

Australian Ethical[®] Investment

for Investors, Society and the Environment

Appendix 4D

Half-Year Report

For the 6 months ended

31 December 2006

Released 26 February 2007

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

- Announcement to the Market
- Directors' Report
- Auditor's Independence Declaration
- Consolidated Condensed Half-Year Financial Statements for the period ended 31 December 2006
- Notes to the Consolidated Condensed Half-Year Financial Statements for the period ended 31 December 2006
- Directors' Declaration
- Auditors' Independent Review Report

Australian Ethical Investment Ltd ABN 47 003 188 930 AFSL No.229949

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**AUSTRALIAN ETHICAL INVESTMENT LIMITED AND CONTROLLED ENTITY
RESULTS FOR ANNOUNCEMENT TO THE MARKET
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

Revenue and Net Profit (Consolidated)				\$A
Revenue from ordinary activities	up	27%	to	5,665,830
Profit from ordinary activities after tax attributable to members	up	39%	to	765,880
Net profit for the period attributable to members	up	39%	to	765,880

Dividends (Distributions)	Amount per security	Franked amount per security	Record date *
Final dividend	-	-	-
Interim dividend	40 cents	40 cents	9 March 2007

* Record date for determining entitlements to the dividend

Brief Explanation of Revenue, Net Profit and Dividends

Refer accompanying directors' report, financial statements and notes.

Net Tangible Asset (NTA) Backing	31-Dec-06	31-Dec-05
	\$	\$
Net tangible asset backing per ordinary security	7.31	6.29

Directors' Report

Australian Ethical Investment Limited and its Controlled Entity

For the half year ended 31 December 2006

The directors of Australian Ethical Investment Limited are pleased to submit their report for the half-year ended 31 December 2006.

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

Name	Period of Directorship
James Their	Appointed 19 June 1991
Howard Pender	Appointed 19 June 1991
Caroline Le Couteur	Appointed 20 July 1991
George Pooley	Appointed 26 October 2001, resigned 13 October 2006
Naomi Edwards	Appointed 1 February 2005
Pauline Vamos	Appointed 1 July 2006

Review of Operations

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

The consolidated entity recorded a consolidated net profit after income tax expense for the half-year ending 31 December 2006 of \$765,880. This result is a significant increase on the result of \$551,080 for the previous corresponding period.

During the six month period Australian Ethical experienced strong growth in funds under management (FUM) and this has resulted in increased revenue for the group and the excellent trading result. At 31 December 2006 FUM totalled \$526 m (ex. distribution); an increase of 26% from \$417 m (ex. distribution) as at 30 June 2006.

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

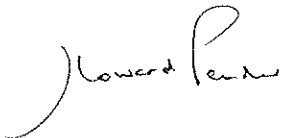
Interim Dividend

The directors are pleased to report that upon consideration of the half-year trading results the Board has authorised the payment of a fully-franked interim dividend of 40c per share. The interim dividend paid in March 2006 was 35c per share.

Auditor's declaration

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

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



Howard Pender

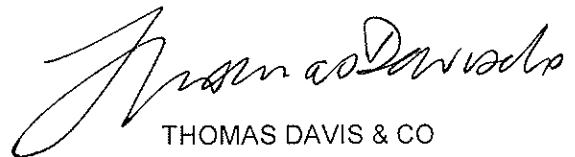
Director

23 February 2007

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

I declare that, to the best of my knowledge and belief, during the six months ended 31 December 2006 there have been:

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


THOMAS DAVIS & CO


P. L. WHITEMAN PARTNER

Date 23 February 2007

Liability limited by a scheme approved under Professional Standards Legislation

**Consolidated Balance Sheet
as at 31 December 2006**

	Consolidated	
	31 December 2006 \$	30 June 2006 \$
Current assets		
Cash and cash equivalents	2,043,750	1,479,234
Trade and other receivables	1,097,600	1,038,994
Financial assets	2,009,136	2,518,405
Other current assets	244,336	139,708
Total current assets	<u>5,394,822</u>	<u>5,176,341</u>
Non-current assets		
Property, plant & equipment	3,207,114	2,613,153
Financial assets	165,807	174,484
Deferred tax assets	304,933	315,246
Total non-current assets	<u>3,677,854</u>	<u>3,102,883</u>
Total assets	<u>9,072,676</u>	<u>8,279,224</u>
Current liabilities		
Trade and other payables	1,520,349	1,352,010
Current tax liabilities	329,287	356,008
Short-term provisions	288,921	219,970
Total current liabilities	<u>2,138,557</u>	<u>1,927,988</u>
Non-current liabilities		
Deferred tax liabilities	33,815	30,896
Other long-term provisions	40,428	46,557
Total non-current liabilities	<u>74,243</u>	<u>77,453</u>
Total liabilities	<u>2,212,800</u>	<u>2,005,441</u>
Net assets	<u>6,859,876</u>	<u>6,273,783</u>
Equity		
Issued capital	4,852,864	4,628,423
Reserves	148,350	93,948
Retained earnings	1,858,662	1,551,412
Total equity	<u>6,859,876</u>	<u>6,273,783</u>

The accompanying notes form part of these Financial Statements.

**Consolidated Income Statement
for the half-year ended 31 December 2006**

	Consolidated	
	31 December	31 December
	2006	2005
	\$	\$
Revenue	5,665,830	4,457,130
Commissions paid to advisers	(103,153)	(128,096)
External services	(1,159,992)	(954,444)
Employee benefits expense	(2,323,135)	(1,921,130)
Depreciation	(97,222)	(56,731)
Occupancy costs	(162,356)	(129,922)
Communication costs	(251,374)	(226,408)
Other expenses	<u>(341,068)</u>	<u>(161,392)</u>
Profit before tithe and income tax expense	1,227,530	879,007
Tithes expense	<u>(99,158)</u>	<u>(69,828)</u>
Profit before income tax	1,128,372	809,179
Income tax expense	<u>(362,492)</u>	<u>(258,099)</u>
Profit for the period	765,880	551,080
Profit attributable to members of the parent entity	<u>765,880</u>	<u>551,080</u>
Basic earnings per share (cents per share)	82.92	61.4
Dilutive earnings per share (cents per share)	80.28	59.9

The accompanying notes form part of these Financial Statements.

**Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2006**

	Consolidated	
	31 December 2006	31 December 2005
	\$	\$
Total equity at beginning of financial period	6,273,783	5,046,886
Available-for-sale investments		
Valuation gains/(losses) taken to equity	16,361	17,926
Employee share options	42,949	25,009
Income tax on items taken directly to or transferred directly from equity	(4,908)	(5,378)
Net income recognised directly in equity	54,402	37,557
Profit for the period	765,880	551,080
Total recognised income and expense for the period	820,282	588,637
Transactions with equity holders in their capacity as equity holders:		
Contribution of equity, net of transaction costs	224,442	514,718
Dividends provided for or paid	(458,631)	(384,955)
	(234,189)	129,763
Total equity at the end of the financial period	6,859,876	5,765,286
Total recognised income and expense for the period is attributable to:		
Equity holders of the parent	820,282	588,637
	820,282	588,637

The accompanying notes form part of these Financial Statements.

**Consolidated Cash Flow Statement
for the half-year ended 31 December 2006**

	Consolidated	
	31 December 2006	31 December 2005
	\$	\$
Cash flows from operating activities		
Receipts from operations	6,000,451	4,657,793
Payment to suppliers & employees	(4,678,189)	(3,802,239)
Interest/distributions received	159,922	160,612
Income tax paid	(380,889)	(195,201)
Bonus	(192,285)	(108,998)
Tithe	(173,132)	(98,227)
	735,878	613,740
Cash flows from investing activities		
Purchase of property, plant & equipment	(450,531)	(384,554)
Purchase of investments	-	(1,943,421)
Proceeds from sale of investments	526,374	2,969,263
Proceeds from loan repayments	7,933	5,180
	83,776	646,468
Cash flows from financing activities		
Proceeds from share issue	379,940	479,325
Share buy-back payment	(176,447)	-
Dividends paid	(458,631)	(384,955)
	(255,138)	94,370
Net cash provided by (used in) operating activities		
Net cash provided by (used in) investing activities		
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash held	564,516	1,354,578
Cash at 1 July	1,479,234	1,824,746
Cash at 31 December	2,043,750	3,179,324

The accompanying notes form part of these Financial Statements.

