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ASX Announcement
pureinvestmentperformance

Australian Ethical Investment Ltd
Results for year ended 30 June 2010

30 August 2010

Australian Ethical Investment Ltd today announced its full year results for the year ended 30 June 2010.

Financial results

Key points:

- Net profit after tax (NPAT) was $1.0 million (15% lower than the previous financial year)
- Funds under management were $613.8 million (before distribution) at 30 June 2010 (an increase of 12.1% over the previous year)
- Revenues were $14.1 million (an increase of 7.1% over the previous year)
- Expenses were $12.5 million (an increase of 10.2% over the previous year)
- Return on equity with reference to NPAT (RoE) for the year is 12.5% (down from 14.8% for 2008-09)

The result should be read in light of the following one-off events during the year that impacted the results, namely:

- Senior staff departure expenses of $482,000; and
- Adjustments in respect of fee errors related to the prior year but adjusted in the current year of $261,000.

After taking these items into account, the result is an increase in underlying NPAT of 51% with an RoE of 18.9%. These results are summarised in the table below.

	2009	2010	Change
Funds under management	$547.4 million	$613.8 million	12%
	$000	**$000**	
Revenue	13,131	14,068	7%
Expenses	(10,638)	(11,661)	(10%)
Operating profit	**2,493**	**2,407**	**(3%)**
Community grants	(141)	(125)	(11%)
EBITDA	**2,352**	**2,282**	**(3%)**
Depreciation/amortisation/options/rights	(529)	(676)	(28%)
Tax	(620)	(583)	6%
Net profit after tax	**1,203**	**1,023**	**(15%)**
Underlying profit			
Adjustments (gross)			
- Fee revenue error	(261)	261	
- Add back senior staff departure cost	-	482	
Tax on adjustments	78	(223)	
Net underlying profit after tax	1,020	1,543	51%

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Dividend payment

The Board has adopted a dividend payment policy that will target a dividend payout ratio of between 80% and 100% of net profit after tax in a given year subject to the capital requirements of the business.

The Board has determined that a final dividend of $0.50 per share be declared resulting in a full year dividend of $1.00 per share. In addition, following a review of the balance sheet, the future capital requirements of the business and other issues, the Board has determined that a special dividend of $1.00 per share is appropriate and therefore declared.

In declaring this special dividend the Board considered:

- regulatory requirements;
- internal operational and strategic requirements;
- franking account balance and value to the shareholder;
- timing considerations including historical issues affecting the balance sheet such as the purchase of Trevor Pearcey House, the global financial crises and the maturity of the business; and
- the strong positive cash flow position of the company.

The dividend reinvestment plan (DRP) will not operate in respect of these payments.

A summary of dividend payments related to the past two years is as follows:

	2009	**2010**	**Change**
Interim (cents per share)	15	50	
Final (cents per share)	132	50	
Special (cents per share)	-	100	
Total (cents per share)	147	200	36%
Dividend paid ($m)	1.5	2.0	36%
Payout ratio (% of net profit after tax)	120%	197%	65%

Review of operations

Comments on financial results

- Underlying net profit after tax improved to similar levels achieved prior to the onset of the global financial crisis. This is reflective of the partial recovery of global markets from a very low base reached in March 2009 to higher, yet still volatile, levels (our revenues are primarily based on funds under management and therefore sensitive to movements in the market as a whole).

- Funds under management increased by $66.4 million up by 12.1% over the previous year. Approximately $29.5 million of this increase was due to net inflows for the year whilst $36.9 million was due to market movements and other factors.

- Our net inflows were achieved in the context of a difficult market environment in which many investors were cautious and were either not investing or were withdrawing their investment from managed funds.

- Revenues increased by $1.0 million representing an increase of 7% over the previous year. A significant impact on revenue for the year were fee errors related to the prior year but adjusted in the current year amounting to $261,000. After adjusting current and prior year revenue numbers for these errors, revenue growth was 11%, roughly in-line with the growth in funds under management. Revenue margins reduced slightly due to fee discounting on entry fees due to industry trends and an increasing proportion of our business coming from the lower revenue margin wholesale market.

- Operating expenses increased by $1.0 million, an increase of 10% over the previous year. Expenses were significantly impacted by costs associated with the departure of senior staff during the year amounting to $482,000. After taking this item into account operating expense growth is 5.1% over the previous year.

- After adjusting for the one-off costs associated with senior staff leaving, employment costs increased by 7%. A significant part of this increase is attributable to non cash share-based payments expense associated with the introduction of the new employee share ownership plan aligning packages with industry norms.

- Superannuation administration costs increased by 8%. This reflects a 5% increase in average member numbers, and increased per member administration charges under the contract. The administration charges were increased from 1 April 2010 and reflect CPI increases.

- Other increases in expenses reflect increased investment in information technology to more efficiently perform our investment management and client service functions. Increased spending in sales and marketing, consulting fees and product development have also impacted on the result.

- $124,941 has been provisioned for payment to charitable and conservation organisations under our community grants program (under the constitution of the company requires 10% of operating profit (after notional tax) be provisioned for such payments). The community grants this year represent an important milestone in our continued commitment to the community, as the total amount donated since inception will exceed $1 million.

- Receivables are higher than the prior year with the balance relating predominantly to receivables from the managed investment schemes (concerning management fees and reimbursable expenses). This year also includes a receivable from the managed investment schemes related to the implementation costs of the new portfolio administration platform. A significant portion of the receivables balance has been paid in July 2010.

Other comments on the year under review

- During the year Ms Anne O'Donnell stepped down from her role as Chief Executive Officer (CEO) of the company. Ms O'Donnell had been with Australian Ethical for nine years and through that time had both grown the company and positioned it well for the next stage of its growth. Following a comprehensive recruitment process the board was pleased to announce the appointment of Mr Phillip Vernon as the new CEO. Mr Vernon has 25 years experience in financial services covering funds management, capital markets and superannuation.

- Our Smaller Companies Trust was upgraded by Lonsec (one of the leading managed fund rating agencies) during the year from *Investment Grade* to *Recommended*. This confirmed the steady progress we are making in strengthening our investment processes and performance.

- Our Chief Investment Officer (CIO), Martin Halloran resigned in May 2010 to take up a senior role in the Australian Public Service. He was replaced by James Jordan, previously our Head of Research. As a result of these changes and subsequent management restructuring, some of our funds were placed on *Fund Watch* or *Hold* pending a review of the changes. The rating of the Smaller Companies Trust was recently reinstated to *Recommended* and we are currently awaiting responses with respect to some other funds.

- Our investment funds continued to perform relatively well over the period. The nature of our investment style is such that our funds are less volatile than the market as a whole and will tend not to fall as far when the market is going down, but also will not necessarily perform as well when the market goes up. For example, in the past twelve months our flagship fund, the Smaller Companies Trust has achieved 4.9% returns compared to 10.3% achieved by its benchmark (the S&P/ASX Small Industrials). However, over the past three years the Smaller Companies Trust has outperformed its benchmark by 14.4%. Australian Ethical remains confident that the investment practices it has developed over more than twenty years will continue to provide competitive long-term investment performance to investors in its products.

- During the year we launched two new funds, the Climate Advocacy Fund and the Property Trust. The Climate Advocacy Fund broadens our product range with a fund structured to engage with companies and put resolutions at annual general meetings to encourage better climate performance, especially around carbon disclosure. Unlike our other funds the Climate Advocacy Fund's portfolio is unscreened. As an index fund it is also an alternative to the active management of our existing product range. The Property Trust was launched in response to demand from investors looking for an opportunity to invest in sustainable property and an alternative to the volatility of the share market.

- Much of our focus during the latter part of the year has been on initiatives to improve our client servicing capabilities. We have made a number of new hires and restructured the team so that we have more resources focused on this part of our business.

- During the year we commenced a project to replace our portfolio administration platform for managed funds. This project is progressing well with the aim of going live in January 2011.

Outlook and strategy

- The investment market outlook continues to be extremely uncertain. However we believe that our investment style offers our investors consistent returns over the long-term with less volatility than the broader investment market. We have a firm belief that our style 'suits the times.'

- As has been widely commented upon, there have been numerous reviews into the regulation of the financial services industry leading to a significantly changed landscape in the coming years. Although there is some uncertainty with the current political situation we are potentially looking at a changed remuneration environment for financial advisers, enhanced fiduciary duties of advisers and superannuation trustees, the introduction of a low cost, single investment option superannuation strategy for mandatory contributions and initiatives to streamline the operations of the superannuation industry.

We are supportive of measures that improve the efficiency, transparency and simplicity of products for consumers. We have been a strong advocate for paying adviser service fees over trailing commissions for many years with our systems and processes already established to cater for this trend. We have also recently introduced the low cost Climate Advocacy Fund and associated superannuation investment option. In general, we are monitoring the development of these changes closely and will further adapt our business as appropriate.

Our strategy and focus moving forward

- Invest in and continue to improve our client service area ensuring that our clients have a good experience consistent with their expectations when dealing with us and to encourage our clients to remain with us over the full cycle of their investing life.

- Focus our marketing efforts on the retail direct channel in which we have a distinct point of difference amongst a core base, and to increase our penetration of default employers contributing to our superannuation fund in those market segments where we have a distinct advantage.

- Continue to develop our relationships and products in the adviser market taking advantage of opportunities where advisers are repositioning their businesses to respond to an increase in demand for true to label responsible investing.

For further information please contact:

Gary Leckie
Chief Financial Officer
02 6201 1907

End.

ASX Announcement
ASX Code: AEF
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Appendix 4E

Final report

For the year ended

30 June 2010

Released 30 August 2010

This report comprises information required by the Australian Securities Exchange (ASX) under listing rule 4.3A, Australian Accounting Standards and the Corporations Act 2001.

- Announcement to the market
- Directors' report
- Auditor's independence declaration
- Financial statements for the year ended 30 June 2010
- Notes to the financial statements for the year ended 30 June 2010
- Directors' declaration
- Independent audit report

For further information contact: Tom May, Company Secretary
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Australian Ethical Investment Limited and Controlled Entity
Results for announcement to the market
For the year ended 30 June 2010

Revenue and net profit (consolidated)				$A
Revenue from ordinary activities	up	7%	to	14,067,899
Profit from ordinary activities after tax attributable to members	down	-15%	to	1,022,555
Net profit for the period attributable to members	down	-15%	to	1,022,555

Dividends (distributions)	**Amount per security**	**Franked amount per security**	**Record date ***
Interim dividend	50 cents	50 cents	12/03/2010
Final dividend	50 cents	50 cents	24/09/2010
Special dividend	100 cents	100 cents	24/09/2010

* Record date for determining entitlements to the dividend

Brief explanation of revenue, net profit and dividends

Refer announcement, accompanying directors' report, financial statements and notes.

Net tangible asset (NTA) backing	**30/06/2010** $	**30/06/2009** $
Net tangible asset backing per ordinary security	8.11	8.53

Director's 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 2010. 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 2010 and to the date of this report are:

Name	***Time in office***	
James Thier	19 years	
Howard Pender	19 years	
Naomi Edwards	5 years	
Justine Hickey	3 years	
Anne O'Donnell	1 year	Resigned 11 August 2009
Les Coleman	2 years	
André Morony	2 years	
Phillip Vernon	<1 year	Appointed 27 July 2010

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

Company secretaries

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

Name
Philip George
Gary Leckie

Principal activities

The principal activity of the controlling entity during the financial year was to manage seven public offer ethical managed funds (registered managed investment schemes). The controlling entity's wholly owned subsidiary, Australian Ethical Superannuation Pty Limited, was trustee of the Australian Ethical Retail Superannuation Fund during the financial year.

Other than as described in this report, there were no significant changes in the nature of the controlling entities activities during the year.

Review of operations

The consolidated entity, Australian Ethical (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 2010 of $1,022,555. This result is a 15% decrease on the result of $1,202,752 for the previous financial year.

