



MARKET RELEASE

8 November 2002

Australian Ethical Investment Limited

Australian Ethical Investment Limited has applied for admission to the official list of Australian Stock Exchange Limited and for quotation of its securities. It has been given a provisional ASX code. Provision of an ASX code and publication of the following information does not mean that the entity will be admitted or that its securities will be quoted.

Pam Ross
Manager Company Announcements Office



for investors, society and the environment

Australian Ethical Investment Limited

Prospectus

Offer of 93,750 Shares at an Offer Price of \$16.00 per Share

The Offer is not underwritten

An investment in Australian Ethical Investment Ltd ('AEI') should be considered speculative. Before making an investment in AEI, prospective investors should read this Prospectus in its entirety. You may wish to consult your professional financial adviser about its contents.

ABN 47 003 188 930

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IMPORTANT NOTICES

This Prospectus is dated 15 October 2002 and expires on 16 April 2003. No Shares will be transferred or issued on the basis of this Prospectus later than the expiry date of this Prospectus.

A copy of this Prospectus was lodged with the Australian Securities and Investments Commission ('ASIC') on 15 October 2002. Neither ASIC nor the Australian Stock Exchange Limited ('ASX') takes any responsibility for the contents of this Prospectus.

Prospective investors should read the full text of this Prospectus, as the information contained in individual sections is not intended to and does not provide a comprehensive review of the business and the financial affairs of the Company or the Shares offered under this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. Persons who come into possession of this Prospectus should seek advice on and observe any restrictions on accepting an Offer or distributing the Prospectus. Any failure to comply with restrictions may constitute a violation of applicable securities laws.

This Prospectus will be made generally available during the Exposure Period by being posted on <http://www.austethical.com.au>. In addition, copies of the Prospectus will be available on request to members of the public by calling 1 800 021 227 during the Exposure Period. Copies requested will be sent by way of paper copy.

The Company will not accept Applications for Shares offered under this Prospectus during the Exposure Period (normally a period of seven days after lodgement of the Prospectus with ASIC). If the Exposure Period is extended, Applications will not be accepted until after the expiry of the extended Exposure Period. No preference will be conferred on Applications received in the Exposure Period. The purpose of the Exposure Period is to enable examination of the Prospectus by market participants prior to the raising of funds. That examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any Application that has been received may not receive the benefit of this scrutiny.

Applicants should read this Prospectus in its entirety before deciding to participate in the Offer. In particular, Applicants should refer to section 8 for details relating to investment risks. If after reading this Prospectus you have any questions about the Offer you should contact your stockbroker or other professional financial adviser.

A number of words and terms used in this Prospectus have defined meanings, which appear in the glossary of defined terms in section 11. Note that in the Prospectus figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding.

MESSAGE FROM THE CHAIRPERSON

Dear Investor

Australian Ethical Investment Ltd ('AEI') is a pre-eminent Australian ethical investment company. Its business is *solely* the management of ethical investments. The Company aims to give many small Australian investors an opportunity to pool their funds together, to allow meaningful investments into activities that support the environment and society generally, while generating sound financial returns. All decisions on investment are guided by the principles of the Australian Ethical Charter. The Charter is set out following this message.

AEI was established in 1986. The founders recognised the superiority of an integrated approach to ethical investment over the alternative where "mainstream" finance and fund managers used a benevolent or conservation group to label a particular investment product as ethically sound. AEI's strategy has been proven correct, with funds under management growing from \$3.8M at 30 June 1993 to \$190.5M as at 30 September 2002.

AEI is the Single Responsible Entity for the:

- Australian Ethical Balanced Trust (established 1989);
- Australian Ethical Equities Trust (established 1994);
- Australian Ethical Income Trust (established 1997);
- Australian Ethical Large Companies Share Trust (established 1997).

AEI is also the parent company of Australian Ethical Superannuation Pty Ltd ('AES'), the trustee for the Australian Ethical Superannuation fund.

The overall market for ethical investment in Australia has grown substantially since the late 1980s. This reflects trends in other countries, and suggests that ethical investment will continue to expand and flourish over the coming years.

With its extensive trading history, strong financial skills and well-established ethical investment credentials, AEI is ideally positioned to maintain and grow its share of the market.

AEI is seeking to raise funds for several purposes and these are discussed in greater detail in section 1. The primary objective in seeking funds is to have higher levels of capital adequacy for prudential and potential future regulatory purposes. Some funds will also be used to initiate projects aimed at improving profitability.

Please read this Prospectus fully and carefully, and, if it is an appropriate investment for you, I look forward to welcoming you to AEI as a shareholder.



George Pooley B. Sc. (Econ), M.A.
Chairperson

ETHICAL INVESTMENT AND THE AUSTRALIAN ETHICAL CHARTER ©

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Ethical investment has three dimensions:

- screening share portfolios;
- entering dialogue with companies (corporate engagement);
- making investments in community based financial institutions or making direct loans to foster local community development.

AEI is one of the few organisations in the world which manages funds that undertake all three of these activities, and it does so transparently, in accordance with its Australian Ethical Charter. AEI's Charter, a pro-active

combination of positive and negative screens and corporate engagement places it at the "Deep Green", capital-E 'ethical' end of the ethical investment spectrum.

Under its Constitution, AEI shall when considering any investment, activity or involvement in any business, activity or corporation attempt to further the aims set out in the Charter. AEI incorporates the objectives of the Charter into its day to day activities. It seeks out suppliers whose activities are consistent with the Charter. It also aims to apply the spirit of the Charter in its dealings with staff and to its usage of consumables and other resources. The Charter is set out below.

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

- (a) the development of workers' participation in the ownership and control of their work organisations and places;
- (b) the production of high quality and properly presented products and services;
- (c) the development of locally based ventures;
- (d) the development of appropriate technological systems;
- (e) the amelioration of wasteful or polluting practices;
- (f) the development of sustainable land use and food production;
- (g) the preservation of endangered eco-systems;
- (h) activities which contribute to human happiness, dignity and education;
- (i) the dignity and well being of non-human animals;
- (j) the efficient use of human waste;
- (k) the alleviation of poverty in all its forms;
- (l) the development and preservation of appropriate human buildings and landscapes.

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

- (i) pollute land, air or water;
- (ii) destroy or waste non-recurring resources;
- (iii) extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment;
- (iv) market, promote or advertise, products or services in a misleading or deceitful manner;
- (v) create markets by the promotion or advertising of unwanted products or services;
- (vi) acquire land or commodities primarily for the purpose of speculative gain;
- (vii) create, encourage or perpetuate militarism or engage in the manufacture of armaments;
- (viii) entice people into financial over-commitment;
- (ix) exploit people through the payment of low wages or the provision of poor working conditions;
- (x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices;
- (xi) contribute to the inhibition of human rights generally.

For further details on AEI's application of the Charter and its approach to ethical investment see section 10 of the Prospectus.

SUMMARY OF THE OFFER

This Prospectus provides the opportunity to participate in a public offering of securities in Australian Ethical Investment Ltd ('AEI').

Within 7 days after the date of this Prospectus, application will be made by AEI to be admitted to the Official List of the ASX and for the Shares offered under this Prospectus, and for the Company's existing Shares, to be granted official quotation.

The ASX takes no responsibility for the contents of this Prospectus.

THE OFFER

| | |
|--|-----------------|
| Offer Price | \$16.00 |
| Shares offered under this Prospectus | 93,750 (1) |
| Amount to be raised under the Offer | \$1,500,000 (1) |
| Total number of Shares on issue at completion of the Offer | 857,452 |
| Minimum number of Shares that can be applied for under this Prospectus | 125 (2) |
| Minimum application amount | \$2,000 |

KEY OFFER STATISTICS

| | |
|---|-----------|
| Net Tangible Assets ('NTA') per Share as at 30 June 2002 | \$3.72 |
| Valuation (excluding NTA) as a % of funds under management as at 30 June 2002 | 4.93% (3) |
| Price earnings multiple at Offer Price (earnings per Share for 2001/2002) | 32.1 (4) |

KEY DATES

| | |
|---|------------------|
| Offer opens | 15 October 2002 |
| Offer closes | 28 November 2002 |
| Expected dispatch of holding statements | 10 December 2002 |
| Trading of Shares expected to commence on ASX | 20 December 2002 |

Notes:

- (1) Oversubscriptions of up to \$500,000 (31,250 Shares) may be accepted as described in section 2.2.
- (2) Shares applied for above the minimum number must be in multiples of 10 Shares.
- (3) This calculation is based on funds under management of **\$189.7M** as at 30 June 2002 and issued capital of 760,985 Shares at \$12.28 per Share (Offer Price less NTA per Share at 30 June 2002).
- (4) Basic earnings per Share for the 2001/2002 year was 49.9 cents per Share, using a weighted number of ordinary shares of 708,204 and earnings of \$353,276.

Investors should note that while the directors have resolved to recommend to the 2002 Annual General Meeting that a dividend of 20 cents per Share be paid out of the 2001/2002 profits, subscribers to Shares under this Prospectus **will not be** entitled to participate in that dividend.

HOW TO INVEST

Applications for Shares can only be made on the Application Form accompanying this Prospectus.

Instructions on how to apply are set out in section 2.3 of this Prospectus and on the back of each Application Form.

KEY DATES

Investors should note that dates are indicative only as the Company reserves the right to vary the Closing Date of the Offer without prior notice. It may extend the period of the Offer or close the Offer early. Accordingly, investors are encouraged to submit their Application Form as early as possible.

The information set out in this section is summary only. It should be read in conjunction with the information contained in the remainder of this Prospectus.

1.1 BUSINESS OVERVIEW

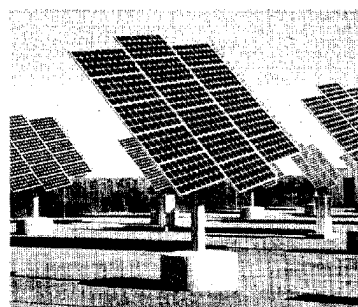
AEI operates in the finance industry as an independent funds manager. It was established in 1986 to cater for what was, at that time, a newly emerging ethical investment market.

As an early and strongly focussed entrant into this specialised market, AEI has been able to grow significantly over its 16 years of operation to now have \$190.5M of funds under management (as of 30 September 2002). This is a reflection of both the ongoing development of the ethical investment market and also of AEI's performance, both financially and ethically.

AEI's directors are of the view that AEI is well placed to remain a major participant in what it believes will be a growing Australian ethical or "socially responsible" investment industry.

A recent survey estimated that the size of Australian managed socially responsible investment funds had increased 86% between 2000 and 2001 to a total of \$1.3B, 12 times faster than assets of managed funds as a whole¹. Total Australian SRI funds are estimated at approximately \$2B as at June 2002². In the United States, the United Kingdom and Canada, socially responsible investment has grown significantly through the 1990s and into this current decade.

Over the medium to longer term, AEI believes that the Australian market will experience similar levels of significant growth. Given its well-established ethical reputation, infrastructure and well-qualified staff, AEI intends to take advantage of expected market growth to increase its funds under management, and, through economies of scale that exist in its business, increase profitability from current levels.



AEI supports activities that ameliorate wasteful or polluting practices

1.2 FINANCIAL SUMMARY

The following table is a summary of selected financial information. Additional information, including the assumptions underlying the forecasts is contained in section 6. This information is intended to be read in conjunction with that section.

| | Year ending 30 June | | |
|--|---------------------|----------------|------------------|
| | 2001 Actual | 2002 Actual | 2003 Forecast |
| Gross Entry Fees \$000s | \$1,249 | \$1,387 | — |
| Management Fees (net of rebates) \$000s | \$2,119 | \$3,152 | — |
| Other Income \$000s (1) | \$686 | \$1,363 | — |
| Revenue \$000s | \$4,055 | \$5,902 | \$6,842 |
| NPBT, tithe and bonus (2) \$000s | \$265 | \$658 | \$246 |
| Tax, tithe and bonus \$000s | \$123 | \$305 | \$119 (3) |
| NPAT, tithe and bonus \$000s | \$142 | \$353 | \$127 |
| Funds under management (\$M) | \$147.6 | \$189.7 | \$237.5 |
| Revenue Growth (%) (4) | 79% | 46% | 16% |
| FUM Growth over previous year (%) (5) | 72% | 29% | 25% |

Notes:

- (1) \$490 of the \$686 and \$978 of the \$1,363 appears in both the income and expenses of the consolidated entity reflecting both the receipt and rebate of management fees.
- (2) See section 1.6 for a detailed description of bonus and tithe arrangements.
- (3) The figure included for tax is an estimate only calculated as 30% of accounting profit after tithe and bonus. It makes no allowance for differences (such as non-deductible items) between tax and accounting income. Calculations for tithe and bonus are set out in section 6.1.
- (4) Revenue for the 1999/2000 financial year was \$2.26M
- (5) Funds under management as at 30 June 2000 were \$85.9M.

¹ Source: Socially Responsible Investment in Australia – 2001, Ethical Investment Australia, as reported in The Australian Financial Review Special Report, "Triple Bottom Line", 27 February 2002.

² Source: Socially Responsible Investment in Australia – 2002, Ethical Investment Australia, as reported in The Australian Financial Review Special Report, "Triple Bottom Line", 27 February 2002.
<http://www.ethicalinvestor.com.au>. Includes Ethical/SRI funds.

