ASX Announcement

ASX Code: AEF
Date: 27 October 2008

2008 Annual Report

Please find attached a copy of Australian Ethical's 2008 Annual Report to shareholders.

/end.

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

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Website www.austethical.com.au **Post** GPO Box 2435 Canberra ACT 2601
Australian Ethical Investment Ltd **ABN** 47 003 188 930 **AFSL** 229949

australian**ethical**

ANNUAL REPORT TO SHAREHOLDERS

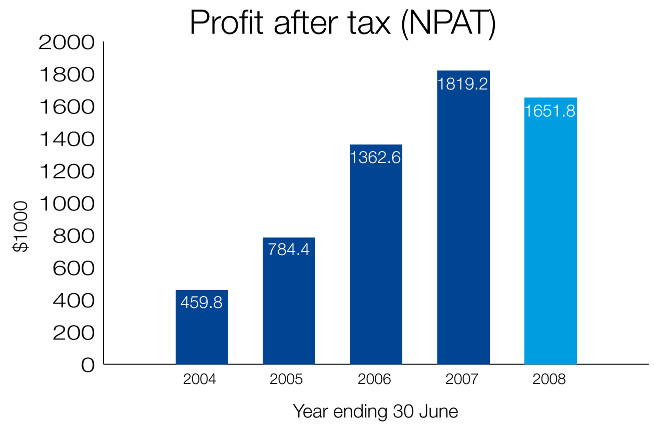
Year ended 30 June 2008

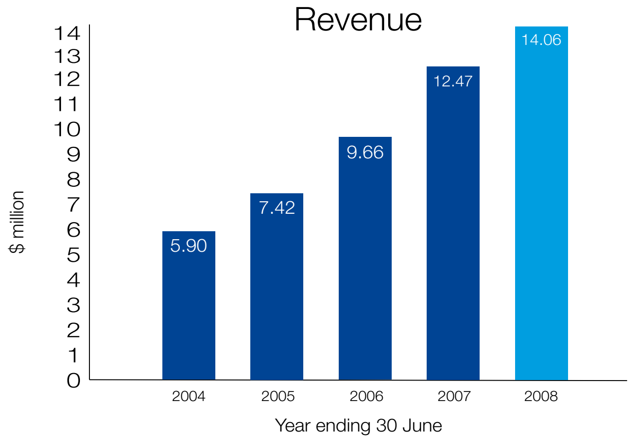
1800 021 227 • www.austethical.com.au

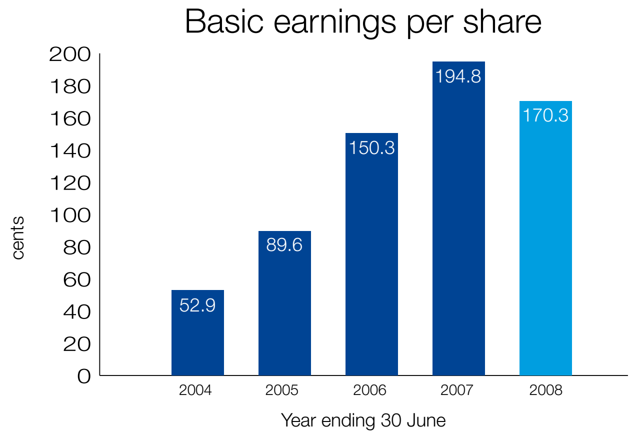
australian**ethical**®
investment + superannuation

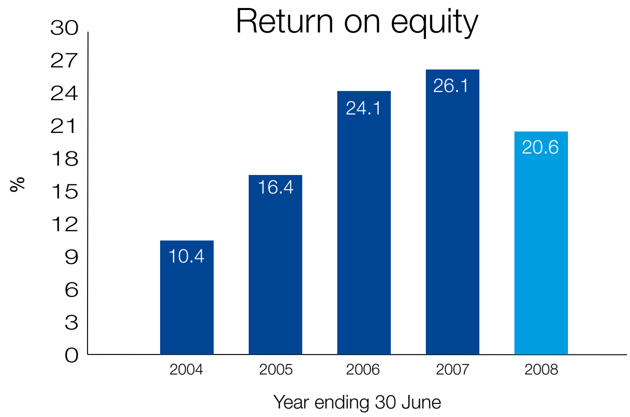
Financial summary to 30 June 2008

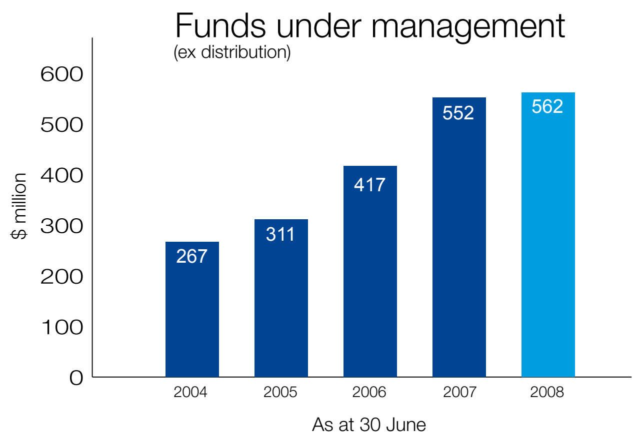
as at	30 June 2008	30 June 2007	30 June 2006	30 June 2005
Current assets ($'000)	6 362	5 174	5 176	5 833
Non-current assets ($'000)	11 152	4 879	3 103	701
Current liabilities ($'000)	2 658	2 293	1 928	1 456
Non-current liabilities ($'000)	113	76	77	31
Net assets ($'000)	8 381	7 684	6 274	5 047

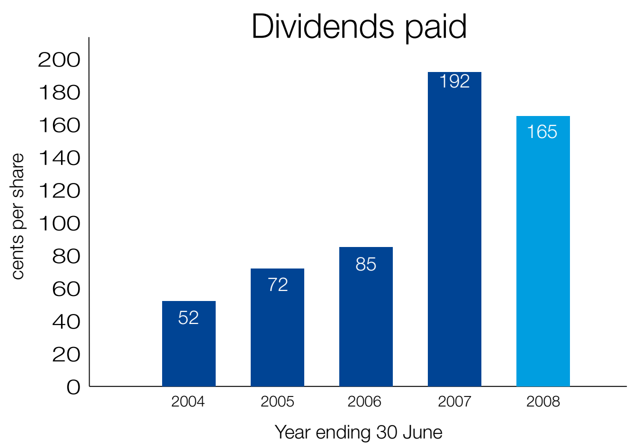












2005 figures in the above tables and graphs have been adjusted where necessary as for first time adoption of Australian equivalents to International Financial Reporting Standards (AIFRS).

Contents

Charter

The Company will order its affairs so as to provide for and to support:

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

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

c. the development of locally based ventures;

d. the development of appropriate technological systems;

e. the amelioration of wasteful or polluting practices;

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

g. the preservation of endangered eco-systems;

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

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

j. the efficient use of human waste;

k. the alleviation of poverty in all its forms;

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

The Company will also order its affairs so as to avoid activity which is considered to unnecessarily:

i. pollute land, air or waters;

ii. destroy or waste non-recurring resources;

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

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

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

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

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

viii. entice people into financial over-commitment;

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

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

Chair's report

A sound year during troubled times

The board is pleased to report that Australian Ethical Investment Ltd has had another sound year in terms of profit and return on equity, with a dividend declaration of $1.65 per share and a return on equity of 20.6%. While both these figures are somewhat lower than our 2007 record returns, they are very good in light of the market turbulence experienced over the past six months. Our balance sheet remains strong with the ability to finance our strategic initiatives discussed below.

With market volatility at record levels, it is worthwhile to review the fundamental growth prospects of our industry. The board is confident that our growth prospects remain strong, despite the market downturn. Our trusts have held up well relative to the market through the downturn. Our Equity Trust and Large Companies Share Trust in particular have outperformed their respective benchmarks strongly during the last few rocky months.

While the overall ethical market in Australia is still quite small - about $17 billion - it is growing very fast. Investments that systematically take environmental, social and governance issues into account outgrew mainstream investing by more than double in the year to June 2007. They grew by 43%, from $12 billion to $17 billion, compared to 20% growth in the managed investments industry overall.

Within this high growth stream, Australian Ethical has a brand which is true to form, strong, and the envy of many others in the area. However, our brand recognition lags behind where it could be, partly because we have not had the capacity for large scale marketing expenditure and partly because we have focused on deep green niche target markets. We are currently in the middle of a two year project to address this, including:

- the development of marketing messages that are tangible and more accessible than the principles of the Charter
- close work with asset consultants and rating agencies to improve their understanding of our products.

We are confident that this will bear fruit in the next two years.

Our retail superannuation business has steadily grown as a percentage of our total business over the last five years, and now represents well over 50% of our funds under management. This business is much less sensitive to market fluctuations than our managed investments business and we are confident that this part of our business will continue to grow strongly. The board is mindful of recent statements by the government regarding the high cost of retail superannuation funds and has a strategy in place to minimise the impact of any government intervention in this area.

We are pleased to advise shareholders that our search for high quality non-executive directors has borne fruit this year, with the appointment of Andre Morony and Les Coleman to the board. Non-executive directors, Justine Hickey and Andre Morony bring to our board wide external funds management experience, while Les Coleman has deep risk management expertise.

Caroline Le Couteur has indicated that she will not be standing for re-election to the board this year meaning that the board will shortly comprise a majority of non-executive directors. I would personally like to thank Caroline for her significant contribution to the board of Australian Ethical over the last 17 years and for her commitment over that time to our Charter.

We continue our 2007 strategy of broadening our marketing reach beyond our traditional support base. A 2008 strategy meeting also identified the need for a review of our internal IT systems, and this is now underway to ensure our systems are robust to deal with future growth.

I have enjoyed my first year as chair and can personally attest to the qualities of Anne O'Donnell as CEO and managing director of Australian Ethical. While many boards are changing CEO during these troubled times, I have full confidence in Anne to deliver shareholder returns in a sustainable way. Anne has recruited a strong team around her, including Martin Halloran, our new chief investment officer and Paul Harding-Davis, our new head of distribution. I believe this team will take the best of Australian Ethical, which is our people, our ethical investment processes and our Charter, and use them in new and exciting ways which will grow our company into the future.

Naomi Edwards
Chair

Grants to community organisations

$60 000

Bluegreen Films - 'Sustainability & Co' a three part documentary series on corporate sustainability and governance will be produced by Bluegreen Films.

$50 000

MSAP - University of NSW Medical Students' Aid Project will stock a community store with school and household essentials, purchase a motorised canoe, fuel and one year's salary for a canoe pilot to transport the products to remote riverside markets.

$7945

Barefoot Economy

Engineers Without Borders - Tonle Sap Lake Project

$5000

Australian Marine Conservation Society

WaterAid Australia

ACT Eden Monaro Cancer Support Group

New Internationalist Publications

Edmund Rice Centre for Justice and Community Education

Pedal Power ACT

$3000

Fair Trade Association of Australia and New Zealand

Animals Asia Foundation (Australia)

Child Wise

Rainforest Rescue

Royal Institute for Deaf and Blind Children

Sustainable Maleny

The Qld. Society for Crippled Children

Asian Women at Work

Bush Heritage Australia

Clean Ocean Foundation

Romero Centre

Trees For Life

Broken Hill & District Hearing Resource Centre

Kuusa Services Centre

The Australian Conservation Foundation

A full description of all the grant recipients is available on the website www.austethical.com.au/cg

Chief Executive's report

The financial year ended 30 June 2008 reflects a year of two halves. The Australian Ethical Investment group performed strongly in the first half of the year however the full year result reflects the volatility and uncertainly that has been experienced in global financial markets. The Australian Ethical trusts had no direct exposure to any 'sub-prime' investments, however we have experienced the impact of falling asset prices and depressed investor sentiment. The company recorded a consolidated net profit of $1.65 million. This trading result represents a decrease on the previous financial year's excellent result of $1.82m. Whilst it is disappointing to record a decrease in year on year profit, given the difficult circumstances experienced in the financial markets I consider this a good result.

The company achieved strong growth in funds under management during the first half of the financial year with funds peaking at $645m. This growth and the revenue generated cushioned the impact of downward market movements which occurred in the second half of the financial year. As at 30 June 2008, funds under management totalled $562m (ex distribution). This compares with funds under management of $552m (ex distribution) as at 30 June 2007.

The relative flatness in funds under management, combined with some increased costs and additional expenditure on business development, resulted in the cost to income ratio increasing from 76% in 2007 to 80%. This increase is in contrast with the steadily declining trend experienced in the past four financial years. Return on equity was also impacted falling from 26.1% to 20.6%.

The Australian Ethical Trusts performed credibly in a year of poorly performing financial markets with the returns for three of our five trusts exceeding their benchmarks. This was a good result and important as the success and growth of our business is dependant on the performance of the Australian Ethical trusts. We remain committed to investing in quality companies taking into account ethical and financial strength and ensuring our returns are commensurate with the risk profile of an individual trust.

The Australian Ethical Retail Superannuation Fund has continued to experience steady inflow of funds in line with expectations. On 1 April 2008 we transited the administration of our superannuation fund to a new service provider. This process has not been without its difficulties and we have incurred one-off costs as part of this process. Despite these transitional problems it is apparent the move will result in a more robust administration of the superannuation fund. In the past the fee structure of the administrator was linked to funds

Chief Executive's report

under management. The new structure is not linked to funds under management and we estimate this new arrangement will result in savings greater than half a million dollars in the current financial year.