The reported result has been adversely affected by two significant one-off issues:

- Employment expenses include $482,000 related to costs associated with the departure of senior staff including the managing director; and

- Revenue has been reduced by $261,000 related to fee errors applicable to the comparative year but only realised and booked in the current year.

These issues have adversely impacted our cost to income ratio which has increased from 85% to 88% and our return on equity reducing from 15% to 13%. If these adjustments are taken into consideration our underlying result would have been $1.5 million showing an improved cost to income ratio and return on equity.

Average funds under management (FUM) grew by 12.8% with the year end FUM (before distribution) being $614 million compared to $547 million for the prior year end.

After the subdued economic climate during 2008-09 due to the global financial crises (GFC) our inflows have grown by 10% for the year ended 30 June 2010. Outflows have reduced by 13% back to pre-GFC levels.

During the year Australian Ethical launched the Climate Advocacy Fund, the Australian Ethical Property Trust and established the Australian Ethical Global Smart Energy Fund.

Financial Position

At the year end, Australian Ethical net assets are $8,055,728. The company has no debt and is generating positive returns and cash flow.

Dividends

Dividends paid or declared by the company to members since the end of the previous financial year were:

	Cents per Share	Total amount $	Franked/ unfranked	Date of payment
Declared and paid during the financial year				
Final 2009	132	1,308,854	Franked	16/10/2009
Interim 2010	50	496,570	Franked	26/03/2010
Total		1,805,424		
Declared after end of year				
After balance sheet date, the directors declared the following dividend:				
Final 2010	50	496,570	Franked	15/10/2010
Special 2010	100	993,141	Franked	15/10/2010

Events subsequent to balance date

On 27 July 2010 the company's chief executive officer, Mr Phillip Vernon, was appointed Managing Director.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Australian Ethical Investment Ltd and its controlled entity, the results of those operations or the state of affairs of Australian Ethical Investment Ltd in financial years subsequent to the financial year ended 30 June 2010, other than as outlined in this report.

Likely developments and business strategies

Further information about likely developments and business strategies in the operations of the consolidated entity and the expected results of those operations in future financial years has been addressed in the ASX announcement accompanying our Appendix 4E disclosures.

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 or maintained deeds of indemnity (The Deed), insurance and access with directors and officers which provides a general indemnity against liabilities incurred in that capacity to the extent permitted by the Corporations Act 2001.

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

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

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

Directors' particulars

Qualifications, experience and special responsibilities

Naomi Edwards
B.Sc.(Hons), FIA FIAA, Non-Executive Chairperson

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 undertaken pro bono work providing actuarial assistance for environmental and social organisations. Naomi chairs the remuneration and nominations committee and is a member of the audit, compliance and risk committee. Naomi is also a director of Australian Ethical Superannuation Pty Ltd.

Howard Pender
B.A.(Hons), Executive Director

Howard received a university medal in economics from the Australian National University. He worked at the Commonwealth Treasury and then as senior economist at Bankers Trust in Sydney. From 1992 to 1997, he was a visiting fellow in the Centre for International and Public Law at the Australian National University. Howard has been a director of two other Australian Securities Exchange-listed companies. Howard is a director of Australian Ethical Superannuation Pty Ltd and is a member of the board's investment committee. Howard was the company's project manager for its multi-award winning 6 Star Green Star rated building and is currently the project manager for the establishment and operation of the Climate Advocacy Fund.

James Thier
B.Sc. (Hons), Executive Director

James has had academic experience as a researcher and has taught in the faculties of economics, environmental studies and geography at the University of New South Wales. He has held senior positions in local government and 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. James was previously awarded a Churchill Fellowship to examine the mechanisms of shareholder advocacy.

Justine Hickey
B.Com, GAICD, SAFin, ASIP, Non-Executive Director

Justine has over 17 years experience in investment and funds management, as an equities portfolio manager and in senior management. She was head of equities at Suncorp Investment Management in Brisbane until 2004. Justine is a director of the Rio Tinto Staff Super Fund. She is a member of the investment committees of Dalton Nicol Reid and the University of Melbourne. For several years, Justine has been a director of the Youth Enterprise Trust (YET), a charity that helps young people in need discover a sense of their self worth and purpose. Justine chairs the investment committee and is a member of the remuneration and nominations committee.

Les Coleman
B.Eng.(Hons), B.Sc.(Hons), M.Ec., PhD, Non-Executive Director

Les has been a trustee of two superannuation funds, and a director of ten companies involved in finance, retail and distribution. He has over 20 years experience in senior operational, planning and finance roles in Australia and overseas with Anglo American Corporation and ExxonMobil Corporation. He is currently a member of the investment committee of United Funds Management (a subsidiary of IOOF Holdings Limited), and since 2004 has taught in the Finance Department of the University of Melbourne. His particular research interests are corporate risk and non-financial indicators of superior firm performance, especially ethics and sustainability. He is a regular contributor to print and broadcast media, including four years as a weekly columnist with The Australian newspaper, and has published several books and numerous articles and papers. Les is on the audit, compliance and risk committee.

André Morony
B.Ec.(Hons), M.Ec., Non-Executive Director

André started his 40 years in the finance sector at the Commonwealth Treasury, where he worked in a number of financial policy areas and also represented Australia for three years at the Organisation for Economic Cooperation and Development in Paris. He then had various roles at Bankers Trust Australia (BT) including as Chief Economist and Chief Investment Officer where he was responsible for over $40 billion of investments. From 2001-2006, André was Chief Investment Officer at ARIA, the Australian Government employees' $16 billion superannuation fund. André currently sits on the boards of RBS Funds Management (Australia) Ltd and is on the investment committee for GESB, the Western Australian Government employee superannuation fund. André is a member of the board's investment committee.

Phillip Vernon
BEc MComm MBA FCPA AICD, Managing Director

Appointed 27 July 2010

Phillip has 25 years experience in financial services covering funds management, capital markets and superannuation. Most recently he was a member of the executive committee of Perpetual Limited heading up its Corporate Trust division. He also has extensive experience in corporate governance and industry regulation, having been the Chairman of the Australian Securitisation Forum. Phillip has a long held interest in sustainability and corporate social responsibility and is a director of Planet Ark, an environmental not for profit organisation.

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:

Director	**Board**		**Investment**		**Remuneration and nominations**		**Audit, compliance and risk**	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
James Thier	9	9	-	-	-	-	-	-
Howard Pender	9	9	4	4	-	-	-	-
Naomi Edwards	9	9	-	-	3	3	4	4
Justine Hickey	9	9	4	4	3	3	-	-
Anne O'Donnell	2	1	-	-	-	-	-	-
Andre Morony	9	8	4	4	-	-	-	-
Les Coleman	9	9	-	-	-	-	4	4

Directorships held in other listed entities in the last three years

Name	Entity	Period of directorship
Justine Hickey	Hyperion Flagship Investments Limited	3 years
André Morony	Macquarie Private Capital Group Limited	1 years

Directors' relevant interests in securities of the company

Parent entity directors	**Fully paid ordinary shares numbers**		**Share option numbers**		**Performance rights**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Directors continuing at 30 June 2010						
James Thier	51,367	51,367	2,881	4,313	319	-
Howard Pender	49,852	50,252	2,839	4,308	320	-
Justine Hickey	700	700	-	-	-	-
Directors not - continuing at 30 June 2010						
Anne O'Donnell	10,488	11,988	5,673	8,582	-	-

Directors' holdings in registered schemes made available by the company

None of the current directors have holdings in the registered schemes made available by the company. Several directors are members of the Australian Ethical Retail Superannuation Fund.

Remuneration report

The information which follows through to the end of the section titled *Employment contracts of directors and senior managers* 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*	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Chairperson, non-executive	
Justine Hickey	Director, non-executive	
Anne O'Donnell	Managing director, executive	Resigned 11 August 2009
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	

Executives

Name	***Position***	
Phillip Vernon	Chief executive officer	Appointed 7 December 2009
Martin Halloran	Chief investment officer	Resigned 30 June 2010
James Jordan	Chief investment officer	Appointed 7 June 2010
Philip George	Head of client services and product	
Gary Leckie	Chief financial officer / chief operating officer	
Paul Harding Davis	Head of distribution	
Tim Xirakis	Head of client relationships	

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

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

The above named directors and executives are key management personnel of the consolidated entity.

Remuneration policy

Directors

The aggregate amount of remuneration payable to non-executive 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 non-executive 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 the remuneration and nominations committee. Within the approved aggregate amount, fees paid to individual non-executive directors for services as a non-executive director are determined by the board. During the relevant period, the chair received a higher amount, with other non-executive directors receiving an equal amount.

Under the constitution, non-executive directors are also entitled to be paid reasonable expenses, remuneration for extra services and superannuation contributions. In particular, non-executive directors are paid for serving on board committees.

Executive directors receive remuneration as employees of the company.

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

<u>Secretaries, senior managers, executive directors and group executives</u>

During the reporting period, the company's remuneration policy was to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion. All permanent staff (including secretaries, senior managers and executives) received a cash salary and participated in a staff bonus and employee share incentive scheme. The arrangements did not apply to non-executive directors.

During the reporting period, remuneration for a number of senior managers included an 'at risk' component linked to performance criteria.

For the senior managers with an at risk component, the performance conditions required the executives to achieve objectives related to: performance of the company's managed funds; return on equity; cost to income ratio; project delivery; funds under management; engagement with asset consultants, ratings agencies and institutional clients; and development of marketing strategies/collateral.

The performance conditions were chosen to align the senior managers' objectives with those set out in the company's strategic plan. The remuneration and nominations committee was responsible for assessing whether the managing director met their performance conditions. The managing director was responsible for assessing whether the other senior managers had met their performance conditions. In both cases, quantitative and qualitative aspects were able to be assessed.

The company's general 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. As part of this process it benchmarks its remuneration levels and its policies on employee benefits and work/life balance. Individual staff remuneration is 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 or declare a dividend to be paid out of profits of any one year, they must pay a bonus[1] 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 employee share ownership arrangements.

An employee share ownership scheme operated up to the 2008-09 year. Under the scheme a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital were issued to staff each year. All permanent, non-probationary staff were eligible to participate in the plan. The options[2] were issued for nil consideration and the price at which the options are exercisable was 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 depended 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, the 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, the options also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

In the current reporting period, performance rights were issued to staff under an employee share incentive scheme. This scheme was approved at the 2008 Annual General Meeting. Under the scheme participants are granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. Ordinary shares will be issued at the end of the performance period. The number of shares that a participant will ultimately receive will depend on the extent to which the performance criteria are met by the company and, as applicable, the individual employee.

The scheme has two categories -a general category and an individual category. All eligible employees participate in the general category. Employees participating in the individual category are subject to individual performance criteria.

10,819 rights were issued under the general category and 5,511 were issued under the individual category.

[1] See ***Note 1(l)*** in the attached financial report
[2] See ***Note 25*** in the attached financial report

Subject to the terms and conditions of the scheme rules, the performance rights have the following attributes determining whether shares will be issued in respect of the rights:

General category

- employment must continue until 30 June 2012;
- the arithmetic average return on equity over the performance period (AROE) must exceed 15% pa or no shares shall be awarded at the end of the performance period;
- if the AROE exceeds 15% pa but is less than 20% pa, half the maximum number of shares shall be awarded;
- if the AROE is equal to or greater than 20% pa the maximum number of shares shall be awarded.
- AROE is determined as the arithmetic average of return on equity over six month periods calculated using audited half-year financial statements.
- the performance period is the three financial years 2009-10, 2010-11 and 2011-12.

Individual category

- employment must continue until 11 November 2010;
- the number of shares that will be issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent on the absolute performance of one of the company's managed investment schemes, for which the employee has responsibility or provides significant input. The nominated managed investment scheme has been agreed between the company and the employee. Performance will be measured over a performance period of 1 July 2009 to 30 June 2010.

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 previously issued under the employee share ownership plan are set out under remuneration policy above. Options issued under the employee share ownership plan were performance based in two ways. Firstly, they were subject to a three year employment condition and 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.

