Australian Ethical® Investment

for Investors, Society and the Environment

ASX Announcement
ASX Code: AEF
Date: 11 September 2006

Lodgement of Offer Information Statement

The attached Offer Information Statement was lodged with the Australian Securities and Investments Commission today.

The Offer Information Statement is used to allow for the issue of shares and options under the company's employee share ownership plan. The company expects shares and options to be issued under the plan later in September 2006 and details of the numbers of shares and options issued will be provided to the market at that time.

End./

Company Background
Australian Ethical Investment Ltd is a funds manager that specialises exclusively in ethical funds management. Four managed investment schemes and corresponding superannuation strategies (for accumulation and pension accounts) are offered: the Australian Ethical Large Companies Share Trust, the Australian Ethical Equities Trust, the Australian Ethical Balanced Trust and the Australian Ethical Income Trust. 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.

For further information contact: Philip George, Company Secretary

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

Australian Ethical Investment
For Investors, Society And The Environment

ABN 47 003 188 930

OFFER INFORMATION STATEMENT

Dated: 11 September 2006

Table of Contents

ATTACHMENTS

Important Notices

This Offer Information Statement ('OIS') is dated 11 September 2006. It was lodged with the Australian Securities and Investments Commission ('ASIC') on that date. ASIC takes no responsibility for the content of this OIS. No securities will be issued on the basis of this OIS later than 13 months after the date of this OIS.

No person is authorised to give any information or to make any representations in connection with the Offer that is not contained in this OIS. Any information or representation not contained in this OIS may not be relied on as having been authorised in connection with the Offer.

This OIS is not a prospectus and correspondingly has a lower level of disclosure requirement than a prospectus.

It is important that you read this OIS carefully and in full, before participating. In particular, in considering the prospects of Australian Ethical Investment Ltd ('AEI'), you should consider the risk factors that could affect the financial performance of AEI. You should seek professional investment advice before deciding whether to participate.

Financial amounts are expressed in Australian dollars, unless otherwise stated.

Offer Summary, Key Dates

Key Offer Statistics - Options

Offer price per option:	nil consideration
Options to be offered under the OIS:	45,827
Exercise price:	10% in excess of the weighted average sale price of ordinary shares over the five ASX trading days immediately preceding the date of issue of the options. If the shares of the company are not traded on the ASX during any of the five trading days immediately prior to the issue date then the exercise price will be 10% in excess of the last sale price, unless this is considered inappropriate by the AEI board.

Key Dates - Options

Exercise period commences:	3 years from date of issue
Length of exercise period:	3 months

Key Offer Statistics - Shares

Offer price per share:	Nil consideration. If a bonus is paid staff can choose to sacrifice cash bonus for shares. The 'effective cost to bonus' per share will be the weighted average sale price of ordinary shares over the five ASX trading days immediately preceding the allocation date. If the shares of the company are not traded on the ASX during any of the five trading days immediately prior to the issue date the price will be the last sale price, unless this is considered inappropriate by the AEI board.
Shares to be offered under the OIS:	To be determined once the issue price has been set

1. Details of the Offer

1.1 Employee share ownership plan – employee options scheme

1.1.1 Overview

AEI is offering options totalling 5% of AEI's issued capital as at 30 June 2006.

Options will be: issued for nil consideration; will not be exercisable for 3 years from the date of issue; will have an exercise price 10% in excess of the weighted average sale price of ordinary shares over the five ASX trading days immediately preceding the date of issue of the options or if the shares of the company are not traded on the ASX during any of the five trading days immediately prior to the issue date the exercise price will be 10% in excess of the last sale price unless this is considered inappropriate by the AEI board; will have a 3 month window in which to be exercised at the end of the 3 year 'non-exercisable' period; and in most circumstances will lapse if the holder is no longer an employee of AEI. The options confer no voting or dividend rights on the holder.

1.1.2 Use of funds

Funds raised through the exercise of options may be used to fund the working capital of AEI, though the company may later buy back a similar number of shares.

1.1.3 Option certificates and allotment

Options will be allotted to those employees who have indicated in writing that they wish to be included in the offer. Option certificates or holding statements will be issued to all participating employees.

1.1.4 Fees and Charges relating to Options

Options will be issued for nil consideration, and are exercisable at the price determined in accordance with the description above. No commission or other fees or charges apply.

1.1.5 Rules of the Option scheme

Further terms and conditions of the options are set out in the document 'AEI Employee Share Ownership Plan terms and conditions'. Please see Attachment 2 to this OIS.

1.1.6 Exercise of the options

Option may be exercised at any time during the 3 month exercise window. To be validly exercised, an option holder must complete a notice of exercise and must provide the notice to AEI together with the required exercise monies. No shares shall be allotted to an option holder until AEI has received cleared funds for exercise monies in respect of the options. While options can be exercised at any time during the exercise window, AEI will only seek quotation of shares issued upon the valid exercise of options at several points during the 3 month exercise window. AEI's intent would be to seek quotation of shares issued upon the valid exercise of options on 2-3 occasions during the 3 month exercise window and once at the end of the exercise window.

1.2 Employee share ownership plan - Staff bonus share scheme

If an annual staff bonus is paid, an employee may chose to take such bonus as shares.

The 'effective cost to bonus' for these shares is the weighted average sale price of ordinary shares over the five ASX trading days immediately preceding the allocation date. If the shares of the company are not traded on the ASX during any of the five trading days immediately prior to the issue date the price will be the last sale price, unless this is considered inappropriate by the AEI board.

Share issued under the bonus share scheme are ordinary shares and entitle the holder to normal voting and dividend rights. However, shares issued under the bonus share scheme may not be sold or transferred for a period of 3 years, except that if an employee leaves the company's employment during that 3 year period, the sale / transfer restriction on shares held by that employee are lifted.

2. Description of the Business

2.1 Company background

AEI operates in the finance industry as an independent funds manager. It was established in 1986, and is currently owned by over 600 shareholders, including directors and key company personnel. It derives its income from fees for managing invested funds. It aims to "improve the ethics of corporate Australia and promote ecologically sustainable and socially just enterprises through judicious investment".

AEI is now the Single Responsible Entity for the following unit trusts:

- Australian Ethical Balanced Trust (established 1989);
- Australian Ethical Equities Trust (established 1994);
- Australian Ethical Income Trust (established 1997);
- Australian Ethical Large Companies Share Trust (established 1997)

AEI is also the parent company of Australian Ethical Superannuation Pty Ltd, the trustee for the Australian Ethical Retail Superannuation Fund.

