Australian Ethical® Investment Trusts – Annual report 2005

for the year to 30 June 2005

Performance summary

For greater detail, see the reports on the following pages.

Large Companies Share Trust

Return for the year: 23.6%.
Rank in ASSIRT category, Multisector Equity:
1st out of 19 funds on the basis of one-year returns
1st out of 17 funds on the basis of three-year returns
2nd out of 8 funds on the basis of five-year returns.
Funds at year end: $72 million.

Equities Trust

Return for the year: 19.3%.
Rank in ASSIRT category, Australian Equity General:
equal 154th out of 170 funds on the basis of one-year returns
equal 68th out of 119 funds on the basis of three-year returns
equal 66th out of 73 funds on the basis of five-year returns.
Funds at year end: $119 million.

Balanced Trust

Return for the year: 14.9%.
Rank in ASSIRT category, Multisector 60:
5th out of 42 funds on the basis of one-year returns
1st out of 30 funds on the basis of three-year returns
equal 2nd out of 19 funds on the basis of five-year returns.
Funds at year end: $153 million.

The Balanced Trust won the Standard and Poor's Australian Fund Award 2005 in the category, Balanced Funds – Neutral.

Income Trust

Return for the year: 4.9%.
Rank in ASSIRT category, Australian Fixed Interest General (although the trust is structurally quite different from other funds in this category):
35th out of 43 funds on the basis of one-year returns
equal 23rd out of 37 funds on the basis of three-year returns
equal 22nd out of 27 funds on the basis of five-year returns.
Funds at year end: $17.6 million.

Distributions

Distributions from Australian Ethical Investment trusts at the end of the 2004–05 financial year were large compared with previous years. This swing was due to realised capital gains. In a strongly rising market, the majority of share sales are at prices higher than the purchase price. Many other funds have also paid large distributions as a result of the market rise.

When the amount to be distributed is paid to unitholders, the unit price falls by that amount. The unitholder does not lose any of the value. Those who reinvest their distribution are credited with new units to the value of the distribution. The distribution statement mailed in July set out the information needed for tax returns.

Investors in the Australian Ethical Equities Trust, the Australian Ethical Large Companies Share Trust and the Australian Ethical Balanced Trust will be aware that trust distributions at the end of the 2004–05 financial year were large compared with previous years.

Each trust distributes to the unitholders income (generally net taxable income) earned through its investments. This includes such items as interest on cash balances and debt securities, dividends on shares, rental income on properties, and the income component of distributions from investments in other trusts. Historically, these types of income have been reasonably stable from year to year.

The biggest swing factor in trust income from period to period is realised capital gains.

Unlike the other forms of income noted above, realised capital gains are only included in the distribution at the **end** of the financial year (the other forms of income are distributed each six months). This is because there is always the possibility that capital gains realised in the first half of the financial year will be offset by capital losses realised in the second half of the financial year.

The level of realised capital gains on share investments is also inherently less constant year-to-year than is, for example, interest or dividend income.

At Australian Ethical Investment, we run a disciplined portfolio rebalancing process. Each stock, when approved to be held in a trust, is given a limit (expressed as a percentage of portfolio) reflecting a maximum amount that the Investment Committee believes should prudently be held in that stock. If the price for that stock runs ahead of other stocks, pushing the holding above its percentage limit, that necessarily generates selling – and hence realisation of capital gains.

Further, within that limit system, the investment team sets target holding percentages based on which stocks it sees as relatively better value than others (more is held in stocks seen as relatively better value). The team constantly rebalances the portfolio towards those targets. Selling of shares in a particular company may occur, therefore, due to price surges in a particular stock – moving it into overvalued territory – or due to a re-rating by the investment team based on new information.

As a simple example of rebalancing, if a stock is assessed as being a strong buy, a trust may take an aggressive position in it. For the Australian Ethical Equities Trust, or the Australian Ethical Large Companies Share Trust, an aggressive position may be around 5% of portfolio (for the Australian Ethical Balanced Trust, a 3% position would be an aggressive stock position). If it turns out that the investment team has called the stock correctly, let's say that, over time, the stock doubles or triples in price. Without some sort of rebalancing, the trust may end up holding 10% or more of the portfolio in that stock. Remembering that one of the advantages of investing in a portfolio of stocks is to achieve efficient diversification, this is a higher percentage than it would generally be prudent to hold in any single investment.

Australian Ethical Investment's portfolio construction systems would generally see disciplined selling into the stock's price rise – keeping the holding around the 5% level for as long as it was continued to be assessed as good value. If the price rise saw it reassessed as only moderate value, the position might even be reduced to, say, 3% (or even lower).

So shares in a stock may be sold due to price rises pushing the holding over limit (or target), due to a stock re-rating by the investment team or due to the surfacing of ethical issues which force divestment.

Sometimes share sales will yield realised capital gains and sometimes realised capital losses. In a strongly rising market (the share market as a whole is up a cumulative 52% over the last two financial years), inevitably the majority of share sales will be at prices higher than the purchase price – that is, there will be realised capital gains.

Many other funds have also paid high levels of distribution for the 2004–05 financial year as a result of this general market rise.

Aside from understanding the reasons behind the size of this year's distribution, it is also useful to understand the mechanics of the distribution and how it affects unit prices.

Until the distribution takes place, the income (including realised capital gains) that has been earned over the preceding period is embedded in the unit price. On 30 June, Australian Ethical's finance team works out how much of the value in the unit price is income and therefore needs to be distributed. This amount is then taken out of the unit price and paid out to unitholders (although as a major accounting exercise, requiring audit, it is a few weeks before the payments take place).

On 30 June, therefore, the unit price falls by the amount of distribution (in finance jargon, the unit price ceases being quoted 'cum distribution' and starts being quoted 'ex distribution'). This does not mean that the trust has suddenly made losses – Australian Ethical received a number of calls in early July from unitholders who were concerned to see the quoted unit value fall – it just means that some of the unit value is being paid out to unitholders as their distribution of income.

Take a simple numeric example. If the unit price starts the period at $1.00 per unit and the trust earns 20% over the period, of which $0.05 is in the form of realised income, then the unit price will rise to $1.20 (the cum distribution unit price). On 30 June, the finance team will work out that unitholders are entitled to a distribution of $0.05 income per unit from the trust. This amount is taken out of the unit value and put aside to be paid out to unitholders a few weeks later. So, assuming this unit value remains current at the time of distribution, the unit price will then fall to $1.15 (the ex distribution unit price) and the unitholder will receive $0.05 in income.

The unitholder has not lost any of the $1.20.

For those unitholders who reinvest (the majority), rather than receiving a cheque or credit to their bank account when the distribution is paid, the unitholder will be credited with new units to a value equivalent to their distribution. There is no contribution fee to be paid to the trust as normally applies with other investments.

Using the same example, if a unitholder has 100 units in a trust at 30 June worth $1.20 each (cum distribution), they will notionally be paid a distribution of 100 x $0.05 = $5.00. Instead of receiving this $5.00, the unitholder will be issued $5.00 worth of new units. $5.00 worth of units at the unit price of $1.15 (assume that the reinvestment price is the same as the ex distribution price) will mean the unitholder will be issued a further 4.35 (approximately) units, ending up with 104.35 units. These units have value equal to the 100 units held before distribution.

Whether the distribution is reinvested or not, the unitholder will still receive a distribution statement setting out the information the unitholder will need for their annual tax return.

Australian Ethical Large Companies Share Trust
Responsible entity's report

for the year to 30 June 2005

The Large Companies Share Trust returned 23.6% for the year to 30 June 2005. Based on this and returns for the past several years, the trust has the highest returns in its peer group category – ASSIRT's Multisector Equity classification – for one and three years and second in its group for five years.

Out of the 23.6% return, the trust paid a total distribution of 29.86 cents per unit, as shown in the table below.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2004	to 30 June 2005	cents per unit	%
Distributions	1.18	28.68	29.86	17.8
Unit value change	27.11	–17.51	9.60	5.8
Net earnings result	28.29	11.17	39.46	23.6

* assumes reinvestment of half-yearly distribution.

Performance comparisons

For each of the Australian Ethical trusts, management chooses an appropriate benchmark against which long-term performance is compared. For the Australian Ethical Large Companies Share Trust, the benchmark is the Standard and Poor's (S&P) ASX 200 index. This is an index of 200 of the largest companies listed on the Australian Stock Exchange.

For the 2004–05 financial year, the ASX 200 rose by 26.4% – slightly higher than the trust's return.

Unlike many other funds, there is generally a fair bit of year-to-year variation between the returns of this trust and the benchmark index. This is due to the structural differences between the trust portfolio and the ASX 200. In particular:

- the index includes many large resources companies (for example, Rio Tinto, BHP Billiton, Woodside) not held by the trust
- the major banks make up a substantial part of the index and are not held by the trust
- the trust holds proportionately more in healthcare stocks and utilities than benchmark index proportions would suggest
- the trust holds proportionately more of relatively smaller stocks – only a handful of the trust's stocks are in the top 50 of the index.

As a result, if there is any variation in performance between different components of the index (for example, if the major banks or mining companies do relatively better than, or relatively worse than, the index generally), then there may be periods where the trust will do better than the benchmark index, and periods where it will do worse.

This year the strongest-performing stocks on the Australian Stock Exchange were resources stocks. Boosted by high energy (oil) prices and strong demand for commodities, mining stocks generally rose strongly – the energy sector was up 68.9% for the year and the materials sector was up 37.2%.

The Australian Ethical Charter encourages Australian Ethical to seek out investments in companies that make a positive contribution to environmental and social sustainability and to avoid companies which have a significant negative environmental impact. As a result of the application of the charter through our screening processes, no mining stocks are currently held and therefore the Australian Ethical Large Companies Share Trust did not get the benefit that other funds did from this resources sector boom.

Obviously, during periods where the resources sector underperforms relative to other stocks, there would be a corresponding positive impact on the trust's relative performance.

One way to abstract from the impact of the resources sector boom on relative performance is to compare the trust's returns with the Standard and Poor's ASX All Industrials index (stocks outside the resources sector), which rose by 22.6% for the year, against the trust's return of 23.6%.

While missing out on the direct short-term benefits of participation in the mining boom, the trust is still generating returns comparable with its peers. In the long run, the economic logic of ethical investing is based partly on the belief that the demand for fossil fuels which is driving up both fossil fuel prices (and fossil fuel company stock prices) is also the driver for renewable energy technologies (and renewable energy technology companies). Similarly, the demand for materials (such as metals), which has helped other mining companies this year, is also the driver for increased demand for recycling services. To some extent, these relationships are already apparent through the value the market is apparently imputing to the renewable energy credits being generated in stocks like Pacific Hydro (wind power) and Energy Developments (waste to energy) and to the metal recovered by Sims Group (metal recycler).

The table below shows the year-by-year performance of the trust against the benchmark index.

	Trust performance per year %	ASX 200 performance %
1998–99	26.0	15.3
1999–00	35.7	15.5
2000–01	6.1	9.1
2001–02	–10.1	–4.7
2002–03	3.7	–1.7
2003–04	20.6	21.6
2004–05	23.6	26.4

In terms of peer group comparisons, fund manager rating agency ASSIRT Pty Ltd has categorised the Large Companies Share Trust in its Multisector Equity classification. The trust's relative performance within this group and its compound return against the benchmark index and against the ASX All Industrials index are shown in the table below.

	Trust returns %	ASX 200 index %	ASX All Industrials index %	Performance within ASSIRT group, Multisector Equity
1 year	23.6	26.4	22.6	1st of 19 funds
3 years	15.6	14.7	12.7	1st of 17 funds
5 years	8.1	9.4	7.6	2nd of 8 funds

All figures are expressed as compound annual returns.

Despite what remains a prevailing prejudice that ethical investing necessarily involves a sacrifice of returns, the table suggests that, over a reasonable period, the trust has delivered returns better than much of its peer group and comparable with the market (somewhat better than the market if the recent strength of the resources sector is adjusted out).

Interestingly these returns have been delivered with a decreasing month-to-month volatility of returns over the last few years (driven by improved diversification). This suggests that the return performance has not been at the expense of increased risk-taking.

Importantly, unitholders should be aware that past performance is not necessarily a reliable predictor of future performance and that future performance cannot be guaranteed.

Performance details

Some of the better performing stocks over the 2004–05 financial year included:

- renewable energy company, Pacific Hydro (+84.2%) – taken over during the year and so sadly no longer available as an investment
- hearing technology company, Cochlear (+72.5%)
- Macquarie Communications Infrastructure Group, which owns the broadcasting towers used by the ABC and SBS (+71.2%)
- blood products company, CSL (+51.2%)
- renewable energy company, Energy Developments (+48.4%)
- Waste Management New Zealand (+41.7%)
- Sonic Healthcare (+37.8%)
- condom and surgical glove manufacturer, Ansell (+29.6%)
- metals recycler, Sims Group (+29.5%) and
- manufacturer of sleep apnoea products and humidification equipment for infants, Fisher and Paykel Healthcare (+24.2%).

Other strong domestic performers included Computershare, Alinta (gas), and the Australian Pipeline Trust (natural gas pipelines).

The international equities portfolio was again a positive contributor, with best returns from US organic and natural foods retailer, Whole Foods (+24.1%), and Japanese bicycle component manufacturer, Shimano (+21.2%).

Investments held by the trust

Portfolio diversification remains high, with no holdings in the trust above 5.4% at 30 June. The capacity added in 2003 to include a small proportion of international stocks in the portfolio has enabled the trust to sustain a portfolio of around 40 stocks (39 at end June 2005) significantly above the levels held before 2003. The responsible entity has also increased the size of its equity analyst team to enable coverage of more stocks around the world which are making a positive contribution to the environment and society.

New limits approved this year included US rail freight company, Genesee and Wyoming, aged care group, DCA, IBT Education, Sonic Healthcare and Insurance Australia Group (IAG).

Growth of the trust

Over the 2004–05 financial year, the trust grew in size to $72.0 million, up from $47.7 million a year earlier. This growth has continued into early 2005–06 reaching $80.6 million at 31 August 2005. Trust unit values increased by 6.1% over the two months to that date.

David Ferris
Investment Manager
Australian Ethical Investment Ltd

2 September 2005

Australian Ethical Large Companies Share Trust Portfolio

as at 29 June 2005

	% of fund
Cash	**7.39**
Cash and equivalent	
Equity: listed Australia and New Zealand	**82.22**
ABC Learning Centres Ltd	
Alinta Ltd	
Ansell Ltd	
Australian Pipeline Trust	
Bendigo Bank Ltd	
Brambles Industries Plc	
CSL Ltd	
Cochlear Ltd	
Computershare Ltd	
Energy Developments Ltd	
Envestra Ltd	
Fairfax (John) Holdings Limited	
Fisher and Paykel Healthcare Corporation Ltd	
GasNet Australia Trust	
IBT Education Ltd	
Insurance Australia Group	
MYOB Ltd	
Macquarie Communications Infrastructure Group	
Macquarie Office Trust	
Origin Energy Ltd	
Pacific Hydro Ltd	
ResMed Inc	
Sigma Company Ltd	
Sims Group Ltd	
Sonic Healthcare Limited	
St George Bank Ltd	
Technology One Ltd	
Telecom Corporation of New Zealand Ltd	
Toll Holdings Ltd	
Waste Management New Zealand Ltd	
iiNet Ltd	
Equity: listed international	**10.39**
Baldor Electric Company	
Boiron Group	
Genesee and Wyoming Inc	
SLM Corporation	
Shimano Inc	
Trex Corporation Inc	
United Natural Foods Inc	
Whole Foods Market Inc	

Australian Ethical Large Companies Share Trust
Directors' report

for the year ending 30 June 2005

Australian Ethical Investment Ltd, the responsible entity of the Australian Ethical Large Companies Share Trust (the scheme), presents its directors' report together with the audited financial statements of the scheme for the year ended 30 June 2005 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Ltd was appointed the responsible entity by election of unitholders on 20 August 1999 and the trust was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Ltd during or since the end of the financial year are disclosed in note 13 to the financial statements.

Principal activities and review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a portfolio of equity investments mainly in large domestic and international listed companies. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

There were no significant changes in the nature of the scheme's principal activities during the year.

The scheme achieved an overall return of 23.6% for the financial year. The scheme paid distributions of 29.86 cents per unit over the year.

The value of the scheme's net assets as at 30 June 2005 was $62,651,882. The investments of the sheme are valued at market value, estimated realisable value or cost, as disclosed in the attached financial statements.

Distributions from the scheme were larger than in previous years due to realised capital gains in a rising share market.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely, in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying statement of financial performance.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid for out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the trust constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 8 of the attached financial statements.

