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investment + superannuation

ASX Announcement

pureinvestment**performance**

ASX Code: AEF
Date: 16 October 2009

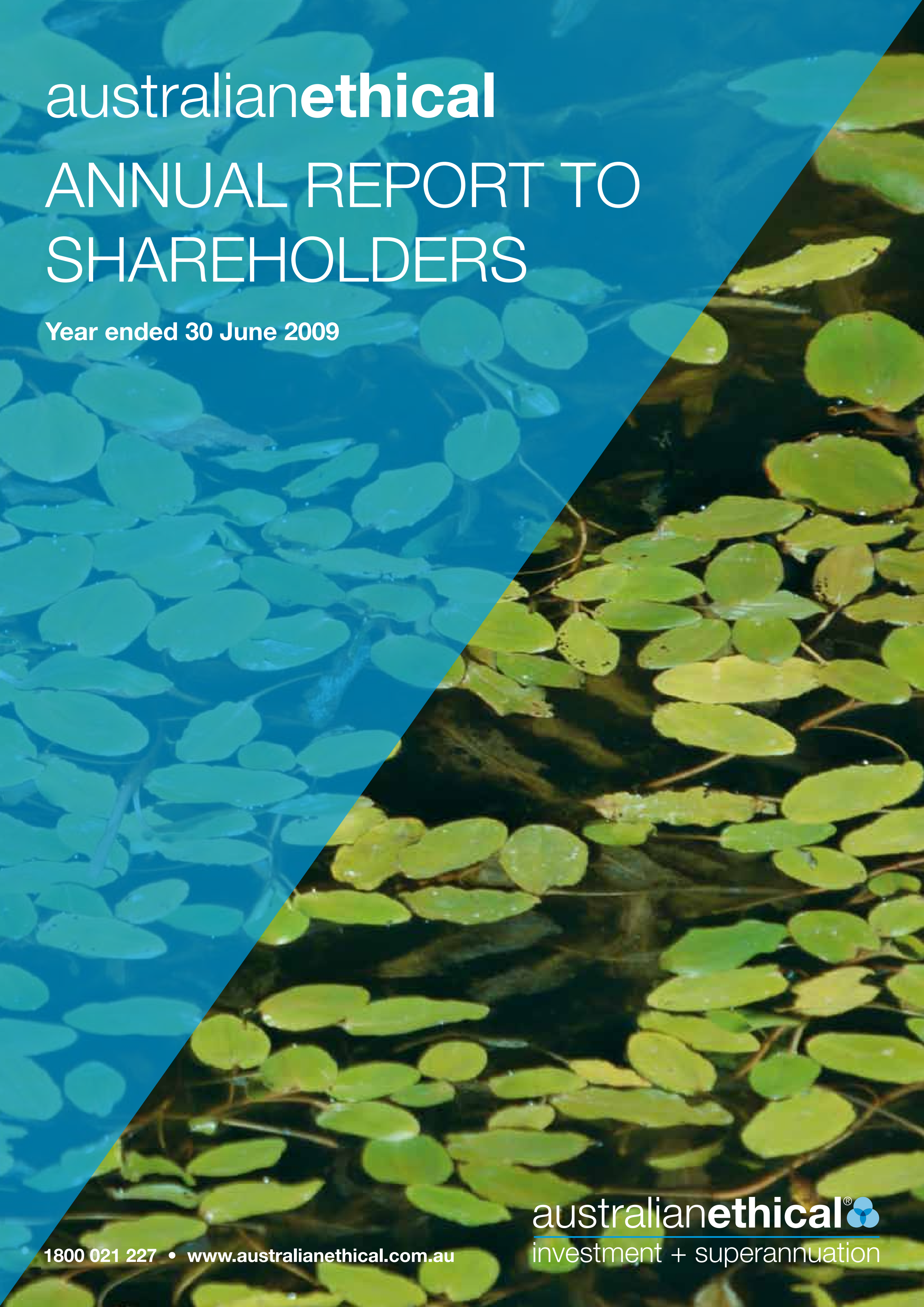
2009 Annual Report

Please find attached a copy of Australian Ethical's 2009 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.



australian**ethical**

ANNUAL REPORT TO SHAREHOLDERS

Year ended 30 June 2009

1800 021 227 • www.australianethical.com.au

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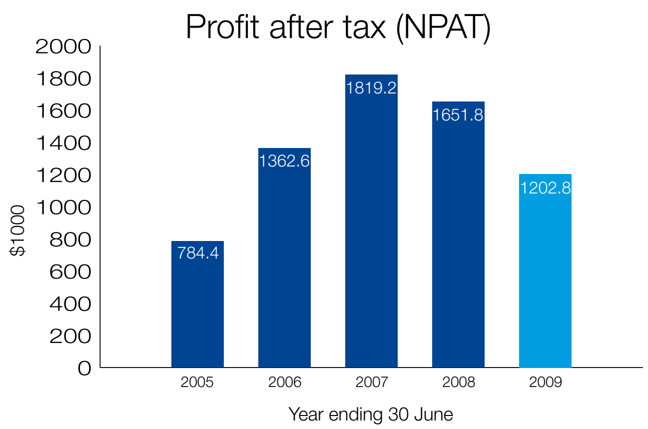
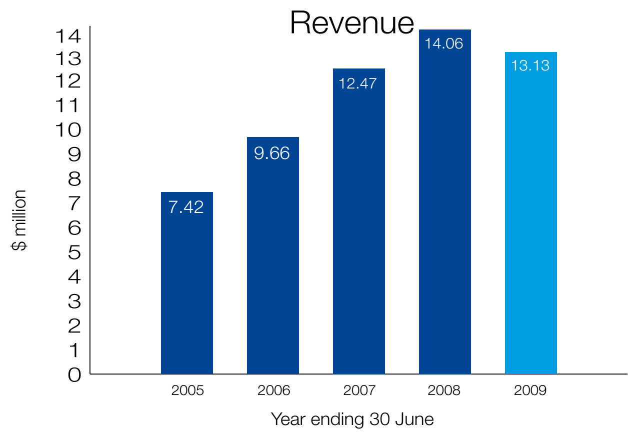
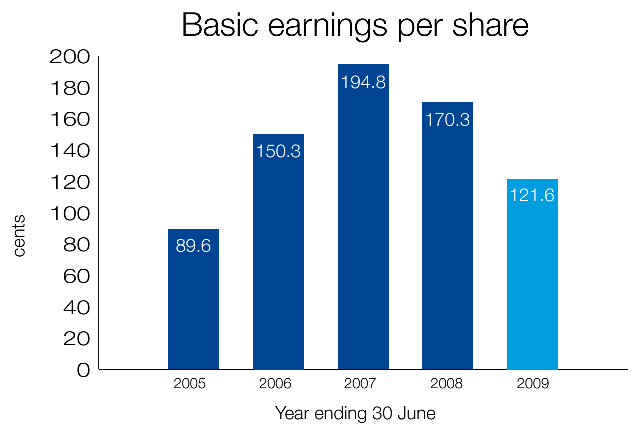
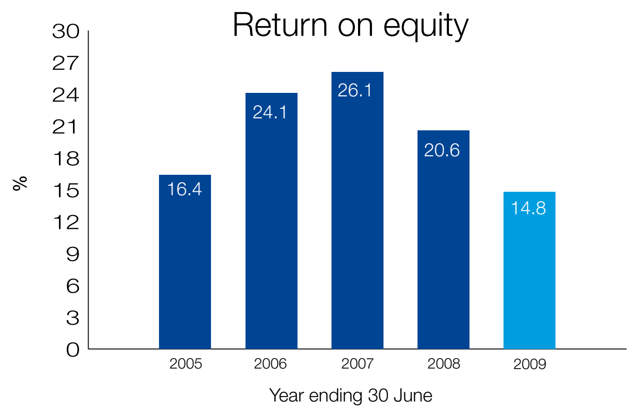
Financial summary to 30 June 2009

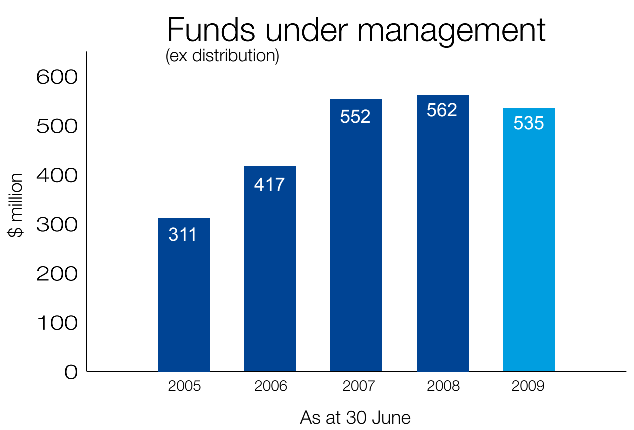
as at	30 June 2009	30 June 2008	30 June 2007	30 June 2006
Current assets ($'000)	6 369	6 362	5 174	5 176
Non-current assets ($'000)	4 686	4 790	4 879	3 103
Current liabilities ($'000)	2 519	2 658	2 293	1 928
Non-current liabilities ($'000)	83	113	76	77
Net assets ($'000)	8 453	8 381	7 684	6 274

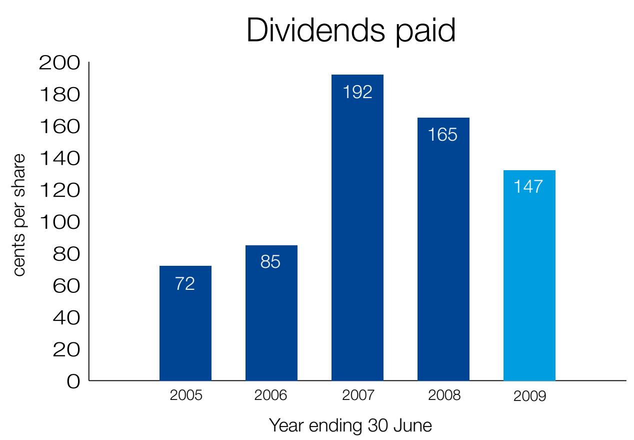












2005 figures in the above tables and graphs have been adjusted where necessary as for first time adoption of Australian equivalents to International Financial Reporting Standards (AIFRS).

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;

xi. contribute to the inhibition of human rights generally.

Chair's report

Significant investments for the future

Australian Ethical has recorded a solid result for 2009, with a dividend declaration of $1.47 per share and a return on equity of 14.8%. While both these figures are lower than our 2008 returns ($1.65 per share and 20.6%, respectively) they are reasonable in light of the market turbulence experienced over the past twelve months. The last year has been a difficult one for Australian financial services companies. A number have collapsed. Many have found their business model to be inadequate in such times. Many have suffered a loss of investor funds and/or poor returns on the funds they manage. Australian Ethical has not been immune from the pressures. Nevertheless our business and our balance sheet remain strong with the ability to finance the strategic initiatives discussed below.

