of operations.

Your board has continued to seek to appoint non-executive directors to the board to move closer to compliance with the Australian Stock Exchange guideline of a majority of non-executive directors. The present composition of the Australian Ethical Investment board is six directors, of which three are non-executives. Clearly we are making progress towards that guideline.

Throughout this period it has been my pleasure to work with the directors and the dedicated staff of the group, particularly the chief executive officer, Anne O'Donnell, and see their efforts and commitment bear fruit.

George Pooley
Chair

Grants to community organisations

$9000

- Australian Marine Conservation Society
- Australians for Disability and Diversity Employment
- Eden Aboriginal Evangelical Church
- Médecins Sans Frontières

$6000

- Alternative Technology Association – Solar Power for East Timor
- Australian Bush Heritage Fund
- Clean Ocean Foundation
- Engineers without Borders – WA Chapter
- Lismore Soup Kitchen
- The Coastwatchers Association

$3500

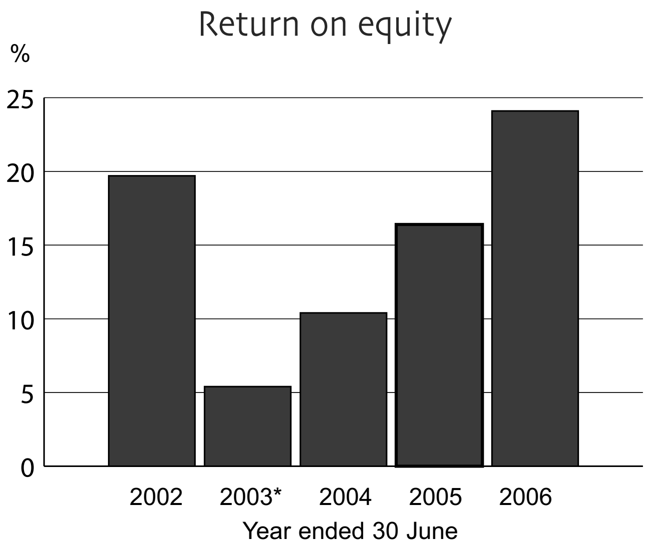
- Australian Conservation Foundation
- Barefoot Economy
- Deadly Treadlies
- Environmental Defenders Office – ACT
- Hopestreet Cleaners with a Mission
- Huon Valley Environment Centre
- Southern Cross Kid's Camps
- TEAR Australia
- The Wilderness Society
- Tolga Bat Rescue
- Water Aid

$2050

- Animal Liberation – NSW
- Anti-Slavery Project
- Australia and New Zealand Solar Energy Society
- Australian Seabird Rescue
- Bicycle Federation of Australia
- Wyalong & District Community Transport Group Inc
- Brush Tailed Rock Wallaby Recovery team
- Camp Icthus
- Communities at Work
- Conservation Council of the South East Region and Canberra
- Fair Trade Association of Australia and New Zealand
- Foster Care of Australia's Unique Native Animals
- Friends of the Earth Australia (Climate Justice campaign)
- Greening Australia – SA
- Hepburn Wildlife Shelter
- International Women's Development Agency
- Kingfisher Centre
- Migrant Resource Centre
- Mineral Policy Institute
- Murrumbateman Landcare Group
- Najidah Association
- Otis Foundation
- Pedal Power
- RSPCA Lonsdale Shelter – SA
- The Climate Group
- Total Environment Centre
- Towamba Community Progress Association
- Wildcare
- NSW Wildlife Information and Rescue Service (WIRES)

Chief Executive Officer's report

Profit up again



*Listing on the stock exchange expanded the capital base.

I am delighted to report that, for the financial year ended 30 June 2006, the Australian Ethical Investment group has made another record profit. The consolidated net profit is $1 362 612, up from $784 419 in 2005–06. This is an increase of 74 per cent. The group's profit has increased every year since 2003.

Growth in funds under management was again strong, with good investor inflow and positive returns from investments. At 30 June 2006, funds under management, after a distribution of $41 million, stood at $417 million. This is 34 per cent higher than at the same time the previous year.

The larger amount of funds produced more revenue without significantly increasing costs. The company's cost to income ratio fell from 83 per cent in 2005 to 78 per cent in 2006. As a result of the improved profit, return on equity has increased from 16.4 per cent to 24.1 per cent.

The superannuation fund has grown rapidly, gaining from the federal government's introduction of choice of funds at the start of the financial year and the budget tax concessions in May 2006. During the year the trustee, Australian Ethical Superannuation Pty Ltd, gained its registrable superannuation entity licence.

The success and growth of our business depends very much on the performance of the Australian Ethical trusts. In the last financial year the trusts attracted new funds and produced good returns in both absolute and relative historical terms. They were bettered by some other managed funds which were able to ride the boom in oil, coal and uranium stocks without concern for the social and environmental costs. We continue to be guided by our charter in the selection of investments for the trusts.

Last year the company retained some of the profit to invest in future growth of the business. The board of directors has taken the same view this year and has decided not to pay out all of the profit as dividends. Directors have declared a final dividend (fully franked) of 50 cents per ordinary share. Added to the interim dividend of 35 cents per share, the total dividend for the 2005–06 financial year will be 85 cents per share, an increase of 18 per cent over the previous year. Funds will be retained to provide liquidity and a strong capital base for future growth to meet operational demands.

New office

During the year the company purchased a building for use as our head office. Trevor Pearcey House is in the Canberra suburb of Bruce, a district containing industries based on knowledge and high technology. The building

Treavor Pearcey House, located in Bruce in the ACT.

is being refurbished to meet high standards of energy efficiency and to provide our staff with a comfortable and productive working environment. I am sure that any shareholder who has visited our current premises would agree the staff deserve such an environment after having spent many years in an ageing school building. Howard Pender has worked tirelessly on finding the building and planning its renovation and I would like to take this opportunity to thank him for his efforts. Contracts for the building work have been entered into and we hope to be in a position to move in the first half of 2007.

Outlook

In previous years we have had the luxury of starting the financial year strongly in terms of inflow and capital growth. This year we have experienced a somewhat slower start. Funds under management reached $470 million in September 2006. Share market movements have affected returns and investor sentiment. We will continue to monitor the situation closely and develop strategies as appropriate.

Some of the challenges facing the company are:

- continuing growth in the resources sector and associated expectations about fund performance
- keeping investors informed about how the volatility of markets affects their savings
- finding and retaining talented staff in Canberra's tight labour market.

We continue to seek opportunities to grow the business and reduce costs.

I would like to thank all the staff for their work in achieving the outstanding results outlined above. I would also like to thank you, our shareholders, for your continuing support and I look forward to seeing you at the annual general meeting on 23 November.

Anne O'Donnell
Chief Executive Officer

Sustainability report

Award for sustainability reporting

Australian Ethical was a winner at the Association of Chartered Certified Accountants 2005 awards for sustainability reporting. At a ceremony in May Australian Ethical received the award for continued high quality sustainability reporting for a small to medium-sized enterprise. This is the second award from the association in three years.

The association recognises an excellent sustainability report as one that clearly acknowledges and explains the environmental and social impacts of an organisation's operations and products, and demonstrates the organisation's policies, targets and long-term objectives to reduce any adverse environmental and social impacts.

Comments from the judging panel included:

'Australian Ethical Investment reports at a very comprehensive and meaningful level, and the quality of its report is outstanding given the company's small size.'

'Lots of discussion around risk based approach and governance systems supporting that.'

'Trend data on relevant environmental impacts on performance adds to the credibility of the report.'

'The report gives a good feel for the priorities of the organisation, how they want to position themselves both among peers and in the community.'

'The report is a no frills approach which is refreshing in some ways.'

Australian Ethical's *Sustainability Report 2005* is available on the company's website, **www.austethical.com.au**. The 2006 sustainability report is being prepared. As with our previous sustainability reports, the 2006 report makes reference to the global reporting initiative 2002 sustainability reporting guidelines. It will be available on the website later in the year.

Stephen Hyam (left) of Australian Ethical Investment and Philip Sloane from the Centre for Australian Ethical Research at the Association of Chartered Certified Accountants awards ceremony.

Deadly Treadlies is one example of a group receiving a community grant this year. Hudson is a regular at Deadly Treadlies, maintaining his BMX so he can ride to school, to the skate park and to the town pool.

Community grants

As part of Australian Ethical's constitution, 10 per cent of the company's profit is donated back to the community through the community grants scheme. In 2005, the company donated a total of $98 227 to 44 non-profit charity, benevolent and conservation organisations (see list of 2005 community grant recipients). The 2005 grants ranged in size from $1200 to $6000. Our grants help these groups continue their excellent work. Australian Ethical encourages other listed companies to donate a proportion of their profits back to the community.

In 2006, Australian Ethical has donated $170 132. Recipients are listed on page 3. Further information on our community grants scheme, including application guidelines and selection criteria, can be found on the company website.

Training and development

Australian Ethical is committed to the training and development of its employees. Training and development provides clear benefits to the employees, the company and other stakeholders through increased social capital, increased efficiency and enhanced productivity. Australian Ethical reinforced its commitment to employee training and development in 2006 by extending its reimbursement of approved courses from 50 per cent to 100 per cent of fees, up to a maximum of $2000 per year.

