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ASX Announcement
ASX Code: AEF
Date: 31 August 2007

Appendix 4E
Final Report

For the year ended

30 June 2007

Released 31 August 2007

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

- Announcement to the Market
- Directors' Report
- Auditor's Independence Declaration
- Financial Statements for the year ended 30 June 2007
- Notes to the Financial Statements for the year ended 30 June 2007
- Directors' Declaration
- Independent Audit Report

AUSTRALIAN ETHICAL INVESTMENT LIMITED AND CONTROLLED ENTITY
RESULTS FOR ANNOUNCEMENT TO THE MARKET
FOR THE YEAR ENDED 30 JUNE 2007

Revenue and Net Profit (Consolidated)				$A
Revenue from ordinary activities	up	25%	to	12,086,455
Profit from ordinary activities after tax attributable to members	up	34%	to	1,819,177
Net profit for the period attributable to members	up	34%	to	1,819,177

Dividends (Distributions)	**Amount per security**	**Franked amount per security**	**Record date ***
Final dividend	152 cents	152 cents	28 September 2007
Interim dividend	40 cents	40 cents	9 March 2007

* Record date for determining entitlements to the dividend

The dividend reinvestment plan approved by shareholders at the annual general meeting held 24 November 2005 will operate in respect of the final dividend. Election notices to participate in the dividend reinvestment plan can be lodged up to 5:00pm on the Record Date. The price of shares to be allocated under the Plan will be the weighted average market price of ordinary shares sold on the Australian Securities Exchange during the ten days of trading prior to and inclusive of the Record Date, subject to a minimum price of $45.00 per share

Brief Explanation of Revenue, Net Profit and Dividends

Refer accompanying directors' report, financial statements and notes.

Net Tangible Asset (NTA) Backing	**30-Jun-07** $	**30-Jun-06** $
Net tangible asset backing per ordinary security	8.13	6.84

Audit

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

DIRECTORS' REPORT

The directors of Australian Ethical Investment Limited, the controlling entity, present their report on the company and its controlled entity for the financial year ended 30 June 2007. In compliance with the Corporations Act 2001, the directors' report as follows:

Directors

The name of each person who has been a director during the year ended 30 June 2007 and to the date of this report are:

Name	***Time in office***	
George Pooley	5 years	Resigned 13 October 2006
Caroline Le Couteur	16 years	
James Thier	16 years	
Howard Pender	16 years	
Naomi Edwards	2 years	
Pauline Vamos	1 year	Notice of resignation, effective 31 August 2007
Justine Hickey	<1 year	Appointed 1 March 2007

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

Company Secretaries

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

Name
Philip George

Principal activities

The principal activity of the controlling entity during the financial year was to manage four public offer ethical investment trusts (registered managed investment schemes). The controlling entity's wholly owned subsidiary, Australian Ethical Superannuation Pty Limited, was trustee of the Australian Ethical Retail Superannuation Fund during the financial year. During the course of the year, the controlling entity established two further registered managed investment schemes – the Australian Ethical International Equities Trust and the Australian Ethical World Trust. The International Equities Trust is a wholesale trust which aims to offer exposure to high quality companies listed on global share markets and aims to provide long-term growth through such investments. The World Trust is a public offer trust that will hold units in the International Equities Trust.

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

Operating results

The consolidated entity (Australian Ethical Investment Limited and its wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd) has recorded a consolidated net profit after income tax expense for the year ending 30 June 2007 of $1,819,177**.** This result is a 34% increase on the result of $1,362,612 for the previous financial year.

Review of operations

The 2007 result continues a trend of excellent results.

The company has continued to experience growth in funds under management and as a consequence improved revenue and profitability. As at 30 June 2007, funds under management totalled $552M (ex. distribution). This compares with funds under management of $417M (ex. distribution) as at 30 June 2006. The aggregate distribution amount paid for the current period was $59M, compared to a distribution the previous year of $41M.

The costs to income ratio[1] has reduced from 78% in the previous year to 76% this year and return on equity has increased from 24.1% to 26.1%.

The superannuation business (Australian Ethical Superannuation Pty Ltd) again contributed significantly to the excellent result and superannuation continues to be a growth engine of the business. The June 2007 inflow for the Australian Ethical Retail Superannuation Fund was over five times the average monthly inflow experienced for the 11 months to May 2007.

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

As required under the company's constitution, an amount of $224,964 has been provisioned as tithe for this year and will be donated to a number of non-profit organisations for useful charitable, benevolent or conservation purposes.

Except as described under Principal Activities above, during the 2006/2007 financial year the company did not make any significant changes to its core funds management operations. Gary Leckie replaced Mark Bateman as Chief Financial Officer in February 2007. There were no other significant changes in management or organisational structure.

During the year the company relocated to Block E, Trevor Pearcey House, Traeger Court, 34 Thynne Street, Bruce ACT 2617. The relocation followed an environmentally exemplary refurbishment of the premises at Trevor Pearcey House. Refurbishment costs including fit-out totalled $1.8M.

Other than the refurbishment of the building and the inflows into the superannuation fund in June 2007, there were no unusual events or transactions which affected the financial result for the period ended 30 June 2007.

Financial position

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

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

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

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

Business strategies, future prospects and likely developments

To date a significant portion of the investment in the Australian Ethical trusts has come from retail clients. Following a review of strategic options in early 2007 the directors have taken the decision to put resources into broadening the appeal of the Australian Ethical products. Expenditure related to this expansion of focus is likely to impact on our cost to income ratio given the expected time lag between work carried out and the inflow of funds. We can expect some deviation from the downward trend which the costs to income ratio has experienced over the past three years.

The company will continue to focus on building and servicing its clients and streamlining its processes, ensuring scalability of operations and seeking cost efficiencies. The company reviews its product offerings annually and this analysis forms the basis of decisions regarding product offerings.

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

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

Events subsequent to balance date

Pauline Vamos has advised the company that she will resign from all positions with the company with effect from 31 August 2007, to take up full-time employment.

The directors have declared that a final dividend of $1.52 per ordinary share (fully franked) be paid to shareholders. This is in addition to the interim dividend of 40 cents per ordinary share paid in March 2007. The total dividend for the year will be $1.92 per share, an increase of 126% over the 85 cents per ordinary share paid in respect of the previous financial year.

The Board notes that the declaration and quantum of any future dividend will depend on the company's ongoing performance and capital requirements. In particular, no inference should be drawn about the quantum of any future dividend based on the quantum of 2006-07 dividend, or on the dividend payout ratio for the 2006-07 year.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Australian Ethical Investment Ltd and its controlled entity, the results of those operations or the state of affairs of Australian Ethical Investment Ltd in financial years subsequent to the financial year ended 30 June 2007, other than as outlined in this report.

Directors' indemnification

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

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

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

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

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

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

Directors' particulars

Qualifications, experience and special responsibilities

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

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

James Thier B.Sc.(Hons)
Executive Director

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

Howard Pender B.A.(Hons)
Executive Director

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

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

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

Pauline Vamos BA LLB AACI
Non-Executive Chairperson

Pauline is a qualified lawyer and an Associate of the Australasian Compliance Institute. She has over twenty years experience in the financial services industry, in particular financial planning, superannuation, funds management and both life and general insurance. For the six years prior to March 2004, Pauline was with ASIC and played key roles in relation to the implementation of the Managed Investments legislation and Financial Services Reform. Pauline currently provides strategic compliance solutions for various clients. Pauline is a director of Australian Ethical Superannuation Pty Ltd, the controlled entity of AEI, is chair of the compliance committee, chair of the remuneration committee and is a member of the audit and finance committees.