By way of example, options issued under the scheme which became exercisable in the 2009-10 year had an exercise price of $32.50. The share price through the exercise period was for the most part either lower than the exercise period or only marginally higher. Given the share price at the time of exercise, the result is that staff did not realise any significant benefit from these options.

Performance rights issued under the general employee share incentive scheme are performance based in two ways. Firstly, they are subject to a three year employment condition. Secondly, shares will only be issued in respect of the performance rights where return on equity meets the levels described above.

Performance rights issued under the individual employee share incentive scheme are linked to the performance of the company's managed funds as described above.

The remuneration policy discussed above has broadly been in place for the current and the previous five financial years, except that individual performance based elements have been introduced for some senior managers and staff over the last three years.

Remuneration details for the year ended 30 June 2010

Parent entity directors' remuneration

		Short-term benefits			Post-employment benefits	Long-term benefits		Equity-settled share-based payments			
Parent entity director's remuneration		Salary, fees and leave $	Cash bonus $	Other $	Super-annuation $	Long service leave $	Termination benefits $	Shares $	Options $	Rights $	Total $
Caroline Le Couteur	**2010**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2009	52,964	6,000	-	4,485	1,097	-	-	-	-	64,546
James Thier	**2010**	**122,576**	**14,150**	**-**	**12,874**	**3,604**	**-**	**-**	**-**	**9,439**	**162,643**
	2009	158,515	26,300	-	15,863	3,297	-	1,000	4,979	-	209,954
Howard Pender	**2010**	**132,334**	**2,626**	**-**	**12,652**	**3,856**	**-**	**-**	**-**	**9,469**	**160,937**
	2009	165,096	-	-	14,171	3,378	-	3,900	4,840	-	191,385
Naomi Edwards	**2010**	**81,000**	**-**	**-**	**7,290**	**-**	**-**	**-**	**-**	**-**	**88,290**
	2009	71,500	-	-	6,435	-	-	-	-	-	77,935
Justine Hickey	**2010**	**31,950**	**-**	**-**	**2,876**	**-**	**-**	**-**	**-**	**-**	**34,826**
	2009	30,000	-	-	2,700	-	-	-	-	-	32,700
Anne O'Donnell	**2010**	**95,938**	**4,000**	**-**	**8,718**	**2,927**	**235,000**	**-**	**-**	**-**	**346,583**
	2009	224,420	5,000	-	20,973	6,327	-	6,000	23,726	-	286,446
André Morony	**2010**	**25,000**	**-**	**-**	**2,250**	**-**	**-**	**-**	**-**	**-**	**27,250**
	2009	23,500	-	-	2,115	-	-	-	-	-	25,615
Les Coleman	**2010**	**26,000**	**-**	**-**	**2,340**	**-**	**-**	**-**	**-**	**-**	**28,340**
	2009	24,000	-	-	2,160	-	-	-	-	-	26,160
Total parent entity director's remuneration	**2010**	**514,798**	**20,776**	**-**	**49,000**	**10,387**	**235,000**	**-**	**-**	**18,908**	**848,869**
	2009	749,995	37,300	-	68,902	14,099	-	10,900	33,545	-	914,741

Named executives remuneration (including other key management personnel)

		Short-term benefits			Post-employment benefits	Long-term benefits		Equity-settled share-based payments			
Named executives (including other KMP) remuneration		Salary, fees and leave $	Cash bonus $	Other $	Super-annuation $	Long service leave $	Termination benefits $	Shares $	Options $	Rights $	Total $
Philip George	**2010**	**179,638**	**4,000**	**-**	**15,836**	(8,483)	**-**	**-**	**-**	**14,825**	**205,816**
	2009	177,375	6,000	-	15,831	3,558	-	-	19,434	-	222,198
Ruth Medd	**2010**	**42,350**	**-**	**-**	**3,690**	**-**	**-**	**-**	**-**	**-**	**46,040**
	2009	42,000	-	-	3,780	-	-	-	-	-	45,780
Gary Leckie	**2010**	**179,309**	**4,000**	**-**	**16,206**	**1,510**	**-**	**-**	**-**	**14,973**	**215,998**
	2009	178,422	6,000	-	15,990	5,284	-	-	17,194	-	222,890
Tim Xirakis	**2010**	**184,881**	**4,000**	**-**	**15,779**	**1,510**	**-**	**-**	**-**	**14,588**	**220,758**
	2009	190,597	6,000	-	15,789	3,675	-	-	16,979	-	233,040
Paul Harding Davis	**2010**	**196,696**	**21,500**	**-**	**19,491**	**3,989**	**-**	**-**	**-**	**15,712**	**257,388**
	2009	193,503	32,535	-	19,697	3,989	-	2,770	9,498	-	261,992
Martin Halloran	**2010**	**245,064**	**3,366**	**-**	**15,017**	**4,937**	**-**	**-**	**-**	**48,066**	**316,450**
	2009	201,721	-	-	11,517	4,173	-	-	-	-	217,411
Phillip Vernon	**2010**	**154,135**	**-**	**-**	**12,799**	**2,981**	**-**	**-**	**-**	**8,204**	**178,119**
	2009	-	-	-	-	-	-	-	-	-	-
James Jordan	**2010**	**150,951**	**3,200**	**-**	**14,013**	**4,179**	**-**	**-**	**-**	**40,471**	**212,814**
	2009	-	-	-	-	-	-	-	-	-	-
Named executives (including other KMP) remuneration	**2010**	**1,333,024**	**40,066**	**-**	**112,831**	**10,623**	**-**	**-**	**-**	**156,839**	**1,653,383**
	2009	983,618	50,535	-	82,604	20,679	-	2,770	63,105	-	1,203,311

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The annual staff cash bonuses of $4,000 per FTE employee were paid on 11 September 2009*.* The nature of the cash bonuses and the criteria used to determine the amount of the payments are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

Analysis of bonuses included in remuneration

The vesting profile of short term-incentive bonuses are detailed below. No amounts vest in future financial years in respect of the short term-incentive bonuses for the 2010 year.

Parent entity directors	**Cash bonus** (1) $	**Performance bonus** $	**Share bonus** $	**Vested in year** %	**Forfeited in year** (2) %
James Thier	3,212	10,938	-	88	12
Howard Pender	2,626	-	-	100	-
Anne O'Donnell	4,000	-	-	100	-
Named executives (including other KMP)					
Philip George	4,000	-	-	100	-
Gary Leckie	4,000	-	-	100	-
Tim Xirakis	4,000	-	-	100	-
Paul Harding Davis	4,000	17,500	-	70	30
Martin Halloran	3,366	-	-	100	-
James Jordan	3,200	-	-	100	-

(1) Details of cash and performance bonus have been provided in the director's report under remuneration policy
(2) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year

Equity based remuneration

Equity based remuneration consists of grants of options and rights under the company's employee share ownership plan and employee share incentive scheme. Details of the share plans (including the service and performance criteria) are provided in the section on remuneration policy above and in Note 25 of the attached financial report.

Set out in the following table are the holdings of equity instruments granted to the KMP that existed during the reporting period and includes details of vesting profiles of options/rights granted as compensation.

Option holdings:

KMP option holdings	Option class	Grant date	Fair value at grant date	No. granted	No. vested & excercised	% of grant vested	No. expired	% of grant forfeited	Financial year in which grant vests
Parent entity directors									
James Thier	AEFAS	22-Sep-06	$ 4.14	-	-	100%	(1,432)	100%	22-Sep-09
	AEFAT	24-Sep-07	$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAV	1-Dec-08	$ 3.65	-	-	-	-	-	14-Oct-11
	2010 Total			**-**	**-**	**100%**	**(1,432)**		
	2009 Total			1,364	(1,800)	100%	-		
Howard Pender	AEFAS	22-Sep-06	$ 4.14	-	-	100%	(1,469)	100%	22-Sep-09
	AEFAT	24-Sep-07	$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAV	1-Dec-08	$ 3.65	-	-	-	-	-	14-Oct-11
	2010 Total			**-**	**-**	**100%**	**(1,469)**		
	2009 Total			1326	(931)	100%	-		
Anne O'Donnell	AEFAS	22-Sep-06	$ 4.14	-	-	100%	(2,909)	100%	22-Sep-09
	AEFAT	24-Sep-07	$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	$ 8.96	-	-	-	-	-	14-Oct-11
	2010 Total			**-**	**-**	**100%**	**(2,909)**		
	2009 Total			2,648	(3,006)	100%	-		
Philip George	AEFAS	22-Sep-06	$ 4.14	-	(2,356)	100%	-	100%	22-Sep-09
	AEFAT	24-Sep-07	$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	$ 3.65	-	-	-	-	-	14-Oct-11
	2010 Total			**-**	**(2,356)**	**100%**	-		
	2009 Total			2,169	(1,550)	100%	-		
Gary Leckie	AEFAS	22-Sep-06	$ 4.14	-	-	100%	(1,443)	100%	22-Sep-09
	AEFAT	24-Sep-07	$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	$ 3.65	-	-	-	-	-	14-Oct-11
	2010 Total			**-**	-	**100%**	**(1,443)**		
	2009 Total			1,919	(1,387)	100%	-		
Tim Xirakis	AEFAS	22-Sep-06	$ 4.14	-	-	100%	(1,387)	100%	22-Sep-09
	AEFAT	24-Sep-07	$ 8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	$ 3.65	-	-	-	-	-	14-Oct-11
	2010 Total			**-**	-	**100%**	**(1,387)**		
	2009 Total			1,895	-	-	-		
Paul Harding Davis	AEFAU	14-Oct-08	$ 3.65	-	-	-	-	-	14-Oct-11
	2010 Total			**-**	-	-	-	-	
	2009 Total			1,060	-	-	-		
James Jordan	AEFAT	24-Sep-07	$ 8.40		-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	$ 3.65		-	-	-	-	14-Oct-11
	2010 Total			**-**	-	-	-		
	2009 Total			1,243	-	-	-	-	

Rights holdings:

KMP rights holdings	Rights class	Grant date	Fair value at grant date	No.granted	Value of rights granted ($)	No. vested and excercised	% of grant vested	No. lapsed	Value of rights lapsed ($)	% of grant lapsed
Parent entity directors										
James Thier	AEFAW	30-Nov-09	$ 29.59	319	$9,439	-	-	-	-	-
			2010 Total	**319**	**$9,439**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-
Howard Pender	AEFAW	30-Nov-09	$ 29.59	320	$9,469	-	-	-	-	-
			2010 Total	**320**	**$9,469**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-
Philip George	AEFAW	30-Nov-09	$ 29.59	501	$14,825	-	-	-	-	-
			2010 Total	**501**	**$14,825**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-
Gary Leckie	AEFAW	30-Nov-09	$ 29.59	506	$14,973	-	-	-	-	-
			2010 Total	**506**	**$14,973**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-
Tim Xirakis	AEFAW	30-Nov-09	$ 29.59	493	$14,588	-	-	-	-	-
			2010 Total	**493**	**$14,588**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-
Paul Harding Davis	AEFAW	30-Nov-09	$ 29.59	531	$15,712	-	-	-	-	-
			2010 Total	**531**	**$15,712**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-
Martin Halloran	AEFAX	30-Nov-09	$ 32.91	966	$31,791	-	-	(966)	$22,411	100%
	AEFAW	30-Nov-09	$ 29.59	550	$16,275	-	-	(550)	$12,760	100%
			2010 Total	**1516**	**$48,066**	**-**	**-**	**(1,516)**	**$35,171**	**-**
			2009 Total	-	-	-	-	-	-	-
Phillip Vernon	AEFAW	17-Dec-09	$ 25.88	317	$8,204	-	-	-	-	-
			2010 Total	**317**	**$8,204**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-
James Jordan	AEFAX	30-Nov-09	$ 32.91	862	$28,368	-	-	-	-	-
	AEFAW	30-Nov-09	$ 29.59	409	$12,102	-	-	-	-	-
			2010 Total	**1271**	**$40,471**	**-**	**-**	**-**	**-**	**-**
			2009 Total	-	-	-	-	-	-	-

Hedging policy
Directors and executives participating in the company's equity-based plans are prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the company's securities.