Interests in the scheme

Full details of interests in the scheme issued during the financial year, withdrawals from the scheme during the financial year, and the number of interests in the scheme at the end of the financial year are contained in note 2 of the attached financial statements.

Auditor's declaration

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

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
12 September 2005

Australian Ethical Equities Trust
Responsible entity's report

for the year to 30 June 2005

The Equities Trust returned 19.3% for the year to 30 June 2005.

Out of the 19.3% return, the trust paid a total distribution of 33.32 cents per unit, as shown in the table below.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2004	to 30 June 2005	cents per unit	%
Distributions	1.01	32.31	33.32	21.7
Unit value change	25.38	–28.98	–3.60	–2.4
Net earnings result	26.39	3.33	29.72	19.3

* assumes reinvestment of half-yearly distribution.

Performance comparisons

For each of the Australian Ethical trusts, management chooses an appropriate benchmark against which long-term performance is compared. For the Australian Ethical Equities Trust, the benchmark is the Standard and Poor's ASX 300 index. This is an index of 300 of the largest companies listed on the Australian Stock Exchange.

For the 2004–05 financial year, the ASX 300 rose by 26.0%.

Unlike many other funds, there is generally a fair bit of year-to-year variation between the return of this trust and the benchmark index. This is due to the structural differences between the trust portfolio and the ASX 300. In particular:

- the index includes many large resources companies (for example, Rio Tinto, BHP Billiton, Woodside) not held by the trust
- the major banks make up a substantial part of the index and are not held by the trust
- the trust holds proportionately more in healthcare stocks and utilities than benchmark index proportions would suggest
- the trust holds proportionately more of relatively smaller stocks – only a handful of the trust's stocks are in the top 50 of the index.

As a result, if there is any variation in performance between different components of the index (for example, if the major banks or mining companies do relatively better than, or relatively worse than, the index generally), then there may be periods where the trust will do better than the benchmark index, and periods where it may do worse.

This year the strongest-performing stocks on the Australian Stock Exchange were resources stocks. Boosted by high energy (oil) prices and strong demand for commodities, mining stocks generally rose strongly – the energy sector was up 68.9% for the year and the materials sector was up 37.2%.

The Australian Ethical Charter encourages Australian Ethical to seek out investments in companies that make a positive contribution to environmental and social sustainability and to avoid companies which have a significant negative environmental impact. As a result of the application of the charter through our rigorous screening processes, no mining stocks are currently held. The Australian Ethical Equities Trust currently holds no mining stocks and therefore did not get the benefit that other funds, and the market index as a whole, got from this resources sector boom.

Obviously, during periods where the resources sector underperforms relative to other stocks, there would be a corresponding positive impact on the trust's relative performance.

Correcting the index for the mining stock issue, the ASX All Industrials (which excludes resources stocks) rose by 22.6%, 3.4% lower than the broader index.

A second structural reason why the Equities Trust did not rise as strongly as its benchmark index this year is that 2004–05 was a year where *mid cap* stocks (large stocks outside the top 20) performed about 4 to 5% better on average than *small cap* stocks. As the Australian Ethical Equities Trust has proportionately more small cap stocks than either the benchmark index or other funds, this affected relative returns.

This latter point is also the main reason why returns to the Equities Trust were a few percentage points below returns to the Large Companies Share Trust for 2004–05.

While it is always impossible to predict with certainty how different parts of the market are likely to perform in future, there have been a number of studies which suggest that, in the very long run (at the level of decades), small cap stocks have tended to outperform their larger counterparts.

The table below shows the year-by-year performance of the trust against the benchmark index.

	Trust performance per year %	ASX 300 performance %
1995–96	25.3	15.8
1996–97	14.2	26.6
1997–98	–6.3	1.6
1998–99	23.6	15.3
1999–00	35.0	15.1
2000–01	9.2	9.1
2001–02	–12.7	–4.5
2002–03	4.7	–1.6
2003–04	14.3	21.7
2004–05	19.3	26.0

In terms of peer group comparisons, fund manager rating agency ASSIRT Pty Ltd has categorised the Equities Trust in its Australian Equity General classification. The trust's relative performance within this group and its compound return against the benchmark index and against the ASX All Industrials index are shown in the table below.

	Trust returns %	ASX 300 index %	ASX All Industrials index %	Performance within ASSIRT group, Australian Equity General
1 year	19.3	26.0	22.6	equal 154th of 170 funds
3 years	12.6	14.7	12.7	equal 68th of 119 funds
5 years	6.4	9.5	7.6	equal 66th of 73 funds

All figures are expressed as compound annual returns.

The Australian Ethical Equities Trust retains probably the strongest ethical profile of the Australian Ethical trusts, with the flexibility to support some of the smaller, more cutting-edge ethical stocks such as CDS Technologies (waste water technology), Quantum Technology (a range of computer and other products for the sight-impaired), CVC Renewable Energy Equities Funds and CVC Sustainable Investments (private equity ethical portfolios), and Mornington Park Development (a world class waste transfer station in Hobart), as well as some strongly ethical stocks added to the portfolio this year which are noted below. It remains the belief at Australian Ethical, and among ethical investors generally, that there is a long-run financial pay-off to supporting such companies, in addition to the intrinsic social and environmental benefits.

In the shorter time frame of the last few years, in a period where mining stocks and larger stocks have been the place to be, the Equities Trust has not quite kept up its ranking in a mainstream peer group which has benefited from those trends. However, returns remain within a few percentage points of the index and of most competitors for all periods and, when adjusted for the mining stock issue (the ASX All Industrials comparison), are highly comparable to the mainstream.

Importantly, unitholders should be aware that past performance is not necessarily a reliable predictor of future performance and that future performance cannot be guaranteed.

Performance details

In line with the discussion above, most of the better-performing companies in the Equities Trust were among the larger ones held in common with the Large Companies Share Trust, such as:

- renewable energy company, Pacific Hydro (+84.2%) – taken over during the year and so sadly no longer available as an investment
- hearing technology company, Cochlear (+72.5%)
- Macquarie Communications Infrastructure Group, which owns the broadcasting towers used by the ABC and SBS (+71.2%)
- renewable energy company, Energy Developments (+48.4%)
- Waste Management New Zealand (+41.7%)
- Sonic Healthcare (+37.8%)
- metals recycler, Sims Group (+29.5%) and
- manufacturer of sleep apnoea products and humidification equipment for infants, Fisher and Paykel Healthcare (+24.2%).

Performance amongst the smaller stocks was not as impressive, but there were positive returns from wastewater and stormwater technology company, CDS Technology, from Scantech, a small company which produces advanced industrial scanning technology for raw materials which allows more efficient production, and from a new investment in Lipa Pharmaceuticals, a main supplier to Blackmores. The responsible entity closely monitors its investments in smaller companies, including maintaining contact with the companies and visiting them as often as possible. While not reflected in share price rises this year, continued investments in these companies reflect an assessment by the responsible entity as to their operational soundness. Generally, investment in smaller companies is longer term in nature.

The small portfolio of international companies continued to contribute to trust performance, with the star performers being US natural and organic food retailer, Whole Foods (+41.7%), and Japanese bicycle component manufacturer, Shimano (+21.2%). There were also positive contributions from United Natural Foods, French homeopathic company, Boiron, and from new investments in US rail freight company, Genesee and Wyoming, and from Canadian water treatment company, Zenon (manufactures membranes for filtration).

Investments held by the trust

Portfolio diversification continued to improve over the year with the addition of several new companies following the recruitment of new analysts by the responsible entity. The trust held investments in 54 companies at the end of June 2005 – compared with 35 in June 2000 – with no holdings in the trust above 5.5% at that date. The increased resources have allowed identification and coverage of a number of new companies which are making a positive contribution to society and the environment, and have also been assessed as suitable investments.

New limits approved over the year include:

- hot rocks company, Geodynamics. This company is aiming to produce significant amounts of clean electricity by running water under pressure through high temperature subterranean rocks in the Cooper Basin to generate steam to drive turbines.
- renewable energy company, Novera. This company owns (through a joint venture) a number of waste to energy and wind power assets in the United Kingdom.
- Pro-Pac Packaging, a leader in the production of biodegradable packaging.
- Codan. This company makes high quality communications equipment for use in remote or emergency-stricken areas.
- Ceramic Fuels Cells.

Growth of the trust

Over the 2004–05 financial year, the trust grew in size to $119 million, up from $101.4 million a year ago. This growth has continued into early 2005–06, reaching $125.6 million at 31 August 2005. Trust unit values had risen by 6.7% over the two months to that date.

David Ferris

David Ferris
Investment Manager
Australian Ethical Investment Ltd

2 September 2005

Australian Ethical Equities Trust
Portfolio

as at 29 June 2005

	% of fund
Cash	**7.98**
Cash and equivalent	
Equity: listed Australia and New Zealand	**78.69**
ABC Learning Centres Ltd	
Alinta Ltd	
Australian Pipeline Trust	
Bendigo Bank Ltd	
Blackmores Ltd	
Brambles Industries Plc	
CDS Technologies Ltd	
Cochlear Ltd	
Codan Ltd	
Compumedics Ltd	
Energy Developments Ltd	
Envestra Ltd	
Environzel Ltd	
Fisher and Paykel Healthcare Corporation Ltd	
GasNet Australia Trust	
Geodynamics	
IBT Education Ltd	
Insurance Australia Group	
Lipa Pharmaceuticals Ltd	
MYOB Ltd	
Macquarie Communications Infrastructure Group	
Novera Energy Limited	
Orbital Engine Corporation Ltd	
Origin Energy Ltd	
Pacific Hydro Ltd	
Pro-Pac Packaging Limited	
ResMed Inc	
SAI Global Ltd	
Scantech Ltd	
Sigma Company Ltd	
Sims Group Ltd	
So Natural Foods Australia Ltd	
Sonic Healthcare Limited	
St George Bank Ltd	
Technology One Ltd	
Timbercorp	
Vision Systems Limited	
Waste Management New Zealand Ltd	
Webcentral Group Limited	
iiNet Ltd	
Equity: listed international	**11.38**
Baldor Electric Company	
Boiron Group	
Genesee and Wyoming Inc	
Shimano Inc	
TOMRA Systems ASA	
Trex Corporation Inc	
United Natural Foods Inc	
Whole Foods Market Inc	
Zenon Environmental Inc.	
Equity: unlisted	**1.39**
Equity – unlisted Australian	
Interest-bearing (loans)	**0.56**
Mortgage loans	

Australian Ethical Equities Trust
Directors' report

for the year ending 30 June 2005

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Responsible entity

Australian Ethical Investment Ltd was appointed the responsible entity by election of unitholders on 20 August 1999 and the trust was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Ltd during or since the end of the financial year are disclosed in note 14 to the financial statements.

Principal activities and review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a diversified portfolio of equity investments, including longer term unlisted shares and shares in international listed companies. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

There were no significant changes in the nature of the scheme's principal activities during the year.

The scheme achieved an overall return of 19.3% for the financial year. The scheme paid distributions of 33.32 cents per unit over the year.

The value of the scheme's net assets as at 30 June 2005 was $98,512,249. The investments of the scheme are valued at market value, estimated realisable value or cost, as disclosed in the attached financial statements.

Distributions from the scheme were larger than in previous years due to realised capital gains in a rising share market.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely, in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying statement of financial performance.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid for out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the trust constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 9 of the attached financial statements.

Interests in the scheme

Full details of interests in the scheme issued during the financial year, withdrawals from the scheme during the financial year, and the number of interests in the scheme at the end of the financial year are contained in note 2 of the attached financial statements.

Auditor's declaration

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

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
13 September 2005

Australian Ethical Balanced Trust
Responsible entity's report

for the year to 30 June 2005

The Balanced Trust achieved an overall return of 14.9% for the financial year ended 30 June 2005. Based on one-, three- and five-year comparisons with its peer group, the trust remains one of the top-performing multisector funds. The fund was the winner of the Standard and Poor's 2005 Australian Fund Award in the category of Balanced Fund – Neutral. Other finalists were major mainstream players, Perpetual and ING.

As shown in the table below, the trust paid total distributions of 16.11 cents per unit over the year.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2004	to 30 June 2005	cents per unit	%
Distributions	1.75	14.36	16.11	13.0
Unit value change	11.81	–9.35	2.46	2.0
Net earnings result	13.56	5.01	18.57	14.9

* assumes reinvestment of half-yearly distribution.

Performance comparisons

For each of the Australian Ethical trusts, management chooses an appropriate benchmark against which long-term performance is compared. For the Australian Ethical Balanced Trust, the current benchmark is the ASSIRT Multisector 60 index. This is an index of the performance of all multisector funds with a reasonably comparable asset allocation. *Multisector* or *balanced* funds are funds which have different types of assets within their portfolios – for example, fixed interest, property, Australian shares and international shares. Funds which have up to 60% of their portfolios in growth assets (shares and property) are classified by fund manager research agency ASSIRT Pty Ltd into the Multisector 60 category. There are also Multisector 20, Multisector 40, Multisector 80, and Multisector 100 categories.

The index of returns for fund managers in the ASSIRT Multisector 60 category for the 2004–05 financial year grew by 12.4%, so the Balanced Trust returned 2.5% better than its benchmark index.

The Balanced Trust's returns have also been higher than its benchmark index for longer periods and it has earned high returns relative to its peer group competitors.

	Trust returns %	Benchmark index %	Performance within ASSIRT group, Multisector 60
1 year	14.9	12.4	5th of 42 funds
3 years	11.6	8.0	1st of 30 funds
5 years	9.7	4.9	equal 2nd of 19 funds
10 years	9.5	7.9	not applicable

All figures are expressed as compound annual returns.

Critics of ethical investment often argue that support for ethical activities can only be achieved with the sacrifice of financial performance. As the table shows, over a considerable time period, the Balanced Trust has more than matched the performance of its peer mainstream funds.

Importantly, of course, unitholders should be aware that past performance is not necessarily a reliable predictor of future performance and that future performance cannot be guaranteed.

Investment strategy 2004–05 and into 2005–06

Through most of the last two financial years, the Balanced Trust has operated close to its prescribed maximum level (60%) of the fund in growth assets (equities and property) in order to position it to benefit from the strong share market.

Late in the 2004–05 financial year (and into the current financial year), the trust was moved to a somewhat more cautious position, with growth assets reduced to closer to 50% of the portfolio.

The table below shows the percentage of assets held in various categories at the end of June 2005.

	%
Total yield assets	**51.2**
Private loans	2.7
Cash and interest-bearing securities	44.3
Cross-holding in Australian Ethical Income Trust	4.2
Hybrid assets	**6.2**
Total growth assets	**42.5**
Domestic equities	28.9
International equities	7.0
Property	6.6

The category *hybrid assets* includes a number of convertible instruments (preference shares or convertible notes) which were initially bought mainly as yield instruments. However, appreciation in the share price of the ordinary shares in these securities has effectively put most of them in the money in terms of their conversion options. When this occurs, the securities start to behave much more like equities, raising classification issues. This has been solved by showing them as a separate category.

Asset categories

The trust invests in a balanced range of different asset categories and in a range of investments within each of these categories. This is done to reduce the variability of returns over time and to spread the financial risk which is attached to any one investment or any one asset category. The proportions invested are set out in the table above, and are described in more detail below.

Equities

The trust strategy remains to focus, both domestically and internationally, on relatively mature, stable companies with a history of performance, with a preference for companies paying franked dividends. This asset class earned close to 30% (gross) over the full year. The international exposure was managed conservatively, reducing slightly over the year.

Generally, the Balanced Trust's equities portfolio was subject to the same influences as the Australian Ethical Equities Trust and the Australian Ethical Large Companies Share Trust (see preceding reports). Better-performing domestic stocks included Pacific Hydro (taken over during the year), Cochlear and the Macquarie Communications Infrastructure Group, while the best of the overseas stocks were US natural and organic foods retailer, Whole Foods, and Japanese bicycle component manufacturer, Shimano.

Property

As foreshadowed last year, property investment rose as a percentage of trust to 6.6% from 5.8%, and has risen further in July 2005 with a major direct property acquisition. Generally, the responsible entity sees it as appropriate that a balanced fund with a long-term investment outlook should have a reasonable exposure to property. This can take the form of direct property ownership, investment in property trusts, or syndicates.

From an ethical perspective, the responsible entity considers both the tenancy/use of the property and the building itself (energy efficiency and heritage characteristics). Our screening standards have been such that it has been difficult to identify sufficient indirect property investments (that is, property trusts) to build a major portfolio. Our investments in this area have focused on childcare properties and the Macquarie Office Trust, which historically has had a high percentage of tenants providing public services. There do seem to be some trends emerging towards property trusts focusing on energy-efficient buildings; Australian Ethical hopes to be able to identify some opportunities in that area.