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

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

Directors' meetings

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

	Board meetings		Audit Committee		Finance Committee		Investment Committee	
	No. Eligible To Attend	No. Attended	No. Eligible To Attend	No. Attended	No. Eligible To Attend	No. Attended	No. Eligible To Attend	No. Attended
George Pooley	2	2	1	1	1	1		
Caroline Le Couteur	8	8						
James Thier	8	6					5	3
Howard Pender	8	8			7	7	5	5
Naomi Edwards	8	6	3	3				
Pauline Vamos	8	8	2	2	5	5		
Justine Hickey	2	2					2	2

	Remuneration Committee		Compliance Committee	
	No. Eligible To Attend	No. Attended	No. Eligible to Attend	No. Attended
George Pooley	1	1		
Caroline Le Couteur	2	2		
James Thier			4	3
Howard Pender				
Naomi Edwards	3	3		
Pauline Vamos	1	1	4	3
Justine Hickey				

Directorships held in other listed entities in the last three years

Name	***Entity***
Howard Pender	SoftLaw Corporation Limited
Pauline Vamos	Plan B Group Holdings Limited
Justine Hickey	Hyperion Flagship Investments Limited

Remuneration report

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

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

Parent entity directors

Name	***Position***	
George Pooley	Chairperson, non-executive	Resigned 13 October 2006
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Pauline Vamos	Chairperson, non-executive	
Justine Hickey	Director, non-executive	Appointed 1 March 2007

Executives

Name	***Position***	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	Resigned 2 February 2007
Philip George	Company secretary / legal counsel	
Ruth Medd	Director of wholly-owned entity	
Gary Leckie	Chief financial officer	Appointed 2 February 2007

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

The Corporations Act 2001 requires disclosure of the remuneration of:

1. each director of the company; and

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

With the exception of Ruth Medd, the above named directors and executives are key management personnel of the company. Ruth Medd is a group executive.

Remuneration policy

Directors

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

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

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

Secretaries, senior managers, executive directors and group executives

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

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

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

and to facilitate:

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

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

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus[2] to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata

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

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

Performance-based remuneration and company performance

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

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

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

Dividends through the same period have increased from a dividend out of the profits of the 2001/2002 year of 20 cents per share to a dividend out of the 2005/2006 year profits of 85 cents per share. The dividend declared by the directors for the 2006/2007 year is 192 cents per share.[4]

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

Date	***Closing Daily Price***[5]
17 December 2002	$12.50
30 June 2003	$11.30
30 June 2004	$13.00
30 June 2005	$17.20
30 June 2006	$28.50
30 June 2007	$48.00

[3] See ***Note 25*** in the attached financial report
[4] An interim dividend of 40 cents per share was paid in March 2007, so the final payment to shareholders will be *152* cents per share.
[5] Where shares were not traded on the day specified, the price quoted is the closing daily price when trades did occur on the day earlier than and closest to the date specified.

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

Year	*Earnings*
2002/2003	$190,921
2003/2004	$459,761
Adoption of AIFRS	
2004/2005	$784,419
2005/2006	$1,362,612
2006/2007	$1,819,177

Remuneration details for the year ended 30 June 2007

Parent entity directors' remuneration

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
2007	**Cash Salary and Fees**	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
George Pooley	19,749	-	-	-	-	-	-	-	19,749
Caroline Le Couteur	142,449	5,500	-	12,017	3,431	-	-	7,907	171,304
James Thier	143,516	-	-	11,804	2,016	-	3,759	5,928	167,023
Howard Pender	138,954	3,575	-	11,633	2,089	-	-	6,082	162,333
Naomi Edwards *	39,300	-	-	3,150	-	-	-	-	42,450
Pauline Vamos	52,223	-	-	4,205	-	-	-	-	56,428
Justine Hickey *	17,314	-	-	741	-	-	-	-	18,055
Total	553,505	9,075	-	43,550	7,536	-	3,759	19,917	637,342

* Naomi Edwards had a one off contract with the company to assist in establishing a product profitability model. Justine Hickey had a one off contract with the company to provide consulting service on an integrated IFSA project. The terms and conditions of these contracts are no more favourable than those that is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual. Naomi Edwards also received sponsorship money totalling $2,500 in relation to a conservation and social justice event.

2006									
George Pooley	57,188	-	-	-	-	-	-	-	57,188
Ray De Lucia	3,259	-	-	-	-	-	-	-	3,259
Caroline Le Couteur	131,882	-	-	11,484	3,196	-	4,300	7,536	158,398
James Thier	124,586	2,153	-	10,300	1,638	-	1,000	6,048	145,725
Howard Pender	113,237	-	-	10,291	1,791	-	1,613	3,128	130,060
Naomi Edwards	28,420	-	-	2,558	-	-	-	-	30,978
Total	458,572	2,153	-	34,633	6,625	-	6,913	16,712	525,608

Named executives remuneration (including other key management personnel)

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
	Cash Salary and Fees	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
2007									
Anne O'Donnell	190,804	5,500	-	17,259	5,659	-	-	12,043	231,265
David Ferris	158,681	-	-	13,843	5,046	-	5,290	9,307	192,167
Mark Bateman	140,481	5,500	-	7,076	-	-	-	7,916	160,973
Philip George	162,880	5,500	-	14,088	3,503	-	-	9,754	195,725
Ruth Medd	28,500	-	-	1,800	-	-	-	-	30,300
Gary Leckie	118,374	5,500	-	10,257	2,849	-	-	5,974	142,954
Total	799,720	22,000	-	64,323	17,057	-	5,290	44,994	953,384

2006									
Anne O'Donnell	172,147	-	-	15,225	4,817	-	4,300	10,100	206,589
David Ferris	134,878	-	-	11,764	3,044	-	4,135	8,773	162,594
Mark Bateman	113,643	4,300	-	10,008	3,287	-	-	7,076	138,314
Philip George	140,622	2,718	-	12,330	2,926	-	-	5,208	163,804
Ruth Medd	24,710	-	-	1,459	-	-	-	-	26,169
Total	586,000	7,018	-	50,786	14,074	-	8,435	31,157	697,470

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The bonuses were paid on 22 September 2006. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

Options granted as remuneration – disclosures required under AASB 124

	Vested No.	Granted No. (1)	Grant Date	Value per Option at Grant Date (2) $	Exercise Price $	First Exercise Date	Last Exercise /Expiry Date
Parent Entity Directors							
George Pooley	-	-	-	-	-	-	-
Caroline Le Couteur	2,646	1,910	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
James Thier	2,074	1,432	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
Howard Pender	857	1,469	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
Naomi Edwards	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-
	5,577	4,811					
Named executives (including other key management personnel)							
Anne O'Donnell	2,802	2,909	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
David Ferris	2,498	2,248	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
Mark Bateman	1,962	1,912	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
Philip George	-	2,356	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
Ruth Medd	-	-	-	-	-	-	-
Gary Leckie	819	1,443	22/09/2006	4.14	32.50	22/09/2009	22/12/2009
	8,081	10,868					

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

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

	Balance 01.07.06	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.07 (3)&(4)
Parent Entity Directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	44,277	-	2,646	-	46,923
James Thier	60,154	127	2,074	(200)	62,155
Howard Pender	51,178	-	857	(370)	51,665
Naomi Edwards	-	-	-	-	-
Pauline Vamos	-	-	-	-	-
Justine Hickey	-	-	-	700	700
Named executives (including other key management personnel)					
Anne O'Donnell	3,315	-	2,802	-	6,117
David Ferris	2,762	179	2,498	-	5,439
Mark Bateman	982	-	1,962	(1,962)	982
Philip George	375	-	-	-	375
Ruth Medd	-	-	-	-	-
Gary Leckie	-	-	819	(819)	-
Total	163,043	306	13,658	(2,651)	174,356

(1) The amount paid for shares issued on exercise of options is $14.11 in all cases.
(2) Net change other refers to shares purchased or sold during the financial year.
(3) Shares issued are fully paid
(4) Balance represents shareholdings by directors and named executives including their related parties as required by AASB 124 Related Party Disclosures. Relevant interests required by the Corporations Act 2001 would result in the balance changing for James Thier to 47,681, Howard Pender to 49,634 and Philip George to 250.