2.2 Australian Ethical Charter

AEI has four general policy objectives:

- to contain the risk of investing;
- to obtain a financial return commensurate with any risk undertaken;
- to avoid investment in activities which are socially or environmentally detrimental;
- to participate financially in profitable activities which bring social or environmental benefits.

The first two objectives reflect the standard approach of all investment houses. The last two objectives are implemented by AEI through reference to the Australian Ethical Charter.

The Charter provides the guiding principles of investment selection, with eleven areas to be excluded, whilst twelve pro-active clauses identify items to be actively sought out and supported with investment. In general AEI selects investments for the trusts which provide for and support:

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

It avoids any investment that is considered to unnecessarily:

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

This translates to avoiding such areas as uranium mining, armaments, alcohol and tobacco production, repressive regimes, native forest logging, wood-chipping, gambling and animal exploitation.

On the positive side it means the support of recycling, renewable energy, co-operative housing, eco-tourism and bio-diversity, sustainable timber production, complementary health care and well-being, workplace relations and education.

While implementation of the Ethical Charter bounds investment activities relative to mainstream funds, AEI believes its demonstrated (and continued) adherence to the Charter strongly differentiates it in the marketplace. This differentiation has and will continue to contribute to AEI's strong growth.

3. Risk Factors

AEI has provided below a list of potential risks that could affect the value of any investment made in the company. The list is not necessarily exhaustive and potential investors should seek further professional investment advice if they are unsure about whether investing in AEI is a sensible proposition for them, in their particular circumstances.

3.1 Investment risk

Potential investors need to be aware that the value of AEI's shares could fall as well as rise. There is no guarantee that AEI's shares will provide an investor with any particular return, or indeed that the shares will have any particular value over time.

3.2 Economic risk

AEI's performance may be affected by changes in the general economic climate. In particular, changes in interest rates, Australia's economic growth rates, the level of disposable income in Australian households, stock market trends, exchange rates and remuneration trends may all affect AEI's performance.

3.3 Competitors

AEI competes with other institutions in the ethical investment market. As the market grows, it is likely that levels of competition will also rise. This could affect AEI's ability to reach its funds under management ('FUM') targets, and therefore its revenue targets.

3.4 Advisory industry

Financial advisors are generally reluctant to recommend that their clients invest in managed funds where the fund manager is relatively small, and this applies to AEI. However, this factor has not, to date, stopped AEI's FUM from growing significantly.

3.5 Administrative and management information systems – unitholders in the Trusts

AEI's ability to retain and attract investors to the unit trusts depends in part on its ability to effectively manage unit holder's interests and the investments made by the unit trusts. Significant increases in FUM may create a challenge for AEI's existing systems. If internal systems fail, unit holders may exit and new investors may be difficult to attract.

3.6 Key personnel

AEI is reliant on a number of key personnel, that have been employed by the company for a number of years. If such personnel were to leave, it could affect AEI's internal performance, and may impinge upon the willingness of financial advisors to recommend investment in the trusts. This risk is reduced in two ways. Firstly, the key personnel are also significant shareholders in the company, and therefore have a strong incentive for it to be financially successful. Secondly, the growth in company staff has resulted in corporate knowledge and relationships being spread over a greater number of staff, with less reliance on any particular staff member.

3.7 Investment performance

AEI's ability to attract and retain investors in the unit trusts and the superannuation fund depends upon the financial performance of the trusts. Poor investment performance or a loss of investors' money could seriously affect the ability of the company to increase FUM.

3.8 Fees

AEI competes in the general market place for investment funds. While potential investors in the unit trusts and superannuation fund will typically be seeking specific ethical investment opportunities, AEI fee ratios need to remain relatively competitive with the general market. In a competitive environment, there is a risk of downward pressure on fees, and therefore on potential revenues.

3.9 Government regulation

The financial services sector is heavily regulated. It is also an area where the regulatory environment continues to change within relatively short legislative cycles. There is a risk that future legislative requirements will alter the ability of AEI (or of its subsidiary) to trade profitably or at all. At the present time, AEI believes that it (and its subsidiary) can meet all current and prospective legislative requirements while remaining commercially viable.

Legislative changes to the taxation system could also affect the performance of AEI, the unit trusts and the superannuation fund.

3.10 Portfolio Diversification

AEI believes that adherence to the Australian Ethical Charter, while nonetheless seeking to contain investment risk, is a significant market differentiator that ideally positions it to take advantage of future ethical investment growth in Australia. However, adherence to the Charter also restricts the ability of AEI to diversify the trust investment portfolios relative to other investment funds. If investment products meeting the Charter perform poorly relative to the market as a whole, this means that unit holders in the trusts will receive poor returns in comparison to investors with more diversified portfolios. This could affect AEI's ability to retain and attract investors and hence its ability to reach FUM and revenue targets.

4. Financial and Audit Report

The AEI audited financial report for the year ended 30 June 2006 is an attachment to this OIS. Please see Attachment 1.

5. Additional Information

5.1 Consents

Thomas Davis & Co. have given their written consent to the issue of this Offer Information Statement with the inclusion of the Auditor's report in the form and context in which it appears in the Financial Report of Australian Ethical Investment Limited for the year ended 30 June 2006, which is included as an attachment to the Offer Information Statement. This consent has not been withdrawn prior to lodgement of the Offer Information Statement with ASIC.

5.2 Director's Consent

This Offer Information Statement is issued by Australian Ethical Investment Limited. Each director of the company has consented to the lodgement of the Offer Information Statement with ASIC, and has not withdrawn consent prior to the lodgement of this document.

Caroline Le Couteur

Caroline Le Couteur
Director

Dated this 11th day of September 2006

Attachment 1

AUSTRALIAN ETHICAL INVESTMENT AUDITED FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2006.

Australian Ethical® Investment

for Investors, Society and the Environment

Appendix 4E

Final Report

For the year ended

30 June 2006

Released 8 September 2006

This report comprises information required by the Australian Stock Exchange (ASX) under listing rule 4.3BA, Australian Accounting Standards and the Corporation Act 2001.

- Announcement to the Market
- Directors' Report
- Auditor's Independence Declaration
- Consolidated Financial Statements for the year ended 30 June 2006
- Notes to the Consolidated Financial Statements for the year ended 30 June 2006
- Directors' Declaration
- Independent Audit Report

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AUSTRALIAN ETHICAL INVESTMENT LIMITED AND CONTROLLED ENTITY
RESULTS FOR ANNOUNCEMENT TO THE MARKET
FOR THE YEAR ENDED 30 JUNE 2006

Revenue and Net Profit (Consolidated)				$A
Revenue from ordinary activities	up	30%	to	9,661,723
Profit from ordinary activities after tax attributable to members	up	74%	to	1,362,612
Net profit for the period attributable to members	up	74%	to	1,362,612

Dividends (Distributions)	**Amount per security**	**Franked amount per security**	**Record date ***
Final dividend	50 cents	50 cents	29 September 2006
Interim dividend	35 cents	35 cents	10 March 2006

* Record date for determining entitlements to the dividend

Brief Explanation of Revenue, Net Profit and Dividends

Refer accompanying directors' report, financial statements and notes.