When considering the level of dividend the directors are mindful of the significant franking credits held by the company and the need to ensure we have sufficient capital to provide prudent reinvestment into the business. The directors have decided that shareholders will be paid a final dividend (fully franked) of $1.20 per ordinary share. Added to the interim dividend of 0.45 cents per share, the total dividend for the 2007–08 financial year will be $1.65 per share.

The Australian Ethical Retail Superannuation Fund was awarded the inaugural Infinity Award at the Conference of Major Super Funds (CMSF) in March 2008. The award signifies the Fund as Australia's most environmentally and socially conscious fund and a leader in sustainable investment and sustainable business practices.

Trevor Pearcey House continues to meet high standards of energy efficiency and to provide our employees with a comfortable and productive working environment. Interest in the building continues to be strong and this has been very useful in raising the profile of Australian Ethical generally. In July this year, our refurbishment won the Banksia Environmental Foundation award for the Built Environment. The Prime Minister is the Chief Patron of the awards and the win comes on the 20 year anniversary of the awards.

Outlook

A significant portion of investment in the Australian Ethical trusts comes from retail clients. This money has traditionally been 'sticky' in times of market downturn and historically the trusts have not experienced significant outflows. However, Australian Ethical is not immune to market volatility and negative investor sentiment. It is highly likely we will see the impact of these factors in our funds under management and revenue numbers during the 2008–09 financial year. A decline in revenue has the potential to impact company profitability.

Offsetting potential declines in revenue are savings which will flow from changes we have made to our custodian and superannuation administration providers. The company will continue to focus on building and servicing its clients and streamlining its processes, ensuring scalability and efficiency of operations. During challenging financial periods it is tempting to take the easy option and cut costs dramatically and potentially endanger future growth opportunities. Australian Ethical is fortunate in that we have a unique product offering and a very loyal customer base. Whilst we are mindful of the need to monitor our costs closely, we do not intend to undertake any radical changes to our business model at this time.

As previously flagged we are keen to attract increased non-retail investment. We continue to implement strategies which will allow us to tap into the growing commercial interest in sustainable investment. We also believe the rise in shareholder activism offers some exciting opportunities which complement our expertise and have the potential to expand our customer base. We are currently exploring the possibility of bringing to market a product which will tap into this trend.

All the staff at Australian Ethical have been working hard in what has been a very difficult financial market. I would like to thank them for their diligence and commitment. I would also like to thank you, our shareholders, for your ongoing support and I look forward to seeing you at the annual general meeting on 27 November.

Anne O'Donnell
Chief executive officer and managing director

Sustainability Report

Australian Ethical remains committed to conducting our own operations in accordance with the Australian Ethical Charter. Below are some of this year's sustainability highlights. Further information on Australian Ethical's social, environmental and economic performance will be provided in the company's 2008 sustainability report.

Awards

Australian Ethical won a number of sustainability awards this year.

Keep Australia Beautiful 2007 ACT Sustainable Cities Awards - August 2007

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

Resource Recovery Award - October 2007

Australian Ethical Investment won the Resource Recovery Award as part of the national Australian Sustainable Cities Awards.

Six-star Green Star Certified Rating by the Green Building Council of Australia - October 2007

Trevor Pearcey House was awarded the 'world leadership' rating of 6 stars by the Green Building Council of Australia – the third building in Australia to receive such a rating. The Green Star rating system, an initiative of the Green Building Council of Australia, evaluates the environmental design and performance of Australian buildings based on a number of criteria, including energy and water efficiency, quality of indoor environments and resource conservation.

First runner up for Best SME Report at the CR Reporting Awards 2007 - March, 2008

Australian Ethical Investment's 2006 Sustainability Report was awarded first runner up for Best SME Report at the CR Reporting Awards 2007. Global and independent, the CR Reporting Awards identify and acknowledge the best in corporate non-financial reporting. The CR Reporting Awards are managed by CorporateRegister.com - the world's largest online directory of corporate responsibility and sustainability reports.

Infinity Award presented to the Australian Ethical Retail Superannuation Fund for the most environmentally and socially conscious fund – March 2008

Banksia Built Environment Award received for Trevor Pearcey House from the Banksia Environmental Foundation Awards – July 2008

Trevor Pearcey House won the Banksia Environmental Foundation award for the Built Environment. The Banksia Environmental national Awards, now in its 20th year, are regarded as the most prestigious environmental awards in Australia. The Prime minister, Kevin Rudd, is the Chief Patron of the awards. Deputy Prime Minister, Julia Gillard and the Minister for the Environment, Heritage and the Arts, Peter Garret attended the awards evening.

Trevor Pearcey House – First full financial year of performance data!

The 2007–08 year was Australian Ethical's first full financial year in our refurbished business premises, Block E of Trevor Pearcey House. So how did it perform?

Energy use

During 2007–08 (our first full year in Trevor Pearcey House), Australian Ethical used 346 247 MJ or 380 MJ/sqm of energy (69 150 kWh of electricity and 97 306 MJ of gas). On a per square metre basis, this represents a 48 per cent reduction on our 2006–07 energy use (8 months in the Downer offices and 4 months in Trevor Pearcey House) and a 63 per cent reduction on our 2005–06 energy use (our last full year at the Downer offices).

Electricity use per square metre fell by 29 per cent, from 107 kWh/sqm in 2006–07 to 76 kWh/sqm in 2007–08. When compared to 2005–06, our last full year in the Downer offices, the decrease was 39 per cent. Gas use per square metre fell from 339 MJ/sqm in 2006–07 to 107 MJ/sqm in 2007–08, representing a decrease of 68 per cent. Compared to 2005–06, the decrease was 82 per cent.

To neutralise the greenhouse gas impact of our energy use, Australian Ethical purchased 100 per cent accredited Green Power from ActewAGL and purchased carbon credits from Climate Friendly https://climatefriendly.com/. If we had not done this, greenhouse gas emissions from energy use at Trevor Pearcey House during 2007–08 would have totalled 79.65 tonnes CO2-e or 0.087 tonnes CO2-e/sqm. This is still 72 per cent lower than the greenhouse gas emissions from an average Canberra office building and highlights the environmental benefits that can be achieved by refurbishing and fitting out an existing office block according to green building design principles. The refurbishment was undertaken using a conventional budget and used accepted, conventional and low-technology design principals. Further information on the Trevor Pearcey House refurbishment can be found on Australian Ethical's website.

Water use

During 2007–08, Australian Ethical used 99 kL or 0.11kL/sqm of mains water. This is 85 per cent less than the median Canberra office water consumption benchmark of 0.72 kL/sqm. On a per square metre basis, water use in 2007–08 was 66 per cent lower than in 2006–07 and 73 per cent lower than in 2005–06.

This is an exceptional result and highlights the benefits of incorporating water efficient features in the refurbishment of Trevor Pearcey House. These features include:

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

Climate change and the associated reduction in rainfall in south eastern Australia has resulted in significantly lower runoff into our streams and rivers. This, combined with the over-allocation and inefficient use of water has placed immense pressure on our river systems and water supplies. The installation of water efficient features in all existing and new commercial buildings would result in significant savings of our most precious resource.

Energy use for the financial years 2005–06, 2006–07 and 2007–08*

Energy Use	Financial year		
	2005–06	2006–07	2007–08
Energy MJ**	669 113	505 271	346,247
Energy MJ/sqm	1 037	725	380
Electricity kWh	79 644	76 248	69 150
Electricity kWh/sqm	124	107	76
Gas MJ	382 393	230 779	97 306
Gas MJ/sqm	593	339	107
GHG emissions (tonnes CO2-e)	107.86	93.46	79.65
GHG emissions (tonnes CO2-e/sqm)	0.167	0.133	0.087

* 2007–08 unaudited results. ** Sum of total gas and electricity usage, where 1 kWh = 3.6 MJ.

Community Grants Scheme

As prescribed in Australian Ethical's constitution, 10 per cent of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. In 2008 Australian Ethical paid $200,891 to 25 organisations involved in a wide range of environmental, charitable and community activities.

The grants consist of two components – two major project grants and a number of smaller grants. The large major project grants are typically made to one social and one conservation project that have a lasting tangible impact.

The major project grants for 2008 were awarded to Bluegreen Films and Medical Students Aid Project.

Bluegreen Films is ….

Bluegreen Films' grant will enable production of a half hour television program focussing on corporate sustainability and governance issues. The program will examine examples of corporate behaviour where business as usual may not be the way to go.

Medical Students' Aid Project (MSAP) is an aid organisation based at University of New South Wales which aims to provide targeted assistance to communities and hospitals in the developing world. MSAP will collaborate with 'HandUp Congo' www.handupcongo.org to support the Congolese women's NGO 'Fondation Lucie Otaenga' in Lotumbe, a remote regional health hub in the Democratic Republic of Congo's Equatorial Province. MASP's grant will be used to stock a community store with school and household essentials, purchase a motorised canoe, petrol and one year's salary for a canoe pilot to allow Fondation Lucie Otaenga to sell these products at riverside markets and at the same time help medical workers access isolated communities. Profits will be used to purchase and distribute nets to combat malaria, the leading cause of infant mortality in the Democratic Republic of Congo.

Organisations awarded grants under Australian Ethical's community grants program 2008 are listed right.

Further information on our Community Grants scheme, including application guidelines and selection criteria, can be found on the company website.

Organisation	Amount
Bluegreen Films	$60,000
Medical Students Aid Project	$50,000
Barefoot Economy Ltd	$7,900
Engineers Without Borders - Tonle Sap Lake Project	$7,900
Australian Marine Conservation Society	$5,000
WaterAid Australia	$5,000
ACT Eden Monaro Cancer Support Group Inc	$5,000
New Internationalist Publications Pty Ltd	$5,000
Edmund Rice Centre for Justice and Community Education	$5,000
Pedal Power ACT	$5,000
Fair Trade Association of Australia and New Zealand Inc.	$3,000
Animals Asia Foundation (Australia) Limited	$3,000
Child Wise	$3,000
Rainforest Rescue	$3,000
Royal Institute for Deaf and Blind Children	$3,000
Sustainable Maleny	$3,000
The Qld. Society for Crippled Children (known as) MontroseAccess	$3,000
Asian Women at Work Inc	$3,000
Bush Heritage Australia	$3,000
Clean Ocean Foundation	$3,000
Romero Centre	$3,000
Trees For Life Incorporated	$3,000
Broken Hill & District Hearing Resource Centre Inc	$3,000
Kuusa Services Centre	$3,000
The Australian Conservation Foundation Inc.	$3,000
Total	$200,891

Corporate governance statement 2008

This statement discloses the extent to which Australian Ethical Investment Ltd has followed the best practice recommendations set down by the ASX Corporate Governance Council during the reporting period. This statement has been prepared with reference to the first edition of the Council's Principles of Good Corporate Governance and Best Practice Recommendations. Australian Ethical will report against the second edition of the Principles in its 2009 annual report.

The Council's Principles of Good Corporate Governance and Best Practice Recommendations provide a framework for good governance set out in ten core principles and 28 specific recommendations.

While the ASX Listing Rules only require exception reporting against the specific recommendations, Australian Ethical has provided information on its corporate governance practices against all recommendations.

Lay solid foundations for management and oversight

Australian Ethical has formalised the functions reserved to the board and those delegated to management. Responsibility for any function not delegated to management remains with the board.

The primary responsibilities of the board include:

- appointment and appraisal of the performance of the CEO;
- the approval of annual financial statements;
- the establishment of the goals of the company and strategic plans to achieve those goals;
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a regular basis; and
- risk management, including ensuring that the company has implemented adequate systems of internal controls, together with appropriate monitoring of compliance activities.

Structure the board to add value

Independent directors

The time in office, skills, experience and expertise of each director in office as at the date of this report is included in the directors' report.

The company regards an independent director as a director who is not a member of management (i.e. a non-executive director) and who:

1. is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
2. has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
3. within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
4. is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. has no material contractual relationship with the company or another group member other than as a director of the company;
6. has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company;
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Unless there are specific qualitative factors relevant to the relationship, the board is generally of the view that a quantitative materiality threshold arises at 10% of the relevant amount – considered from both the company's perspective and that of the other party.

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

Pauline Vamos (independent) resigned from the board effective 31 August 2007.

Anne O'Donnell (executive director) was appointed by the board on 29 May 2008.

On 1July 2008 the Board appointed Dr Les Coleman and André Morony to the board. Both Dr Coleman and Mr Morony are non-executive directors. Mr Morony is an independent director. Dr Coleman serves on the Investment Policy Committee of United Funds Management Ltd, a wholly owned subsidiary of SMF Funds Management Limited, which is a substantial shareholder. As Dr Coleman is associated with a substantial shareholder (albeit in a limited way), the board does not classify Dr Coleman as an independent director.

Caroline Le Couteur has advised the board that she will not stand for re-election at the forthcoming Annual General Meeting.

It is therefore anticipated that at the conclusion of the upcoming Annual General Meeting, the board will consist of four non-executive directors (three of whom will be regarded as independent) and three executive directors.

The board's view is that this composition represents a good long term balance between executive and non-executive / independent directors, with the right mix of independence, competence and alignment with the Australian Ethical Charter.