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

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

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

Employment contracts of directors and senior executives

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

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

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

	Granted No.	**Grant Date**	**Value per Option at Grant Date $**	**Granted as part of Remuneration (1) $**	**Option Remuneration as a % of Total Remuneration**	**Value of Options exercised in Fin Year (2) $**	**Value of Options Lapsed in Fin Year (3) $**	**Total Value (4) $**
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	1,910	22/09/2006	4.14	7,907	5%	81,735	-	89,642
James Thier	1,432	22/09/2006	4.14	5,928	4%	64,066	-	69,994
Howard Pender	1,469	22/09/2006	4.14	6,082	4%	14,046	-	20,128
Naomi Edwards	-	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-	-
	4,811			19,917		159,847	-	179,764
Named executives (including other key management personnel)								
Anne O'Donnell	2,909	22/09/2006	4.14	12,043	5%	45,925	-	57,968
David Ferris	2,248	22/09/2006	4.14	9,307	5%	40,942	-	50,249
Mark Bateman	1,912	22/09/2006	4.14	7,916	5%	32,157	128,501	168,574
Philip George	2,356	22/09/2006	4.14	9,754	5%	-	-	9,754
Ruth Medd	-	-	-	-	-	-	-	-
Gary Leckie	1,443	22/09/2006	4.14	5,974	4%	13,423	-	19,397
	10,868			44,994		132,447	128,501	305,942

(1) Values are based on a valuation performed on the options at grant date using the Black-Scholes model. None of the value of the options granted was paid to the key management personnel in the financial year. Key management personnel may realise value from this option grant in the 2009/10 year when the options are exercisable.
(2) Values are based on the number of options excercised by Directors/Executives multiplied by the difference between the share price at exercise date and the exercise price.Under the terms of the share based payment arrangement exercise date and therefore share price can vary between option holders.
(3) Mark Bateman forfeited 100% of options granted, upon leaving the employment of Australian Ethical Investment Ltd. The amounts listed in this column do not represent remuneration paid to Director/Executives
(4) This column is required by s300A1(e)(v) of the Corporations ACT 2001. It requires the aggregation of amounts in the above table notwithstanding that one amount is a Black Scholes estimation of value received, one amount is the difference between share sale price and option exercise price, and one amount is a Black Scholes estimate of value forgone as at date of an employees cessation of employment.

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

	2007/08		2008/09		2009/10	
	Max.	Min.	Max.	Min.	Max.	Min.
Parent Entity Directors	$	$	$	$	$	$
George Pooley	-	-	-	-	-	-
Caroline Le Couteur	3,141	-	7,536	-	7,907	-
James Thier	2,573	-	6,048	-	5,928	-
Howard Pender	1,076	-	3,128	-	6,082	-
Naomi Edwards	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-
Named executives (including other key management personnel)						
Anne O'Donnell	3,581	-	10,100	-	12,043	-
David Ferris	3,189	-	8,773	-	9,307	-
Mark Bateman	-	-	-	-	-	-
Philip George	-	-	5,208	-	9,754	-
Ruth Medd	-	-	-	-	-	-
Gary Leckie	1,594	-	4,660	-	5,974	-

Maximum amounts are calculated using Black Scholes estimation as at option grant date in respect of options exercisable in future years.

Holdings in registered schemes made available by the company

Caroline Le Couteur holds 828.6873 units in the Australian Ethical Balanced Trust.

Naomi Edwards holds 17,877.9573 units in the Australian Ethical Equities Trust and 15,475.9946 units in the Australian Ethical Large Companies Share Trust.

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

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

Company secretary particulars

Name	*Qualifications*	*Experience*
Philip George	BSc LLB	Philip has experience in commercial law, corporate governance and project management. He has been a company secretary and legal counsel for listed companies for over six years. He was a senior associate at the national law firm Minter Ellison and conducted a commercial legal practice in partnership for two years.

Options as at the date of this report

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

Options Reference	*Number of options on issue*	*Exercise Period*	*Exercise Price*
AEFAI	34,506	23/9/07 to 22/12/07	$16.28
AEFAQ	41,558	21/9/08 to 20/12/08	$24.82
AEFAS	41,396	22/9/09 to 21/12/09	$32.50
Totals	**117,460**		

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

Shares issued upon the exercise of options

The following ordinary shares of the company were issued during the year ended 30 June 2007 on the exercise of options granted under the company's employee share ownership plan. No further shares have been issued since that date to the date of this report. No amounts are unpaid on any of the shares.

Shares issued upon exercise of options	*Amount paid per share*
33,778	$14.11

Auditor's declaration

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

Non-audit services

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

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

Other specific information

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

Disclosure	*Financial Statement Reference*
Dividends	***Note 5***
Options – issued during the financial year and since the end of the financial year[6]	***Note 25***

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

Howard Pender
Director
Dated: 31 August 2007

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

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

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

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

THOMAS DAVIS & CO.

P.L. WHITEMAN PARTNER

Date 31 August 2007

Liability limited by a scheme approved under Professional Standards Legislation

Balance Sheet
as at 30 June 2007

	Notes	Consolidated Entity		Parent Entity	
		2007	2006	**2007**	2006
		$	$	**$**	$
Current assets					
Cash and cash equivalents	7	**1,672,464**	1,479,234	**643,525**	373,231
Trade and other receivables	8	**1,487,185**	1,038,994	**1,379,251**	1,042,972
Financial assets	9	**1,830,430**	2,518,405	**1,830,430**	2,518,405
Other current assets	10	**183,644**	139,708	**162,275**	94,243
Total current assets		**5,173,723**	5,176,341	**4,015,481**	4,028,851
Non-current assets					
Property, plant & equipment	11	**4,328,138**	2,613,153	**4,328,138**	2,613,153
Financial assets	9	**158,000**	174,484	**474,000**	490,484
Deferred tax assets	12	**392,435**	315,246	**391,385**	309,396
Total non-current assets		**4,878,573**	3,102,883	**5,193,523**	3,413,033
Total assets		**10,052,296**	8,279,224	**9,209,004**	7,441,884
Current liabilities					
Trade and other payables	13	**1,681,284**	1,352,010	**1,869,901**	1,433,154
Current tax liabilities		**279,307**	356,008	**279,307**	356,008
Short-term provisions	15	**331,953**	219,970	**331,953**	219,970
Total current liabilities		**2,292,544**	1,927,988	**2,481,161**	2,009,132
Non-current liabilities					
Deferred tax liabilities	14	**33,248**	30,896	**33,248**	30,896
Other long-term provisions	15	**42,371**	46,557	**42,371**	46,557
Total non-current liabilities		**75,619**	77,453	**75,619**	77,453
Total liabilities		**2,368,163**	2,005,441	**2,556,780**	2,086,585
Net assets		**7,684,133**	6,273,783	**6,652,224**	5,355,299
Equity					
Issued capital	16	**4,949,532**	4,628,423	**4,949,532**	4,628,423
Reserves	16	**200,687**	93,948	**200,687**	93,948
Retained earnings	16	**2,533,914**	1,551,412	**1,502,005**	632,928
Total equity		**7,684,133**	6,273,783	**6,652,224**	5,355,299