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.

Except as detailed for those senior managers, the remuneration of executive directors, secretaries and other senior managers is not subject to individual performance conditions. People in these positions were entitled to participate in the staff bonus and employee share schemes described above. Rights granted during the financial year, when valued at grant date, make up a small proportion of the overall remuneration of people holding these positions.

The following table illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options/ rights during the financial year

	Proportion of elements of remuneration related to performance			**Proportion of elements of remuneration not related to performance**	
	Non-salary cash-based incentives	**Shares**	**Options / rights**	**Fixed salary/ fees**	**Total**
	%	**%**	**%**	**%**	**%**
Parent entity directors' remuneration					
James Thier	7	-	6	87	100
Howard Pender	-	-	6	94	100
Naomi Edwards	-	-	-	100	100
Justine Hickey	-	-	-	100	100
Anne O'Donnell	-	-	-	100	100
André Morony	-	-	-	100	100
Les Coleman	-	-	-	100	100
Named executives (including other KMP)					
Philip George	-	-	7	93	100
Ruth Medd	-	-	-	100	100
Gary Leckie	-	-	7	93	100
Tim Xirakis	-	-	7	93	100
Paul Harding Davis	7	-	6	87	100
Martin Halloran	-	-	15	85	100
Phillip Vernon	-	-	5	95	100
James Jordan	-	-	19	81	100

Employment contracts of directors and senior managers

For each individual whose remuneration has been disclosed in this report and is currently 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***
James Thier	Ongoing	2 weeks	None except for accrued leave and any payment in lieu of notice.
Howard Pender	Ongoing	12 weeks	
Phillip Vernon	Ongoing	12 weeks	
Gary Leckie	Ongoing	12 weeks	
Philip George	Ongoing	12 weeks	
Paul Harding Davis	Ongoing	12 weeks	
Tim Xirakis	Ongoing	12 weeks	
James Jordan	Ongoing	12 weeks	

Options and rights as at the date of this report

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

Options reference	***Number of options on issue***	***Exercise period***	***Exercise price***
AEFAT	31,853	24/9/10 to 23/12/10	$57.57
AEFAU	34,139	14/10/11 to 13/1/12	$32.27
AEFAV	2,690	14/10/11 to 13/1/12	$32.27
Totals	**68,682**		

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.

Performance rights reference	***Number of rights on issue***
AEFAW	9,931
AEFAX	4,545
Totals	**14,476**

All performance rights are over unissued shares in the company. Performance rights expire if the performance conditions are not met at the end of the performance period. No holder of performance rights is entitled to, by virtue of holding the performance rights, 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 2010 on the exercise of options granted under the company's employee share ownership plan.

Shares issued upon exercise of options	***Amount paid per share***
1,585	$32.50

No further shares have been issued since that date to the date of this report. No amounts are unpaid on any of the shares.

Non-director committee members and company secretary particulars

Name	***Qualifications***	***Experience***
Ruth Medd	B.Sc., Dip Comp Science, CPA, MAICD	Ruth is currently on the board of the NFAW Ltd (National Foundation for Australian Women) and WOB Pty Ltd. Ruth is Chair of the company's wholly-owned subsidiary Australian Ethical Superannuation Pty Ltd. Ruth also chairs the company's audit, compliance and risk committees. Ruth started in IT in the 1970s. Since then she has been a senior public servant, a broadcasting regulator, the inaugural Company Secretary at Telstra and the Executive Director of an industry association.
Philip George	BSc LLB ACIS	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 seven years. He was a senior associate at the national law firm Minter Ellison and conducted a commercial legal practice in partnership for two years.
Gary Leckie	BEc CA	Gary is a Chartered Accountant who is responsible for the fiscal management and operational activities of the Australian Ethical group. Gary has more than ten years experience in the financial services industry. Prior to working in the financial services industry Gary was employed with big four accounting firm Deloitte.
Tom May	BA LLB MBA	Tom has experience in the superannuation and distribution aspects of financial services law. He has been a lawyer since 1990 when he was a legal officer in the federal government. He subsequently worked in house with funds management and life insurance companies before working in private practice in London and Tokyo.

Auditor's declaration

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

Non-audit services

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

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

Other specific information

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*[3]
17 December 2002	$12.50
30 June 2003	$11.30
30 June 2004	$13.00
30 June 2005	$17.20
30 June 2006	$28.50
30 June 2007	$48.00
30 June 2008	$34.00
30 June 2009	$22.00
30 June 2010	$23.20

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

Year	*Earnings*
2005-2006	$1,362,612
2006-2007	$1,819,177
2007-2008	$1,651,790
2008-2009	$1,202,752
2009-2010	$1,022,555

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

Disclosure	***Financial Statement Reference***
Dividends	Note 5
Rights –issued during the financial year since the end of the financial year[4]	Note 25

Signed in accordance with a resolution of the board of directors.

Phillip Vernon
Managing Director

Dated: 30 August 2010

[3] 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.
[4] The financial statements show rights issued during the financial year. No rights 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 2010 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 30 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

Statement of financial position
as at 30 June 2010

	Notes	Consolidated entity		Parent entity	
		2010	2009	**2010**	2009
		$	$	**$**	$
Current assets					
Cash and cash equivalents	7	**1,892,734**	2,614,467	**435,037**	1,226,311
Trade and other receivables	8	**3,050,029**	1,800,859	**2,604,874**	1,288,930
Financial assets	9	**998,441**	1,673,953	**998,441**	1,673,953
Current tax assets	13	**24,474**	-	**213,987**	-
Other current assets	10	**337,195**	279,367	**297,283**	235,262
Total current assets		**6,302,873**	6,368,646	**4,549,622**	4,424,456
Non-current assets					
Property, plant & equipment	11	**4,215,168**	4,139,581	**4,215,168**	4,139,581
Intangible assets	12	**46,297**	-	**46,297**	-
Financial assets	9	**100,505**	82,492	**416,505**	398,492
Deferred tax assets	13	**435,083**	464,200	**433,688**	459,850
Total non-current assets		**4,797,053**	4,686,273	**5,111,658**	4,997,923
Total assets		**11,099,926**	11,054,919	**9,661,280**	9,422,379
Current liabilities					
Trade and other payables	14	**2,495,424**	1,756,373	**2,659,060**	1,952,798
Current tax liabilities		**-**	227,200	**-**	227,200
Short-term provisions	16	**451,046**	535,406	**451,046**	535,406
Total current liabilities		**2,946,470**	2,518,979	**3,110,106**	2,715,404
Non-current liabilities					
Deferred tax liabilities	15	**34,805**	33,732	**34,805**	33,732
Other long-term provisions	16	**62,923**	49,003	**62,923**	49,003
Total non-current liabilities		**97,728**	82,735	**97,728**	82,735
Total liabilities		**3,044,198**	2,601,714	**3,207,834**	2,798,139
Net assets		**8,055,728**	8,453,205	**6,453,446**	6,624,240
Equity					
Issued capital	17	**5,791,147**	5,739,635	**5,791,147**	5,739,635
Reserves		**869,149**	535,269	**869,149**	535,269
Retained earnings		**1,395,432**	2,178,301	**(206,850)**	349,336
Total equity		**8,055,728**	8,453,205	**6,453,446**	6,624,240

The accompanying notes form part of these financial statements

Statement of comprehensive income
for the year ended 30 June 2010

	Notes	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
Revenue	3	**14,067,899**	13,131,431	**11,891,805**	10,652,895
Commissions paid to advisers		**(194,080)**	(177,235)	**(32,394)**	(15,305)
External services		**(2,358,711)**	(2,498,375)	**(898,684)**	(1,044,339)
Employee benefits expense		**(7,339,724)**	(6,411,326)	**(7,316,108)**	(6,373,530)
Depreciation and amortization		**(358,491)**	(298,503)	**(358,491)**	(298,503)
Occupancy costs		**(245,823)**	(216,069)	**(232,939)**	(200,896)
Communication costs		**(774,633)**	(648,233)	**(774,633)**	(611,851)
Other expenses		**(1,065,991)**	(917,879)	**(994,545)**	(795,030)
Profit before tithe and income tax expense		**1,730,446**	1,963,811	**1,284,011**	1,313,441
Tithes expense	1 (l)	**(124,941)**	(140,868)	**(124,941)**	(140,868)
Profit before income tax		**1,605,505**	1,822,943	**1,159,070**	1,172,573
Income tax expense	4	**(582,950)**	(620,191)	**90,168**	(64,281)
Profit for the year		**1,022,555**	1,202,752	**1,249,238**	1,108,292
Other comprehensive income					
Net gain/(loss) on revaluation of available-for-sale investments		18,645	(22,679)	18,645	(22,679)
Other comprehensive income for the year, net of tax		**18,645**	**(22,679)**	**18,645**	**(22,679)**
Total comprehensive income for the year		**1,041,200**	**1,180,073**	**1,267,883**	**1,085,613**
Profit attributable to members of the parent entity		**1,022,555**	1,202,752	**1,249,238**	1,108,292
Total comprehensive income attributable to members of the parent entity		**1,041,200**	1,180,073	**1,267,883**	1,085,613
Basic earnings per share (cents per share)	6	**103.0**	121.6		
Diluted earnings per share (cents per share)	6	**102.0**	121.6		

The accompanying notes form part of these financial statements

Statement of changes in equity
for year ended 30 June 2010

Consolidated entity

	Note	Issued capital ordinary $	Asset revaluation reserve $	Share-based payment reserve $	Retained earnings $	Total $
Balance at 1 July 2008		**5,740,791**	**(36,643)**	**371,464**	**2,305,878**	**8,381,490**
Profit attributable to members of the parent entity		-	-	-	1,202,752	1,202,752
Other comprehensive income for the period		-	(22,679)	-	-	(22,679)
Total comprehensive income for the period		**-**	**(22,679)**	**-**	**1,202,752**	**1,180,073**
Transactions with owners in their capacity as						
Shares issued during the period	17	(1,156)	-	-	-	(1,156)
Dividends paid or provided for		-	-	-	(1,330,329)	(1,330,329)
Share-based payment expense		-	-	223,127	-	223,127
Balance at 30 June 2009		**5,739,635**	**(59,322)**	**594,591**	**2,178,301**	**8,453,205**
Balance at 1 July 2009		**5,739,635**	**(59,322)**	**594,591**	**2,178,301**	**8,453,205**
Profit attributable to members of the parent entity		-	-	-	1,022,555	1,022,555
Other comprehensive income for the period		-	18,645	-	-	18,645
Total comprehensive income for the period		**-**	**18,645**	**-**	**1,022,555**	**1,041,200**
Transactions with owners in their capacity as						
Shares issued during the period		51,512	-	-	-	51,512
Dividends paid or provided for		-	-	-	(1,805,424)	(1,805,424)
Share-based payment expense		-	-	315,235	-	315,235
Balance at 30 June 2010		**5,791,147**	**(40,677)**	**909,826**	**1,395,432**	**8,055,728**

Parent entity

	Note	Issued capital ordinary $	Asset revaluation reserve $	Share-based payment reserve $	Retained earnings $	Total $
Balance at 1 July 2008		**5,740,791**	**(36,643)**	**371,464**	**571,373**	**6,646,985**
Profit attributable to members of the parent entity		-	-	-	1,108,292	1,108,292
Other comprehensive income for the period		-	(22,679)	-	-	(22,679)
Total comprehensive income for the period		**-**	**(22,679)**	**-**	**1,108,292**	**1,085,613**
Transactions with owners in their capacity as owners:						
Shares issued during the period	17	(1,156)	-	-	-	(1,156)
Dividends paid or provided for		-	-	-	(1,330,329)	(1,330,329)
Share-based payment expense		-	-	223,127	-	223,127
Balance at 30 June 2009		**5,739,635**	**(59,322)**	**594,591**	**349,336**	**6,624,240**
Balance at 1 July 2009		**5,739,635**	**(59,322)**	**594,591**	**349,336**	**6,624,240**
Profit attributable to members of the parent entity		-	-	-	1,249,238	1,249,238
Other comprehensive income for the period		-	18,645	-	-	18,645
Total comprehensive income for the period		**-**	**18,645**	**-**	**1,249,238**	**1,267,883**
Transactions with owners in their capacity as owners:						
Shares issued during the period		51,512	-	-	-	51,512
Dividends paid or provided for		-	-	-	(1,805,424)	(1,805,424)
Share-based payment expense		-	-	315,235	-	315,235
Balance at 30 June 2010		**5,791,147**	**(40,677)**	**909,826**	**(206,850)**	**6,453,446**