Employees are also encouraged to participate in the company's personal development program, whereby staff may undertake personal development that suites their particular needs. The personal development program covers activities such as yoga, swimming and other sporting events, gym membership, painting, public speaking, dance and music.

Sustainability library

In April, the Sustainability Committee established a resource library for the use of staff. The library includes books and DVDs on a wide range of sustainability issues, including topics such as climate change, ethics, permaculture and sustainable house design.

Sustainable office building

In December 2005 Australian Ethical announced that it had exchanged contracts to purchase its own office building, Block E of Trevor Pearcey House, Bruce, in Canberra.

Australian Ethical's new home consists of four strata titled units which have a combined net lettable area of 1006 square metres and 32 square metres of balcony. The building is set in a technology park among other commercial buildings. Australian Ethical plans to refurbish the building to improve its efficiency in terms of energy and water used, as well as increasing the comfort for Australian Ethical staff. Some of the improvements planned include insulation, double-glazed windows, improved natural lighting, dual flush low-water-usage toilets and low-flow shower and hand basin fixtures.

Australian Ethical's new home will allow even better reporting of the company's environmental performance.

National ride to work day

A number of staff participated in the national ride to work day, held on 5 October 2005, enjoying fresh juice and muffins on arrival.

Climate change submission

In April 2006, Australian Ethical made a submission to the ACT Office of Sustainability's public consultation on climate change strategy and energy policy. Australian Ethical made five main recommendations:

- the ACT Government should set the achievable target of zero emissions by 2050
- the ACT's climate change strategy should focus on reducing greenhouse gas emissions from buildings and transport
- the ACT Government should take a leading role in educating the community about climate change
- the ACT Government should adequately fund the departments with primary responsibility for the implementation of climate change policy
- the ACT should declare itself a nuclear-free territory.

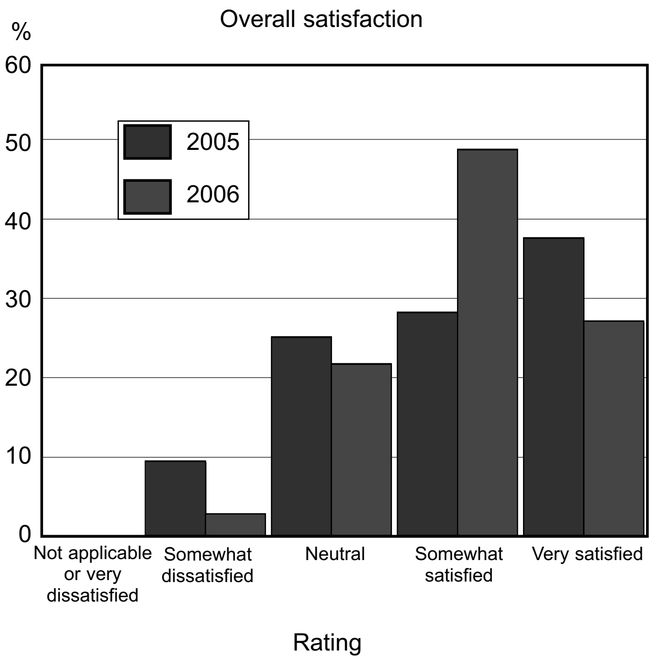
The submission can be downloaded from the company website.

Staff survey

Australian Ethical seeks to encourage, care for and provide educational opportunity for its workers, and respect their individual needs and aspirations. In keeping with this goal, Australian Ethical conducts regular staff surveys to address the question: does the company practice what it preaches? The 2006 survey included a range of questions relating to the Australian Ethical Charter as well as areas covered by the global reporting initiative including job security, remuneration and benefits, work-life balance, training and development, internal communication, and the company's social and environmental performance.

The survey was conducted by the Centre for Australian Ethical Research in February 2006. The survey found that overall, 76 per cent of staff were satisfied with Australian Ethical (see chart). This is an improvement on the overall satisfaction rating from the 2005 survey of 66 per cent. Staff rated Australian Ethical highly in a number of areas including job satisfaction, flexibility of hours, and supervisors' communication and management capabilities.

Staff satisfaction with Australian Ethical



Corporate governance statement 2006

This statement discloses the extent to which Australian Ethical Investment Ltd ('AEI') 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, AEI has provided information on its corporate governance practices against all recommendations.

Lay solid foundations for management and oversight

AEI 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 (i.e. a non-executive director) and who:

1. is not a substantial shareholder[1] 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 AEI did not comprise a majority of independent directors during the reporting period. For almost all the reporting period, the board comprised a majority of executive directors (three out of the five directors on the board through most of the reporting period).

On 1 July 2006, an independent director was appointed to the board. As at 1 July 2006 the board had three independent directors. They were George Pooley, Naomi Edwards and Pauline Vamos. 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 pursing the aims of the Charter at all levels of the business.

Since listing on the Australian Stock Exchange, the Board has undergone change in its composition and structure. Decisions on future Board composition will be guided by whether the Board considers it has the

1 As defined in section 9 of the Corporations Act 2001

right balance of director competencies for governance, for furtherance of the Australian Ethical Charter and for assisting with and monitoring company performance. Over time, and assuming the availability of suitable candidates, the Board expects to move towards a majority of independent directors.

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

- the Board must comprise at least three and not more then ten directors;
- the Board is bound by the Australian Ethical Charter that is set out in the AEI 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 AEI 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 chairperson, each director has the right to seek independent legal and other professional advice at the company's expense on any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Chair of the Board

The company's chairperson is currently an independent director.

Nomination committee

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

Promote ethical and responsible decision making

Code of conduct

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

Share trading

The company's code of conduct covers share trading. It requires that as a general rule *"staff and directors should not buy or sell 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). During the course of the reporting period, audit committee membership moved to a majority of independent directors. The chairperson 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 Board chairperson 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 'investor relations' section on its website which provides shareholders (and others) with up to date information about the corporate activities of the company. The website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings.

AEI maintains a newsletter, 'Aim High', for unitholders and shareholders and, since listing, has introduced a CEO information sheet for shareholders. It has revised its Annual General Meeting arrangements to promote participation and dissemination of information and has ensured access to the external auditor at these meetings.

AEI also produces a Sustainability Report for shareholders and other stakeholders on the triple bottom line performance of AEI (available on the AEI 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. It has appointed a director as Risk Management Officer and established a formal 'Statement on Risk Management', together with supporting documents, 'AEI Guide for Risk Management' and section risk registers, that document the major risks facing the company and the way in which these risks are to be managed. The risk registers are updated regularly and the criteria and working standards set out in the guide are periodically reviewed.

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

The chief executive officer 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 chairperson. The Board as a whole then considers and discusses the results of the questionnaire at a Board meeting. The Board chairperson also talks to each director individually about their performance and generally on the evaluation and comments received from their peers. The results of the questionnaire are examined from both a qualitative and quantitative perspective.

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 chairperson. 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 to be on themes or perceptions rather than specific comments;
- complete a draft of the annual performance review and provide to the executive for discussion;

- discuss the annual performance review with the executive – cover key responsibilities, overall performance, key behaviours, review achievements against previous year's objectives, discuss objectives for the coming year, discuss aspirations and areas for improvement;
- review competencies and qualifications to ensure they remain applicable to the position. If not, a training program must be developed to bring the executive to the appropriate level; and
- investigate what specific training may be suitable and available.

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

Remunerate fairly and responsibly

Remuneration policy

AEI'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 AEI **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"*

AEI'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 CEO and executive directors) receives 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.

AEI has a mix of full time and part time staff and endeavours to provide flexible employment

arrangements within business needs.

AEI 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 are George Pooley (independent director), Naomi Edwards (independent director appointed to the committee in June 2006) and Caroline Le Couteur (executive director). 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 AEI is to promote ethical/socially responsible investment. By the very nature of AEI, the Board is committed to the highest standards of conduct and ethical practices in guiding the business activities of AEI and its subsidiary. This includes transparency in the way in which it does business and clarity of communication to its members and other stakeholders. Its code of conduct, as mentioned earlier in this report, expects this of each employee and each director.

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

Directors' report

The directors of Australian Ethical Investment Limited, the controlling entity, present their report on the company and its controlled entity for the financial year ended 30 June 2006. 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 2006 and to the date of this report are:

Name	Time in office	
George Pooley	5 years	
Ray De Lucia	4 years	Resigned 10 October 2005
Caroline Le Couteur	15 years	
James Thier	15 years	
Howard Pender	15 years	
Naomi Edwards	1 year	
Pauline Vamos	<1 year	Commenced 1 July 2006

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

Company Secretaries

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

Name
Philip George
Mark Bateman

Principal activities

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

Operating results

The consolidated entity (Australian Ethical Investment Limited 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 2006 of $1 362 612. This result is a 74% increase on the result of $784 419[1] for the previous financial year.

Review of operations

The 2006 result continues a trend of excellent results over the last three years.

Once again, the company has experienced continued growth in funds under management and as a consequence improved revenue and profitability. As at 30 June 2006 funds under management totaled $417M (ex. distribution). This compares with funds under management of $311M (ex. distribution) as at 30 June 2005. The distribution amount for the current period was $41M, compared to a distribution the previous year of $48M.

The costs to income ratio[2] has reduced from 83% in the previous year to 78% this year and return on equity has increased from 16.4% to 24.1%.