The accompanying notes form part of these financial statements

Income Statement
for the year ended 30 June 2007

	Notes	Consolidated Entity		Parent Entity	
		2007	2006	**2007**	2006
		$	$	**$**	$
Revenue	3	**12,086,455**	9,661,723	**9,870,632**	7,768,390
Commissions paid to advisers		**(260,467)**	(271,327)	**(61,390)**	(101,281)
External services		**(2,422,346)**	(2,018,108)	**(1,077,421)**	(913,490)
Employee benefits expense		**(4,976,651)**	(3,986,460)	**(4,956,578)**	(3,972,997)
Depreciation		**(225,320)**	(143,407)	**(225,320)**	(143,407)
Occupancy costs		**(316,447)**	(280,710)	**(310,894)**	(275,792)
Communication costs		**(597,178)**	(456,324)	**(543,537)**	(426,969)
Other expenses		**(407,195)**	(347,044)	**(380,558)**	(296,154)
Profit before tithe and income tax expense		**2,880,851**	2,158,343	**2,314,934**	1,638,300
Tithes expense	1 (k)	**(224,964)**	(170,132)	**(224,964)**	(170,132)
Profit before income tax		**2,655,887**	1,988,211	**2,089,970**	1,468,168
Income tax expense	4	**(836,710)**	(625,599)	**(384,218)**	(393,144)
Profit for the year	16	**1,819,177**	1,362,612	**1,705,752**	1,075,024
Profit attributable to members of the parent entity		**1,819,177**	1,362,612	**1,705,752**	1,075,024
Basic Earnings per share (cents per share)	6	**194.8**	150.3		
Diluted earnings per share (cents per share)	6	**185.6**	145.1		

The accompanying notes form part of these financial statements

Statement of Changes in Equity
for the year ended 30 June 2007

	Notes	Consolidated Entity 2007 $	Consolidated Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Total equity at beginning of financial period		**6,273,783**	5,046,886	**5,355,299**	4,415,990
Available-for-sale investments:					
Valuation gains/(losses) taken to equity		**3,811**	(6,632)	**3,811**	(6,632)
Transferred to profit or loss on sale		**7,464**	-	**7,464**	-
Employee share options		**96,607**	59,961	**96,607**	59,961
Income tax on items taken directly to or transferred directly from equity		**(1,143)**	1,989	**(1,143)**	1,989
Net income recognised directly in equity		**106,739**	55,318	**106,739**	55,318
Profit for the financial year		**1,819,177**	1,362,612	**1,705,752**	1,075,024
Total recognised income and expense for the period		**1,925,916**	1,417,930	**1,812,491**	1,130,342
Transactions with equity holders in their capacity as equity holders:					
Contribution of equity, net of transaction costs		**321,109**	514,717	**321,109**	514,717
Dividends provided for or paid		**(836,675)**	(705,750)	**(836,675)**	(705,750)
		(515,566)	(191,033)	**(515,566)**	(191,033)
Total equity at the end of the financial period	16	**7,684,133**	6,273,783	**6,652,224**	5,355,299
Total recognised income and expense for the financial year is attributable to:					
Equity holders of the parent		**1,925,916**	1,417,930	**1,812,491**	1,130,342
		1,925,916	1,417,930	**1,812,491**	1,130,342

The accompanying notes form part of these financial statements

Cash flow statement
for the year ended 30 June 2007

	Notes	Consolidated Entity		Parent Entity	
		2007	2006	**2007**	2006
		$	$	**$**	$
Cash flows from operating activities					
Receipts from operations		**12,535,315**	10,066,362	**9,679,684**	8,009,981
Payment to suppliers & employees		**(9,467,091)**	(7,706,749)	**(7,770,366)**	(6,350,434)
Dividends received		**-**	-	**942,248**	254,660
Interest/distributions received		**286,760**	279,928	**232,674**	233,391
Income tax paid		**(992,589)**	(643,963)	**(644,781)**	(449,319)
Bonus		**(192,285)**	(108,998)	**(192,285)**	(108,998)
Tithe		**(173,132)**	(98,227)	**(173,132)**	(98,227)
Net cash provided by (used in) operating activities	22 (b)	**1,996,978**	1,788,353	**2,074,042**	1,491,054
Cash flows from investing activities					
Proceeds from sale of investments		**1,192,683**	2,971,130	**1,192,683**	2,971,130
Purchase of property, plant & equipment		**(1,974,986)**	(2,446,806)	**(1,974,986)**	(2,446,806)
Purchase of investments		**(500,000)**	(2,443,421)	**(500,000)**	(2,443,421)
Repayment of loans		**15,070**	11,657	**15,070**	11,657
Net cash provided by (used in) investing activities		**(1,267,233)**	(1,907,440)	**(1,267,233)**	(1,907,440)
Cash flows from financing activities					
Proceeds from share issue		**392,921**	479,325	**392,921**	479,325
Share buy-back payment		**(92,761)**	-	**(92,761)**	-
Dividends paid		**(836,675)**	(705,750)	**(836,675)**	(705,750)
Net cash provided by (used in) financing activities		**(536,515)**	(226,425)	**(536,515)**	(226,425)
Net increase (decrease) in cash held		**193,230**	(345,512)	**270,294**	(642,811)
Cash at beginning of financial year		**1,479,234**	1,824,746	**373,231**	1,016,042
Cash at end of financial year	22 (a)	**1,672,464**	1,479,234	**643,525**	373,231

The accompanying notes form part of these Financial Statements

Notes to the financial statements for the year ended 30 June 2007

Note 1 - Statement of significant accounting policies

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

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

The nature of the operations and principal activities of the consolidated entity are described at note 19.

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

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

Basis of preparation

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

Accounting Policies

a) Principles of consolidation

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

All controlled entities have a June financial year-end.

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

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

b) Income tax

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

Notes to the financial statements for the year ended 30 June 2007

Note 1 - Statement of significant accounting policies - continued

b) Income tax - continued

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

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

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

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

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

c) Property, plant and equipment

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

Property

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

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

Plant and equipment

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

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

Note 1 - Statement of significant accounting policies - continued

c) Property, plant and equipment - continued

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

Depreciation

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

The depreciation rates used for each class of assets are:

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

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

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

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

d) Financial instruments

Recognition

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

Available-for-sale financial assets

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

Fair value

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

Note 1 - Statement of significant accounting policies – continued

d) Financial instruments– continued

Impairment

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

e) Impairment of assets

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

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

f) Employee benefits

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

Share options

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

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

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

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

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

Note 1 - Statement of significant accounting policies – continued

f) Employee benefits - continued

Employee bonus

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

g) Provisions

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

h) Cash and cash equivalents

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

i) Revenue

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

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

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

j) Goods and services tax (GST)

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

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

k) Tithes expense

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

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

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

Notes to the financial statements for the year ended 30 June 2007

Note 1 - Statement of significant accounting policies - continued

l) Earnings per share

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

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

m) Comparative figures

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

Critical accounting estimates and judgements

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

Key estimates – annual leave and long service leave provision
Future average salary increases have been estimated at 4%. This increase has been incorporated into the annual leave and long service leave provision.