Statement of cash flows
for the year ended 30 June 2010

	Notes	Consolidated entity		Parent entity	
		2010	2009	**2010**	2009
		$	$	**$**	$
Cash flows from operating activities					
Receipts from operations		**14,111,414**	14,241,650	**9,906,897**	10,401,154
Payment to suppliers & employees		**(12,274,001)**	(11,926,618)	**(10,558,223)**	(9,625,550)
Dividends received		**-**	-	**1,797,057**	1,202,596
Interest/distributions received		**130,785**	201,146	**101,847**	148,295
Income tax paid		**(812,425)**	(467,942)	**(161,346)**	36,734
Bonus		**(170,904)**	(245,201)	**(170,904)**	(245,201)
Tithe		**(135,644)**	(200,891)	**(135,644)**	(200,891)
Net cash provided by (used in) operating activities	22 (b)	**849,225**	1,602,144	**779,684**	1,717,137
Cash flows from investing activities					
Proceeds from sale of investments		**1,847,723**	1,185,344	**1,847,723**	1,185,344
Purchase of property, plant & equipment		**(500,035)**	(239,450)	**(500,035)**	(239,450)
Purchase of investments		**(1,133,628)**	(1,141,871)	**(1,133,628)**	(1,141,871)
Loans to staff		**(49,889)**		**(49,889)**	
Repayment of loans		**18,783**	11,118	**18,783**	11,118
Net cash provided by (used in) investing activities		**182,954**	(184,859)	**182,954**	(184,859)
Cash flows from financing activities					
Proceeds from share issue		**51,512**	171,084	**51,512**	171,084
Share buy-back payment		**-**	(195,811)	**-**	(195,811)
Dividends paid		**(1,805,424)**	(1,330,329)	**(1,805,424)**	(1,330,329)
Net cash provided by (used in) financing activities		**(1,753,912)**	(1,355,056)	**(1,753,912)**	(1,355,056)
Net increase (decrease) in cash held		**(721,733)**	62,229	**(791,274)**	177,222
Cash at beginning of financial year		**2,614,467**	2,552,238	**1,226,311**	1,049,089
Cash at end of financial year	22 (a)	**1,892,734**	2,614,467	**435,037**	1,226,311

The accompanying notes form part of these financial statements

Note 1 - Statement of significant accounting policies

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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

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 consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

The consolidated financial statements comprise the financial statements of Australian Ethical Investment 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.

Note 1 - Statement of significant accounting policies - continued

b) Income tax - continued

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 statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

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

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

c) Property, plant and equipment

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

Property

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

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

Plant and equipment

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies - continued

c) Property, plant and equipment - continued

employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

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

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Buildings	2.5%-20%	Straight line
Furniture, fittings and equipment	10% to 37.5%	Straight line/diminishing value
Software	18.75% to 40%	Straight line/diminishing value

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

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

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

d) Intangible assets

The development of the company's website was capitalised as an intangible asset and carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over its estimated useful live at two and half years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

e) Financial instruments

Recognition

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

Available-for-sale financial assets

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

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies – continued

e) Financial instruments– continued

Fair value

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

Impairment

At each reporting date, the group assesses 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 statement of comprehensive income.

f) 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 statement of comprehensive income.

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.

g) 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 and rights

Share based compensation benefits are provided to employees via the Australian Ethical Investment Limited employee share ownership plan. Share options and rights 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 and rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies – continued

g) Employee benefits - continued

Upon the exercise of options and rights the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

Employee bonus

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

h) 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.

i) Cash and cash equivalents

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

j) 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).

k) 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 Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the 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.

l) 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"

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies - continued

l) Tithes expense - 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".

m) 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.

n) Comparative figures

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

Critical accounting estimates and judgements

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

Key estimates – annual leave and long service leave provision
In estimating the annual leave and long service leave provision, an average salary increase of five percent has been incorporated.

Key judgements
Australian Ethical Investment Limited has a loan receivable from the Centre for Australian Ethical Research recorded as an asset on its balance sheet for $82,492. The directors have determined that no provision for impairment is required for this loan.

Accounting Standards not previously applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of the income statement with the statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies - continued

Accounting Standards not previously applied - continued

components of ‘other comprehensive income’. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;

- the adoption of the single statement approach to the presentation of the statement of comprehensive income; and

- other financial statements are renamed in accordance with the Standard.

Operating Segments

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group’s chief operating decision maker which, for the group, is the Board of Directors. In this regard, such information is provided using different measures to those used in preparing the statement of comprehensive income and statement of financial position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

New accounting standards for application in future periods

The AASB has issued new, revised and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the group follows:

AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013). These standards are applicable retrospectively and amend the classification and measurement of financial assets. The group has not yet determined the potential impact on the financial statements.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011). This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the group.

AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010). These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the group.

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies – continued

New accounting standards for application in future periods – continued

AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010). These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its non-derivative equity instruments. These amendments are no expected to impact the group.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011). This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the group.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretations 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010). This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the group.

	Consolidated entity		**Parent entity**	
	2010	2009	**2010**	2009
	$	$	**$**	$
Note 2 - Auditors' remuneration				
Remuneration of the auditors for:				
Audit services				
- Auditing the financial report	**38,279**	37,220	**33,629**	32,720
- Auditing the sustainability report	**5,750**	5,500	**5,750**	5,500
Non-audit services				
- Tax and other accounting advice	**3,371**	3,770	**3,371**	3,280
Note 3 - Revenue				
Operating activities				
- Management fees net of rebates	**10,801,006**	9,745,880	**4,701,333**	4,484,603
- Entry fees	**1,349,887**	1,439,173	**157,968**	188,605
- Member & withdrawal Fees	**536,221**	503,448	**-**	-
- Other fees	**1,162,694**	1,102,776	**1,162,694**	1,102,776
- Dividend from wholly owned subsidiary	**-**	-	**1,797,057**	1,202,596
- Interest/distributions	**123,949**	191,671	**95,011**	138,819
- Wholly owned entity fee	**-**	-	**3,892,705**	3,445,918
- Other revenue	**94,142**	148,483	**85,038**	89,578
	14,067,899	13,131,431	**11,891,805**	10,652,895
Total revenue	**14,067,899**	13,131,431	**11,891,805**	10,652,895

Notes to the financial statements for the year ended 30 June 2010

Note 4 - Income tax expense

	Consolidated entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
a) The components of tax expense comprise:				
- Current tax	**560,819**	584,440	**(109,344)**	28,380
- Deferred tax	**22,131**	35,751	**19,176**	35,901
	582,950	620,191	**(90,168)**	64,281
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% (2009:30%)				
- Consolidated entity	**481,651**	546,883	**-**	-
- Parent entity	**-**	-	**347,721**	351,772
- Other members of the income tax consolidated group net of intercompany transactions	**-**	-	**673,118**	555,910
Add: tax effect of:				
- Other non-allowable items	**1,891**	1,982	**1,820**	1,962
- Share options expensed during year	**94,570**	66,938	**94,570**	66,938
- Under provision for income tax in prior year	**5,582**	15,977	**5,582**	15,977
	583,694	631,780	**1,122,811**	992,559
Less: tax effect of:				
- Rebateable fully franked dividends	**-**	-	**(539,117)**	(360,779)
- Franking and foreign tax credits	**(744)**	(682)	**(744)**	(682)
- Tax allowance on capital investment	**-**	(10,907)		(10,907)
Income tax expense attributable to entity	**582,950**	620,191	**582,950**	620,191
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(673,118)**	(555,910)
Income tax expense attributable to entity	**582,950**	620,191	**(90,168)**	64,281
The applicable weighted average effective tax rates are as follows:	**36%**	34%	**(8%)**	5%

Notes to the financial statements for the year ended 30 June 2010

Note 5 - Dividends

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
(a) Distributions paid				
Final fully franked dividend of 132 (2009: 120) cents per share franked at the tax rate of 30% (2009: 30%)	**1,308,854**	1,181,596	**1,308,854**	1,181,596
Interim fully franked dividend of 50 (2009: 15) cents per share franked at the tax rate of 30% (2009: 30%)	**496,570**	148,733	**496,570**	148,733
	1,805,424	1,330,329	**1,805,424**	1,330,329
(b) Distributions declared				
Final fully franked dividend of 50 (2009: 132) cents per share franked at the tax rate of 30% (2009: 30%)	**496,570**	1,308,854	**496,570**	1,308,854
Special fully franked dividend 100 cents per share franked at the tax rate of 30%	**993,141**	-	**993,141**	-
(c) Franking account				
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.			**1,418,530**	1,629,081
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			**638,448**	560,937
			780,082	1,068,144

Note 6 - Earnings per share

	Consolidated entity 2010	Consolidated entity 2009	Parent entity 2010	Parent entity 2009
(a) Earnings used to calculate basic EPS and dilutive EPS	**1,022,555**	1,202,752		
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**992,385**	988,984		
Weighted average number of rights outstanding	**9,516**	-		
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**1,001,901**	988,984		

Note 7 - Cash and cash equivalents

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
Cash on hand	**300**	300	**300**	300
Cash at bank	**1,020,195**	137,016	**6,842**	5,357
Deposits at call	**872,239**	2,477,151	**427,895**	1,220,654
	1,892,734	2,614,467	**435,037**	1,226,311

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.

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
Note 8 - Trade and other receivables				
Trade receivables	**3,039,901**	1,783,351	**2,516,422**	1,050,014
Other	**10,128**	17,508	**10,128**	17,508
Amounts receivable - wholly owned entity	**-**	-	**78,324**	221,409
	3,050,029	1,800,859	**2,604,874**	1,288,930
Note 9 - Financial assets				
Available-for-sale financial assets	**973,096**	1,661,701	**1,289,096**	1,977,701
Loans	**125,850**	94,744	**125,850**	94,744
	1,098,946	1,756,445	**1,414,946**	2,072,445
Less non-current portion	**100,505**	82,492	**416,505**	398,492
Current portion	**998,441**	1,673,953	**998,441**	1,673,953
a. Available-for-sale financial assets comprise:				
- Money market deposit at cost	**500,000**	1,141,871	**500,000**	1,141,871
- Mortgage backed security at fair value	**144,616**	199,081	**144,616**	199,081
- Listed securities at fair value	**2,558**	-	**2,558**	-
- Units in unit trust at fair value	**325,922**	320,749	**325,922**	320,749
- Shares in wholly owned entity at cost	**-**	-	**316,000**	316,000
	973,096	1,661,701	**1,289,096**	1,977,701

The money market deposit is at a fixed interest rate of 5.9% with maturity date of 31 August 2010 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 24 October 2035 and is investment grade rated by S&P.

b. Loans comprise				
- Loan to other entity	**82,492**	94,744	**82,492**	94,744
- Loan to staff	**43,358**	-	**43,358**	-
	125,850	94,744	**125,850**	94,744

The first loan is provided to an independent entity with a fixed interest rate of 9.0% and matures 1 August 2015.
Loan to staff is provided to two staff members under the terms of the employee share loan scheme (ESLS) to purchase shares in the company. The loan is repayable by 30 November 2013 and currently bears interest of 6.65% per annum as per the FBT rate set by the ATO.