Net Tangible Asset (NTA) Backing	**30-Jun-06** $	**30-Jun-05** $
Net tangible asset backing per ordinary security	6.84	5.68

Audit

The Australian Ethical Investment Limited financial statements and accompanying notes have been audited.

DIRECTORS' REPORT

The directors of Australian Ethical Investment Limited, the controlling entity, present their report on the company and its controlled entity for the financial year ended 30 June 2006. In compliance with the Corporations Act 2001, the directors' report as follows:

Directors

The name of each person who has been a director during the year ended 30 June 2006 and to the date of this report are:

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

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

Company Secretaries

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

Name
Philip George
Mark Bateman

Principal activities

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

Operating results

The consolidated entity (Australian Ethical Investment Limited and its wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd) has recorded a consolidated net profit after income tax expense for the year ending 30 June 2006 of $1,362,612**.** This result is a 74% increase on the result of $784,419[1] for the previous financial year.

Review of operations

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

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

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

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

The superannuation business (Australian Ethical Superannuation Pty Ltd) again contributed significantly to the excellent result and superannuation continues to be a growth engine of the business. During the year, Australian Ethical Superannuation Pty Ltd was granted a Registrable Superannuation Entity licence and the superannuation fund became a Registered Superannuation Entity. The licence and registration were necessary to allow the superannuation business to continue to operate past 1 July 2006. Changes to superannuation laws announced in the 2006 Federal Government budget should further strengthen the superannuation sector as a whole.

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

As required under the company's constitution, an amount of $170,132 has been provisioned as tithe for this year and will be donated to a number of non-profit organisations for useful charitable, benevolent or conservation purposes.

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

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

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

Financial position

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

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

The company continues to review and examine its capital needs.

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

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

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

Business strategies, future prospects and likely developments

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

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

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

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

Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Australian Ethical Investment Ltd and its controlled entity, the results of those operations or the state of affairs of Australian Ethical Investment Ltd in financial years subsequent to the financial year ended 30 June 2006, other than as outlined in this report.

Directors' indemnification

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

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

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

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

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

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

Directors' particulars

Qualifications, experience and special responsibilities

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

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

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

Caroline has been committed to environmental conservation and social justice throughout her life. She is a member of the national council of the Australian Conservation Foundation and has been a candidate for the Greens in both ACT and Federal elections. Caroline has held senior government positions in information management. She is the company's information technology manager and, until September 2002, was also the funds administrator. Caroline is the company's risk management officer. Caroline is also on the Board's remuneration committee.

James Thier B.Sc.(Hons)
Executive Director

James has had academic experience as a researcher and has taught in the faculties of economics, environmental studies and geography at the University of NSW. He has held senior positions in local government and within peak bodies of the credit union movement. James is the company's business development manager. James is also a director of Australian Ethical Superannuation Pty Ltd and is on the Board's investment and compliance committees. James was recently awarded a Churchill Fellowship to examine the mechanism of shareholder advocacy.

Howard Pender B.A.(Hons)
Executive Director

Howard received a university medal in economics from the Australian National University. He worked at the Commonwealth Treasury and then as Senior Economist at Bankers Trust in Sydney. From 1992 to 1997, he was a Visiting Fellow in the Centre for International and

Public Law at the Australian National University. Howard has been a director of two other ASX listed companies. Howard is a director of Australian Ethical Superannuation Pty Ltd and is a member of the Board's finance and investment committees.

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

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

Pauline Vamos BA LLB AACI
Non-Executive Director

Pauline is a qualified lawyer and an Associate of the Australasian Compliance Institute. She has over twenty years experience in the financial services industry, in particular financial planning, superannuation, funds management and both life and general insurance. For the six years prior to March 2004, Pauline was with ASIC and played key roles in relation to the implementation of the Managed Investments legislation and Financial Services Reform. Pauline currently provides strategic compliance solutions for various clients. Pauline is a member of the Board's Compliance Committee.

Directors' meetings

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

	Board meetings		Audit Committee		Finance Committee		Investment Committee	
	No. Eligible To Attend	No. Attended	No. Eligible To Attend	No. Attended	No. Eligible To Attend	No. Attended	No. Eligible To Attend	No. Attended
James Thier	9	8	-	-	-	-	4	4
Howard Pender	9	9	-	-	7	6	4	3
Caroline Le Couteur	9	9	-	-	-	-	-	-
Naomi Edwards	9	9	2	2	-	-	-	-
George Pooley	9	9	3	3	7	7	-	-
Ray De Lucia	1	1	1	1	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-

	Remuneration Committee		Compliance Committee	
	No. Eligible To Attend	No. Attended	No. Eligible to Attend	No. Attended
James Thier	-	-	3	3
Howard Pender	-	-	-	-
Caroline Le Couteur	2	2	-	-
Naomi Edwards	-	-	-	-
George Pooley	2	2	4	4
Ray De Lucia	-	-	-	-

	Remuneration Committee		Compliance Committee	
	No. Eligible To Attend	No. Attended	No. Eligible to Attend	No. Attended
Pauline Vamos	-	-	-	-

Directorships held in other listed entities in the last three years

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

Remuneration report

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

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

Parent entity directors

Name	***Position***	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

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

Named executives

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

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

The Corporations Act 2001 requires disclosure of the remuneration of:

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

With the exception of Ruth Medd, the abovenamed directors and executives are key management personnel of the company. Ruth Medd is a group executive. Within the company, there are only four executives that satisfy the definition of company executive.

Remuneration policy

Directors

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

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

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

Secretaries, senior managers, executive directors and group executives

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

Remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

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

and to facilitate:

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

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

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus[3] to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff.

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

All permanent, non-probationary staff are eligible to participate in the plan. The options[4] are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, options will also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

Performance-based remuneration and company performance

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

Details of options issued under the employee share ownership plan are set out under remuneration policy above. Options are performance based in two ways. Firstly, in most cases, staff must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company. Secondly, option value can only be realised if the market value of the underlying shares increase by 10% between the period of grant and the period when the options can be exercised.