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. During the year, Australian Ethical Superannuation Pty Ltd was granted a Registrable Superannuation Entity licence and the superannuation fund became a Registered Superannuation Entity. The licence and registration were necessary to allow the superannuation business to continue to operate past 1 July 2006. Changes to superannuation laws announced in the 2006 Federal Government budget should further strengthen the superannuation sector as a whole.

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 $170 132 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.

During the 2005/2006 financial year the company did not make any significant changes to its core funds management operations. There were no significant changes in management or organisational structure.

During the year the company purchased Block E of Trevor Pearcey House, Traeger Court, Fern Hill Park, Bruce, Australian Capital Territory. The net lettable area of the premises is 1000 square metres. The purchase price was $2.365M (inclusive of GST). The lease at the company's current premises expires at the end of June 2007.
The company intends to undertake an environmentally exemplary refurbishment of the premises at Trevor Pearcey house prior to re-locating. Relocation is expected to occur in the first half of 2007.

Other than the purchase of the building, there were no unusual events or transactions which affected the financial result for the period ended 30 June 2006.

1 Comparative profit after tax figure which shows the impact of adopting Australian equivalents to International Financial Reporting Standards. The amount reported in June 2005 under previous Australian Generally Accepted Accounting Principles was $810 900.

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

Financial position

The company's capital structure and policies remain relatively simple. The company currently has no debt and our capital is invested conservatively. During the year, a significant portion of the company's capital was invested into real property, with the acquisition of Trevor Pearcey House.

Maintenance of certain levels of capital are a condition of the company's Australian Financial Services License. As the trusts and funds under management grow the company is required to hold increasing levels of capital, up to a maximum of $5.0M.

The company continues to review and examine its capital needs.

Refurbishment of Trevor Pearcey House is expected to cost between $1M and $2M and will focus on environmentally sustainable improvements which engender staff comfort and productivity. The company is also reviewing its product offerings and is considering developing and offering some new products over the coming years. The company plans to retain some earnings to meet these requirements.

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

Business strategies, future prospects and likely developments

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

The company is reviewing its product offerings and depending on that analysis may, during the course of the financial year, make decisions to commence the development of new products to compliment its existing offerings.

The company will continued to focus on building and servicing its clients and streamlining its processes, ensuring scalability of operations and seeking cost efficiencies.

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

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Australian Ethical Investment Ltd and its controlled entity, the results of those operations or the state of affairs of Australian Ethical Investment Ltd in financial years subsequent to the financial year ended 30 June 2006, 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 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 lend to the director the amount necessary to pay the reasonable legal costs incurred by the director in defending an action for a liability incurred as a director of the company or a subsidiary on such terms as the company reasonably determines. The director 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. The company need not pay or provide a loan to the director to the extent that the director 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 an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' particulars

Qualifications, experience and special responsibilities

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

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

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. Caroline is the company's risk management officer. Caroline is also on the Board's remuneration committee.

James Thier B.Sc.(Hons)
Executive Director

James has had academic experience as a researcher and has taught in the faculties of economics, environmental studies and geography at the University of 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 Board's investment and compliance committees. James was recently awarded a Churchill Fellowship to examine the mechanism 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 Board's finance and investment committees.

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

Naomi is a Fellow of the Institute of Actuaries and has a high level of financial experience with practical conservation and environmental links. Naomi was Partner in charge of the financial services industry group within Deloitte Touche Tohmatsu in Sydney and leader of the financial services practice for Trowbridge Consulting for many years. She has recently undertaken pro bono work providing actuarial assistance for environmental and social organisations. Naomi is a director of Australian Ethical Superannuation Pty Ltd, chairs the Board's audit committee and is a member of the remuneration committee.

Pauline Vamos BA LLB AACI
Non-Executive Director

Pauline is a qualified lawyer and an Associate of the Australasian Compliance Institute. She has over twenty 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 member of the Board's Compliance 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	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
James Thier	9	8	-	-	-	-	4	4	-	-	3	3
Howard Pender	9	9	-	-	7	6	4	3	-	-	-	-
Caroline Le Couteur	9	9	-	-	-	-	-	-	2	2	-	-
Naomi Edwards	9	9	2	2	-	-	-	-	-	-	-	-
George Pooley	9	9	3	3	7	7	-	-	2	2	4	4
Ray De Lucia	1	1	1	1	-	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-	-	-	-	-

Directorships held in other listed entities in the last three years

Name	Entity
Howard Pender	Advanced Energy Systems Limited SoftLaw Corporation Limited
Ray De Lucia	MacarthurCook 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	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

Pauline Vamos was appointed as a non-executive director on 1 July 2006.

Named executives

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

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 5 named company executives who receive the highest remuneration for that year;
3. if consolidated financial statements are required – each of the 5 named relevant group executives who receive the highest remuneration for that year.

With the exception of Ruth Medd, the abovenamed directors and executives are key management personnel of the company. Ruth Medd is a group executive. Within the company, there are only four executives that satisfy the definition of company 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 mangers, 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 bonus[3] 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 options[4] 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 2000/2001 year of 10 cents per share to a dividend out of the 2004/2005 year profits of 72 cents per share. The dividend declared by the directors for the 2005/2006 year is 85 cents per share.[5]

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[6]
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

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

Year	Earnings
2001/2002	$353,276
2002/2003	$190,921
2003/2004	$459,761
Adoption of AIFRS	
2004/2005	$784,419
2005/2006	$1,362,612

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out below. The bonuses were paid on 21 September 2005. 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.

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

4 See Note 26 in the attached financial report

5 An interim dividend of 35 cents per share was paid in March 2006, so the final payment to shareholders will be 50 cents per share.

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

Remuneration details for the year ended 30 June 2006

Parent entity directors' remuneration

	Short-term employee benefits			Post employment benefits	Other long-term benefits	Termination benefits	Share-based payment		
	Cash salary and fees $	Bonus cash $	Other $	Super $	$	$	Bonus shares $	Options $	Total $
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
2005									
George Pooley	45,964	-	-	-	-	-	-	-	45,964
Ray De Lucia	12,974	-	-	-	-	-	-	-	12,974
Trevor Lee	5,000	-	-	450	-	-	-	-	5,450
Caroline Le Couteur	128,468	-	-	10,639	2,206	-	3,500	3,141	147,954
James Thier	112,845	1,800	-	9,802	1,835	-	1,000	2,573	129,855
Howard Pender	116,609	-	-	6,132	951	-	1,225	1,076	120,993
Naomi Edwards	21,689	-	-	1,502	-	-	-	-	23,191
Total	438,549	1,800	-	28,525	4,992	-	5,725	6,790	486,381

Named executives remuneration (including other key management personnel)

	Short-term employee benefits			Post employment benefits	Other long-term benefits	Termination benefits	Share-based payment		
	Cash salary and fees $	Bonus cash $	Other $	Super $	$	$	Bonus shares $	Options $	Total $
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
2005									
Anne O'Donnell	147,608	-	-	12,695	3,229	-	3,500	3,581	170,613
David Ferris	129,520	-	-	11,025	2,849	-	3,500	3,189	150,083
Mark Bateman	131,505	-	-	10,766	3,191	-	3,500	2,498	151,460
Philip George	78,760	-	-	6,545	1,641	-	-	-	86,946
Christopher Lee	29,569	-	-	2,449	-	-	3,291	-	35,309
Ruth Medd	17,500	-	-	1,035	-	-	-	-	18,535
Total	534,462	-	-	44,515	10,910	-	13,791	9,268	612,946

Options granted as remuneration[a] – 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	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-
Caroline Le Couteur	2,218	2,243	21.09.05	3.36	24.82	21.09.08	20.12.08
James Thier	1,688	1,800	21.09.05	3.36	24.82	21.09.08	20.12.08
Howard Pender	981	931	21.09.05	3.36	24.82	21.09.08	20.12.08
Naomi Edwards	-	-	-	-	-	-	-
	4,887	4,974					
Named executives (including other key management personnel)							
Anne O'Donnell	2,620	3,006	21.09.05	3.36	24.82	21.09.08	20.12.08
David Ferris	2,313	2,611	21.09.05	3.36	24.82	21.09.08	20.12.08
Mark Bateman	1,752	2,106	21.09.05	3.36	24.82	21.09.08	20.12.08
Philip George	-	1,550	21.09.05	3.36	24.82	21.09.08	20.12.08
Ruth Medd	-	-	-	-	-	-	-
	6,685	9,273					

(a) Each option above is granted by Australian Ethical Investment Limited (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.

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

	Balance 01.07.05	Share in lieu of cash bonus	Options exercised/ shares issued(1)	Net change other(2)	Balance 30.06.06(3)&(4)
Parent entity directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	41,869	190	2,218	-	44,277
James Thier	60,110	44	1,688	(1,688)	60,154
Howard Pender	51,107	71	981	(981)	51,178
Naomi Edwards	-	-	-	-	-
Named executives (including other key management personnel)					
Anne O'Donnell	3,125	190	2,620	(2,620)	3,315
David Ferris	2,031	183	2,313	(1,765)	2,762
Mark Bateman	2,268	-	1,752	(3,038)	982
Philip George	375	-	-	-	375
Ruth Medd	-	-	-	-	-
Total	160,885	678	11,572	(10,092)	163,043

(1) The amount paid for shares issued on exercise of options is $18.26 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 45,480, Howard Pender to 49,147 and Philip George to 250.