Notes to the financial statements for the half-year ended 31 December 2006

Note 1 - Statement of significant accounting policies

Basis of preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, AASB 134: Interim Financial Reporting and other mandatory financial reporting requirements. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that this half-year financial report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

As a result, this report should be read in conjunction with the 30 June 2006 annual financial report of Australian Ethical Investment Limited and any public announcements made by Australian Ethical Investment Limited and its wholly owned entity during the half-year ended 31 December 2006 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

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

Accounting policies have been consistently applied to the current half-year and comparative period, unless otherwise stated. The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2006 annual financial report for the financial year ended 30 June 2006.

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

	31 December 2006	31 December 2005
	\$	\$
Note 2 - Dividends		
Distributions paid		
Final fully franked dividend of 50 (2005: 42) cents per share franked at the tax rate of 30% (2005:30%)	<u>458,631</u>	<u>384,955</u>
Declared interim fully franked dividend of 40 (2005: 35) cents per share franked at the tax rate of 30% (2005:30%)	<u>375,303</u>	<u>320,795</u>

Notes to the financial statements for the half-year ended 31 December 2006

Note 3 - Events after the balance sheet date

Since the end of the half-year period ending on 31 December 2006, AEI employees have exercised 6,851 options under the employee share ownership plan resulting in an increase in issued capital and cash of \$96,668. No other material events that may have an impact on these financial statements have occurred.

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

Note 4 - Segment reporting

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

	31 December 2006	31 December 2005
	\$	\$
Note 5 - Capital expenditure commitments		
Capital expenditure commitments contracted for		
Property purchase	945,100	-
Premises rental licence commitments	49,934	56,652
Payable:		
- not later than 12 months	995,034	56,652

Note 6 - Contingent liabilities

	31 December 2006	30 June 2006
	\$	\$
Liabilities and assets of trusts and superannuation fund		

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

Current liabilities:		
- Payables	4,568,100	3,321,381
- Provisions	8,693,048	43,712,715
Total liabilities	13,261,148	47,034,096

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

	13,261,148	47,034,096
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The contingent liability includes a provision for trust distribution. The trusts do not distribute capital gains realised during the period at the half-year end (31 December). Hence, the year end 30 June balance includes capital gains, the half-year end 31 December balances do not.

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

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

Notes to the financial statements for the half-year ended 31 December 2006

Note 7 - Share based payments

On 22 September 2006, 45,825 (2005:43,664) share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of \$32.5 (2005:\$24.82) each and a 3 month window in which to be exercised, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights. These share options had a fair value at grant date of \$4.14 per share option (2005:\$3.36).

On 22 September 2006, 703 ordinary shares were issued to staff who have elected to receive their annual cash bonus in the form of shares under the employee share ownership plan. The shares carry full dividend and voting rights and are not transferable for a period of 3 years, or until an employee leaves the company's employment whichever first occurs (In the comparative year 1,563 ordinary shares, with the same terms, were granted on 21 September 2005).

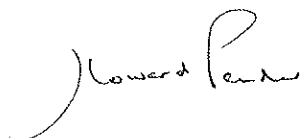
During the half-year reporting period, Australian Ethical Investment Limited issued 26,927 ordinary shares for \$379,940 on exercise of 26,927 share options issued under its employee share ownership plan. The company announced an employee share buyback scheme to buy back up to a maximum of 14,500 shares issued to employees upon the exercise of the options during the half-year reporting period. Under the terms of that scheme, the company has bought back from employees 5,931 shares at \$29.75 per share. The buyback scheme has expired and no further shares can be bought back under that scheme. The company has cancelled the shares that have been bought back. The exercise of share options and subsequent buyback has resulted in a net increase in ordinary shares of 20,996.

Directors' Declaration

The Directors of Australian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 4 to 10:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the economic entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date.
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Howard Pender
Director
23 February 2007

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

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Australian Ethical Investment Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Ethical Investment Limited, which comprises the consolidated condensed Balance Sheet as at 31 December, 2006, and the consolidated condensed Income Statement, consolidated condensed Statement of Changes in equity and consolidated condensed Cash Flow Statement for the half-year ended on that date, a Statement of Significant Accounting Policies, other selected explanatory notes and the Directors' Declaration.

Directors' Responsibility for the Half-Year Financial Report

The Directors of Australian Ethical Investment Limited are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of Australian Ethical Investment Limited consolidated financial position as at 31 December, 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Australian Ethical Investment Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December, 2006 and of its performance for the half-year ended on that date;
and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.



THOMAS DAVIS & CO



P.L. WHITEMAN

PARTNER

Chartered Accountants

SYDNEY,

23 February 2007

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