Your board is absolutely committed to growing Australian Ethical and to regaining the momentum lost during the global financial crisis. Our passion to grow the company stems from three imperatives:

1. Growing funds under management will allow us to achieve economies of scale which will in turn support ongoing investments in the systems and marketing campaigns that our people and brand deserve, and will enable ongoing delivery of excellent returns to shareholders.
2. We believe that the planet faces urgent environmental problems and that growing our model of sustainable and ethical investment will help companies and investors who want to solve these problems.
3. We want to provide our staff, customers and shareholders with the excitement and satisfaction that comes from being able to deliver real change, new opportunities and leadership in the field of sustainable investment.

We continue to believe that our key strength lies in our true to label brand, our consistently excellent investment performance and our strongly committed retail customer base. During 2009, board and management have considered the issue of how best to capitalise on the Australian Ethical brand, while recognising that many people are nervous about the stock market in general and stock picking in particular.

To this end, we have developed two new trusts this year which we believe will have considerable appeal to both retail and institutional investors:

Australian Ethical Property Trust – this trust aims to provide a lower risk vehicle for investors, while capitalising on government and consumer support for green buildings. It is unique in the market, and once it starts to grow will be an exciting option within our product suite.

Climate Advocacy Fund – this is a new type of trust in the Australian market. It will be a low fee, passive portfolio construction, index fund that advocates in a responsible way through its shareholdings on matters relevant to the Australian Ethical Charter. It will have a particular focus in the early years on climate and environmental issues, but may also engage with investee companies on broader issues under our Charter, such as social issues.

But new products alone will not be enough to achieve the growth target we have set ourselves. We also need to improve our distribution reach, including into financial planning groups and self managed super funds. On the financial planning front we are considering a variety of options that will give us better leverage with financial planning groups and make our products more attractive to them. We launched a new PDS for our trusts on 1 October which includes a new fee structure which we expect will be more attractive to planners and direct investors alike. We continue to increase the number of presentations to financial planning groups and to improve relationships with them. We have also launched a new website which will help retail investors to invest with us and advisers to access the information they need.

On the institutional front, we are focused on overcoming obstacles to winning institutional mandates. Our progress here has been slower than desired, but the board and company remain committed to penetrating this market segment.

Last year I flagged that we would be reviewing some of our systems. This review has been carried out and resulted in the decision to outsource our trust registry function to Registries Limited. We have also recognised the need to replace our internal asset management system. Replacing these systems will enable us to deliver better service to our customers and investment team alike.

The coming financial year will include several one-off expenses (including CEO transition costs, new systems expenditure and new PDS and website production) that will impact profit in 2009–10. These expenditures are investments for the future and, together with improving market conditions, means that Australian Ethical is well positioned to lift performance over the coming years.

We remain focused on a clear vision of providing truly ethical investments to our clients, spreading the reach of our approach through a clear growth strategy and making investments over the next 12 months that will significantly lower our cost base going forward and deliver economies of scale.

I would like to thank all of our shareholders for your continued support of our company and what we stand for. We are working hard to deliver excellent returns to you, to make a positive contribution to the community and to be a great employer.

On that note, I would like to thank Anne O'Donnell for her hard work and contribution to the company over nine years as CEO of Australian Ethical. During those nine years, Australian Ethical has professionalised, listed on the ASX and maintained its strongly ethical approach – no small achievement. I am not yet in a position to announce who will replace Anne as CEO but we expect to do this by the end of November. The next CEO will be a person who retains the deep ethical commitment of Australian Ethical while being a significant force in driving its growth into the future.

Naomi Edwards
Chair

Chief Executive's report

As this will be my last report to you as CEO, I thought I would indulge in a little retrospection. There is always so much to do that it is easy to lose sight of what we have achieved. Occasionally, it is useful to pause and look back.

When I joined Australian Ethical in late 2000 the company had $85 million funds under management and profitability was minimal. We were little known in the mainstream financial market, indeed those who did know us considered us a quaint market oddity and I remain convinced that industry colleagues expected me to turn up to meetings in a caftan and were disappointed when I did not.

There have been many challenges in our journey to increase the professionalism of the organisation and to grow our business and to do so in a way which did not compromise our commitment to the ethical charter. We have built a strong and profitable business which has weathered the most difficult of financial times well. We are now recognised as an expert in our field and respected for the commitment we have shown to our principles. We have met the challenges of continuous changes in legislation which have been thrust upon us. Today Australian Ethical has a very professional and dedicated senior team and our key person risk has been significantly reduced. These achievements are the result of a team effort. I have been privileged to lead that team and I am very proud that through our growth and significant change we have been able to retain the core of our distinct culture.

Australian Ethical has produced a solid result during a period of unprecedented turmoil in the global financial markets. We recorded a consolidated net profit after income tax of $1.2m. This trading result represents a decrease on the previous financial year's result of $1.6m. 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 reasonable result.

The company has experienced a number of positives during the past 12 to 18 months. We have a strong balance sheet with no debt, we have not experienced any significant change in historic outflow patterns and the majority of our funds have achieved excellent relative performances. Market uncertainty and volatility did impact investor confidence, and inflow into our managed funds and superannuation were down through the period. Whilst our funds under management fell to a low of $461 million in March 2009, we have seen a significant turn around since that time. Our funds under management are now above $600 million and inflows are returning.

The Australian Ethical Superannuation Fund continues to be a growth engine of the business. Despite some regrettable disruptions during transition to our new superannuation administrator, membership of our superannuation fund continues to grow steadily with the business contributing strongly to our overall result.

This year we have adopted industry practice in relation to cost allocations to the managed funds and superannuation fund. This change, along with savings which will continue to flow from changes we have previously made to our custodian and superannuation administration providers, have the potential to positively impact our profitability going forward.

The last 12 to 18 months have been a very difficult and often trying time. It has been my privilege to lead such a hard working and dedicated team. I hand over control of the company to my successor in the knowledge that the company is in great shape and has a bright future. I would like to thank all my wonderful staff for their support during my tenure. I would also like to thank a number of past staff who were vital in the establishment of the company. Their vision and commitment helped us to establish a business model which has survived these difficult times. I look forward to seeing you at the annual general meeting on the 19 November.

Anne O'Donnell
Chief Executive Officer

Australian Ethical remains committed to conducting our operations in accordance with the Australian Ethical Charter. Below are some of the year's sustainability highlights. Further information on Australian Ethical's social, environmental and economic performance will be provided in the company's 2009 sustainability report.

Awards

Australian Ethical won a number of sustainability awards this year.

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 twentieth 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.

Australian Ethical Equities Trust awarded the Ethical Investor Fund of the Year Award at the 2008 Australian Sustainability Awards – December 2008

Lonsec, the award judge said 'the fund scored highly on the depth of socially responsible investment and was a clear outperformer over the assessed period.' The Australian Ethical Equities Trust was ranked second, first, first and first over one, two, three and five years out of 40 Multi-Sector High Growth funds (Morningstar).

Infinity Award presented to the Australian Ethical Retail Superannuation Fund for the most environmentally and socially conscious fund – March 2009

For the second year in a row, the Australian Ethical Retail Superannuation Fund won the Infinity Award at the Conference of Major Super Funds (CMSF). The Infinity Award, presented by SuperRatings, signifies the Fund as Australia's most environmentally and socially conscious fund and a leader in sustainable investment and sustainable business practices.

First runner up for Best SME Report at the CR Reporting Awards 2008 – March, 2009

Australian Ethical Investment's 2007 Sustainability Report was awarded first runner up for Best SME Report at the CR Reporting Awards 2008. 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.

Awarded 5 star NABERS Energy whole building rating for Trevor Pearcey House – June 2009

NABERS benchmarks a building's greenhouse impact on a scale of one to five, one star being the most polluting and five stars the least. The rating system assists owners and tenants to reduce energy use, energy costs and greenhouse emissions. The NABERS Energy rating is effective until July 2010.

Grants to community organisations

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 2009 Australian Ethical paid $140,868 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.

$45,000 awarded to Co-operation in Development (CO-ID)

The building schools, bringing hope project aims to provide free basic education to children in Bangladesh.

The successful CO-ID primary school in the 5 Doors area, one of the poorest areas of Bangladesh, is under threat following the partial collapse of a nearby levy. CO-ID will use the grant to rebuild a new combined primary and secondary school with an elevated protective mud wall.

The new style of school to be constructed will provide the base for expanded education over the next twenty years. This will enable CO-ID to provide free education and training to more students. Stationery and other necessities will also be provided. In addition, evening education will be made available to senior students aged over nine who have had to leave school to enter the workforce.

www.fredhyde.org

Mini-documentary competition on the theme 'Corporate Responsibility and the Environment'

Australian Ethical wishes to promote better public understanding of the link between corporate actions and the state of the natural environment. Australian Ethical provide $40,000 to sponsor a prize for very short documentaries (for example mash-ups) on this subject. The prize will be awarded at a documentary film-making conference to be held in Adelaide in late February 2010. Australian Ethical will collaborate with the Documentary Australia Foundation to promote the competition.

Further information on our Community Grants scheme, including application guidelines and selection criteria is available on our website.

$45 000

Co-operation in Development Organisation will construct a school in a remote part of the Ganges Delta, Bangladesh. It will provide free education for kindergarten and primary students, as well as evening classes for senior students (aged over nine) who have had to leave school to enter the workforce.

$40 000

An Australian Ethical initiated mini-documentary competition on the theme 'Corporate Responsibility and the Environment'

$5000

ACT Eden Monaro Cancer Support Group

Australian Marine Conservation Society

$2800

ACT Frogwatch

Alzheimer's Australia NSW

Australian Red Cross

Barefoot Economy

Bush Heritage Australia

Free the Bears Fund

Pedal Power ACT

Sydney Cochlear Implant Centre

The Grey Man

Wildcare Queanbyan

$1500

CARE Australia

Condobolin and Districts Landcare

East Timor Women Australia

Hope Street - Urban Compassion

International Women's Development Agency

International Women's Development Agency

New Internationalist Publications

NSW Wildlife Information Rescue & Education Service

Sea Turtle Foundation

Spinal Cord Injuries Australia

The Cerebral Palsy Foundation

WaterAid Australia

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

Corporate governance statement 2009

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 second edition of the Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Council's Principles of Good Corporate Governance and Best Practice Recommendations provide a framework for good governance set out in eight core principles and 27 specific recommendations.

Australian Ethical has provided information on its corporate governance practices against all recommendations. This corporate governance statement will be placed onto the corporate governance section of the company's website.

Principle 1 - Lay solid foundations for management and oversight

Australian Ethical has formalised the functions reserved to the board and those delegated to management.

Board responsibilities

The Australian Ethical Board is directly responsible for the following activities.