1.3 KEY TERMS OF THE SHARES

The Offer under this Prospectus is for the issue of up to 93,750 fully paid ordinary shares at an Offer Price of \$16.00 per Share.

1.4 PURPOSE OF THE OFFER

AEI will have new funds available to it as a result of the Offer. AEI intends to apply those funds as follows:

- to have higher levels of capital adequacy for prudential and potential future regulatory needs (the Company currently comfortably meets regulatory capital requirements);
- to initiate projects aimed at improving profitability; and
- to cover the costs of the Issue.

It is hoped that a listing will provide Shareholders with greater liquidity in their Shares.

1.5 CAPITAL STRUCTURE

The capital structure of AEI immediately following completion of the Offer (assuming it is fully subscribed but not oversubscribed) is as follows:

| | Pre-IPO | Offer | Total | % of total issued capital |
|---|---------|--------|---------|------------------------------------|
| Share on issued as at the date of this Prospectus | 763,702 | 0 | 763,702 | 89.07% |
| Shares offered under this Prospectus | 0 | 93,750 | 93,750 | 10.93% |
| Total issued capital | 763,702 | 93,750 | 857,452 | 100% |
| Options over fully paid-up Shares | 69,888 | 0 | 69,888 | — |

Options currently on issue have been granted under the Company's Employee Share Ownership Plan. The Plan is discussed in section 9.8. The main terms of the Options are as follows.

| Number of options | Exercise Price | Exercise Period |
|----------------------|-------------------|--------------------------------------|
| 32,276 | \$16.50 | For three months from November 2004 |
| 37,612 | \$18.26 | For three months from September 2005 |

Greater detail of the holdings of significant Shareholders and directors is also set out in section 9.6.

1.6 DIVIDEND POLICY

AEI has paid a dividend on profits earned in every financial year from 1996/1997 to 2000/2001 (note that in 1998/1999 the consolidated entity made a loss, but AEI made a profit). In some years a dividend re-investment plan has been offered. The proportion of profits paid as dividends (or recommended to be paid) has averaged about 40% (after tax, tithe and bonus, as discussed below).

The directors intend to recommend to future Annual General Meetings that a dividend based on a fraction of profits no less than that paid out, or recommended for payment, averaged over the past six years of profits, should be distributed to Shareholders. They also intend, for the next few years, to recommend a dividend re-investment plan be available each year.

It is anticipated that only one dividend will be paid each year. It is anticipated that the dividends will be fully franked. It is likely that the value of the dividend paid each year will fluctuate, reflecting the Company's fortunes. The directors cannot give any assurance as to the extent, timing and payment of any dividend.

The directors intend the dividend re-investment plan will permit Shareholders to re-invest some or all of any future dividend payment in Shares at a 2.5% discount to the market value of the Shares at the time a dividend is paid.

Investors should note that before directors recommend any dividend to the Company in general meeting, under the Company's Constitution the directors must have:

- **paid a work related bonus to employees, set at the discretion of the directors, but to be no more than 30% of what the profit would have been had not the bonus been made; and**
- **in addition, by way of a tithe, provisioned for or paid to non-profit organisations whose aims are consistent with the Charter an amount equivalent to 10% of what the profit would have been had not the bonus and tithe been made.**

To help understand the operation of the bonus, tithe and the dividend distribution policy, the following table sets out a hypothetical allocation of \$100 of profit.

| Hypothetical allocation of \$100 Profit | | |
|--|-------------|---------------|
| | Notional \$ | \$ |
| Net profit before tax, tithe and bonus | | \$100 |
| Notional Taxation (1) | (\$30) | |
| Notional profit after tax, before tithe and bonus | \$70 | |
| Tithe (2) | | (\$7) |
| Bonus (3) | | (\$15) |
| Subtotal of tithe and bonus | | (\$22) |
| Taxable income (4) | | \$78 |
| Taxation on taxable income (5) | | \$23.4 |
| Net profit after tax, tithe and bonus | | \$54.6 |
| Retained earnings (6) | | (\$32.8) |
| Dividend (7) | | \$21.8 |

Notes:

- (1) Calculated at 30% corporate tax rate on accounting profit (ignores any permanent taxation effects).
- (2) Calculated at 10% of notional profit after tax.
- (3) In this hypothetical example, 21.4% of notional profit after tax, but could range from 0% to 30% of after tax profit. The total amount of the bonus is actually set as a flat amount per FTE staff member times the number of FTE staff.
- (4) Assumes all tithe amounts are tax deductible which is not always the case, and ignores any permanent or timing taxation effects.
- (5) Calculated at 30% corporate tax rate on taxable income.
- (6) Assumes that approximately 60% of profit after tax, tithe and bonus is retained.
- (7) Assumes that approximately 40% of profit after tax, tithe and bonus is declared as a dividend.

Note that where the Company makes no profit from its operations, the tithe, bonus and dividend would likely be zero in respect of that financial year. Despite the Company making a profit, the Board may choose not to recommend a dividend to the Annual General Meeting, and again in that case the tithe and bonus amounts would likely be zero. The Board may also choose to recommend a dividend but set a low bonus amount or a high bonus amount (up to 30% of profit after tax).

In respect of the bonus, the Board has determined that bonus payments should in the future remain reasonably consistent (in per person terms) with amounts paid in past years, assuming comparable or improved profit results. This means that if profits increase in the future, total bonus payments should decline as a percentage of profits.

The amount of bonus that has been paid to staff in respect of the last two financial years (on a full-time equivalent basis) is as follows. Note that all staff receive the same bonus amount (pro-rata where less than full-time).

| | Year ending 30 June | |
|---------------------------------------|---------------------|----------|
| | 2001 | 2002 |
| Bonus per staff member (full-time) | \$2,335 | \$3,000 |
| Total bonus | \$52,291 | \$88,472 |

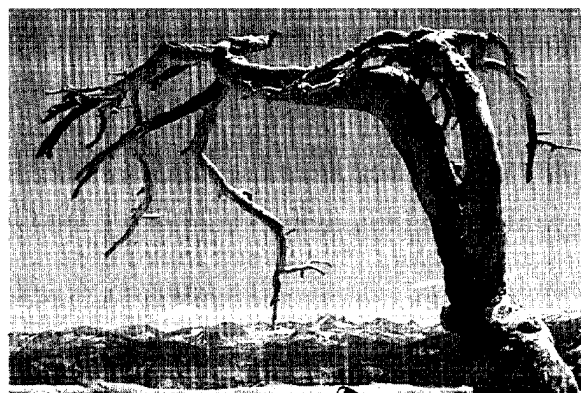
The directors have resolved to recommend to the 2002 Annual General Meeting that a dividend of 20 cents per fully paid ordinary share be paid out of the 2001/2002 profits. Subscribers to Shares under this Prospectus **will not be** entitled to participate in that dividend.

The following table sets out the bonus, tithe and dividend amounts for the 2001/2002 year, assuming that the recommended dividend is declared at the Annual General Meeting.

| | Year ending 30 June 2002 \$000 |
|--|--------------------------------------|
| Net profit before tax, tithe and bonus | \$658 |
| Taxation | \$153 |
| Tithe (not provisioned in 2001 and paid in 2002) (1) | \$17 |
| Tithe (2) | \$46 |
| Bonus | \$88 |
| Subtotal of tithe and bonus | \$151 |
| Net profit after tax, tithe and bonus | \$353 |
| Retained earnings for the 2001/2002 year | \$200 |
| Dividends (total) (3) | \$153 |
| Dividends (cps) | 20c |

Notes:

- (1) Tithe for 2000/2001 year expensed in the 2001/2002 financial year.
- (2) Tithe for 2001/2002 provisioned for in the 2001/2002 financial year. Calculated as 10% of notional profit after taxation (i.e. accounting profit less corporate taxation at 30%).
- (3) Assumes 763,702 shares on issue as at record date and equates to 43% of net profit after tax, tithe and bonus.



**AEI supports activities that preserve
endangered eco-systems**



The Company will have approximately \$130,000 of franking credits available for use on future dividend payments, after payment of the 20 cent per Share recommended dividend in respect of the 2002 financial year and payment of tax disclosed as payable in the 2002 financial statements.

1.7 TRADING HISTORY OF THE COMPANY'S SHARES

Up until March 2002, a stockbroker operated a small market in the Company's Shares. This ceased due to regulatory changes introduced by the *Financial Services Reform Act 2001*. The last trades through that market were for two parcels of 500 and 300 Shares respectively, both at \$16.60 per Share.

1.8 RECENT SHARE ISSUES BY THE COMPANY

| | Year ending 30 June | |
|-----------------------------------|---------------------------|-------------|
| | 2001 | 2002 |
| Number of Shares issued | 38,744 | 118,590 |
| Capital raised (1) | \$122,133 | \$1,761,084 |
| Average Share issue price | \$3.15 | \$14.85 |
| Primary use of the capital raised | Improved capital adequacy | |

Notes:

- (1) Includes Shares issued under a dividend re-investment plan, upon the exercise of options and in satisfaction of staff bonus as discussed in sections 1.6 and 9.7.2.

The most significant, recent capital raising was finalised in December 2001. Ascalon Capital Managers Ltd (currently a wholly owned subsidiary of St George Bank Limited) subscribed for 114,148 Shares at \$15.00 per Share, raising \$1,712,220. Ascalon have indicated to AEI that they regard their investment in AEI as strategic, and that they do not envisage being a significant short-term seller should the Company successfully list on the ASX.

In September 2002, the Company also issued 2,717 Shares at \$16.60 per Share as part of the staff bonus scheme described further in sections 1.6 and 9.7.2.

1.9 RISK FACTORS

Prospective investors should be aware that subscribing for Shares in the Company involves a number of risks. These risks are set out in detail throughout this Prospectus, including in section 8 of this Prospectus. Investors are urged to consider these risk factors carefully before deciding whether to invest in AEI.

2.1 THE OFFER

This Prospectus offers a total of 93,750 Shares at an Offer Price of \$16.00 per Share, payable in full on Application. The Shares being offered under this Prospectus will be new Shares issued by AEI.

This Prospectus provides information for investors to decide if they wish to invest in AEI and should be read in its entirety. If you have any questions about the desirability of or the procedure for investing in AEI, please contact your stockbroker or other professional financial adviser.

2.2 MINIMUM SUBSCRIPTION AND OVER-SUBSCRIPTION

A minimum subscription amount will be required consistent with the Company raising sufficient monies to meet ASX listing requirements for shareholder spread. To achieve the shareholder spread, an amount of approximately \$600,000 will need to be raised from around 300 investors. Investors should read section 2.9 to understand what will happen should AEI not achieve sufficient spread to list on the ASX.

The Company may in its absolute discretion accept over-subscriptions in respect of the Offer for an additional amount of up to \$500,000.

2.3 HOW TO APPLY FOR SHARES

Applications under the Offer may be made, and will only be accepted, in one of the following forms:

- on the relevant Application Form accompanying this Prospectus; or
- on a paper copy of the relevant electronic Application Form which accompanies the electronic version of the Prospectus, both of which can be found at and can be downloaded from <http://www.austethical.com.au>.

Paper Application Forms, whether accompanying a paper copy of the Prospectus or which have been downloaded from <http://www.austethical.com.au> must be accompanied by a personal cheque or a bank draft payable in Australian dollars, drawn on an

Australian branch of an Australian registered bank, an Australian Credit Union or Australian Building Society for an amount equal to the number of Shares for which you wish to apply multiplied by the Offer Price of \$16.00 per Share. Cheques or bank drafts should be made payable to "Australian Ethical Investment Ltd Float Account" and crossed "Not Negotiable".

Applicants should return their completed Application Forms to the Share Registry at the address shown in the Corporate Directory on the inside back of the Prospectus cover by no later than 5.00 pm (EST) on 28 November 2002.

Investors should note that dates are indicative only as the Company reserves the right to vary the Closing Date of the Offer without prior notice. It may extend the period of the Offer or close the Offer early. Accordingly, investors are encouraged to submit their Application Form as early as possible.

2.4 ALLOTMENT OF SHARES

The allotment of Shares to Applicants will occur as soon as practicable after the Closing Date, but no earlier than 7 days after this Prospectus is lodged with ASIC. After allotment, statements of shareholding will be dispatched.

It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Applicants trading Shares before they receive their shareholder statements will do so at their own risk.

All Application Monies received with Applications will be held until the allocations are determined. AEI may reject any Application or accept an Application in respect of a lesser number of Shares than the number applied for. If an allocation is not accepted, or is accepted in part only, the relevant part of the Application Monies will be refunded without interest.

2.5 ALLOCATION POLICY

The Company intends to give preferential treatment in allotting Shares. Firstly, preference will be given to existing shareholders and their associates, AEI employees and their

associates, unit holders in the Australian Ethical Investment Trusts, members of the Australian Ethical Superannuation Fund and financial intermediaries who have supported the Company. Secondly, preference will be given to as many Applications as possible, up to an amount of \$3,000 **each**. It is possible that investors applying for larger amounts of shares, say \$10,000 to \$20,000 worth, could be allocated all Shares sought, however this would only be after meeting all Applications up to \$3,000 **each**.

2.6 UNDERWRITER

The Offer is not underwritten.

2.7 HANDLING FEE PAYABLE

Applications made on Application Forms that bear the identification mark of an entity that is a member of the ASX or holds a dealers license issued by ASIC, may entitle that entity to receive a handling fee if prior arrangements have been made with the Company. This fee will be payable by the Company and **will not be** an additional charge on Applicants. The fee will not exceed 5% of Application Monies.