Alterations to the terms of options

The terms of all options issued under the employee share ownership plan (including those held by key management personnel) were altered by ordinary resolution at the Annual General Meeting held 24 November 2005. The resolution passed at the meeting changed the condition that:

> *Options issued under these arrangements [being the employee share ownership plan] are not transferable.*

to:

> *Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.*

No other terms or conditions were changed.

It is the view of the directors that the total of the fair value of the options affected by the alteration immediately before the alteration and the total of the fair value of the options immediately after the alteration was the same. The change was approved by shareholders so as to enable employees to have an alternative mechanism to realise any option value at the time of exercise, rather than to change the underlying value of the options.

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. These make up a very small proportion of the overall remuneration of people holding these positions.

Employment contracts of directors and senior executives

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

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

Options granted as remuneration[1] – 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 $	Value of options lapsed in fin year[2] $	Total value $
Parent entity directors								
George Pooley	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-
Caroline Le Couteur	2,243	21.09.05	3.36	7,536	5%	14,949	-	22,485
James Thier	1,800	21.09.05	3.36	6,048	4%	9,689	-	15,737
Howard Pender	931	21.09.05	3.36	3,128	2%	5,631	-	8,759
Naomi Edwards	-	-	-	-	-	-	-	-
	4,974			16,712		30,269	-	46,981
Named executives (including other key management personnel)								
Anne O'Donnell	3,006	21.09.05	3.36	10,100	5%	15,039	-	25,139
David Ferris	2,611	21.09.05	3.36	8,773	5%	15,590	-	24,363
Mark Bateman	2,106	21.09.05	3.36	7,076	5%	10,056	-	17,132
Philip George	1,550	21.09.05	3.36	5,208	3%	-	-	5,208
Ruth Medd	-	-	-	-	-	-	-	-
	9,273			31,157		40,685	-	71,842

(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 2008/09 year when the options are exercisable.
(2) None of the grant of options were forfeited by directors or other key management personnel during the year.

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

	2006/07		2007/08		2008/09	
	Max $	Min $	Max $	Min $	Max $	Min $
Parent entity directors						
George Pooley	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-
Caroline Le Couteur	4,207	-	3,141	-	7,536	-
James Thier	3,298	-	2,573	-	6,048	-
Howard Pender	1,363	-	1,076	-	3,128	-
Naomi Edwards	-	-	-	-	-	-
Named executives (including other key management personnel)						
Anne O'Donnell	4,455	-	3,581	-	10,100	-
David Ferris	3,972	-	3,189	-	8,773	-
Mark Bateman	3,120	-	2,498	-	7,076	-
Philip George	-	-	-	-	5,208	-
Ruth Medd	-	-	-	-	-	-

Holdings in registered schemes made available by the company

Caroline Le Couteur holds 752.8466 units in the Australian Ethical Balanced Trust.

Naomi Edwards holds 16,101.8794 units in the Australian Ethical Equities Trust and 13,521.8004 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 2003.

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

Mark Bateman (BBus, CPA)

Mark is a Certified Practising Accountant and is currently on the CPA Australia SME and Corporate Committee (ACT Division). Mark is also a member of the interim Audit Committee of the Future Fund. Mark is Chief Financial Officer of Australian Ethical Investment Ltd and is responsible for the fiscal management of the consolidated entity. Mark has worked in commerce as a financial professional for over 12 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
AEFAK	33,778	15/10/06 to 14/1/07	$14.11
AEFAI	36,504	23/9/07 to 22/12/07	$16.28
AEFAQ	43,664	21/9/08 to 20/12/08	$24.82
Totals	113,946		

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 2006 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
26,250	$18.26

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 3 of the attached financial report.

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 6
Options – issued during the financial year and since the end of the financial year[7]	Note 26

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

George Pooley
Director

Dated: 8 September 2006

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

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 2006 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 8 September 2006

Liability limited by a scheme approved under Professional Standards Legislation

Financial statements

for year ended 30 June 2006

Balance Sheet as at 30 June 2006

	Notes	Economic Entity		Parent Entity	
		2006	2005	**2006**	2005
		$	$	**$**	$
Current assets					
Cash and cash equivalents	8	**1,479,234**	1,824,746	**373,231**	1,016,042
Trade and other receivables	9	**1,038,994**	813,495	**1,042,972**	779,529
Financial assets	10	**2,518,405**	3,037,021	**2,518,405**	3,037,021
Other current assets	11	**139,708**	157,845	**94,243**	111,404
Total current assets		**5,176,341**	5,833,107	**4,028,851**	4,943,996
Non-current assets					
Property, plant & equipment	12	**2,613,153**	282,903	**2,613,153**	282,903
Financial assets	10	**174,484**	200,000	**490,484**	516,000
Deferred tax assets	13	**315,246**	217,603	**309,396**	217,603
Total non-current assets		**3,102,883**	700,506	**3,413,033**	1,016,506
Total assets		**8,279,224**	6,533,613	**7,441,884**	5,960,502
Current liabilities					
Trade and other payables	14	**1,352,010**	975,873	**1,433,154**	1,033,658
Current tax liabilities		**356,008**	309,615	**356,008**	309,615
Short-term provisions	16	**219,970**	170,378	**219,970**	170,378
Total current liabilities		**1,927,988**	1,455,866	**2,009,132**	1,513,651
Non-current liabilities					
Deferred tax liabilities	15	**30,896**	-	**30,896**	-
Other long-term provisions	16	**46,557**	30,861	**46,557**	30,861
Total non-current liabilities		**77,453**	30,861	**77,453**	30,861
Total liabilities		**2,005,441**	1,486,727	**2,086,585**	1,544,512
Net assets		**6,273,783**	5,046,886	**5,355,299**	4,415,990
Equity					
Issued capital	17	**4,628,423**	4,113,706	**4,628,423**	4,113,706
Reserves	17	**93,948**	38,630	**93,948**	38,630
Retained earnings	17	**1,551,412**	894,550	**632,928**	263,654
Total equity		**6,273,783**	5,046,886	**5,355,299**	4,415,990

The accompanying notes form part of these financial statements.

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Income Statement for the year ended 30 June 2006

	Notes	Economic Entity		Parent Entity	
		2006	2005	**2006**	2005
		$	$	**$**	$
Revenue	4	**9,661,723**	7,422,277	**7,768,390**	6,087,500
Commissions paid to advisers		**(271,327)**	(236,900)	**(101,281)**	(69,973)
External services		**(2,018,108)**	(1,634,208)	**(913,490)**	(766,608)
Employee benefits expense		**(3,986,460)**	(3,306,173)	**(3,972,997)**	(3,287,705)
Depreciation		**(143,407)**	(93,071)	**(143,407)**	(93,071)
Occupancy costs		**(280,710)**	(233,722)	**(275,792)**	(229,801)
Communication costs		**(456,324)**	(413,131)	**(426,969)**	(370,224)
Other expenses		**(347,044)**	(268,561)	**(296,154)**	(225,118)
Profit before tithe and income tax expense		**2,158,343**	1,236,511	**1,638,300**	1,045,000
Tithes expense	1 (k)	**(170,132)**	(98,227)	**(170,132)**	(98,227)
Profit before income tax	3	**1,988,211**	1,138,284	**1,468,168**	946,773
Income tax expense	5	**(625,599)**	(353,865)	**(393,144)**	(244,587)
Profit for the year	17	**1,362,612**	784,419	**1,075,024**	702,186
Profit attributable to members of the parent entity		**1,362,612**	784,419	**1,075,024**	702,186
Basic earnings per share (cents per share)	7	**150.3**	89.6		
Diluted earnings per share (cents per share)	7	**145.1**	88.7		

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2006

	Notes	Economic Entity		Parent Entity	
		2006	2005	**2006**	2005
		$	$	**$**	$
Total equity at beginning of financial period		**5,046,886**	4,541,716	**4,415,990**	3,993,053
Available-for-sale investments					
Valuation gains/(losses) taken to equity		**(6,632)**	-	**(6,632)**	-
Employee share options		**59,961**	26,481	**59,961**	26,481
Income tax on items taken directly to or transferred directly from equity		**1,989**	-	**1,989**	-
Net income recognised directly in equity		**55,318**	26,481	**55,318**	26,481
Profit for the financial year		**1,362,612**	784,419	**1,075,024**	702,186
Total recognised income and expense for the period		**1,417,930**	810,900	**1,130,342**	728,667
Transactions with equity holders in their capacity as equity holders:					
Contribution of equity, net of transaction costs		**514,717**	325,859	**514,717**	325,859
Dividends provided for or paid		**(705,750)**	(631,589)	**(705,750)**	(631,589)
		(191,033)	(305,730)	**(191,033)**	(305,730)
Total equity at the end of the financial period	17	**6,273,783**	5,046,886	**5,355,299**	4,415,990
Total recognised income and expense for the financial year is attributable to:					
Equity holders of the parent		**1,417,930**	810,900	**1,130,342**	728,667
		1,417,930	810,900	**1,130,342**	728,667
Effect of changes in accounting policy:					
Adjustment to reserves on adoption of AASB 2		**-**	12,149	**-**	12,149
Adjustment to retained earnings on adoption of AASB 2		**-**	(12,149)	**-**	(12,149)
		-	-	**-**	-

The accompanying notes form part of these financial statements.