Note 10 - Other current assets				
Other	**11,914**	20,902	**11,914**	20,902
Prepayments	**325,281**	258,465	**285,369**	214,360
	337,195	279,367	**297,283**	235,262

Notes to the financial statements for the year ended 30 June 2010

Note 11 - Property, plant and equipment

	Consolidated entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
Land and buildings				
Leasehold land				
At cost	**230,000**	230,000	**230,000**	230,000
Total land	**230,000**	230,000	**230,000**	230,000
Buildings				
At cost	**2,784,117**	2,784,117	**2,784,117**	2,784,117
Accumulated depreciation	**(297,085)**	(225,528)	**(297,085)**	(225,528)
Total buildings	**2,487,032**	2,558,589	**2,487,032**	2,558,589
Total land and buildings	**2,717,032**	2,788,589	**2,717,032**	2,788,589
Plant and equipment				
At cost	**2,680,113**	2,274,759	**2,680,113**	2,274,759
Accumulated depreciation	**(1,181,977)**	(923,767)	**(1,181,977)**	(923,767)
Total plant and equipment	**1,498,136**	1,350,992	**1,498,136**	1,350,992
Total property, plant and equipment	**4,215,168**	4,139,581	**4,215,168**	4,139,581
Movements in carrying amounts				
Land				
Balance at the beginning of year	**230,000**	230,000	**230,000**	230,000
Additions	**-**	-	**-**	-
Disposals	**-**	-	**-**	-
Carrying amount at the end of year	**230,000**	230,000	**230,000**	230,000
Buildings				
Balance at the beginning of year	**2,558,589**	2,626,614	**2,558,589**	2,626,614
Additions				
Disposals	**-**	-	**-**	-
Depreciation expense	**(71,557)**	(68,025)	**(71,557)**	(68,025)
Carrying amount at the end of year	**2,487,032**	2,558,589	**2,487,032**	2,558,589
Plant and equipment				
Balance at the beginning of year	**1,350,992**	1,349,187	**1,350,992**	1,349,187
Additions	**430,862**	239,704	**430,862**	239,704
Disposals	**(10,286)**	(7,421)	**(10,286)**	(7,421)
Depreciation expense	**(273,431)**	(230,478)	**(273,431)**	(230,478)
Carrying amount at the end of year	**1,498,136**	1,350,992	**1,498,136**	1,350,992
Total	**4,215,168**	4,139,581	**4,215,168**	4,139,581

An independent valuer was contracted to value the land and buildings at 30 June 2009. Independent valuation will be conducted on a three year cycle in order to comply with accounting standard requirements on impairment. Based on the valuation conducted in 2009 and assessment of the market since that date, the cost value of land and building disclosed above is below the commercial valuation and therefore no impairment has occurred.

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
Note 12 - Intangible assets				
Website development costs				
At cost	**59,800**	-	**59,800**	-
Accumulated amortisation	**(13,503)**	-	**(13,503)**	-
Total intangibles	**46,297**	-	**46,297**	-
Website development costs				
Balance at the beginning of year	**-**	-	**-**	-
Additions	**59,800**	-	**59,800**	-
Disposals	**-**	-	**-**	-
Amortisation expense	**(13,503)**	-	**(13,503)**	-
Carrying amount at the end of year	**46,297**	-	**46,297**	-
Note 13 - Tax assets				
Current tax assets				
Tax refund receivable due to income tax overpayment	**24,474**	-	**213,987**	-
	24,474	-	**213,987**	-
Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**362,580**	377,916	**362,580**	377,916
Tithe	**40,850**	44,060	**40,850**	44,060
Audit fees	**14,220**	16,800	**12,825**	12,450
	417,650	438,776	**416,255**	434,426
Amounts recognised directly in equity				
Financial asset revaluations	**17,433**	25,424	**17,433**	25,424
	435,083	464,200	**433,688**	459,850
Movements				
Opening balance at 1 July	**464,200**	489,784	**459,850**	485,584
Credited (charged) to the statement of comprehensive income	**(21,126)**	(35,304)	**(18,171)**	(35,454)
Credited (charged) to equity	**(7,991)**	9,720	**(7,991)**	9,720
Closing balance at 30 June	**435,083**	464,200	**433,688**	459,850
Note 14 - Trade and other payables				
Trade payables	**436,714**	253,776	**313,031**	224,206
Sundry payables and accrued expenses	**1,864,510**	1,330,217	**1,655,441**	1,131,968
Employee bonus	**194,200**	172,380	**194,200**	172,380
Amounts payable to wholly owned entity	**-**	-	**496,388**	424,244
	2,495,424	1,756,373	**2,659,060**	1,952,798
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
Tax deferred income	**3,909**	2,836	**3,909**	2,836
	34,805	33,732	**34,805**	33,732
Movements				
Opening balance at 1 July	**33,732**	33,285	**33,732**	33,285
Credited/(charged) to the statement of comprehensive income	**1,073**	447	**1,073**	447
Credited/(charged) to equity	**-**	-	**-**	-
Closing balance at 30 June	**34,805**	33,732	**34,805**	33,732

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
Note 16 - Provisions				
Current				
Employee benefits - long service leave	**451,046**	535,406	**451,046**	535,406
	451,046	535,406	**451,046**	535,406
Non-current				
Employee benefits - long service leave	**62,923**	49,003	**62,923**	49,003
	62,923	49,003	**62,923**	49,003

Note 17 - Issued capital

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year 991,556 (2009: 984,003) shares	**5,739,635**	5,740,791	**5,739,635**	5,740,791
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
660 on 23 September 2008 (share bonus)	**-**	23,570	**-**	23,570
4,567 on 27 October 2008 (option exercised)	**-**	113,353	**-**	113,353
27,814 on 6 November 2008 (options exercised)	**-**	690,343	**-**	690,343
2,326 on 26 November 2008 (options exercised)	**-**	57,731	**-**	57,731
1,585 on 22 December 2009 (options excercised)	**51,512**	-	**51,512**	-
Shares bought back during the year:				
27,814 on 6 November 2008	**-**	(886,153)	**-**	(886,153)
Balance 30 June				
993,141 (2009 - 991,556) shares	**5,791,147**	5,739,635	**5,791,147**	5,739,635

At 30 June 2010 there were 993,141 fully paid ordinary shares which have no par value.

Options/rights

(i) For detailed information relating to the Australian Ethical Investment Limited employee share ownership plan including details of options/rights issued, exercised and lapsed during the financial year and the options/rights outstanding at year-end, refer to note 25 share-based payments.

(ii) For information related to share options and rights issued to key management personnel during the financial year refer to the remuneration report contained within the directors' report.

Ordinary shares

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, othewise each shareholder has one vote on a show of hands.

Capital management

The company's capital structure and policies remain relatively simple. The company currently has no debt and capital not required for working purposes is held as an investment in Trevor Pearcey House and in an investment portfolio comprising triple A securities and senior bank debt. Detail provided in Note 9 and 11.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of distributions to shareholders and share issues.

Maintenance of a certain level of capital is a condition of the company's Australian Financial Services Licence. The company currently meets the $5.0 million capital requirement above which no extra capital is required as a result of increased funds under management.

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$

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 consolidated entity is dependent upon management fees received in its capacity as responsible entity of the Australian Ethical Trusts and as trustee of the Australian Ethical Retail Superannuation Fund.

Note 20 - Contingencies

Liabilties and assets of trusts and superannuation fund

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

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
Current liabilities				
Payables	**29,220,186**	4,537,926	**28,346,164**	3,037,326
Provisions	**11,719,003**	4,454,713	**10,539,437**	3,521,480
Total liabilities	**40,939,189**	8,992,639	**38,885,601**	6,558,806
Rights of indemnities for liabilities incurred by the consolidated entity and parent entity not recorded in the financial statements were:	**40,939,189**	8,992,639	**38,885,601**	6,558,806

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

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

Notes to the consolidated financial statements for the half-year ended 30 June 2010

Note 21 - Operating segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Reportable segments disclosed are:
1) public offer managed funds (managed funds); and
2) public offer retail superannuation fund (super)

(i) Segment performance

	30 June 2010			30 June 2009		
	Managed funds	**Super**	**Total**	**Managed funds**	**Super**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Revenue						
External sale	6,107,033	7,836,917	13,943,950	5,865,561	7,074,198	12,939,759
Inter-segment sale	3,892,705	-	3,892,705	3,445,918	-	3,445,918
Interest revenue	95,011	28,938	123,949	138,819	52,852	191,671
Total segment revenue	**10,094,749**	**7,865,855**	**17,960,604**	**9,450,298**	**7,127,050**	**16,577,348**
Inter-segment eliminations			(3,892,705)			(3,445,918)
Total group revenue			**14,067,899**			**13,131,431**
Segment net profit before tax	**588,405**	**2,243,491**	**2,831,896**	**778,545**	**1,852,968**	**2,631,513**
Reconciliation of segment result to group net profit/loss after tax						
Income tax expense	90,168	(673,118)	(582,950)	(64,281)	(555,910)	(620,191)
Unallocated items						
- Depreciation and amortisation			(358,491)			(298,503)
- Other corporate overheads *			(867,900)			(510,067)
Group net profit after tax			**1,022,555**			**1,202,751**

* Other corporate overheads includes staff bonus, tithe expense, staff options/rights expense and the payment to the former Chief Executive Officer.

(ii) Segment assets

	30 June 2010			30 June 2009		
	Managed funds	**Super**	**Total**	**Managed funds**	**Super**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Assets	**9,661,280**	**2,518,170**	**12,179,450**	**9,422,379**	**2,594,193**	**12,016,572**
Inter-segment eliminations			(1,080,224)			(961,653)
Total group assets			**11,099,226**			**11,054,919**
(iii) Segment liabilities						
Liabilities	**3,207,834**	**600,589**	**3,808,423**	**2,798,139**	**449,228**	**3,247,367**
Inter-segment eliminations			(764,225)			(645,653)
Total group liabilities			**3,044,198**			**2,601,714**

Notes to the financial statements for the year ended 30 June 2010

Note 22 - Cash flow information

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
Cash on hand	**300**	300	**300**	300
Cash at bank	**1,020,195**	137,016	**6,842**	5,357
Deposits at call	**872,239**	2,477,151	**427,895**	1,220,654
	1,892,734	2,614,467	**435,037**	1,226,311

(b) Reconciliation of cash flow from operations with net profit from ordinary activities after income tax expense

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
Net profit from ordinary activities after income tax expense	**1,022,555**	1,202,753	**1,249,238**	1,108,293
Non-cash flows in operating profit				
Depreciation	**358,491**	298,503	**358,491**	298,503
Provisions	**(70,439)**	72,973	**(70,439)**	72,973
(Profit) loss on sale of property, plant & equipment	**19,659**	7,167	**19,659**	7,167
(Profit) loss on sale of investment	**-**	-	**-**	-
Share options/ rights expensed	**315,235**	223,127	**315,235**	223,127
Staff bonus paid in shares	**-**	23,570	**-**	23,570
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**(1,248,023)**	11,634	**(1,485,227)**	9,185
(Increase) decrease in current tax assets	**(24,474)**	-	**(213,987)**	-
(Increase) decrease in prepayments & other assets	**(57,829)**	(30,876)	**(62,022)**	(31,017)
(Increase) decrease in deferred tax assets	**21,126**	35,304	**18,171**	35,454
Increase (decrease) in trade & other payables	**739,051**	(358,957)	**706,262**	(95,678)
Increase (decrease) in current tax liability	**(227,201)**	116,500	**(56,771)**	65,114
Increase (decrease) in deferred tax liability	**1,074**	447	**1,074**	447
Net cash provided by (used in) operating activities	**849,225**	1,602,144	**779,684**	1,717,137

(c) Non-cash financing and investing activities

Shares in Australian Ethical Investment Limited, to the value of $0 (2009: $23,570) were issued in lieu of staff bonus.