2.8 APPLICANTS OUTSIDE AUSTRALIA

This Prospectus does not constitute an offer of Shares in any jurisdiction where, or to any person to whom, it would not be lawful to issue the Prospectus. It is the responsibility of any Applicant outside Australia to ensure compliance with all laws of any country relevant to their Application.

No action has been taken to register or qualify the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia. The Shares have not been, and will not be, registered under the United States Securities Act of 1933 and, subject to certain exceptions, may not be offered or sold within the United States of America.

2.9 AUSTRALIAN STOCK EXCHANGE LIMITED LISTING

AEI will apply to the ASX within 7 days from the date of this Prospectus to be admitted to the Official List and for quotation of the Shares on the ASX. If granted, Official Quotation of the Shares will commence as soon as practicable after the allotment of the Shares to investors.

The ASX takes no responsibility for the contents of this Prospectus. The ASX admission of AEI to its Official List is not to be taken in any way as an indication of the merits of the Offer or the Shares offered pursuant to this Prospectus.

Should AEI not be admitted to the Official List of the ASX and the Shares offered under this Prospectus are not granted Official Quotation within 3 months after the date of this Prospectus, the Company will do one of the following:

- none of the Shares offered under this Prospectus will be allotted and all Application Monies will be refunded without interest to Applicants within the time prescribed by the *Corporations Act 2001*; or
- give applicants a supplementary or replacement prospectus that changes the terms of the offer and 1 month to withdraw their Application and be repaid their Application Monies without interest within the time prescribed by the *Corporations Act 2001*.

2.10 CHESS

AEI will participate in the Clearing House Electronic Subregister System, known as CHESS. ASTC, a wholly owned subsidiary of the ASX, operates CHESS in accordance with the Listing Rules and the SCH Business Rules.

Under CHESS, a shareholder will not receive a certificate but will receive a statement of their holding in AEI.

If a shareholder is broker sponsored, ASTC will send the shareholder a CHESS statement. The CHESS statement will set out the number of Shares allotted to each shareholder under the Prospectus, give details of the shareholder's HIN and give the participant identification number of the sponsor.

If you are registered on the Issuer Sponsored subregister, your statement will be dispatched by the Share Registry and will contain the number of Shares allotted under the Prospectus and the shareholder's security holder reference number.

A CHESS statement or Issuer Sponsored statement will routinely be sent to shareholder's at the end of any calendar month during which the balance of their shareholding changes. A shareholder may request a statement at any other time. However, a charge may be made for additional statements.

2.11 ENQUIRIES REGARDING THE OFFER

This Prospectus provides information for potential investors in AEI, and should be read in its entirety. If you have any questions regarding the content of this Prospectus or how to complete the Application Form, please contact your stockbroker or other professional financial adviser.

Requests for additional copies of this Prospectus can be made by contacting the Company on 1 800 021 227. Alternatively, the Prospectus can be downloaded from <http://www.austethical.com.au>.

2.12 MINIMUM APPLICATION

Each application must be for a minimum of 125 Shares and then in multiples of 10 Shares.

2.13 ELECTRONIC PROSPECTUS

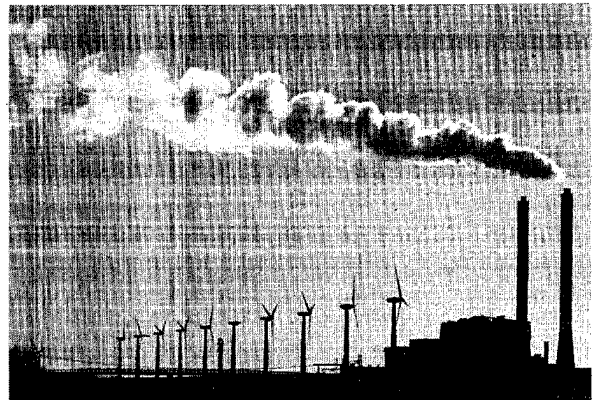
The Offer under this Prospectus is available to persons who receive the electronic version of the Prospectus within Australia.

If you download an electronic version of the Prospectus, please ensure that you have received and that you read the entire Prospectus. If you have any doubts about whether you have received the entire Prospectus, please contact the Company, which will be able to provide a hardcopy Prospectus to you without charge.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that the person was not given access to the Prospectus at the same time as the electronic Application Form.

2.14 WITHDRAWAL OF OFFER

The Company reserves the right to withdraw the Offer after the opening date if circumstances arise that in the Company's opinion could materially affect the general economic climate or other circumstances relevant to the Offer (for example, a declaration of war). If the Offer is withdrawn any Application Monies received will be refunded without interest.



AEI avoids activities that pollute land, air or water and supports activities which develop appropriate technological systems.

3.1 WHAT IS ETHICAL INVESTMENT

AEI operates in the ethical investment market.

Ethical Investment or Socially Responsible Investment ('SRI') is part of a growing world-wide movement which no longer accepts that the only criteria for measuring investment success is the financial bottom line. As a consequence, a new terminology has developed, that of the 'triple bottom line', where the environmental, social and economic consequences are considered as equal parts of the investment assessment process.

At its simplest, investing ethically means 'knowing what your money is doing'. There are two motivations that distinguish ethical investors from their conventional counterparts:

- creating alignment between investors and their values; and
- using investment capital to work for a just and environmentally responsible world.

In other words, it is the integration of personal values with investment decisions.

3.2 ORIGINS

The contemporary origins of 'investing with a conscience' can be traced to the Vietnam War protests and Anti-Apartheid movements, both prominent in the United States during the 1960s. US University Endowment Funds sought to avoid investment in the military-industrial complex and in repressive regimes. In Australia, ethical investment was first promoted by the Permaculture movement and then other parts of the environment movement.

Subsequent decades have seen the profound growth and evolution of exclusionary investment policies, to account for a broader range of issues such as corporate governance and affirmative action. By the 1990s the focus had progressed further still to encompass and emphasise an environmental ethic.

Investing ethically then can bring an acute awareness of environmental and social concerns to one's investment

decisions. Environmentally responsible initiatives have the potential to be promoted whilst harmful activities are shunned. In so doing, ethical investment aims to be a potent force in changing the attitudes of companies that might otherwise have a negative impact on the environment or be considered wayward in terms of their corporate credentials.

3.3 THE GLOBAL MARKET

To understand how the ethical investment or SRI market may develop in Australia, it is useful to consider what has occurred in other countries over the last decade.

In the 1990s and into this decade, SRI in the United States increased dramatically, reflected in the growth of socially screened mutual funds (the equivalent of Australia's unit trusts) from 12 in 1993 to 230 by the end of 2001.³

Estimates have total US assets invested in a SRI manner exceeding US\$2 trillion in 2001, up from US\$1.2 trillion in 1997.⁴ This represents a 66% growth in assets managed on the basis of a SRI philosophy - almost one and a half times the rate of all assets under management in the US.⁵ Furthermore, approximately 12% of funds under professional management in the US is part of some kind of 'screening' process.

Several of the dominant US fund managers have SRI funds that exceed US\$1B in FUM.

In the UK, SRI has experienced a 30% per year growth trend through the 1990s⁶. As of December 2001, SRI funds accounted for £3.8B⁷.

3 Source: Social Investment Forum Foundation, 2001 *Report on Socially Responsible Investing Trends in the United States*; <http://www.paxfund.com>.

4 Source: Social Investment Forum Foundation, 2001 *Report on Socially Responsible Investing Trends in the United States*, 1997 *Report on Socially Responsible Investing Trends in the United States*.

5 Ibid

6 Sources: *An Ethical Door Policy*, New Economics Foundation, 2002; *Ethical Money*, Hancock J, 2002.

7 Source: *The Ethical Investor*, Spring 2002, Ethical Investment Research Service, United Kingdom.

The requirement in 2000 for Pension Funds to report on ethical considerations and their policy on voting rights means the majority of occupational pension funds now incorporate SRI into their investment strategies.⁸

Perhaps the best comparison with Australian circumstances - given population, cultural and resource similarities - is the Canadian experience. From 1989 to 1998 four screened mutual funds with just over C\$102M in net assets grew to 14 screened mutual funds comprising over C\$3.8B in net assets⁹.

Investors and fund managers in European countries are including a SRI dimension in their investment decision-making, with 220 SRI funds established (including those in the UK).

With the recent formation of ASrIA (Association for Sustainable and Responsible Investment in Asia)¹⁰ the transformation has the potential to spread even further.

From halting beginnings the same influences are now apparent in Australia.

3.4 THE AUSTRALIAN MARKET

Until 2000, the Australian ethical investment sector was considered by some as immature with a range of small retail players. Many mainstream financial participants considered it a 'cottage' or niche part, at the periphery of the real investment industry and of little interest to most investors.

In 2000, Australian retail unit trusts using social screening had approximately \$300M FUM. When community and church-based operations were added in, estimates were around \$1B of FUM. Using \$1B as the screened pool, this represented less than 1 per cent of all share investment in managed funds.¹¹

The entry of a number of larger players, particularly seeking institutional and superannuation funds, led to the Australian ethical / SRI sector expanding to approximately 20 fund managers and superannuation providers in 2002¹².

A recent survey estimated that the size of Australian managed SRI funds had increased 86% between 2000 and 2001 to a total of \$1.3B, 12 times faster than assets of managed funds as a whole¹³. Total Australian ethical / SRI funds are estimated at approximately \$2B as at June 2002¹⁴.

Recent reforms introduced in Australia by the *Financial Services Reform Act 2001* include a requirement for investment products to disclose in their product disclosure statements the extent to which they take labour standards, and environmental, social and ethical considerations into account in the selection, retention or realisation of the investment. This is a similar initiative to that for pension funds in the UK discussed above, and AEI believes that such reform will have a positive impact on the Australian ethical investment industry.

Similarly, if legislation was enacted that allowed employees a choice of superannuation fund (which has been discussed in Australia for some time), AEI's expectation is that more superannuation investments would be directed to ethical fund managers.

It has been suggested that the total Australian SRI sector could be worth \$40B by the end of the decade¹⁵.

3.5 AEI'S MARKET POSITION

AEI is among the largest four retail/wholesale ethical / SRI fund managers in Australia¹⁶ with funds under management of approximately 10% of the estimated total pool of managed Australian ethical / SRI funds.

Over the last ten years AEI's growth in FUM has averaged approximately 57% per annum.

Growth in FUM has slowed in 2001/2002 and into 2002/2003, due to a downturn in world and Australian equity markets, however over recent years AEI has had net positive funds inflow in every month up to and including September 2002.

AEI, as an early and strongly focussed entrant into the ethical investment market, believes it is well placed to remain a major participant in what it believes will be a growing Australian ethical investment market.

8 Source: *An Ethical Door Policy*, New Economics Foundation, 2002.

9 Source: Allen Consulting, *Socially Responsible Investment in Australia* (self published, Melbourne : 2000)

10 Source: <http://www.asria.org/>

11 Source: Allen Consulting, *Socially Responsible Investment in Australia* (self published, Melbourne: 2000) pages 14 and 15.

12 Source: *Corporate Monitor Monthly Update*, 16 July 2002, Ethical Managed Funds and Indices Association.

13 Source: *Socially Responsible Investment in Australia - 2001*, Ethical Investment Australia, as reported in The Australian Financial Review Special Report, "Triple Bottom Line", 27 February 2002.

14 Source: Rainmaker Roundup, Market Highlights, June 2002, <http://www.rainmaker.com.au>. Includes Ethical/SRI funds.

15 Source: The Australian Financial Review Special Report, "Triple Bottom Line", 27 February 2002.

16 Source: *Socially Responsible Investment in Australia - 2001*, Ethical Investment Australia, as reported in The Australian Financial Review Special Report, "Triple Bottom Line", 27 February 2002.

4.1 COMPANY BACKGROUND

AEI operates in the finance industry as an independent funds manager. It was established in 1986, and is currently owned by approximately 140 investors, including Company directors, key Company personnel, employees and Ascalon Capital Managers Ltd (currently a wholly owned subsidiary of St George Bank Limited). It aims to "improve the ethics of corporate Australia and promote ecologically sustainable and socially just enterprises through judicious investment".

4.2 THE AEI BUSINESS

AEI derives its income from fees charged for managing funds invested into unit trusts. Currently, it is the Single Responsible Entity ('SRE') for the following unit trusts:

- Australian Ethical Balanced Trust (established 1989) ('AEBT');
- Australian Ethical Equities Trust (established 1994) ('AEE');
- Australian Ethical Income Trust (established 1997) ('AEIT');
- Australian Ethical Large Companies Share Trust (established 1997) ('AELT').

AEI believes that it is well respected as one of the most rigorous and green of the publicly available ethically managed funds in Australia. A pioneer in the field, its product line provides a wide range of domestic ethical funds - including a wholesale option.

AEI is also the parent company of Australian Ethical Superannuation Pty Ltd ('AES'), the trustee for the Australian Ethical Superannuation fund, established in 1997.

4.3 AEI OBJECTIVES

In managing the unit trusts, AEI has four general policy objectives:

- to contain the risk of investing;
- to obtain a financial return commensurate with any risk undertaken;

- to avoid investment in activities which are socially or environmentally detrimental;
- to participate financially in profitable activities which bring social or environmental benefits.

The first two objectives reflect the standard approach of all investment houses. The last two objectives are implemented by AEI through reference to the Australian Ethical Charter, set out earlier in the Prospectus.