- Setting the strategic direction of Australian Ethical
- Annual appraisal of the Board
- Approval of Board committee fees
- Recommendation to shareholders on the aggregate level of directors' fees
- Approval of individual director fees
- Appointment and removal of the CEO
- Annual appraisal of the CEO
- Approval of the annual operational and capital expenditure budget and any material revisions
- Approval of major contracts, acquisitions or disposals which have not been approved in the budget
- Authorisation of Board project expenditure
- Accept and sign-off of the annual audited accounts and directors' report for the Australian Ethical group
- Approval of the issue of shares and options
- Approval of significant changes to unit trust fees, including discount programs
- Approval of significant changes to products or product offerings
- Approval of the constitutional bonus and tithe amounts
- Approval of the terms and conditions for any employee share ownership scheme, or if shareholder approval is required, approval of recommendations to shareholders
- Approval of employee performance based remuneration programs
- Approval of dividend payments and any DRP
- Authorisation of the issue of the Trust PDS
- Approval of risk management and compliance programs
- Approval of significant company policies
- Approval of indemnity, crime, director and officer and similar insurance programs
- Protection and promotion of the Australian Ethical Charter

The Board makes the following general delegations.

Chair of the Board

The chair of the board is delegated with all necessary authority to carry out the following functions:

Inside the boardroom

- Acting as the link between the board and the company when the CEO is unable to perform this role;
- Establishing and maintaining an effective working relationship with the CEO;
- Setting the tone for the board, including the establishment of a common purpose;
- Chairing board meetings efficiently and shaping the agenda in relation to goals, strategy, budget and executive performance;
- Work with the Company Secretary and CEO to ensure that appropriate information is presented to the Board;
- Ensuring contributions by all board members and reaching consensus when making decisions;
- Motivating board members and where appropriate dealing with underperformance;
- Instituting the process for appraising board members individually and the board as a whole;
- Overseeing conducting and finalising negotiations for the CEO's employment and evaluating the CEO's performance;
- Assisting with the selection of board committee members.

Outside the boardroom

- Communicating with shareholders on matters of corporate governance;
- Chairing shareholder meetings – annual and extraordinary general meetings (AGMs and EGMs);
- Ensuring compliance with ASX Listing Rules and continuous disclosure requirements;
- Increasingly, being available to speak with large institutional investors;
- In conjunction with the CEO, communicating Board views to staff.

Board Committees

Board committees are delegated with all necessary authority to carry out their functions as set out in Board committee charters.

CEO

Other than in respect of:

- those responsibilities reserved to the Board;
- delegations (general or specific) made by the Board to the Chair, Board Committees, Directors or other senior executives,

the CEO is delegated with all necessary authority to run Australian Ethical on an ongoing, day to day basis.

Specifically the CEO is delegated with responsibility and authority for the following:

- Implementing the strategic direction set by the Board;
- Implementing the risk management and compliance programs approved by the Board;
- Approval and maintenance of Expenditure and Payment Guidelines;
- Approval and maintenance of Employee Authorisations;

- Employment, termination and suspension of staff;
- Employee remuneration;
- Employee policies and procedures.

The above responsibilities and delegations are made public through the publication of this statement and the inclusion of the statement in the corporate governance section of the company's website.

Evaluating the performance of senior executives

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

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;
- where remuneration is subject to the achieve of performance hurdles, review and discuss the achievement of those hurdles and determine the amount of any performance based remuneration.

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

An evaluation of the performance of senior executives was undertaken in the financial year in accordance with the process described above.

Principle 2 - Structure the board to add value

Independent directors

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.

These areas reflect the relationships set out as relevant in the ASX Corporate Governance Council's Principles and Recommendations.

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 classification of directors who held office during or since the end of the financial year is as follows:

Name	Position	
Caroline Le Couteur	Executive, non-independent	Retired 27 November 2008
James Thier	Executive, non-independent	
Howard Pender	Executive, non-independent	
Naomi Edwards (Chair)	Independent	
Justine Hickey	Independent	
Anne O'Donnell (CEO)	Executive	Resigned directorship 11 August 2009
Les Coleman	Non-executive, non-independent	
André Morony	Independent	

The board of Australian Ethical did not comprise a majority of independent directors during the reporting period. For the first five months of the reporting period, the board comprised four non executive directors (three of whom are considered independent) and four executive directors. For the remaining seven months, the board comprised four non executive directors (three of whom are considered independent) and three executive directors.

Les 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 such he is associated with a substantial shareholder (albeit in a limited way), and therefore given the above criteria is not classified as an independent director.

At the date of this report, the board has an equal number of independent and non-independent directors, with four non-executive directors out of a board of six directors.

The board's approach to composition is to seek to maintain 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;
- 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

The Board established a nominations committee in February 2009 by expanding the responsibilities of the Remuneration committee, to form the Remuneration and Nominations Committee. Naomi Edwards and Justine Hickey are the members of the Remuneration and Nominations Committee. Attendance at meetings are detailed in the directors' report. A summary of the Committee's charter is available from the corporate governance section of the company's website.

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.

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.

An assessment in accordance with the above process was undertaken in the relevant period.

Director skills and experience

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.

Selection and appointment of directors and re-appointment of incumbents

The Remuneration and Nominations Committee has the following responsibilities:

- assess the necessary and desirable competencies of directors;
- ensure the directors have the appropriate mix of competencies to enable the board to discharge its responsibilities effectively;
- develop board succession plans to ensure an appropriate balance of skills, experience and expertise is maintained;
- make recommendations to the board relating to the appointment and retirement of directors.

The Remuneration and Nominations committee will at least annually consider the above responsibilities, the current board composition, any nominations or suggestions for directorship, and the assessment of incumbent directors and make recommendations to the board on composition.

Principle 3 - Promote ethical and responsible decision making

Code of conduct

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

Share trading

The company has a share trading policy which applies to directors and staff. It is available on the company's website.

Principle 4 - Safeguard integrity in financial reporting

Audit committee

Throughout the period, the board had an Audit Committee consisting of three members.

Up to 31 December 2008, the Audit Committee consisted of one independent director (Naomi Edwards), one external member (Ruth Medd) and the company secretary.

On 1 January 2009, the Audit Committee merged with the Compliance and Risk Committee to form the Audit, Compliance and Risk Committee. The membership of the Audit, Compliance and Risk Committee is one external member (Ruth Medd, chair), one independent director (Naomi Edwards) and one non-executive director (Les Coleman).

Ms Medd is the independent 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 Committee does not consist of only non-executive directors of the company (it has one external member).

A summary of the 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 consistent with the spirit of the recommendations and the committee is able to perform its functions with independence and diligence.

In particular:

- the committee is comprised only of non-executives;
- at a number of meetings the committee speaks directly to the external auditor in the absence of executive management.

The 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.

Principle 5 - Make timely and balanced disclosure

The company has written policies and procedures designed to ensure compliance with the ASX Listing Rule disclosure requirements and accountability at senior executive level for compliance. The disclosure policy appears in the corporate governance section on the company's website.

Principle 6 - Respect the rights of shareholders

The company does not have separately documented policy for shareholder communication, but it 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, including company announcements. A facility is available to shareholders to be advised via e-mail when announcements are made. The company's website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings.

The company 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.

The company 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.

Principle 7 - Recognise and manage risk

Policies for the oversight and management of material business risks

The company has established policies for the oversight and management of material business risks. The company's risk management guide is available from the corporate governance section of the company's website.

The board has required management to implement a risk management system consistent with the company's risk management guide. The board has required management to report to it on whether material business risks are being appropriately managed. During the relevant period, management has reported to the board's Audit, Compliance and Risk Committee and directly to the board as to the effectiveness of the entity's management of its material business risks.

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

CEO and CFO sign-off of financial reports

The company requires the CEO and the CFO 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.

The CEO 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 control, and that the system is operating effectively in all material respects in relation to financial risks.

Principle 8 - Remunerate fairly and responsibly

Remuneration committee

The board has a Remuneration and Nominations committee. The members of the Committee throughout the relevant period were Naomi Edwards and Justine Hickey. Details of attendance at meetings of the Committee are provided in the directors' report. The charter for the Committee is available in the corporate governance section of 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 report distinguishes the structure of non-executive director remuneration and that of executive directors. Non-executive directors receive fees for serving as a director in the form of cash payments, plus mandated superannuation contributions. They do not participate in bonus or equity schemes designed for the remuneration of executives.

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 2009. 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 2009 and to the date of this report are:

Name	Time in Office	
Caroline Le Couteur	18 years	Retired 27 November 2008
James Thier	18 years	
Howard Pender	18 years	
Naomi Edwards	4 years	
Justine Hickey	2 years	
Anne O'Donnell	1 year	Resigned 11 August 2009
Les Coleman	1 year	
André Morony	1 year	

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 managed funds (registered managed investment schemes). The controlling entity's wholly owned subsidiary, Australian Ethical Superannuation Pty Limited, was trustee of the Australian Ethical Retail Superannuation Fund during the financial year.

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

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 2009 of $1,202,752. This result is a 27% decrease on the result of $1,651,790 for the previous financial year.

Review of operations

The financial result for 2009 reflects a careful navigation by Australian Ethical through the turmoil of the global financial markets over the last twelve to eighteen months. While inflows have reduced significantly, particularly to our non-superannuation managed funds, we have held outflows at a stable level and preserved investor confidence in both our brand and our nvestment approach. We continue to have a strong balance sheet with no debt, stable net inflows into our superannuation fund and excellent relative performance of the majority of our managed funds.

Market uncertainty and net outflows for our non-superannuation managed funds have impacted our funds under management. Our funds under management fell to a low of $461M in March 2009. This was a 28% decrease from our peak of $645M in December 2007, less than the general falls experienced by the market (the All Ordinaries index experienced a 55% decrease from its peak in November 2007 to its low in March 2009). Since March 2009 the market has stabilised and indeed rallied and we have experienced increased average monthly inflows into the managed funds. This appears to reflect a return to more positive investor sentiment generally. As at 30 June 2009, funds under management totalled $535M (ex. distribution). This compares with funds under management of $562M (ex. distribution) as at 30 June 2008. The aggregate distribution amount paid for the current period was $3.5M, compared to a distribution the previous year of $9M. Funds under management currently stands at $573M.

In response to market difficulties and uncertainties during the year we instigated a number of cuts to expenditure, principally in the areas of salary and wages, consultants, training and travel. We also adopted industry practice in relation to cost allocation to the managed funds and superannuation fund.

Despite these measures the fall in funds under management resulted in an increase in the costs to income ratio[1]- increasing from 80% in 2008 to 83% in 2009. This increase is in contrast with the steadily declining trend experienced in the period prior to the global financial crisis. Return on equity was also impacted falling from 20.6% to 14.8%.

In April 2008 the administration of the superannuation fund was transitioned to a new service provider. As is often experienced with transitions of this nature, a number of issues arose during the process resulting in delays in completing the transition. Regrettably there were disruptions to some clients, and the level of disruption was exacerbated by a greater than anticipated demand for service during the volatile financial times. Membership of the superannuation fund continues to grow and the superannuation business (Australian Ethical Superannuation Pty Ltd) again contributed significantly to the group result. Superannuation continues to be the growth engine of the business.

As required under the company's constitution, an amount of $140,868 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.