Cash flow statement for the year ended 30 June 2006

	Notes	Economic Entity		Parent Entity	
		2006	2005	**2006**	2005
		$	$	**$**	$
Cash flows from operating activities					
Receipts from operations		**10,066,362**	7,748,477	**8,009,981**	6,265,276
Payment to suppliers & employees		**(7,706,749)**	(6,521,646)	**(6,350,434)**	(5,301,037)
Dividends received		**-**	-	**254,660**	172,427
Interest/distributions received		**279,928**	260,137	**233,391**	226,336
Income tax paid		**(643,963)**	(252,855)	**(449,319)**	(178,262)
Bonus		**(108,998)**	(82,945)	**(108,998)**	(82,945)
Tithe		**(98,227)**	(58,262)	**(98,227)**	(58,262)
Net cash provided by (used in) operating activities	23 (b)	**1,788,353**	1,092,906	**1,491,054**	1,043,533
Cash flows from investing activities					
Proceeds from sale of property, plant & equipment		**-**	2,243	**-**	2,243
Proceeds from sale of investments		**2,971,130**	3,104,170	**2,971,130**	3,104,170
Purchase of property, plant & equipment		**(2,446,806)**	(194,182)	**(2,446,806)**	(194,182)
Purchase of investments		**(2,443,421)**	(3,265,762)	**(2,443,421)**	(3,265,762)
Purchase of subsidiary shares		**-**	-	**-**	(116,000)
Loans to other entities		**-**	(50,000)	**-**	(50,000)
Repayment of loans		**11,657**	-	**11,657**	-
Net cash provided by (used in) investing activities		**(1,907,440)**	(403,531)	**(1,907,440)**	(519,531)
Cash flows from financing activities					
Proceeds from share issue		**479,325**	326,387	**479,325**	326,387
Share buy-back payment		**-**	(29,688)	**-**	(29,688)
Dividends paid		**(705,750)**	(631,589)	**(705,750)**	(631,589)
Net cash provided by (used in) financing activities		**(226,425)**	(334,890)	**(226,425)**	(334,890)
Net increase (decrease) in cash held		**(345,512)**	354,485	**(642,811)**	189,112
Cash at beginning of financial year		**1,824,746**	1,470,261	**1,016,042**	826,930
Cash at end of financial year	23 (a)	**1,479,234**	1,824,746	**373,231**	1,016,042

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2006

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, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Ltd and Australian Ethical Investment Limited as an individual parent entity. Australian Ethical Investment Limited 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 economic entity are described at note 20.

The financial report of Australian Ethical Investment Limited and its wholly owned entity, and Australian Ethical Investment Limited 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 economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

First time Adoption of Australian equivalents to International Financial Reporting Standards

Australian Ethical Investment Limited and its wholly owned entity, and Australian Ethical Investment Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and wholly owned entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Australian Ethical Investment Limited to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and wholly owned entity have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

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 Limited 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 economic 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 Limited and its wholly owned entity Australian Ethical Superannuation Pty Limited.

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.

Note 1 – Statement of significant accounting policies – continued

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

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

c) 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 carried at cost less any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are carried at cost less any accumulated 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, but excluding leasehold land, is depreciated over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation Rates	Depreciation Basis
Buildings	2.5%	Straight line
Furniture, fittings and equipment	10% to 81%	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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

The economic 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.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

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

Note 1 – Statement of significant accounting policies – continued

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 it 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 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 Limited 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 Limited 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.

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 Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the 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) Employee bonus and 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"

Note 1 – Statement of significant accounting policies – continued

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".

The annual employee bonus may be taken in cash and/or shares.

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 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

Future average salary increases have been estimated and factored into the accrual for annual leave and the provision for long service leave.

Key judgements

Australian Ethical Investment Limited has a loan receivable recorded as an asset on its balance sheet for $188 343. The directors have determined that no provision for doubtful debt is required for this loan.

Note 2 – Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Economic Entity		Parent Entity	
	30 Jun 05 $	01 Jul 04 $	30 Jun 05 $	01 Jul 04 $
Total equity under AGAAP	5,046,886	4,541,716	4,415,990	3,993,053
Adjustments to equity:				
Recognition of options expense under share based payments (a)	(38,630)	(12,149)	(38,630)	(12,149)
Increase in options reserve (a)	38,630	12,149	38,630	12,149
Total equity under AIFRS	5,046,886	4,541,716	4,415,990	3,993,053

(a) Share based payment costs (options) are charged to the income statement under AASB 2 'Share-based Payment' but not under AGAAP.

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

Profit after tax as previously reported under AGAAP	810,900	728,667
Recognition of options expense under share based payments (a)	(26,481)	(26,481)
Profit after tax under AIFRS	784,419	702,186

(a) Share based payment costs (options) are charged to the income statement under AASB 2 'Share-based Payment' but not under AGAAP.

Note 2 – Impact of adoption of AIFRS – continued

(iii) Adjustment to basic and diluted earnings per share

	Year ended 30 Jun 05
Basic earnings per share as previously reported	92.6
Diluted earnings per share as previously reported	91.7
Adjusted basic earnings per share after accounting policy change for share based payments	89.6
Adjusted diluted earnings per share after accounting policy change for share based payments	88.7

(iv) Transitional exemption

The economic entity has elected to apply the exemption under AASB 1 from restatement of comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. It has therefore continued to apply the previous Australian generally accepted accounting principles (AGAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the year ended 30 June 2005. The adjustment required for differences between previous AGAAP and AASB 132 and AASB 139 have been determined and recognised at 1 July 2005.

Note 3 – Auditors' remuneration

	Economic Entity		Parent Entity	
	2006 $	2005 $	**2006 $**	2005 $
Remuneration of the auditors for:				
Audit services				
Auditing the financial report	**52,400**	11,550	**46,900**	10,000
Auditing the Australian Ethical Superannuation Fund	**16,500**	24,600	**-**	-
Auditing the sustainability report	**8,600**	4,100	**8,600**	4,100
Non-audit services				
Tax and other accounting advice	**5,500**	2,750	**5,100**	2,000
Internal control review	**15,000**	-	**15,000**	-

Note 4 – Revenue

	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
Operating activities				
Management fees net of rebates	**7,274,591**	5,681,009	**4,020,460**	3,255,805
Entry fees	**1,508,963**	1,088,198	**509,935**	366,721
Other fees	**457,117**	337,024	**457,117**	337,024
Dividend from wholly owned subsidiary	**-**	-	**254,660**	172,427
Interest/distributions	**309,873**	266,741	**263,337**	232,940
Wholly owned entity fee	**-**	-	**2,163,664**	1,676,983
Other revenue	**109,312**	49,305	**97,350**	45,600
	9,659,856	7,422,277	**7,766,523**	6,087,500
Non-operating activities				
Gain on disposal of financial assets	**1,867**	-	**1,867**	-
Total revenue	**9,661,723**	7,422,277	**7,768,390**	6,087,500

Note 5 – Income tax expense

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
a) The components of tax expense comprise:				
Current tax	**690,357**	404,421	**452,052**	295,143
Deferred tax	**(64,758)**	(50,556)	**(58,908)**	(50,556)
	625,599	353,865	**393,144**	244,587
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% (2005:30%)				
Economic entity	**596,463**	341,485	**-**	-
Parent entity	**-**	-	**440,450**	284,032
Other members of the income tax consolidated group net of intercompany transactions	**-**	-	**232,455**	109,278
Add: tax effect of:				
Other non-allowable items	**860**	740	**816**	643
Share options expensed during year	**17,988**	7,944	**17,988**	7,944
Under provision for income tax in prior year	**12,237**	3,696	**12,237**	3,696
	627,548	353,865	**703,946**	405,593
Less: tax effect of:				
Rebateable fully franked dividends	**-**	-	**(76,398)**	(51,728)
Non-assessable income	**(635)**	-	**(635)**	-
Franking and foreign tax credits	**(1,314)**	-	**(1,314)**	-
Income tax expense attributable to entity	**625,599**	353,865	**625,599**	353,865
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(232,455)**	(109,278)
Income tax expense attributable to entity	**625,599**	353,865	**393,144**	244,587
The applicable weighted average effective tax rates are as follows:	**31%**	31%	**27%**	26%

Effective tax rates have not changed significantly from last year.

