

ASX Code: AEF
Date: 25 February 2009

Appendix 4D - half-year results and interim dividend

Please find attached Australian Ethical's half year results to 31 December 2008.

Discussion of results

The Australian Ethical® group half year result for 31 December 2008 is NPAT of \$536,203. Whilst the result is solid in the current economic environment, its decrease from the previous corresponding period does reflect the turmoil experienced in the six month period on financial markets.

The balance sheet remains strong with \$7.8 million in net assets and no corporate debt.

Outlook

There is still considerable economic uncertainty present in the market and financial markets have fallen significantly since September 2008. It is not expected that markets will recover significantly within the next six months and the company expects that the results for the second half of the 2008/09 year will reflect this circumstance. While the company continues to closely monitor its expenditures, and has realised savings against budget, at this stage the company expects the second half result to be weaker than the first half.

Positives for the company during this difficult period remain:

- a strong balance sheet – no debt, no intangibles and net tangible assets are held in cash, fixed interest securities and the company's premises. There is no current need to raise capital to strengthen the balance sheet;
- group inflows through the half year and into the second half have been very close to outflows – the group has not experienced significant net outflows from funds under management; and
- excellent relative performance of the majority of the company's managed funds.

Interim Dividend

Upon consideration of the half-year trading results the Board has authorised payment of a fully-franked interim dividend of 15c per share. The interim dividend paid in March 2008 was 45c per share.

Details of the dividend are as follows.

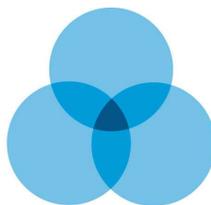
| <u>Code</u> | <u>Div Amount</u> | <u>Ex Div Date</u> | <u>Record Date</u> | <u>Date Payable</u> | <u>% Franked</u> | <u>Type</u> |
|-------------|-------------------|--------------------|--------------------|---------------------|------------------|-------------|
| AEF | 15c per share | 2/3/2009 | 6/3/2009 | 20/3/2009 | 100% | Interim |

The dividend reinvestment plan will not operate in respect of this interim dividend.

End/.

Company Background

Australian Ethical is a funds manager that specialises exclusively in ethical funds management. It offers managed investment schemes and corresponding superannuation strategies (for accumulation and pension accounts). The Australian Ethical Charter is the foundation of the investment process. It aims to avoid harmful investments and actively seeks investments that benefit society and the environment. Uniquely, the company's constitution requires that 10% of profit is donated to charitable and conservation initiatives.



Australian Ethical[®] Investment

for Investors, Society and the Environment

Appendix 4D

Half-Year Report

For the 6 months ended

31 December 2008

Released 25 February 2009

This report comprises information required by the Australian Stock Exchange (ASX) under listing rule 4.2A.3, by AASB 134 “Interim Financial Reporting” and the Corporations Act 2001.

- Announcement to the Market
- Directors’ Report
- Auditor’s Independence Declaration
- Condensed Consolidated Half-Year Financial Statements for the period ended 31 December 2008
- Notes to the Condensed Consolidated Half-Year Financial Statements for the period ended 31 December 2008
- Directors’ Declaration
- Auditors’ Independent Review Report

Managed Investments: Phone 1800 021 227 **Email** trustadmin@austethical.com.au **Fax** 02 6201 1987

Superannuation: Phone 1300 134 337 **Email** aes@austethical.com.au **Fax** 02 6201 1959

Web www.austethical.com.au **Post** GPO Box 2435 Canberra ACT 2601

Australian Ethical Investment Ltd **ABN** 47 003 188 930 **AFSL** 229949

Australian Ethical Superannuation Pty Ltd **ABN** 43 079 259 733 **RSEL** L0001441