In the interim, Australian Ethical has looked to expand in direct property, focusing on energy-efficient buildings in the southeast region. The latest investment is in an efficient building with a government tenant in Canberra; the trust also holds investments in low-income units and in eco-village developments.

The property asset class as a whole returned around 20% (gross) for the financial year.

Private loans

Ideally this attractive asset class would be expanded, but the responsible entity is very selective in its identification of loans. They must meet the lending criteria arising out of the trust's risk-control framework. New loans did increase this year – from 1.9% of the trust to 2.7% of the trust, with further loans to independent alternative schools as well as increases to some existing borrowers.

This asset class earned around 10% (gross) for the year, slightly above the ongoing weighted average rate on the portfolio of around 8.5%.

Interest-bearing securities

Throughout the year, the interest-bearing securities part of the portfolio was kept on the short side in terms of interest rate risk as the interest rate cycle moved into an upswing. The responsible entity has avoided locking the trust into fixed interest rates which may depress returns relative to the market if interest rates rise.

The majority of the fixed interest portfolio is held in AAA mortgage-backed securities (10.8% of the trust) and in the debt of the regional banks (St George Bank, Suncorp, Bendigo Bank, Bank of Queensland, Bank of Western Australia and Adelaide Bank – 22.7% of the trust) – in a mix of senior (14.9% of the trust) and subordinated debt instruments.

The trust also holds investments with the Australian Central Credit Union, the Maleny Credit Union and Members Equity Credit Union. Other debt securities include Medfin Trust securities (securitised loans to medical practices), securities of the US student loan organisation, Sallie Mae, and of natural gas distributor, Envestra.

The gross return to the interest-bearing security portfolio for the year was slightly above its current weighted average yield of just over 6%.

At the end of the financial year, the Balanced Trust maintained a significant holding of 4.2% in the Australian Ethical Income Trust. This has been an efficient means of giving the Balanced Trust access to the income-bearing securities market without duplicating the investment management function of the Income Trust. The responsible entity rebates back to unitholders that proportion of management fees arising from such double investment in Australian Ethical trusts.

Growth of the trust

The 2004–05 year saw further growth in the size of the trust from $114.2 million to $153 million on 30 June 2005. This had grown further to $161.4 million at 31 August 2005, with unit values increasing by 2.6% over the two months to that date.

David Ferris

David Ferris
Investment Manager
Australian Ethical Investment Ltd

2 September 2005

Australian Ethical Balanced Trust
Portfolio

as at 29 June 2005

	% of fund
Cash	**2.39**
Cash and equivalent	
Cross-holding	**4.19**
Australian Ethical Income Trust	
Debt equity instruments	**6.24**
ABC Learning Centres Ltd	
Alinta Ltd	
Timbercorp	
Toll Holdings Ltd	
Vision Systems Limited	
Equity: listed Australia and New Zealand	**28.54**
Alinta Ltd	
Australian Pipeline Trust	
Bendigo Bank Ltd	
Blackmores Ltd	
Brambles Industries Plc	
Cochlear Ltd	
Codan Ltd	
Energy Developments Ltd	
Envestra Ltd	
Fairfax (John) Holdings Limited	
Fisher and Paykel Healthcare Corporation Ltd	
GasNet Australia Trust	
IBT Education Ltd	
Insurance Australia Group	
MYOB Ltd	
Macquarie Communications Infrastructure Group	
Origin Energy Ltd	
Pacific Hydro Ltd	
ResMed Inc	
SAI Global Ltd	
Sigma Company Ltd	
Sims Group Ltd	
Sonic Healthcare Limited	
St George Bank Ltd	
Technology One Ltd	
Telecom Corporation of New Zealand Ltd	
Waste Management New Zealand Ltd	
iiNet Ltd	
Equity: listed international	**6.97**
Baldor Electric Company	
Boiron Group	
Genesee and Wyoming Inc	
SLM Corporation	
Shimano Inc	
Trex Corporation In	
United Natural Foods Inc	
Whole Foods Market Inc	
Equity: unlisted	**0.31**
Equity – unlisted Australian	
Interest-bearing (general)	**41.99**
ABC Learning Centres Ltd	
Adelaide Bank Ltd	
Australian Central Credit Union	
Bank of Queensland Ltd	
Bank of Western Australia Ltd	
Bendigo Bank Ltd	
Envestra Victoria Pty Ltd	
IAG Finance (NZ) Ltd	
Maleny and District Community Credit Union	
SLM Corporation	
Securitised Debt	
St George Bank Ltd	
Suncorp-Metway Bank Ltd	
TAPS Trust	
Interest-bearing (loans)	**2.74**
Mortgage loans	
Property	**6.63**
Australian Education Trust	
Childcare Property Trust No. 1	
Macquarie Office Trust	
Property	

Australian Ethical Balanced Trust
Directors' report

for the year ending 30 June 2005

Australian Ethical Investment Ltd, the responsible entity of the Australian Ethical Balanced Trust (the scheme), presents its directors' report together with the audited financial statements of the scheme for the year ended 30 June 2005 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Ltd was appointed the responsible entity by election of unitholders on 20 August 1999 and the trust was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Ltd during or since the end of the financial year are disclosed in note 15 to the financial statements.

Principal activities & review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a portfolio of short, medium and long term investments, both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

There were no significant changes in the nature of the scheme's principal activities during the year.

The scheme achieved an overall return of 14.9% for the financial year. The scheme paid distributions of 16.11 cents per unit over the year.

The value of the scheme's net assets as at 30 June 2005 was $138,376,943. The investments of the scheme are valued at market value, estimated realisable value or cost, as disclosed in the attached financial statements.

Distributions from the scheme were larger than in previous years due to realised capital gains in a rising share market.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely, in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying statement of financial performance.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid for out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the trust constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 10 of the attached financial statements.

Interests in the scheme

Full details of interests in the scheme issued during the financial year, withdrawals from the scheme during the financial year, and the number of interests in the scheme at the end of the financial year are contained in note 2 of the attached financial statements.

Auditor's declaration

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

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
12 September 2005

Australian Ethical Income Trust
Responsible entity's report

for the year to 30 June 2005

The Income Trust achieved a full-year return of 4.9%, ahead of its long-term performance target of the consumer price index (CPI) plus 2%. The CPI rise for the year was 2.7%.

Out of this return, the Income Trust paid two distributions, totaling 4.57 cents per unit, as shown in the table below.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2004	to 30 June 2005	cents per unit	%
Distributions	2.26	2.30	4.57	4.8
Unit value change	0.07	0.01	0.08	0.1
Net earnings result	2.33	2.31	4.65	4.9

* assumes reinvestment of half-yearly distribution.

The following table of returns shows that the Income Trust has recorded six consecutive years of stable performance; this performance taking place during a period of generally low (historically) interest rates.

	Trust performance per year %	CPI + 2%
1999–00	4.6	5.2
2000–01	4.6	8.1*
2001–02	4.7	4.9
2002–03	5.2	4.7
2003–04	4.9	4.5
2004–05	4.9	4.7

*impact of GST introduction.

Stable returns is another way of saying low volatility of returns. *Volatility of returns* is how investment analysts generally measure risk.

As mentioned in last year's annual report, the low volatility of returns for the Income Trust (which has continued into this year) helps explain why, despite a generally lower level of returns than the other Australian Ethical trusts, it was rated by the fund rating agency, ASSIRT Pty Ltd, as being in the top 20 funds of all types in Australia on the basis of **risk-adjusted** five-year returns as reported in *The Australian Financial Review* on 28 July 2004 in the article 'Safe and steady wins performance race' (pp25–26).

Importantly, unitholders should be aware that past performance is not necessarily indicative of future performance and that the future performance of the trust is not guaranteed.

In terms of peer group comparisons, ASSIRT has categorised the Income Trust into the group Australian Fixed Interest General. Strictly the Income Trust's portfolio is structurally somewhat different from other funds in this category. Firstly, few, if any, other funds in this class would have a mortgage-secured private loan portfolio like that of the Income Trust. Secondly, most other funds in this category would tend to hold longer-dated government and semi-government bonds. This latter point can mean that the Income Trust will appear to be performing well relative to the peer group when interest rates are rising (as this year) and less well when interest rates are falling. The Income Trust's returns will tend to move broadly in line with the general level of interest rates, whereas portfolios with interest rates locked in for longer periods will tend to have returns which reflect more where interest rates have been.
Not having a major risk of the capital gains and losses which can be associated with locked-in interest rates (if interest rates rise, a 10-year fixed rate bond will fall in market value) also contributes to the relative stability of Income Trust returns.

	Trust returns %	Performance within ASSIRT group, Fixed Interest General
1 year	4.9	35th of 43 funds
3 years	5.0	equal 23rd of 37 funds
5 years	4.9	equal 22nd of 27 funds

All figures are expressed as compound annual returns.

Asset classes

Private loans

The private loan portfolio is an important feature of the Income Trust. As well as offering the highest yields of the portfolio's assets, it also provides the most direct support for activities viewed as positive under the Australian Ethical Charter – for example, schools offering holistic and non-competitive education alternatives or farms engaged in sustainable agriculture.

Some further loans to schools increased the proportion of private loans to 14.2% of the trust – up from 12.5% last year. Ideally, this asset class would be increased even further as it offers attractive returns and the portfolio is well secured against real property. The trust operates to a minimum standard of a 66.7% loan to valuation ratio. That is, loans are generally made only up to 66.7% of the value of the property which secures the loan. As at 30 June 2005, all loans met that standard, with a weighted average loan to valuation ratio of approximately 33%. One loan was slightly in arrears of repayment. The weighted average yield on the loan portfolio as at the same date was 8.47%.

Interest-bearing securities

Apart from private loans, the trust held a further 78.65% of its portfolio in interest-bearing securities as at 30 June 2005. This can be broken up into the following credit risk categories:

- senior debt of credit unions – 1.2% of the trust
- subordinated debt of credit unions – 1.4%
- senior debt of the regional banks – 35.8%
- subordinated debt of the regional banks – 2.9%
- regional bank perpetual subordinated debt – 3.9%
- residential mortgage-backed securities, all AAA rated – 28.8%
- Medfin Trust securities (AAA-rated securitised loans to medical practices) – 1.2%
- rated investment-grade debt (Sallie Mae) – 3.4%.

Generally, the AAA-rated mortgage-backed securities and the senior bank debt would be regarded as the most creditworthy of these securities, although the responsible entity monitors the creditworthiness of all its investments. *Senior* debt means that the debt ranks first in obligations to be met, ranking ahead of *subordinated* debt. *Perpetual* debt is higher risk than fixed-term debt. After the regional banks, the debt of the credit unions would be on a lower tier.

The AAA-rated mortgage-backed securities formally have long-dated maturities, but the responsible entity selects lines of these securities which in practice have a very short weighted average life. Of the rest of the interest-bearing securities portfolio, 5.1% of the trust has maturity dates beyond 5 years (this includes perpetual instruments), 12% matures in the 3 to 5-year range, 12.9% matures within 1 to 3 years and the rest matures over the coming financial year.

There is very little interest rate risk in the portfolio. Of the 78.65% in non-private loan, interest-bearing investments, less than 2% has interest rates fixed for more than 1 year. The rest of the portfolio held at 30 June 2005 either matures within, or had an interest rate reset before, the end of September 2005. It is for this reason that it would be expected that the yield on this asset class will move broadly in line with the level of interest rates.

Growth of the trust

Over the 2004–05 financial year, the Income Trust grew in size from $16.0 million to $17.6 million. The trust return for the two months to 31 August 2005 was 0.9%.

David Ferris
Investment Manager
Australian Ethical Investment Ltd

2 September 2005

Australian Ethical Income Trust Portfolio

as at 29 June 2005

	% of fund
Cash	**7.16**
Cash and equivalent	
Interest-bearing (general)	**78.66**
Adelaide Bank Ltd	
Australian Central Credit Union	
Bank of Queensland Ltd	
Bank of Western Australia Ltd	
Bendigo Bank Ltd	
Maleny and District Community Credit Union	
SLM Corporation	
Securitised Debt	
St George Bank Ltd	
Suncorp-Metway Bank Ltd	
Interest-bearing (loans)	**14.18**
Kinma School Ltd	
Mortgage loans	

Australian Ethical Income Trust
Directors' report

for the year ending 30 June 2005

Australian Ethical Investment Ltd, the responsible entity of the Australian Ethical Income Trust (the scheme), presents its directors' report together with the audited financial statements of the scheme for the year ended 30 June 2005 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Ltd was appointed the responsible entity by election of unitholders on 20 August 1999 and the trust was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Ltd during or since the end of the financial year are disclosed in note 14 to the financial statements.

Principal activities and review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a portfolio of capital stable, interest bearing securities of short, medium and long term duration. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

There were no significant changes in the nature of the scheme's principal activities during the year.

The scheme achieved an overall return of 4.9% for the financial year. The scheme paid distributions of 4.6 cents per unit over the year.

The value of the scheme's net assets as at 30 June 2005 was $17,230,833. The investments of the scheme are valued at market value, estimated realisable value or cost, as disclosed in the attached financial statements.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely, in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying statement of financial performance.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid for out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the trust constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 9 of the attached financial statements.

Interests in the scheme

Full details of interests in the scheme issued during the financial year, withdrawals from the scheme during the financial year, and the number of interests in the scheme at the end of the financial year are contained in note 2 of the attached financial statements.

Auditor's declaration

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

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
12 September 2005

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 2005 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

THOMAS DAVIS & CO

P. L. Whiteman

P. L. WHITEMAN PARTNER

Date 9 September 2005

Liability limited by a scheme approved under Professional Standards Legislation

AUSTRALIAN ETHICAL LARGE COMPANIES SHARE TRUST ARSN 089 919 166

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Note	**2005** **$**	2004 $
ASSETS			
Cash and Short Term Deposits	3	**5,769,077**	2,544,717
Receivables	4	**723,697**	217,447
Investments	5	**67,479,680**	46,276,756
TOTAL ASSETS		**73,972,454**	49,038,920
LIABILITIES			
Payables	6	**1,104,220**	612,515
Distribution Payable	7	**10,216,352**	711,369
TOTAL LIABILITIES		**11,320,572**	1,323,884
NET ASSETS		**62,651,882**	47,715,036
UNITHOLDERS' FUNDS	2	**62,651,882**	47,715,036

The accompanying notes form part of these Financial Statements.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $	2004 $
INVESTMENT INCOME		
Currency Option Revenue	**127,018**	100,452
Dividends Received	**1,492,271**	932,592
Dividends Accrued	**36,985**	45,424
Interest Received	**172,084**	130,212
Interest Accrued	**21,679**	223
Trust Distributions Received	**254,523**	216,838
Trust Distributions Accrued	**47,829**	63,057
Other Income	**2,695**	5,110
Profit/(Loss) on Foreign Exchange	**(63,961)**	(85,137)
Profit/(Loss) on Sale of Investments at Market Value	**5,613,482**	2,160,013
Unrealised (Decrement)/Increment on Fluctuation in value of Investments	**6,234,144**	5,193,620
	13,938,749	8,762,404
LESS EXPENDITURE		
Accounting Fees	**33,130**	21,992
Audit Fees (Note 10)	**10,326**	9,060
Bank Charges	**3,493**	2,554
Currency Option Amortisation	**96,312**	46,995
Printing & Other Costs	**51,290**	37,620
Responsible Entity Fees	**1,141,323**	787,158
	1,335,874	905,379
Net Operating Income for the Year from Ordinary Activities	**12,602,875**	7,857,025
DISTRIBUTION		
Net Operating Income for the Year from Ordinary Activities	**12,602,875**	7,857,025
Transfer (to)/from Unitholders' Funds to determine Distributable Income	**(2,006,084)**	(6,901,626)
Net Amount Available for Distribution (Note 7)	**10,596,791**	955,399

The accompanying notes form part of these Financial Statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest Received	**172,307**	139,000
Dividends Received	**1,537,054**	978,181
Trust Distribution Received	**317,580**	252,975
Other Income Received	**65,752**	105,562
Expenses	**(1,203,982)**	(925,152)
Net Cash Provided by (Used in) Operating Activities (Note 12)	**888,711**	550,566
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	**68,442,675**	52,121,227
Payment for Investments	**(77,939,460)**	(57,648,593)
Net Cash Provided by (Used in) Investing Activities	**(9,496,785)**	(5,527,366)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issue of Units	**17,450,826**	11,834,403
Payment of Repurchases	**(5,362,760)**	(6,851,400)
Distributions Paid	**(255,632)**	(604,032)
Net Cash Provided by (Used in) Financing Activities	**11,832,434**	4,378,971
Net Increase (Decrease) in Cash Held	**3,224,360**	(597,829)
Cash at Beginning of Year	**2,544,717**	3,142,546
Cash at End of Year (Note 11)	**5,769,077**	2,544,717

The accompanying notes form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

This financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Trusts Constitution dated 13 October 1999, Corporations Act 2001, Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on historical costs, except as stated in (a) below.