The board carries out its responsibilities according to its Constitution, regulatory requirements, and an overall mandate, including the following:

- the board must comprise at least three and not more then ten directors;
- the board is bound by the Australian Ethical Charter that is set out in the Australian Ethical Constitution. The Charter sets out 23 ethical principles to be applied to the operations and activities of the company;
- each director is committed to the Australian Ethical Code of Conduct that governs the conduct of employees and directors. The code is consistent with the recommendations that form part of the Corporate Governance Council's Principles 3 and 10;
- all available information on items to be discussed at a board meeting is provided to each director prior to that meeting;
- the board has adopted a policy for the management of conflicts of interest;
- with the prior approval of the chair, each director has the right to seek independent legal and other professional advice at the company's expense on any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Chair of the board

The company's chair was an independent director throughout the reporting period.

Nomination committee

During the period the company had no nomination committee. The board does not intend to establish such a committee because such a move would be inefficient, given the company's size. The functions normally performed by a nomination committee will be performed by the board as a whole, will be delegated to the chair or will be performed by one or more delegated directors. During the reporting period, the board delegated responsibility to Justine Hickey (independent) and Howard Pender (executive) to undertake a search for further directors, which lead to the appointments of Dr Coleman and Mr Morony.

Promote ethical and responsible decision making

Code of conduct

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

Share trading

The company's code of conduct covers share trading. During the reporting period, the code of conduct required that, as a general rule, 'staff and directors should not buy or sell AEI shares between the close of the financial year or half-year and the publication of the company's results'.

In accordance with the Corporations Act 2001 and the ASX Listing Rules, directors must advise the ASX of any transactions conducted by them in securities of the company which they own or in which they have a relevant interest.

Directors, employees and their associates must not engage in insider trading, nor the disclosing of inside information to third parties. The company periodically conducts seminars about its share trading policy and educates staff about the offence of insider trading.

Safeguard integrity in financial reporting

CEO and CFO sign-off of financial reports

The company requires the chief executive officer and the chief financial officer to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operating results and are in accordance with relevant accounting standards.

Audit committee

Throughout the period, the board had an audit committee consisting of three members. Up to 31 August 2007, the audit committee consisted of independent directors and the company secretary. From 31 August, the audit committee consisted of one independent director (Ms Naomi Edwards), one external member (Ms Ruth Medd) and the company secretary. Ms Medd is chair of the company's subsidiary, Australian Ethical Superannuation Pty Ltd.

The qualifications of those appointed to the audit committee are provided in the directors' report, as are the number of meetings of the committee and attendances at those meetings.

The audit committee does not consist of only non-executive directors (it has one external member (Ms Medd) and the company secretary is also a member). Ms Medd chairs the committee.

The audit committee provides a forum for effective communication between the board and the external auditors. The role of the committee is to advise the board on the maintenance of an appropriate framework of financial internal control and appropriate discharge of 'trading company' fiduciary obligations for the company and its subsidiary, Australian Ethical Superannuation Pty Ltd.

A charter for the audit committee appears on the company's website.

The board is of the view that notwithstanding that the audit committee does not comply with all the Corporate Governance recommendations on membership, it is nonetheless able to perform its functions with independence and diligence.

In particular:

- the committee includes the company secretary who is responsible to the chair of the board and the board generally on governance matters;
- at a number of meetings the committee speaks directly to the external auditor in the absence of executive management.

The audit committee considers the performance and independence of the external auditor over the course of a reporting period. In selecting an external auditor the board seeks competence, industry experience, integrity and independence. In normal circumstances, appointment of the external auditor will typically continue for a significant number of years. Rotation of external audit engagement partners will occur in accordance with the rotation requirements of the Corporations Act 2001.

Make timely and balanced disclosure
The company has written policies and procedures designed to ensure compliance with the ASX Listing Rule disclosure requirements. The disclosure policy appears on the company's website.

Respect the rights of shareholders

The company maintains a comprehensive and informative 'shareholder centre' on its website which provides shareholders (and others) with up to date information about the corporate activities of the company. The website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings.

Australian Ethical produces a newsletter, Aim High, for trust and superannuation investors, and since listing the company has introduced a shareholder newsletter. It has revised its annual general meeting arrangements to promote participation and dissemination of information and has ensured access to the external auditor at these meetings.

Australian Ethical also produces a sustainability report for shareholders and other stakeholders on the triple bottom line performance of Australian Ethical (available on the company's website). The sustainability report is produced using the Global Reporting Initiative guidelines.

The company complies with the corporate governance guidelines for notices of meeting.

Recognise and manage risk

The board is responsible for the company's system of internal controls. The board monitors the operational and financial aspects of the company's activities and, through the audit committee, the board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

The board monitors that appropriate actions are taken to ensure the company has an appropriate internal control environment in place to manage the key risks identified. Recently the board has delegated to its Compliance and Risk Committee the responsibility:

- to oversee and monitor the implementation of the company's risk management systems;
- to review on a quarterly basis the company's risk registers and recommend to the board any changes to those risk registers.

The company has established an 'AEI Guide for Risk Management' and sectional risk registers that document the major risks facing the company and the way in which these risks are to be managed. The risk registers are updated regularly and the criteria and working standards set out in the guide are periodically reviewed.

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

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

The chief executive officer and risk management officer certify to the board that its internal control and risk management systems are operating efficiently and effectively throughout the group.

Encourage enhanced performance

Board and director evaluation
The directors undertake an annual self-assessment of their collective and individual performance and seek specific feedback from the senior management team. An assessment was undertaken in the relevant period.

A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results collected by the board chair. The board as a whole then considers and discusses the results of the questionnaire at a board meeting. The board chair also talks to each director individually about their performance and generally on the evaluation and comments received from their peers. The results of the questionnaire are examined from both a qualitative and quantitative perspective.

Where discussed at a board meeting, results and any action plans are documented in board minutes.

Key executive evaluation
The performance of executives is evaluated in accordance with the company's annual performance review guidelines. For the chief executive officer, the review is conducted by the board chair. For other executives, the review is undertaken by the chief executive officer.

The process is as follows:

- receive 360° comments from staff (and directors if applicable);
- review comments once received and incorporate into the annual review as considered appropriate. Emphasis is on themes or perceptions rather than specific comments;
- complete a draft of the annual performance review and provide to the executive for discussion;
- discuss the annual performance review with the executive – cover key responsibilities, overall performance, key behaviours, review achievements against previous year's objectives, discuss objectives for the coming year, discuss aspirations and areas for improvement;
- review competencies and qualifications to ensure they remain applicable to the position. If not, a training program must be developed to bring the executive to the appropriate level; and

- investigate what specific training may be suitable and available.

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

Remunerate fairly and responsibly

Remuneration policy
Australian Ethical's remuneration policy is designed to accord with the principles of the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure Australian Ethical does not

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

and to facilitate:

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

During the relevant period Australian Ethical sought to apply remuneration policy for all staff in an equitable fashion.

During the reporting period, remuneration for one senior manager included an 'at risk' component linked to performance criteria. The performance criteria required the manager to achieve business development objectives on: funds under management; engagement with asset consultants, ratings agencies and institutional clients; and development of marketing strategies / collateral. These performance conditions were chosen to align the manager's objectives with those set out in the company's strategic plan. The chief executive officer was responsible for assessing whether the performance conditions were met. The chief executive officer was able to assess both the quantitative and qualitative aspects of the performance criteria.

The company may consider performance based incentive arrangements for other staff in the future.

All permanent staff (including the chief executive officer and executive directors) received a cash salary and participated in the staff bonus and employee share ownership plan. Except for the senior manager described above, cash remuneration was not subject to set performance hurdles.

All permanent staff are eligible to participate in the staff bonus which is determined by the Constitution. Each year the bonus is set with reference to the profit of the company. Each full-time staff member receives the same amount, part-time staff receive a pro-rata amount. The Constitution provides that the bonus can be (and often has been) satisfied by the issue of shares.

Under the employee share ownership plan a pool of options, which would, if exercised, have amounted to 5% of the existing ordinary share capital was issued to staff. All permanent, non probationary staff as at 30 June of the relevant year were eligible to participate in the plan. The exercise price of the options was set at 10% in excess of the market price of the shares. The number of options received by an individual staff member depended on their salary level. The options are not exercisable for a period of three years from their date of grant. In most circumstances, options will lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

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

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

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

Remuneration committee
The board has a remuneration committee. The members of the remuneration committee at the end of the reporting period were Naomi Edwards and Justine Hickey. The charter for the remuneration committee is available on the company's website.

Details of remuneration
Details of remuneration paid to directors and executives during the reporting period is set out in the directors' report. The reporting distinguishes between the structure of non-executive director remuneration and that of executive directors.

Equity-based remuneration
Equity-based remuneration for executive directors has previously been approved by shareholders. The employee share ownership plan was approved by shareholders at the annual general meeting held in November 2005.

Recognise the legitimate interests of stakeholders

The proper purpose of Australian Ethical is to promote ethical/socially responsible investment. By the very nature of Australian Ethical, the board is committed to the highest standards of conduct and ethical practices in guiding the business activities of Australian Ethical and its subsidiary. This includes transparency in the way in which it does business and clarity of communication to its members and other stakeholders. Its code of conduct, as mentioned earlier in this report, expects this of each employee and each director.

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

Directors' report

The directors 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 2008. 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 2008 and to the date of this report are:

Name	Time in Office	
Caroline Le Couteur	17 years	
James Thier	17 years	
Howard Pender	17 years	
Naomi Edwards	3 years	
Pauline Vamos	1 years	Resigned 31 August 2007
Justine Hickey	1 years	
Anne O'Donnell	< 1 years	Appointed 29 May 2008
Dr Les Coleman	< 1 years	Appointed 1 July 2008
André Morony	< 1 years	Appointed 1 July 2008

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

Company Secretaries

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

Name
Philip George

Principal activities

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

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

Operating results

The consolidated entity (Australian Ethical Investment 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 2008 of $1,651,790. This result is a 9% decrease on the result of $1,819,177 for the previous financial year.

Review of operations

The 2008 result reflects the volatility and uncertainly that has been experienced in global financial markets following the "sub-prime' crisis in the USA. Whilst the Australian Ethical trusts had no direct exposure to any of these financial instruments the trusts have experienced the impact of falling asset prices and depressed investor sentiment.

The company experienced strong growth in funds under management during the first half of the financial year with funds under management peaking at $645M. This growth and the revenue generated cushioned the impact of downward market movements and a decline in investor confidence which occurred in the second half of the financial year. As at 30 June 2008, funds under management totalled $562M (ex. distribution). This compares with funds under management of $552M (ex. distribution) as at 30 June 2007. The aggregate distribution amount paid for the current period was $9M, compared to a distribution the previous year of $59M.

The flatness in funds under management, combined with some increased costs and additional expenditure on business development resulted in an increase in the costs to income ratio - increasing from 76% in 2007 to 80%. This increase is in contrast with the steadily declining trend experienced in the past 4 financial years. Return on equity was also impacted falling from 26.1% to 20.6%

The superannuation business (Australian Ethical Superannuation Pty Ltd) again contributed significantly to the group result and superannuation continues to be a growth engine of the business. The 2007/2008 financial year results include one-off costs incurred in transitioning the administration of the superannuation fund to a new administration provider.

As required under the company's constitution, an amount of $200,891 has been provisioned as tithe for this year and will be donated to a number of non-profit organisations for useful charitable, benevolent or conservation purposes.

Except as described under Principal Activities above, during the 2007/2008 financial year the company did not make any significant changes to its core funds management operations.

Mr David Ferris resigned as Chief Investment Officer early in 2008. Mr James Jordan undertook the role until it was filled in August 2008. Mr Paul Harding-Davis was appointed as Head of Distribution in January 2008. The appointment of Mr Harding-Davis supports the company's stated strategy of broadening our reach beyond our direct retail customer base. There were no other significant changes in management or organisational structure.

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

Financial position

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

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

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

Business strategies, future prospects and likely developments

A significant portion of investment in the Australian Ethical trusts comes from retail clients. The company's retail investors have traditionally been "sticky" in times of market downturn and historically the trusts have not experienced significant outflows at these times. However, Australian Ethical is not immune to market volatility and negative investor sentiment. It is highly likely that these factors will impact FUM, revenue and profitability during the 2008/2009 financial year.

Offsetting these impacts are savings which the company expects will flow from recent changes to custodian and superannuation administration providers. The company will continue to focus on building and servicing its clients and streamlining its processes, ensuring scalability and efficiency of operations.

The company reviews its product offerings annually and this analysis forms the basis of decisions regarding product offerings. The company believes that the rise in shareholder activism offers some exciting opportunities to leverage its expertise and to expand its customer base. The company is currently exploring the possibility of bringing to market a product which will take advantage of this trend.

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

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

Events subsequent to balance date

Dr Les Coleman and Mr André Morony were appointed to the Board effective 1 July 2008.

Mr Martin Halloran has been appointed as the company's Chief Investment Officer. He will take up his role in late August 2008.

The directors have declared that a final dividend of $1.20 per ordinary share (fully franked) be paid to shareholders. This is in addition to the interim dividend of 45 cents per ordinary share paid in March 2008. The total dividend for the year will be $1.65 per share.

The Board notes that the declaration and quantum of any future dividend will depend on the company's ongoing performance and capital requirements. In particular, no inference should be drawn about the quantum of any future dividend based on the quantum of 2007-08 dividend, or on the dividend payout ratio for the 2007-08 year.