Practical implementation of the Charter translates to avoiding such areas as uranium mining, armaments, alcohol and tobacco production, repressive regimes, native forest wood-chipping, gambling and animal exploitation.

On the positive side it means the support of recycling, renewable energy, co-operative housing, eco-tourism and bio-diversity, sustainable timber production, complementary health care and well-being, workplace relations and education.

AEI also incorporates the objectives of the Charter into its day to day activities. It seeks out suppliers whose activities are consistent with the Charter. It also aims to apply the spirit of the Charter to its usage of consumables and other resources.

While implementation of the Ethical Charter bounds investment activities relative to mainstream funds, AEI believes its demonstrated (and continued) adherence to the Charter, as evidenced by the range and ethical quality of actual investments within the unit trusts, strongly differentiates it in the marketplace. This differentiation has and will continue to contribute to AEI's strong growth.

4.4 AEI AND SUPERANNUATION

The AES superannuation fund has operated for four years. As at 30 September 2002, it had approximately \$66.5M (unaudited) in member's funds under management.

The superannuation fund currently offers four investment strategies that mirror the Company's unit trusts i.e. an income strategy, balanced strategy, large companies share strategy and an equities strategy.

AES, as trustee, invests monies in the superannuation fund (under the various strategies) into the equivalent AEI unit trust.

Superannuation fund in-flow and total funds under management for previous years are as follows:

| | Year ending 30 June | | |
|--------------------------------------|---------------------|-------------|-------------|
| | 2000 \$M | 2001 \$M | 2002 \$M |
| In-flow into the Superannuation Fund | \$11.9 | \$22.6 | \$29.4 |
| Funds under management | \$16.9 | \$40.6 | \$62.6 |

Notes:

(1) Figures for 2000 and 2001 are from the audited financial statement of the superannuation fund. 2002 figures are as yet unaudited.

4.5 AEI AND ETHICAL RESEARCH

AEI has for some years collected and collated research on the ethical and environmental performance of companies in Australia.

AEI has used this research for its investment decisions and in some cases made it available to others to assist them with an ethical evaluation of their investment portfolios or to maintain ethical investment databases.

Recently, with some assistance from AEI, a number of individuals established The Centre for Australian Ethical Research Pty Limited ('CAER P/L'). CAER P/L is an independent, not-for-profit organisation that will pursue its objectives (and fund its activities) by:

- collecting and collating research on companies in the Asia Pacific region;
- selling that research to various clients;
- publishing some of its research from time to time.

AEI intends that the ethical research it previously performed in-house will be outsourced to CAER P/L. Both CAER P/L and AEI are hopeful that CAER P/L will be able to make its ethical research widely available, thereby improving available information and helping to grow the ethical investment market.

AEI has no ownership interest in CAER P/L, however under arrangements with CAER P/L it has appointed one director to CAER P/L's Board (out of a total of five directors). Further details of the contractual arrangements between CAER P/L and AEI are set out in section 9.3.4.

4.6 THE SOURCE OF AEI'S INVESTMENT FUNDS

A unique and positive attribute of the Company's business is the strong support its investment products receive from individual investors. Whilst the Company enjoys increasing support from intermediary advisers, including advisers specialising in ethical investment, it has always derived a significant percentage of funds inflow direct from investors.

The Company has marketed strongly and consistently over the past 15 years among the more socially and environmentally aware sections of the public. It continues to do so and the Company believes it is well known and respected among its target market.

Whilst competitor products have proliferated in recent years within the "ethical investment" marketplace, arguably this carries a benefit to the Company. By raising awareness of the legitimacy of this investment option amongst a wider section of the investing public and investment advisory industry, an expanded product range and marketing spend has increased the potential market size. AEI, as an active and successful participant, expects to gain a proportionate share of this larger market.

The Company has never paid a trail commission to advisers or brokers from its own management fees, as is common industry practice. However in 2001 it introduced an optional trail commission, paid by redeeming part of the client's investment in the unit trusts. This has to be agreed by an adviser and their client. AEI feels that this is a more appropriate model compared with the industry standard of set trail commissions.

AEI charges entry fees for investments into its funds. Various levels of rebates on these entry fees are available to licensed advisers and also for direct investors with larger investment amounts. These fees and rebates are fairly consistent with other managed fund products, including other retail "ethical" investment funds.

AEI does not actively seek wholesale investment funds and currently has minimal funds of this type. As a smaller, specialist funds manager AEI focuses on offering a unique and "true to label" product to retail customers who appreciate the difference. Whilst, over time, wholesale mandates may form a larger percentage of AEI's FUM, the Company is likely to stay predominantly a retail funds manager.

Retail investors offer an important advantage for a genuine ethical investment manager in that they are generally a stable funds source for long term investment.

As discussed above, AEI obtains a significant proportion of funds inflow from the superannuation fund managed by its wholly owned subsidiary (AES) and from masterfunds. This is a stable and growing source of FUM growth.

Source of funds into the unit trusts

| | Year ending 30 June | | | | |
|--|---------------------|-------|--------|--------|--------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Direct inflow to unit trusts (excludes inflow from AES, wholesale and Masterfunds) (\$M) | \$6.9 | \$5.5 | \$9.7 | \$18.8 | \$17.2 |
| Advisor/broker inflow (excludes inflow from AES, wholesale and Masterfunds) (\$M) | \$8.4 | \$5.1 | \$9.1 | \$15.0 | \$16.5 |
| Masterfund and wholesale inflow (\$M) (1) | \$1.5 | \$1.6 | \$2.5 | \$6.1 | \$8.8 |
| Inflow from Australian Ethical Superannuation (\$M) | — | \$3.1 | \$10.9 | \$22.0 | \$26.0 |
| Redemptions (\$M) | \$2.0 | \$4.5 | \$4.9 | \$8.7 | \$12.5 |
| New enquiries generated during the year (2) | 4,011 | 3,954 | 5,257 | 6,516 | 3,778 |
| Number of unit trust investors at year end | — | — | 3321 | 5079 | 6354 |

Notes:

(1) Wholesale inflow includes self-managed Super Funds and other wholesale investors.

(2) Enquiry figures are for telephone enquiries and does not include internet enquiries

4.7 INVESTMENT METHODOLOGY

4.7.1 The Australian Ethical Charter

The methodology used by the AEI investment team when investing the funds of the unit trusts is structured around the Australian Ethical Charter ('Charter') set out earlier in this Prospectus.

Investment management is essentially the discipline of the selection of a relatively small number of securities to invest in, out of a much larger universe of possible securities.

As a small and specialised funds manager, the investment screen provided by application of the Charter acts as a highly efficient filtering mechanism. It focuses investment time and talent on a smaller, but inherently manageable universe of securities. AEI knows these securities very well, generally over a long time span.

4.7.2 Investments over the long and medium terms

The investment philosophy underpinning AEI's ethical methodology is that running an ethical investment screen to define the investible universe of securities can provide superior investment performance over the long term. This will come from supporting sustainable industries that are contributing to society and the environment whilst avoiding industries that are on the decline or have contingent environmental or social liabilities.

In the medium term, AEI's investment methodology relies on two conventional aspects of investment management used by most smaller funds managers.

4.7.2.1 Market "Inefficiencies" Exploited

As with most smaller funds managers, AEI believes that it can exploit the tendency of mainstream managers to avoid or under research smaller sized stocks which do not lend themselves to detailed quantitative modelling. AEI can do this due to the smaller size of its investible universe and the employment of experienced investment staff.

4.7.2.2 Small Size = Market Nimbleness

AEI's relatively small FUM compared to the ASX market enables buy/sell positions to be executed fairly quickly without significant price impact on most stocks invested in.

Listed equities comprised 70.8% of investments for the \$190M of FUM as at 30 June 2002 (this excludes some quasi-equity securities treated as fixed interest by AEI). It thus comprises the largest "asset class" managed by AEI.

Other asset classes include fixed interest securities, loans, property and private equity. AEI may also invest the funds of some of the unit trusts in overseas securities, and is currently seeking a suitable international custodian.

4.7.3 What differentiates AEI's investment approach

AEI's investment methodology is quite distinct from that of competitors, even those marketing other "ethical" funds. In particular AEI applies a positive screening approach in securities selection as well as a negative screen.

AEI's methodology aims to add value from "top down" microeconomic/ethical research and individual "bottom up" security selection, for both value and growth. As an example AEI may undertake an internal study or commission external research to better understand the merit of new technology or other development likely to assist specific companies e.g. wind energy. It would then research particular companies within such areas to assess their specific investment merit.

Although the Charter defines the universe of investible securities, this is supplemented by detailed:

- stock specific research for listed equity investments;
- credit review and evaluation of direct loan investments and various interest bearing securities;
- investment evaluation and monitoring of unlisted equity and property investments.

In applying its investment methodology, AEI specifically rejects the need to adhere to a "benchmark hugging" index approach. However underlying all portfolios managed by AEI is the concept of sufficient diversification.

4.7.4 AEI's investment team

AEI has an investment team of 10. This team manages FUM in accordance with internal mandates and approved limits set by a five member Investment Committee. The Committee meets formally at least quarterly. Two members of the Committee are also members of the investment team.

Three of the five members of the Investment Committee have been members for over 10 years.

4.7.5 The investment process

Portfolio construction for listed equities is built around stocks approved by the Investment Committee, based on investment team research. Simultaneously with approval of a stock, an individual stock limit is approved, based on long term criteria, including stock liquidity, market capitalisation, AEI's knowledge of the company, relative ethical merits and the company's assessed long term intrinsic potential.

Individual stock limits, value classifications and risk adjustments are evaluated and updated based on continuous assessment by the investment team and periodic internal investment team meetings and workshops.

Stock holding targets are re-weighted daily based on price movements, limit, value or risk weighting changes, cash target changes and variation in FUM.



AEI supports activities which contribute to education.

4.8 INVESTMENT PERFORMANCE

AEI's revenue comes primarily from management fees paid by investors (unitholders) in AEI's four public offer funds. The investment returns earned by these funds will be a major determinant of the success of the Company in continuing to attract investors to these funds, maintaining growth in FUM and thus growth in AEI's revenue and profits.

At the date of this Prospectus, two of the funds are almost five years old, one seven years old and the original AEI fund is now almost 13 years old.

For the past 11 years the Board and Investment Committee which has overseen the management of the AEI funds has remained substantially unchanged. Additional investment staff have been appointed over the past two years in particular, however the basic investment process, although refined and systematised as befits a larger organisation, has remained substantially unaltered.

Thus the financial returns achieved by the Company's managed funds should provide a reasonable guide to the investment competence of the Company and the likely future financial success of the funds.

Overall, particularly over the 3 year and 5 year periods, the Company's two equity funds have returned above average returns compared to similar funds offered by other Australian funds managers.

AEI's oldest fund, the Balanced Trust, has been amongst top balanced trust performers over 1 year, 3 year and 5 year periods.

AEI's Income Trust returns have not been as relatively good as the other three trusts, however it offers a more stable, low risk product for potential investors which complements the other three trusts.

| Australian Ethical Equities Trust | Trust Returns per annum(1) | AEET Benchmark(2) |
|--|---------------------------------------|--------------------------|
| Since Inception | 9.2% | 9.6% |
| 7 years | 10.4% | 9.6% |
| 5 years | 8.6% | 7.5% |
| 3 years | 7.3% | 5.4% |
| 1 year | -9.3% | -1.2% |

| Australian Ethical Large Companies Share Trust | Trust Returns per annum(1) | AELT Benchmark(3) |
|---|---------------------------------------|--------------------------|
| Since Inception | 10.2% | 8.7% |
| 3 years | 7.4% | 5.5% |
| 1 year | -4.0% | -1.4% |

| Australian Ethical Balanced Trust | Trust Returns per annum(1) | AEBT Benchmark(4) |
|--|---------------------------------------|--------------------------|
| Since Inception | 7.3% | 7.3% |
| 10 years | 7.2% | 7.5% |
| 7 years | 8.3% | 6.9% |
| 5 years | 7.9% | 5.0% |
| 3 years | 8.5% | 3.7% |
| 1 year | 0.9% | -0.9% |

| Australian Ethical Income Trust | Trust Returns per annum(1) | AEIT Benchmark(5) |
|--|---------------------------------------|--------------------------|
| Since Inception | 4.1% | 5.0% |
| 3 years | 4.5% | 6.0% |
| 1 year | 4.0% | 4.8% |

Notes:

- (1) Returns are to 31 August 2002, are expressed as percentages per annum (compound) and are net of all fees (except application fees). It is assumed that distributions are reinvested. The Trusts were last audited as at 30 June 2002.
- (2) Benchmark for the AEET is a melded S&P/ASX 300 and All Ordinaries Accumulation Index.
- (3) Benchmark for the AELT is a melded S&P/ASX 200 and All Ordinaries Accumulation Index.
- (4) Benchmark for the AEBT is an index of Multisector 50 funds produced by ASSIRT Pty Ltd.
- (5) Benchmark for the AEIT is the Consumer Price Index plus 2%.

5.1 BOARD OF DIRECTORS



George Pooley B.Sc (Econ), MA
Non-executive Chairperson

George has served as executive assistant to the Secretary to the Treasury, as a treasury representative at the Australian Embassy in Washington DC, as a

director of the Export Finance and Insurance Corporation, as executive director of the Foreign Investment Review Board, and as a First Assistant Secretary responsible for policy advice in respect of banking, coinage, non-banks etc. From 1992 he was Commissioner of the Insurance and Superannuation Commission (since subsumed into the Australian Prudential Regulation Authority). George is now a part-time consultant, mainly on insurance and superannuation matters.