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

(a) **Investments:**

The carrying amount of investments is reviewed by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value, estimated realisable value or cost.

(b) **Revenue:**

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

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments/decrements arising on fluctuation in value of investments are included in the net operating income for the year.

(c) **Cash:**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at banks including at call deposits with banks.

(d) **Payables:**

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(e) **Income Tax:**

No tax is payable by the Trust as all distributable income is distributed to unitholders.

AUSTRALIAN ETHICAL LARGE COMPANIES SHARE TRUST ARSN 089 919 166

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(f) **Transfers to/from Unitholders' Funds:**

Unrealised increments and decrements arising on fluctuation in value of investments are transferred to unitholders' funds. They are included in the determination of distributable income when assessable for taxation purposes. Net capital losses are also transferred to unitholders' funds.

(g) **Goods and Services Tax (GST):**

The Trust qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

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 (ATO) . 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 Statement of Financial Position are shown inclusive of GST.
The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

(h) **Distributions:**

Distributions to unitholders comprise the taxable income of the Trust. Distributions do not include unrealised increments and decrements arising on fluctuation in the value of investments.
They are transferred to unitholders' funds and only included in the determination of distributions when realised.

(i) **Net fair value of Financial Assets and Liabilities:**

The Trust's financial assets and liabilities included in the Statement of Financial Position are carried at amounts that approximate net fair value.

(j) **Foreign Currency Transactions:**

Foreign currency transactions are converted into Australian Currency at the rate of exchange applicable at the date of the transaction. Amounts payable and receivable in foreign currencies at balance date are converted to the rates of exchange ruling at that date. The resulting gains and losses are included in investment income in the period they arise.

(k) **Currency Options:**

Options are purchased to hedge against foreign currency exposure. The cost is amortised over the period of the option. The options are valued at the higher of amortised purchase cost or intrinsic value at balance date.

(l) **Comparative Figures:**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(m) **Adoption of Australian equivalents to International Financial Reporting Standards:**

The Responsible Entity is preparing and managing the transition to Australian equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Trust's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Responsible Entity, along with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the Trust's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows: Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes.

Financial Instruments
The Trust will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the Trust to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 139 financial assets will be classified as either at fair value through profit or loss, held to maturity, available for sale or loans and receivables and, depending on classification, measured at fair value or amortised cost. This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount with changes recognised in profit or loss.

Treatment of UnitHolders' Funds
Under AIFRS, Unitholders' Funds are to be treated as a Liability versus historically being treated as Unitholders' Funds, because the units are redeemable by the unitholders at any time. Had we adopted the AIFRS for the financial year ended 30 June 2005 it would result in the Statement of Financial Position as at 30 June 2005 being declared with Net Assets of nil versus Net Assets as per our Statement of Financial Position as at 30 June 2005 of $62,651,882.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 2: **UNITHOLDERS' FUNDS**

Units on Issue	**2005** Units No.	**2005** $	2004 Units No.	2004 $
Opening Balance	**28,695,368**	**41,901,039**	25,459,848	36,925,743
Issued	**9,668,543**	**18,183,795**	7,650,444	11,834,403
Redeemed	**(2,741,840)**	**(5,253,033)**	(4,414,924)	(6,859,107)
Closing Balance	**35,622,071**	**54,831,801**	28,695,368	41,901,039

	2005 $	2004 $
General Reserve (refer notes 1 (f) & (h))		
Opening Balance	**452,006**	(1,499,929)
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**-**	1,951,935
Closing Balance	**452,006**	452,006
Unrealised Fluctuation in Value of Investments (refer notes 1(f) & (h))		
Opening Balance	**5,361,991**	412,300
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**2,006,084**	4,949,691
Closing Balance	**7,368,075**	5,361,991
Total Unitholders' Funds	**62,651,882**	47,715,036

Note 3: **CASH AND SHORT TERM DEPOSITS**

	2005 $	2004 $
Cash at Bank	**5,439**	963,356
Short Term Deposits at Call	**5,763,638**	1,581,361
	5,769,077	2,544,717

Note 4: **RECEIVABLES**

	2005 $	2004 $
Dividends Receivable	**37,976**	45,773
Interest Receivable	**21,679**	223
Trust Distribution Receivable	**47,829**	63,057
Debtors	**616,213**	108,394
	723,697	217,447

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 5: **INVESTMENTS**

	2005 $ Market	2005 $ Cost	2004 $ Market	2004 $ Cost
Equities				
Australian Listed	**50,327,226**	**44,322,440**	33,915,866	30,216,141
International Listed	**11,360,034**	**10,377,284**	9,122,034	7,581,020
	61,687,260	**54,699,724**	43,037,900	37,797,161
Unit Trusts				
Listed	**5,674,746**	**5,364,849**	3,199,571	3,109,750
	5,674,746	**5,364,849**	3,199,571	3,109,750
Derivatives				
Currency Options	**117,674**	**47,032**	39,285	7,855
	117,674	**47,032**	39,285	7,855
	67,479,680	**60,111,605**	46,276,756	40,914,766

Note 6: **PAYABLES**

	2005	2004
Unsecured -		
Payable to Responsible Entity	**135,399**	90,935
Share Purchases	**963,759**	512,252
Sundry Creditors	**5,062**	9,328
	1,104,220	612,515

Note 7: **DISTRIBUTION PAID AND PAYABLE**

	2005	2004
Net Amount Available for Distribution	**10,596,791**	955,399
Distributed -		
($0.0118 per unit) half-year ended 31 December 2004	**380,439**	244,030
($0.2868 per unit) half-year ended 30 June 2005	**10,216,352**	711,369
	10,596,791	955,399
Undistributed Income	**NIL**	NIL

Note 8: **RELATED PARTY DISCLOSURE**

Australian Ethical Investment Limited, as Responsible Entity of the Trust, provides investment services for the Trust in accordance with the Constitution.

The amounts paid or due and payable for the period to the Responsible Entity in accordance with the terms of the Constitution are $1,201,586 (2004 $831,018)

The Responsible Entity held no units in the Scheme at year end.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 9: **SEGMENT INFORMATION**

The Australian Ethical Large Companies Share Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2005 financial year the Trust invested in International Listed Securities amounting to $11,360,034 (2004 $9,122,034) at market value as at 30 June 2005 (refer note 5). The Trust earned dividends of $504,436 (2004 $339,905) from these Investments during the year.

Note 10: **AUDITORS' REMUNERATION**

Amounts received or due and receivable by the Auditors of the Trust for:

	2005 $	2004 $
Audit Services	**7,400**	6,500
Other Services	**2,926**	2,560
	10,326	9,060

Note 11: **RECONCILIATION OF CASH**

For the purposes of the Statement of Cash Flows, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005	2004
Cash at Bank	**5,439**	963,356
Short Term Deposits at Call	**5,763,638**	1,581,361
	5,769,077	2,544,717

Note 12: **RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO NET OPERATING INCOME / (LOSS) FROM ORDINARY ACTIVITIES FOR THE YEAR**

	2005	2004
Net Operating Income from Ordinary Activities for the Year	**12,602,875**	7,857,025
(Increase)/Decrease in Accrued Income	**1,570**	(18,190)
Unrealised (Increment)/Decrement on Fluctuation in value of Investments	**(6,234,144)**	(5,193,620)
Increase/(Decrease) in Accrued Charges and Creditors	**46,717**	26,432
(Increase)/Decrease in Debtors	**(11,137)**	(8,063)
(Profit)/Loss on Sale of Investments	**(5,613,482)**	(2,160,013)
Currency Option Amortisation	**96,312**	46,995
	888,711	550,566

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 13: **DIRECTORS' AND EXECUTIVES' REMUNERATION**

Remuneration policy of The Responsible Entity

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. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

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

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

Secretaries, senior managers, executive directors and group executives

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

Remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not *"exploit people through the payment of low wages or the provision of poor working conditions"* and to facilitate: "*the development of workers participation in the ownership and control of their work organisations and places."*

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

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus[1] to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 13: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

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.

The company currently offers no salary packaging arrangements other than salary sacrifice of superannuation.

Performance-based remuneration and company performance

The payment of the staff bonus[1] 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.

Options issued under the employee share ownership plan have an exercise price which is 10% greater than the market value of the underlying shares as at the date of grant. In addition, 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, and 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 four financial years.

Names and positions of parent entity directors, named executives and specified executives at any time during the financial year

Parent entity directors

Name	***Position***	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	
Trevor Lee	Director, non-executive	Ceased 24 November 2004
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	Commenced 1 February 2005

Named and specified executives

Name	***Position***	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	Commenced 26 October 2004
Christopher Lee	Company secretary	Resigned 25 October 2004
Ruth Medd	Director of wholly-owned entity	

[1] The Company's Constitution states that "the directors before recommending any dividend to be paid out of the profits of any one year must have first:- (i) paid to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted".

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 13: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Remuneration details for the year ended 30 June 2005

Parent entity directors' remuneration

Parent Entity Directors	Primary					Post Employ-ment	Equity	
2005	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
	$	$	$	$	$	$	$	$
George Pooley	-	42,964	3,000	-	-	-	-	45,964
Ray De Lucia	-	12,974	-	-	-	-	-	12,974
Trevor Lee	-	5,000	-	-	-	450	-	5,450
Caroline Le Couteur	105,252	12,974	-	-	3,500	10,639	3,141	135,506
James Thier	85,153	24,474	-	-	2,800	9,802	2,573	124,802
Howard Pender	43,990	24,474	-	41,082	1,225	6,132	1,076	117,979
Naomi Edwards	-	16,689	-	5,000	-	1,502	-	23,191
Total	234,395	139,549	3,000	46,082	7,525	28,525	6,790	465,866

* Howard Pender (through Wandoo Economics) has a contract with the parent entity for the provision of management services as required. Naomi Edwards had a one off contract with the wholly owned entity to provide an outsourcing review. The terms and conditions of these contracts are no more favourable than those that it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual.

2004	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
George Pooley	-	38,150	2,000	-	-	-	-	40,150
Ray De Lucia	-	10,762	-	-	-	-	-	10,762
Trevor Lee	50	10,762	-	-	193	968	391	12,364
Caroline Le Couteur	58,102	10,762	-	56,980	1,750	6,163	4,207	137,964
James Thier	94,569	20,762	-	-	1,400	10,325	3,298	130,354
Howard Pender	37,834	20,762	-	3,188	613	5,240	1,363	69,000
Alistair Clark	63,111	6,190	-	-	1,400	5,206	3,115	79,022
Total	253,666	118,150	2,000	60,168	5,356	27,902	12,374	479,616

Named and specified executives remuneration

	Primary				Post Employ-ment	Equity	
2005	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
	$	$	$	$	$	$	$
Anne O'Donnell	142,361	-	-	3,500	12,695	3,581	162,137
David Ferris	123,415	-	-	3,500	11,025	3,189	141,129
Mark Bateman	123,568	-	-	3,500	10,766	2,498	140,332
Philip George	72,909	-	-	-	6,545	-	79,454
Christopher Lee	29,569	-	-	3,291	2,449	-	35,309
Ruth Medd	-	11,500	6,000	-	1,035	-	18,535
Total	491,822	11,500	6,000	13,791	44,515	9,268	576,896

2004	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
Anne O'Donnell	125,172	-	-	1,750	11,219	4,455	142,596
David Ferris	112,988	-	-	1,750	9,989	3,972	128,699
Mark Bateman	87,157	-	-	1,750	7,823	3,120	99,850
Ruth Medd	-	10,000	5,000	-	900	-	15,900
John Ford	-	9,083	-	-	-	-	9,083
Total	325,317	19,083	5,000	5,250	29,931	11,547	396,128

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 13: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Options granted as remuneration

	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date	Granted as Part of Remuner-ation $	Options Remuner-ation Represented by Options %	Total Options Exercised $	Options Lapsed ($)	Total $
Parent Entity Directors											
George Pooley	-	-	-	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-	-	-	-
Caroline Le Couteur	2,513	23.09.04	1.25	16.28	23.09.07	22.12.07	3,141	2%	-	-	3,141
James Thier	2,058	23.09.04	1.25	16.28	23.09.07	22.12.07	2,573	2%	-	-	2,573
Howard Pender	861	23.09.04	1.25	16.28	23.09.07	22.12.07	1,076	1%	-	-	1,076
Naomi Edwards	-	-	-	-	-	-	-	-	-	-	-
	5,432						6,790		-	-	6,790
Named and Specified Executives											
Anne O'Donnell	2,865	23.09.04	1.25	16.28	23.09.07	22.12.07	3,581	2%	3,721	-	7,302
David Ferris	2,551	23.09.04	1.25	16.28	23.09.07	22.12.07	3,189	2%	3,149	-	6,338
Mark Bateman	1,998	23.09.04	1.25	16.28	23.09.07	22.12.07	2,498	2%	4,914	-	7,412
Philip George	-	-	-	-	-	-	-	-	-	-	-
Christopher Lee	-	-	-	-	-	-	-	-	-	(3,938)	(3,938)
Ruth Medd	-	-	-	-	-	-	-	-	-	-	-
	7,414						9,268		11,784	(3,938)	17,114

Option holdings

	Balance 01.07.04	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.05	Total Vested 30.06.05	Total Exer-cisable 30.06.05	Total Unexer-cisable 30.06.05
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-
Caroline Le Couteur	4,864	2,513	-	-	7,377	-	-	7,377
James Thier	3,762	2,058	-	-	5,820	-	-	5,820
Howard Pender	1,838	861	-	-	2,699	-	-	2,699
Naomi Edwards	-	-	-	-	-	-	-	-
Named and Specified Executives								
Anne O'Donnell	6,853	2,865	(1,431)	-	8,287	-	-	8,287
David Ferris	6,022	2,551	(1,211)	-	7,362	-	-	7,362
Mark Bateman	5,604	1,998	(1,890)	-	5,712	-	-	5,712
Philip George	-	-	-	-	-	-	-	-
Christopher Lee *	4,109	-	-	(4,109)	-	-	-	-
Ruth Medd	-	-	-	-	-	-	-	-
Total	33,052	12,846	(4,532)	(4,109)	37,257	-	-	37,257

* Christopher Lee forfeited 100% of options granted upon leaving the employment of Australian Ethical Investment Limited

Options held, as disclosed above, will be capable of being exercised in the financial years 2005/2006, 2006/2007 and 2007/2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 13: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Shareholdings

	Balance 01.07.04	Shares in lieu of Cash Bonus	Options Exercised	Net Change Other *	Balance 30.06.05
Parent Entity Directors					
George Pooley	-	-	-	-	-
Ray De Lucia	519	-	-	200	719
Trevor Lee	39,174	-	-	-	39,174
Caroline Le Couteur	41,633	236	-		41,869
James Thier	59,842	68	-	200	60,110
Howard Pender	56,024	83	-	(5,000)	51,107
Naomi Edwards	-	-	-	-	-
Named and Specified Executives					
Anne O'Donnell	1,458	236	1,431		3,125
David Ferris	584	236	1,211		2,031
Mark Bateman	1,422	236	1,890	(1,280)	2,268
Phil George	375	-	-	-	375
Christopher Lee	1,596	222	-		1,818
Ruth Medd	-	-	-	-	-
Total	202,627	1,317	4,532	(5,880)	202,596

* Net change other refers to shares purchased or sold during the financial year.

AUSTRALIAN ETHICAL LARGE COMPANIES SHARE TRUST ARSN 089 919 166

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the Responsible Entity of Australian Ethical Large Companies Share Trust, declare:

1. the financial statements, and the notes are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the financial position of the Trust as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date; and

   b. complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements.

2. in the Directors' opinion there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable; and

3. the Trust has operated during the year ended 30 June 2005 in accordance with the provisions of the Trust Constitution dated 13 October 1999.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
13 September 2005

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Large Companies Share Trust consisting of the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flows, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June 2005. The Directors of the Responsible Entity, Australian Ethical Investment Limited, are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

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

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

Independence

The Auditor's Independence Declaration made in accordance with Section 307C of the Corporations Act 2001 dated 9 September 2005 which is attached to the Directors' Report, would be in the same terms if it had been given to the relevant Directors at the time this Audit Report was made.

Audit Opinion

In our opinion, the financial report of Australian Ethical Large Companies Share Trust for the year ended 30 June 2005 is in accordance with:

a) the Corporations Act 2001, including

  (i) giving a true and fair view of the Trusts financial position as at 30 June 2005 and of its performance for the year ended on that date; and

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

b) other mandatory professional reporting requirements; and

c) the provisions of the Trust Constitution.