Key judgements
Australian Ethical Investment Limited has a loan receivable from the Centre for Australian Ethical Research recorded as an asset on its balance sheet for $173,272. The directors have determined that no provision for doubtful debt is required for this loan.

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$

Note 2 - Auditors' remuneration

Remuneration of the auditors for:

Audit services				
- Auditing the financial report	**30,500**	52,400	**27,000**	46,900
- Auditing the Australian Ethical Superannuation Fund	**-**	16,500	**-**	-
- Auditing the sustainability report	**4,600**	8,600	**4,600**	8,600
Non-audit services				
- tax and other accounting advice	**3,450**	5,500	**3,000**	5,100
- Internal control and risk review	**16,500**	15,000	**15,000**	15,000

Note 3 - Revenue

Operating activities				
- Management fees net of rebates	**9,429,699**	7,274,591	**4,935,178**	4,020,460
- Entry fees	**1,837,914**	1,508,963	**484,170**	509,935
- Other fees	**453,283**	457,117	**453,283**	457,117
- Dividend from wholly owned subsidiary	**-**	-	**942,248**	254,660
- Interest/distributions	**275,292**	309,873	**221,205**	263,337
- Wholly owned entity fee	**-**	-	**2,752,623**	2,163,664
- Other revenue	**90,267**	109,312	**81,925**	97,350
	12,086,455	9,659,856	**9,870,632**	7,766,523
Non-operating activities				
- Gain on disposal of financial assets	**-**	1,867	**-**	1,867
	-	1,867	**-**	1,867
Total revenue	**12,086,455**	9,661,723	**9,870,632**	7,768,390

Notes to the financial statements for the year ended 30 June 2007

Note 4 - Income tax expense

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
a) The components of tax expense comprise:				
- Current tax	**915,888**	690,357	**468,196**	452,052
- Deferred tax	**(79,178)**	(64,758)	**(83,978)**	(58,908)
	836,710	625,599	**384,218**	393,144

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

	Consolidated Entity 2007 $	Consolidated Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2006:30%)				
- Consolidated Entity	**796,766**	596,463	**-**	-
- Parent entity	**-**	-	**626,991**	440,450
- Other members of the income tax consolidated group net of intercompany transactions	**-**	-	**452,641**	232,455
Add: tax effect of:				
- Other non-allowable items	**1,455**	860	**1,413**	816
- Share options expensed during year	**28,982**	17,988	**28,982**	17,988
- Under provision for income tax in prior year	**11,119**	12,237	**11,119**	12,237
	838,322	627,548	**1,121,146**	703,946
Less: tax effect of:				
- Rebateable fully franked dividends	**-**	-	**(282,675)**	(76,398)
- Non-assessable income	**(738)**	(635)	**(738)**	(635)
- Franking and foreign tax credits	**(874)**	(1,314)	**(874)**	(1,314)
Income tax expense attributable to entity	**836,710**	625,599	**836,859**	625,599
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(452,641)**	(232,455)
Income tax expense attributable to entity	**836,710**	625,599	**384,218**	393,144
The applicable weighted average effective tax rates are as follows:	**32%**	31%	**18%**	27%

The decrease in the weighted average effective tax rate for 2007 for the parent entity is a result of the wholly owned entity paying a large fully franked dividend to the parent .

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Note 5 - Dividends				
Distributions paid				
Final fully franked dividend of 50 (2006: 42) cents per share franked at the tax rate of 30% (2006:30%)	**458,631**	384,955	**458,631**	384,955
Interim fully franked dividend of 40 (2006: 35) cents per share franked at the tax rate of 30% (2006:30%)	**378,044**	320,795	**378,044**	320,795
	836,675	705,750	**836,675**	705,750
Declared final fully franked dividend of 152 (2006: 50) cents per share franked at the tax rate of 30% (2006: 30%)	**1,436,566**	458,280	**1,436,566**	458,280
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.			**1,543,029**	983,028
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			**615,671**	196,406
			927,358	786,622

Note 6 - Earnings per share

	Consolidated Entity 2007	Consolidated Entity 2006
(a) Earnings used to calculate basic EPS and dilutive EPS	**1,819,177**	1,362,612
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**934,002**	906,720
Weighted average number of options outstanding	**45,960**	32,291
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**979,962**	939,011

Note 7 - Cash and cash equivalents

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Cash on hand	**300**	300	**300**	300
Cash at bank	**32,114**	16,534	**3,165**	115
Deposits at call	**1,640,050**	1,462,400	**640,060**	372,816
	1,672,464	1,479,234	**643,525**	373,231

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

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Note 8 - Trade and other receivables				
Trade receivables	**1,446,758**	988,512	**1,114,818**	833,799
Other	**40,427**	50,482	**40,427**	50,482
Amounts receivable - wholly owned entity	**-**	-	**224,006**	158,691
	1,487,185	1,038,994	**1,379,251**	1,042,972

Note 9 - Financial assets

Available-for-sale financial assets	**1,815,158**	2,504,546	**2,131,158**	2,820,546
Loans	**173,272**	188,343	**173,272**	188,343
	1,988,430	2,692,889	**2,304,430**	3,008,889
Less non-current portion	**158,000**	174,484	**474,000**	490,484
Current portion	**1,830,430**	2,518,405	**1,830,430**	2,518,405

a. Available-for-sale financial assets comprise:

- Money market deposit at cost	**500,000**	500,000	**500,000**	500,000
- Mortgage backed security at fair value	**408,502**	501,765	**408,502**	501,765
- Bank note at fair value	**502,030**	504,145	**502,030**	504,145
- Corporate bond at fair value	**-**	603,054	**-**	603,054
- Units in unit trust at fair value	**404,626**	395,582	**404,626**	395,582
- Shares in wholly owned entity at cost	**-**	-	**316,000**	316,000
	1,815,158	2,504,546	**2,131,158**	2,820,546

The money market deposit is at a fixed interest rate of 6.45%, has a maturity date of 21 August 2007 and is investment grade rated by S&P.
The mortgage backed security is at a floating interest rate of BBSW + 0.39, has a maturity date of 26 October 2009 and is investment grade rated by S&P.
The bank note is at a floating interest rate of BBSW + 0.70, has a maturity date of 20 May 2008 and is investment grade rated by S&P.

b. Loans comprise

- Loan to other entity	**173,272**	188,343	**173,272**	188,343
	173,272	188,343	**173,272**	188,343

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

Note 10 - Other current assets

Other	**22,160**	2,843	**22,160**	2,843
Prepayments	**161,484**	136,865	**140,115**	91,400
	183,644	139,708	**162,275**	94,243