Note 6 – Dividends

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Distributions paid				
Final fully franked dividend of 42 (2005: 42) cents per share franked at the tax rate of 30% (2005:30%)	**384,955**	364,965	**384,955**	364,965
Interim fully franked dividend of 35 (2005: 30) cents per share franked at the tax rate of 30% (2005:30%)	**320,795**	266,624	**320,795**	266,624
	705,750	631,589	**705,750**	631,589
Declared (2005: proposed) final fully franked dividend of 50 (2005: 42) cents per share franked at the tax rate of 30% (2005: 30%)	**458,280**	373,273	**458,280**	373,273
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.			**983,028**	595,136
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			**196,406**	-
			786,622	595,136

Note 7 – Earnings per share

(a) Earnings used to calculate basic EPS and dilutive EPS	**1,362,612**	784,419
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**906,720**	875,930
Weighted average number of options outstanding	**32,291**	8,404
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**939,011**	884,334

Note 8 – Cash and cash equivalents

Cash on hand	**300**	300	**300**	300
Cash at bank	**16,534**	21,423	**115**	1,672
Deposits at call	**1,462,400**	1,803,023	**372,816**	1,014,070
	1,479,234	1,824,746	**373,231**	1,016,042

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 9 – Trade and other receivables

	Economic Entity		Parent Entity	
	2006 **$**	2005 $	**2006** **$**	2005 $
Trade receivables	**988,512**	792,656	**833,799**	647,306
Other	**50,482**	20,839	**50,482**	20,839
Amounts receivable – wholly owned entity	**-**	-	**158,691**	111,384
	1,038,994	813,495	**1,042,972**	779,529

Note 10 – Financial assets

Available-for-sale financial assets	**2,504,546**	3,037,021	**2,820,546**	3,353,021
Loans	**188,343**	200,000	**188,343**	200,000
	2,692,889	3,237,021	**3,008,889**	3,553,021
Less non-current portion	**174,484**	200,000	**490,484**	516,000
Current portion	**2,518,405**	3,037,021	**2,518,405**	3,037,021

a. Available-for-sale financial assets comprise:				
Money market deposit at cost	**500,000**	-	**500,000**	-
Mortgage backed security at fair value	**501,765**	1,537,021	**501,765**	1,537,021
Bank note at fair value	**504,145**	1,500,000	**504,145**	1,500,000
Corporate bond at fair value	**603,054**	-	**603,054**	-
Units in unit trust at fair value	**395,582**	-	**395,582**	-
Shares in wholly owned entity at cost	**-**	-	**316,000**	316,000
	2,504,546	3,037,021	**2,820,546**	3,353,021

The money market deposit is at a fixed interest rate of 6.15%, has a maturity date of 31 October 2006 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.

The corporate bond is at a fixed interest rate of 7.0%, has a maturity of 26 April 2007 and is investment grade rated by S&P.

b. Loans comprise				
Loan to other entity	**188,343**	200,000	**188,343**	200,000
	188,343	200,000	**188,343**	200,000

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 11 – Other current assets

Other	**2,843**	1,450	**2,843**	1,450
Prepayments	**136,865**	156,395	**91,400**	109,954
	139,708	157,845	**94,243**	111,404

Note 12 – Property, plant and equipment

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Land and buildings				
Leasehold land at:				
At cost	**230,000**	-	**230,000**	-
Total land	**230,000**	-	**230,000**	-
Buildings at:				
At cost	**2,137,962**	-	**2,137,962**	-
Less accumulated depreciation	**(22,642)**	-	**(22,642)**	-
Total buildings	**2,115,320**	-	**2,115,320**	-
Total land and buildings	**2,345,320**	-	**2,345,320**	-
Plant and equipment				
At cost	**791,661**	710,250	**791,661**	710,250
Accumulated depreciation	**(523,828)**	(427,347)	**(523,828)**	(427,347)
Total plant and equipment	**267,833**	282,903	**267,833**	282,903
Total property, plant and equipment	**2,613,153**	282,903	**2,613,153**	282,903

Movements in carrying amounts				
Land				
Balance at the beginning of year	**-**	-	**-**	-
Additions	**230,000**	-	**230,000**	-
Disposals	**-**	-	**-**	-
Carrying amount at the end of year	**230,000**	-	**230,000**	-
Buildings				
Balance at the beginning of year	**-**	-	**-**	-
Additions	**2,137,962**	-	**2,137,962**	-
Disposals	**-**	-	**-**	-
Depreciation expense	**(22,642)**	-	**(22,642)**	-
Carrying amount at the end of year	**2,115,320**	-	**2,115,320**	-
Plant and equipment				
Balance at the beginning of year	**282,903**	200,002	**282,903**	200,002
Additions	**107,847**	180,810	**107,847**	180,810
Disposals	**(2,152)**	(4,838)	**(2,152)**	(4,838)
Depreciation expense	**(120,765)**	(93,071)	**(120,765)**	(93,071)
Carrying amount at the end of year	**267,833**	282,903	**267,833**	282,903
Total	**2,613,153**	282,903	**2,613,153**	282,903

Note 13 – Deferred tax assets

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**246,048**	187,235	**246,048**	187,235
Tithe	**51,939**	30,368	**51,939**	30,368
Audit fees	**15,270**	-	**9,420**	-
	313,257	217,603	**307,407**	217,603
Amounts recognised directly in equity				
Financial asset revaluations	**1,989**	-	**1,989**	-
	315,246	217,603	**309,396**	217,603
Movements				
Opening balance at 1 July	**217,603**	167,047	**217,603**	167,047
Credited (charged) to the income statement	**95,654**	50,556	**89,804**	50,556
Credited (charged) to equity	**1,989**	-	**1,989**	-
Closing balance at 30 June	**315,246**	217,603	**309,396**	217,603

Note 14 – Trade and other payables

Trade payables	**242,383**	213,852	**121,841**	129,777
Sundry payables and accrued expenses	**896,393**	617,212	**790,688**	525,081
Employee bonus	**213,234**	144,809	**213,234**	144,809
Amounts payable to wholly owned entity	**-**	-	**307,391**	233,991
	1,352,010	975,873	**1,433,154**	1,033,658

Note 15 – 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**	-
Movements				
Opening balance at 1 July	**-**	-	**-**	-
Credited/(charged) to the income statement	**30,896**	-	**30,896**	-
Closing balance at 30 June	**30,896**	-	**30,896**	-

Note 16 – Provisions

	Economic Entity		Parent Entity	
	2006 **$**	2005 $	**2006** **$**	2005 $
Current				
Employee benefits – long service leave	**219,970**	170,378	**219,970**	170,378
	219,970	170,378	**219,970**	170,378
Non-current				
Employee benefits – long service leave	**46,557**	30,861	**46,557**	30,861
	46,557	30,861	**46,557**	30,861

Note 17 – Movements in equity

Issued capital Ordinary shares				
Balance at 1 July				
888,746 (2005 - 868,965) shares	**4,113,706**	3,787,847	**4,113,706**	3,787,847
Issue of share capital Shares issued during the year under the employee share ownership plan:				
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**	-
1,971 on 23 September 2004 (share bonus)	**-**	29,160	**-**	29,160
19,781 on 7 March 2005 (options exercised)	**-**	326,387	**-**	326,387
Shares bought back during the year				
1,180 on 1 October 2004	**-**	(17,794)	**-**	(17,794)
667 on 5 October 2004	**-**	(10,005)	**-**	(10,005)
124 on 6 October 2004	**-**	(1,889)	**-**	(1,889)
Balance 30 June				
916,559 (2005 - 888,746) shares	**4,628,423**	4,113,706	**4,628,423**	4,113,706

At 30 June 2006 there were 916,559 fully paid ordinary shares which have no par value.

For detailed information relating to the Australian Ethical Investment Limited 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 26 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.

Note 17 – Movements in equity – continued

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Reserves				
Available-for-sale financial assets revaluation reserve				
Balance 1 July	**-**	-	**-**	-
Revaluation - gross	**(6,632)**	-	**(6,632)**	-
Deferred tax	**1,989**	-	**1,989**	-
Balance 30 June	**(4,643)**	-	**(4,643)**	-
Share-based payments reserve				
Balance 1 July	**38,630**	12,149	**38,630**	12,149
Option expense	**59,961**	26,481	**59,961**	26,481
Transfer to share capital (options exercised)	**-**	-	**-**	-
Balance 30 June	**98,591**	38,630	**98,591**	38,630
Total Reserves	**93,948**	38,630	**93,948**	38,630

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	**894,550**	753,869	**263,654**	205,206
Changes in accounting policy	**-**	(12,149)	**-**	(12,149)
Restated balance	**894,550**	741,720	**263,654**	193,057
Profit for the period	**1,362,612**	784,419	**1,075,024**	702,186
Total for the period	**1,362,612**	784,419	**1,075,024**	702,186
Dividends	**(705,750)**	(631,589)	**(705,750)**	(631,589)
Balance 30 June	**1,551,412**	894,550	**632,928**	263,654
Total Equity	**6,273,783**	5,046,886	**5,355,299**	4,415,990

Note 18 – 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 19 – Economic dependence

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

Note 20 – Segment reporting

The company was established in 1986 and is the Responsible Entity of the Australian Ethical Trusts.

The company's subsidiary is Trustee of the Australian Ethical Superannuation Fund.

Note 21 – Capital commitments

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Premises Rental licence commitments	**65,028**	56,652	**65,028**	56,652
Payable				
– not later than 12 months	**65,028**	56,652	**65,028**	56,652

The licence agreement provides for 4 months for termination. The above amounts represent 4 months rent.