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**AUSTRALIAN ETHICAL INVESTMENT LIMITED AND CONTROLLED ENTITY
RESULTS FOR ANNOUNCEMENT TO THE MARKET
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

| Revenue and Net Profit (Consolidated) | | | | \$A |
|---|------|------|----|-----------|
| Revenue from ordinary activities | down | -12% | to | 6,576,739 |
| Profit from ordinary activities after tax attributable to members | down | -51% | to | 536,203 |
| Net profit for the period attributable to members | down | -51% | to | 536,203 |

| Dividends (Distributions) | Amount per security | Franked amount per security | Record date * |
|----------------------------------|----------------------------|------------------------------------|----------------------|
| Final dividend | - | - | - |
| Interim dividend | 15 cents | 15 cents | 6 March 2009 |

* 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 | 31-Dec-08 | 31-Dec-07 |
|--|------------------|------------------|
| | \$ | \$ |
| Net tangible asset backing per ordinary security | 7.88 | 8.32 |

Directors' Report

Australian Ethical Investment Limited and its Controlled Entity

For the half year ended 31 December 2008

The directors of Australian Ethical Investment Limited are pleased to submit their report for the half-year ended 31 December 2008.

The names of the directors of the company during or since the end of the half-year are:

| Name | Period of Directorship |
|---------------------|--|
| James Thier | Appointed 19 June 1991 |
| Howard Pender | Appointed 19 June 1991 |
| Caroline Le Couteur | Appointed 20 July 1991, retired 27 November 2008 |
| Naomi Edwards | Appointed 1 February 2005 |
| Justine Hickey | Appointed 1 March 2007 |
| Anne O'Donnell | Appointed 29 May 2008 |
| Les Coleman | Appointed 1 July 2008 |
| André Morony | Appointed 1 July 2008 |

Review of Operations

The principal activity of the controlling entity during the half-year was to manage five public ethical investment trusts and one wholesale trust. The controlled entity (Australian Ethical Superannuation Pty Ltd) manages an ethical public offer superannuation fund. There was no significant change in the nature of these activities during the half-year.

The consolidated entity recorded a consolidated net profit after income tax expense for the half-year ending 31 December 2008 of \$536,203. This result is a decrease on the result of \$1,083,326 for the previous corresponding period. The half year result of \$536,203 includes \$241,849 in non-cash expense items.

The result reflects the difficult market conditions which have existed throughout the period and which have negatively impacted the company's funds under management, predominantly through falling equity markets. It is also a reflection on the strong first half result to 31 December 2007, which largely preceded the significant market volatility and downturn experienced through 2008.

At 31 December 2008, the company had \$517M funds under management. At 31 December 2007, funds under management were \$643M. Currently funds under management stand at \$476M. While the drop in funds under management has obviously been disappointing, the 19% decline from 31 December 2007 to 31 December 2008 has been a relatively good performance compared to the fall in markets generally over the same period (e.g. the S&P/ASX 200 index declined 43% over the same time).

The balance sheet discloses \$7.8 million in net assets and no corporate debt. The assets of the group are mainly cash, government guaranteed deposits and investment in real property -Trevor Pearcey House – where the group head office is located. The fluctuations of the markets have little impact on the group assets. Whilst inflows and FUM have decreased leading to a commensurate decrease in fee income, the company is not reliant on performance fees and, given the recent out-performance of most of the company's trusts, management fees have not decreased at the levels experienced elsewhere in the industry. The company has also reviewed trust expense recoveries and has made adjustments consistent with industry standards and with the provisions of the trusts' constitutions. This has positively impacted the results.

Significant uncertainty continues to exist in global economic markets and the company is expecting a challenging final six month period for the 2008/09 year. However, the directors' view is that the company is well placed to ride out these difficult economic times.

As at the date of this report, Australian Ethical does not intend to make any significant changes to its core fund management or superannuation operations in future years.

Interim Dividend

The directors are pleased to report that upon consideration of the half-year trading results the Board has authorised the payment of a fully-franked interim dividend of 15c per share. The interim dividend

paid in March 2008 was 45c per share.

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.