Notes to the financial statements for the year ended 30 June 2007

Note 11 - Property, plant and equipment

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Land and buildings				
Leasehold land				
At cost	**230,000**	230,000	**230,000**	230,000
Total land	**230,000**	230,000	**230,000**	230,000
Buildings				
At cost	**2,784,117**	2,079,077	**2,784,117**	2,079,077
Accumulated depreciation	**(83,191)**	(22,642)	**(83,191)**	(22,642)
Total buildings	**2,700,926**	2,056,435	**2,700,926**	2,056,435
Total land and buildings	**2,930,926**	2,286,435	**2,930,926**	2,286,435
Plant and equipment				
At cost	**1,991,339**	850,546	**1,991,339**	850,546
Accumulated depreciation	**(594,127)**	(523,828)	**(594,127)**	(523,828)
Total plant and equipment	**1,397,212**	326,718	**1,397,212**	326,718
Total property, plant and equipment	**4,328,138**	2,613,153	**4,328,138**	2,613,153

Movements in carrying amounts

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
Land				
Balance at the beginning of year	**230,000**	-	**230,000**	-
Additions	**-**	230,000	**-**	230,000
Disposals	**-**	-	**-**	-
Carrying amount at the end of year	**230,000**	230,000	**230,000**	230,000
Buildings				
Balance at the beginning of year	**2,056,435**	-	**2,056,435**	-
Additions	**705,040**	2,079,077	**705,040**	2,079,077
Disposals	**-**	-	**-**	-
Depreciation expense	**(60,549)**	(22,642)	**(60,549)**	(22,642)
Carrying amount at the end of year	**2,700,926**	2,056,435	**2,700,926**	2,056,435
Plant and equipment				
Balance at the beginning of year	**326,718**	282,903	**326,718**	282,903
Additions	**1,244,747**	166,732	**1,244,747**	166,732
Disposals	**(9,482)**	(2,152)	**(9,482)**	(2,152)
Depreciation expense	**(164,771)**	(120,765)	**(164,771)**	(120,765)
Carrying amount at the end of year	**1,397,212**	326,718	**1,397,212**	326,718
Total	**4,328,138**	2,613,153	**4,328,138**	2,613,153

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Note 12 - Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**313,517**	246,048	**313,517**	246,048
Tithe	**67,488**	51,939	**67,488**	51,939
Audit fees	**11,430**	15,270	**10,380**	9,420
	392,435	313,257	**391,385**	307,407
Amounts recognised directly in equity				
Financial asset revaluations	**-**	1,989	**-**	1,989
	392,435	315,246	**391,385**	309,396
Movements				
Opening balance at 1 July	**315,246**	217,603	**309,396**	217,603
Credited (charged) to the income statement	**79,178**	95,654	**83,978**	89,804
Credited (charged) to equity	**(1,989)**	1,989	**(1,989)**	1,989
Closing balance at 30 June	**392,435**	315,246	**391,385**	309,396
Note 13 - Trade and other payables				
Trade payables	**300,249**	242,383	**195,764**	121,841
Sundry payables and accrued expenses	**1,143,015**	896,393	**974,252**	790,688
Employee bonus	**238,020**	213,234	**238,020**	213,234
Amounts payable to wholly owned entity	**-**	-	**461,865**	307,391
	1,681,284	1,352,010	**1,869,901**	1,433,154
Note 14 - Deferred tax liabilities				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Stamp duty on leasehold property	**30,896**	30,896	**30,896**	30,896
Amounts recognised in equity				
Available-for-sale financial assets	**2,352**	-	**2,352**	-
	33,248	30,896	**33,248**	30,896
Movements				
Opening balance at 1 July	**30,896**	-	**30,896**	-
Credited/(charged) to the income statement	**-**	30,896	**-**	30,896
Credited/(charged) to equity	**2,352**	-	**2,352**	-
Closing balance at 30 June	**33,248**	30,896	**33,248**	30,896

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Note 15 - Provisions				
Current				
Employee benefits - long service leave	**331,953**	219,970	**331,953**	219,970
	331,953	219,970	**331,953**	219,970
Non-Current				
Employee benefits - long service leave	**42,371**	46,557	**42,371**	46,557
	42,371	46,557	**42,371**	46,557
Note 16 - Movements in equity				
Issued capital				
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year 916,559 (2006 - 888,746) shares	**4,628,423**	4,113,706	**4,628,423**	4,113,706
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
703 on 22 September 2006 (share bonus)	**20,949**	-	**20,949**	-
24,146 on 31 October 2006 (options exercised)	**340,700**	-	**340,700**	-
2,781 on 28 November 2006 (options exercised)	**39,240**	-	**39,240**	-
6,851 on 15 January 2007 (option exercised)	**96,667**	-	**96,667**	-
1,563 on 21 September 2005 (share bonus)	**-**	35,392	**-**	35,392
17,275 on 31 October 2005 (options exercised)	**-**	315,442	**-**	315,442
8,975 on 29 November 2005 (options exercised)	**-**	163,883	**-**	163,883
Shares bought back during the year				
5,931 on 31 October 2006	**(176,447)**	-	**(176,447)**	-
Balance 30 June				
945,109 (2006 - 916,559) shares	**4,949,532**	4,628,423	**4,949,532**	4,628,423

At 30 June 2007 there were 945,109 fully paid ordinary shares which have no par value.

For detailed information relating to the Australian Ethical Investment Limited employee share ownership plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to note 25 Share-based payments

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

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

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Reserves				
Available-for-sale financial assets revaluation reserve				
Balance 1 July	**(4,643)**	-	**(4,643)**	-
Gross gains/ (losses)	**7,464**		**7,464**	
Revaluation - gross	**3,811**	(6,632)	**3,811**	(6,632)
Deferred tax	**(1,143)**	1,989	**(1,143)**	1,989
Balance 30 June	**5,489**	(4,643)	**5,489**	(4,643)
Share-based payments reserve				
Balance 1 July	**98,591**	38,630	**98,591**	38,630
Option expense	**96,607**	59,961	**96,607**	59,961
Balance 30 June	**195,198**	98,591	**195,198**	98,591
Total Reserves	**200,687**	93,948	**200,687**	93,948

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

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

Retained earnings				
Balance 1 July	**1,551,412**	894,550	**632,928**	263,654
Profit for the period	**1,819,177**	1,362,612	**1,705,752**	1,075,024
Total for the period	**1,819,177**	1,362,612	**1,705,752**	1,075,024
Dividends	**(836,675)**	(705,750)	**(836,675)**	(705,750)
Balance 30 June	**2,533,914**	1,551,412	**1,502,005**	632,928
Total Equity	**7,684,133**	6,273,783	**6,652,224**	5,355,299

Note 17 – Events after the balance sheet date

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

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

Note 18 - Economic dependence

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

Note 19 - Segment reporting

The 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.

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Note 20 – Capital commitments				
Premises Rental licence commitments	**-**	65,028	**-**	65,028
Payable				
- not later than 12 months	**-**	65,028	**-**	65,028

The licence agreement provided for 4 months for termination. The comparative amount represents 4 months rent.