Note 22 – Contingent liabilities

Liabilties and assets of trusts and superannuation fund

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

Current liabilities				
Payables	**3,321,381**	5,499,381	**2,824,216**	5,103,746
Provisions	**43,712,715**	51,079,088	**40,954,235**	47,950,427
Total liabilities	**47,034,096**	56,578,469	**43,778,451**	53,054,173
Rights of indemnities for liabilities incurred by the economic entity and parent entity not recorded in the financial statements were:	**47,034,096**	56,578,469	**43,778,451**	53,054,173

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

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

Note 23 – 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	**16,534**	21,423	**115**	1,672
Deposits at call	**1,462,400**	1,803,023	**372,816**	1,014,070
	1,479,234	1,824,746	**373,231**	1,016,042

(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	**1,362,612**	784,419	**1,075,024**	702,186
Non-cash flows in operating profit				
Depreciation	**143,407**	93,071	**143,407**	93,071
Provisions	**65,288**	168,521	**65,288**	168,521
(Profit) loss on sale of property, plant & equipment	**2,152**	2,595	**2,152**	2,595
(Profit) loss on sale of investment	**(1,867)**	-	**(1,867)**	-
Share options expensed	**59,961**	26,481	**59,961**	26,481
Staff bonus paid in shares	**35,392**	29,160	**35,392**	29,160

Note 23 – Cash flow information – continued

	Economic Entity		Parent Entity	
	2006 **$**	2005 $	**2006** **$**	2005 $
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**(225,499)**	(206,133)	**(219,782)**	(212,997)
(Increase) decrease in prepayments & other assets	**18,136**	(23,571)	**17,161**	(14,200)
(Increase) decrease in deferred tax assets	**(95,653)**	(50,556)	**(89,803)**	(50,556)
Increase (decrease) in trade & other payables	**347,135**	117,353	**370,493**	147,706
Increase (decrease) in current tax liability	**46,393**	151,566	**2,732**	151,566
Increase (decrease) in deferred tax liability	**30,896**	-	**30,896**	-
Net cash provided by (used in) operating activities	**1,788,353**	1,092,906	**1,491,054**	1,043,533

(c) Non-cash financing and investing activities
Shares in Australian Ethical Investment Limited, to the value of $35,392 (2005: $29,160) were issued in lieu of staff bonus.

Note 24 – Related party transactions

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

Australian Ethical Investment Limited acts as the Responsible Entity for the Australian Ethical Trusts (Australian Ethical Balanced Trust, Australian Ethical Equities Trust, Australian Ethical Income Trust and Australian Ethical Large Companies Share Trust).

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

Transactions between related parties are on normal 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 Limited and its wholly owned entity, Australian Ethical Superannuation Pty Ltd during the financial year consisted of:				
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**2,163,664**	1,676,983
(ii) Transactions between Australian Ethical Investment Limited and its wholly owned entity under the tax consolidation and related tax sharing agreement referred to in note 1(b).	**-**	-	**232,453**	109,278
(iii) Transactions whereby Australian Ethical Investment Limited 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.	**-**	-	**3,285,781**	2,442,457
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in note 4.	**-**	-	**254,660**	172,427

Note 24 – Related party transactions – continued

	Economic Entity		Parent Entity	
	2006 **$**	2005 $	**2006** **$**	2005 $
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity:				
Management services	**-**	-	**34,568**	30,922
Taxation	**-**	-	**124,122**	80,462
Amounts payable to wholly owned entity:				
Management fee income	**-**	-	**307,391**	233,991

Australian Ethical Trusts

a) Transactions between Australian Ethical Investment Limited, as Responsible Entity, and the Australian Ethical Trusts during the financial year consisted of:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
(i) Transactions whereby Australian Ethical Investment Limited provides investment services to the Australian Ethical Trusts in accordance with the Trust Deed.				
Australian Ethical Balanced Trust	**3,132,193**	2,335,421	**3,132,193**	2,335,421
Australian Ethical Equities Trust	**2,407,875**	2,112,588	**2,407,875**	2,112,588
Australian Ethical Income Trust	**199,962**	183,328	**199,962**	183,328
Australian Ethical Large Companies Shares Trust	**1,668,138**	1,113,486	**1,668,138**	1,113,486
(ii) Transactions whereby Australian Ethical Investment Limited provides accounting services to the Australian Ethical Trusts in accordance with the Trust Deed.				
Australian Ethical Balanced Trust	**109,596**	77,850	**109,596**	77,850
Australian Ethical Equities Trust	**87,684**	56,832	**87,684**	56,832
Australian Ethical Income Trust	**39,468**	31,002	**39,468**	31,002
Australian Ethical Large Companies Shares Trust	**61,392**	32,322	**61,392**	32,322
(iii) Transactions whereby Australian Ethical Investment Limited seeks expense reimbursement from the Australian Ethical Trusts in accordance with the Trust Deed.				
Australian Ethical Balanced Trust	**53,644**	44,771	**53,644**	44,771
Australian Ethical Equities Trust	**50,198**	48,108	**50,198**	48,108
Australian Ethical Income Trust	**4,418**	4,370	**4,418**	4,370
Australian Ethical Large Companies Shares Trust	**37,367**	26,472	**37,367**	26,472
(iv) Transaction whereby Australian Ethical Investment Limited purchased units in the Australian Ethical Balanced Trust	**400,000**	-	**400,000**	-
(v) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust	**6,564**	-	**6,564**	-
(vi) Transactions whereby Australian Ethical Investment Limited sold interest bearing securities to the Australian Ethical Balanced Trust	**2,066,913**	-	**2,066,913**	-

Note 24 – Related party transactions – continued

	Economic Entity		Parent Entity	
	2006 **$**	2005 $	**2006** **$**	2005 $
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	**334,290**	260,907	**334,290**	260,907
Australian Ethical Equities Trust	**244,126**	208,875	**244,126**	208,875
Australian Ethical Income Trust	**24,435**	20,798	**24,435**	20,798
Australian Ethical Large Companies Shares Trust	**184,589**	126,837	**184,589**	126,837
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**395,582**	-	**395,582**	-
Distribution receivable from AEBT	**32,914**	-	**32,914**	-

Australian Ethical Superannuation Fund

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

(i) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Superannuation Fund related to the rebate of investment services.	**31,651**	17,254	**-**	-

Outstanding balances at balance date:				
Amounts payable to the Australian Ethical Superannuation Fund:				
Rebate of investment services fee	**6,119**	2,896	**-**	-

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 25 – 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	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

Pauline Vamos was appointed as a non-executive director on 1 July 2006

Note 25 – 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
Philip George	Company secretary / legal counsel

b) Key management personnel compensation

	Economic Entity		Parent Entity	
	2006 **$**	2005 $	**2006** **$**	2005 $
Short term employment benefits	**1,029,033**	957,311	**957,025**	893,776
Post-employment benefits	**83,960**	72,005	**79,148**	67,865
Other long-term benefits	**20,699**	15,902	**20,699**	15,902
Termination benefits	**-**	-	**-**	-
Share-based payments	**63,217**	35,574	**63,217**	35,574
Total compensation	**1,196,909**	1,080,792	**1,120,089**	1,013,117

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 01.07.05	Granted as remuneration	Options exercised	Net change other	Balance 30.06.06	Total vested 30.06.06	Total exercisable 30.06.06	Total unexercisable 30.06.06
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	7,377	2,243	(2,218)	-	7,402	-	-	7,402
James Thier	5,820	1,800	(1,688)	-	5,932	-	-	5,932
Howard Pender	2,699	931	(981)	-	2,649	-	-	2,649
Naomi Edwards	-	-	-	-	-	-	-	-
Other key management personnel								
Anne O'Donnell	8,287	3,006	(2,620)	-	8,673	-	-	8,673
David Ferris	7,362	2,611	(2,313)	-	7,660	-	-	7,660
Mark Bateman	5,712	2,106	(1,752)	-	6,066	-	-	6,066
Philip George	-	1,550	-	-	1,550	-	-	1,550
Total	37,257	14,247	(11,572)	-	39,932	-	-	39,932

Note 25 – 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 01.07.05	Share in lieu of cash bonus	Options exercised/ shares issued(1)	Net change other(2)	Balance 30.06.06(3)&(4)
Parent Entity Directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	41,869	190	2,218	-	44,277
James Thier	60,110	44	1,688	(1,688)	60,154
Howard Pender	51,107	71	981	(981)	51,178
Naomi Edwards	-	-	-	-	-
Other key management personnel					
Anne O'Donnell	3,125	190	2,620	(2,620)	3,315
David Ferris	2,031	183	2,313	(1,765)	2,762
Mark Bateman	2,268	-	1,752	(3,038)	982
Philip George	375	-	-	-	375
Total	160,885	678	11,572	(10,092)	163,043

(1) The amount paid for shares issued on exercise of options is $18.26 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 key management personnel including their related parties as required by AASB 124: Related Party Disclosures.

Note 26 – Share based payments

The following share-based payment arrangements existed at 30 June 2006:

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

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

On 21 September 2005, 43,664 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of $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 Limited. The options hold no voting or dividend rights.

On 21 September 2005, 1,563 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 1,971 ordinary shares, with the same terms, were granted on 23 September 2004).

Note 26 – Share based payments – continued

	Economic Entity				Parent Entity			
	2006		2005		**2006**		2005	
	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	**101,865**	**16.13**	107,113	16.16	**101,865**	**16.13**	107,113	16.16
Granted	**43,664**	**24.82**	39,173	16.28	**43,664**	**24.82**	39,173	16.28
Forfeited	**(2,297)**	**16.12**	(20,542)	16.18	**(2,297)**	**16.12**	(20,542)	16.18
Exercised	**(26,250)**	**18.26**	(19,781)	16.50	**(26,250)**	**18.26**	(19,781)	16.50
Expired	**(3,036)**	**18.26**	(4,098)	16.50	**(3,036)**	**18.26**	(4,098)	16.50
Outstanding at year end	**113,946**	**18.91**	101,865	16.13	**113,946**	**18.91**	101,865	16.13
Exercisable at year end	**-**	**-**	-	-	**-**	**-**	-	-

There were 26,250 options exercised during the year ended 30 June 2006. These options had a weighted average share price of $24.34 at exercise date.