Martin Halloran was appointed Chief Investment Officer in August 2008, bringing considerable experience and strength to the AEI investment team. In November 2008, the company's Information Technology Manager (and executive director), Caroline Le Couteur, left the company. Except as described in this report, the company did not make any significant changes to its core funds management operations during the 2008/2009 financial year.

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

Financial position

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

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

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 urrently 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

In recent months we have seen a stabilisation of markets and a significant rally. There is considerable debate however on the pace of recovery and whether the worst effects of the global financial crisis are now behind us. While Australian Ethical has a strong product offering for the future and retains a loyal retail investor base, it is not immune to market volatility and negative investor sentiment and the coming months will be navigated with caution.

During this and the preceding financial year Australian Ethical made a number of changes to its operations which have had a positive impact on expenses. 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 decides on their appropriateness. Reviews during the last financial year resulted in a decision to withdraw the World Trust and to establish a Property Trust. We have maintained access to ethical international investments via our existing International Equities Trust. Work has continued on a product that will tap the rise in shareholder activism and concerns about climate change. We expect to bring this product to the market during the current financial year. We believe this product has the potential to offer exciting opportunities to leverage our expertise and expand our customer base.

We continue to work on our marketing and distribution arrangements, with a campaign planned around the launch of our new product disclosure statements and website later this year.

The company has been exploring a number of possible alliance's however at this time the company has no plans to make any significant changes to its core operations.

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

On 11 August 2009 the company announced that Anne O'Donnell, CEO and Managing Director would end her employment effective 11 December 2009. The Board has commenced a search for a replacement CEO and expects to complete this by November 2009.

The directors have declared that a final dividend of $1.32 per ordinary share (fully franked) be paid to shareholders. This is in addition to the interim dividend of 15 cents per ordinary share paid in March 2009. The total dividend for the year will be $1.47 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 the 2008-09 dividend, or on the dividend payout ratio for the 2008-09 year.

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 2009, 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 or maintained 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

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

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

Howard Pender
B.A.(Hons)
Executive Director

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

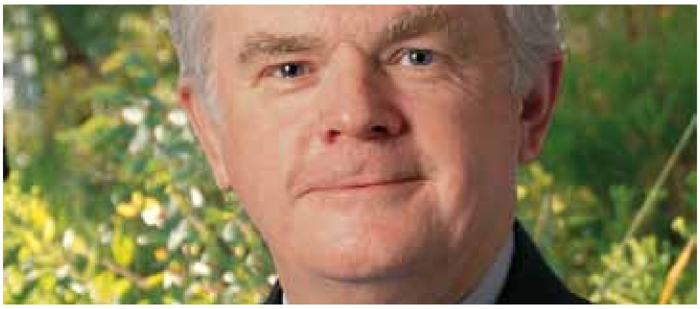
James Thier
B.Sc.(Hons)
Executive Director

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

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

Anne O'Donnell
BA MBA FAICD
Managing Director

Resigned 11 August 2009

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. She is a director of the Community CPS Australia Credit Union. Anne's employment with the company will end on 11 December 2009.

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

André started his 30 years in the finance sector at the Commonwealth Treasury, where he worked in a number of financial policy areas and also represented Australia for three years at the Organisation for Economic Cooperation and Development in Paris. He then had various roles at Bankers Trust Australia (BT) including as Chief Economist and Chief Investment Officer where he was responsible for over $40 billion of investments. From 2001-2006, André was Chief Investment Officer at ARIA, the Australian Government employees' $16 billion superannuation fund. André believes that the 'active' investment industry should play an important role in maintaining the health of the modern market economy by directing capital towards industries and firms generating higher returns and away from industries in decline. He was attracted to Australian Ethical because its approach adds another dimension to this idea. By operating in accordance with its Ethical Charter, it directs capital to industries and firms that not only offer the prospect of above average returns but also offer more general benefits to society and the environment. André currently sits on the boards of RBS Funds Management (Australia) Ltd , GESB Mutual Limited, Challenger LBC Terminals Jersey Limited and Steam Packet Group. He is also on the Catholic Superannuation Fund investment committee. André is a member of the board's investment committee.

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

Retired 27 November 2008

Caroline left the company after being elected to the ACT Legislative Assembly. Caroline was the company's Information Technology manager.

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		Audit (merged 31 December)		Finance (ceased 31 December)		Investment		Remuneration & Nominations		Compliance and risk (merged 31 December)		Audit Compliance and Risk (commenced 1 January)	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
Caroline Le Couteur	2	2	-		-		-		-		-		-	
James Thier	7	7	-		-		2	1	-		2	2	-	
Howard Pender	7	7	-	-	5	5	4	4	-		-		-	
Naomi Edwards	7	7	1	1	-		1		2	2	2	2	3	3
Justine Hickey	7	7	-		5	5	4	1	2	2	-		-	
Anne O'Donnell	7	7	-		5	5	-	-	-		-		-	
Andre Morony	7	6	-		-		2	2	-		-		-	
Les Coleman	7	7	-		-		-	-			-		3	2

Directorships held in other listed entities in the last three years

Name	Entity	Period of directorship
Justine Hickey	Hyperion Flagship Investments Limited	3 years
André Morony	Macquarie Private Capital Group Limited	1.5 years

Directors' relevant interests in securities of the company

Parent Entity Directors	Fully paid ordinary shares numbers	Share option numbers
Caroline Le Couteur	49,436	-
James Thier	51,367	4,313
Howard Pender	50,252	4,308
Justine Hickey	700	-
Anne O'Donnell	11,988	8,582

Directors' holdings in registered schemes made available by the company

Caroline Le Couteur holds 1449.5079 units in the Australian Ethical Balanced Trust.

Anne O'Donnell holds 5116.2306 units in the Australian Ethical Large Companies Share Trust.

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	
Caroline Le Couteur	Director, executive	Retired 27 November 2008
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Chairperson, non-executive	
Justine Hickey	Director, non-executive	
Anne O'Donnell	Managing Director, executive	Resigned 11 August 2009
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	

Executives

Name	Position	
Martin Halloran	Chief Investment Officer	Appointed 27 August 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	
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.

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

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[2] 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[3] 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 individual performance based elements were introduced for some senior managers over the last two years.

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 2007/2008 year profits of 165 cents per share. The dividend declared by the directors for the 2008/2009 year is 147 cents per share.[4]

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[5]
17 December 2002	$12.50
30 June 2003	$11.30
30 June 2004	$13.00
30 June 2005	$17.20
30 June 2006	$28.50
30 June 2007	$48.00
30 June 2008	$34.00
30 June 2009	$22.00

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

[3] See Note 24 in the attached financial report

[4] An interim dividend of 15 cents per share was paid in March 2009, so the final payment to shareholders will be 132 cents per share.

[5] Where shares were not traded on the day specified, the price quoted is the closing daily price when trades did occur on the dat earlier than the closest date specified.

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

Year	Earnings
2004/2005	$784,419
2005/2006	$1,362,612
2006/2007	$1,819,177
2007/2008	$1,651,790
2008/2009	$1,202,752

Remuneration details for the year ended 30 June 2009

Parent entity directors' remuneration

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*			**S300A(1)(e)(i) Proportion of remuneration performance related**	**S300A(1)(e)(vi) Value of options as proportion of remuneration**
2009	**Cash Salary and Fees**	**STI cash bonus**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**	**%**
Caroline Le Couteur	52,964	6,000	-	4,485	1,097	-	-	-	64,546	-	-
James Thier	158,515	26,300	-	15,863	3,297	-	1,000	4,979	209,954	10.7	2.4
Howard Pender	165,096	-	-	14,171	3,378	-	3,900	4,840	191,385	-	2.5
Naomi Edwards	71,500	-	-	6,435	-	-	-	-	77,935	-	-
Justine Hickey	30,000	-	-	2,700	-	-	-	-	32,700	-	-
Anne O'Donnell	224,420	5,000	-	20,973	6,327	-	6,000	23,726	286,446	1.7	8.3
André Morony	23,500	-	-	2,115	-	-	-	-	25,615	-	-
Les Coleman	24,000	-	-	2,160	-	-	-	-	26,160	-	-
Total	749,995	37,300	-	68,902	14,099	-	10,900	33,545	914,741		
2008											
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		

Approval for the issue of shares and options to executive directors was obtained under ASX listing rule 10.14 at the Annual General Meetings held in either November 2006 or November 2008, except for the issue of $6000 worth of shares to Anne O'Donnell in lieu of payment of a $6000 cash bonus under the employee share ownership scheme. As agreed with the Australian Securities Exchange, these shares were sold immediately once the failure to obtain shareholder approval was discovered. A loss was made on the sale of the shares.

Named executives remuneration (including other key management personnel)

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*			**S300A(1)(e)(i) Proportion of remuneration performance related**	**S300A(1)(e)(vi) Value of options as proportion of remuneration**
	Cash Salary and Fees	**STI cash bonus**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**	**%**
2009											
Philip George	177,375	6,000	-	15,831	3,558	-	-	19,434	222,198	-	8.7
Ruth Medd	42,000	-	-	3,780	-	-	-	-	45,780	-	-
Gary Leckie	178,422	6,000	-	15,990	5,284	-	-	17,194	222,890	-	7.7
Tim Xirakis	190,597	6,000	-	15,789	3,675	-	-	16,979	233,040	-	7.3
Paul Harding Davis	193,503	32,535	-	19,697	3,989	-	2,770	9,498	261,992	12.4	3.6
Martin Halloran	201,721	-	-	11,517	4,173	-	-	-	217,411	-	-
Total	983,618	50,535	-	82,604	20,679	-	2,770	63,105	1,203,311		
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		

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The annual staff cash bonuses of $6000 per FTE employee were paid on 22 September 2008. The performance based cash bonuses for Mr Harding-Davis and Mr James Thier were paid on 16 July 2009. The performance based cash bonus for Ms Anne O'Donnell has not yet been paid, but is expected to be paid in September this year. 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 2009 year.