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

A handwritten signature in black ink, appearing to read 'Noami Edwards', with a long horizontal flourish extending to the right.

Noami Edwards
Director
25 February 2009

**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 six months ended 31 December 2008 there have been:

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



THOMAS DAVIS & CO



P. L. WHITEMAN PARTNER

Date 25 February 2009

Liability limited by a scheme approved under Professional Standards Legislation

**Condensed Consolidated Balance Sheet
as at 31 December 2008**

| | Consolidated | |
|--------------------------------|-----------------------------|-------------------------|
| | 31 December 2008 | 30 June 2008 |
| | \$ | \$ |
| Current assets | | |
| Cash and cash equivalents | 1,557,941 | 2,552,238 |
| Trade and other receivables | 1,983,058 | 1,812,410 |
| Financial assets | 1,688,359 | 1,748,774 |
| Other current assets | 343,824 | 248,491 |
| Total current assets | <u>5,573,182</u> | <u>6,361,913</u> |
| Non-current assets | | |
| Property, plant & equipment | 4,085,805 | 4,205,801 |
| Financial assets | 88,756 | 94,744 |
| Deferred tax assets | 398,028 | 489,784 |
| Total non-current assets | <u>4,572,589</u> | <u>4,790,329</u> |
| Total assets | <u>10,145,771</u> | <u>11,152,242</u> |
| Current liabilities | | |
| Trade and other payables | 1,735,615 | 2,115,330 |
| Current tax liabilities | - | 110,702 |
| Short-term provisions | 489,953 | 432,097 |
| Total current liabilities | <u>2,225,568</u> | <u>2,658,129</u> |
| Non-current liabilities | | |
| Deferred tax liabilities | 33,285 | 33,285 |
| Other long-term provisions | 74,430 | 79,338 |
| Total non-current liabilities | <u>107,715</u> | <u>112,623</u> |
| Total liabilities | <u>2,333,283</u> | <u>2,770,752</u> |
| Net assets | <u>7,812,488</u> | <u>8,381,490</u> |
| Equity | | |
| Issued capital | 5,739,635 | 5,740,791 |
| Reserves | 412,367 | 334,821 |
| Retained earnings | 1,660,486 | 2,305,878 |
| Total equity | <u>7,812,488</u> | <u>8,381,490</u> |

The accompanying notes form part of these Financial Statements.

**Condensed Consolidated Income Statement
for the half-year ended 31 December 2008**

| | Consolidated | |
|--|---------------------|--------------|
| | 31 December | 31 December |
| | 2008 | 2007 |
| | \$ | \$ |
| Revenue | 6,576,739 | 7,447,721 |
| Commissions paid to advisers | (89,947) | (141,209) |
| External services | (1,346,801) | (1,758,383) |
| Employee benefits expense | (3,229,814) | (2,919,993) |
| Depreciation | (142,392) | (109,843) |
| Occupancy costs | (107,172) | (97,788) |
| Communication costs | (372,507) | (417,754) |
| Other expenses | (434,425) | (279,391) |
| Profit before title and income tax expense | 853,681 | 1,723,360 |
| Tithes expense | (58,821) | (136,262) |
| Profit before income tax | 794,860 | 1,587,098 |
| Income tax expense | (258,657) | (503,772) |
| Profit for the year | 536,203 | 1,083,326 |
| Profit attributable to members of the parent entity | 536,203 | 1,083,326 |
| Basic earnings per share (cents per share) | 54.36 | 113.30 |
| Dilutive earnings per share (cents per share) | 54.36 | 109.13 |

The accompanying notes form part of these Financial Statements.