On 27 August 2008 the board authorised the grant of 49,200 options to staff. The terms and conditions attached to the options are as set under the employee share ownership scheme approved at the 2005 annual general meeting, except that the board has decided to include two additional terms. The additional terms relate to vesting due to a change of control and a first right of refusal to buy-back shares issued upon the exercise of the options where the company has an employee share buy-back in place. As these terms were not included in the scheme approved at the 2005 annual general meeting, the issue of these options will count towards the 15% limit imposed under Listing Rule 7.1 of the Australian Securities Exchange. The board intends to seek member approval under Listing Rule 7.4 for the grant of these options at the 2008 annual general meeting. If approval is obtained, the issue of the options will no longer count towards the 15% limit.

Australian Ethical Superannuation Pty Ltd ('AES') is in dispute with United Funds Management Limited (United), its former fund administrator. AES believes that United has failed to provide the contracted services and that it has valid claims for damages against United. United is seeking payment of monies invoiced to AES for the service in the reporting period (approximately $250,000). Notwithstanding the dispute, and without any prejudice to AES' claims, AES has recognised as expenses the disputed invoices in its 2008 financial statements consistent with a conservative accounting approach. Similarly, a liability for the disputed amount will be included on the AES balance sheet. The approach of AES is reflected in the consolidated financial statements. AES and United continue to discuss the claims and disputed invoices.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Australian Ethical Investment Ltd and its controlled entity, the results of those operations or the state of affairs of Australian Ethical Investment Ltd in financial years subsequent to the financial year ended 30 June 2008, other than as outlined in this report.

Directors' indemnification

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

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

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

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

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

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

Directors' particulars

Qualifications, experience and special responsibilities

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

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

Howard Pender
B.A.(Hons)
Executive Director

Howard received a university medal in economics from the Australian National University. He worked at the Commonwealth Treasury and then as Senior Economist at Bankers Trust in Sydney. From 1992 to 1997, he was a Visiting Fellow in the Centre for International and Public Law at the Australian National University. Howard has been a director of two other ASX listed companies. Howard is a director of Australian Ethical Superannuation Pty Ltd and is a member of the finance and investment committees.

James Thier
B.Sc.(Hons)
Executive Director

James has had academic experience as a researcher and has taught in the faculties of economics, environmental studies and geography at the University of NSW. He has held senior positions in local government and within peak bodies of the credit union movement. James is the company's business development manager. James is also a director of Australian Ethical Superannuation Pty Ltd and is on the investment and compliance committees. In 2007 James, undertook a Churchill Fellowship to examine the mechanisms of shareholder advocacy.

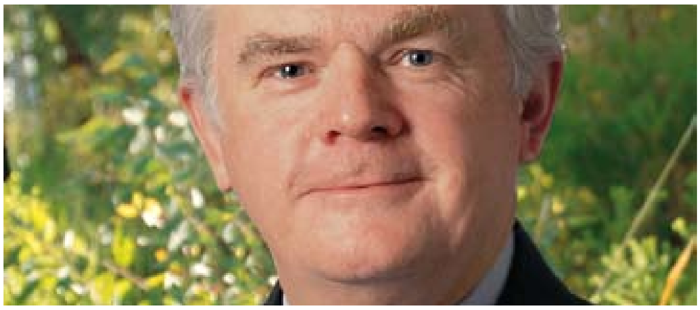
Naomi Edwards
BSc (Hons) FIA FIAA FNZSA
Non-Executive Chair

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

Justine Hickey
BCom GAICD SAFin ASIP(UK)
Non-Executive Director

Justine has over 15 years experience in investment and funds management, as an equities portfolio manager and in senior management. She was Head of Equities at Suncorp Investment Management in Brisbane until 2004 and previously a Portfolio Manager at Flemings Investment Management (now JP Morgan) in the UK. Justine is a director of Hyperion Flagship Investments Ltd and chairs the Youth Enterprise Trust Foundation - which supports disadvantaged youth. She also is a member of the investment committees of Dalton Nicol Reid and the University of Melbourne. Justine was recently appointed a director of the Rio Tinto Staff Fund Pty Ltd . Justine chairs the investment committee and is a member of the finance and remuneration committees.

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

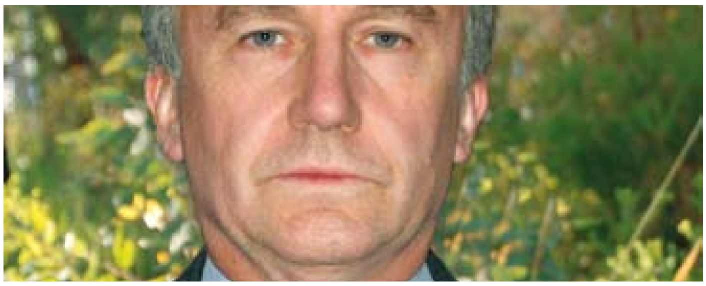


Les has been a trustee of two superannuation funds, a director of ten companies involved in finance, retail and distribution and has over 20 years experience in senior management positions. Since 2004, Les has been a Senior Lecturer at the Finance Department of the University of Melbourne and has published many articles and papers, particularly in the area of risk management. For four years Les was a weekly columnist with The Australian newspaper.

Anne O'Donnell
BA MBA FAICD
Managing Director

Prior to joining Australian Ethical, Anne held a senior management position with the ANZ Bank and has extensive knowledge of the finance industry. Whilst at ANZ, Anne was a staff elected director of the ANZ Staff Superannuation Fund, which managed $1B on behalf of 24,000 members. Anne is the chair of the finance committee, and attends meetings of the company's investment, compliance and risk, and remuneration committees. She is also a director of the Community CPS Australia Credit Union.

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



André started his 30 years in the finance sector at the Commonwealth Treasury, representing Australia at the Organisation for Economic Cooperation and Development before taking various roles at Bankers Trust (BT) including as Chief Economist and Chief Investment Officer. From 2001-2006, André was Chief Investment Officer at ARIA, and he currently sits on the boards of ABN AMRO Investments Australia, Challenger LBC Terminals Jersey Limited and Steam Packet Group. He is also on the Catholic Superannuation Fund investment committee.

Directors meetings

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

	Board meetings		Audit committee		Finance committee		Investment committee		Remuneration committee		Compliance committee	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Caroline Le Couteur	7	7	-	-	--	-	-	-	-	-	-	-
James Thier	7	7	-	-	-	-	4	4	-	-	4	4
Howard Pender	7	7	-	-	9	9	4	4	-	-	-	-
Naomi Edwards	7	7	3	3	-	-	4	4	2	2	3	3
Pauline Vamos	1	1	1	1	1	1	-	-	-	-	1	1
Justine Hickey	7	7	-	-	9	8	4	4	2	2	-	-
Anne O'Donnell	2	2	-	-	1	1	-	-	-	-	-	-

Directorships held in other listed entities in the last three years

Name	Entity
Pauline Vamos	Plan B Group Holdings Limited
Justine Hickey	Hyperion Flagship Investments Limited
André Morony	Macquarie Private Capital Group Limited

Directors' relevant interests in securities of the company

Parent Entity Directors	Fully paid ordinary shares numbers	Share option numbers
Caroline Le Couteur	49,436	5,944
James Thier	49,739	4,749
Howard Pender	49,712	3,913
Justine Hickey	700	-
Anne O'Donnell	8,982	8,940

Directors' holdings in registered schemes made available by the company

Caroline Le Couteur holds 918.6569 units in the Australian Ethical Balanced Trust.

Anne O'Donnell holds 4061.8233 units in the Australian Ethical Large Companies Share Trust.

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

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

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	Share option numbers
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Chairperson, non-executive	
Pauline Vamos	Chairperson, non-executive	Resigned 31 August 2007
Justine Hickey	Director, non-executive	
Anne O'Donnell	Managing Director, executive	Appointed 29 May 2008
Les Coleman	Director, non-executive	Appointed 1 July 2008
André Morony	Director, non-executive	Appointed 1 July 2008

Executives

Name	Position	
David Ferris	Investment manager	Resigned 27 March 2008
Philip George	Company secretary / legal counsel	
Ruth Medd	Director of wholly-owned entity	
Gary Leckie	Chief financial officer	
Paul Harding Davis	Head of Distribution	Appointed 14 January 2008
Tim Xirakis	Finance Investment Manager	

The Corporations Act 2001 requires disclosure of compensation of key management personnel. Key management personnel is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

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

1. each of the 5 named company executives who receive the highest remuneration for that year; and
2. 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 above named directors and executives are key management personnel of the company. Ruth Medd is a group executive.

Remuneration policy

Directors

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

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

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

Secretaries, senior managers, executive directors and group executives

During the reporting period, the company's remuneration policy was to treat all staff (including secretaries, senior mangers, executive directors and group executives) in an equitable fashion. During the reporting period, remuneration for one senior manager included an 'at risk' component linked to performance criteria. All permanent staff (including secretaries, senior mangers, executive directors) received a cash salary and participated in a staff bonus and employee share ownership scheme. The arrangements did not apply to non executive directors.

For the one senior manager with an at risk component, the performance conditions required the manager to achieve business development objectives on: funds under management; engagement with asset consultants, ratings agencies and institutional clients; and development of marketing strategies / collateral. These performance conditions were chosen to align the manager's objectives with those set out in the company's strategic plan. The managing director was responsible for assessing whether the performance conditions were met. The managing director was able to assess both the quantitative and qualitative aspects of the performance criteria.

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

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

and to facilitate:

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

The company reviews individual remuneration annually. As part of this process it benchmarks its remuneration levels and its policies on employee benefits and work / life balance. Individual staff remuneration is considered with reference to the benchmarks and in accordance with guidelines approved by the board. The board aims to remunerate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus 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 an employee share ownership scheme which operated during the reporting period, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital were issued to staff. All permanent, non-probationary staff were eligible to participate in the plan. The options were issued for nil consideration and the price at which the options are exercisable was set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depended on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, 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, except that an individual performance based element was introduced for one senior manager during the reporting period.

Dividends through the same period have increased from a dividend out of the profits of the 2001/2002 year of 20 cents per share to a dividend out of the 2006/2007 year profits of 192 cents per share. The dividend declared by the directors for the 2007/2008 year is 165 cents per share.

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
17 December 2002	$12.50
30 June 2003	$11.30
30 June 2004	$13.00
30 June 2005	$17.20
30 June 2006	$28.50
30 June 2007	$48.00
30 June 2008	$34.00

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

Year	Earnings
2003/2004	$459,761
Adoption of AIFRS	
2004/2005	$784,419
2005/2006	$1,362,612
2006/2007	$1,819,177
2007/2008	$1,651,790

Remuneration details for the year ended 30 June 2008
Parent entity directors' remuneration

2008	Short-term employee benefits: Cash Salary and Fees	Short-term employee benefits: STI cash bonus	Short-term employee benefits: Other	Post Employment benefits: Super	Other Long-term Benefits	Termination Benefits	Share-based Payment: Bonus Shares	Share-based Payment: Options	Total	S 300A(1)(e) Proportion of remuneration performance related %	S 300A(1)(e)(vi) Value of options as proportion of remuneration %
	$	$	$	$	$	$	$	$	$		
Caroline Le Couteur	142,503	6,000	-	13,230	3,544	-	-	15,044	180,321	-	8.3
James Thier	157,324	4,800	-	13,566	3,191	-	-	12,743	191,624	-	6.6
Howard Pender	159,245	3,900	-	13,420	3,171	-	-	12,709	192,445	-	6.6
Naomi Edwards	58,416	-	-	5,257	-	-	-	-	63,673	-	-
Pauline Vamos	9,249	-	-	750	-	-	-	-	9,999	-	-
Justine Hickey	26,651	-	-	2,408	-	-	-	-	29,059	-	-
Anne O'Donnell	213,858	6,000	-	18,760	6,250		-	25,410	270,278	-	9.4
Total	767,246	20,700	-	67,391	16,156	-	-	65,906	937,399		
2007											
George Pooley	19,749	-	-	-	-	-	-	-	19,749	-	-
Caroline Le Couteur	142,449	5,500	-	12,017	3,431	-	-	7,907	171,304	-	4.6
James Thier	143,516	-	-	11,804	2,016	-	3,759	5,928	167,023	-	3.5
Howard Pender	138,954	3,575	-	11,633	2,089	-	-	6,082	162,333	-	3.7
Naomi Edwards	39,300	-	-	3,150	-	-	-	-	42,450	-	-
Pauline Vamos	52,223	-	-	4,205	-	-	-	-	56,428	-	-
Justine Hickey *	17,314	-	-	741	-	-	-	-	18,055	-	-
Total	553,505	9,075	-	43,550	7,536	-	3,759	19,917	637,342		

Named executives remuneration (including other key management personnel)

	Short-term employee benefits: Cash Salary and Fees	Short-term employee benefits: STI cash bonus	Short-term employee benefits: Other	Post Employment benefits: Super	Other Long-term Benefits	Termination Benefits	Share-based Payment: Bonus Shares	Share-based Payment: Options	Total	S 300A(1)(e) Proportion of remuneration performance related %	S 300A(1)(e)(vi) Value of options as proportion of remuneration %
	$	$	$	$	$	$	$	$	$		
2008											
David Ferris	165,939	-	-	10,938	-	-	5,885	20,378	203,140	-	10.0
Philip George	177,416	6,000	-	15,365	3,643	-	-	20,740	223,164	-	9.3
Ruth Medd	35,488	-	-	3,194	-	-	-	-	38,682	-	-
Gary Leckie	152,178	6,000	-	13,594	4,572	-	-	14,843	191,187	-	7.8
Tim Xirakis	160,430	6,000		15,381	3,515	-	-	14,918	200,244	-	7.5
Paul Harding Davis	91,566	16,000		8,950	1,749	-	-	-	118,265	13.5	-
Total	783,017	34,000	-	67,422	13,479	-	5,885	70,879	974,682		
2007											
Anne O'Donnell	190,804	5,500	-	17,259	5,659	-	-	12,043	231,265	-	5.2
David Ferris	158,681	-	-	13,843	5,046	-	5,290	9,307	192,167	-	4.8
Mark Bateman	140,481	5,500	-	7,076	-	-	-	7,916	160,973	-	4.9
Philip George	162,880	5,500	-	14,088	3,503	-	-	9,754	195,725	-	5.0
Ruth Medd	28,500	-	-	1,800	-	-	-	-	30,300	-	-
Gary Leckie	118,374	5,500	-	10,257	2,849	-	-	5,974	142,954	-	4.2
Total	799,720	22,000	-	64,323	17,057	-	5,290	44,994	953,384		

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The annual staff cash bonuses were paid on 24 September 2007. The cash bonus for Mr Harding-Davis was paid on 13 June 2008. The nature of the cash bonuses and the criteria used to determine the amount of the payments are detailed in the remuneration policy and in the discussion on performance based remuneration and company performance.