	Short term incentive bonus				
Parent Entity Directors	**Cash bonus (1) $**	**Performance bonus $**	**Share bonus $**	**Vested in year %**	**Forfeited in year (2) %**
Caroline Le Couteur	6,000	-	-	100	-
James Thier	3,800	22,500	1,000	90	10
Howard Pender	-	-	3,900	100	-
Anne O'Donnell	-	5,000	6,000	17	83
Named executives (including other key management personnel)					
Philip George	6,000	-	-	100	-
Gary Leckie	6,000	-	-	100	-
Tim Xirakis	6,000	-	-	100	-
Paul Harding Davis	-	32,535	2,770	65	35

(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 consisted 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

Parent Entity Directors	**Number of options vested during 2009**	**Number of options granted during 2009 (1)**	**Grant date**	**Fair value per option at grant date (2) ($)**	**Exercise price per option ($)**	**First exercise /expiry date**	**Last exercise /expiry date**
Caroline Le Couteur	2,243	-	-	-	-	-	-
James Thier	1,800	1,364	1/12/2008	3.65	32.27	14/10/2011	13/01/2012
Howard Pender	931	1,326	1/12/2008	3.65	32.27	14/10/2011	13/01/2012
Naomi Edwards	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-
Anne O'Donnell	3,006	2,648	14/10/2008	8.96	32.27	14/10/2011	13/01/2012
André Morony	-	-	-	-	-	-	-
Les Coleman	-	-	-	-	-	-	-
	7,980	5,338					
Named executives (including other key management personnel)							
Philip George	1,550	2,169	14/10/2008	8.96	32.27	14/10/2011	13/01/2012
Ruth Medd	-	-	-	-	-	-	-
Gary Leckie	1,387	1,919	14/10/2008	8.96	32.27	14/10/2011	13/01/2012
Tim Xirakis	-	1,895	14/10/2008	8.96	32.27	14/10/2011	13/01/2012
Paul Harding Davis	-	1,060	14/10/2008	8.96	32.27	14/10/2011	13/01/2012
Martin Halloran	-	-	-	-	-	-	-
	2,937	7,043					

(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 (1)
Caroline Le Couteur	2,243	24.82
James Thier	1,800	24.82
Howard Pender	931	24.82
Anne O'Donnell	3,006	24.82
Named executives (including other key management personnel)		
Phillip George	1,550	24.82
Gary Leckie	1,387	24.82

(1) Shares issued are fully paid.

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	AEFAQ	2,243	21/09/2005	100	-	21/09/2008
	AEFAS	1,910	22/09/2006	-	100	22/09/2009
	AEFAT	1,791	24/09/2007	-	100	24/09/2010
James Thier	AEFAQ	1,800	21/09/2005	100	-	21/09/2008
	AEFAS	1,432	22/09/2006	-	-	22/09/2009
	AEFAT	1,517	24/09/2007	-	-	24/09/2010
	AEFAV	1,364	1/12/2008	-	-	14/10/2011
Howard Pender	AEFAQ	931	21/09/2005	100	-	21/09/2008
	AEFAS	1,469	22/09/2006	-	-	22/09/2009
	AEFAT	1,513	24/09/2007	-	-	24/09/2010
	AEFAV	1,326	1/12/2008	-	-	14/10/2011
Anne O'Donnell	AEFAQ	3,006	21/09/2005	100	-	21/09/2008
	AEFAS	2,909	22/09/2006	-	-	22/09/2009
	AEFAT	3,025	24/09/2007	-	-	24/09/2010
	AEFAU	2,648	14/10/2008	-	-	14/10/2011
Named executives (including other key management personnel)						
Philip George	AEFAQ	1,550	21/09/2005	100	-	21/09/2008
	AEFAS	2,356	22/09/2006	-	-	22/09/2009
	AEFAT	2,469	24/09/2007	-	-	24/09/2010
	AEFAU	2,169	14/10/2008	-	-	14/10/2011
Gary Leckie	AEFAQ	1,387	21/09/2005	100	-	21/09/2008
	AEFAS	1,443	22/09/2006	-	-	22/09/2009
	AEFAT	1,767	24/09/2007	-	-	24/09/2010
	AEFAU	1,919	14/10/2008	-	-	14/10/2011
Tim Xirakis	AEFAS	1,387	22/09/2006	-	-	22/09/2009
	AEFAT	1,776	24/09/2007	-	-	24/09/2010
	AEFAU	1,895	14/10/2008	-	-	14/10/2011
Paul Harding Davis	AEFAU	1,060	14/10/2008	-	-	14/10/2011

Modification of terms of options

At the 2008 Annual General Meeting (held 27 November 2008) it was resolved to include the following terms and conditions in option classes AEFAS and AEFAT.

"Where:

- *a takeover bid (as defined in the Corporations Act) is made for the Company and the bidder has or acquires a relevant interest in more than 20% of the voting shares in the Company; or*
- *in the reasonable opinion of the Board, another transaction is proposed under which control of the Company is likely to pass from the then existing shareholders, including, without limitation, a scheme of arrangement,*

then options in classes AEFAS and AEFAT will become exercisable at that time, and must be exercised within three months of becoming so exercisable, otherwise the options will lapse.

In the event that:

- *the Company has announced a buy-back scheme to purchase shares resulting from the exercise of options granted in classes AEFAS and AEFAT;*
- *the option holder wishes to sell all or some of the shares resulting from the exercise of the options during the exercise period for those options,*

then the option holder will offer the Company a first right of refusal to match in quantum and price any other offer made to purchase those shares from the option holder."

The market price of the underlying company shares on 27 November 2008 was $27.00. The number of options in classes AEFAS and AEFAT held by key management personnel are set out in the table above. Each option is for one ordinary share in the company. The exercise price and time remaining until expiry immediately before alteration is as follows:

Options Reference	Time remaining until expiry	Exercise Price
AEFAS	13 months	$32.50
AEFAT	25 months	$57.57

It is the view of the directors that the difference between the total of the fair value of the options affected by the alteration immediately before the alteration and the total of the fair value of the options immediately after the alteration was immaterial.

Analysis of movements in options

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

	Granted as part of Remuner-ation (1) $	Value of Options ex-ercised in Fin Year (2) $	Value of Options Lapsed in Fin Year (3) $
Parent Entity Directors			
Caroline Le Couteur	-	13,862	9,537
James Thier	4,979	4,724	-
Howard Pender	4,840	2,961	-
Naomi Edwards	-	-	-
Justine Hickey	-	-	-
Anne O'Donnell	23,726	9,559	-
	33,545	31,106	9,537
Named executives (including other key management personnel)			
Philip George	19,434	9,579	-
Ruth Medd	-	-	-
Gary Leckie	17,194	8,572	-
Tim Xirakis	16,979	-	-
Paul Harding Davis	9,498	-	-
Martin Halloran	-	-	
	63,105	18,151	-

(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 2011/12 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) Caroline LeCouteur 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

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.

The relative proportion of the performance related component of remuneration for several senior managers is set out above.

Except as detailed for those senior managers, the remuneration of executive directors, secretaries and other senior managers is not subject to individual performance conditions. People in these positions were entitled to participate in the staff bonus and employee share 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 small proportion of the overall remuneration of people holding these positions.

Employment contracts of directors and senior managers

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

Name	Duration of contract	Period of termination notice required	Termination payment provided for under the contract
James Thier	Ongoing	2 weeks	None except for accrued leave and any payment in lieu of notice.
Howard Pender	Ongoing	12 weeks	
Anne O'Donnell	Employment ends 11 December 2009	12 weeks	
Gary Leckie	Ongoing	12 weeks	
Philip George	Ongoing	12 weeks	
Paul Harding Davis	Ongoing	12 weeks	
Tim Xirakis	Ongoing	12 weeks	
Martin Halloran	Ongoing	12 weeks	

The company advised the market on 11 August 2009 that on the date of Anne O'Donnell's departure, in addition to statutory leave payments, the company will pay to Ms O'Donnell an amount of $235,000 (less applicable taxation) in recognition of her significant contribution to company growth and profitability over her long tenure.

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
AEFAS	32,952	22/9/09 to 21/12/09	$32.50
AEFAT	37,488	24/9/10 to 231/12/10	$57.57
AEFAU	40,771	14/10/11 to 13/1/12	$32.27
AEFAV	2,690	14/10/11 to 13/1/12	$32.27
Totals	113,901		

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 2009 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
34,707	$24.82

Of the 34,707 shares issued upon the exercise of options, 27,814 were bought back by the company.

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: 27 August 2009

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

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2009 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 27 August 2009

Liability limited by a scheme approved under Professional Standards Legislation

Balance Sheet
as at 30 June 2009

	Notes	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Current assets					
Cash and cash equivalents	7	**2,614,467**	2,552,238	**1,226,311**	1,049,089
Trade and other receivables	8	**1,800,859**	1,812,410	**1,288,930**	1,246,646
Financial assets	9	**1,673,953**	1,748,774	**1,673,953**	1,748,774
Other current assets	10	**279,367**	248,491	**235,262**	204,245
Total current assets		**6,368,646**	6,361,913	**4,424,456**	4,248,754
Non-current assets					
Property, plant & equipment	11	**4,139,581**	4,205,801	**4,139,581**	4,205,801
Financial assets	9	**82,492**	94,744	**398,492**	410,744
Deferred tax assets	12	**464,200**	489,784	**459,850**	485,584
Total non-current assets		**4,686,273**	4,790,329	**4,997,923**	5,102,129
Total assets		**11,054,919**	11,152,242	**9,422,379**	9,350,883
Current liabilities					
Trade and other payables	13	**1,756,373**	2,115,330	**1,952,798**	2,048,476
Current tax liabilities		**227,200**	110,702	**227,200**	110,702
Short-term provisions	15	**535,406**	432,097	**535,406**	432,097
Total current liabilities		**2,518,979**	2,658,129	**2,715,404**	2,591,275
Non-current liabilities					
Deferred tax liabilities	14	**33,732**	33,285	**33,732**	33,285
Other long-term provisions	15	**49,003**	79,338	**49,003**	79,338
Total non-current liabilities		**82,735**	112,623	**82,735**	112,623
Total liabilities		**2,601,714**	2,770,752	**2,798,139**	2,703,898
Net assets		**8,453,205**	8,381,490	**6,624,240**	6,646,985
Equity					
Issued capital	16	**5,739,635**	5,740,791	**5,739,635**	5,740,791
Reserves	16	**535,269**	334,821	**535,269**	334,821
Retained earnings	16	**2,178,301**	2,305,878	**349,336**	571,373
Total equity		**8,453,205**	8,381,490	**6,624,240**	6,646,985

The accompanying notes form part of these financial statements

Income Statement
for the year ended 30 June 2009

	Notes	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Revenue	3	**13,131,431**	14,064,371	**10,652,895**	10,618,566
Commissions paid to advisers		**(177,235)**	(284,450)	**(15,305)**	(75,477)
External services		**(2,498,375)**	(2,981,077)	**(1,044,339)**	(1,066,833)
Employee benefits expense		**(6,411,326)**	(6,257,080)	**(6,373,530)**	(6,241,118)
Depreciation		**(298,503)**	(285,736)	**(298,503)**	(285,736)
Occupancy costs		**(216,069)**	(196,340)	**(200,896)**	(187,013)
Communication costs		**(648,233)**	(839,144)	**(611,851)**	(789,496)
Other expenses		**(917,879)**	(568,428)	**(795,030)**	(538,793)
Profit before tithe and income tax expense		**1,963,811**	2,652,116	**1,313,441**	1,434,100
Tithes expense	1 (k)	**(140,868)**	(200,891)	**(140,868)**	(200,891)
Profit before income tax		**1,822,943**	2,451,225	**1,172,573**	1,233,209
Income tax expense	4	**(620,191)**	(799,435)	**(64,281)**	(284,015)
Profit for the year	16	**1,202,752**	1,651,790	**1,108,292**	949,194
Profit attributable to members of the parent entity		**1,202,752**	1,651,790	**1,108,292**	949,194
Basic Earnings per share (cents per share)	6	**121.6**	170.3		
Diluted earnings per share (cents per share)	6	**121.6**	165.4		