**Condensed Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2008**

| | Consolidated | |
|---|---------------------|-------------|
| | 31 December | 31 December |
| | 2008 | 2007 |
| | \$ | \$ |
| Total equity at beginning of financial period | 8,381,490 | 7,684,133 |
| Available-for-sale investments | | |
| Valuation gains/(losses) taken to equity | (31,301) | (6,166) |
| Employee share options | 99,457 | 72,832 |
| Income tax on items taken directly to or transferred directly from equity | 9,390 | 1,850 |
| Net income recognised directly in equity | 77,546 | 68,516 |
| Profit for the period | 536,203 | 1,083,326 |
| Total recognised income and expense for the period | 613,749 | 1,151,842 |
| Transactions with equity holders in their capacity as equity holders: | | |
| (Repayment) /Contribution of equity, net of transaction costs | (1,155) | 791,259 |
| Dividends provided for or paid | (1,181,596) | (1,437,025) |
| | (1,182,751) | (645,766) |
| Total equity at the end of the financial period | 7,812,488 | 8,190,209 |
| Total recognised income and expense for the year is attributable to: | | |
| Equity holders of the parent | 613,749 | 1,151,842 |
| | 613,749 | 1,151,842 |

The accompanying notes form part of these Financial Statements.

**Condensed Consolidated Cash Flow Statement
for the half-year ended 31 December 2008**

| | Consolidated | |
|---|-----------------------------|---------------------|
| | 31 December 2008 | 31 December 2007 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from operations | 6,649,167 | 7,983,902 |
| Payment to suppliers & employees | (5,707,751) | (5,951,313) |
| Interest/distributions received | 127,053 | 136,832 |
| Income tax paid | (363,542) | (524,863) |
| Bonus | (245,201) | (221,168) |
| Tithe | (200,891) | (199,964) |
| Net cash provided by (used in) operating activities | 258,835 | 1,223,426 |
| Cash flows from investing activities | | |
| Purchase of property, plant & equipment | (24,181) | (92,143) |
| Purchase of investments | (1,120,000) | - |
| Proceeds from sale of investments | 1,149,627 | 566,145 |
| Proceeds from loan repayments | 5,475 | 62,091 |
| Net cash provided by (used in) investing activities | 10,921 | 536,093 |
| Cash flows from financing activities | | |
| Proceeds from share issue | 113,354 | 561,758 |
| Share buy-back payment | (195,811) | (178,954) |
| Dividends paid | (1,181,596) | (1,044,455) |
| Net cash provided by (used in) financing activities | (1,264,053) | (661,651) |
| Net increase (decrease) in cash held | (994,297) | 1,097,868 |
| Cash at 1 July | 2,552,238 | 1,672,464 |
| Cash at 31 December | 1,557,941 | 2,770,332 |

The accompanying notes form part of these Financial Statements.

Notes to the Condensed Consolidated Financial Statements for the half-year ended 31 December 2008

Note 1 - Statement of significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Accounting policies have been consistently applied to the current half-year and comparative period, unless otherwise stated. The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2008 annual financial report for the financial year ended 30 June 2008.

The half-year financial report covers the economic entity of Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Ltd. Australian Ethical Investment Limited is a listed public company and both the parent and wholly owned entity are incorporated and domiciled in Australia.

| | 31 December 2008 | 31 December 2007 |
|--|-----------------------------|---------------------|
| | \$ | \$ |
| Note 2 - Dividends | | |
| Distributions paid | | |
| Final fully franked dividend of 120 (2007: 152) cents per share franked at the tax rate of 30% (2007:30%) | <u>1,181,596</u> | <u>1,437,025</u> |
| Declared interim fully franked dividend of 15 (2007: 45) cents per share franked at the tax rate of 30% (2007:30%) | <u>148,733</u> | <u>442,801</u> |

Note 3 - Events after the balance sheet date

Since the end of the half-year period ending on 31 December 2008, no material events that may have an impact on these financial statements have occurred.

The half-year financial report was authorised for issue on the directors' declaration date by the board of directors.