Thomas Davis & Co

THOMAS DAVIS & CO.

P L Whiteman

P.L. WHITEMAN PARTNER

Chartered Accountants

Sydney,
13 September 2005
Liability limited by a scheme approved under Professional Standards Legislation.

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 2005 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

THOMAS DAVIS & CO

P L Whiteman

P. L. WHITEMAN PARTNER

Date 9 September 2005

Liability limited by a scheme approved under Professional Standards Legislation

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Note	**2005**	2004
		$	$
ASSETS			
Cash and Short Term Deposits	3	**9,801,611**	8,963,334
Receivables	4	**1,755,380**	1,224,194
Investments	5	**110,726,648**	94,032,085
Loans	6	**662,314**	1,423,788
TOTAL ASSETS		**122,945,953**	105,643,401
LIABILITIES			
Payables	7	**2,788,045**	1,229,337
Distribution Payable	8	**21,645,659**	2,990,816
TOTAL LIABILITIES		**24,433,704**	4,220,153
NET ASSETS		**98,512,249**	101,423,248
UNITHOLDERS' FUNDS	2	**98,512,249**	101,423,248

The accompanying notes form part of these Financial Statements.

AUSTRALIAN ETHICAL EQUITIES TRUST ARSN 089 919 175

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	$	$
INVESTMENT INCOME		
Currency Option Revenue	**122,091**	51,989
Dividends Received	**2,938,925**	1,981,700
Dividends Accrued	**62,826**	94,328
Interest Received	**525,500**	473,493
Interest Accrued	**40,753**	12,409
Other Income	**13,199**	23,200
Trust Distributions Received	**302,127**	268,077
Trust Distributions Accrued	**-**	67,695
Profit/(Loss) on Foreign Exchange	**(73,664)**	(32,733)
Profit/(Loss) on Sale of Investments at Market Value	**13,445,514**	4,148,153
Unrealised (Decrement)/Increment on Fluctuation in value of Investments	**5,816,885**	7,381,002
	23,194,156	14,469,313
LESS EXPENDITURE		
Accounting Fees	**58,253**	43,960
Audit Fees (Note 11)	**18,695**	18,141
Bank Charges	**4,197**	3,030
Currency Option Amortisation	**147,378**	70,621
Legal Fees	**6,781**	-
Printing & Other Costs	**85,839**	80,095
Responsible Entity Fees	**2,165,403**	1,826,531
	2,486,546	2,042,378
Net Operating Income for the Year from Ordinary Activities	**20,707,610**	12,426,935
DISTRIBUTION		
Net Operating Income for the Year from Ordinary Activities	**20,707,610**	12,426,935
Transfer (to)/from Unitholders' Funds to determine Distributable Income	**1,650,928**	(9,080,010)
Net Amount Available for Distribution (Note 8)	**22,358,538**	3,346,925

The accompanying notes form part of these Financial Statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest Received	**537,909**	502,504
Dividends Received	**3,031,931**	2,096,703
Trust Distribution Received	**369,822**	268,077
Other Income Received	**61,626**	75,189
Expenses	**(2,317,295)**	(1,977,637)
Net Cash Provided by (Used in) Operating Activities (Note 13)	**1,683,993**	964,836
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	**152,122,164**	125,857,963
Customer Loans Repaid	**11,474**	139,212
Customer Loans Granted	**-**	(750,000)
Payment for Investments	**(148,014,163)**	(129,516,671)
Net Cash Provided by (Used in) Investing Activities	**4,119,475**	(4,269,496)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issue of Units	**10,790,981**	17,249,307
Payment of Repurchases	**(14,823,192)**	(8,440,003)
Distributions Paid	**(932,980)**	(1,021,709)
Net Cash Provided by (Used in) Financing Activities	**(4,965,191)**	7,787,595
Net Increase (Decrease) in Cash Held	**838,277**	4,482,935
Cash at Beginning of Year	**8,963,334**	4,480,399
Cash at End of Year (Note 12)	**9,801,611**	8,963,334

The accompanying notes form part of these Financial Statements.

AUSTRALIAN ETHICAL EQUITIES TRUST ARSN 089 919 175

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Trusts Constitution dated 13 October 1999, Corporations Act 2001, Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on historical costs, except as stated in (a) below.

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

(a) **Investments:**

The carrying amount of investments is reviewed by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value, estimated realisable value or cost.

(b) **Revenue:**

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

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments/decrements arising on fluctuation in value of investments are included in the net operating income for the year.

(c) **Cash:**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at banks including at call deposits with banks.

(d) **Payables:**

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(e) **Income Tax:**

No tax is payable by the Trust as all distributable income is distributed to unitholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(f) **Transfers to/from Unitholders' Funds:**

Unrealised increments and decrements arising on fluctuation in value of investments are transferred to unitholders' funds. They are included in the determination of distributable income when assessable for taxation purposes. Net capital losses are also transferred to unitholders' funds.

(g) **Goods and Services Tax (GST):**

The Trust qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

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 (ATO) . 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 Statement of Financial Position are shown inclusive of GST.
The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

(h) **Distributions:**

Distributions to unitholders comprise the taxable income of the Trust. Distributions do not include unrealised increments and decrements arising on fluctuation in the value of investments.
They are transferred to unitholders' funds and only included in the determination of distributions when realised.

(i) **Net fair value of Financial Assets and Liabilities:**

The Trust's financial assets and liabilities included in the Statement of Financial Position are carried at amounts that approximate net fair value.

(j) **Foreign Currency Transactions:**

Foreign currency transactions are converted into Australian Currency at the rate of exchange applicable at the date of the transaction. Amounts payable and receivable in foreign currencies at balance date are converted to the rates of exchange ruling at that date. The resulting gains and losses are included in investment income in the period they arise.

(k) **Currency Options:**

Options are purchased to hedge against foreign currency exposure. The cost is amortised over the period of the option. The options are valued at the higher of amortised purchase cost or intrinsic value at balance date.

(l) **Comparative Figures:**

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

AUSTRALIAN ETHICAL EQUITIES TRUST ARSN 089 919 175

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(m) **Secured Loans:**

Loans are recognised at recoverable amount. All known bad debts are written off in the period in which they are identified.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount as disclosed in the Statement of Financial Position and notes to the Financial Statements.
The Trust does not have any material credit risk exposure to any single debtor or group of debtors.

		2005	2004
		$	$
Loans are repayable -	within one year	**750,000**	1,423,788
	more than one year and less than five years	**662,314**	-
	later than five years	**-**	-
		1,412,314	1,423,788
	Weighted Average Interest Rate	**4.69%**	11.05%

Weighted Average Interest Rate includes loans to the value of $750,000 (2004: Nil) not accruing interest.

(n) **Adoption of Australian equivalents to International Financial Reporting Standards:**

The Responsible Entity is preparing and managing the transition to Australian equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Trust's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Responsible Entity, along with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the Trust's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows: Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes.

Financial Instruments
The Trust will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the Trust to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Under AASB 139 financial assets will be classified as either at fair value through profit or loss, held to maturity, available for sale or loans and receivables and, depending on classification, measured at fair value or amortised cost. This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount with changes recognised in profit or loss.

Treatment of UnitHolders' Funds
Under AIFRS, Unitholders' Funds are to be treated as a Liability versus historically being treated as Unitholders' Funds, because the units are redeemable by the unitholders at any time. Had we adopted the AIFRS for the financial year ended 30 June 2005 it would result in the Statement of Financial Position as at 30 June 2005 being declared with Net Assets of nil versus Net Assets as per our Statement of Financial Position as at 30 June 2005 of $98,512,249.

Note 2: UNITHOLDERS' FUNDS

Units on Issue	Units No.	2005 $	Units No.	2004 $
Opening Balance	**67,322,574**	**93,829,514**	61,339,078	85,017,482
Issued	**8,150,376**	**13,554,849**	11,634,281	17,249,307
Redeemed	**(8,479,518)**	**(14,814,920)**	(5,650,785)	(8,437,275)
Closing Balance	**66,993,432**	**92,569,443**	67,322,574	93,829,514

	2005 $	2004 $
General Reserve (refer notes 1 (f) & (h))		
Opening Balance	**2,499,145**	(737,108)
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**-**	3,236,253
Closing Balance	**2,499,145**	2,499,145
Unrealised Fluctuation in Value of Investments (refer notes 1(f) & (h))		
Opening Balance	**5,094,589**	(749,168)
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**(1,650,928)**	5,843,757
Closing Balance	**3,443,661**	5,094,589
Total Unitholders' Funds	**98,512,249**	101,423,248

AUSTRALIAN ETHICAL EQUITIES TRUST ARSN 089 919 175

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 3: CASH AND SHORT TERM DEPOSITS

	2005 $	2004 $
Cash at Bank	**66,335**	827,372
Short Term Deposits at Call	**9,735,276**	8,135,962
	9,801,611	8,963,334

Note 4: RECEIVABLES

	2005 $	2004 $
Dividends Receivable	**64,147**	94,328
Interest Receivable	**40,753**	12,409
Trust Distribution Receivable	**-**	67,695
Debtors	**1,650,480**	1,049,762
	1,755,380	1,224,194

Note 5: INVESTMENTS

	$ Market	$ Cost	$ Market	$ Cost
Equities				
Australian Listed	**80,476,885**	**77,876,595**	72,536,425	69,817,338
International Listed	**20,387,139**	**19,286,665**	16,059,847	13,760,189
Unlisted	**1,526,930**	**1,566,100**	1,644,851	1,616,099
	102,390,954	**98,729,360**	90,241,123	85,193,626
Unit Trusts				
Listed	**8,044,038**	**7,589,265**	3,546,066	3,537,033
	8,044,038	**7,589,265**	3,546,066	3,537,033
Derivatives				
Currency Options	**158,514**	**81,220**	76,888	38,828
	158,514	**81,220**	76,888	38,828
Other Securities				
Notes/Debt Instruments Unsecured	**133,142**	**133,142**	168,008	168,008
	133,142	**133,142**	168,008	168,008
	110,726,648	**106,532,987**	94,032,085	88,937,495

Note 6: LOANS

Secured	**662,314**	**1,412,314**	1,423,788	1,423,788
	662,314	**1,412,314**	1,423,788	1,423,788

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 7: PAYABLES

	2005 $	2004 $
Unsecured -		
Payable to Responsible Entity	**213,233**	190,013
Share Purchases	**2,560,118**	1,027,837
Sundry Creditors	**14,694**	11,487
	2,788,045	1,229,337

Note 8: DISTRIBUTION PAID AND PAYABLE

	2005	2004
Net Amount Available for Distribution	**22,358,538**	3,346,925
Distributed -		
($0.0101 per unit) half-year ended 31 December 2004	**712,879**	356,109
($0.3231 per unit) half-year ended 30 June 2005	**21,645,659**	2,990,816
	22,358,538	3,346,925
Undistributed Income	**NIL**	NIL

Note 9: RELATED PARTY DISCLOSURE

Australian Ethical Investment Limited, as Responsible Entity of the Trust, provides investment services for the Trust in accordance with the Constitution.

The amounts paid or due and payable for the period to the Responsible Entity in accordance with the terms of the Constitution are $2,272,966 (2004 $1,920,046)

Australian Ethical Balanced Trust, of which Australian Ethical Investment Ltd is the Responsible Entity, holds Nil (2004 4,222,207) units in the Trust.

The Responsible Entity held no units in the Scheme at year end.

Note 10: SEGMENT INFORMATION

The Australian Ethical Equities Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2005 financial year the Trust invested in International Listed Securities amounting to $20,387,139 (2004 $16,059,847) at market value as at 30 June 2005 (Refer note 5). The Trust earned dividends of $640,810 (2004 $516,702) from these investments during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 11: AUDITORS' REMUNERATION

Amounts received or due and receivable by the Auditors of the Trust for:

	2005 $	2004 $
Audit Services	**13,800**	13,400
Other Services	**4,895**	4,741
	18,695	18,141

Note 12: RECONCILIATION OF CASH

For the purposes of the Statement of Cash Flows, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005	2004
Cash at Bank	**66,335**	827,372
Short Term Deposits at Call	**9,735,276**	8,135,962
	9,801,611	8,963,334

Note 13: RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO NET OPERATING INCOME / (LOSS) FROM ORDINARY ACTIVITIES FOR THE YEAR

	2005	2004
Net Operating Income from Ordinary Activities for the Year	**20,707,610**	12,426,935
(Increase)/Decrease in Accrued Income	**69,531**	(30,419)
Unrealised (Increment)/Decrement on Fluctuation in value of Investments	**(5,816,885)**	(7,381,002)
Increase/(Decrease) in Accrued Charges and Creditors	**27,852**	37,891
(Increase)/Decrease in Debtors	**(5,979)**	(11,037)
(Profit)/Loss on Sale of Investments	**(13,445,514)**	(4,148,153)
Currency Option Amortisation	**147,378**	70,621
	1,683,993	964,836

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION**

Remuneration policy of The Responsible Entity

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. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

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

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

Secretaries, senior managers, executive directors and group executives

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

Remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not *"exploit people through the payment of low wages or the provision of poor working conditions"* and to facilitate: "*the development of workers participation in the ownership and control of their work organisations and places."*

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

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus[1] to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

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.

The company currently offers no salary packaging arrangements other than salary sacrifice of superannuation.

Performance-based remuneration and company performance

The payment of the staff bonus[1] 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.

Options issued under the employee share ownership plan have an exercise price which is 10% greater than the market value of the underlying shares as at the date of grant. In addition, 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, and 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 four financial years.

Names and positions of parent entity directors, named executives and specified executives at any time during the financial year

Parent entity directors

Name	***Position***	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	
Trevor Lee	Director, non-executive	Ceased 24 November 2004
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	Commenced 1 February 2005

Named and specified executives

Name	***Position***	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	Commenced 26 October 2004
Christopher Lee	Company secretary	Resigned 25 October 2004
Ruth Medd	Director of wholly-owned entity	

[1] The Company's Constitution states that "the directors before recommending any dividend to be paid out of the profits of any one year must have first:- (i) paid to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted".

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED

Remuneration details for the year ended 30 June 2005

Parent entity directors' remuneration

Parent Entity Directors	Primary					Post Employ-ment	Equity	
2005	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
	$	$	$	$	$	$	$	$
George Pooley	-	42,964	3,000	-	-	-	-	45,964
Ray De Lucia	-	12,974	-	-	-	-	-	12,974
Trevor Lee	-	5,000	-	-	-	450	-	5,450
Caroline Le Couteur	105,252	12,974	-	-	3,500	10,639	3,141	135,506
James Thier	85,153	24,474	-	-	2,800	9,802	2,573	124,802
Howard Pender	43,990	24,474	-	41,082	1,225	6,132	1,076	117,979
Naomi Edwards	-	16,689	-	5,000	-	1,502	-	23,191
Total	234,395	139,549	3,000	46,082	7,525	28,525	6,790	465,866

* Howard Pender (through Wandoo Economics) has a contract with the parent entity for the provision of management services as required. Naomi Edwards had a one off contract with the wholly owned entity to provide an outsourcing review. The terms and conditions of these contracts are no more favourable than those that it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual.