The accompanying notes form part of these financial statements

Statement of Changes in Equity
for the year ended 30 June 2009

	Notes	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Total equity at beginning of financial period		**8,381,490**	7,684,133	**6,646,985**	6,652,224
Available-for-sale investments:					
Valuation gains/(losses) taken to equity		**(32,399)**	(60,166)	**(32,399)**	(60,166)
Employee share options		**223,127**	176,266	**223,127**	176,266
Income tax on items taken directly to or transferred directly from equity		**9,720**	18,034	**9,720**	18,034
Net income recognised directly in equity		**200,448**	134,134	**200,448**	134,134
Profit for the financial year		**1,202,752**	1,651,790	**1,108,292**	949,194
Total recognised income and expense for the period		**1,403,200**	1,785,924	**1,308,740**	1,083,328
Transactions with equity holders in their capacity as equity holders:					
Contribution of equity, net of transaction costs		**(1,156)**	791,259	**(1,156)**	791,259
Dividends provided for or paid		**(1,330,329)**	(1,879,826)	**(1,330,329)**	(1,879,826)
		(1,331,485)	(1,088,567)	**(1,331,485)**	(1,088,567)
Total equity at the end of the financial period	16	**8,453,205**	8,381,490	**6,624,240**	6,646,985
Total recognised income and expense for the financial year is attributable to:					
Equity holders of the parent		**1,403,200**	1,785,924	**1,308,740**	1,083,328
		1,403,200	1,785,924	**1,308,740**	1,083,328

The accompanying notes form part of these financial statements

Cash flow statement
for the year ended 30 June 2009

	Notes	Consolidated Entity		Parent Entity	
		2009	2008	**2009**	2008
		$	$	**$**	$
Cash flows from operating activities					
Receipts from operations		**14,241,650**	14,899,240	**10,401,154**	11,173,592
Payment to suppliers & employees		**(11,926,618)**	(11,606,829)	**(9,625,550)**	(9,389,198)
Dividends received		**-**	-	**1,202,596**	500,000
Interest/distributions received		**201,146**	285,547	**148,295**	195,822
Income tax paid		**(467,942)**	(1,047,296)	**36,734**	(423,764)
Bonus		**(245,201)**	(221,168)	**(245,201)**	(221,168)
Tithe		**(200,891)**	(224,964)	**(200,891)**	(224,964)
Net cash provided by (used in) operating activities	21 (b)	**1,602,144**	2,084,530	**1,717,137**	1,610,320
Cash flows from investing activities					
Proceeds from sale of investments		**1,185,344**	1,117,397	**1,185,344**	1,117,397
Purchase of property, plant & equipment		**(239,450)**	(184,139)	**(239,450)**	(184,139)
Purchase of investments		**(1,141,871)**	(1,100,000)	**(1,141,871)**	(1,100,000)
Repayment of loans		**11,118**	66,438	**11,118**	66,438
Net cash provided by (used in) investing activities		**(184,859)**	(100,304)	**(184,859)**	(100,304)
Cash flows from financing activities					
Proceeds from share issue		**171,084**	954,328	**171,084**	954,328
Share buy-back payment		**(195,811)**	(178,954)	**(195,811)**	(178,954)
Dividends paid		**(1,330,329)**	(1,879,826)	**(1,330,329)**	(1,879,826)
Net cash provided by (used in) financing activities		**(1,355,056)**	(1,104,452)	**(1,355,056)**	(1,104,452)
Net increase (decrease) in cash held		**62,229**	879,774	**177,222**	405,564
Cash at beginning of financial year		**2,552,238**	1,672,464	**1,049,089**	643,525
Cash at end of financial year	21 (a)	**2,614,467**	2,552,238	**1,226,311**	1,049,089

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 assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the 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
In estimating the annual leave and long service leave provision, no average salary increase has been incorporated, reflecting the current economic environment.

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 $94,744. The directors have determined that no provision for impairment is required for this loan.

New Accounting Standards for Application in Future Periods

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

- AASB 3: Business Combinations, AASB 127 : Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138, & 139 and interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the group will be unable to be determined.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the group's Board for the purposes of decision making. Separate reporting on the group's managed funds business and superannuation business will be reported in the notes.

- AASB 101: Presentation of Financial Statements , AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This Amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

- AASB 2008-5, 6 & 2009-4, 5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the group.

- AASB 2009-2: Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038] Improved disclosures related to fair value for each class of financial instrument and maturity analysis, minor impact on group reporting.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 2 - Auditors' remuneration				
Remuneration of the auditors for:				
Audit services				
- Auditing the financial report	**37,220**	34,000	**32,720**	30,000
- Auditing the Custodian transition	**-**	5,000	**-**	2,500
- Auditing the Administrator transition	**-**	10,000	**-**	-
- Auditing the sustainability report	**5,500**	5,000	**5,500**	5,000
Non-audit services				
- Tax and other accounting advice	**3,770**	3,000	**3,280**	3,000
- Internal control and risk review	**-**	7,000	**-**	7,000

Note 3 - Revenue

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Operating activities				
- Management fees net of rebates	**9,745,880**	10,737,924	**4,484,603**	5,127,584
- Entry fees	**1,439,173**	1,861,872	**188,605**	501,215
- Member & Withdrawal Fees	**503,448**	444,513	**-**	-
- Other fees	**1,102,776**	653,080	**1,102,776**	653,080
- Dividend from wholly owned subsidiary	**-**	-	**1,202,596**	500,000
- Interest/distributions	**191,671**	272,819	**138,819**	183,095
- Wholly owned entity fee	**-**	-	**3,445,918**	3,563,238
- Other revenue	**148,483**	94,163	**89,578**	90,354
	13,131,431	14,064,371	**10,652,895**	10,618,566
Total revenue	**13,131,431**	14,064,371	**10,652,895**	10,618,566

Note 4 - Income tax expense

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
a) The components of tax expense comprise:				
- Current tax	**584,440**	878,691	**28,380**	360,121
- Deferred tax	**35,751**	(79,256)	**35,901**	(76,106)
	620,191	799,435	**64,281**	284,015
b) The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2008:30%)				
- Consolidated entity	**546,883**	735,368	**-**	-
- Parent entity	**-**	-	**351,772**	369,963
- Other members of the income tax consolidated group net of intercompany transactions	**-**	-	**555,910**	515,420
Add: tax effect of:				
- Other non-allowable items	**1,982**	1,077	**1,962**	1,062
- Share options expensed during year	**66,938**	52,879	**66,938**	52,879
- Under provision for income tax in prior year	**15,977**	10,616	**15,977**	10,616
	631,780	799,940	**992,559**	949,940
Less: tax effect of:				
- Rebateable fully franked dividends	**-**	-	**(360,779)**	(150,000)
- Franking and foreign tax credits	**(682)**	(505)	**(682)**	(505)
- Tax allowance on capital investment	**(10,907)**	-	**(10,907)**	-
Income tax expense attributable to entity	**620,191**	799,435	**620,191**	799,435
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(555,910)**	(515,420)
Income tax expense attributable to entity	**620,191**	799,435	**64,281**	284,015
The applicable weighted average effective tax rates are as follows:	**34%**	33%	**5%**	23%

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 5 - Dividends				
Distributions paid				
Final fully franked dividend of 120 (2008: 152) cents per share franked at the tax rate of 30% (2008:30%)	**1,181,596**	1,437,025	**1,181,596**	1,437,025
Interim fully franked dividend of 15 (2008: 45) cents per share franked at the tax rate of 30% (2008:30%)	**148,733**	442,801	**148,733**	442,801
	1,330,329	1,879,826	**1,330,329**	1,879,826
Declared final fully franked dividend of 132 (2008: 120) cents per share franked at the tax rate of 30% (2008: 30%)	**1,308,854**	1,180,804	**1,308,854**	1,180,804
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.			**1,629,081**	1,616,777
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			**560,937**	506,059
			1,068,144	1,110,718
Note 6 - Earnings per share				
(a) Earnings used to calculate basic EPS and dilutive EPS	**1,202,752**	1,651,790		
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**988,984**	970,020		
Weighted average number of options outstanding	**-**	28,745		
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**988,984**	998,765		
Note 7 - Cash and cash equivalents				
Cash on hand	**300**	300	**300**	300
Cash at bank	**137,016**	222,476	**5,357**	4,793
Deposits at call	**2,477,151**	2,329,462	**1,220,654**	1,043,996
	2,614,467	2,552,238	**1,226,311**	1,049,089

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.

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Note 8 - Trade and other receivables				
Trade receivables	**1,783,351**	1,785,510	**1,050,013**	1,100,702
Other	**17,508**	26,900	**17,508**	26,900
Amounts receivable - wholly owned entity	**-**	-	**221,409**	119,044
	1,800,859	1,812,410	**1,288,930**	1,246,646

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Note 9 - Financial assets				
Available-for-sale financial assets	**1,661,701**	1,737,572	**1,977,701**	2,053,572
Loans	**94,744**	105,946	**94,744**	105,946
	1,756,445	1,843,518	**2,072,445**	2,159,518
Less non-current portion	**82,492**	94,744	**398,492**	410,744
Current portion	**1,673,953**	1,748,774	**1,673,953**	1,748,774

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
a. Available-for-sale financial assets comprise:				
- Money market deposit at cost	**1,141,871**	1,100,000	**1,141,871**	1,100,000
- Mortgage backed security at fair value	**199,081**	287,681	**199,081**	287,681
- Units in unit trust at fair value	**320,749**	349,891	**320,749**	349,891
- Shares in wholly owned entity at cost	**-**	-	**316,000**	316,000
	1,661,701	1,737,572	**1,977,701**	2,053,572

The money market deposits are at fixed interest rates of 3.87% and 4.00% with maturity dates of 27 July 2009 and 28 July 2009. 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 2035 and is investment grade rated by S&P.