Notes to the financial statements for the year ended 30 June 2010

Note 23 – 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 Smaller Companies Trust, Australian Ethical Income Trust, Australian Ethical Larger Companies Trust, Australian Ethical International Equities Trust, Australian Ethical World Trust, and the Climate Advocacy Fund).

Note, During the financial year, the Climate Advocacy Fund and Australian Ethical Property Trust were established, the Australian Ethical Equities Trust changed its name to the Australian Ethical Smaller Companies Trust and the Australian Ethical Large Companies Share Trust changed its name to the Australian Ethical Larger Companies Trust.

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

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

Australian Ethical Superannuation Pty Ltd

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

	Consolidated entity **2010** $	Consolidated entity 2009 $	Parent entity **2010** $	Parent entity 2009 $
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**3,892,705**	3,445,918
(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).	**-**	-	**673,117**	555,910
(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.	**-**	-	**5,987,343**	5,054,272
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in Note 3.	**-**	-	**1,797,057**	1,202,596
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity: Taxation and other	**-**	-	**78,324**	221,409
Amounts payable to wholly owned entity: Management fee income	**-**	-	**496,388**	424,244

Notes to the financial statements for the year ended 30 June 2010

Note 23 – Related party transactions - continued

Australian Ethical Trusts

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

	Consolidated entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
(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	**3,563,536**	3,521,848	**3,563,536**	3,521,848
- Australian Ethical Smaller Companies Trust	**3,842,863**	3,286,338	**3,842,863**	3,286,338
- Australian Ethical Income Trust	**327,041**	316,833	**327,041**	316,833
- Australian Ethical Larger Companies Trust	**1,964,631**	2,065,893	**1,964,631**	2,065,893
- Australian Ethical International Equities Trust	**1,017,719**	476,444	**1,017,719**	476,444
- Australian Ethical World Trust	**14,026**	35,377	**14,026**	35,377
- Australian Ethical Property Trust	**136,068**	-	**136,068**	-
- Climate Advocacy Fund	**510**	-	**510**	-
(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	**274,208**	275,896	**274,208**	275,896
- Australian Ethical Smaller Companies Trust	**220,101**	218,138	**220,101**	218,138
- Australian Ethical Income Trust	**94,591**	92,595	**94,591**	92,595
- Australian Ethical Larger Companies Trust	**140,969**	142,057	**140,969**	142,057
- Australian Ethical International Equities Trust	**110,050**	109,072	**110,050**	109,072
- Australian Ethical World Trust	**15,572**	42,156	**15,572**	42,156
- Australian Ethical Property Trust	**18,362**	-	**18,362**	-
(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	**40,599**	71,058	**40,599**	71,058
- Australian Ethical Smaller Companies Trust	**46,764**	81,024	**46,764**	81,024
- Australian Ethical Income Trust	**3,873**	6,663	**3,873**	6,663
- Australian Ethical Larger Companies Trust	**30,272**	56,101	**30,272**	56,101
- Australian Ethical International Equities Trust	**1,933**	7,277	**1,933**	7,277
- Australian Ethical World Trust	**2,808**	107	**2,808**	107
- Australian Ethical Property Trust	**9**	-	**9**	-
(iv) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust	**2,695**	6,873	**2,695**	6,873

b) Outstanding balances at balance date:

Notes to the financial statements for the year ended 30 June 2010

Note 23 – Related party transactions - continued

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
- Australian Ethical Balanced Trust	**85,327**	352,189	**85,327**	352,189
- Australian Ethical Smaller Companies Trust	**304,836**	351,300	**304,836**	351,300
- Australian Ethical Income Trust	**62,394**	40,029	**62,394**	40,029
- Australian Ethical Larger Companies Trust	**150,125**	204,066	**150,125**	204,066
- Australian Ethical International Equities Trust	**156,617**	56,269	**156,617**	56,269
- Australian Ethical World Trust	**5,908**	7,991	**5,908**	7,991
- Australian Ethical Property Trust	**63,816**	-	**63,816**	-
- Climate Advocacy Fund	**191**	-	**191**	-
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**227,064**	320,749	**227,064**	320,749
Value of units held by Australian Ethical Investment Limited in the Climate Advocacy Fund	**98,858**	-	**98,858**	-
Distribution receivable from Australian Ethical Balanced Trust	**6,057**	3,298	**6,057**	3,298
Distribution receivable from Climate Advocacy Fund	**718**	-	**718**	-

Australian Ethical Retail Superannuation Fund

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

	Consolidated entity 2010 $	Consolidated entity 2009 $	Parent entity 2010 $	Parent entity 2009 $
(i) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to investment services/(rebate of investment services.)	**112,330**	207,004	**-**	-
Outstanding balances at balance date:				
Amounts receivable from/(payable to) the Australian Ethical Retail Superannuation Fund:				
investment services/(rebate of investment services fee)	**14,415**	95,853	**-**	-

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.

Notes to the financial statements for the year ended 30 June 2010

Note 24 - Key management personnel compensation

a) Key management personnel

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

Parent entity directors

Name	Position	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Justine Hickey	Director, non-executive	
Anne O Donnell	Managing Director ,executive	Resigned 11 August 2009
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	

Other key management personnel

Name	Position	
Gary Leckie	Chief financial officer	
Tim XIrakis	Finance Investment Manager	
Philip George	Company secretary / legal counsel	
Paul Harding Davis	Head of Distribution	
Martin Halloran	Chief Investment Officer	Resigned 30 June 2010
Phillip Vernon	Chief executive officer	Appointed 7 December 2009
James Jordan	Chief Investment Officer	Appointed 7 June 2010

b) Key management personnel compensation

	Economic entity		Parent entity	
	2010	2009	**2010**	2009
	$	$	**$**	$
Short-term employment benefits	**1,866,314**	1,779,448	**1,809,139**	1,684,770
Post-employment benefits	**158,141**	147,726	**153,731**	139,941
Other long-term benefits	**21,010**	34,778	**21,010**	34,778
Termination benefits	**235,000**	-	**235,000**	-
Share-based payments (i)	**175,747**	110,320	**175,747**	110,320
Total compensation	**2,456,212**	2,072,272	**2,394,627**	1,969,809

(i) This amount represents the fair value at grant date and does not necessarily reflect the amount expensed through the statement of comprehensive income, which accounts for probabilities of vesting conditions being met.

Further key management personnel remuneration details are included in the remuneration report section of the directors' report.

c) Equity instrument disclosures relating to key management personnel

Option Holdings

Number of options held by key management personnel.

KMP option holdings	Option class	Balance at beginning of year	No. granted	No. expired	No. vested & excercised	Balance at end of year	Vested at end of year	Vested & excercis-able at end of year	Vested & un-excercisable at end of year
Parent entity directors									
James Thier	AEFAS	1,432	-	(1,432)	-	-	1,432	1,432	-
	AEFAT	1,517	-	-	-	1,517	-	-	-
	AEFAV	1,364	-	-	-	1,364	-	-	-
	2010 Total	**4,313**	**-**	**(1,432)**	**-**	**2,881**	**1,432**	**1,432**	**-**
	2009 Total	4,749	1,364	-	(1,800)	4,313	1,800	1,800	-
Howard Pender	AEFAS	1,469	-	(1,469)	-	-	1,469	1,469	-
	AEFAT	1,513	-	-	-	1,513	-	-	-
	AEFAV	1,326	-	-	-	1,326	-	-	-
	2010 Total	**4,308**	**-**	**(1,469)**	**-**	**2,839**	**1,469**	**1,469**	**-**
	2009 Total	3,913	1326	-	(931)	4,308	931	931	-
Anne O'Donnell	AEFAS	2,909	-	(2,909)	-	-	2,909	2,909	-
	AEFAT	3,025	-	-	-	3,025	-	-	-
	AEFAU	2,648	-	-	-	2,648	-	-	-
	2010 Total	**8,582**	**-**	**(2,909)**	**-**	**5,673**	**2,909**	**2,909**	**-**
	2009 Total	8,940	2,648		(3,006)	8,582	3,006	3,006	-

Notes to the financial statements for the year ended 30 June 2010

Note 24 - Key management personnel compensation - continued

Named executives (including other key management personnel)	Option class	Balance at beginning of year	No. granted	No. expired	No. vested & excercised	Balance at end of year	Vested at end of year	Vested & excercis-able at end of year	Vested & un-excercisable at end of year
Philip George	AEFAS	2,356	-	-	(2,356)	-	2,356	2,356	-
	AEFAT	2,469	-	-	-	2,469	-	-	-
	AEFAU	2,169	-	-	-	2,169	-	-	-
	2010 Total	**6,994**	**-**	**-**	**(2,356)**	**4,638**	**2,356**	**2,356**	**-**
	2009 Total	6,375	2,169	-	(1,550)	6,994	1,550	1,550	-
Gary Leckie	AEFAS	1,443	-	(1,443)	-	-	1,443	1,443	-
	AEFAT	1,767	-	-	-	1,767	-	-	-
	AEFAU	1,919	-	-	-	1,919	-	-	-
	2010 Total	**5,129**	**-**	**(1,443)**	-	**3,686**	**1,443**	**1,443**	**-**
	2009 Total	4,597	1,919	-	(1,387)	5,129	1,387	1,387	-
Tim Xirakis	AEFAS	1,387	-	(1,387)	-	-	1,387	1,387	-
	AEFAT	1,776	-	-	-	1,776	-	-	-
	AEFAU	1,895	-	-	-	1,895	-	-	-
	2010 Total	**5,058**	**-**	**(1,387)**	-	**3,671**	**1,387**	**1,387**	**-**
	2009 Total	3,163	1,895	-	-	5,058	-	-	-
Paul Harding Davis	AEFAU	1,060	-	-	-	1,060	-	-	-
	2010 Total	**1,060**	**-**	-	-	**1,060**	**-**	**-**	**-**
	2009 Total	-	1,060	-	-	1,060	-	-	-
James Jordan	AEFAT	1,146	-	-	-	1,146	-	-	-
	AEFAU	1,243	-	-	-	1,243	-	-	-
	2010 Total	**2,389**	**-**	-	-	**2,389**	-	**-**	**-**
	2009 Total	1,146	1,243	-	-	2,389	-	-	-

Rights holdings

Number of rights held by key management personnel.

KMP rights holdings	Rights class	Balance at beginning of year	No. granted	No.forfeited	No. vested & excercised	Balance at end of year	Vested at end of year	Vested & excercisa-ble at end of year	Vested & un-excercisable at end of year
Parent entity directors									
James Thier	AEFAW	-	319	-	-	319	-	-	-
	2010 Total	**-**	**319**	**-**	**-**	**319**	**-**	**-**	**-**
	2009 Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Howard Pender	AEFAW	-	320	-	-	320	-	-	-
	2010 Total	**-**	**320**	**-**	**-**	**320**	**-**	**-**	**-**
	2009 Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Philip George	AEFAW	-	501	-	-	501	-	-	-
	2010 Total	**-**	**501**	**-**	**-**	**501**	**-**	**-**	**-**
	2009 Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gary Leckie	AEFAW	-	506	-	-	506	-	-	-
	2010 Total	**-**	**506**	**-**	**-**	**506**	**-**	**-**	**-**
	2009 Total	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**
Tim Xirakis	AEFAW	-	493	-	-	493	-	-	-
	2010 Total	**-**	**493**	**-**	**-**	**493**	**-**	**-**	**-**
	2009 Total	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**
Paul Harding Davis	AEFAW	-	531	-	-	531	-	-	-
	2010 Total	**-**	**531**	**-**	**-**	**531**	**-**	**-**	**-**
	2009 Total	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**
Martin Halloran	AEFAW	-	550	(550)	-	-	-	-	-
	AEFAX	-	966	(966)	-	-	-	-	-
	2010 Total	**-**	**1516**	**(1,516)**	**-**	**-**	**-**	**-**	**-**
	2009 Total	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**
James Jordan	AEFAW	-	409	-	-	409	-	-	-
	AEFAX	-	862	-	-	862	-	-	-
	2010 Total	**-**	**1271**	**-**	**-**	**1271**	**-**	**-**	**-**
	2009 Total	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**
Phillip Vernon	AEFAW	-	317	-	-	317	-	-	-
	2010 Total	**-**	**317**	**-**	**-**	**317**	**-**	**-**	**-**
	2009 Total	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**

Notes to the financial statements for the year ended 30 June 2010

Note 24 - Key management personnel compensation - continued

Share holdings

Number of shares held by key management personnel.