Analysis of bonuses included in remuneration

The vesting profile of short term-incentive bonuses are detailed below. No amounts vest in future financial years in respect of the short term-incentive bonuses for the 2008 year.

	Short term incentive bonus			
	Cash bonus (1)	Performance bonus ($)	% vested in year	% forfeited in year (2)
Parent Entity Directors				
Caroline Le Couteur	6000	-	100%	-
James Thier	4800	-	100%	-
Howard Pender	3900	-	100%	-
Anne O'Donnell	6000	-	100%	-
Named executives (including other key management personnel)				
Philip George	6000	-	100%	-
Gary Leckie	6000	-	100%	-
Tim Xirakis	6000	-	100%	-
Paul Harding Davis	-	16000	69%	31%

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

Equity based remuneration

Equity based remuneration consists of grants of options under the company's employee share ownership plan. Details of the employee share ownership plan (including the service and performance criteria) are provided in the section on remuneration policy above and in Note 24 of the attached financial report.

Options over ordinary shares granted as compensation during reporting period

	Number of options vested during 2008	Number of options granted during 2008 (1)	Grant date	Fair value per option at grant date (2) ($)	Exercise price per option ($)	First exercise /expiry date	Last exercise /expiry date
Parent Entity Directors							
Caroline Le Couteur	2,513	1,791	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
James Thier	2,058	1,517	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Howard Pender	861	1,513	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Naomi Edwards	-	-		-	-	-	-
Pauline Vamos	-	-		-	-	-	-
Justine Hickey	-	-		-	-	-	-
Anne O'Donnell	2,865	3,025	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
	8,297	7,846					
Named executives (including other key management personnel)							
David Ferris	2,551	2,426	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Philip George	-	2,469	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Ruth Medd	-	-		-	-	-	-
Gary Leckie	1,275	1,767	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Tim Xirakis	-	1,776	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Paul Harding Davis	-	-	-	-	-	-	-
	3,826	8,438					

(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.

Exercise of options during the reporting period

During the reporting period the following shares were issued on the exercise of options previously granted as compensation. There are no amounts unpaid on the shares.

Parent Entity Directors	Number of shares	Amount paid $ /share
Caroline Le Couteur	2513	16.28
James Thier	2058	16.28
Howard Pender	861	16.28
Anne O'Donnell	2865	16.28
Named executives (including other key management personnel)		
David Ferris	2551	16.28
Gary Leckie	1275	16.28

Analysis of options over ordinary shares granted as compensation

Details of vesting profiles of options granted as compensation are detailed below:

Parent Entity Directors	Options granted					
	Option Series	Number	Date	% vested in year	% forfeited in year	Financial years in which grant vests
Caroline Le Couteur	AEFAI	2513	23/09/2004	100%	-	23/09/2007
	AEFAQ	2243	21/09/2005	-	-	21/09/2008
	AEFAS	1910	22/09/2006	-	-	22/09/2009
	AEFAT	1791	24/09/2007	-	-	24/09/2010
James Thier	AEFAI	2058	23/09/2004	100%	-	23/09/2007
	AEFAQ	1800	21/09/2005	-	-	21/09/2008
	AEFAS	1432	22/09/2006	-	-	22/09/2009
	AEFAT	1517	24/09/2007	-	-	24/09/2010
Howard Pender	AEFAI	861	23/09/2004	100%	-	23/09/2007
	AEFAQ	931	21/09/2005	-	-	21/09/2008
	AEFAS	1469	22/09/2006	-	-	22/09/2009
	AEFAT	1513	24/09/2007	-	-	24/09/2010
Anne O'Donnell	AEFAI	2865	23/09/2004	100%	-	23/09/2007
	AEFAQ	3006	21/09/2005	-	-	21/09/2008
	AEFAS	2909	22/09/2006	-	-	22/09/2009
	AEFAT	3025	24/09/2007	-	-	24/09/2010
Named executives (including other key management personnel)						
David Ferris	AEFAI	2551	23/09/2004	100%	-	23/09/2007
	AEFAQ	2611	21/09/2005	-	100%	21/09/2008
	AEFAS	2248	22/09/2006	-	100%	22/09/2009
	AEFAT	2426	24/09/2007	-	100%	24/09/2010
Philip George	AEFAQ	1550	21/09/2005	-	-	21/09/2008
	AEFAS	2356	22/09/2006	-	-	22/09/2009
	AEFAT	2469	24/09/2007	-	-	24/09/2010
Gary Leckie	AEFAI	1275	23/09/2004	100%	-	23/09/2007
	AEFAQ	1387	21/09/2005	-	-	21/09/2008
	AEFAS	1443	22/09/2006	-	-	22/09/2009
	AEFAT	1767	24/09/2007	-	-	24/09/2010
Tim Xirakis	AEFAS	1387	22/09/2006	-	-	22/09/2009
	AEFAT	1776	24/09/2007	-	-	24/09/2010

Modification of terms of options

Terms of options issued under the employee share ownership plan were not altered or modified during the reporting period.

Analysis of movements in options

The movement in options during the reporting period (by value) is set out below:

	Granted as part of Remuneration (1) $	Value of Options exercised in Fin Year (2) $	Value of Options Lapsed in Fin Year (3) $
Parent Entity Directors			
Caroline Le Couteur	15,044	94,790	-
James Thier	12,743	77,628	-
Howard Pender	12,709	30,755	-
Naomi Edwards	-	-	-
Pauline Vamos	-	-	-
Justine Hickey	-	-	-
Anne O'Donnell	25,410	108,068	-
	65,906	311,241	-
Named executives (including other key management personnel)			
David Ferris	20,378	91,122	47,588
Philip George	20,740	-	-
Ruth Medd	-	-	-
Gary Leckie	14,843	45,543	-
Tim Xirakis	14,918	-	-
Paul Harding Davis	-	-	-
	70,879	136,665	47,588

(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 2010/11 year when the options are exercisable.

(2) Values are based on the number of options excercised by Directors/Executives multiplied by the difference between the share price at exercise date and the exercise price.Under the terms of the share based payment arrangement exercise date and therefore share price can vary between option holders.

(3) David Ferris forfeited 100% of options granted, upon leaving the employment of Australian Ethical Investment Ltd. The amounts listed in this column do not represent remuneration paid to Director/Executives

Hedging policy

On 27 August 2008, the board introduced a policy whereby directors and executives participating in the company's equity-based plans are prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the company's securities.

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

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

Except as discussed below, the remuneration of executive directors, secretaries and senior managers is not subject to individual performance conditions. People holding these positions are entitled to participate in the staff bonus and employee share ownership scheme described above. Options granted during the financial year, when valued using a Black Scholes valuation methodology as at grant date, make up a very small proportion of the overall remuneration of people holding these positions.

For one senior manager, the performance related component of their remuneration accounted for 13.5% of their total remuneration.

Employment contracts of directors and senior executives

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

Name	Duration of contract	Period of termination notice required	Termination payment provided for under the contract
Caroline Le Couteur	Ongoing	4 weeks	None except for accrued leave and any
James Thier	Ongoing	2 weeks	payment in lieu of notice.
Howard Pender	Ongoing	12 weeks	
Anne O'Donnell	Ongoing	12 weeks	
Gary Leckie	Ongoing	2 weeks	
Philip George	Ongoing	12 weeks	
Paul Harding Davis	Ongoing	12 weeks	
Tim Xirakis	Ongoing	4 weeks	

Non-director committee members and company secretary particulars

Name	Qualifications	Experience
Ruth Medd	B.Sc., Dip Comp Science, CPA, MAICD, Non-Executive Chairperson	Ruth is currently on the board of the NFAW Ltd (National Foundation for Australian Women), WOB Pty Ltd and the Infants Home, Ashfield. Ruth is Chair of the company's wholly-owned subsidiary Australian Ethical Superannuation Pty Ltd. Ruth also Chair's the company's audit and compliance and risk committees. Ruth started in IT in the 1970s. Since then she has been a senior public servant, a broadcasting regulator, the inaugural Company Secretary at Telstra and the Executive Director of an industry association.
Philip George	BSc LLB	Philip has experience in commercial law, corporate governance and project management. He has been a company secretary and legal counsel for listed companies for over six years. He was a senior associate at the national law firm Minter Ellison and conducted a commercial legal practice in partnership for two years.

Options as at the date of this report

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

Options Reference	Number of options on issue	Exercise Period	Exercise Price
AEFAQ	36,080	21/9/08 to 20/12/08	$24.82
AEFAS	36,357	22/9/09 to 21/12/09	$32.50
AEFAT	41,837	24/9/10 to 23/12/10	$57.57
Totals	114,274		

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 2008 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
34,506	$16.28

Auditor's declaration

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

Non-audit services

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

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

Other specific information

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

Disclosure	Financial Statement Reference
Dividends	Note 5
Options – issued during the financial year and since the end of the financial year	Note 24

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

Howard Pender
Director
Dated: 26 September 2008

AUIDTOR'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 2008 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 26 September 2008
Liability limited by a scheme approved under Professional Standards Legislation

Balance Sheet
as at 30 June 2008

	Notes	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Current assets					
Cash and cash equivalents	7	**2,552,238**	1,672,464	**1,049,089**	643,525
Trade and other receivables	8	**1,812,410**	1,487,185	**1,246,646**	1,379,251
Financial assets	9	**1,748,774**	1,830,430	**1,748,774**	1,830,430
Other current assets	10	**248,491**	183,644	**204,245**	162,275
Total current assets		**6,361,913**	5,173,723	**4,248,754**	4,015,481
Non-current assets					
Property, plant & equipment	11	**4,205,801**	4,328,138	**4,205,801**	4,328,138
Financial assets	9	**94,744**	158,000	**410,744**	474,000
Deferred tax assets	12	**489,784**	392,435	**485,584**	391,385
Total non-current assets		**4,790,329**	4,878,573	**5,102,129**	5,193,523
Total assets		**11,152,242**	10,052,296	**9,350,883**	9,209,004
Current liabilities					
Trade and other payables	13	**2,115,330**	1,681,284	**2,048,476**	1,869,901
Current tax liabilities		**110,702**	279,307	**110,702**	279,307
Short-term provisions	15	**432,097**	331,953	**432,097**	331,953
Total current liabilities		**2,658,129**	2,292,544	**2,591,275**	2,481,161
Non-current liabilities					
Deferred tax liabilities	14	**33,285**	33,248	**33,285**	33,248
Other long-term provisions	15	**79,338**	42,371	**79,338**	42,371
Total non-current liabilities		**112,623**	75,619	**112,623**	75,619
Total liabilities		**2,770,752**	2,368,163	**2,703,898**	2,556,780
Net assets		**8,381,490**	7,684,133	**6,646,985**	6,652,224
Equity					
Issued capital	16	**5,740,791**	4,949,532	**5,740,791**	4,949,532
Reserves	16	**334,821**	200,687	**334,821**	200,687
Retained earnings	16	**2,305,878**	2,533,914	**571,373**	1,502,005
Total equity		**8,381,490**	7,684,133	**6,646,985**	6,652,224

The accompanying notes form part of these financial statements

Income Statement
for the year ended 30 June 2008

	Notes	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Revenue	3	**14,064,371**	12,467,148	**10,618,566**	9,870,632
Commissions paid to advisers		**(284,450)**	(260,467)	**(75,477)**	(61,390)
External services		**(2,981,077)**	(2,803,039)	**(1,066,833)**	(1,077,421)
Employee benefits expense		**(6,257,080)**	(4,976,651)	**(6,241,118)**	(4,956,578)
Depreciation		**(285,736)**	(225,320)	**(285,736)**	(225,320)
Occupancy costs		**(196,340)**	(316,447)	**(187,013)**	(310,894)
Communication costs		**(839,144)**	(597,178)	**(789,496)**	(543,537)
Other expenses		**(568,428)**	(407,195)	**(538,793)**	(380,558)
Profit before tithe and income tax expense		**2,652,116**	2,880,851	**1,434,100**	2,314,934
Tithes expense	1 (k)	**(200,891)**	(224,964)	**(200,891)**	(224,964)
Profit before income tax		**2,451,225**	2,655,887	**1,233,209**	2,089,970
Income tax expense	4	**(799,435)**	(836,710)	**(284,015)**	(384,218)
Profit for the year	16	**1,651,790**	1,819,177	**949,194**	1,705,752
Profit attributable to members of the parent entity		**1,651,790**	1,819,177	**949,194**	1,705,752
Basic Earnings per share (cents per share)	6	**170.3**	194.8		
Diluted earnings per share (cents per share)	6	**165.4**	185.6		