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
b. Loans comprise				
- Loan to other entity	**94,744**	105,946	**94,744**	105,946
	94,744	105,946	**94,744**	105,946

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 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Note 10 - Other current assets				
Other	**20,902**	6,102	**20,902**	6,102
Prepayments	**258,465**	242,389	**214,360**	198,143
	279,367	248,491	**235,262**	204,245

Note 11 - Property, plant and equipment

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
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	**(225,528)**	(157,503)	**(225,528)**	(157,503)
Total buildings	**2,558,589**	2,626,614	**2,558,589**	2,626,614
Total land and buildings	**2,788,589**	2,856,614	**2,788,589**	2,856,614
Plant and equipment				
At cost	**2,274,759**	2,075,929	**2,274,759**	2,075,929
Accumulated depreciation	**(923,767)**	(726,742)	**(923,767)**	(726,742)
Total plant and equipment	**1,350,992**	1,349,187	**1,350,992**	1,349,187
Total property, plant and equipment	**4,139,581**	4,205,801	**4,139,581**	4,205,801
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	**2,626,614**	2,700,926	**2,626,614**	2,700,926
Additions	**-**	-	**-**	-
Disposals	**-**	-	**-**	-
Depreciation expense	**(68,025)**	(74,312)	**(68,025)**	(74,312)
Carrying amount at the end of year	**2,558,589**	2,626,614	**2,558,589**	2,626,614
Plant and equipment				
Balance at the beginning of year	**1,349,187**	1,397,212	**1,349,187**	1,397,212
Additions	**239,704**	176,524	**239,704**	176,524
Disposals	**(7,421)**	(13,125)	**(7,421)**	(13,125)
Depreciation expense	**(230,478)**	(211,424)	**(230,478)**	(211,424)
Carrying amount at the end of year	**1,350,992**	1,349,187	**1,350,992**	1,349,187
Total	**4,139,581**	4,205,801	**4,139,581**	4,205,801

An independent valuer was contracted to value the land and buildings at 30 June 2009. Based on this valuation the cost value of land and building disclosed above is below the commercial valuation and therefore no impairment has occurred.

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 12 - Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Employee benefits	**377,916**	398,213	**377,916**	398,213
Tithe	**44,060**	60,267	**44,060**	60,267
Audit fees	**16,800**	15,600	**12,450**	11,400
	438,776	474,080	**434,426**	469,880
Amounts recognised directly in equity:				
Financial asset revaluations	**25,424**	15,704	**25,424**	15,704
	464,200	489,784	**459,850**	485,584
Movements				
Opening balance at 1 July	**489,784**	392,435	**485,584**	391,385
Credited (charged) to the income statement	**(35,304)**	81,645	**(35,454)**	78,495
Credited (charged) to equity	**9,720**	15,704	**9,720**	15,704
Closing balance at 30 June	**464,200**	489,784	**459,850**	485,584
Note 13 - Trade and other payables				
Trade payables	**253,776**	288,131	**224,206**	173,630
Sundry payables and accrued expenses	**1,330,217**	1,532,119	**1,131,968**	1,131,715
Employee bonus	**172,380**	295,080	**172,380**	295,080
Amounts payable to wholly owned entity	**-**	-	**424,244**	448,051
	1,756,373	2,115,330	**1,952,798**	2,048,476
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	**2,836**	2,389	**2,836**	2,389
	33,732	33,285	**33,732**	33,285
Movements				
Opening balance at 1 July	**33,285**	33,248	**33,285**	33,248
Credited/(charged) to the income statement	**447**	2,389	**447**	2,389
Credited/(charged) to equity	**-**	(2,352)	**-**	(2,352)
Closing balance at 30 June	**33,732**	33,285	**33,732**	33,285

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 15 - Provisions				
Current				
Employee benefits - long service leave	**535,406**	432,097	**535,406**	432,097
	535,406	432,097	**535,406**	432,097
Non-Current				
Employee benefits - long service leave	**49,003**	79,338	**49,003**	79,338
	49,003	79,338	**49,003**	79,338
Note 16 - Movements in equity				
Issued capital				
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year 984,003 (2008 - 945,109) shares	**5,740,791**	4,949,532	**5,740,791**	4,949,532
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
660 on 23 September 2008 (share bonus)	**23,570**		**23,570**	
4,567 on 27 October 2008 (option exercised)	**113,353**		**113,353**	
27,814 on 6 November 2008 (options exercised)	**690,343**		**690,343**	
2,326 on 26 November 2008 (options exercised)	**57,731**		**57,731**	
302 on 24 September 2007 (share bonus)	**-**	15,885	**-**	15,885
26,644 on 9 November 2007 (options excercised)	**-**	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
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				
27,814 on 6 November 2008	**(886,153)**		**(886,153)**	
3,423 on 17 October 2007		(178,954)		(178,954)
Balance 30 June				
991,556 (2008 - 984,003) shares	**5,739,635**	5,740,791	**5,739,635**	5,740,791

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$

Note 16 - Movements in equity - continued

At 30 June 2009 there were 991,556 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 and senior bank debt. Detail provided in Note 9 and 11.

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

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

	Consolidated 2009	Consolidated 2008	Parent 2009	Parent 2008
Reserves				
Available-for-sale financial assets revaluation reserve				
Balance 1 July	**(36,643)**	5,489	**(36,643)**	5,489
Revaluation - gross	**(32,399)**	(60,166)	**(32,399)**	(60,166)
Deferred tax	**9,720**	18,034	**9,720**	18,034
Balance 30 June	**(59,322)**	(36,643)	**(59,322)**	(36,643)
Share-based payments reserve				
Balance 1 July	**371,464**	195,198	**371,464**	195,198
Option expense	**223,127**	176,266	**223,127**	176,266
Balance 30 June	**594,591**	371,464	**594,591**	371,464
Total Reserves	**535,269**	334,821	**535,269**	334,821

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 2009	Consolidated 2008	Parent 2009	Parent 2008
Retained earnings				
Balance 1 July	**2,305,878**	2,533,914	**571,373**	1,502,005
Profit for the period	**1,202,752**	1,651,790	**1,108,292**	949,194
Total for the period	**1,202,752**	1,651,790	**1,108,292**	949,194
Dividends	**(1,330,329)**	(1,879,826)	**(1,330,329)**	(1,879,826)
Balance 30 June	**2,178,301**	2,305,878	**349,336**	571,373
Total Equity	**8,453,205**	8,381,490	**6,624,240**	6,646,985

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$

Note 17 – Events after the balance sheet date
On 11 August 2009 the company announced that Anne O'Donnell, CEO and Managing Director would end her employment effective 11 December 2009. No other 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

Liabilties and assets of trusts and superannuation fund

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

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Current liabilities				
Payables	**4,537,926**	6,740,858	**3,037,326**	1,392,523
Provisions	**4,454,713**	10,702,251	**3,521,480**	9,127,716
Total liabilities	**8,992,639**	17,443,109	**6,558,806**	10,520,239
Rights of indemnities for liabilities incurred by the Consolidated Entity and parent entity not recorded in the financial statements were:	**8,992,639**	17,443,109	**6,558,806**	10,520,239

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.

Superannuation Administrator Transition

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

Note 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 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Cash on hand	**300**	300	**300**	300
Cash at bank	**137,016**	222,476	**5,357**	4,793
Deposits at call	**2,477,151**	2,329,462	**1,220,654**	1,043,996
	2,614,467	2,552,238	**1,226,311**	1,049,089

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

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Net profit from ordinary activities after income tax expense	**1,202,752**	1,651,790	**1,108,292**	949,194
Non-cash flows in operating profit				
Depreciation	**298,503**	285,736	**298,503**	285,736
Provisions	**72,973**	137,111	**72,973**	137,111
(Profit) loss on sale of property, plant & equipment	**7,167**	13,125	**7,167**	13,125
Share options expensed	**223,127**	176,266	**223,127**	176,266
Staff bonus paid in shares	**23,570**	15,885	**23,570**	15,885
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**11,634**	(324,337)	**9,185**	28,531
(Increase) decrease in prepayments & other assets	**(30,876)**	(64,846)	**(31,017)**	(41,970)
(Increase) decrease in deferred tax assets	**35,304**	(81,645)	**35,454**	(78,495)
Increase (decrease) in trade & other payables	**(358,957)**	441,661	**(95,678)**	186,191
Increase (decrease) in current tax liability	**116,500**	(168,605)	**65,114**	(63,643)
Increase (decrease) in deferred tax liability	**447**	2,389	**447**	2,389
Net cash provided by (used in) operating activities	**1,602,144**	2,084,530	**1,717,137**	1,610,320

(c) Non-cash financing and investing activities

Shares in Australian Ethical Investment Limited, to the value of $23,570 (2008: $15,885) 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 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**3,445,918**	3,563,238
(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).	**-**	-	**555,910**	515,420
(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.	**-**	-	**5,054,272**	5,580,164
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in note 3.	**-**	-	**1,202,596**	500,000
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity: Taxation and other	**-**	-	**221,409**	119,044
Amounts payable to wholly owned entity: Management fee income	**-**	-	**424,244**	448,051

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
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	**3,521,848**	4,085,481	**3,521,848**	4,085,481
- Australian Ethical Equities Trust	**3,286,338**	3,612,192	**3,286,338**	3,612,192
- Australian Ethical Income Trust	**316,833**	280,875	**316,833**	280,875
- Australian Ethical Large Companies Shares Trust	**2,065,893**	2,578,524	**2,065,893**	2,578,524
- Australian Ethical International Equities Trust	**476,444**	353,350	**476,444**	353,350
- Australian Ethical World Trust	**35,377**	27,055	**35,377**	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	**275,896**	155,976	**275,896**	155,976
- Australian Ethical Equities Trust	**218,138**	123,000	**218,138**	123,000
- Australian Ethical Income Trust	**92,595**	49,074	**92,595**	49,074
- Australian Ethical Large Companies Shares Trust	**142,057**	77,646	**142,057**	77,646
- Australian Ethical International Equities Trust	**109,072**	56,112	**109,072**	56,112
- Australian Ethical World Trust	**42,156**	21,576	**42,156**	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	**71,058**	54,023	**71,058**	54,023
- Australian Ethical Equities Trust	**81,024**	57,610	**81,024**	57,610
- Australian Ethical Income Trust	**6,663**	4,717	**6,663**	4,717
- Australian Ethical Large Companies Shares Trust	**56,101**	46,028	**56,101**	46,028
- Australian Ethical International Equities Trust	**7,277**	376	**7,277**	376
- Australian Ethical World Trust	**107**	5,442	**107**	5,442
(iv) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust	**6,873**	7,311	**6,873**	7,311

b) Outstanding balances at balance date:

	Consolidated Entity		Parent Entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 22 – Related party transactions - continued				
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
- Australian Ethical Balanced Trust	**352,189**	358,820	**352,189**	358,820
- Australian Ethical Equities Trust	**351,300**	338,548	**351,300**	338,548
- Australian Ethical Income Trust	**40,029**	31,780	**40,029**	31,780
- Australian Ethical Large Companies Shares Trust	**204,066**	218,099	**204,066**	218,099
- Australian Ethical International Equities Trust	**56,269**	48,120	**56,269**	48,120
- Australian Ethical World Trust	**7,991**	5,386	**7,991**	5,386
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**320,749**	349,891	**320,749**	349,891
Distribution receivable from AEBT	**3,298**	7,400	**3,298**	7,400
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.)	**207,004**	30,175	**-**	-
Outstanding balances at balance date:				
Amounts receivable from/ (payable to) the Australian Ethical Retail Superannuation Fund: Investment services/ (rebate of investment services fee)	**95,853**	21,284	**-**	-

Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

Note 23 - Key management personnel compensation

a) Key management personnel

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

Parent entity directors

Name	Position	
Caroline Le Couteur	Director, executive	Resigned 27 November 2008
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Justine Hickey	Director, non-executive	
Anne O Donnell	Managing Director ,executive	Resigned 11 August 2009
Les Coleman	Director, non-executive	Appointed 1 July 2008
André Morony	Director, non-executive	Appointed 1 July 2008

Other key management personnel

Name	Position	
Gary Leckie	Chief financial officer	
Tim XIrakis	Finance Investment Manager	
Philip George	Company secretary / legal counsel	
Paul Harding Davis	Head of Distribution	
Martin Halloran	Chief Investment Officer	Appointed 27 August 2008

b) Key management personnel compensation

	Economic Entity		**Parent Entity**	
	2009	2008	**2009**	2008
	$	**$**	**$**	**$**
Short term employment benefits	**1,779,448**	1,569,475	**1,684,770**	1,474,892
Post-employment benefits	**147,726**	131,619	**139,941**	123,519
Other long-term benefits	**34,778**	29,635	**34,778**	29,635
Termination benefits	**-**	-	**-**	-
Share-based payments	**110,320**	142,670	**110,320**	142,670
Total compensation	**2,072,272**	1,873,399	**1,969,809**	1,770,716

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

c) Equity instrument disclosures relating to key management personnel

Option Holdings

Number of options held by key management personnel.