Parent entity directors		Balance at beginning of year	Acquired / granted as remuneration	On exercise of options/ rights	Net change other (1)	Balance at end of year (2) & (3)
James Thier	**2010**	**65,846**	**-**	**-**	**-**	**65,846**
	2009	64,218	28	1,800	(200)	65,846
Howard Pender	**2010**	**52,283**	**-**	**-**	**(400)**	**51,883**
	2009	51,743	109	931	(500)	52,283
Justine Hickey	**2010**	**700**	**-**	**-**	**-**	**700**
	2009	700	-	-	-	700
Anne O'Donnell	**2010**	**11,988**	**-**	**-**	**(1,500)**	**10,488**
	2009	8,982	168	3,006	(168)	11,988
Named executives (including other key management personnel)						
Philip George	**2010**	**489**	**-**	**-**	**615**	**1,104**
	2009	381	-	1,550	(1,442)	489
Gary Leckie	**2010**	**-**	**-**	**-**	**-**	**-**
	2009	-	-	1,387	(1,387)	-
Paul Harding Davis	**2010**	**78**	**-**	**-**	**1,520**	**1,598**
	2009	-	78	-	-	78

(1) "Net change other" incorporates changes resulting from purchases, sales, forfeitures during the year.

(2) Shares issued are fully paid

(3) Balance represents shareholdings by key management personnel including their related parties as required by AASB 124 Related Party Disclosures

Key management personnel loans

		Balance at beginning of year	Interest charged	Interest not charged	Write-off	Balance at end of year	Individuals at end of year
Key management personnel		**$**	**$**	**$**	**$**	**$**	
	2010	**-**	**1,697.65**	**-**	**-**	**43,358.14**	**2**
	2009	-	-	-	-	-	-

(a) The initial loan principal of $49,888.70 was granted to key management personnel under the Australian Ethical Investment Limited employee share loan scheme (ESLS) and represents 1,585 ordinary shares.

(b) The loan is repayable by 30 November 2013 and currently bears interest at 6.65 % per annum as per the FBT interest rate set by the ATO

(c) In the 2009-10 reporting period, there were no loans to individuals that exceeded $100,000 at any time.

Note 25 - Share based payments

The following share-based payment arrangements existed at 30 June 2010:

On 24 September 2007, 47,255 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 $57.57 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 14 October 2008, 41,937 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan and on 1 December 2008, 2,690 share options were granted to executive directors. The options were issued for nil consideration, are exercisable from 14 October 2011, have an exercise price of $32.27 each and a three month window in which to be exercised. In most circumstances the options will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

Notes to the financial statements for the year ended 30 June 2010

Note 25 - Share based payments - continued

During the reporting period, Australian Ethical Investment Limited issued 1,585 ordinary shares for $51,512.50 on exercise of 1,585 share options issued under its employee share ownership plan.The exercise of share options resulted in an increase in ordinary shares of 1,585.

During the reporting period 16,330 performance rights in two classes (identifiers: AEFAW and AEFAX) were granted. Under the Australian Ethical Investment Limited employee share incentive scheme (ESIS) participants are granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. The number of shares that the participant will ultimately receive will depend on the extent to which the performance criteria are met by the company and the individual employee. These rights were issued for nil consideration. These rights hold no voting or dividend rights. Subject to the terms and conditions of the ESIS rules, the performance rights have the following attributes determining whether shares will be issued in respect of the rights.

ASX Code	Number granted	Attributes
AEFAW	10,819	- employment must continue until 30 June 2012 - the arithmetic average return on equity over the performance period (‘AROE’) must exceed 15% p.a. or no shares shall be awarded at the end of the performance period; - if the AROE exceeds 15% p.a. but is less than 20% p.a., half the maximum number of shares shall be awarded; - if the AROE is equal to or greater than 20% p.a. the maximum number of shares shall be awarded. - AROE is determined as the arithmetic average of return on equity over six month periods calculated using audited half-year financial statements - The performance period is the financial years 2009/10, 2010/11 and 2011/12
AEFAX	5,511	- employment must continue until 11 November 2010; - the number of shares that will be issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent on the absolute performance of one of the company's managed investment schemes, for which the employee has responsibility or provides significant input. The nominated managed investment scheme has been agreed between the company and the employee. Performance will be measured over a performance period of 1 July 2009 to 30 June 2010.

Performance rights reconciliation	Consolidated entity			Parent entity	
	2010	2009		**2010**	2009
	Number of rights	Number of rights		**Number of rights**	Number of rights
Outstanding at the beginning of the financial year	**-**	-		**-**	-
Granted	**16,330**	-		**16,330**	-
Forfeited	**(1,854)**	-		**(1,854)**	-
Exercised	**-**	-		**-**	-
Expired	**-**	-		**-**	-
Outstanding at year-end	**14,476**	-	-	**14,476**	-
Exercisable at year-end	**-**	-	**-**	**-**	**-**

Fair value - Rights

All rights were calculated at grant date based on the underlying share prices minus estimated net present value of future dividends that the holders of rights are not entitled for.

Notes to the financial statements for the year ended 30 June 2010

Note 25 - Share based payments - continued

Weighted average fair value - Options

	Consolidated entity				Parent entity			
	2010		2009		2010		2009	
	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 financial year	**116,777**	**40.76**	116,753	39.31	**116,777**	**40.76**	116,753	39.31
Granted	**-**	**32.27**	44,627	32.27	**-**	**32.27**	44,627	32.27
Forfeited	**(16,956)**	**42.78**	(8,523)	43.98	**(16,956)**	**42.78**	(8,523)	43.98
Exercised	**(1,585)**	**31.00**	(34,707)	30.34	**(1,585)**	**31.00**	(34,707)	30.34
Expired	**(29,554)**	**31.00**	(1,373)	24.82	**(29,554)**	**31.00**	(1,373)	24.82
Outstanding at year-end	**68,682**	**44.00**	116,777	40.76	**68,682**	**44.00**	116,777	40.76
Exercisable at year-end	**-**	**-**	-	-	**-**	**-**	-	-

There were 1,585 options exercised during the year ended 30 June 2010. The weighted average share price calculated as at exercise dates of these options was $31.00.

The options outstanding at 30 June 2010 had a weighted average exercise price of $44.00 and a weighted average remaining contractual life of 1.05 years. Exercise prices range from $32.27 to $57.57 in respect of options outstanding at 30 June 2010

Included under employee benefits expense in the statement of comprehensive income is :
$190,602 (2009: $223,127) relating to options issued under the employee share ownership plan;
$124,633 (2009: Nil) relating to rights issued under the employee share ownership plan; and,
$0 (2009: $23,570) relating to equity settled share based payment transactions for staff bonus.

Note 26 - Financial instruments

(a) Financial risk management

The consolidated entity's financial instruments consist of cash and cash equivalents (note 7), trade and other receivables (note 8), financial assets (note 9) and trade and other payables (note 14).

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

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2010 %	2009 %	2010 $	2009 $	2010 $	2009 $
Cash and cash equivalents	**4**	5	**1,892,434**	2,614,167	**-**	-
Trade and other receivables					**-**	-
Financial assets	**5**	5	**485,040**	519,829	**513,401**	1,154,124
Total financial assets			**2,377,474**	3,133,996	**513,401**	1,154,124
Trade and other payables			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

Notes to the financial statements for the year ended 30 June 2010

(b) Interest rate risk - continued

	Fixed interest rate within 1 to 5 years		**Non-interest bearing**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009
	$	$	**$**	$	**$**	$
Cash	**-**	-	**300**	300	**1,892,734**	2,614,467
Trade and other receivable	**-**	-	**3,050,029**	1,800,859	**3,050,029**	1,800,859
Financial assets	**100,505**	82,492	**-**	-	**1,098,946**	1,756,445
Total financial assets	**100,505**	82,492	**3,050,329**	1,801,159	**6,041,709**	6,171,771
Trade and other payables	**-**	-	**2,495,424**	1,756,373	**2,495,424**	1,756,373
Total financial liabilities	**-**	-	**2,495,424**	1,756,373	**2,495,424**	1,756,373

(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 impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Quantitative details related to financial assets is contained in Note 9.

In relation to the financial asset – loan to independent entity – disclosed at Note 9, the loan agreement between the parent entity and the independen entity provides for the parent to enforce a security over the independent entity's assets should a default in loan payments occur. The independent entity has not defaulted in loan payments over the term of the loan to date.

Consideration of credit risk in relation to financial assets is incorporated into executive management risk considerations. The defined investment parameters governing the approval of financial asset investments incorporates a sliding scale of risk exposure as follows:

- The maximum exposure to any one issuer is to be no greater than twenty five per cent of the portfolio;
- Minimum amount to be held in cash, AAA securities or senior bank debt is fifty per cent of the portfolio; and
- Minimum amount to be held in cash, AAA securities, senior bank debt, rated corporate debt or subordinated bank debt to be eighty per cent of the portfolio.

In relation to loans to staff disclosed in note 9, under the terms of the loan agreement, staff loans were used to purchase shares of Australian Ethical Investment Ltd and the shares are used as security and registered under the subsidiary's name (Australian Ethical Superannuation Pty Ltd is the trustee of the employee share loan scheme) until the loans are paid off.

(d) Liquidity risk

The group carries no borrowing debt on the statement of financial position and has sufficient reserves of cash, cash equivalents and liquid investments to assess the liquidity risk as low. The cash position and cash flows are reviewed by the executive management to ensure regulatory and future operational requirements are catered for.

Trade and other payables are expected to be paid as follows:

	Consolidated entity		**Parent entity**	
	2010	2009	**2010**	2009
	$	$	**$**	$
Less than 6 months	**1,994,991**	1,253,442	**2,158,627**	1,449,867
6 months to 1 year	**500,433**	502,931	**500,433**	502,931
1 to 5 years	**-**	-	**-**	-
	2,495,424	1,756,373	**2,659,060**	1,952,798

(e) Net fair values

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

Notes to the financial statements for the year ended 30 June 2010

Note 26 - Financial instruments - continued

(f) Sensitivity analysis

The group has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in the interest rate (all other variables remaining constant). The sensitivity analysis is based only on cash and investments subject to a floating interest rate.

	Consolidated entity		**Parent entity**	
	2010	2009	**2010**	2009
	$	$	**$**	$
Change in profit				
- Increase in interest rate by 2%	**47,555**	62,686	**18,402**	34,923
- Decrease in interest rate by 2%	**(47,555)**	(62,686)	**(18,402)**	(34,923)
Change in equity				
- Increase in interest rate by 2%	**47,555**	62,686	**18,402**	34,923
- Decrease in interest rate by 2%	**(47,555)**	(62,686)	**(18,402)**	(34,923)

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare the following :

1. The financial statements and notes, as set out on pages 18 to 48 and the additional disclosures in the directors' report designated as audited are in accordance with the *Corporations Act 2001* ;

(a) comply with accounting standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with international financial reporting standards (IFRS); and

(b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the financial year ended on that date of the company and consolidated 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) 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.

Phillip Vernon
Managing Director
Dated this 30 August 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

AUSTRALIAN ETHICAL INVESTMENT LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Australian Ethical Investment Limited (the company) and Australian Ethical Investment Limited and controlled entity (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entity it controlled at the year's end or from to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Australian Ethical Investment Limited and Australian Ethical Investment Limited and Controlled Entity is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June, 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 14 of the directors' report for the year ended 30 June, 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

THOMAS DAVIS & CO.

P.L. WHITEMAN PARTNER

Chartered Accountants

SYDNEY,

30 August, 2010

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