The options outstanding at 30 June 2006 had a weighted average exercise price of $18.91 and a weighted average remaining contractual life of 1.59 years. Exercise prices range from $14.11 to $24.82 in respect of options outstanding at 30 June 2006

Options granted during the financial year

The weighted average fair value of the options granted during the year was $3.36.

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

Weighted average exercise price	$24.82
Weighted average life of the option	3.25 years
Underlying share price	$23.00
Expected share price volatility	22.50%
Risk free interest rate	5.08%

Included under employee benefits expense in the income statement is:
$35,392 (2005: $29,160) relating to equity-settled share-based payment transactions for staff bonus; and
$59,961 (2005: $26,481) relating to options issued under the employee share ownership plan.

Note 27 – Financial instruments

(a) Financial risk management

The economic entity's financial instruments consist of cash and cash equivalents (note 8), trade and other receivables (note 9), financial assets (note 10) and trade and other payables (note 14).

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

Note 27 – Financial instruments – continued

(b) Interest rate risk – continued

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2006 %	2005 %	**2006 $**	2005 $	**2006 $**	2005 $
Cash and cash equivalents	**5**	5	**1,478,934**	1,824,446	**-**	-
Trade and other receivables			**-**	-	**-**	-
Financial assets	**7**	6	**2,504,546**	3,037,021	**-**	-
Total financial assets			**3,983,480**	4,861,467	**-**	-
Trade and other payables			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2006 $	2005 $	**2006 $**	2005 $	**2006 $**	2005 $
Cash and cash equivalents	**-**	-	**300**	300	**1,479,234**	1,824,746
Trade and other receivables	**-**	-	**1,038,994**	813,495	**1,038,994**	813,495
Financial assets	**188,343**	200,000	**-**	-	**2,692,889**	3,237,021
Total financial assets	**188,343**	200,000	**1,039,294**	813,795	**5,211,117**	5,875,262
Trade and other payables	**-**	-	**1,352,010**	975,873	**1,352,010**	975,873
Total financial liabilities	**-**	-	**1,352,010**	975,873	**1,352,010**	975,873

(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 28 – Change in accounting policy

a) The economic entity has adopted the following Accounting Standards for application on or after 1 January 2005:

- – AASB 132: Financial Instruments: Disclosure and Presentation; and
- – AASB 139: Financial Instruments: Recognition and Measurement

The changes resulting from the adoption of AASB 132 relate primarily to increased disclosures required under the Standard and do not affect the value of amounts reported in the financial statements.

The adoption of AASB 139 has resulted in differences in the recognition and measurement of the economic entities available-for-sale financial assets. Available for sale financial assets are revalued to fair value at reporting date. All adjustments resulting from changes in fair value are taken directly to equity. Previously financial assets were valued at cost. This change in accounting policy has resulted in a reduction in financial assets of $6,632, an increase in deferred tax assets of $1,989 and a reduction in available for sale financial assets reserve of $4,643 for the year ended 30 June 2006.

The economic entity has elected not to adjust comparative information resulting from the introduction of AASB 139 after applying the exemption available under AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting.

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

AASB Amendment	AASB Standard Affected	Nature of change in accounting policy and impact	Application date of the standard	Application date of the company
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-06	1-Jul-06
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-06	1-Jul-06
	AASB 124: Related Party Disclosures	No change, no impact	1-Jan-06	1-Jul-06
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 affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments.	1-Jan-07	1-Jul-07

All other pending Standards issued between the previous financial report and the current reporting date have no application to the company.

AASB Amendment	AASB Standard Affected
2005-1	AASB 139: Financial Instruments: Recognition and Management
2005-4	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
	AASB 1: First-time Adoption of AIFRS
	AASB 1023: General Insurance Contracts
	AASB 1038: Life Insurance Contracts
2005-5	AASB 1: First-time Adoption of AIFRS
	AASB 139: Financial Instruments: Recognition and Management
2005-6	AASB 3: Business Combinations
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates
New Standard	AASB 119: Employee Benefits

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 24 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 2006 and of the performance for the financial year ended on that date of the company and economic entity;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
    a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
    b. the financial statements and notes for the financial year comply with the Accounting Standards; and
    c. the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

George Pooley

George Pooley
Director

Dated this 8 September 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Scope

We have audited the financial report of Australian Ethical Investment Limited and controlled entities for the financial year ended 30 June, 2006 as set out on pages 24 to 48. As permitted by the Corporations Regulations 2001 the Company has disclosed information about the remuneration of Directors and Executives ("remuneration disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" contained in pages 16 to 21 of the Directors' Report, and not in the financial report.

The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entity it controlled at the year's end or from time to time during the financial year. The Company's Directors are responsible for the financial report and the Remuneration Disclosures contained in the Directors' Report in accordance with the Corporations Regulations 2001. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the remuneration disclosures in the Directors Report comply with Accounting Standard AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124.

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

Audit Opinion

In our opinion:

1. the financial report of Australian Ethical Investment Limited is in accordance with:
   a. the Corporations Act 2001, including:
      i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June, 2006 and of their performance for the year ended on that date; and
      ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
   b. other mandatory professional reporting requirements in Australia; and
2. The Remuneration disclosures that are contained on pages 16 to 21 of the Directors' Report comply with Accounting Standard AASB 124.

THOMAS DAVIS & CO.

P.L. WHITEMAN PARTNER

Chartered Accountants

SYDNEY,
8 September, 2006
Liability limited by a scheme approved under Professional Standards Legislation

Shareholder information

The shareholder information set out below was current as at 25 September 2006.

Substantial Shareholders

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

Voting Rights

Ordinary Shares

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

- on a show of hands has 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 – 1,000	516	144,065	15.7%
1,001 – 5,000	75	172,133	18.8%
5,001 – 10,000	10	63,559	6.9%
10,001 – 100,000	14	389,311	42.4%
100,000 – OVER	1	148,194	16.2%
Totals	616	917,262	100%
Non-marketable parcel	2	17	

Options issued under the Employee Options Scheme

Range	Holders	Units	%
1 – 1,000	12	4,881	3.1%
1,001 – 5,000	24	65,930	41.3%
5,001 – 10,000	11	77,378	48.4%
10,001 – 100,000	1	11,582	7.2%
100,000 – OVER	0	0	0
Totals	48	159,771	100.0%

20 Largest Shareholders

Ordinary Shares

Name	Number of Ordinary Shares	Percentage %	Substantial Shareholder
Select Managed Funds Limited	148,194	16.2%	Yes
Mr Howard Pender	49,147	5.4%	Yes
James Andrew Thier	45,607	5.0%	Yes
Caroline Margaret Le Couteur	44,277	4.8%	
Mr Trevor Roland Lee	39,174	4.3%	
Mrs Judith Margaret Burton	34,233	3.7%	
Gang – Gang Pty Ltd	33,984	3.7%	
Ms Judith Clark	29,571	3.2%	
Mr Bruce Allan McGregor & Mrs Ann Marion McGregor	24,447	2.7%	
Dr Edward Arthur Iceton	16,500	1.8%	
HB Sarjeant & Assoc Pty Ltd	16,301	1.8%	
Mr Alistair David Clark	16,263	1.8%	
Mrs Jane Frances Hickling	14,500	1.6%	
Daisy Thier	14,674	1.6%	
Mr Peter Alexander Anderson	10,833	1.2%	
Mr Michel Beuchat & Mrs Ann Beuchat	9,667	1.1%	
Ms Susie Edwards	7,941	0.9%	
Mr Philip Julian Eriksen & Mr Julian Hans Eriksen	7,583	0.8%	
Mrs Hanneliese Claire Graf	7,347	0.8%	
Mr Rodney Matthew Myer	7,332	0.8%	

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
Mail:	GPO Box 2435 Canberra ACT 2601

Postal address

GPO Box 2435
Canberra ACT 2601

Registered office / place of business

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

www.austethical.com.au

Share registry

Registries Ltd
ABN 14 003 209 836

Street:	Level 2, 28 Margaret Street Sydney NSW 2000
Telephone:	02 9290 9600
Facsimile:	02 9279 0664
Mail:	PO Box R67 Royal Exchange Sydney NSW 1223
Email:	registries@registriesltd.com.au

www.registriesltd.com.au

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

Stock exchange listing

Australian Stock Exchange Limited
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;
  - envourage, 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.

The Australian Ethical Charter©

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

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

b. the production of high quality and properly presented products and services;

c. the development of locally based ventures;

d. the development of appropriate technological systems;

e. the amelioration of wasteful or polluting practices;

f. the development of sustainable land use and food production;

g. the preservation of endangered eco-systems;

h. activities which contribute to human happiness, dignity and education;

i. the dignity and well being of non-human animals;

j. the efficient use of human waste;

k. the alleviation of poverty in all its forms;

l. the development and preservation of appropriate human buildings and landscapes.

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

i. pollute land, air or waters;

ii. destroy or waste non-recurring resources;

iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment;

iv. market, promote or advertise, products or services in a misleading or deceitful manner;

v. create markets by the promotion or advertising of unwanted products or services;

vi. acquire land or commodities primarily for the purpose of speculative gain;

vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments;

viii. entice people into financial over-commitment;

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

x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices;

xi. contribute to the inhibition of human rights generally.