The accompanying notes form part of these financial statements

Statement of Changes in Equity
for the year ended 30 June 2008

	Notes	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Total equity at beginning of financial period		**7,684,133**	6,273,783	**6,652,224**	5,355,299
Available-for-sale investments:					
Valuation gains/(losses) taken to equity		**(60,166)**	3,811	**(60,166)**	3,811
Transferred to profit or loss on sale		**-**	7,464	**-**	7,464
Employee share options		**176,266**	96,607	**176,266**	96,607
Income tax on items taken directly to or transferred directly from equity		**18,034**	(1,143)	**18,034**	(1,143)
Net income recognised directly in equity		**134,134**	106,739	**134,134**	106,739
Profit for the financial year		**1,651,790**	1,819,177	**949,194**	1,705,752
Total recognised income and expense for the period		**1,785,924**	1,925,916	**1,083,328**	1,812,491
Transactions with equity holders in their capacity as equity holders:					
Contribution of equity, net of transaction costs		**791,259**	321,109	**791,259**	321,109
Dividends provided for or paid		**(1,879,826)**	(836,675)	**(1,879,826)**	(836,675)
		(1,088,567)	(515,566)	**(1,088,567)**	(515,566)
Total equity at the end of the financial period	16	**8,381,490**	7,684,133	**6,646,985**	6,652,224
Total recognised income and expense for the financial year is attributable to:					
Equity holders of the parent		**1,785,924**	1,925,916	**1,083,328**	1,812,491
		1,785,924	1,925,916	**1,083,328**	1,812,491

The accompanying notes form part of these financial statements

Cash flow statement
for the year ended 30 June 2008

	Notes	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash flows from operating activities					
Receipts from operations		**14,899,240**	12,535,315	**11,173,592**	9,679,684
Payment to suppliers & employees		**(11,606,829)**	(9,467,091)	**(9,389,198)**	(7,770,366)
Dividends received		**-**	-	**500,000**	942,248
Interest/distributions received		**285,547**	286,760	**195,822**	232,674
Income tax paid		**(1,047,296)**	(992,589)	**(423,764)**	(644,781)
Bonus		**(221,168)**	(192,285)	**(221,168)**	(192,285)
Tithe		**(224,964)**	(173,132)	**(224,964)**	(173,132)
Net cash provided by (used in) operating activities	21 (b)	**2,084,530**	1,996,978	**1,610,320**	2,074,042
Cash flows from investing activities					
Proceeds from sale of investments		**1,117,397**	1,192,683	**1,117,397**	1,192,683
Purchase of property, plant & equipment		**(184,139)**	(1,974,986)	**(184,139)**	(1,974,986)
Purchase of investments		**(1,100,000)**	(500,000)	**(1,100,000)**	(500,000)
Repayment of loans		**66,438**	15,070	**66,438**	15,070
Net cash provided by (used in) investing activities		**(100,304)**	(1,267,233)	**(100,304)**	(1,267,233)
Cash flows from financing activities					
Proceeds from share issue		**954,328**	392,921	**954,328**	392,921
Share buy-back payment		**(178,954)**	(92,761)	**(178,954)**	(92,761)
Dividends paid		**(1,879,826)**	(836,675)	**(1,879,826)**	(836,675)
Net cash provided by (used in) financing activities		**(1,104,452)**	(536,515)	**(1,104,452)**	(536,515)
Net increase (decrease) in cash held		**879,774**	193,230	**405,564**	270,294
Cash at beginning of financial year		**1,672,464**	1,479,234	**643,525**	373,231
Cash at end of financial year	21 (a)	**2,552,238**	1,672,464	**1,049,089**	643,525

The accompanying notes form part of these Financial Statements

Note 1 - Statement of significant accounting policies

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

The financial report covers the consolidated entity of Australian Ethical Investment 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 consolidated entity are described at note 19.

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 consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

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

Accounting Policies

a) Principles of consolidation

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

All controlled entities have a June financial year-end.

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

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

b) Income tax

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

Note 1 - Statement of significant accounting policies - continued

b) Income tax - continued

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

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

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

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

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

c) Property, plant and equipment

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

Property

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

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

Plant and equipment

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

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

Note 1 - Statement of significant accounting policies - continued

c) Property, plant and equipment - continued

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

Depreciation

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

The depreciation rates used for each class of assets are:

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

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

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

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

d) Financial instruments

Recognition

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

Available-for-sale financial assets

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

Fair value

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

Note 1 - Statement of significant accounting policies – continued

d) Financial instruments– continued

Impairment

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

e) Impairment of assets

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

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

f) Employee benefits

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

Share options

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

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

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

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

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

Note 1 - Statement of significant accounting policies – continued

f) Employee benefits - continued

Employee bonus

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

g) Provisions

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

h) Cash and cash equivalents

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

i) Revenue

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

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

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

j) Goods and services tax (GST)

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

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

k) 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".

Note 1 - Statement of significant accounting policies - continued

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 – annual leave and long service leave provision
Future average salary increases have been estimated at 5%. This increase has been incorporated into the annual leave and long service leave provision.

Key judgements
Australian Ethical Investment Limited has a loan receivable from the Centre for Australian Ethical Research recorded as an asset on its balance sheet for $105,946. The directors have determined that no provision for impairment is required for this loan.

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$

Note 2 - Auditors' remuneration

Remuneration of the auditors for:

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Audit services				
- Auditing the financial report	**34,000**	30,500	**30,000**	27,000
- Auditing the Custodian transition	**5,000**	-	**2,500**	-
- Auditing the Administrator transition	**10,000**	-	**-**	-
- Auditing the sustainability report	**5,000**	4,600	**5,000**	4,600
Non-audit services				
- Tax and other accounting advice	**3,000**	3,450	**3,000**	3,000
- Internal control and risk review	**7,000**	16,500	**7,000**	15,000

Note 3 - Revenue

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Operating activities				
- Management fees net of rebates	**10,737,924**	9,429,699	**5,127,584**	4,935,178
- Entry fees	**1,861,872**	1,837,914	**501,215**	484,170
- Member & Withdrawal Fees	**444,513**	380,693	**-**	-
- Other fees	**653,080**	453,283	**653,080**	453,283
- Dividend from wholly owned subsidiary	**-**	-	**500,000**	942,248
- Interest/distributions	**272,819**	275,292	**183,095**	221,205
- Wholly owned entity fee	**-**	-	**3,563,238**	2,752,623
- Other revenue	**94,163**	90,267	**90,354**	81,925
	14,064,371	12,467,148	**10,618,566**	9,870,632
Total revenue	**14,064,371**	12,467,148	**10,618,566**	9,870,632

Note 4 - Income tax expense

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
a) The components of tax expense comprise:				
- Current tax	**878,691**	915,888	**360,121**	468,196
- Deferred tax	**(79,256)**	(79,178)	**(76,106)**	(83,978)
	799,435	836,710	**284,015**	384,218

b) The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2007:30%)				
- Consolidated entity	**735,368**	796,766	**-**	-
- Parent entity	**-**	-	**369,963**	626,991
- Other members of the income tax consolidated group net of intercompany transactions	**-**	-	**515,420**	452,641
Add: tax effect of:				
- Other non-allowable items	**1,077**	1,455	**1,062**	1,413
- Share options expensed during year	**52,879**	28,982	**52,879**	28,982
- Under provision for income tax in prior year	**10,616**	11,119	**10,616**	11,119
	799,940	838,322	**949,940**	1,121,146
Less: tax effect of:				
- Rebateable fully franked dividends	**-**	-	**(150,000)**	(282,675)
- Non-assessable income	**-**	(738)	**-**	(738)
- Franking and foreign tax credits	**(505)**	(874)	**(505)**	(874)
Income tax expense attributable to entity	**799,435**	836,710	**799,435**	836,859
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(515,420)**	(452,641)
Income tax expense attributable to entity	**799,435**	836,710	**284,015**	384,218
The applicable weighted average effective tax rates are as follows:	**33%**	32%	**23%**	18%

Notes to the financial statements for the year ended 30 June 2008

	Consolidated Entity			Parent Entity	
	2008	2007		**2008**	2007
	$	$		**$**	$
Note 5 - Dividends					
Distributions paid					
Final fully franked dividend of 152 (2007: 50) cents per share franked at the tax rate of 30% (2007:30%)	**1,437,025**	458,631		**1,437,025**	458,631
Interim fully franked dividend of 45 (2007: 40) cents per share franked at the tax rate of 30% (2007:30%)	**442,801**	378,044		**442,801**	378,044
	1,879,826	836,675	-	**1,879,826**	836,675
Declared final fully franked dividend of 120 (2007: 152) cents per share franked at the tax rate of 30% (2007: 30%)	**1,180,804**	1,436,566		**1,180,804**	1,436,566
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.				**1,616,777**	1,543,029
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:				**506,059**	615,671
				1,110,718	927,358

Note 6 - Earnings per share

	Consolidated Entity 2008 $	Consolidated Entity 2007 $
(a) Earnings used to calculate basic EPS and dilutive EPS	**1,651,790**	1,819,177
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**970,020**	934,002
Weighted average number of options outstanding	**28,745**	45,960
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**998,765**	979,962

Note 7 - Cash and cash equivalents

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash on hand	**300**	300	**300**	300
Cash at bank	**222,476**	32,114	**4,793**	3,165
Deposits at call	**2,329,462**	1,640,050	**1,043,996**	640,060
	2,552,238	1,672,464	**1,049,089**	643,525

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 2008

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Note 8 - Trade and other receivables				
Trade receivables	**1,785,510**	1,446,758	**1,100,702**	1,114,818
Other	**26,900**	40,427	**26,900**	40,427
Amounts receivable - wholly owned entity	**-**	-	**119,044**	224,006
	1,812,410	1,487,184	**1,246,646**	1,379,251

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Note 9 - Financial assets				
Available-for-sale financial assets	**1,737,572**	1,815,158	**2,053,572**	2,131,158
Loans	**105,946**	173,272	**105,946**	173,272
	1,843,518	1,988,430	**2,159,518**	2,304,430
Less non-current portion	**94,744**	158,000	**410,744**	474,000
Current portion	**1,748,774**	1,830,430	**1,748,774**	1,830,430
a. Available-for-sale financial assets comprise:				
- Money market deposit at cost	**1,100,000**	500,000	**1,100,000**	500,000
- Mortgage backed security at fair value	**287,681**	408,502	**287,681**	408,502
- Bank note at fair value	**-**	502,030	**-**	502,030
- Units in unit trust at fair value	**349,891**	404,626	**349,891**	404,626
- Shares in wholly owned entity at cost	**-**	-	**316,000**	316,000
	1,737,572	1,815,158	**2,053,572**	2,131,158

The money market deposits are at fixed interest rates of 8% and 8.13% with maturity dates of 25 November 2008 and 24 September 2008. They are investment grades rated by S&P.

The mortgage backed security is at a floating interest rate of BBSW + 0.39, has a maturity date of 24 October 2009 and is investment grade rated by S&P.

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
b. Loans comprise				
- Loan to other entity	**105,946**	173,272	**105,946**	173,272
	105,946	173,272	**105,946**	173,272

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

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Note 10 - Other current assets				
Other	**6,102**	22,160	**6,102**	22,160
Prepayments	**242,389**	161,484	**198,143**	140,115
	248,491	183,644	**204,245**	162,275

Note 11 - Property, plant and equipment

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Land and buildings				
Leasehold land				
At cost	**230,000**	230,000	**230,000**	230,000
Total land	**230,000**	230,000	**230,000**	230,000
Buildings				
At cost	**2,784,117**	2,784,117	**2,784,117**	2,784,117
Accumulated depreciation	**(157,503)**	(83,191)	**(157,503)**	(83,191)
Total buildings	**2,626,614**	2,700,926	**2,626,614**	2,700,926
Total land and buildings	**2,856,614**	2,930,926	**2,856,614**	2,930,926
Plant and equipment				
At cost	**2,075,929**	1,991,339	**2,075,929**	1,991,339
Accumulated depreciation	**(726,742)**	(594,127)	**(726,742)**	(594,127)
Total plant and equipment	**1,349,187**	1,397,212	**1,349,187**	1,397,212
Total property, plant and equipment	**4,205,801**	4,328,138	**4,205,801**	4,328,138
Movements in carrying amounts				
Land				
Balance at the beginning of year	**230,000**	230,000	**230,000**	230,000
Additions	**-**	-	**-**	-
Disposals	**-**	-	**-**	-
Carrying amount at the end of year	**230,000**	230,000	**230,000**	230,000
Buildings				
Balance at the beginning of year	**2,700,926**	2,056,435	**2,700,926**	2,056,435
Additions		705,040		705,040
Disposals	**-**	-	**-**	-
Depreciation expense	**(74,312)**	(60,549)	**(74,312)**	(60,549)
Carrying amount at the end of year	**2,626,614**	2,700,926	**2,626,614**	2,700,926
Plant and equipment				
Balance at the beginning of year	**1,397,212**	326,718	**1,397,212**	326,718
Additions	**176,524**	1,244,747	**176,524**	1,244,747
Disposals	**(13,125)**	(9,482)	**(13,125)**	(9,482)
Depreciation expense	**(211,424)**	(164,771)	**(211,424)**	(164,771)
Carrying amount at the end of year	**1,349,187**	1,397,212	**1,349,187**	1,397,212
Total	**4,205,801**	4,328,138	**4,205,801**	4,328,138