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

Dividends through the same period have increased from a dividend out of the profits of the 2000/2001 year of 10 cents per share to a dividend out of the 2004/2005 year profits of 72 cents per share. The dividend declared by the directors for the 2005/2006 year is 85 cents per share.[5]

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

Date	***Closing Daily Price***[6]
17 December 2002	$12.50
30 June 2003	$11.30
30 June 2004	$13.00
30 June 2005	$17.20
30 June 2006	$28.50

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

Year	***Earnings***
2001/2002	$353,276
2002/2003	$190,921
2003/2004	$459,761

[4] See Note 26 in the attached financial report
[5] An interim dividend of 35 cents per share was paid in March 2006, so the final payment to shareholders will be 50 cents per share.
[6] Where shares were not traded on the day specified, the price quoted is the closing daily price when trades did occur on the day earlier than and closest to the date specified.

Year	*Earnings*
Adoption of AIFRS	
2004/2005	$784,419
2005/2006	$1,362,612

Remuneration details for the year ended 30 June 2006

Parent entity directors' remuneration

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
2006	**Cash Salary and Fees**	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
George Pooley	57,188	-	-	-	-	-	-	-	57,188
Ray De Lucia	3,259	-	-		-	-	-	-	3,259
Caroline Le Couteur	131,882	-	-	11,484	3,196	-	4,300	7,536	158,398
James Thier	124,586	2,153	-	10,300	1,638	-	1,000	6,048	145,725
Howard Pender	113,237	-	-	10,291	1,791	-	1,613	3,128	130,060
Naomi Edwards	28,420	-	-	2,558	-	-	-	-	30,978
Total	458,572	2,153	-	34,633	6,625	-	6,913	16,712	525,608
2005									
George Pooley	45,964	-	-	-	-	-	-	-	45,964
Ray De Lucia	12,974	-	-	-	-	-	-	-	12,974
Trevor Lee	5,000	-	-	450	-	-	-	-	5,450
Caroline Le Couteur	128,468	-	-	10,639	2,206	-	3,500	3,141	147,954
James Thier	112,845	1,800	-	9,802	1,835	-	1,000	2,573	129,855
Howard Pender	111,609	-	-	6,132	951	-	1,225	1,076	120,993
Naomi Edwards	21,689	-	-	1,502	-	-	-	-	23,191
Total	438,549	1,800	-	28,525	4,992	-	5,725	6,790	486,381

Named executives remuneration (including other key management personnel)

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
	Cash Salary and Fees	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
2006									
Anne O'Donnell	172,147	-	-	15,225	4,817	-	4,300	10,100	206,589
David Ferris	134,878	-	-	11,764	3,044	-	4,135	8,773	162,594
Mark Bateman	113,643	4,300	-	10,008	3,287	-	-	7,076	138,314
Philip George	140,622	2,718	-	12,330	2,926	-	-	5,208	163,804
Ruth Medd	24,710	-	-	1,459	-	-	-	-	26,169
Total	586,000	7,018	-	50,786	14,074	-	8,435	31,157	697,470
2005									
Anne O'Donnell	147,608	-	-	12,695	3,229	-	3,500	3,581	170,613
David Ferris	129,520	-	-	11,025	2,849	-	3,500	3,189	150,083
Mark Bateman	131,505	-	-	10,766	3,191	-	3,500	2,498	151,460
Philip George	78,760	-	-	6,545	1,641	-	-	-	86,946
Christopher Lee	29,569	-	-	2,449	-	-	3,291	-	35,309
Ruth Medd	17,500	-	-	1,035	-	-	-	-	18,535
Total	534,462	-	-	44,515	10,910	-	13,791	9,268	612,946

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The bonuses were paid on 21 September 2005. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

Options granted as remuneration[(1)] – disclosures required under AASB 124

	Vested No.	Granted No. (1)	Grant Date	Value per Option at Grant Date (2) $	Exercise Price $	First Exercise Date	Last Exercise /Expiry Date
Parent Entity Directors							
George Pooley	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-
Caroline Le Couteur	2,218	2,243	21.09.05	3.36	24.82	21.09.08	20.12.08
James Thier	1,688	1,800	21.09.05	3.36	24.82	21.09.08	20.12.08
Howard Pender	981	931	21.09.05	3.36	24.82	21.09.08	20.12.08
Naomi Edwards	-	-	-	-	-	-	-
	4,887	4,974					
Named executives (including other key management personnel)							
Anne O'Donnell	2,620	3,006	21.09.05	3.36	24.82	21.09.08	20.12.08
David Ferris	2,313	2,611	21.09.05	3.36	24.82	21.09.08	20.12.08
Mark Bateman	1,752	2,106	21.09.05	3.36	24.82	21.09.08	20.12.08
Philip George	-	1,550	21.09.05	3.36	24.82	21.09.08	20.12.08
Ruth Medd	-	-	-	-	-	-	-
	6,685	9,273					

(1) Each option above is granted by Australian Ethical Investment Limited (AEI) and is for one ordinary share in AEI.
(2) Options were granted as part of remuneration and the recipient did not otherwise pay for the grant of the options.

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

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

(1) The amount paid for shares issued on exercise of options is $18.26 in all cases.
(2) Net change other refers to shares purchased or sold during the financial year.
(3) Shares issued are fully paid
(4) Balance represents shareholdings by directors and named executives including their related parties as required by AASB 124 Related Party Disclosures. Relevant interests required by the Corporations Act 2001 would result in the balance changing for James Thier to 45,480, Howard Pender to 49,147 and Philip George to 250.

Alterations to the terms of options

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

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

to:

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

No other terms or conditions were changed.

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

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

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

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

Employment contracts of directors and senior executives

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

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

Options granted as remuneration[1] – disclosures required under the Corporations Act 2001

	Granted No.	Grant Date	Value per Option at Grant Date $	Granted as part of Remuneration (1) $	Option Remuneration as a % of Total Remuneration	Value of Options exercised in Fin Year $	Value of Options Lapsed in Fin Year (2) $	Total Value $
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-
Caroline Le Couteur	2,243	21.09.05	3.36	7,536	5%	14,949	-	22,485
James Thier	1,800	21.09.05	3.36	6,048	4%	9,689	-	15,737
Howard Pender	931	21.09.05	3.36	3,128	2%	5,631	-	8,759
Naomi Edwards	-	-	-	-	-	-	-	-
	4,974			16,712		30,269	-	46,981
Named executives (including other key management personnel)								
Anne O'Donnell	3,006	21.09.05	3.36	10,100	5%	15,039	-	25,139
David Ferris	2,611	21.09.05	3.36	8,773	5%	15,590	-	24,363
Mark Bateman	2,106	21.09.05	3.36	7,076	5%	10,056	-	17,132
Philip George	1,550	21.09.05	3.36	5,208	3%	-	-	5,208
Ruth Medd	-	-	-	-	-	-	-	-
	9,273			31,157		40,685	-	71,842

(1) Values are based on a valuation performed on the options at grant date using the Black-Scholes model. None of the value of the options granted was paid to the key management personnel in the financial year. Key management personnel may realise value from this option grant in the 2008/09 year when the options are exercisable.
(2) None of the grant of options were forfeited by directors or other key management personnel during the year

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

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

Holdings in registered schemes made available by the company

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

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

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

The number of shares and options issued to executive directors under the employee share ownership plan is detailed in this Report. Shareholder approval for the issue of shares and options to executive directors was obtained under ASX listing rule 10.14 at the Annual General Meeting held in November 2003.