Note 4 - Segment reporting

The Consolidated Entity operated within one business segment (Investment Management) which represents its primary segment reporting format and one geographical segment.

| | 31 December | 30 June |
|--|--------------------|----------------|
| | 2008 | 2008 |
| | \$ | \$ |

Note 5 - Contingent liabilities

Liabilities and assets of trusts and superannuation fund

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

| | | |
|---------------------|------------------|------------|
| Current liabilities | | |
| Payables | 2,863,925 | 6,740,858 |
| Provisions | 6,788,637 | 10,702,251 |
| Total liabilities | 9,652,562 | 17,443,109 |

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

| | | |
|--|------------------|------------|
| | 9,652,562 | 17,443,109 |
|--|------------------|------------|

The contingent liability includes a provision for trust distribution. The trusts do not distribute capital gains realised during the period at the half-year end (31 December). Hence, the year end 30 June balance includes capital gains, the half-year end 31 December balance does not.

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

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

Superannuation Administrator Transition

Issues raised in relation to the superannuation administrator transition as per note 20 of the last full year financial statements have been resolved with no material impact to the group accounts.

Note 6 - Shared based payments

On 14 October 2008, 41,937 (2007:47,255) 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 (2007:\$57.57) 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. As per accounting standard AASB 2- Share Based Payments, options have been valued at fair value at grant date incorporating the underlying share price at that date. The share options granted on 14 October 2008 were valued at a fair value of \$8.96 per share option (2007:\$8.40) and the share options granted on 1 December 2008 were valued at a fair value of \$3.65 per share option.

On 23 September 2008, 660 ordinary shares were issued to staff who have elected to receive their annual cash bonus in the form of shares under the employee share ownership plan . The shares carry full dividend and voting rights. The shares and are not transferable for a period of three years, or until an employee leaves the company's employment whichever first occurs (In the comparative year 302 ordinary shares, with the same terms, were granted on 24 September 2007).

During the half-year reporting period, Australian Ethical Investment Limited issued 34,707 ordinary shares for \$861,428 on exercise of 34,707 share options issued under its employee share ownership plan. The company announced an employee share buyback scheme to buy back up to a maximum of 27,814 shares issued to employees upon the exercise of the options during the half-year reporting period. Under the terms of that scheme, the company has bought back from employees 27,814 shares at \$31.86 per share. The company has cancelled the shares that have been bought back. The exercise of share options and subsequent buyback has resulted in a net increase in ordinary shares of 6,893.

Directors' Declaration

The Directors of Australian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 5 to 10:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the economic entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date;
2. 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.



Naomi Edwards
Director
25 February 2009

Directors' Declaration

The Directors of Australian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 5 to 10:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the economic entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date;
2. 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.



Naomi Edwards
Director
25 February 2009

AUSTRALIAN ETHICAL INVESTMENT LIMITED AND CONSOLIDATED ENTITY
A.B.N. 47 003 188 930

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Australian Ethical Investment Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Ethical Investment Limited, which comprises the condensed consolidated Balance Sheet as at 31 December, 2008, and the condensed consolidated Income Statement, condensed consolidated Statement of Changes in equity and condensed consolidated Cash Flow Statement for the half-year ended on that date, a Statement of Significant Accounting Policies, other selected explanatory notes and the Directors' Declaration.

Directors' Responsibility for the Half-Year Financial Report

The Directors of Australian Ethical Investment Limited are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of Australian Ethical Investment Limited's consolidated financial position as at 31 December, 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Australian Ethical Investment Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

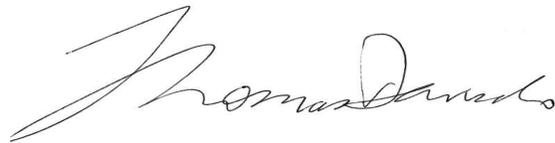
Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated half-year financial report of Australian Ethical Investment Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December, 2008 and of its performance for the half-year ended on that date;and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.



THOMAS DAVIS & CO



P.L. WHITEMAN

PARTNER

Chartered Accountants

SYDNEY,

25 February 2009

Liability limited by a scheme approved under Professional Standards Legislation