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Note 12 - Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**398,213**	313,517	**398,213**	313,517
Tithe	**60,267**	67,488	**60,267**	67,488
Audit fees	**15,600**	11,430	**11,400**	10,380
	474,080	392,435	**469,880**	391,385
Amounts recognised directly in equity				
Financial asset revaluations	**15,704**	-	**15,704**	-
	489,784	392,435	**485,584**	391,385
Movements				
Opening balance at 1 July	**392,435**	315,246	**391,385**	309,396
Credited (charged) to the income statement	**81,645**	79,178	**78,495**	83,978
Credited (charged) to equity	**15,704**	(1,989)	**15,704**	(1,989)
Closing balance at 30 June	**489,784**	392,435	**485,584**	391,385
Note 13 - Trade and other payables				
Trade payables	**288,131**	300,249	**173,630**	195,764
Sundry payables and accrued expenses	**1,532,119**	1,143,015	**1,131,715**	974,252
Employee bonus	**295,080**	238,020	**295,080**	238,020
Amounts payable to wholly owned entity	**-**	-	**448,051**	461,865
	2,115,330	1,681,284	**2,048,476**	1,869,901
Note 14 - Deferred tax liabilities				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Stamp duty on leasehold property:	**30,896**	30,896	**30,896**	30,896
Tax deferred income	**2,389**	-	**2,389**	-
Amounts recognised in equity:				
Available-for-sale financial assets		2,352		2,352
	33,285	33,248	**33,285**	33,248
Movements				
Opening balance at 1 July	**33,248**	30,896	**33,248**	30,896
Credited/(charged) to the income statement	**2,389**	-	**2,389**	
Credited/(charged) to equity	**(2,352)**	2,352	**(2,352)**	2,352
Closing balance at 30 June	**33,285**	33,248	**33,285**	33,248

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Note 15 - Provisions				
Current				
Employee benefits - long service leave	**432,097**	331,953	**432,097**	331,953
	432,097	331,953	**432,097**	331,953
Non-Current				
Employee benefits - long service leave	**79,338**	42,371	**79,338**	42,371
	79,338	42,371	**79,338**	42,371

Note 16 - Movements in equity

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Issued capital				
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year 945,109 (2007 - 916,559) shares	**4,949,532**	4,628,423	**4,949,532**	4,628,423
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
302 on 24 September 2007 (share bonus)	**15,885**	-	**15,885**	-
24,644 on 9 November 2007 (options exercised)	**401,204**	-	**401,204**	-
8,413 on 30 November 2007 (options exercised)	**136,964**	-	**136,964**	-
1,449 on 18 December 2007 (option exercised)	**23,590**	-	**23,590**	-
703 on 22 September 2006 (share bonus)	**-**	20,949	**-**	20,949
24,146 on 31 October 2006 (options excercised)	**-**	340,700	**-**	340,700
2,781 on 28 November 2006 (options exercised)	**-**	39,240	**-**	39,240
6,851 on 15 January 2007 (option exercised)	**-**	96,667	**-**	96,667
2,798 on 5 October 2007 (dividend reinvestment plan)	**146,279**		**146,279**	
4,711 on 19 October 2007 (dividend reinvestment plan)	**246,291**		**246,291**	
Shares bought back during the year				
3,423 on 17 October 2007	**(178,954)**	-	**(178,954)**	-
5,931 on 31 October 2006		(176,447)		(176,447)
Balance 30 June				
984,003 (2007 - 945,109) shares	**5,740,791**	4,949,532	**5,740,791**	4,949,532

Note 16 - Movements in equity - continued

At 30 June 2008 there were 984,003 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 24 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.

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

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

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

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Reserves				
Available-for-sale financial assets revaluation reserve				
Balance 1 July	**5,489**	(4,643)	**5,489**	(4,643)
Gross gains/ (losses)	**-**	7,464	**-**	7,464
Revaluation - gross	**(60,166)**	3,811	**(60,166)**	3,811
Deferred tax	**18,034**	(1,143)	**18,034**	(1,143)
Balance 30 June	**(36,643)**	5,489	**(36,643)**	5,489
Share-based payments reserve				
Balance 1 July	**195,198**	98,591	**195,198**	98,591
Option expense	**176,266**	96,607	**176,266**	96,607
Balance 30 June	**371,464**	195,198	**371,464**	195,198
Total Reserves	**334,821**	200,687	**334,821**	200,687

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.

	Consolidated Entity		Parent Entity	
Retained earnings				
Balance 1 July	**2,533,914**	1,551,412	**1,502,005**	632,928
Profit for the period	**1,651,790**	1,819,177	**949,194**	1,705,752
Total for the period	**1,651,790**	1,819,177	**949,194**	1,705,752
Dividends	**(1,879,826)**	(836,675)	**(1,879,826)**	(836,675)
Balance 30 June	**2,305,878**	2,533,914	**571,373**	1,502,005
Total Equity	**8,381,490**	7,684,133	**6,646,985**	6,652,224

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$

Note 17 – Events after the balance sheet date

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

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

Note 18 - Economic dependence

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

Note 19 - Segment reporting

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

Note 20 - Contingencies

Superannuation Administrator Transition

The wholly owned entity, Australian Ethical Superannuation Pty Ltd (AES) is in dispute with United Funds Management Limited (United), its former fund administrator. AES believes that United has failed to provide the contracted service and that it has valid claims for damages against United. United is seeking payment of monies invoiced to AES for the service in the reporting period (approximately $250,000). Notwithstanding the dispute, and without any prejudice to AES' claims, AES has decided to recognise as expenses the disputed invoices in its 2008 financial statements consistent with a conservative accounting approach. Similarly, a liability for the disputed amount will be included on the AES balance sheet. The approach of AES will be reflected in Australian Ethical's consolidated financial statements. AES and United continue to discuss the claims and disputed invoices.

Should the dispute be resolved in AES' favour there may be a positive impact on future income statements.

There is also the potential for future costs arising from issues related to the superannuation administration transition.

Liabilties and assets of trusts and superannuation fund

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

Current liabilities				
Payables	**6,740,858**	4,588,418	**1,392,523**	3,790,889
Provisions	**10,702,251**	64,692,694	**9,127,716**	58,707,157
Total liabilities	**17,443,109**	69,281,112	**10,520,239**	62,498,046
Rights of indemnities for liabilities incurred by the Consolidated Entity and parent entity not recorded in the financial statements were:	**17,443,109**	69,281,112	**10,520,239**	62,498,046

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

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

Note 21 - 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:

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash on hand	**300**	300	**300**	300
Cash at bank	**222,476**	32,114	**4,793**	3,165
Deposits at call	**2,329,462**	1,640,050	**1,043,996**	640,060
	2,552,238	1,672,464	**1,049,089**	643,525

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

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Net profit from ordinary activities after income tax expense	**1,651,790**	1,819,177	**949,194**	1,705,752
Non-cash flows in operating profit				
Depreciation	**285,736**	225,320	**285,736**	225,320
Provisions	**137,111**	107,797	**137,111**	107,797
(Profit) loss on sale of property, plant & equipment	**13,125**	9,442	**13,125**	9,442
(Profit) loss on sale of investment	**-**	11,178	**-**	11,178
Share options expensed	**176,266**	96,607	**176,266**	96,607
Staff bonus paid in shares	**15,885**	20,949	**15,885**	20,949
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**(324,337)**	(448,190)	**28,531**	(236,395)
(Increase) decrease in prepayments & other assets	**(64,846)**	(43,936)	**(41,970)**	(68,032)
(Increase) decrease in deferred tax assets	**(79,256)**	(79,178)	**(78,495)**	(81,989)
Increase (decrease) in trade & other payables	**441,661**	354,513	**186,191**	461,987
Increase (decrease) in current tax liability	**(168,605)**	(76,701)	**(63,643)**	(176,585)
Increase (decrease) in deferred tax liability	**-**	-	**2,389**	(1,989)
Net cash provided by (used in) operating activities	**2,084,530**	1,996,978	**1,610,320**	2,074,042

(c) Non-cash financing and investing activities

Shares in Australian Ethical Investment Limited, to the value of $15,885 (2007: $20,949) were issued in lieu of staff bonus.

Note 22 – 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, Australian Ethical Large Companies Share Trust, Australian Ethical International Equities Trust and Australian Ethical World Trust).

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

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

Australian Ethical Superannuation Pty Ltd

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

	Consolidated Entity **2008** **$**	Consolidated Entity 2007 $	Parent Entity **2008** **$**	Parent Entity 2007 $
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**3,563,238**	2,752,622
(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).	**-**	-	**515,420**	452,641
(iii) Transactions whereby Australian Ethical Investment Limited collects management fee income on behalf of wholly owned entity and on-pays this management fee income to the wholly owned entity on a monthly basis.	**-**	-	**5,580,164**	4,521,499
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in note 3.	**-**	-	**500,000**	942,248
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity:				
Management services	**-**	-	**-**	-
Taxation	**-**	-	**119,045**	224,006
Amounts payable to wholly owned entity:				
Management fee income	**-**	-	**448,051**	461,865

Notes to the financial statements for the year ended 30 June 2008

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Note 22 – 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:				
(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	**4,085,481**	3,980,112	**4,085,481**	3,980,112
- Australian Ethical Equities Trust	**3,612,192**	3,062,362	**3,612,192**	3,062,362
- Australian Ethical Income Trust	**280,875**	242,336	**280,875**	242,336
- Australian Ethical Large Companies Shares Trust	**2,578,524**	2,309,552	**2,578,524**	2,309,552
- Australian Ethical International Equities Trust	**353,350**	11,081	**353,350**	11,081
- Australian Ethical World Trust	**27,055**	-	**27,055**	-
(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	**155,976**	109,596	**155,976**	109,596
- Australian Ethical Equities Trust	**123,000**	87,684	**123,000**	87,684
- Australian Ethical Income Trust	**49,074**	39,468	**49,074**	39,468
- Australian Ethical Large Companies Shares Trust	**77,646**	61,392	**77,646**	61,392
- Australian Ethical International Equities Trust	**56,112**	-	**56,112**	-
- Australian Ethical World Trust	**21,576**	-	**21,576**	-
(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	**54,023**	53,633	**54,023**	53,633
- Australian Ethical Equities Trust	**57,610**	51,031	**57,610**	51,031
- Australian Ethical Income Trust	**4,717**	4,077	**4,717**	4,077
- Australian Ethical Large Companies Shares Trust	**46,028**	43,916	**46,028**	43,916
- Australian Ethical International Equities Trust	**376**	14	**376**	14
- Australian Ethical World Trust	**5,442**	-	**5,442**	-
(iv) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust	**7,311**	6,237	**7,311**	6,237

b) Outstanding balances at balance date:

Note 22 – Related party transactions - continued

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
- Australian Ethical Balanced Trust	**358,820**	412,430	**358,820**	412,430
- Australian Ethical Equities Trust	**338,548**	354,366	**338,548**	354,366
- Australian Ethical Income Trust	**31,780**	27,400	**31,780**	27,400
- Australian Ethical Large Companies Shares Trust	**218,099**	258,332	**218,099**	258,332
- Australian Ethical International Equities Trust	**48,120**	12,204	**48,120**	12,204
- Australian Ethical World Trust	**5,386**	-	**5,386**	-
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**348,891**	404,626	**349,891**	404,626
Distribution receivable from AEBT	**7,400**	26,591	**7,400**	26,591
Australian Ethical Retail Superannuation Fund				
a) Transactions between the Consolidated entity and the Australian Ethical Retail Superannuation Fund during the financial year consisted of:				
(i) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to investment services/ (rebate of investment services).	**30,175**	(26,978)	**-**	-
Outstanding balances at balance date:				
Amounts receivable from/ (payable to) the Australian Ethical Retail Superannuation Fund: Investment services/ (rebate of investment services fee).	**21,284**	(1,465)	**-**	-

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 2008

Note 23 - Key management personnel compensatior

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	
Pauline Vamos	Chairperson, non-executive	Resigned 31 August 2007
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Chairperson, non-executive	
Justine Hickey	Director, non-executive	
Anne O Donnell	Managing Director ,executive	Appointed 29 May 2008

Other key management personnel

Name	Position	
David Ferris	Investment manager	Resigned 28 March 2008
Gary Leckie	Chief financial officer	
Tim XIrakis	Finance Investment Manager	
Philip George	Company secretary / legal counsel	
Paul Harding Davis	Head of Distribution	

b) Key management personnel compensation

	Economic Entity		**Parent Entity**	
	2008	2007	**2008**	2007
	$	**$**	**$**	**$**
Short term employment benefits	**1,569,475**	1,355,800	**1,474,892**	1,264,631
Post-employment benefits	**131,619**	106,073	**123,519**	98,873
Other long-term benefits	**29,635**	24,593	**29,635**	24,593
Termination benefits	**-**	-	**-**	-
Share-based payments	**142,670**	73,960	**142,670**	73,960
Total compensation	**1,873,399**	1,560,426	**1,770,716**	1,462,057

Further key management personnel remuneration details are included in the Remuneration Report section of the Directors' Report.

c) Equity instrument disclosures relating to key management personne

Option Holdings

Number of options held by key management personnel.