2004	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
George Pooley	-	38,150	2,000	-	-	-	-	40,150
Ray De Lucia	-	10,762	-	-	-	-	-	10,762
Trevor Lee	50	10,762	-	-	193	968	391	12,364
Caroline Le Couteur	58,102	10,762	-	56,980	1,750	6,163	4,207	137,964
James Thier	94,569	20,762	-	-	1,400	10,325	3,298	130,354
Howard Pender	37,834	20,762	-	3,188	613	5,240	1,363	69,000
Alistair Clark	63,111	6,190	-	-	1,400	5,206	3,115	79,022
Total	253,666	118,150	2,000	60,168	5,356	27,902	12,374	479,616

Named and specified executives remuneration

	Primary				Post Employ-ment	Equity	
2005	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
	$	$	$	$	$	$	$
Anne O'Donnell	142,361	-	-	3,500	12,695	3,581	162,137
David Ferris	123,415	-	-	3,500	11,025	3,189	141,129
Mark Bateman	123,568	-	-	3,500	10,766	2,498	140,332
Philip George	72,909	-	-	-	6,545	-	79,454
Christopher Lee	29,569	-	-	3,291	2,449	-	35,309
Ruth Medd	-	11,500	6,000	-	1,035	-	18,535
Total	491,822	11,500	6,000	13,791	44,515	9,268	576,896

2004	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
Anne O'Donnell	125,172	-	-	1,750	11,219	4,455	142,596
David Ferris	112,988	-	-	1,750	9,989	3,972	128,699
Mark Bateman	87,157	-	-	1,750	7,823	3,120	99,850
Ruth Medd	-	10,000	5,000	-	900	-	15,900
John Ford	-	9,083	-	-	-	-	9,083
Total	325,317	19,083	5,000	5,250	29,931	11,547	396,128

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED

Options granted as remuneration

	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date	Granted as Part of Remuner-ation $	Options Remuner-ation Represented by Options %	Total Options Exercised $	Options Lapsed ($)	Total $
Parent Entity Directors											
George Pooley	-	-	-	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-	-	-	-
Caroline Le Couteur	2,513	23.09.04	1.25	16.28	23.09.07	22.12.07	3,141	2%	-	-	3,141
James Thier	2,058	23.09.04	1.25	16.28	23.09.07	22.12.07	2,573	2%	-	-	2,573
Howard Pender	861	23.09.04	1.25	16.28	23.09.07	22.12.07	1,076	1%	-	-	1,076
Naomi Edwards	-	-	-	-	-	-	-	-	-	-	-
	5,432						6,790		-	-	6,790
Named and Specified Executives											
Anne O'Donnell	2,865	23.09.04	1.25	16.28	23.09.07	22.12.07	3,581	2%	3,721	-	7,302
David Ferris	2,551	23.09.04	1.25	16.28	23.09.07	22.12.07	3,189	2%	3,149	-	6,338
Mark Bateman	1,998	23.09.04	1.25	16.28	23.09.07	22.12.07	2,498	2%	4,914	-	7,412
Philip George	-	-	-	-	-	-	-	-	-	-	-
Christopher Lee	-	-	-	-	-	-	-	-	-	(3,938)	(3,938)
Ruth Medd	-	-	-	-	-	-	-	-	-	-	-
	7,414						9,268		11,784	(3,938)	17,114

Option holdings

	Balance 01.07.04	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.05	Total Vested 30.06.05	Total Exer-cisable 30.06.05	Total Unexer-cisable 30.06.05
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-
Caroline Le Couteur	4,864	2,513	-	-	7,377	-	-	7,377
James Thier	3,762	2,058	-	-	5,820	-	-	5,820
Howard Pender	1,838	861	-	-	2,699	-	-	2,699
Naomi Edwards	-	-	-	-	-	-	-	-
Named and Specified Executives								
Anne O'Donnell	6,853	2,865	(1,431)	-	8,287	-	-	8,287
David Ferris	6,022	2,551	(1,211)	-	7,362	-	-	7,362
Mark Bateman	5,604	1,998	(1,890)	-	5,712	-	-	5,712
Philip George	-	-	-	-	-	-	-	-
Christopher Lee *	4,109	-	-	(4,109)	-	-	-	-
Ruth Medd	-	-	-	-	-	-	-	-
Total	33,052	12,846	(4,532)	(4,109)	37,257	-	-	37,257

* Christopher Lee forfeited 100% of options granted upon leaving the employment of Australian Ethical Investment Limited

Options held, as disclosed above, will be capable of being exercised in the financial years 2005/2006, 2006/2007 and 2007/2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Shareholdings

	Balance 01.07.04	Shares in lieu of Cash Bonus	Options Exercised	Net Change Other *	Balance 30.06.05
Parent Entity Directors					
George Pooley	-	-	-	-	-
Ray De Lucia	519	-	-	200	719
Trevor Lee	39,174	-	-	-	39,174
Caroline Le Couteur	41,633	236	-		41,869
James Thier	59,842	68	-	200	60,110
Howard Pender	56,024	83	-	(5,000)	51,107
Naomi Edwards	-	-	-	-	-
Named and Specified Executives					
Anne O'Donnell	1,458	236	1,431		3,125
David Ferris	584	236	1,211		2,031
Mark Bateman	1,422	236	1,890	(1,280)	2,268
Phil George	375	-	-	-	375
Christopher Lee	1,596	222	-		1,818
Ruth Medd	-	-	-	-	-
Total	202,627	1,317	4,532	(5,880)	202,596

* Net change other refers to shares purchased or sold during the financial year.

AUSTRALIAN ETHICAL EQUITIES TRUST ARSN 089 919 175

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the Responsible Entity of Australian Ethical Equities Trust, declare:

1. the financial statements, and the notes are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the financial position of the Trust as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date; and

   b. complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements.

2. in the Directors' opinion there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable; and

3. the Trust has operated during the year ended 30 June 2005 in accordance with the provisions of the Trust Constitution dated 13 October 1999.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
13 September 2005

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Equities Trust consisting of the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flows, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June 2005. The Directors of the Responsible Entity, Australian Ethical Investment Limited, are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

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

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

Independence

The Auditor's Independence Declaration made in accordance with Section 307C of the Corporations Act 2001 dated 9 September 2005 which is attached to the Directors' Report, would be in the same terms if it had been given to the relevant Directors at the time this Audit Report was made.

Audit Opinion

In our opinion, the financial report of Australian Ethical Equities Trust for the year ended 30 June 2005 is in accordance with:

a) the Corporations Act 2001, including

  (i) giving a true and fair view of the Trusts financial position as at 30 June 2005 and of its performance for the year ended on that date; and

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

b) other mandatory professional reporting requirements; and

c) the provisions of the Trust Constitution.

Thomas Davis & Co

THOMAS DAVIS & CO.

PL Whiteman

P.L. WHITEMAN PARTNER

Chartered Accountants

Sydney,
13 September 2005
Liability limited by a scheme approved under Professional Standards Legislation.

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 2005 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

THOMAS DAVIS & CO

PL Whiteman

P. L. WHITEMAN PARTNER

Date 9 September 2005

Liability limited by a scheme approved under Professional Standards Legislation

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Note	2005 $	2004 $
ASSETS			
Cash and Short Term Deposits	3	**3,396,272**	4,840,367
Receivables	4	**1,311,484**	1,215,042
Investments	5	**145,348,181**	109,720,142
Loans	6	**4,670,794**	2,721,227
Real Estate	7	**515,995**	512,000
TOTAL ASSETS		**155,242,726**	119,008,778
LIABILITIES			
Payables	8	**1,190,342**	1,134,480
Distribution Payable	9	**15,675,441**	3,719,997
TOTAL LIABILITIES		**16,865,783**	4,854,477
NET ASSETS		**138,376,943**	114,154,301
UNITHOLDERS' FUNDS	2	**138,376,943**	114,154,301

The accompanying notes form part of these Financial Statements.

AUSTRALIAN ETHICAL BALANCED TRUST ARSN 089 919 255

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $	2004 $
INVESTMENT INCOME		
Currency Option Revenue	**145,697**	45,609
Dividends Received	**1,904,625**	1,431,730
Dividends Accrued	**34,946**	61,326
Interest Received	**2,696,516**	2,111,380
Interest Accrued	**400,378**	164,189
Other Income	**58,020**	15,199
Rent Received	**9,998**	18,033
Trust Distributions Received	**956,291**	767,788
Trust Distributions Accrued	**316,508**	475,351
Profit/(Loss) on Foreign Exchange	**(2,648)**	49,708
Profit/(Loss) on Sale of Investments and property at Market Value	**6,672,829**	1,645,342
Unrealised (Decrement)/Increment on Fluctuation in value of		
-Investments	**8,212,677**	7,646,388
-Property	**32,575**	117,490
	21,438,412	14,549,533
LESS EXPENDITURE		
Accounting Fees	**79,796**	60,287
Audit Fees (Note 12)	**25,615**	24,869
Bank Charges	**6,851**	5,646
Currency Option Amortisation	**181,215**	26,671
Insurance	**3,241**	2,736
Legal Fees	**9,191**	-
Printing & Other Costs	**86,136**	71,569
Property	**3,538**	3,239
Rates	**2,927**	3,165
Responsible Entity Fees	**2,393,806**	1,749,374
	2,792,316	1,947,556
Net Operating Income for the Year from Ordinary Activities	**18,646,096**	12,601,977
Increase in Asset Revaluation Reserve (Note 2)	**-**	56,510
Total change in Unitholders' funds other than those resulting from transactions with Unitholders as Unitholders	**18,646,096**	12,658,487
DISTRIBUTION		
Total change in Unitholders' funds other than those resulting from transactions with Unitholders as Unitholders	**18,646,096**	12,658,487
Transfer from/(to) Unitholders' Funds to determine Distributable Income	**(1,206,846)**	(7,607,419)
Net Amount Available for Distribution (Note 9)	**17,439,250**	5,051,068

The accompanying notes form part of these Financial Statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest Received	**2,825,259**	2,274,806
Dividends Received	**1,964,961**	1,515,941
Trust Distribution Received	**1,431,642**	999,325
Other Income Received	**171,992**	129,044
Expenses	**(2,533,492)**	(1,888,467)
Net Cash Provided by (Used in) Operating Activities (Note 14)	**3,860,362**	3,030,649
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	**95,477,159**	72,369,546
Customer Loans Repaid	**449,355**	629,581
Customer Loans Granted	**(2,287,352)**	(130,000)
Payment for Investments	**(116,495,882)**	(91,113,346)
Net Cash Provided by (Used in) Investing Activities	**(22,856,720)**	(18,244,219)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issue of Units	**28,459,083**	29,266,543
Payment of Repurchases	**(9,517,785)**	(10,492,031)
Distributions Paid	**(1,389,035)**	(3,357,751)
Net Cash Provided by (Used in) Financing Activities	**17,552,263**	15,416,761
Net Increase (Decrease) in Cash Held	**(1,444,095)**	203,191
Cash at Beginning of Year	**4,840,367**	4,637,176
Cash at End of Year (Note 13)	**3,396,272**	4,840,367

The accompanying notes form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

This financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Trusts Constitution dated 13 October 1999, Corporations Act 2001, Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on historical costs, except as stated in (a) & (l) below.

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

(a) **Investments:**

The carrying amount of investments is reviewed by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value, estimated realisable value or cost.

(b) **Revenue:**

Revenue from rental properties is recognised when the trust has a right to receive the rent in accordance with the lease agreement.

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

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments/decrements arising on fluctuation in value of investments are included in the net operating income for the year.

(c) **Cash:**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at banks including at call deposits with banks.

(d) **Payables:**

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(e) **Income Tax:**

No tax is payable by the Trust as all distributable income is distributed to unitholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(f) **Transfers to/from Unitholders' Funds:**

Unrealised increments and decrements arising on fluctuation in value of investments and property are transferred to unitholders' funds. They are included in the determination of distributable income when assessable for taxation purposes. Net capital losses are also transferred to unitholders' funds.

(g) **Goods and Services Tax (GST):**

The Trust qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

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 (ATO) . 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 Statement of Financial Position are shown inclusive of GST.
The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

(h) **Distributions:**

Distributions to unitholders comprise the taxable income of the Trust. Distributions do not include unrealised increments and decrements arising on fluctuation in the value of investments or property. They are transferred to unitholders' funds and only included in the determination of distributions when realised.

(i) **Net fair value of Financial Assets and Liabilities:**

The Trust's financial assets and liabilities included in the Statement of Financial Position are carried at amounts that approximate net fair value.

(j) **Foreign Currency Transactions:**

Foreign currency transactions are converted into Australian Currency at the rate of exchange applicable at the date of the transaction. Amounts payable and receivable in foreign currencies at balance date are converted to the rates of exchange ruling at that date. The resulting gains and losses are included in investment income in the period they arise.

(k) **Currency Options:**

Options are purchased to hedge against foreign currency exposure. The cost is amortised over the period of the option. The options are valued at the higher of amortised purchase cost or intrinsic value at balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(l) **Property:**

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
It is the policy of the Responsible Entity to have property revalued every 18 months.

The revaluation of freehold land and buildings has not taken account of the potential capital gains tax on assets acquired after the introduction of capital gains tax.

(m) **Depreciation:**

Depreciation has not been charged on buildings as the interest in land and buildings are held as investment properties.

(n) **Comparative Figures:**

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

(o) **Secured Loans:**

Loans are recognised at recoverable amount. All known bad debts are written off in the period in which they are identified.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount as disclosed in the Statement of Financial Position and notes to the Financial Statements.
The Trust does not have any material credit risk exposure to any single debtor or group of debtors.

		2005	2004
		$	$
Loans are repayable -	within one year	**405,089**	648,326
	more than one year and less than five years	**407,046**	277,542
	later than five years	**3,653,609**	1,731,790
		4,465,744	2,657,658
	Weighted Average Interest Rate	**7.69%**	6.36%

Weighted Average Interest Rate includes loans to the value of $605,089 (2004: $735,000) not accruing interest

(p) **Interest Bearing Securities:**

Maturity Dates -	within one year	**7,814,023**	4,194,005
	more than one year and less than five years	**32,196,459**	11,216,409
	later than five years	**20,559,720**	17,170,560
		60,570,202	32,580,974
	Weighted Average Interest Rate	**6.16%**	6.04%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(q) **Adoption of Australian equivalents to International Financial Reporting Standards:**

The Responsible Entity is preparing and managing the transition to Australian equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Trust's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Responsible Entity, along with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the Trust's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows: Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes.

Financial Instruments
The Trust will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the Trust to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 139 financial assets will be classified as either at fair value through profit or loss, held to maturity, available for sale or loans and receivables and, depending on classification, measured at fair value or amortised cost. This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount with changes recognised in profit or loss.

Treatment of UnitHolders' Funds
Under AIFRS, Unitholders' Funds are to be treated as a Liability versus historically being treated as Unitholders' Funds, because the units are redeemable by the unitholders at any time. Had we adopted the AIFRS for the financial year ended 30 June 2005 it would result in the Statement of Financial Position as at 30 June 2005 being declared with Net Assets of nil versus Net Assets as per our Statement of Financial Position as at 30 June 2005 of $138,376,943.

AUSTRALIAN ETHICAL BALANCED TRUST ARSN 089 919 255

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 2: **UNITHOLDERS' FUNDS**

Units on Issue	**2005** Units No.	**2005** $	2004 Units No.	2004 $
Opening Balance	**91,851,306**	**103,271,299**	76,266,843	84,465,807
Issued	**24,419,579**	**32,523,563**	24,201,992	29,293,741
Redeemed	**(7,087,749)**	**(9,507,767)**	(8,617,529)	(10,488,249)
Closing Balance	**109,183,136**	**126,287,095**	91,851,306	103,271,299

	2005 $	2004 $
General Reserve (refer notes 1 (f) & (h))		
Opening Balance	**2,202,916**	640,180
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**-**	1,562,736
Closing Balance	**2,202,916**	2,202,916
Unrealised Fluctuation in Value of Investments (refer notes 1(f) & (h))		
Opening Balance	**8,623,116**	2,754,202
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**1,174,271**	5,868,914
Closing Balance	**9,797,387**	8,623,116
Property Revaluation Reserve (refer notes 1(f) & (h))		
Opening Balance	**56,970**	(118,799)
Transfers from / (to) Statement of Financial Performance		
- To / (From) on sale of property	**32,575**	1,769
- From Revaluation of Properties the devaluations of which were previously debited against the Statement of Financial Performance	**-**	117,490
Revaluation of Properties	**-**	56,510
Closing Balance	**89,545**	56,970
Total Unitholders' Funds	**138,376,943**	114,154,301

Note 3: **CASH AND SHORT TERM DEPOSITS**

	2005 $	2004 $
Cash at Bank	**79,809**	572,733
Short Term Deposits at Call	**3,316,463**	4,267,634
	3,396,272	4,840,367

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 4: RECEIVABLES

	2005	2004
	$	$
Dividend Receivable	**35,937**	61,326
Interest receivable	**403,208**	167,020
Rent and other Income Receivable	**-**	637
Trust Distributions Receivable	**316,508**	475,351
Debtors	**555,831**	510,708
	1,311,484	1,215,042

Note 5: INVESTMENTS

	$	**$**	$	$
	Market	**Cost**	Market	Cost
Equities				
Australian Listed	**47,825,522**	**41,059,512**	38,884,074	34,200,291
International Listed	**14,491,039**	**12,955,448**	16,210,847	13,447,555
Unlisted	**469,044**	**623,190**	575,938	623,190
	62,785,605	**54,638,150**	55,670,859	48,271,036
Unit Trusts				
Listed	**14,849,902**	**13,561,757**	8,176,034	7,889,144
Unlisted	**6,847,480**	**6,898,506**	13,125,954	12,366,998
	21,697,382	**20,460,263**	21,301,988	20,256,142
Derivatives				
Currency Options	**165,962**	**87,229**	58,729	52,443
	165,962	**87,229**	58,729	52,443
Interest Bearing Securities				
Notes/Debt Instruments Secured	**16,897,955**	**16,900,621**	14,161,594	14,143,200
Notes/Debt Instruments Unsecured	**42,711,277**	**42,579,581**	15,936,972	15,847,774
Deposits	**1,090,000**	**1,090,000**	2,590,000	2,590,000
	60,699,232	**60,570,202**	32,688,566	32,580,974
	145,348,181	**135,755,844**	109,720,142	101,160,595

Note 6: LOANS

Secured	**4,670,794**	**4,465,744**	2,721,227	2,657,658
	4,670,794	**4,465,744**	2,721,227	2,657,658

AUSTRALIAN ETHICAL BALANCED TRUST ARSN 089 919 255

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 7: REAL ESTATE

	2005			2004
	$	**$**	$	$
	Market	**Cost**	Market	Cost
22 Bunyarra Drive, Bega	**140,000**	**90,121**	140,000	90,121
Kookaburra Park Eco village, Bundaberg				
Lots 2 and 12c	**-**	**-**	260,000	292,575
Lots 7, 52 and 62	**112,000**	**72,334**	112,000	72,334
	252,000	**162,455**	512,000	455,030
Unit 6 UPN 731 40 Blackhall Street Barton	**263,995**	**263,995**	-	-
	515,995	**426,450**	512,000	455,030

Bega Real Estate has been valued at Market Value as at 26 February 2004 and the Bundaberg Real Estate has been valued at Market Value as at 6 May 2004.