Trevor Lee ARAIA,
B.Arch.(Hons), AffFPA
Executive Director

Trevor was formerly the Senior Architect for Energy Management with the Australian Government's construction authority and currently

heads the energy conservation and management consultancy, 'Energy Partners'. He has served as Honorary Secretary of the Australian and New Zealand Solar Energy Society for 4 years and as its Chairperson for 2 years. He was a founding director of the Sustainable Energy Industry Association and its Vice President for 2001.



Howard Pender B.A.(Hons),
MAICD
Executive Director

Howard received a university medal in economics from the ANU. He then worked for a time 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 is currently a director of the listed power electronics and renewable energy company, Advanced Energy Systems Ltd. He is also a director of SoftLaw Corporation Ltd – a listed company that produces expert system software, primarily for public administration.



Caroline Le Couteur B.Ec.,
B.Bus., Grad. Dip (Env. & Dev. Man.),
MAICD
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 the ACT elections. Caroline has held senior government positions in information management.

Caroline is the Company's Chief Information Officer and was formerly the Funds Administrator.



Alistair Clark B.Com.(Hons),
ASIA
Executive Director

Alistair has high level financial experience with practical conservation and environmental links. Past work experience has

been with the Australian Treasury and in merchant banking. Alistair has previously held honorary positions with the Conservation Council of Victoria and the Victorian Wilderness Society. From 1991 until March 2001 he was Investment Manager for Australian Ethical Investment Ltd.

Alistair currently chairs the Company's Investment Committee.



James Thier B.Sc.(Hons), MAICD
Executive Director

James has had academic experience as a researcher and taught in the faculties of economics, environmental studies and geography at the University of

NSW. He has held senior positions in local government and the credit union movement, lastly as Research Manager with Credit Union Services Corporation (Aust.) Ltd. A media communicator on ethical matters, James is also a founding board member of the Ethical Investment Association.

James is the Company's Marketing Manager and is also responsible for corporate ethics research.



Ray De Lucia B. Com.(Hons),
M. Com, FCPA, FAIB, MAICD
Non-executive Director

Ray is the Chief Executive of Ascalon Capital Managers Ltd, St George Bank, and is responsible for investments in the boutique fund

managers which form the stable of managers accessible through Ascalon. With over 24 years in the finance industry, Ray has a background in venture capital, investment banking, funds management and treasury management. Ray was formerly with the Commonwealth Bank - most recently as Head of Business Financing Products/General Manager CBFC.

5.2 AES' BOARD OF DIRECTORS

George, Howard and James are also directors of AES. The other directors of AES are as follows.



John Ford OBE
Non-executive Director

John is an actuary by profession and had an extensive commercial and public service career, culminating as the Australian Government Actuary between 1978 and 1987.

He was appointed to the Hong Kong Commission of Insurance & Superannuation between 1991 and 1995. Subsequently he has been a consultant, primarily in the area of insurance regulation, to various Governments.



Ruth Medd BSc, Dip Comp
Science, CPA, MAICD
Non-executive Director

Ruth started in the information technology industry in the seventies. Since then she has been a senior public servant, a broadcasting

regulator, the inaugural Company Secretary at Telstra and the Executive Director of an industry association.

Ruth is currently on the board of the NFAW Ltd (National Foundation for Australian Women) and the Infants Home, Ashfield.

5.3 SENIOR MANAGEMENT



Anne O'Donnell BA, MBA,
FAICD

Anne took up the position of Chief Executive Officer with AEI in October 2000.

Prior to joining AEI, Anne held a senior management position with

the ANZ Bank and has extensive knowledge of the finance industry. Whilst at ANZ Anne was a staff elected director of the ANZ Staff Superannuation Fund, which managed \$1B on behalf of 24,000 members.

Anne is a member of AEI's Investment Committee and the convenor of the Finance Committee.

Chris Lee M. Comm (Econ), B.Ec, Dip Fin. Planning

Chris is Company Secretary for AEI and AES.

Chris joined AEI in March 2001 to increase Company resources devoted exclusively to compliance matters. Prior to AEI, Chris had spent seven years in various management positions with ISC/APRA regulatory bodies.

Chris is a financial economist of long standing in the areas of compliance and competition regulation and supervision. The regulation and management of financial service providers is his specialisation.

5.4 COMPLIANCE COMMITTEE

AEI is required to have a compliance Committee under the *Corporations Act 2001* because it does not have a majority of external directors.

The membership of the Committee is George Pooley (Chair of AEI's Board), Rod Griffiths and Ruth Medd. George and Ruth's profiles have been provided above.

Rod Griffiths B. Comm, Associate Chartered Accountants Australia

Rod is a Chartered Accountant and specialist in Government accounting. He worked as an auditor with Coopers & Lybrand for 7 years till 1992, subsequently working on a contract basis with numerous government departments in Canberra doing audit related projects.

Rod has been a member of AEI's Compliance Committee since its inception in May 1999.

Since 12 November 1999, the Compliance Committee has met quarterly to carry out its functions and to review reports written by AEI's Compliance Officer and other Company employees. The Committee will continue to meet quarterly into the future.

5.5 COMPANY MANAGEMENT STRUCTURE

The Company is organised into the following sections:

- Funds Administration (Manager – **Peter Beckman**);
- Superannuation (Manager – **Robert Whalan**);
- Marketing (Manager – **James Thier**);
- Investment (Manager – **David Ferris**);
- Finance (Financial Controller – **Mark Bateman**);
- Information Systems (CIO – **Caroline Le Couteur**).

Each section is staffed by well-qualified personnel. The qualifications of the investment team are highlighted below by way of example.

5.6 INVESTMENT TEAM AND PROJECT OFFICERS

The Company's Investment Committee is comprised of Alistair Clark (Chair), James Thier, Howard Pender, David Ferris and Anne O'Donnell. It meets formally at least quarterly to consider the investment decisions of the investment team and to ensure that investments meet guidelines established by the Board. An informal Investment Sub-Committee is responsible for certain, delegated decision-making between formal meetings.

The investment team includes individuals with outstanding qualifications in mathematics, science and finance, from Australian and overseas universities. Team members have had significant experience in funds management, investment banking, government, securities analysis and management consulting.

- **David Ferris** B. Ec (Hons), Grad. Dip. Sc. - David is the Company's investment manager and has over 20 years experience including in banking, investment portfolio management, financial analysis and in the management of staff and systems.
- **Michael O'Brien** B. Comm (Hons), MBA (Columbia University) - international equities analyst, 10 years financial markets and equities experience.
- **Noel Hyland** BA, SIA Grad (Investment) – Investment Analyst, 25 years funds management and equities experience.
- **Julietta Maquignaz** Dip Teaching, B. Ec, Grad. Dip. Accounting – Investment Analyst, 17 years funds management and equities experience.
- **Simon Conroy** BSc, PhD (Ecology), Grad Dip Bus Admin – Investment Analyst – joined AEI in December 2001.
- **Robert Sharf** PNA, Senior Associate Aust. Institute of Banking and Finance – Loans Manager, 22 years banking and loans management experience.

The Company also has the services of several experienced project officers.

- **Rasjid Wilcox** BSc (Hons, 1st Class)- Senior Project Officer; with AEI since 1997.
- **Fiona Humphries** MSc BSc (Hons, 1st Class) – Project Officer; with AEI since 1998.
- **Risman Cornelius** B.Eng (Hons, 1st Class), MSc - Project Officer; with AEI since 2001.

5.7 AEI'S RELATIONSHIP WITH ITS STAFF

AEI believes a great deal of its success is due to the work of past and current staff who are a diverse group of dedicated and talented individuals. The Company seeks to be an exemplary employer.

Under the Company's Constitution, AEI must order its affairs so as to provide for and support the development of workers' participation in the ownership and control of their organisations and workplaces.

In respect of its own workplace, AEI aims to achieve this in several ways:

- AEI's staff elect a staff advocate who is able to represent the staff through direct contact with the Company's Board. The current staff advocate is Konrad Knerr.
- AEI has implemented an employee share ownership plan that envisages the issue of options to staff of up to 5% of issued capital each year. The plan is discussed in detail in section 9.8.

AEI also provides benefits to its employees beyond those legally mandated, including six weeks paid maternity leave, paternity and carer's leave, two days paid study leave per year, plus three hours paid study leave per week, and general flexibility in working hours.

The Company believes that its approach to staff and on staffing issues is important to ensure that the Company can retain and attract well-qualified and highly competent employees.

Total staff numbers and staff turnover rates over the last three years are as follows.

| | Year ending 30 June | | |
|---|---------------------|------|------|
| | 2000 | 2001 | 2002 |
| Employees – FTE (including casuals) | 15.7 | 27.8 | 31.3 |
| Non-probationary staff departing – FTE | 0 | 1.5 | 1 |
| Probationary staff departing – FTE | 2 | 1.8 | 3.4 |

6.1 INTRODUCTION

All information presented in this section should be read in conjunction with the assumptions set out in section 6.4, the Investigating Accountant's Report set out in section 7 and the risk factors in section 8.

AEI's historical consolidated statements of financial performance for the financial years 2001 and 2002 and directors' financial forecast for the year ending 2003 are summarised in the following table.

The directors' financial forecast for the year ending 2003 is based on the directors' assessment of the present economic and operating conditions and on a number of assumptions regarding future events and actions which, at the date at which the forecasts were prepared, are events and actions that the directors expect to take place.

Forecasts are by their very nature subject to uncertainties and unexpected events many of which may be outside the control of the Company and the directors. Also, events and circumstances often do not occur as anticipated and, therefore, actual results are likely to differ from forecasts and the differences may be material. Accordingly, the directors cannot and do not guarantee the achievement of the forecasts.

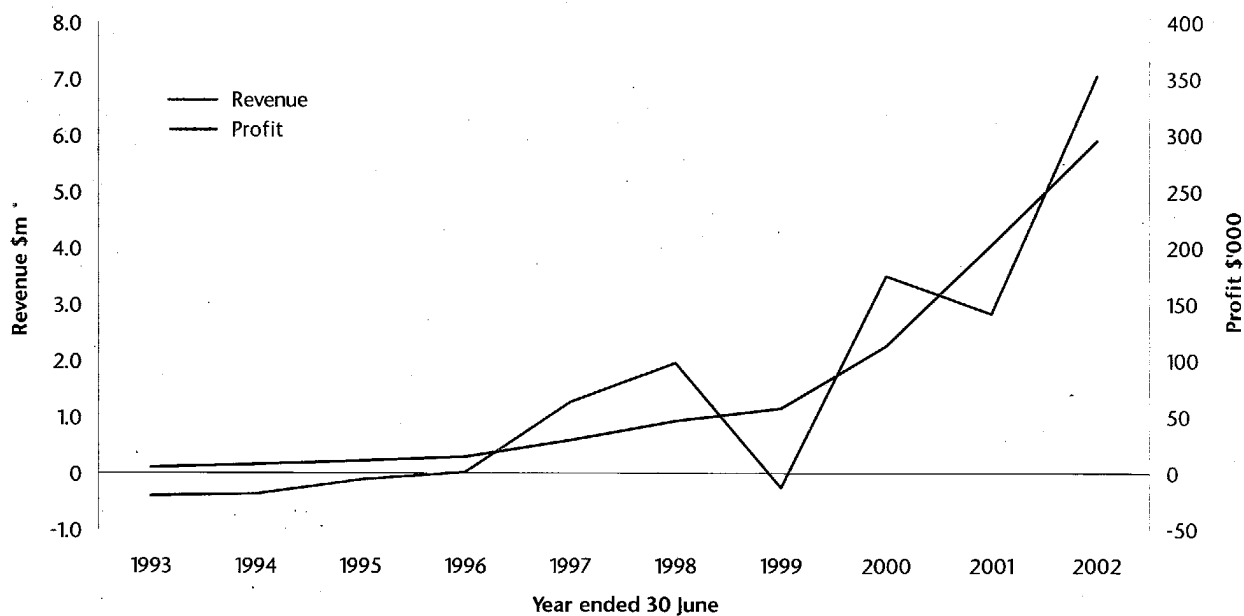
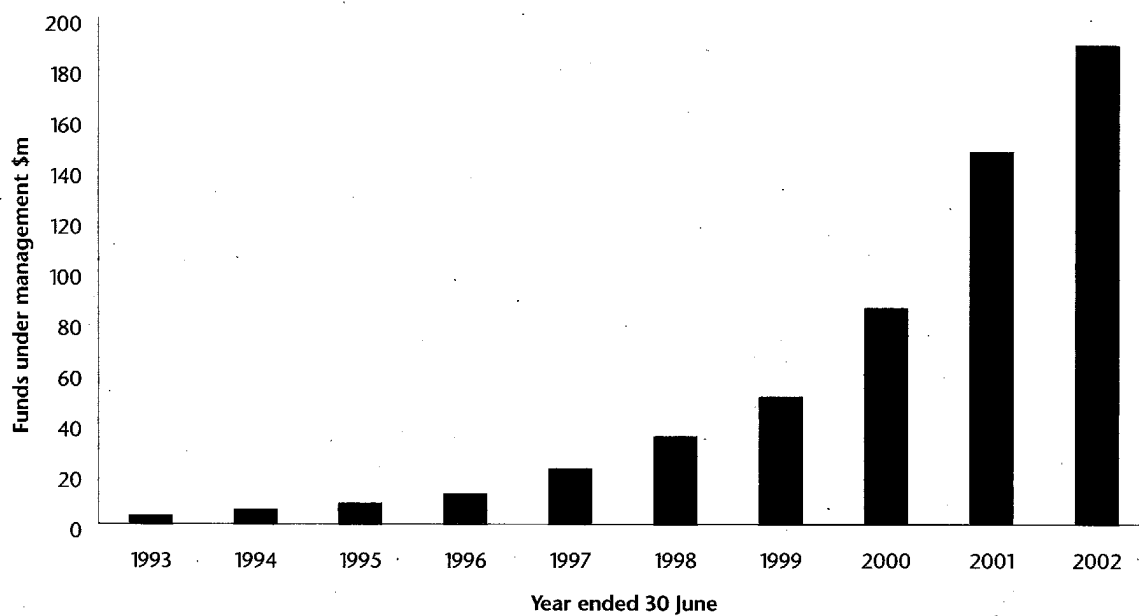
| | Year ending 30 June | | |
|--|---------------------|----------------|------------------|
| | 2001 Actual | 2002 Actual | 2003 Forecast |
| Gross Entry Fees \$000s | \$1,249 | \$1,387 | — |
| Management Fees (net of rebates) \$000s | \$2,119 | \$3,152 | — |
| Other Income \$000s (1) | \$686 | \$1,363 | — |
| Revenue \$000s | \$4,055 | \$5,902 | \$6,842 |
| NPBT, tithe and bonus (2) \$000s | \$265 | \$658 | \$246 |
| Tax \$000s | \$71 | \$153 | \$54 (5) |
| Tithe \$000 | \$0 (3) | \$17 (3) | \$17 (6) |
| Bonus \$000 | \$52 | \$88 | \$48 (7) |
| NPAT, tithe and bonus \$000s | \$142 | \$353 | \$127 |
| Dividends \$000 (11) | \$65 | \$153 (8) | — |
| EPS (cents per Share) | 22.7 | 49.9 (9) | — |
| Price earnings multiple | — | 32.1 (10) | — |
| Dividend (cents per Share) | 10 | 20 | — |