Company secretary particulars

Name	Qualifications	Experience
Philip George	BSc LLB	Philip has experience in commercial law, corporate governance and project management. He has been a company secretary and legal counsel for listed companies for over five years. He was a senior associate at the national law firm Minter Ellison and conducted a commercial legal practice in partnership for two years.
Mark Bateman	BBus, CPA	Mark is a Certified Practising Accountant and is currently on the CPA Australia SME and Corporate Committee (ACT Division). Mark is also a member of the interim Audit Committee of the Future Fund. Mark is Chief Financial Officer of Australian Ethical Investment Ltd and is responsible for the fiscal management of the consolidated entity. Mark has worked in commerce as a financial professional for over 12 years.

Options as at the date of this report

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

Options Reference	Number of options on issue	Exercise Period	Exercise Price
AEFAK	33,778	15/10/06 to 14/1/07	$14.11
AEFAI	36,504	23/9/07 to 22/12/07	$16.28
AEFAQ	43,664	21/9/08 to 20/12/08	$24.82
Totals	**113,946**		

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

Shares issued upon the exercise of options

The following ordinary shares of the company were issued during the year ended 30 June 2006 on the exercise of options granted under the company's employee share ownership plan. No further shares have been issued since that date to the date of this report. No amounts are unpaid on any of the shares.

Shares issued upon exercise of options	Amount paid per share
26,250	$18.26

Auditor's declaration

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

Non-audit services

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

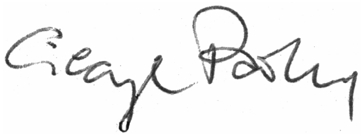
Details of non-audit services provided by the auditor are set out in Note 3 of the attached financial report.

Other specific information

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

Disclosure	***Financial Statement Reference***
Dividends	Note 6
Options – issued during the financial year and since the end of the financial year[7]	Note 26

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



George Pooley
Director

Dated: 8 September 2006

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

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

THOMAS DAVIS & CO.

P.L. WHITEMAN PARTNER

Date 8 September 2006

Liability limited by a scheme approved under Professional Standards Legislation

Balance Sheet
as at 30 June 2006

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

The accompanying notes form part of these financial statements.

Income Statement
for the year ended 30 June 2006

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

The accompanying notes form part of these financial statements.

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

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

The accompanying notes form part of these financial statements.

Cash flow statement
for the year ended 30 June 2006

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

The accompanying notes form part of these Financial Statements.

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

Note 1 - Statement of significant accounting policies

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

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

The nature of the operations and principal activities of the economic entity are described at note 20.

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

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

Basis of preparation

First time Adoption of Australian equivalents to International Financial Reporting Standards

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

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

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

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

Reporting Basis and Conventions

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

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

Note 1 - Statement of significant accounting policies - continued

Accounting Policies

a) Principles of consolidation

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

All controlled entities have a June financial year-end.

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

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

b) Income tax

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

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

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

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

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

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

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

Note 1 - Statement of significant accounting policies - continued

c) Property, plant and equipment

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

Property

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

Plant and equipment

Plant and equipment are carried at cost less any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

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

The depreciation rates used for each class of assets are:

Class of fixed asset	**Depreciation Rates**	**Depreciation Basis**
Buildings	2.5%	Straight line
Furniture, fittings and equipment	10% to 81%	Straight line/Diminishing value
Software	18.75% to 40%	Straight line/Diminishing value

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

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

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

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

Note 1 - Statement of significant accounting policies - continued

d) Financial instruments

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

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

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

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

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

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

e) Impairment of assets

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

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

f) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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

Note 1 - Statement of significant accounting policies - continued

f) Employee benefits - continued

Share options

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

Share options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Share options granted on or after 7 November 2002 and vested after 1 January 2005
The fair value of options granted under the Australian Ethical Investment Limited employee share ownership plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period.

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

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

g) Provisions

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

h) Cash and cash equivalents

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

i) Revenue

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

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

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

j) Goods and services tax (GST)

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

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

Note 1 - Statement of significant accounting policies - continued

j) Goods and services tax (GST) - continued

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

k) Employee bonus and tithes expense

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

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

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

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

l) Earnings per share

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

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of the interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

m) Comparative figures

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

Critical accounting estimates and judgements

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

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

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

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

Note 2: Impact of adoption of AIFRS

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

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

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

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

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

	Economic Entity	**Parent Entity**
	Year ended 30 Jun 05	Year ended 30 Jun 05
	$	$
Profit after tax as previously reported under AGAAP	810,900	728,667
Recognition of options expense under share based payments (a)	(26,481)	(26,481)
Profit after tax under AIFRS	784,419	702,186

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

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

(iv) Transitional exemption

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

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

Note 3 - Auditors' remuneration

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

Note 4 - Revenue

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

Note 5 - Income tax expense

a) The components of tax expense comprise:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
- Current tax	**690,357**	404,421	**452,052**	295,143
- Deferred tax	**(64,758)**	(50,556)	**(58,908)**	(50,556)
	625,599	353,865	**393,144**	244,587

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

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Note 5 - Income tax expense - continued				
b) The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005:30%)				
- economic entity	**596,463**	341,485	**-**	-
- parent entity	**-**	-	**440,450**	284,032
- other members of the income tax consolidated group net of intercompany transactions	**-**	-	**232,455**	109,278
Add:				
Tax effect of:				
- Other non-allowable items	**860**	740	**816**	643
- share options expensed during year	**17,988**	7,944	**17,988**	7,944
- under provision for income tax in prior year	**12,237**	3,696	**12,237**	3,696
	627,548	353,865	**703,946**	405,593
Less:				
Tax effect of:				
- rebateable fully franked dividends	**-**	-	**(76,398)**	(51,728)
- non-assessable income	**(635)**	-	**(635)**	-
- franking and foreign tax credits	**(1,314)**	-	**(1,314)**	-
Income tax expense attributable to entity	**625,599**	353,865	**625,599**	353,865
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(232,455)**	(109,278)
Income tax expense attributable to entity	**625,599**	353,865	**393,144**	244,587
The applicable weighted average effective tax rates are as follows:	**31%**	31%	**27%**	26%

Effective tax rates have not changed significantly from last year.