Note 8: PAYABLES

Unsecured -		
Payable to Responsible Entity	**272,729**	199,136
Share Purchases	**898,642**	913,349
Sundry Creditors	**18,971**	21,995
	1,190,342	1,134,480

Note 9: DISTRIBUTION PAID AND PAYABLE

Net Amount Available for Distribution	**17,439,250**	5,051,068
Distributed		
($0.0175 per unit) half-year ended 31 December 2004	**1,763,809**	1,331,071
($0.1436 per unit) half-year ended 30 June 2005	**15,675,441**	3,719,997
	17,439,250	5,051,068
Undistributed Income	**NIL**	NIL

Note 10: RELATED PARTY DISCLOSURE

Australian Ethical Investment Limited, as Responsible Entity of the Trust, provides investment services for the Trust in accordance with the Constitution.

The amounts paid or due and payable for the period to the Responsible Entity in accordance with the terms of the Constitution are $2,519,493 (2004 $1,848,816)

Australian Ethical Balanced Trust holds 6,520,000 (2004 6,521,494) units in the Australian Ethical Income Trust and Nil (2004 4,222,207) units in Australian Ethical Equities Trust for whom Australian Ethical Investment Limited is also the Responsible Entity.

The Responsible Entity held no units in the Scheme at year end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 11: **SEGMENT INFORMATION**

The Australian Ethical Balanced Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2005 financial year the Trust invested in International Listed Securities amounting to $ 14,491,039 (2004 $16,210,847) at market value as at 30 June 2005 (refer note 5). The Trust earned dividends of $ 578,189 (2004 $403,622) from these investments during the year.

Note 12: **AUDITORS' REMUNERATION**

Amounts received or due and receivable by the Auditors of the Trust for:

	2005	2004
	$	$
Audit Services	**20,500**	19,900
Other Services	**5,115**	4,969
	25,615	24,869

Note 13: **RECONCILIATION OF CASH**

For the purposes of the Statement of Cash Flows, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at Bank	**79,809**	572,733
Short Term Deposits at Call	**3,316,463**	4,267,634
	3,396,272	4,840,367

Note 14: **RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO NET OPERATING INCOME / (LOSS) FROM ORDINARY ACTIVITIES FOR THE YEAR**

Net Operating Income from Ordinary Activities for the year	**18,646,096**	12,658,487
(Increase)/Decrease in accrued income	**(51,320)**	(221,412)
Unrealised (Increment)/Decrement on Fluctuation in value of investments and property	**(8,245,252)**	(7,820,388)
Increase/(Decrease) in Accrued Charges & Creditors	**77,493**	47,362
(Increase)/Decrease in debtors	**(75,041)**	(14,729)
(Profit)/Loss on sale of investments and property	**(6,672,829)**	(1,645,342)
Currency Option Amortisation	**181,215**	26,671
	3,860,362	3,030,649

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 15: **DIRECTORS' AND EXECUTIVES' REMUNERATION**

Remuneration policy of The Responsible Entity

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. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

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

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

Secretaries, senior managers, executive directors and group executives

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

Remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not *"exploit people through the payment of low wages or the provision of poor working conditions"* and to facilitate: "*the development of workers participation in the ownership and control of their work organisations and places."*

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

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus[1] to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 15: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

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.

The company currently offers no salary packaging arrangements other than salary sacrifice of superannuation.

Performance-based remuneration and company performance

The payment of the staff bonus[1] 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.

Options issued under the employee share ownership plan have an exercise price which is 10% greater than the market value of the underlying shares as at the date of grant. In addition, 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, and 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 four financial years.

Names and positions of parent entity directors, named executives and specified executives at any time during the financial year

Parent entity directors

Name	Position	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	
Trevor Lee	Director, non-executive	Ceased 24 November 2004
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	Commenced 1 February 2005

Named and specified executives

Name	Position	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	Commenced 26 October 2004
Christopher Lee	Company secretary	Resigned 25 October 2004
Ruth Medd	Director of wholly-owned entity	

[1] The Company's Constitution states that "the directors before recommending any dividend to be paid out of the profits of any one year must have first:- (i) paid 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".

AUSTRALIAN ETHICAL BALANCED TRUST ARSN 089 919 255

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 15: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Remuneration details for the year ended 30 June 2005

Parent entity directors' remuneration

Parent Entity Directors	Primary					Post Employment	Equity	
2005	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
	$	$	$	$	$	$	$	$
George Pooley	-	42,964	3,000	-	-	-	-	45,964
Ray De Lucia	-	12,974	-	-	-	-	-	12,974
Trevor Lee	-	5,000	-	-	-	450	-	5,450
Caroline Le Couteur	105,252	12,974	-	-	3,500	10,639	3,141	135,506
James Thier	85,153	24,474	-	-	2,800	9,802	2,573	124,802
Howard Pender	43,990	24,474	-	41,082	1,225	6,132	1,076	117,979
Naomi Edwards	-	16,689	-	5,000	-	1,502	-	23,191
Total	234,395	139,549	3,000	46,082	7,525	28,525	6,790	465,866

* Howard Pender (through Wandoo Economics) has a contract with the parent entity for the provision of management services as required. Naomi Edwards had a one off contract with the wholly owned entity to provide an outsourcing review. The terms and conditions of these contracts are no more favourable than those that it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual.

2004	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
George Pooley	-	38,150	2,000	-	-	-	-	40,150
Ray De Lucia	-	10,762	-	-	-	-	-	10,762
Trevor Lee	50	10,762	-	-	193	968	391	12,364
Caroline Le Couteur	58,102	10,762	-	56,980	1,750	6,163	4,207	137,964
James Thier	94,569	20,762	-	-	1,400	10,325	3,298	130,354
Howard Pender	37,834	20,762	-	3,188	613	5,240	1,363	69,000
Alistair Clark	63,111	6,190	-	-	1,400	5,206	3,115	79,022
Total	253,666	118,150	2,000	60,168	5,356	27,902	12,374	479,616

Named and specified executives remuneration

	Primary				Post Employment	Equity	
2005	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
	$	$	$	$	$	$	$
Anne O'Donnell	142,361	-	-	3,500	12,695	3,581	162,137
David Ferris	123,415	-	-	3,500	11,025	3,189	141,129
Mark Bateman	123,568	-	-	3,500	10,766	2,498	140,332
Philip George	72,909	-	-	-	6,545	-	79,454
Christopher Lee	29,569	-	-	3,291	2,449	-	35,309
Ruth Medd	-	11,500	6,000	-	1,035	-	18,535
Total	491,822	11,500	6,000	13,791	44,515	9,268	576,896

2004	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
Anne O'Donnell	125,172	-	-	1,750	11,219	4,455	142,596
David Ferris	112,988	-	-	1,750	9,989	3,972	128,699
Mark Bateman	87,157	-	-	1,750	7,823	3,120	99,850
Ruth Medd	-	10,000	5,000	-	900	-	15,900
John Ford	-	9,083	-	-	-	-	9,083
Total	325,317	19,083	5,000	5,250	29,931	11,547	396,128

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 15: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Options granted as remuneration

	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date	Granted as Part of Remuneration $	Options Remuneration Represented by Options %	Total Options Exercised $	Options Lapsed ($)	Total $
Parent Entity Directors											
George Pooley	-	-	-	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-	-	-	-
Caroline Le Couteur	2,513	23.09.04	1.25	16.28	23.09.07	22.12.07	3,141	2%	-	-	3,141
James Thier	2,058	23.09.04	1.25	16.28	23.09.07	22.12.07	2,573	2%	-	-	2,573
Howard Pender	861	23.09.04	1.25	16.28	23.09.07	22.12.07	1,076	1%	-	-	1,076
Naomi Edwards	-	-	-	-	-	-	-	-	-	-	-
	5,432						6,790		-	-	6,790
Named and Specified Executives											
Anne O'Donnell	2,865	23.09.04	1.25	16.28	23.09.07	22.12.07	3,581	2%	3,721	-	7,302
David Ferris	2,551	23.09.04	1.25	16.28	23.09.07	22.12.07	3,189	2%	3,149	-	6,338
Mark Bateman	1,998	23.09.04	1.25	16.28	23.09.07	22.12.07	2,498	2%	4,914	-	7,412
Philip George	-	-	-	-	-	-	-	-	-	-	-
Christopher Lee	-	-	-	-	-	-	-	-	-	(3,938)	(3,938)
Ruth Medd	-	-	-	-	-	-	-	-	-	-	-
	7,414						9,268		11,784	(3,938)	17,114

Option holdings

	Balance 01.07.04	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30.06.05	Total Vested 30.06.05	Total Exercisable 30.06.05	Total Unexercisable 30.06.05
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-
Caroline Le Couteur	4,864	2,513	-	-	7,377	-	-	7,377
James Thier	3,762	2,058	-	-	5,820	-	-	5,820
Howard Pender	1,838	861	-	-	2,699	-	-	2,699
Naomi Edwards	-	-	-	-	-	-	-	-
Named and Specified Executives								
Anne O'Donnell	6,853	2,865	(1,431)	-	8,287	-	-	8,287
David Ferris	6,022	2,551	(1,211)	-	7,362	-	-	7,362
Mark Bateman	5,604	1,998	(1,890)	-	5,712	-	-	5,712
Philip George	-	-	-	-	-	-	-	-
Christopher Lee *	4,109	-	-	(4,109)	-	-	-	-
Ruth Medd	-	-	-	-	-	-	-	-
Total	33,052	12,846	(4,532)	(4,109)	37,257	-	-	37,257

* Christopher Lee forfeited 100% of options granted upon leaving the employment of Australian Ethical Investment Limited

Options held, as disclosed above, will be capable of being exercised in the financial years 2005/2006, 2006/2007 and 2007/2008.

AUSTRALIAN ETHICAL BALANCED TRUST ARSN 089 919 255

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 15: DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED

Shareholdings

	Balance 01.07.04	Shares in lieu of Cash Bonus	Options Exercised	Net Change Other *	Balance 30.06.05
Parent Entity Directors					
George Pooley	-	-	-	-	-
Ray De Lucia	519	-	-	200	719
Trevor Lee	39,174	-	-	-	39,174
Caroline Le Couteur	41,633	236	-		41,869
James Thier	59,842	68	-	200	60,110
Howard Pender	56,024	83	-	(5,000)	51,107
Naomi Edwards	-	-	-	-	-
Named and Specified Executives					
Anne O'Donnell	1,458	236	1,431		3,125
David Ferris	584	236	1,211		2,031
Mark Bateman	1,422	236	1,890	(1,280)	2,268
Phil George	375	-	-	-	375
Christopher Lee	1,596	222	-		1,818
Ruth Medd	-	-	-	-	-
Total	202,627	1,317	4,532	(5,880)	202,596

* Net change other refers to shares purchased or sold during the financial year.

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the Responsible Entity of Australian Ethical Balanced Trust, declare:

1. the financial statements, and the notes are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the financial position of the Trust as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date; and

   b. complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements.

2. in the Directors' opinion there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable; and

3. the Trust has operated during the year ended 30 June 2005 in accordance with the provisions of the Trust Constitution dated 13 October 1999.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
13 September 2005

AUSTRALIAN ETHICAL BALANCED TRUST ARSN 089 919 255

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Balanced Trust consisting of the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flows, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June 2005. The Directors of the Responsible Entity, Australian Ethical Investment Limited, are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

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

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

Independence

The Auditor's Independence Declaration made in accordance with Section 307C of the Corporations Act 2001 dated 9 September 2005 which is attached to the Directors' Report, would be in the same terms if it had been given to the relevant Directors at the time this Audit Report was made.

Audit Opinion

In our opinion, the financial report of Australian Ethical Balanced Trust for the year ended 30 June 2005 is in accordance with:

a) the Corporations Act 2001, including

   (i) giving a true and fair view of the Trusts financial position as at 30 June 2005 and of its performance for the year ended on that date; and

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

b) other mandatory professional reporting requirements; and

c) the provisions of the Trust Constitution.

THOMAS DAVIS & CO.

P.L. WHITEMAN PARTNER

Chartered Accountants

Sydney,
13 September 2005
Liability limited by a scheme approved under Professional Standards Legislation.

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 2005 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

THOMAS DAVIS & CO

P L Whiteman

P. L. WHITEMAN PARTNER

Date 9 September 2005

Liability limited by a scheme approved under Professional Standards Legislation

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Note	**2005 $**	2004 $
ASSETS			
Cash and Short Term Deposits	3	**1,285,312**	1,029,161
Receivables	4	**82,069**	95,386
Investments	5	**13,815,307**	13,295,171
Loans	6	**2,482,259**	1,988,084
TOTAL ASSETS		**17,664,947**	16,407,802
LIABILITIES			
Payables	7	**21,139**	64,586
Distribution Payable	8	**412,975**	374,792
TOTAL LIABILITIES		**434,114**	439,378
NET ASSETS		**17,230,833**	15,968,424
UNITHOLDERS' FUNDS	2	**17,230,833**	15,968,424

The accompanying notes form part of these Financial Statements.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $	2004 $
INVESTMENT INCOME		
Interest Received	**979,261**	843,360
Interest Accrued	**77,787**	91,334
Profit/(Loss) on Sale of Investments at Market Value	**-**	15,851
Unrealised Increment/(Decrement) on Fluctuation in value of Investments	**3,908**	36,380
	1,060,956	986,925
LESS EXPENDITURE		
Accounting Fees	**31,777**	26,998
Audit Fees (Note 11)	**10,507**	11,148
Bank Charges	**2,178**	1,630
Printing & Other Costs	**17,027**	13,356
Responsible Entity Fees	**187,911**	174,808
	249,400	227,940
Net Operating Income for the Year from Ordinary Activities	**811,556**	758,985
DISTRIBUTION		
Net Operating Income for the Year from Ordinary Activities	**811,556**	758,985
Transfer (to)/from Unitholders' Funds to determine Distributable Income	**(3,908)**	(52,231)
Net Amount Available for Distribution (Note 8)	**807,648**	706,754

The accompanying notes form part of these Financial Statements.

AUSTRALIAN ETHICAL INCOME TRUST ARSN 089 919 120

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest Received	**1,070,595**	921,395
Expenses	**(247,413)**	(226,148)
Net Cash Provided by (Used in) Operating Activities (Note 13)	**823,182**	695,247
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	**9,709,269**	12,253,893
Customer Loans Repaid	**662,881**	117,631
Customer Loans Granted	**(1,157,056)**	(547,200)
Payment for Investments	**(10,225,496)**	(14,009,839)
Net Cash Provided by (Used in) Investing Activities	**(1,010,402)**	(2,185,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issue of Units	**2,435,516**	4,124,434
Payment of Repurchases	**(1,591,951)**	(1,973,033)
Distributions Paid	**(400,194)**	(623,323)
Net Cash Provided by (Used in) Financing Activities	**443,371**	1,528,078
Net Increase (Decrease) in Cash Held	**256,151**	37,810
Cash at Beginning of Year	**1,029,161**	991,351
Cash at End of Year (Note 12)	**1,285,312**	1,029,161

The accompanying notes form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

This financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Trusts Constitution dated 13 October 1999, Corporations Act 2001, Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on historical costs, except as stated in (a) below.

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

(a) **Investments:**

The carrying amount of investments is reviewed by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value, estimated realisable value or cost.

(b) **Revenue:**

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

Unrealised increments/decrements arising on fluctuation in value of investments are included in the net operating income for the year.

(c) **Cash:**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at banks including at call deposits with banks.

(d) **Payables:**

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(e) **Income Tax:**

No tax is payable by the Trust as all distributable income is distributed to unitholders.