Notes:

- (1) \$490 of the \$686 and \$978 of the \$1,363 appears in both the income and expenses of the consolidated entity reflecting both the receipt and rebate of management fees.
- (2) Full details of the operation of the bonus and tithe are set out in sections 1.6 and 9.7.2.
- (3) Tithe for the 2000/2001 financial year was expensed in the 2001/2002 financial year.
- (4) Tithe for the 2001/2002 financial year has been provisioned in the 2001/2002 financial year.
- (5) The figure for tax is an estimate only calculated as 30% of accounting profit after tithe and bonus. It makes no allowance for differences (such as non-deductible items) between tax and accounting income.
- (6) Calculated as 10% of accounting profit (before tithe or bonus) after allowing for notional tax on accounting profit at the 30% corporate tax rate. Note that if the directors decide not to recommend any dividend in respect of the financial year tithe would be zero.
- (7) Calculated by reference to an assumed and likely bonus payment (given forecast profit) of \$1,500 per FTE staff member and assuming 32 FTE staff for bonus payment calculation.
- (8) Assumes 763,702 Shares on issue as at record date and equates to 43% of net profit after tax, tithe and bonus.
- (9) Basic earnings per Share for the 2001/2002 year was 49.9 cents per Share, using a weighted number of ordinary shares of 708,204 and earnings of \$353,276.
- (10) Calculation of the P/E multiple uses basic earnings per Share as at 30 June 2002 and the Offer Price.
- (11) Dividends relate to the year of profit from which they were declared.

6.2 REVIEW OF HISTORICAL RESULTS

The following graphs show funds under management, revenue and profit history since 1992/1993.



Notes:

- (1) Profits are net profit after tax, title and bonus but before extraordinary items.
- (2) The loss in 1998/1999 was due to start-up costs incurred in establishing the Australian Ethical Superannuation Fund.

6.2.1 Discussion of 2002 results¹⁷

AEI consolidated revenue comes from:

- entry fees which depend on the amount of new applications by people seeking to place monies in the AEI unit trusts;
- management fees which depend on the amount of funds managed. The level of funds under management depends on applications, redemptions, reinvestment of distributions and capital growth or loss in the value of existing funds;
- other income which includes interest, rebated management fees, reimbursement of unit trust expenses such as accounting fees, loan application fees etc.

The main items of AEI consolidated expense are:

- advertising and promotion, which is discretionary, but influences with a lag the amount of applications;
- staff (including consultant) expenses which depend on the level and rate of change in funds managed. There are significant economies of scale in the funds management industry and the number of staff required for every \$1M funds under management has fallen steadily as funds have grown in recent years;
- other expenses, some of which vary in proportion to staff numbers (for example premises rent) and others which vary more with the quantum of funds under management or the numbers of unitholders or superannuation members (for example payments for superannuation administration).

In 2001/2002 funds under management grew by 29% over the course of the financial year. Revenue grew more strongly (46%) because funds under management had also grown rapidly during the course of 2000/2001. (Revenue from management fees for a year depends on average FUM for the year). Operating expenses (before tax, tithe and bonus) grew at a slower rate than revenue (38%) resulting in a significant increase in profit before tax, tithe and bonus (It grew from \$265k to \$658k).

6.3 BRIEF REVIEW OF FORECASTS

Funds under management is forecast to grow 25% over the course of 2002/2003. Revenue is forecast to grow less strongly (16%) because entry fee income is forecast to fall from 2001/2002 levels. Entry fee income is forecast to fall because the amount of applications is forecast to drop on 2001/2002 reflecting poorer, more recent returns from equity markets generally. Group expenses are forecast to grow at a similar rate to FUM. In 2002/2003 the benefit of the normal economies of scale in staff costs is offset by an increase in project consulting and superannuation costs.

6.4 KEY FORECAST ASSUMPTIONS

The directors' financial forecasts for 2003 are based on various assumptions, including the following key assumptions, which should be read in conjunction with the risk factors described in section 8.

6.4.1 General

The Offer is fully subscribed and the gross proceeds of \$1.5M (before Issue costs) are received by 28 November 2002.

The Company issues Shares as disclosed in the pro forma statement of financial position and there is no further issue of shares.

There is no material beneficial or adverse effect arising from the actions of competitors.

There is no substantial change in the existing competitive or regulatory environment of AEI or AES.

There are no changes in Australian Accounting Standards, Statements of Accounting Concepts or other mandatory or legislative reporting which would have a material effect on AEI's consolidated financial results.

There is no material amendment to any material agreement regarding AEI's or AES' business.

No adverse changes for AEI or AES occur in the prevailing economic and political conditions in Australia, New Zealand, the United States, Europe or other places relevant to AEI's or AES' business.

¹⁷ Note that during this financial year The Centre for Australian Ethical Research formed part of AEI's business. The operations of this business unit have been transferred to a non-related company as described in section 4.5 and AEI has entered into agreements with that entity as described in 9.5.4. The effect of this change is included in the forecasts

6.4.2 Specific

FUM is assumed to increase by 25% for 2002/2003. The increase is assumed as a net inflow of funds as the forecasts assume zero capital growth on FUM. The forecast increase in FUM drives many other forecast figures.

The composition of inflow to FUM for each unit trust is similar to that for 2001/2002. The amount of net entry fees received depends on the composition of inflow as entry fees will vary depending on the unit trust or superannuation strategy into which money is invested, whether inflow comes from brokers or directly from investors and whether amounts invested are eligible for discounted entry fees.

The average investment amount per retail investor increases a little and is consistent with growth in the average amount invested per investor over previous financial years.

The rate of conversion of enquiries to investors in the unit trusts is assumed to be at the low end of the historical range to allow for the current investment climate uncertainty.

Historical relationships between FUM and expenses have been used to forecast expenditure for 2002/2003, except where there is evidence that a historical relationship no longer holds (e.g. insurance premiums). In those cases, forecasts were adjusted.

Staff expenses are based on current and expected staff requirements and workloads.

Reflecting the achievement of economies of scale, staff expenses are forecast to grow at a considerably slower rate than FUM. Total expenses are forecast to grow at a similar rate to FUM. This is primarily a result of two factors:

- a very large assumed increase in "project" consulting costs which are intended to improve the longer-term prospects of AEI, for example, work necessary to obtain a "rating" from businesses which rate funds managers in order to assist investment advisors; and
- a budgeted increase in superannuation overhead costs, for example, trustee liability insurance.

6.5 PROSPECTS FOR OUT YEARS

Funds management is a business characterised by very significant economies of scale. There are two main sources of these economies – regulatory and technological. Whether AEI manages \$10M or \$1B in FUM it is required to maintain a compliance structure with significant fixed costs. Similarly, if AEI is successful in continuing to grow FUM, on-costs per staff member (for example software) are likely to continue to fall. Countering these factors are two major potential opposing forces. Firstly, there is a possibility of long-term downward competitive pressure on fees. Secondly, there are costs associated with the very rapid rate of regulatory change. If AEI succeeds in further growing FUM and it is able to maintain current fee levels, and provided there is no acceleration in the pace of regulatory change, then economies of scale mean profit levels seen in 2001/2002 could well be significantly exceeded in the years beyond 2002/2003.

6.6 PRO FORMA STATEMENT OF FINANCIAL POSITION

The pro forma statement of financial position was based on the statement of financial position as at 30 June 2002 and prepared as if the capital structure following the date of issue of Shares under the Offer was in effect.

| \$'000 | Pro forma |
|--------------------------|----------------|
| Total Assets | \$5,035 |
| Total Liabilities | \$912 |
| Net Assets | \$4,123 |
| Equity | |
| Contributed Equity | \$3,576 |
| Retained Profits | \$546 |
| Total Equity | \$4,123 |

A detailed statement of financial position is presented in the Investigating Accountant's Report contained in section 7.

As at 30 June 2002, the assets of the Company were primarily invested in cash. It is the current policy of the Board to invest the assets of the Company in cash, short-term liquid assets or in activities which support the objectives of the Company.

Thomas Davis & Co
Chartered Accountants
ANZ Bank Building
68 Pitt Street
SYDNEY NSW 2000

15 October 2002

The Directors
Australian Ethical Investment Limited
Suite 66, Canberra Business Centre
Bradfield Street
DOWNER ACT 2602

Subject: Investigating Accountant's Report on Audited
Historical Financial Information

Dear Sirs,

We have prepared this Investigating Accountant's Report (report) on historical financial information of Australian Ethical Investment Limited and controlled entity (the Company) for inclusion in a Prospectus to be dated on or about 15 October 2002, the Prospectus relating to the issue of 93,750 ordinary shares in the Company.

Except as otherwise stated in this report, expressions defined in the Prospectus have the same meaning in this report.

Background

Australian Ethical Investment Ltd ('AEI') is a pre-eminent Australian ethical investment company. Its business is solely the management of ethical investments. The Company aims to give many small Australian investors an opportunity to pool their funds together, to allow meaningful investments into activities that support the environment and society generally, while generating sound financial returns. All decisions on investment are informed by the Australian Ethical Charter.

AEI was established in 1986 and is the Single Responsible Entity for the:

- Australian Ethical Balanced Trust (established 1989);
- Australian Ethical Equities Trust (established 1994);
- Australian Ethical Income Trust (established 1997);
- Australian Ethical Large Companies Share Trust (established 1997).

AEI is also the parent company of Australian Ethical Superannuation Pty Ltd ('AES'), the trustee for the Australian Ethical Superannuation Fund.

AEI's primary objective in seeking funds is to have higher levels of capital adequacy for prudential and potential future regulatory purposes. The Company currently comfortably meets regulatory capital requirements. Some funds will also be used to initiate projects aimed at improving profitability.

Scope

You have requested Thomas Davis & Co to prepare a report covering the following information:

- (a) the historical consolidated financial performance of the Company for the years ended 30 June 2001 and 2002;
- (b) the historical consolidated statement of financial position as at 30 June 2002 and the pro forma consolidated statement of financial position as at 30 June 2002 which assumes completion of the contemplated transactions disclosed in Note 1, Appendix 1 of Section 7 of the Prospectus;
- (c) the consolidated statement of cash flows for the financial years ended 30 June 2001 and 2002.

Audit of Historical Financial Information

The historical financial information set out in Section 7, Appendix 1 of the Prospectus has been extracted from the audited financial statements of the Company, which was audited by our firm, which issued an unqualified audit opinion in respect of the historical financial information. The Directors of Australian Ethical Investment Limited are responsible for the preparation of the historical financial information, including determination of the adjustments.

We have audited the historical financial information of the Company for the years ended 30 June 2001 and 2002. Our audit has been conducted in accordance with Australian Auditing and Assurance Standards to provide reasonable assurance whether the historical financial information is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the historical financial information, and the evaluation of accounting policies and significant accounting estimates. Our procedures also included:

- Consideration of the assumptions used to compile the pro forma statement of financial position;
- Audit of the pro forma historical financial information; and
- Comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 7, Appendix 1 of the Prospectus and the requirements of the constitution.

These procedures have been undertaken to form an opinion whether, in all material respects, the historical financial information is presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements and relevant statutory and other requirements in Australia so as to present a view which is consistent with our understanding of the Company's financial position, the results of its operations and its cash flows. The audit opinion expressed in this report has been formed on the above basis.