Note 6 - Dividends

Distributions paid

Final fully franked dividend of 42 (2005: 42) cents per share franked at the tax rate of 30% (2005:30%)	**384,955**	364,965	**384,955**	364,965
Interim fully franked dividend of 35 (2005: 30) cents per share franked at the tax rate of 30% (2005:30%)	**320,795**	266,624	**320,795**	266,624
	705,750	631,589	**705,750**	631,589

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

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Note 6 - Dividends - continued				
Declared (2005: proposed) final fully franked dividend of 50 (2005: 42) cents per share franked at the tax rate of 30% (2005: 30%)	**458,280**	373,273	**458,280**	373,273
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.			**983,028**	595,136
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			**196,406**	-
			786,622	595,136

Note 7 - Earnings per share

	Economic Entity 2006	Economic Entity 2005
(a) Earnings used to calculate basic EPS and dilutive EPS	**1,362,612**	784,419
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**906,720**	875,930
Weighted average number of options outstanding	**32,291**	8,404
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**939,011**	884,334

Note 8 - Cash and cash equivalents

	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
Cash on hand	**300**	300	**300**	300
Cash at bank	**16,534**	21,423	**115**	1,672
Deposits at call	**1,462,400**	1,803,023	**372,816**	1,014,070
	1,479,234	1,824,746	**373,231**	1,016,042

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

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

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

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Note 9 - Trade and other receivables				
Trade receivables	**988,512**	792,656	**833,799**	647,306
Other	**50,482**	20,839	**50,482**	20,839
Amounts receivable - wholly owned entity	**-**	-	**158,691**	111,384
	1,038,994	813,495	**1,042,972**	779,529

Note 10 - Financial assets				
Available-for-sale financial assets	**2,504,546**	3,037,021	**2,820,546**	3,353,021
Loans	**188,343**	200,000	**188,343**	200,000
	2,692,889	3,237,021	**3,008,889**	3,553,021
Less non-current portion	**174,484**	200,000	**490,484**	516,000
Current portion	**2,518,405**	3,037,021	**2,518,405**	3,037,021

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

The money market deposit is at a fixed interest rate of 6.15%, has a maturity date of 31 October 2006 and is investment grade rated by S&P.
The mortgage backed security is at a floating interest rate of BBSW + 0.39, has a maturity date of 26 October 2009 and is investment grade rated by S&P.
The bank note is at a floating interest rate of BBSW + 0.70, has a maturity date of 20 May 2008 and is investment grade rated by S&P.
The corporate bond is at a fixed interest rate of 7.0%, has a maturity of 26 April 2007 and is investment grade rated by S&P.

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

The loan is provided to an independent entity.
The loan is at a fixed interest rate of 9.0% and matures 1 August 2015.

Note 11 - Other current assets				
Other	**2,843**	1,450	**2,843**	1,450
Prepayments	**136,865**	156,395	**91,400**	109,954
	139,708	157,845	**94,243**	111,404

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

Note 12 - Property, plant and equipment

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Land and buildings				
Leasehold land at:				
At cost	**230,000**	-	**230,000**	-
Total land	**230,000**	-	**230,000**	-
Buildings at:				
At cost	**2,137,962**	-	**2,137,962**	-
Less accumulated depreciation	**(22,642)**	-	**(22,642)**	-
Total buildings	**2,115,320**	-	**2,115,320**	-
Total land and buildings	**2,345,320**	-	**2,345,320**	-
Plant and equipment				
At cost	**791,661**	710,250	**791,661**	710,250
Accumulated depreciation	**(523,828)**	(427,347)	**(523,828)**	(427,347)
Total plant and equipment	**267,833**	282,903	**267,833**	282,903
Total property, plant and equipment	**2,613,153**	282,903	**2,613,153**	282,903
Movements in carrying amounts				
Land				
Balance at the beginning of year	**-**	-	**-**	-
Additions	**230,000**	-	**230,000**	-
Disposals	**-**	-	**-**	-
Carrying amount at the end of year	**230,000**	-	**230,000**	-
Buildings				
Balance at the beginning of year	**-**	-	**-**	-
Additions	**2,137,962**	-	**2,137,962**	-
Disposals	**-**	-	**-**	-
Depreciation expense	**(22,642)**	-	**(22,642)**	-
Carrying amount at the end of year	**2,115,320**	-	**2,115,320**	-
Plant and equipment				
Balance at the beginning of year	**282,903**	200,002	**282,903**	200,002
Additions	**107,847**	180,810	**107,847**	180,810
Disposals	**(2,152)**	(4,838)	**(2,152)**	(4,838)
Depreciation expense	**(120,765)**	(93,071)	**(120,765)**	(93,071)
Carrying amount at the end of year	**267,833**	282,903	**267,833**	282,903
Total	**2,613,153**	282,903	**2,613,153**	282,903

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

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Note 13 - Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**246,048**	187,235	**246,048**	187,235
Tithe	**51,939**	30,368	**51,939**	30,368
Audit fees	**15,270**	-	**9,420**	-
	313,257	217,603	**307,407**	217,603
Amounts recognised directly in equity				
Financial asset revaluations	**1,989**	-	**1,989**	-
	315,246	217,603	**309,396**	217,603
Movements				
Opening balance at 1 July	**217,603**	167,047	**217,603**	167,047
Credited (charged) to the income statement	**95,654**	50,556	**89,804**	50,556
Credited (charged) to equity	**1,989**	-	**1,989**	-
Closing balance at 30 June	**315,246**	217,603	**309,396**	217,603
Note 14 - Trade and other payables				
Trade payables	**242,383**	213,852	**121,841**	129,777
Sundry payables and accrued expenses	**896,393**	617,212	**790,688**	525,081
Employee bonus	**213,234**	144,809	**213,234**	144,809
Amounts payable to wholly owned entity	**-**	-	**307,391**	233,991
	1,352,010	975,873	**1,433,154**	1,033,658
Note 15 - Deferred tax liabilities				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Stamp duty on leasehold property	**30,896**	-	**30,896**	-
	30,896	-	**30,896**	-
Movements				
Opening balance at 1 July	**-**	-	**-**	-
Credited/(charged) to the income statement	**30,896**	-	**30,896**	-
Closing balance at 30 June	**30,896**	-	**30,896**	-
Note 16 - Provisions				
Current				
Employee benefits - long service leave	**219,970**	170,378	**219,970**	170,378
	219,970	170,378	**219,970**	170,378
Non-current				
Employee benefits - long service leave	**46,557**	30,861	**46,557**	30,861
	46,557	30,861	**46,557**	30,861