(f) **Transfers to/from Unitholders' Funds:**

Unrealised increments and decrements arising on fluctuation in value of investments are transferred to unitholders' funds. They are included in the determination of distributable income when assessable for taxation purposes. Net capital losses are also transferred to unitholders' funds.

AUSTRALIAN ETHICAL INCOME TRUST ARSN 089 919 120

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(g) **Goods and Services Tax (GST):**

The Trust qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

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 (ATO) . 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 Statement of Financial Position are shown inclusive of GST.
The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

(h) **Distributions:**

Distributions to unitholders comprise the taxable income of the Trust. Distributions do not include unrealised increments and decrements arising on fluctuation in the value of investments.
They are transferred to unitholders' funds and only included in the determination of distributions when realised.

(i) **Net fair value of Financial Assets and Liabilities:**

The Trust's financial assets and liabilities included in the Statement of Financial Position are carried at amounts that approximate net fair value.

(j) **Secured Loans:**

Loans are recognised at recoverable amount. All known bad debts are written off in the period in which they are identified.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount as disclosed in the Statement of Financial Position and notes to the Financial Statements.
The Trust does not have any material credit risk exposure to any single debtor or group of debtors.

		2005	2004
		$	$
Loans are repayable -	within one year	**-**	90,000
	more than one year and less than five years	**663,134**	333,864
	later than five years	**1,819,125**	1,564,220
		2,482,259	1,988,084
	Weighted Average Interest Rate	**8.47%**	8.53%

(k) **Interest Bearing Securities:**

		2005	2004
Maturity Dates -	within one year	**3,248,159**	1,670,478
	more than one year and less than five years	**4,325,837**	4,272,255
	later than five years	**6,241,423**	7,356,459
		13,815,419	13,299,192
	Weighted Average Interest Rate	**6.11%**	5.89%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 1: **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

(l) **Adoption of Australian equivalents to International Financial Reporting Standards:**

The Responsible Entity is preparing and managing the transition to Australian equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Trust's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Responsible Entity, along with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the Trust's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows: Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes.

Financial Instruments
The Trust will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the Trust to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 139 financial assets will be classified as either at fair value through profit or loss, held to maturity, available for sale or loans and receivables and, depending on classification, measured at fair value or amortised cost. This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount with changes recognised in profit or loss.

Treatment of UnitHolders' Funds
Under AIFRS, Unitholders' Funds are to be treated as a Liability versus historically being treated as Unitholders' Funds, because the units are redeemable by the unitholders at any time. Had we adopted the AIFRS for the financial year ended 30 June 2005 it would result in the Statement of Financial Position as at 30 June 2005 being declared with Net Assets of nil versus Net Assets as per our Statement of Financial Position as at 30 June 2005 of $17,230,833.

AUSTRALIAN ETHICAL INCOME TRUST ARSN 089 919 120

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 2: **UNITHOLDERS' FUNDS**

Units on Issue		**2005**		2004
	Units No.	**$**	Units No.	$
Opening Balance	**16,621,352**	**16,332,864**	14,432,843	14,227,127
Issued	**2,888,182**	**2,804,788**	4,264,713	4,124,434
Redeemed	**(1,589,316)**	**(1,546,287)**	(2,076,204)	(2,018,697)
Closing Balance	**17,920,218**	**17,591,365**	16,621,352	16,332,864

General Reserve (refer notes 1 (f) & (h))

	2005	2004
Opening Balance	**(360,420)**	(189,843)
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**-**	(170,577)
Closing Balance	**(360,420)**	(360,420)

Unrealised Fluctuation in Value of Investments
(refer notes 1(f) & (h))

	2005	2004
Opening Balance	**(4,020)**	(226,828)
Transfer (to) / from Statement of Financial Performance (from) / to Unitholders' Funds	**3,908**	222,808
Closing Balance	**(112)**	(4,020)
Total Unitholders' Funds	**17,230,833**	15,968,424

Note 3: **CASH AND SHORT TERM DEPOSITS**

	2005	2004
Cash at Bank	**10,000**	6,514
Short Term Deposits at Call	**1,275,312**	1,022,647
	1,285,312	1,029,161

Note 4: **RECEIVABLES**

	2005	2004
Interest Receivable	**77,787**	91,334
Debtors	**4,282**	4,052
	82,069	95,386

Note 5: **INVESTMENTS**

	$	**$**	$	$
	Market	**Cost**	Market	Cost
Interest Bearing Securities				
Notes/Debt Instruments Secured	**5,576,937**	**5,579,037**	7,336,258	7,333,316
Notes/Debt Instruments Unsecured	**8,028,370**	**8,026,382**	4,055,658	4,062,621
Deposits	**210,000**	**210,000**	1,903,255	1,903,255
	13,815,307	**13,815,419**	13,295,171	13,299,192

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 6: LOANS

	2005		2004	
	$	**$**	$	$
	Market	**Cost**	Market	Cost
Secured	**2,482,259**	**2,482,259**	1,988,084	1,988,084
	2,482,259	**2,482,259**	1,988,084	1,988,084

Note 7: PAYABLES

	2005	2004
Unsecured -		
Payable to Responsible Entity	**20,951**	18,917
Sundry Creditors	**188**	45,669
	21,139	64,586

Note 8: DISTRIBUTION PAID AND PAYABLE

	2005	2004
Net Amount Available for Distribution	**807,648**	706,754
Distributed -		
($0.0226 per unit) half-year ended 31 December 2004	**394,673**	331,962
($0.0230 per unit) half-year ended 30 June 2005	**412,975**	374,792
	807,648	706,754
Undistributed Income	**NIL**	NIL

Note 9: RELATED PARTY DISCLOSURE

Australian Ethical Investment Limited, as Responsible Entity of the Trust, provides investment services for the Trust in accordance with the Constitution.

The amounts paid or due and payable for the period to the Responsible Entity in accordance with the terms of the Constitution are $224,168 (2004 $205,884)

Australian Ethical Balanced Trust, of which Australian Ethical Investment Ltd is the Responsible Entity, holds 6,520,000 (2004 6,521,494) units in the Trust.

The Responsible Entity held no units in the Scheme at year end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 10: SEGMENT INFORMATION

The Australian Ethical Income Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) in Australia.

Note 11: AUDITORS' REMUNERATION

Amounts received or due and receivable by the Auditors of the Trust for:

	2005	2004
	$	$
Audit Services	**7,700**	8,200
Other Services	**2,807**	2,948
	10,507	11,148

Note 12: RECONCILIATION OF CASH

For the purposes of the Statement of Cash Flows, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2005	2004
Cash at Bank	**10,000**	6,514
Short Term Deposits at Call	**1,275,312**	1,022,647
	1,285,312	1,029,161

Note 13: RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO NET OPERATING INCOME / (LOSS) FROM ORDINARY ACTIVITIES FOR THE YEAR

	2005	2004
Net Operating Income from Ordinary Activities for the Year	**811,556**	758,985
(Increase)/Decrease in Accrued Income	**13,547**	(13,299)
Unrealised (Increment)/Decrement on Fluctuation in value of Investments	**(3,908)**	(36,380)
Increase/(Decrease) in Accrued Charges and Creditors	**2,217**	2,658
(Increase)/Decrease in Debtors	**(230)**	(866)
(Profit)/Loss on Sale of Investments	**-**	(15,851)
	823,182	695,247

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION**

Remuneration policy of The Responsible Entity

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. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

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

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

Secretaries, senior managers, executive directors and group executives

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

Remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not *"exploit people through the payment of low wages or the provision of poor working conditions"* and to facilitate: "*the development of workers participation in the ownership and control of their work organisations and places."*

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

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus[1] to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

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.

The company currently offers no salary packaging arrangements other than salary sacrifice of superannuation.

Performance-based remuneration and company performance

The payment of the staff bonus[1] 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.

Options issued under the employee share ownership plan have an exercise price which is 10% greater than the market value of the underlying shares as at the date of grant. In addition, 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, and 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 four financial years.

Names and positions of parent entity directors, named executives and specified executives at any time during the financial year

Parent entity directors

Name	***Position***	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	
Trevor Lee	Director, non-executive	Ceased 24 November 2004
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	Commenced 1 February 2005

Named and specified executives

Name	***Position***	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	Commenced 26 October 2004
Christopher Lee	Company secretary	Resigned 25 October 2004
Ruth Medd	Director of wholly-owned entity	

[1] The Company's Constitution states that "the directors before recommending any dividend to be paid out of the profits of any one year must have first:- (i) paid to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted".

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Remuneration details for the year ended 30 June 2005

Parent entity directors' remuneration

Parent Entity Directors	Primary					Post Employ-ment	Equity	
2005	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
	$	$	$	$	$	$	$	$
George Pooley	-	42,964	3,000	-	-	-	-	45,964
Ray De Lucia	-	12,974	-	-	-	-	-	12,974
Trevor Lee	-	5,000	-	-	-	450	-	5,450
Caroline Le Couteur	105,252	12,974	-	-	3,500	10,639	3,141	135,506
James Thier	85,153	24,474	-	-	2,800	9,802	2,573	124,802
Howard Pender	43,990	24,474	-	41,082	1,225	6,132	1,076	117,979
Naomi Edwards	-	16,689	-	5,000	-	1,502	-	23,191
Total	234,395	139,549	3,000	46,082	7,525	28,525	6,790	465,866

* Howard Pender (through Wandoo Economics) has a contract with the parent entity for the provision of management services as required. Naomi Edwards had a one off contract with the wholly owned entity to provide an outsourcing review. The terms and conditions of these contracts are no more favourable than those that it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual.

2004	Salary	Director's Fees	Committee Fees	Consulting Fees *	Bonus	Super	Options	Total
George Pooley	-	38,150	2,000	-	-	-	-	40,150
Ray De Lucia	-	10,762	-	-	-	-	-	10,762
Trevor Lee	50	10,762	-	-	193	968	391	12,364
Caroline Le Couteur	58,102	10,762	-	56,980	1,750	6,163	4,207	137,964
James Thier	94,569	20,762	-	-	1,400	10,325	3,298	130,354
Howard Pender	37,834	20,762	-	3,188	613	5,240	1,363	69,000
Alistair Clark	63,111	6,190	-	-	1,400	5,206	3,115	79,022
Total	253,666	118,150	2,000	60,168	5,356	27,902	12,374	479,616

Named and specified executives remuneration

	Primary				Post Employ-ment	Equity	
2005	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
	$	$	$	$	$	$	$
Anne O'Donnell	142,361	-	-	3,500	12,695	3,581	162,137
David Ferris	123,415	-	-	3,500	11,025	3,189	141,129
Mark Bateman	123,568	-	-	3,500	10,766	2,498	140,332
Philip George	72,909	-	-	-	6,545	-	79,454
Christopher Lee	29,569	-	-	3,291	2,449	-	35,309
Ruth Medd	-	11,500	6,000	-	1,035	-	18,535
Total	491,822	11,500	6,000	13,791	44,515	9,268	576,896

2004	Salary	Director's Fees	Committee Fees	Bonus	Super	Options	Total
Anne O'Donnell	125,172	-	-	1,750	11,219	4,455	142,596
David Ferris	112,988	-	-	1,750	9,989	3,972	128,699
Mark Bateman	87,157	-	-	1,750	7,823	3,120	99,850
Ruth Medd	-	10,000	5,000	-	900	-	15,900
John Ford	-	9,083	-	-	-	-	9,083
Total	325,317	19,083	5,000	5,250	29,931	11,547	396,128

AUSTRALIAN ETHICAL INCOME TRUST ARSN 089 919 120

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Options granted as remuneration

	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date	Granted as Part of Remuner-ation $	Options Remuner-ation Represented by Options %	Total Options Exercised $	Options Lapsed ($)	Total $
Parent Entity Directors											
George Pooley	-	-	-	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-	-	-	-
Caroline Le Couteur	2,513	23.09.04	1.25	16.28	23.09.07	22.12.07	3,141	2%	-	-	3,141
James Thier	2,058	23.09.04	1.25	16.28	23.09.07	22.12.07	2,573	2%	-	-	2,573
Howard Pender	861	23.09.04	1.25	16.28	23.09.07	22.12.07	1,076	1%	-	-	1,076
Naomi Edwards	-	-	-	-	-	-	-	-	-	-	-
	5,432						6,790		-	-	6,790
Named and Specified Executives											
Anne O'Donnell	2,865	23.09.04	1.25	16.28	23.09.07	22.12.07	3,581	2%	3,721	-	7,302
David Ferris	2,551	23.09.04	1.25	16.28	23.09.07	22.12.07	3,189	2%	3,149	-	6,338
Mark Bateman	1,998	23.09.04	1.25	16.28	23.09.07	22.12.07	2,498	2%	4,914	-	7,412
Philip George	-	-	-	-	-	-	-	-	-	-	-
Christopher Lee	-	-	-	-	-	-	-	-	-	(3,938)	(3,938)
Ruth Medd	-	-	-	-	-	-	-	-	-	-	-
	7,414						9,268		11,784	(3,938)	17,114

Option holdings

	Balance 01.07.04	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.05	Total Vested 30.06.05	Total Exer-cisable 30.06.05	Total Unexer-cisable 30.06.05
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-	-
Trevor Lee	-	-	-	-	-	-	-	-
Caroline Le Couteur	4,864	2,513	-	-	7,377	-	-	7,377
James Thier	3,762	2,058	-	-	5,820	-	-	5,820
Howard Pender	1,838	861	-	-	2,699	-	-	2,699
Naomi Edwards	-	-	-	-	-	-	-	-
Named and Specified Executives								
Anne O'Donnell	6,853	2,865	(1,431)	-	8,287	-	-	8,287
David Ferris	6,022	2,551	(1,211)	-	7,362	-	-	7,362
Mark Bateman	5,604	1,998	(1,890)	-	5,712	-	-	5,712
Philip George	-	-	-	-	-	-	-	-
Christopher Lee *	4,109	-	-	(4,109)	-	-	-	-
Ruth Medd	-	-	-	-	-	-	-	-
Total	33,052	12,846	(4,532)	(4,109)	37,257	-	-	37,257

* Christopher Lee forfeited 100% of options granted upon leaving the employment of Australian Ethical Investment Limited

Options held, as disclosed above, will be capable of being exercised in the financial years 2005/2006, 2006/2007 and 2007/2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Note 14: **DIRECTORS' AND EXECUTIVES' REMUNERATION - CONTINUED**

Shareholdings

	Balance 01.07.04	Shares in lieu of Cash Bonus	Options Exercised	Net Change Other *	Balance 30.06.05
Parent Entity Directors					
George Pooley	-	-	-	-	-
Ray De Lucia	519	-	-	200	719
Trevor Lee	39,174	-	-	-	39,174
Caroline Le Couteur	41,633	236	-		41,869
James Thier	59,842	68	-	200	60,110
Howard Pender	56,024	83	-	(5,000)	51,107
Naomi Edwards	-	-	-	-	-
Named and Specified Executives					
Anne O'Donnell	1,458	236	1,431		3,125
David Ferris	584	236	1,211		2,031
Mark Bateman	1,422	236	1,890	(1,280)	2,268
Phil George	375	-	-	-	375
Christopher Lee	1,596	222	-		1,818
Ruth Medd	-	-	-	-	-
Total	202,627	1,317	4,532	(5,880)	202,596

* Net change other refers to shares purchased or sold during the financial year.

AUSTRALIAN ETHICAL INCOME TRUST ARSN 089 919 120

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the Responsible Entity of Australian Ethical Income Trust, declare:

1. the financial statements, and the notes are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the financial position of the Trust as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date; and

   b. complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements.

2. in the Directors' opinion there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable; and

3. the Trust has operated during the year ended 30 June 2005 in accordance with the provisions of the Trust Constitution dated 13 October 1999.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
13 September 2005

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Income Trust consisting of the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flows, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June 2005. The Directors of the Responsible Entity, Australian Ethical Investment Limited, are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

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

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

Independence

The Auditor's Independence Declaration made in accordance with Section 307C of the Corporations Act 2001 dated 9 September 2005 which is attached to the Directors' Report, would be in the same terms if it had been given to the relevant Directors at the time this Audit Report was made.

Audit Opinion

In our opinion, the financial report of Australian Ethical Income Trust for the year ended 30 June 2005 is in accordance with:

a) the Corporations Act 2001, including

   (i) giving a true and fair view of the Trusts financial position as at 30 June 2005 and of its performance for the year ended on that date; and

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

b) other mandatory professional reporting requirements; and

c) the provisions of the Trust Constitution.

Thomas Davis & Co

THOMAS DAVIS & CO.

P L Whiteman

P.L. WHITEMAN PARTNER

Chartered Accountants

Sydney,
13 September 2005
Liability limited by a scheme approved under Professional Standards Legislation