Conclusion

Audit Opinion on Historical Financial Information.

In our opinion:

- the pro forma statement of financial position has been properly prepared on the basis of the transactions described in Section 7, Appendix 1, Note 1 in the Prospectus; and
- the other historical financial information, as set out in Section 7, Appendix 1 of the Prospectus presents fairly:
 - (a) the historical financial performance of the Company for the years ended 30 June 2001 and 2002;
 - (b) the historical statement of financial position of the Company as at 30 June 2002; and

- (c) the consolidated statement of cash flows for the years ended 30 June 2001 and 2002,

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements, and accounting policies adopted by the Company disclosed in Section 7, Appendix 1 of the Prospectus and the requirements of the constitution.

Subsequent Events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief, no material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

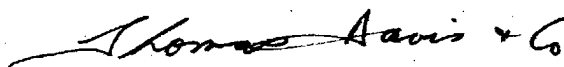
Disclosure

Thomas Davis & Co has been a member of the Australian Ethical Investment Limited Due Diligence Committee. We confirm that other than usual professional fees and expenses associated with being a member of that committee, the preparation of this report and audit and other services supplied to the Company and its subsidiary neither Thomas Davis & Co nor our associates have received any other benefits or have any interest in the Company and its subsidiary.

Yours faithfully,



R C GEEVES
PARTNER



THOMAS DAVIS & CO
CHARTERED ACCOUNTANTS

"Liability limited by the Accountants' Scheme approved under the Professional Standards Act 1994 (NSW)"

SECTION 7: INVESTIGATING ACCOUNTANT'S REPORT (CONTINUED)

APPENDIX 1

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

Consolidated Statement of Financial Position as at 30th June, 2002

| | NOTES | ACTUAL 2002 \$ | PRO FORMA 2002 \$ |
|--------------------------------------|-------|----------------------|-------------------------|
| CURRENT ASSETS | | | |
| Cash Assets | 7 | 2,864,796 | 4,154,796 |
| Receivables | 8 | 534,675 | 534,675 |
| Other | 9 | 109,916 | 109,916 |
| TOTAL CURRENT ASSETS | | <u>3,509,387</u> | <u>4,799,387</u> |
| NON-CURRENT ASSETS | | | |
| Plant & Equipment | 10 | 128,566 | 128,566 |
| Deferred Tax Assets | 11 | 107,195 | 107,195 |
| TOTAL NON-CURRENT ASSETS | | <u>235,761</u> | <u>235,761</u> |
| TOTAL ASSETS | | <u>3,745,148</u> | <u>5,035,148</u> |
| CURRENT LIABILITIES | | | |
| Payables | 12 | 396,838 | 396,838 |
| Tax Liabilities | 13 | 139,423 | 139,423 |
| Provisions | 14 | 342,544 | 342,544 |
| TOTAL CURRENT LIABILITIES | | <u>878,805</u> | <u>878,805</u> |
| NON-CURRENT LIABILITIES | | | |
| Tax Liabilities | 13 | 18,882 | 18,882 |
| Provisions | 14 | 14,775 | 14,775 |
| TOTAL NON-CURRENT LIABILITIES | | <u>33,657</u> | <u>33,657</u> |
| TOTAL LIABILITIES | | <u>912,462</u> | <u>912,462</u> |
| NET ASSETS | | <u>2,832,686</u> | <u>4,122,686</u> |
| EQUITY | | | |
| Contributed Equity | 15 | 2,286,383 | 3,576,383 |
| Retained Profits | 16 | 546,303 | 546,303 |
| TOTAL EQUITY | | <u>2,832,686</u> | <u>4,122,686</u> |

Consolidated Statement of Financial Performance for the year ended 30th June, 2002

| | NOTES | 2002 \$ | 2001 \$ |
|--|-------|-------------|-------------|
| Revenue from ordinary activities | 4 | 5,902,286 | 4,054,593 |
| Employee benefits expense (includes bonus – see Note 14) | | (2,029,745) | (1,444,637) |
| Depreciation | | (58,132) | (61,289) |
| Occupancy costs | | (117,370) | (71,854) |
| Borrowing costs expense | | (4,371) | (870) |
| Other expense from ordinary activities | | (3,123,268) | (2,263,113) |
| Profit from ordinary Activities before Tithes and income tax expense | | 569,400 | 212,830 |
| Tithes expense | 2(h) | (63,456) | — |
| Profit from ordinary Activities before income tax expense | 3 | 505,944 | 212,830 |
| Income tax (expense)/Revenue relating to ordinary activities | 5 | (152,668) | (70,699) |
| Net profit from ordinary activities after related income tax (expense)/revenue attributable to members of the parent entity | 16 | 353,276 | 142,131 |
| Increase in retained Profits on adoption of New Accounting Standard | | — | 48,764 |
| Total changes in Equity other than those resulting from transactions with owners as owners | | 353,276 | 190,895 |
| Basic Earnings per share (cents per share) | 2(i) | 49.9 | 22.7 |

The accompanying notes form part of these Financial Statements.
The above information has been extracted from the Company's Financial Reports.

**Consolidated Statement of
Cash Flows for the year ended
30th June 2002**

| NOTES | 2002 \$ | 2001 \$ |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Operations | 6,197,611 | 4,486,011 |
| Payments to Suppliers & Employees | (5,684,797) | (4,147,083) |
| Dividends Received | — | — |
| Interest Received | 82,224 | 38,508 |
| Borrowing Costs | (4,716) | (870) |
| Income Tax Paid | (139,790) | (69,654) |
| Bonus | (52,291) | (42,421) |
| Tithe | (17,940) | (17,579) |
| Net cash provided by Operating Activities | 380,301 | 246,912 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from Sale of Property, Plant & Equipment | — | 3,500 |
| Payment for Property, Plant & Equipment | (76,108) | (54,021) |
| Net cash provided by/(used in) Investing Activities | (76,108) | (50,521) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of Borrowings | (75,000) | (35,000) |
| Proceeds from Share Issue | 1,761,084 | 122,133 |
| Proceeds from Borrowings | — | 75,000 |
| Dividends Paid | (64,684) | (62,891) |
| Net cash provided by Financing Activities | 1,621,400 | 99,242 |
| Net Increase in Cash Held | 1,925,593 | 295,633 |
| Cash at beginning of Year | 939,203 | 643,570 |
| Cash at end of Year | 2,864,796 | 939,203 |

The accompanying notes form part of these Financial Statements.
The above information has been extracted from the Company's
Financial Reports.

**Notes to and forming part of
the Financial Statements**

1. Pro Forma Adjustments

The Pro Forma Consolidated Statement of Financial Position of Australian Ethical Investment Limited has been prepared on the basis that the following transactions have been effected as at 30 June, 2002.

- the issue of 93,750 fully paid Ordinary Shares at an issue price of \$16.00 each amounting to \$1.5 million representing the proposed amount to be raised under the Offer as outlined in the Prospectus.
- the payment of the expenses of the Offer outlined in the Prospectus estimated at \$210,000.

Adjustment not included in Pro Forma Consolidated Statement of Financial Position - since 30 June, 2002 2,717 shares have been issued at \$16.60 per share to employees in satisfaction of their bonus entitlements provided for in the Company's 2002 Financial Report.

**2. Summary of Significant Accounting
Policies**

Basis of Accounting

The financial information included in this report has been extracted from general purpose financial reports which have been prepared in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia. Set out below are the significant accounting policies adopted in the preparation of the financial information included in this report.

The financial information included in this report has been prepared on an accruals basis and is based upon historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless stated otherwise.

Set out below is a summary of the significant accounting policies adopted in the preparation of the financial information included in this report.

(a) Plant & Equipment

Plant and equipment are brought to account at cost, less accumulated depreciation. The carrying amount of plant and equipment is reviewed annually 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 which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

The depreciable amount of all fixed assets, is depreciated over their estimated useful lives to the economic 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 assets | Depreciation rates | Depreciation basis |
|---------------------------------|--------------------|-------------------------------------|
| Furniture, fittings & equipment | 10% to 81% | Straight Line/ Diminishing Value |
| Software | 25% to 40% | Straight Line/ Diminishing Value |

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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 economic 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.

(c) Employee Entitlements

Provision is made for the economic entity's liability for employee entitlements arising from services rendered by employees to balance date. Employees entitlements expected to be settled within one year together within entitlements arising from wages and salaries, annual leave, sick leave and long service leave which will be settled after one year, have been measured at their nominal amount.

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred.

(d) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in at call deposits with banks.

(e) Principles of Consolidation

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

A controlled entity is any entity controlled by Australian Ethical Investment Limited which it has the capacity to dominate the decision making in relation to the financial and operating policies of that entity so that entity operates with Australian Ethical Investment Limited to achieve the objectives of Australian Ethical Investment Limited.

All inter-company balances and transactions between entities in the economic entity, have been eliminated on consolidation.

(f) Dividends and Imputation

| | 2002 \$ | 2001 \$ |
|---|------------|------------|
| Amount of Franked Dividend paid during the year | 64,684 | 62,891 |
| Amount of Unfranked Dividends paid during the year | Nil | Nil |
| Amount of Dividends provided for which will, when paid, be franked out of existing franking credit or which will arise from income tax payments in the following year | Nil | Nil |
| Amount of unappropriated profits which could be distributed as Franked Dividends using franked credits already in existence or which will arise from income tax payments in the following years | | |
| 30 cents Franking Credit | 283,382 | 112,108 |

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation 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 Statement of Financial Position are shown inclusive of GST.

(h) Tithes Expense

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

- paid to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted" (see Note 14).
- "gifted an amount equivalent to ten percent (10%) of what the profit for that year would have been had not the abovementioned bonus and amount gifted been deducted".

Tithes expense represents -

| | 2002 \$ | 2001 \$ |
|--|-----------------|------------|
| Gifted amount from previous years profits | 17,430 | Nil |
| Provision for gifted amount from current years profits | 46,026 | Nil |
| | <u>\$63,456</u> | <u>Nil</u> |

(i) Basic Earnings Per Share

Weighted average number of Ordinary Shares outstanding during the year used in calculation of basis EPS - 708,204 (2001 - 627,422). Earnings used in calculation of basic EPS - \$353,276 (2001 - \$142,131).

(j) Comparative Figures

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

3. Profit from Ordinary Activities

| | 2002 | 2001 |
|---|----------------|---------------|
| | \$ | \$ |
| Profit from Ordinary activities before income tax expense has been determined after | | |
| (a) Charging as Expense: | | |
| Borrowing costs: | | |
| - director related parties | 4,371 | 870 |
| Total Borrowing Costs | <u>4,371</u> | <u>870</u> |
| Movements in Provision: | | |
| Depreciation of non-current assets: | | |
| - plant & equipment | 58,132 | 61,289 |
| Other: | | |
| - employee entitlements | 108,484 | 36,955 |
| - other provisions | 82,447 | (7,709) |
| Net expense resulting in | | |
| Movement in provisions | <u>249,063</u> | <u>90,535</u> |
| Remuneration of the auditors for: | | |
| - auditing of accounts | 6,300 | 5,850 |
| - other services | 1,300 | 5,260 |
| (b) Crediting as Income: | | |
| Interest from: | | |
| - other persons | 85,432 | 38,508 |
| Profit on Sale of Plant and Equipment | — | 75 |

4. Operating Revenue from Ordinary Activities

| | | |
|---|------------------|------------------|
| Operating Revenue | | |
| - interest | 85,432 | 38,508 |
| - entry, management & other fees | 5,693,063 | 3,934,953 |
| - other revenue | 123,791 | 77,632 |
| - proceeds from Sale of Plant & Equipment | — | 3,500 |
| | <u>5,902,286</u> | <u>4,054,593</u> |

5. Income Tax Expense

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

| | | |
|--|----------------|---------------|
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2001:34%) | 151,784 | 72,362 |
| Non-allowable items | 657 | 2,546 |
| Adjustment to future income tax benefit for change in Company tax rate to 30% | — | 6,656 |
| | <u>152,441</u> | <u>81,564</u> |
| (over)/under provision for income tax in prior year | 227 | (10,865) |
| Income tax expense/(revenue) attributable to profit from Ordinary Activities | <u>152,668</u> | <u>70,699</u> |

6. Remuneration and Retirement Benefits

| | 2002 | 2001 |
|--|---------|---------|
| | \$ | \$ |
| (a) Directors' Remuneration | | |
| Income paid or payable to all directors of each entity in the economic entity by the entities of which they are directors | 596,598 | 528,619 |
| Number of parent entity directors whose income from the parent entity or any related parties was within the following bands: | | |
| \$0 - \$19,999 | 1 | 1 |
| \$20,000 - \$29,999 | 2 | — |
| \$30,000 - \$39,999 | 1 | 1 |
| \$69,000 - \$69,999 | 1 | 2 |
| \$70,000 - \$79,999 | 1 | — |
| \$80,000 - \$89,999 | 1 | — |
| \$90,000 - \$99,999 | — | 1 |
| \$120,000 - \$129,999 | — | 2 |
| \$130,000 - \$139,999 | 1 | — |
| \$140,000 - \$149,999 | 1 | — |

The names of the directors who have held office during the financial year are:

A Clark
R De Lucia (appointed 23/01/02)
C Le Couteur
T Lee
H Pender
G Pooley (appointed 26/10/01)
J Thier
J Henderson (resigned 28/11/01)
R Wilcox (resigned 28/11/01)

| | | |
|--|---------|---|
| (b) Executive remuneration | | |
| Remuneration received or due and receivable by executive officers of the parent entity, from the parent entity for management of the affairs of parent entity and its subsidiaries whose remuneration is \$100,000 or more | 337,464 | — |
| The number of executives whose income was in the following bands: | | |
| \$100,000 - \$109,999 | 1 | — |
| \$110,000 - \$119,999 | 1 | — |
| \$120,000 - \$129,999 | 1 | — |

7. Cash Assets

| | ACTUAL 2002 \$ | PRO FORMA 2002 \$ |
|-----------------|----------------------|-------------------------|
| CURRENT | | |
| Cash on Hand | 300 | 300 |
| Cash at Bank | 836,134 | 836,134 |
| Cash on Deposit | 2,028,362 | 3,318,362 |
| | <u>2,864,796</u> | <u>4,154,796</u> |

The Pro forma cash balance has been arrived at after adjusting for the impact of:

- the issue of 93,750 fully paid ordinary shares at an issue price of \$16.00 each amounting to \$1.5 million representing the proposed amount to be raised under the Offer as outlined in the Prospectus.
- the payment of the expenses of the Offer outlined in the Prospectus estimated at \$210,000.