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

Note 17 - Movements in equity

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Issued capital				
Ordinary shares				
Balance at 1 July				
888,746 (2005 - 868,965) shares	**4,113,706**	3,787,847	**4,113,706**	3,787,847
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
1,563 on 21 September 2005 (share bonus)	**35,392**	-	**35,392**	-
17,275 on 31 October 2005 (options exercised)	**315,442**	-	**315,442**	-
8,975 on 29 November 2005 (options exercised)	**163,883**	-	**163,883**	-
1,971 on 23 September 2004 (share bonus)	**-**	29,160	**-**	29,160
19,781 on 7 March 2005 (options exercised)	**-**	326,387	**-**	326,387
Shares bought back during the year				
1,180 on 1 October 2004	**-**	(17,794)	**-**	(17,794)
667 on 5 October 2004	**-**	(10,005)	**-**	(10,005)
124 on 6 October 2004	**-**	(1,889)	**-**	(1,889)
Balance 30 June				
916,559 (2005 - 888,746) shares	**4,628,423**	4,113,706	**4,628,423**	4,113,706

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

For detailed information relating to the Australian Ethical Investment Limited employee share ownership plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to note 26 Share-based payments

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

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

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

Note 17 - Movements in equity - continued

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

The "Available-for-sale financial assets revaluation reserve" records revaluations to fair value of available for sale financial assets.

The "Share-based payments reserve" records items recognised as expenses on valuation of employee share options.

	Economic Entity **2006** $	Economic Entity 2005 $	Parent Entity **2006** $	Parent Entity 2005 $
Retained earnings				
Balance 1 July	**894,550**	753,869	**263,654**	205,206
Changes in accounting policy	**-**	(12,149)	**-**	(12,149)
Restated balance	**894,550**	741,720	**263,654**	193,057
Profit for the period	**1,362,612**	784,419	**1,075,024**	702,186
Total for the period	**1,362,612**	784,419	**1,075,024**	702,186
Dividends	**(705,750)**	(631,589)	**(705,750)**	(631,589)
Balance 30 June	**1,551,412**	894,550	**632,928**	263,654
Total Equity	**6,273,783**	5,046,886	**5,355,299**	4,415,990

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

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$

Note 18 – Events after the balance sheet date

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

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

Note 19 - Economic dependence

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

Note 20 - Segment reporting

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

Note 21 – Capital commitments

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

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

Note 22 – Contingent liabilities

Liabilties and assets of trusts and superannuation fund

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

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Current liabilities				
Payables	**3,321,381**	5,499,381	**2,824,216**	5,103,746
Provisions	**43,712,715**	51,079,088	**40,954,235**	47,950,427
Total liabilities	**47,034,096**	56,578,469	**43,778,451**	53,054,173
Rights of indemnities for liabilities incurred by the economic entity and parent entity not recorded in the financial statements were:	**47,034,096**	56,578,469	**43,778,451**	53,054,173

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

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

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

Note 23 - Cash flow information

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Cash on hand	**300**	300	**300**	300
Cash at bank	**16,534**	21,423	**115**	1,672
Deposits at call	**1,462,400**	1,803,023	**372,816**	1,014,070
	1,479,234	1,824,746	**373,231**	1,016,042

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

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Net profit from ordinary activities after income tax expense	**1,362,612**	784,419	**1,075,024**	702,186
Non-cash flows in operating profit				
Depreciation	**143,407**	93,071	**143,407**	93,071
Provisions	**65,288**	168,521	**65,288**	168,521
(Profit) loss on sale of property, plant & equipment	**2,152**	2,595	**2,152**	2,595
(Profit) loss on sale of investment	**(1,867)**	-	**(1,867)**	-
Share options expensed	**59,961**	26,481	**59,961**	26,481
Staff bonus paid in shares	**35,392**	29,160	**35,392**	29,160
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**(225,499)**	(206,133)	**(219,782)**	(212,997)
(Increase) decrease in prepayments & other assets	**18,136**	(23,571)	**17,161**	(14,200)
(Increase) decrease in deferred tax assets	**(95,653)**	(50,556)	**(89,803)**	(50,556)
Increase (decrease) in trade & other payables	**347,135**	117,353	**370,493**	147,706
Increase (decrease) in current tax liability	**46,393**	151,566	**2,732**	151,566
Increase (decrease) in deferred tax liability	**30,896**	-	**30,896**	-
Net cash provided by (used in) operating activities	**1,788,353**	1,092,906	**1,491,054**	1,043,533

(c) Non-cash financing and investing activities

Shares in Australian Ethical Investment Limited, to the value of $35,392 (2005: $29,160) were issued in lieu of staff bonus.

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

Note 24 – Related party transactions

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

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

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

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

Australian Ethical Superannuation Pty Ltd

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

	Economic Entity		**Parent Entity**	
	2006	2005	**2006**	2005
	$	$	**$**	$
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**2,163,664**	1,676,983
(ii) Transactions between Australian Ethical Investment Limited and its wholly owned entity under the tax consolidation and related tax sharing agreement referred to in note 1(b).	**-**	-	**232,453**	109,278
(iii) Transactions whereby Australian Ethical Investment Limited collects management fee income on behalf of wholly owned entity and on-pays this management fee income to the wholly owned entity on a monthly basis.	**-**	-	**3,285,781**	2,442,457
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in note 4.	**-**	-	**254,660**	172,427
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity:				
Management services	**-**	-	**34,568**	30,922
Taxation	**-**	-	**124,122**	80,462
Amounts payable to wholly owned entity:				
Management fee income	**-**	-	**307,391**	233,991

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

Note 24 – 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:

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

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

	Economic Entity		Parent Entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Note 24 – Related party transactions - continued				
b) Outstanding balances at balance date:				
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
- Australian Ethical Balanced Trust	**334,290**	260,907	**334,290**	260,907
- Australian Ethical Equities Trust	**244,126**	208,875	**244,126**	208,875
- Australian Ethical Income Trust	**24,435**	20,798	**24,435**	20,798
- Australian Ethical Large Companies Shares Trust	**184,589**	126,837	**184,589**	126,837
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**395,582**	-	**395,582**	-
Distribution receivable from AEBT	**32,914**	-	**32,914**	-
Australian Ethical Superannuation Fund				
a) Transactions between the economic entity and the Australian Ethical Superannuation Fund during the financial year consisted of:				
(i) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Superannuation Fund related to the rebate of investment services.	**31,651**	17,254	**-**	-
Outstanding balances at balance date:				
Amounts payable to the Australian Ethical Superannuation Fund:				
Rebate of investment services fee	**6,119**	2,896	**-**	-

Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

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

Note 25 - Key management personnel compensation

a) Key management personnel

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

Parent entity directors

Name	Position	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

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

Other key management personnel

Name	Position	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	

b) Key management personnel compensation

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

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

c) Equity instrument disclosures relating to key management personnel

Option Holdings

Number of options held by key management personnel.