Note 21 – Contingent liabilities

Liabilties and assets of tusts and superannuation fund

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

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Current liabilities				
Payables	**4,556,376**	3,321,381	**3,790,889**	2,824,216
Provisions	**64,692,694**	43,712,715	**58,707,157**	40,954,235
Total liabilities	**69,249,070**	47,034,096	**62,498,046**	43,778,451
Rights of indemnities for liabilities incurred by the Consolidated Entity and parent entity not recorded in the financial statements were:	**69,249,070**	47,034,096	**62,498,046**	43,778,451

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

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

Note 22 - Cash flow information

(a) Reconciliation of cash

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

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Cash on hand	**300**	300	**300**	300
Cash at bank	**32,114**	16,534	**3,165**	115
Deposits at call	**1,640,050**	1,462,400	**640,060**	372,816
	1,672,464	1,479,234	**643,525**	373,231

Notes to the financial statements for the year ended 30 June 2007

Note 22 - Cash flow information - continued

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

	Consolidated Entity 2007 $	Consolidated Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Net profit from ordinary activities after income tax expense	**1,819,177**	1,362,612	**1,705,752**	1,075,024
Non-cash flows in operating profit				
Depreciation	**225,320**	143,407	**225,320**	143,407
Provisions	**107,797**	65,288	**107,797**	65,288
(Profit) loss on sale of property, plant & equipment	**9,442**	2,152	**9,442**	2,152
(Profit) loss on sale of investment	**11,178**	(1,867)	**11,178**	(1,867)
Share options expensed	**96,607**	59,961	**96,607**	59,961
Staff bonus paid in shares	**20,949**	35,392	**20,949**	35,392
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**(448,190)**	(225,499)	**(236,395)**	(219,782)
(Increase) decrease in prepayments & other assets	**(43,936)**	18,136	**(68,032)**	17,161
(Increase) decrease in deferred tax assets	**(79,178)**	(95,653)	**(81,989)**	(89,803)
Increase (decrease) in trade & other payables	**354,513**	347,135	**461,987**	370,493
Increase (decrease) in current tax liability	**(76,701)**	46,393	**(176,585)**	2,732
Increase (decrease) in deferred tax liability	**-**	30,896	**(1,989)**	30,896
Net cash provided by (used in) operating activities	**1,996,978**	1,788,353	**2,074,042**	1,491,054

(c) Non-cash financing and investing activities

Shares in Australian Ethical Investment Limited, to the value of $20,949 (2006: $35,392) were issued in lieu of staff bonus.

Note 23 – Related party transactions

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

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

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

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

Notes to the financial statements for the year ended 30 June 2007

Note 23 – Related party transactions - continued

Australian Ethical Superannuation Pty Ltd

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

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**2,752,622**	2,163,664
(ii) Transactions between Australian Ethical Investment Limited and its wholly owned entity under the tax consolidation and related tax sharing agreement referred to in note 1(b).	**-**	-	**452,641**	232,453
(iii) Transactions whereby Australian Ethical Investment Limited collects management fee income on behalf of wholly owned entity and on-pays this management fee income to the wholly owned entity on a monthly basis.	**-**	-	**4,521,499**	3,285,781
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in note 3.	**-**	-	**942,248**	254,660
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity:				
Management services	**-**	-	**-**	34,568
Taxation	**-**	-	**224,006**	124,122
Amounts payable to wholly owned entity:				
Management fee income	**-**	-	**461,865**	307,391

Notes to the financial statements for the year ended 30 June 2007

Note 23 – Related party transactions - continued

Australian Ethical Trusts

a) Transactions between Australian Ethical Investment Limited, as Responsible Entity, and the Australian Ethical Trusts during the financial year consisted of:

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
(i) Transactions whereby Australian Ethical Investment Limited provides investment services to the Australian Ethical Trusts in accordance with the Trust Deed.				
- Australian Ethical Balanced Trust	**3,980,112**	3,132,193	**3,980,112**	3,132,193
- Australian Ethical Equities Trust	**3,062,362**	2,407,875	**3,062,362**	2,407,875
- Australian Ethical Income Trust	**242,336**	199,962	**242,336**	199,962
- Australian Ethical Large Companies Shares Trust	**2,309,552**	1,668,138	**2,309,552**	1,668,138
- Australian Ethical International Equities Trust	**11,081**	-	**11,081**	-
(ii) Transactions whereby Australian Ethical Investment Limited provides accounting services to the Australian Ethical Trusts in accordance with the Trust Deed.				
- Australian Ethical Balanced Trust	**109,596**	109,596	**109,596**	109,596
- Australian Ethical Equities Trust	**87,684**	87,684	**87,684**	87,684
- Australian Ethical Income Trust	**39,468**	39,468	**39,468**	39,468
- Australian Ethical Large Companies Shares Trust	**61,392**	61,392	**61,392**	61,392
- Australian Ethical International Equities Trust	**-**	-	**-**	-
(iii) Transactions whereby Australian Ethical Investment Limited seeks expense reimbursement from the Australian Ethical Trusts in accordance with the Trust Deed.				
- Australian Ethical Balanced Trust	**53,633**	53,644	**53,633**	53,644
- Australian Ethical Equities Trust	**51,031**	50,198	**51,031**	50,198
- Australian Ethical Income Trust	**4,077**	4,418	**4,077**	4,418
- Australian Ethical Large Companies Shares Trust	**43,916**	37,367	**43,916**	37,367
- Australian Ethical International Equities Trust	**14**	-	**14**	-
(iv) Transaction whereby Australian Ethical Investment Limited purchased units in the Australian Ethical Balanced Trust	**-**	400,000	**-**	400,000
(v) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust	**6,237**	6,564	**6,237**	6,564

Notes to the financial statements for the year ended 30 June 2007

	Consolidated Entity		Parent Entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Note 23 – Related party transactions - continued				
(vi) Transactions whereby Australian Ethical Investment Limited sold interest bearing securities to the Australian Ethical Balanced Trust	**-**	2,066,913	**-**	2,066,913
b) Outstanding balances at balance date:				
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
- Australian Ethical Balanced Trust	**412,430**	334,290	**412,430**	334,290
- Australian Ethical Equities Trust	**354,366**	244,126	**354,366**	244,126
- Australian Ethical Income Trust	**27,400**	24,435	**27,400**	24,435
- Australian Ethical Large Companies Shares Trust	**258,332**	184,589	**258,332**	184,589
- Australian Ethical International Equities Trust	**12,204**	-	**12,204**	-
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**404,626**	395,582	**404,626**	395,582
Distribution receivable from AEBT	**26,591**	32,914	**26,591**	32,914
Australian Ethical Retail Superannuation Fund				
a) Transactions between the Consolidated Entity and the Australian Ethical Retail Superannuation Fund during the financial year consisted of:				
(i) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to the rebate of investment services.	**26,978**	31,651	**-**	-
Outstanding balances at balance date:				
Amounts payable to the Australian Ethical Retail Superannuation Fund:				
Rebate of investment services fee	**1,332**	6,119	**-**	-

Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

Notes to the financial statements for the year ended 30 June 2007

Note 24 - Key management personnel compensation

a) Key management personnel

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

Parent entity directors

Name	Position	
George Pooley	Chairperson, non-executive	Resigned 13 October 2006
Pauline Vamos	Chairperson, non-executive	Appointed as non-executive 1 July 06, and as Chairperson 13 October 2006
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Justine Hickey	Director, non-executive	Appointed 1 March 2007

Subsequent to year end Pauline Vamos has resigned as Chairperson and as a director of the company with effect from 31 August 2007

Other key management personnel

Name	Position	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	Resigned 2 February 2007
Gary Leckie	Chief financial officer	Appointed 2 February 2007
Philip George	Company secretary / legal counsel	

b) Key management personnel compensation

	Consolidated Entity		**Parent Entity**	
	2007	2006	**2007**	2006
	$	$	**$**	$
Short term employment benefits	**1,355,800**	1,029,033	**1,264,631**	957,025
Post-employment benefits	**106,073**	83,960	**98,873**	79,148
Other long-term benefits	**24,593**	20,699	**24,593**	20,699
Termination benefits	**-**	-	**-**	-
Share-based payments	**73,960**	63,217	**73,960**	63,217
Total compensation	**1,560,426**	1,196,909	**1,462,057**	1,120,089

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

c) Equity instrument disclosures relating to key management personnel

Option Holdings

Number of options held by key management personnel.