	Balance 01.07.07	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.08	Total Vested 30.06.08	Total Exer-cisable 30.06.08	Total Unexer-cisable 30.06.08
Parent Entity Directors								
Caroline Le Couteur	6,666	1,791	(2,513)	-	5,944	-	-	5,944
James Thier	5,290	1,517	(2,058)	-	4,749	-	-	4,749
Howard Pender	3,261	1,513	(861)	-	3,913	-	-	3,913
Naomi Edwards	-	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-	-
Anne O'Donnell	8,780	3,025	(2,865)	-	8,940	-	-	8,940
					-			
Named executives (including other key management personnel					-			
					-			
David Ferris	7,410	2,426	(2,551)	(7,285)	-	-	-	-
Philip George	3,906	2,469	-	-	6,375	-	-	6,375
Ruth Medd	-	-	-	-	-	-	-	-
Gary Leckie	4,105	1,767	(1,275)	-	4,597	-	-	4,597
Tim Xirakis	1,387	1,776	-	-	3,163	-	-	3,163
Paul Harding Davis	-	-	-	-	-	-	-	-
Total	40,805	16,284	(12,123)	(7,285)	37,681	-	-	37,681

Notes to the financial statements for the year ended 30 June 2008

Note 23 - Key management personnel compensation - continued

Shareholdings
Number of Shares held by key management personnel.

	Balance 01.07.07	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.08 (3)&(4)
Parent Entity Directors					
Caroline Le Couteur	46,923	-	2,513	-	49,436
James Thier	62,155	-	2,058	5	64,218
Howard Pender	51,665	-	861	(783)	51,743
Naomi Edwards	-	-	-	-	-
Pauline Vamos	-	-	-	-	-
Justine Hickey	700	-	-	-	700
Anne O'Donnell	6,117	-	2,865	-	8,982
Named executives (including other key management personnel					
David Ferris	5,439	-	2,551	(888)	7,102
Philip George	375	-	-	6	381
Ruth Medd	-	-	-	-	-
Gary Leckie	-	-	1,275	(1,275)	-
Tim Xirakis	-	-	-	-	-
Paul Harding Davis	-	-	-	-	-
Total	173,374	-	12,123	(2,935)	182,562

(1) The amount paid for shares issued on exercise of options is $16.28 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 personal including their related parties as required by AASB 124 Related Party Disclosures.

Note 24 - Share based payments
The following share-based payment arrangements existed at 30 June 2008:

On 21 September 2005, 43,664 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownershi 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 windov 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 22 September 2006, 45,825 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownershi plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of $32.50 each and a 3 month windov 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 24 September 2007, 47,255 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownershi plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of $57.57 each and a 3 month windov 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 24 September 2007, 302 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 703 ordinary shares, with the same terms, were granted on 22 September 2006).

During October 2007 Australian Ethical Investment Limited issued 7,509 new shares at an issue price of $52.28, under the company's Dividend Reinvestment Plan in respect of the dividend payable.

Note 24 - Share based payments - continued

	Consolidated Entity				Parent Entity			
	2008		2007		**2008**		2007	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $	**Number of Options**	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the financial year	**118,995**	**25.11**	113,946	18.91	**118,995**	**25.11**	113,946	18.91
Granted	**47,255**	**57.57**	45,825	32.50	**47,255**	**57.57**	45,825	32.50
Forfeited	**(14,991)**	**37.17**	(6,998)	25.56	**(14,991)**	**37.17**	(6,998)	25.56
Exercised	**(34,506)**	**52.57**	(33,778)	14.11	**(34,506)**	**52.57**	(33,778)	14.11
Expired	**-**							
Outstanding at year-end	**116,753**	**39.31**	118,995	25.11	**116,753**	**39.31**	118,995	25.11
Exercisable at year-end	**-**	**-**	-	-	**-**	**-**	-	-

There were 34,506 options exercised during the year ended 30 June 2008. The weighted average share price calculated as at exercise dates of these options was $52.57.

The options outstanding at 30 June 2008 had a weighted average exercise price of $39.31 and a weighted average remaining contractual life of 1.53 years. Exercise prices range from $24.82 to $57.57 in respect of options outstanding at 30 June 2008

The weighted average fair value of the options granted during the year was $8.40

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

Weighted average exercise price	$57.57
Weighted average life of the option	3.25 years
Underlying share price	$52.00
Expected share price volatility	22.50%
Risk free interest rate	6.35%

Included under employee benefits expense in the income statement is :
$15,885 (2007: $20,949) relating to equity-settled share-based payment transactions for staff bonus; and
$176,266 (2007: $96,607) relating to options issued under the employee share ownership plan.

Notes to the financial statements for the year ended 30 June 2008

Note 25 - Financial instruments

(a) Financial risk management

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

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

(b) Interest rate risk

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

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2008	2007	**2008**	2007	**2008**	2007
	%	%	**$**	$	**$**	$
Cash and cash equivalents	**7**	6	**2,551,938**	1,672,164	**-**	-
Trade and other receivables				-	**-**	-
Financial assets	**8**	7	**637,572**	1,815,158	**1,111,202**	515,272
Total financial assets			**3,189,510**	3,487,322	**1,111,202**	515,272
Trade and other payables			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2008	2007	**2008**	2007	**2008**	2007
	$	$	**$**	$	**$**	$
Cash	**-**	-	**300**	300	**2,552,238**	1,672,464
Trade and other receivables	**-**	-	**1,812,410**	1,487,185	**1,812,410**	1,487,185
Financial assets	**94,744**	158,000	**-**	-	**1,843,518**	1,988,430
Total financial assets	**94,744**	158,000	**1,812,710**	1,487,485	**6,208,166**	5,148,079
Trade and other payables	**-**	-	**2,115,330**	1,681,284	**2,115,330**	1,681,284
Total financial liabilities	**-**	-	**2,115,330**	1,681,284	**2,115,330**	1,681,284

(c) Credit Risk

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

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

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

Consideration of credit risk in relation to financial assets is incorporated into the finance committee risk considerations mentioned earlier in this note. The defined investment parameters governing the approval of financial asset investments incorporates a sliding scale of risk exposure as follows:

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

(d) Liquidity risk

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

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

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Less than 6 months	**1,423,862**	1,248,572	**1,527,614**	1,437,189
6 months to 1 year	**691,468**	432,712	**520,862**	432,712
1 to 5 years	**-**	-	**-**	-
	2,115,330	1,681,284	**2,048,476**	1,869,901

(e) Net Fair Values

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

Notes to the financial statements for the year ended 30 June 2008

Note 25 - Financial risk management - continued

(f) Sensitivity analysis

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

	Consolidated Entity		Parent Entity	
	2008	2007	**2008**	2007
	$	$	**$**	$
Change in profit				
- Increase in interest rate by 2%	**63,790**	59,746	**33,733**	39,174
- Decrease in interest rate by 2%	**(63,790)**	(59,746)	**(33,733)**	(39,174)
Change in equity				
- Increase in interest rate by 2%	**63,790**	59,746	**33,733**	39,174
- Decrease in interest rate by 2%	**(63,790)**	(59,746)	**(33,733)**	(39,174)

Note 26 - Change in accounting policy

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	Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date of the Company
2007-3	AASB 107: Cash Flow Statements AASB 119: Employee Benefits AASB 127: Consolidated and Separate Financial Statements AASB 134: Interim Financial Reporting AASB 136: Impairment of Assets	These amendments are necessitated by the issuance of AASB 8 Operating Segments. The amendments are mainly to ensure that terminology and references related to AASB 8 are updated in the standards affected and there will be little impact on future financial reports. There will be changes to segment information (more comprehensive) in the interim financial report.	1-Jan-09 1-Jan-09 1-Jan-09 1-Jan-09 1-Jan-09	1-Jul-09 1-Jul-09 1-Jul-09 1-Jul-09 1-Jul-09
New Standard	AASB 8: Operating Segments	The group will provide more comprehensive explicit information related to its investment management segment and its superannuation segment per the new standard. This information is implicit with this current financial report.	1-Jan-09	1-Jul-09
2007-8	AASB 101: Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity	1-Jan-09	1-Jul-09
AASB 101	AASB 101: Presentation of Financial Statements	As above	1-Jan-09	1-Jul-09
2008-1	AASB 2: Share Based Payments	These amendments clarify that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions. They also specify that all cancellations, whether by the entity or by other parties, should the same accounting treatment. No impact on future financial reports.	1-Jan-09	1-Jul-09

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 27 to 54 and the additional disclosures 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 2008 and of the performance for year ended on that date of the company and consolidated entity;

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

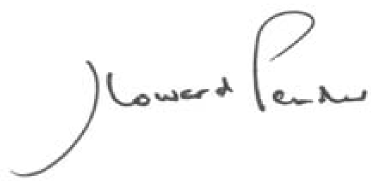
(a) the financial records of the company for the financial year have been properly maintained in section 286 of the Corporations Act 2001;

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

(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 debts as and when they become due and payable.

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



Director

Dated this 26 September 2008

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

AUSTRALIAN ETHICAL INVESTMENT LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Australian Ethical Investment Limited (the company) and Australian Ethical Investment Limited and controlled entity (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entity it controlled at the year's end or from to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

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

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June, 2008 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in (pages 18 to 25) of the directors' report for the year ended 30 June, 2008. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

THOMAS DAVIS & CO.

P.L. WHITEMAN PARTNER

Chartered Accountants

SYDNEY,
26 September, 2008

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder information

The shareholder information set out below was current as at 24 September 2008.

Substantial shareholders

Substantial shareholders of ordinary shares are specified in the table of the top twenty shareholders set out right.

Voting rights

Ordinary shares

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

- on a show of hands has 1 vote; and
- on a poll has 1 vote for every share held.

Options

No voting rights attach to any options on issue.

Distribution of shareholdings

Ordinary shares

Range	Holders	Units	%
1 – 1,000	692	173,855	17.656
1,001 – 5,000	79	173,120	17.582
5,001 – 10,000	9	66,407	6.744
10,001 – 100,000	16	429,357	43.604
100,000 – over	1	141,924	14.413
Totals	797	984,663	100.000
Non-marketable parcel	15	141	

Options issued under the Employee Options Scheme

Range	Holders	Units	%
1 – 1,000	9	4,939	4.322
1,001 – 5,000	27	81,740	71.530
5,001 – 10,000	4	27,595	24.148
10,001 – 100,000	0	0	0.000
100,000 – over	0	0	0.000
Totals	40	114,274	100.000

Twenty largest shareholders

Ordinary shares

Name	Number of ordinary shares	%	Substantial shareholders
SMF Funds Management Ltd	194,021	19.70%	Yes
Mr Howard Pender	49,821	5.06%	Yes
James Andrew Thier	49,767	5.05%	Yes
Caroline Margaret Le Couteur	49,436	5.02%	Yes
Mr Trevor Roland Lee	36,933	3.75%	
Mrs Judith Margaret Burton	33,683	3.42%	
Ms Judith Ingrouille Ajani	24,662	2.50%	
Mr Bruce Allan Mc-Gregor & Mrs Ann Marion McGregor	24,447	2.48%	
Gang - Gang Pty Ltd	23,310	2.37%	
HB Sarjeant & assoc Pty Ltd	19,142	1.94%	
Dr Edward Arthur Iceton	16,500	1.68%	
Daisy Thier	14,479	1.47%	
Denholm Invest-ments Pty Ltd	13,690	1.39%	
Mr Peter Alexander Anderson	10,833	1.10%	
Mr Philip Julian Eriksen & Mr Julian Hans Erkisen	10,562	1.07%	
Mr Michel Beuchat & Mrs Ann Beuchat	9,667	0.98%	
Ms Anne Maree O'Donnell	9,150	0.93%	
Ms Susie Edwards	7,941	0.81%	
Est Mrs Hanneliese Claire Graf	7,347	0.75%	
Mr Rodney Matthew Myer	7,332	0.74%	

Corporate directory

Australian Ethical Investment Ltd
ABN 47 003 188 930

Company secretary

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

Postal address

GPO Box 2435
Canberra ACT 2601

Registered office / place of business

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

www.austethical.com.au

Share registry

Registries Limited
ABN 14 003 209 836

Street: Level 2, 28 Margaret Street
Sydney NSW 2000

Telephone: 02 9290 9600
Facsimile: 02 9279 0664
Mail: PO Box R67
Royal Exchange
Sydney NSW 1223
Email: registries@registriesltd.com.au

www.registriesltd.com.au

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

Stock exchange listing

Australian Securities Exchange ASX code:
AEF

Corporate vision and mission

Australian Ethical's vision

By its operations Australian Ethical will promote a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose as well as in pursuit of competitive return for chosen risk.
Australian Ethical's mission

Australian Ethical's mission is to provide those investors who share our social and environmental aims (as set out in our charter) with the means to earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment.

In order to fulfil our mission our goals are:

- to select every investment with which we are involved in accord with the Australian Ethical Charter;
- to earn a competitive return for the chosen level of risk upon every portfolio with which we are involved;
- to conduct our own operations in accord with the items of the Australian Ethical Charter, in particular we seek to:
  - nurture staff participation and control of Australian Ethical;
  - achieve a high standard of administrative service for investors in our products;
  - ameliorate wasteful or polluting practices in our own business operations;
  - envourage, care for and provide educational opportunity for our fellow workers, respect their individual needs, aspirations and idiosyncrasies;
  - and ensure our promotional material is comprehensive, transparent and readily understood.
- to generate and disseminate information regarding standards of corporate behaviour and to engage in dialogue with the corporate sector in terms of the items set out in the Australian Ethical Charter.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