	Balance 01.07.08	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.09	Total Vested 30.06.09	Total Exer-cisable 30.06.09	Total Unexer-cisable 30.06.09
Parent Entity Directors								
Caroline Le Couteur	5,944	-	(2,243)	(3,701)	-	-	-	-
James Thier	4,749	1,364	(1,800)	-	4,313	-	-	4,313
Howard Pender	3,913	1,326	(931)	-	4,308	-	-	4,308
Naomi Edwards	-	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-	-
Anne O'Donnell	8,940	2,648	(3,006)	-	8,582	-	-	8,582
André Morony	-	-	-	-	-	-	-	-
Les Coleman	-	-	-	-	-	-	-	-
					-			
Named executives (including other key management personnel)					-			
					-			
Philip George	6,375	2,169	(1,550)	-	6,994	-	-	6,994
Ruth Medd	-	-	-	-	-	-	-	-
Gary Leckie	4,597	1,919	(1,387)	-	5,129	-	-	5,129
Tim Xirakis	3,163	1,895	-	-	5,058	-	-	5,058
Paul Harding Davis	-	1,060	-	-	1,060	-	-	1,060
Martin Halloran	-	-	-	-	-	-	-	-
Total	37,681	12,381	(10,917)	(3,701)	35,444	-	-	35,444

Note 23 - Key management personnel compensation - continued

Shareholdings

Number of Shares held by key management personnel.

	Balance 01.07.08	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.09 (3)&(4)
Parent Entity Directors					
Caroline Le Couteur	49,436	-	2,243	(2,243)	49,436
James Thier	64,218	28	1,800	(200)	65,846
Howard Pender	51,743	109	931	(500)	52,283
Naomi Edwards	-	-	-	-	-
Pauline Vamos	-	-	-	-	-
Justine Hickey	700	-	-	-	700
Anne O'Donnell	8,982	168	3,006	(168)	11,988
André Morony	-	-	-	-	-
Les Coleman	-	-	-	-	-
Named executives (including other key management personnel)					
Philip George	381	-	1,550	(1,442)	489
Ruth Medd	-	-	-	-	-
Gary Leckie	-	-	1,387	(1,387)	-
Tim Xirakis	-	-	-	-	-
Paul Harding Davis	-	78	-	-	78
Martin Halloran	-	-	-	-	-
Total	175,460	383	10,917	(5,940)	180,820

(1) The amount paid for shares issued on exercise of options is $24.82 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 2009:

On 22 September 2006, 45,825 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of $32.50 each and a 3 month window in which to be exercised, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

On 24 September 2007, 47,255 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of $57.57 each and a 3 month window in which to be exercised, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

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

On 23 September 2008, 660 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 302 ordinary shares, with the same terms, were granted on 24 September 2007).

Note 24 - Share based payments - continued

	Consolidated Entity				Parent Entity			
	2009		2008		**2009**		2008	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $	**Number of Options**	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the financial year	**116,753**	**39.31**	118,995	25.11	**116,753**	**39.31**	118,995	25.11
Granted	**44,627**	**32.27**	47,255	57.57	**44,627**	**32.27**	47,255	57.57
Forfeited	**(8,523)**	**43.98**	(14,991)	37.17	**(8,523)**	**43.98**	(14,991)	37.17
Exercised	**(34,707)**	**30.34**	(34,506)	52.57	**(34,707)**	**30.34**	(34,506)	52.57
Expired	**(1,373)**	**24.82**			**(1,373)**	**24.82**		
Outstanding at year-end	**116,777**	**40.76**	116,753	39.31	**116,777**	**40.76**	116,753	39.31
Exercisable at year-end	**-**	**-**	-	-	**-**	**-**	-	-

There were 34,707 options exercised during the year ended 30 June 2009. The weighted average share price calculated as at exercise dates of these options was $30.34.

The options outstanding at 30 June 2009 had a weighted average exercise price of $40.76 and a weighted average remaining contractual life of 1.58 years. Exercise prices range from $32.27 to $57.57 in respect of options outstanding at 30 June 2009

The weighted average fair value of the options AEFAU granted on 14 October was $8.96 and AEFAV granted on 1 December 2008 was $3.65 per share option.

This price of $8.96 for option AEFAU was calculated by using the Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$32.27
Weighted average life of the option	3.25 years
Underlying share price	$35.60
Expected share price volatility	34.70%
Risk free interest rate	4.84%

This price of $3.65 for option AEFAV was calculated by using the Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$32.27
Weighted average life of the option	3.12
Underlying share price	$27.00
Expected share price volatility	34.70%
Risk free interest rate	4.84%

Included under employee benefits expense in the income statement is :
$23,570 (2008: $15,885) relating to equity-settled share-based payment transactions for staff bonus; and
$223,127 (2008: $176,266) relating to options issued under the employee share ownership plan.

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.

Note 25 - Financial instruments - continued

(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	
	2009	2008	**2009**	2008	**2009**	2008
	%	%	**$**	$	**$**	$
Cash and cash equivalents	**5**	7	**2,614,167**	2,551,938	**-**	-
Trade and other receivables					**-**	-
Financial assets	**5**	8	**519,829**	637,572	**1,154,124**	1,111,202
Total financial assets			**3,133,996**	3,189,510	**1,154,124**	1,111,202
Trade and other payables			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2009	2008	**2009**	2008	**2009**	2008
	$	$	**$**	$	**$**	$
Cash	**-**	-	**300**	300	**2,614,467**	2,552,238
Trade and other receivables	**-**	-	**1,800,859**	1,812,410	**1,800,859**	1,812,410
Financial assets	**82,492**	94,744	**-**	-	**1,756,445**	1,843,518
Total financial assets	**82,492**	94,744	**1,801,159**	1,812,710	**6,171,771**	6,208,166
Trade and other payables	**-**	-	**1,756,373**	2,115,330	**1,756,373**	2,115,330
Total financial liabilities	**-**	-	**1,756,373**	2,115,330	**1,756,373**	2,115,330

(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. 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	
	2009	2008	**2009**	2008
	$	$	**$**	$
Less than 6 months	**1,253,442**	1,423,862	**1,449,867**	1,527,614
6 months to 1 year	**502,931**	691,468	502,931	520,862
1 to 5 years	**-**	-	**-**	-
	1,756,373	2,115,330	**1,952,798**	2,048,476

(e) Net Fair Values

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

Note 25 - Financial instruments - continued

(f) Sensitivity analysis

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

	Consolidated Entity		**Parent Entity**	
	2009	2008	**2009**	2008
	$	$	**$**	$
Change in profit				
- Increase in interest rate by 2%	**62,686**	63,790	**34,923**	33,733
- Decrease in interest rate by 2%	**(62,686)**	(63,790)	**(34,923)**	(33,733)
Change in equity				
- Increase in interest rate by 2%	**62,686**	63,790	**34,923**	33,733
- Decrease in interest rate by 2%	**(62,686)**	(63,790)	**(34,923)**	(33,733)

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 18 to 46 and the additional disclosures in the directors' report designated as audited are in accordance with the Corporations Act 2001:

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

(b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the financial year ended on that date of the company and consolidated entity;

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

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

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

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

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

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

Howard Pender

Director

Dated this 27 August 2009

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 2009, 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, 2009 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 7 to 14) of the directors' report for the year ended 30 June, 2009. 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 2009, complies with section 300A of the Corporations Act 2001.

THOMAS DAVIS & CO.

P.L. WHITEMAN PARTNER

Chartered Accountants

SYDNEY,
27 August, 2009

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder information

The shareholder information set out below was current as at 15 September 2009.

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	733	182,430	18.4
1,001 – 5,000	80	175,457	17.7
5,001 – 10,000	7	48,320	4.9
10,001 – 100,000	15	388,877	39.2
100,000 – over	1	196,472	19.8
Totals	836	991,556	100.0
Non-marketable parcel	12	102	

Options issued under the Employee Options Scheme

Range	Holders	Units	%
1 – 1,000	20	12,862	11.3
1,001 – 5,000	26	68,797	60.4
5,001 – 10,000	5	32,242	28.3
10,001 – 100,000	0	0	0.0
100,000 – over	0	0	0.0
Totals	51	113,901	100

Twenty largest shareholders

Ordinary shares

Name	Number of ordinary shares	%	Substantial shareholders
SMF Funds Management Ltd	196,472	19.815	Yes
James Andrew Thier	51,367	5.180	Yes
Mr Howard Pender	50,252	5.068	Yes
Caroline Margaret Le Couteur	49,436	4.986	Yes
Mr Trevor Roland Lee	36,933	3.725	
Mrs Judith Margaret Burton	33,683	3.397	
Ms Judith Ingrouille Ajani	24,662	2.487	
Mr Bruce Allan McGregor & Mrs Ann Marion McGregor	24,447	2.466	
Gang - Gang Pty Ltd	23,310	2.149	
HB Sarjeant & assoc Pty Ltd	19,640	1.981	
Dr Edward Arthur Iceton	16,500	1.664	
Daisy Thier	14,474	1.460	
Denholm Investments Pty Ltd	12,790	1.290	
Ms Anne Maree O'Donnell	11,988	1.209	
Mr Peter Alexander Anderson	10,833	1.093	
Mr Philip Julian Eriksen & Mr Julian Hans Erkisen	10,562	1.065	
Mr Michel Beuchat & Mrs Ann Beuchat	9,667	0.975	
Est Mrs Hanneliese Claire Graf	7,347	0.741	
Mr Rodney Matthew Myer	7,332	0.739	
UBS Wealth Management Australia Nominees Ptd Ltd	7,160	0.722	

Corporate directory

Australian Ethical Investment Ltd
ABN 47 003 188 930

Company secretary
Margaret Woods

Telephone: 02 6201 1960
Facsimile: 02 6201 1987
Email: mwoods@australianethical.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.australianethical.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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