	Balance 01.07.06	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.07	Total Vested 30.06.07	Total Exer-cisable 30.06.07	Total Unexer-cisable 30.06.07
Parent Entity Directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	7,402	1,910	(2,646)	-	6,666	-	-	6,666
James Thier	5,932	1,432	(2,074)	-	5,290	-	-	5,290
Howard Pender	2,649	1,469	(857)	-	3,261	-	-	3,261
Naomi Edwards	-	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-	-
					-			
Named executives (including other key management personnel)					-			
					-			
Anne O'Donnell	8,673	2,909	(2,802)	-	8,780	-	-	8,780
David Ferris	7,660	2,248	(2,498)	-	7,410	-	-	7,410
Mark Bateman	6,066	1,912	(1,962)	(6,016)	-	-	-	-
Philip George	1,550	2,356	-	-	3,906	-	-	3,906
Ruth Medd	-	-	-	-	-	-	-	-
Gary Leckie	3,481	1,443	(819)	-	4,105	-	-	4,105
Total	43,413	15,679	(13,658)	(6,016)	39,418	-	-	39,418

Notes to the financial statements for the year ended 30 June 2007

Note 24 - Key management personnel compensation - continued

Shareholdings

Number of Shares held by key management personnel.

	Balance 01.07.06	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.07 (3)&(4)
Parent Entity Directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	44,277	-	2,646	-	46,923
James Thier	60,154	127	2,074	(200)	62,155
Howard Pender	51,178	-	857	(370)	51,665
Naomi Edwards	-	-	-	-	-
Pauline Vamos	-	-	-	-	-
Justine Hickey	-	-	-	700	700
Named executives (including other key management personnel)					
Anne O'Donnell	3,315	-	2,802	-	6,117
David Ferris	2,762	179	2,498	-	5,439
Mark Bateman	982	-	1,962	(1,962)	982
Philip George	375	-	-	-	375
Ruth Medd	-	-	-	-	-
Gary Leckie	-	-	819	(819)	-
Total	163,043	306	13,658	(2,651)	174,356

(1) The amount paid for shares issued on exercise of options is $14.11 in all cases.

(2) Net change other refers to shares purchased or sold during the financial year.

(3) Shares issued are fully paid

(4) Balance represents shareholdings by key management personnel including their related parties as required by AASB 124: Related Party Disclosures.

Note 25 - Share based payments

The following share-based payment arrangements existed at 30 June 2007:

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

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

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

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

Notes to the financial statements for the year ended 30 June 2007

Note 25 - Share based payments - continued

	Consolidated Entity				**Parent Entity**			
	2007		2006		**2007**		2006	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $	**Number of Options**	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the financial year	**113,946**	**18.91**	101,865	16.13	**113,946**	**18.91**	101,865	16.13
Granted	**45,825**	**32.50**	43,664	24.82	**45,825**	**32.50**	43,664	24.82
Forfeited	**(6,998)**	**25.56**	(2,297)	16.12	**(6,998)**	**25.56**	(2,297)	16.12
Exercised	**(33,778)**	**14.11**	(26,250)	18.26	**(33,778)**	**14.11**	(26,250)	18.26
Expired	**-**		(3,036)	18.26	**-**		(3,036)	18.26
Outstanding at year-end	**118,995**	**25.11**	113,946	18.91	**118,995**	**25.11**	113,946	18.91
Exercisable at year-end	**-**	**-**	-	**-**	**-**	**-**	-	**-**

There were 33,778 options exercised during the year ended 30 June 2007. The weighted average share price calculated as at exercise dates of these options was $33.73.

The options outstanding at 30 June 2007 had a weighted average exercise price of $25.11 and a weighted average remaining contractual life of 1.55 years. Exercise prices range from $16.28 to $32.50 in respect of options outstanding at 30 June 2007.

The weighted average fair value of the options granted during the year was $4.14.

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

Weighted average exercise price	$32.50
Weighted average life of the option	3.25 years
Underlying share price	$29.00
Expected share price volatility	22.50%
Risk free interest rate	5.69%

Included under employee benefits expense in the income statement is :
$20,949 (2006: $35,392) relating to equity-settled share-based payment transactions for staff bonus; and
$96,607 (2006: $59,961) relating to options issued under the employee share ownership plan.

Note 26 - Financial instruments

(a) Financial risk management

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

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

Notes to the financial statements for the year ended 30 June 2007

Note 26 - Financial instruments - continued

(b) Interest rate risk

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

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2007	2006	**2007**	2006	**2007**	2006
	%	%	**$**	$	**$**	$
Cash and cash equivalents	**6**	5	**1,672,164**	1,478,934	**-**	-
Trade and other receivables			**-**	-	**-**	-
Financial assets	**7**	7	**1,815,158**	2,504,546	**15,272**	13,859
Total financial assets			**3,487,322**	3,983,480	**15,272**	**13,859**
Trade and other payables			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2007	2006	**2007**	2006	**2007**	2006
	$	$	**$**	$	**$**	$
Cash	**-**	-	**300**	300	**1,672,464**	1,479,234
Trade and other receivables	**-**	-	**1,487,185**	1,038,994	**1,487,185**	1,038,994
Financial assets	**158,000**	174,484	**-**	-	**1,988,430**	2,692,889
Total financial assets	**158,000**	174,484	**1,487,485**	1,039,294	**5,148,079**	5,211,117
Trade and other payables	**-**	-	**1,681,284**	1,352,010	**1,681,284**	1,352,010
Total financial liabilities	**-**	-	**1,681,284**	1,352,010	**1,681,284**	1,352,010

(c) Credit Risk

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

(d) Net Fair Values

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

Note 27 - Change in accounting policy

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

AASB Amendment	Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date of the Company
2005-10	AASB 139: Financial Instruments: Recognition and management	No change, no impact	1-Jan-07	1-Jul-07
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-07	1-Jul-07
	AASB 114: Segment Reporting	No change, no impact	1-Jan-07	1-Jul-07
	AASB 117: Leases	No change, no impact	1-Jan-07	1-Jul-07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1-Jan-07	1-Jul-07
	AASB 133: Earnings per Share	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-07	1-Jul-07
	AASB 4: Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1023: General Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1038: Life Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1-Jan-07	1-Jul-07

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 15 to 41 and the additional disclosures in the directors' report designated as audited are in accordance with the Corporations Act 2001:

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

   (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company and consolidated entity;

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

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

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

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

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

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

Howard Pender
Director

Dated this 31 August 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

AUSTRALIAN ETHICAL INVESTMENT LIMITED

We have audited the accompanying financial report of Australian Ethical Investment Limited (the company) and Australian Ethical Investment Limited and controlled entity (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entity it controlled at the year's end or from to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remunerations disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 6 to 12 of the directors' report and not in the financial report.

Director's Responsibility for the Financial Report

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

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

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

Independence

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

Auditors Opinion

In our opinion:

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

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June, 2007and of their performance for the year ended on that date; and

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

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

(c) the remuneration disclosures that are contained in pages 6 to 12 in the director's report comply with Accounting Standard AASB 124.

Thomas Davis

THOMAS DAVIS & CO.

P.L. Whiteman

P.L. WHITEMAN PARTNER
Chartered Accountants

SYDNEY,
31 August 2007

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