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

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

Note 25 - Key management personnel compensation - continued

Shareholdings
Number of Shares held by key management personnel.

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

(1) The amount paid for shares issued on exercise of options is $18.26 in all cases.
(2) Net change other refers to shares purchased or sold during the financial year.
(3) Shares issued are fully paid
(4) Balance represents shareholdings by key management personnel including their related parties as required by AASB 124: Related Party Disclosures.

Note 26 - Share based payments
The following share-based payment arrangements existed at 30 June 2006:

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

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

On 21 September 2005, 43,664 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of $24.82 each and a 3 month window in which to be exercised, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

On 21 September 2005, 1,563 ordinary shares were issued under the employee share ownership plan . The shares carry full dividend and voting rights and are not transferable for a period of 3 years, or until an employee leaves the company's employment whichever first occurs (In the comparative year 1,971 ordinary shares, with the same terms, were granted on 23 September 2004).

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

Note 26 - Share based payments - continued

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

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

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

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

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

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

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

Note 27 - Financial instruments

(a) Financial risk management

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

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

(b) Interest rate risk

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

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

Note 27 - Financial instruments - continued

(b) Interest rate risk - continued

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

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

(c) Credit Risk

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

(d) Net Fair Values

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

Note 28 - Change in accounting policy

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

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

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

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

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

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

Note 28 - Change in accounting policy - continued

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

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date of the Company
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-06	1-Jul-06
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-06	1-Jul-06
	AASB 124: Related Party Disclosures	No change, no impact	1-Jan-06	1-Jul-06
2005-10	AASB 139: Financial Instruments: Recognition and Management	No change, no impact	1-Jan-07	1-Jul-07
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-07	1-Jul-07
	AASB 114: Segment Reporting	No change, no impact	1-Jan-07	1-Jul-07
	AASB 117: Leases	No change, no impact	1-Jan-07	1-Jul-07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1-Jan-07	1-Jul-07
	AASB 133: Earnings per Share	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-07	1-Jul-07
	AASB 4: Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1023: General Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1038: Life Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
New Standard	AASB 7: Financial Instruments: Disclosure	No affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments.	1-Jan-07	1-Jul-07

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

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

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 16 to 44 and the additional disclosures included in the directors' report designated as audited are in accordance with the Corporations Act 2001:

(a) comply with accounting standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the financial year ended on that date of the company and economic entity;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:

(a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

(b) the financial statements and notes for the financial year comply with the Accounting Standards; and

(c) the financial statements and notes for the financial year give a true and fair view.

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

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

George Pooley
Director

Dated this 8 September 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Scope

We have audited the financial report of Australian Ethical Investment Limited and controlled entities for the financial year ended 30 June, 2006 as set out on pages 16 to 45. As permitted by the Corporations Regulations 2001 the Company has disclosed information about the remuneration of Directors and Executives ("remuneration disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" contained in pages 6 to 11 of the Directors' Report, and not in the financial report.

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

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

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

Audit Opinion

In our opinion:

1. the financial report of Australian Ethical Investment Limited is in accordance with:

   (a) the Corporations Act 2001, including:

      (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June, 2006 and of their performance for the year ended on that date; and

      (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

   (b) other mandatory professional reporting requirements in Australia; and

2. The Remuneration disclosures that are contained on pages 6 to 11 of the Directors' Report comply with Accounting Standard AASB 124.

Thomas Davis & Co

THOMAS DAVIS & CO.

P.L. Whiteman

P.L. WHITEMAN PARTNER

Chartered Accountants

SYDNEY,

8 September, 2006

Liability limited by a scheme approved under Professional Standards Legislation

Attachment 2

AUSTRALIAN ETHICAL INVESTMENT LTD

EMPLOYEE SHARE OWNERSHIP PLAN (‘ESOP’)

OPTIONS TERMS AND CONDITIONS

- The scheme will be open to non-probationary staff and, at the discretion of the Board, executive directors.
- The ESOP will offer options totalling 5% of AEI’s issued share capital each year.
- Options will be offered for nil consideration.
- The number of options offered to eligible staff will be determined on the basis of each staff member’s remuneration. A staff member will be invited to take up those number of options out of the total pool of options offered that is proportional to the amount that their remuneration within the relevant period bears to the total remuneration paid by AEI in the relevant period. Individual staff members will be advised of their specific entitlement in the application material that accompanies this offer information statement.
- The exercise price of the options will be the current market value of the underlying shares, as determined by the Board for the ESOP scheme, plus 10%. The exercise price for options offered under this offer information statement is set out in section 1.1.
- The options will not be exercisable for three years from their date of issue.
- Once an employee is entitled to exercise their options, they must do so within three months of becoming so eligible otherwise the options will lapse.
- Options issued under these arrangements lapse if an option holder is no longer an employee of AEI for any reason. The Board may, however, in its absolute discretion, allow a previous employee to retain their options under the scheme where the Board considers that to do otherwise would be substantially unfair to the employee, given the circumstances that surround their cessation of employment.
- Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.
- Shares acquired upon the exercise of the options will be ordinary shares, without any further restrictions or conditions

In addition to the above terms, where AEI remains on the official list of the Australian Stock Exchange (‘ASX”), the options shall have following additional terms:

- If at any time AEI undergoes a reorganisation of capital, then notwithstanding anything contained in these terms, the terms of the options and the rights of the option holder will be changed in a manner fair and reasonable to the parties and to the extent necessary to comply with the ASX Listing Rules in force at the time of that reorganisation.
- No option shall confer on its holder the right to participate in a new issue of securities made by AEI.
- If AEI makes a bonus issue of ordinary shares to holders of ordinary shares (other than an issue in lieu or satisfaction of dividends or by way of dividend reinvestment) the number of ordinary shares over which the option is exerciseable may be increased by the number of ordinary shares which the option holder would have received if the option had been exercised before the record date for the bonus issue.
- If there is a pro rata issue (except a bonus issue) to the holders of ordinary shares, the exercise price of an option may be reduced according to the formula set out in ASX Listing Rule 6.22.2.