8. Receivables

| | | |
|---------------|----------------|----------------|
| CURRENT | | |
| Trade Debtors | 528,315 | 528,315 |
| Other Debtors | 6,360 | 6,360 |
| | <u>534,675</u> | <u>534,675</u> |

9. Other

| | | |
|-------------|----------------|----------------|
| CURRENT | | |
| Other | 26,380 | 26,380 |
| Prepayments | 83,536 | 83,536 |
| | <u>109,916</u> | <u>109,916</u> |

10. Plant & Equipment

| | | |
|--------------------------------|----------------|----------------|
| NON-CURRENT | | |
| Plant & Equipment | | |
| At Cost | 356,687 | 356,687 |
| Less: Accumulated Depreciation | 228,121 | 228,121 |
| | <u>128,566</u> | <u>128,566</u> |

11. Deferred Tax Assets

| | | |
|---|----------------|----------------|
| Future Income Tax Benefit | 107,195 | 107,195 |
| The future income tax benefit is made up of the following estimated tax benefit | | |
| - timing differences | 107,195 | 107,195 |
| | <u>107,195</u> | <u>107,195</u> |

12. Payables

| | | |
|-----------|----------------|----------------|
| CURRENT | | |
| Creditors | 396,838 | 396,838 |
| | <u>396,838</u> | <u>396,838</u> |

13. Tax Liabilities

| | ACTUAL 2002 \$ | PRO FORMA 2002 \$ |
|-------------|----------------------|-------------------------|
| CURRENT | | |
| Income Tax | 139,423 | 139,423 |
| NON-CURRENT | | |
| Income Tax | 18,882 | 18,882 |

14. Provisions

| | | | |
|--|------|----------------|----------------|
| CURRENT | | | |
| Employee Entitlements | 2(c) | 207,806 | 207,806 |
| Other | | | |
| - Bonus | | 88,472 | 88,472 |
| - Tithe | | 46,266 | 46,266 |
| | | <u>342,544</u> | <u>342,544</u> |
| NON-CURRENT | | | |
| Employee Entitlements | 2(c) | 14,775 | 14,775 |
| (a) Aggregate employee Entitlements Liability | | 222,581 | 222,581 |
| (b) Number of full time equivalent employees at year end | | 31 | 27 |

15. Contributed Equity

| | | |
|---|----------------|------------------|
| Fully paid Ordinary shares at the beginning of the financial year | | |
| 642,395 shares | 525,299 | 525,299 |
| 118,590 shares issued during the year | 1,761,084 | 1,761,084 |
| 93,750 Ordinary Shares Issued under the Offer | — | 1,500,000 |
| Expenses of the Offer | — | (210,000) |
| | <u>760,985</u> | <u>2,286,383</u> |
| | | <u>3,576,383</u> |

16. Retained Profits

| | | |
|---|----------------|----------------|
| Retained Profits at the beginning of the financial year | 257,711 | 257,711 |
| Net Profit Attributable to Members of the Parent Entity | 353,276 | 353,276 |
| Dividends paid 10.0 cents per share | (64,684) | (64,684) |
| Retained Profits at the end of the Financial Year | <u>546,303</u> | <u>546,303</u> |

17. Events Subsequent to Balance Date

Since 30 June, 2002, no material events that may have an impact on these financial statements have occurred.

18. Related Party Transactions

- (a) There are no related party transactions except for the following – Other Interests of Directors in a Contract with the Controlling Entity –

Three Directors, Caroline Le Couteur (through cdg Computer Services Pty Ltd), Trevor Lee (through Sun Conscious Design) and Howard Pender (through Wandoo Economics), have contracts with the controlling entity for the provision of management and software development services as required.

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

Directors Interests (including Related Parties) in Shares of the Company

| | | |
|--------------|--------|-----|
| A Clark | 68,217 | Ord |
| R De Lucia | Nil | |
| C Le Couteur | 41,316 | Ord |
| T Lee | 52,271 | Ord |
| H Pender | 55,890 | Ord |
| G Pooley | Nil | |
| J Thier | 58,213 | Ord |

19. Economic Dependence

The economic 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 Superannuation Fund.

20. 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 Superannuation Fund.

21. Liabilities and Assets of Superannuation Fund and Trusts

| | ACTUAL 2002 \$ | PRO FORMA 2002 \$ |
|---|----------------------|-------------------------|
| Liabilities of the Superannuation fund and trusts for which the economic entity is trustee but not shown in the financial statements of the economic entity were: | | |
| Current Liabilities: | | |
| Payables | 3,079,940 | 3,079,940 |
| Provisions | 1,653,273 | 1,653,273 |
| Total Liabilities | <u>4,733,213</u> | <u>4,733,213</u> |
| Rights of indemnities for liabilities incurred by the economic entity not recorded in the financial statements were: | 4,733,213 | 4,733,213 |

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

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

22. Capital Commitments

| | | |
|---------------------------------|-----|-----|
| Capital Expenditure Commitments | | |
| Contracted for | Nil | Nil |

This section identifies the areas the directors regard as the major risks associated with an investment in AEI. Investors should be aware that an investment in AEI involves many risks which may be higher than the risk associated with an investment in other companies. AEI's share price may be subject to significant volatility. Intending subscribers should read the whole of this Prospectus in order to fully appreciate such matters and the manner in which AEI intends to operate before any decision is made to subscribe for Shares.

AEI's business activities are subject to risk factors both specific to its business activities and that of a general nature. Individually, or in a combination, these may affect the future operating performance of AEI and the value of an investment in AEI. Some of these factors can be mitigated by appropriate commercial action, but many are outside of the control of AEI's directors and management and cannot be mitigated. There can be no guarantees that AEI will achieve its stated objectives or that any forward-looking statements or forecasts will eventuate. An investment in AEI should be considered speculative and before making an investment in AEI, prospective investors should consider a number of factors contained within this section and also other information contained within this Prospectus. The principal risk factors include, but are not limited to, the following:

8.1 INVESTMENT RISK

Potential investors need to be aware that the value of AEI's shares could fall as well as rise. There is no guarantee that AEI's shares will provide an investor with any particular return, or indeed that the shares will have any particular value over time.

8.2 ECONOMIC RISK

AEI's performance may be affected by changes in the general economic climate. In particular, changes in interest rates, Australia's economic growth rates, the level of disposable income in Australian households, Australian and international stock market trends, exchange rates and remuneration trends may all affect AEI's performance.

8.3 COMPETITORS

AEI competes with other institutions in the ethical investment market. As the market grows, it is likely that levels of competition will also rise. This could affect

AEI's ability to reach its FUM targets, and therefore its revenue and profitability targets.

However, while increased competition could affect AEI's financial performance, it is also the case that an increase in competition is likely to be (in part at least) due to an increase in overall market size.

8.4 DAMAGE TO REPUTATION

AEI's view is that it currently enjoys a reputation of being the most ethically rigorous player in the ethical investment sector. Similarly, it regards itself as the most proactive in generating economic change through its loans and unlisted equity portfolios. Loss of this reputation, or a similar reputation being established by a larger competitor could have a material impact on AEI's business.

8.5 ADVISORY INDUSTRY

Financial advisors are generally reluctant to recommend that their clients invest in managed funds where the fund manager is relatively small, and this applies to AEI. However, this factor has not, to date, stopped AEI's FUM from growing significantly. Capital raised through this offer will assist AEI to further develop its administrative and management information systems that will, to some extent, ameliorate this risk.

8.6 ADMINISTRATIVE AND MANAGEMENT INFORMATION SYSTEMS

AEI's ability to retain and attract investors to the unit trusts depends in part on its ability to effectively manage unit holder's interests and the investments made by the unit trusts. Significant increases in FUM may create a challenge for AEI's existing systems. If internal management or information technology systems fail, unit holders may exit and new investors may be difficult to attract.

8.7 KEY PERSONNEL

AEI is reliant on a number of key personnel that have been employed by the Company for a number of years. If such personnel were to leave, it could affect AEI's internal performance, and may impinge upon the willingness of financial advisors to recommend investment in the unit trusts. This risk is reduced in two

ways. Firstly, the key personnel are also significant shareholders in the Company, and therefore have a strong incentive for it to be financially successful. Secondly, with Company staff growth, corporate knowledge and relationships will be spread over a greater number of staff, with less reliance on any particular staff member. AEI's employment arrangements and the employee share options plan also provide incentives to staff to remain in the Company's employment.

8.8 EXTERNAL SUPPLIERS

AEI uses the custodial services of Sandhurst Trustees Ltd for its managed funds and superannuation fund. For the superannuation fund, AEI also uses the administrative services of United Funds Management Ltd. It also uses information services and relies on software vendors for the support of some of its business systems. A failure in the continuance of these services could have a material impact on AEI's business. However, AEI has no reason to believe that its external suppliers will not be able to continue to provide services to it in the future.

8.9 INVESTMENT PERFORMANCE

AEI's ability to attract and retain investors in the unit trusts depends upon the financial performance of the trusts. Poor investment performance or a loss of investor's money could seriously affect the ability of the Company to increase FUM which will affect revenue and profitability.

8.10 FEES

AEI competes in the general market place for investment funds. While potential investors in the unit trusts will typically be seeking specific ethical investment opportunities, AEI fee ratios need to remain relatively competitive with the general market. In a competitive environment, there is a risk of downward pressure on fees, and therefore on potential revenues and profitability.

8.11 GOVERNMENT REGULATION

The financial services sector is heavily regulated. It is also an area where the regulatory environment continues to change within relatively short legislative cycles. There is a risk that future legislative requirements will alter the ability of AEI to trade profitably or at all. At the present time, AEI believes that it can meet all current and prospective legislative requirements while remaining commercially viable.

In particular, AEI notes that the *Financial Services Reform Act 2001* (which commenced on 11 March 2002) will require the Company to obtain an Australian Financial Services Licence ('AFSL') by no later than 11 March 2004 to be able to continue its current business activities beyond that date. In some situations AEI may need to obtain an AFSL prior to 11 March 2004. To obtain an AFSL, AEI needs to apply to ASIC. While AEI believes that ASIC will grant an AFSL to it that will allow it to conduct its business, there is nonetheless a risk that ASIC will not grant an AFSL to AEI or will grant an AFSL that inhibits AEI from conducting its current business activities into the future.

It should be noted that shifts in government regulation can have potentially positive effects on AEI's business. For example, if legislation was enacted that allowed employees a choice of superannuation fund (which has been discussed for some time), AEI's expectation is that the membership of its superannuation fund would increase, thereby having a positive impact on its business.

8.12 PORTFOLIO DIVERSIFICATION

AEI believes that adherence to the Australian Ethical Charter is a significant market differentiator that ideally positions it to take advantage of future ethical investment growth in Australia. However, adherence to the Charter also restricts the ability of AEI to diversify the trust investment portfolios into some companies and sectors open to other investment funds, e.g. alcohol and gambling. If businesses meeting the Charter provide lower returns relative to the market as a whole, this means that unit holders in the trusts will receive lower returns in comparison to investors prepared to include those businesses or sectors in their portfolios. This could affect AEI's ability to retain and attract investors and hence its ability to reach FUM, revenue and profit targets.

8.13 EVENTS IN THE UNITED STATES ON 11 SEPTEMBER 2001 AND CURRENT SPECULATION ABOUT A WAR WITH IRAQ

The attacks on the United States of 11 September 2001, and events and responses subsequent to those attacks (including the possibility of a war between the United States and Iraq), create a potentially uncertain environment for investors and business. While at this stage AEI does not expect those events will have a materially adverse impact on its business, there is a risk that if terrorist attacks occur in the future, or if a war is declared between the United States and Iraq, global equity markets and business generally will be negatively affected, and this may have a material impact on AEI's business and possibly on whether AEI proceeds with the Offer.

9.1 INCORPORATION

On 4 November 1986, the Company was incorporated as Directed Financial Management Limited, a public company limited by shares. Since its initial incorporation date, the Company has changed its name twice:

- 23 December 1992 - August Financial Management; and
- 20 June 1995 - Australian Ethical Investment Ltd.

9.2 COMPANY TAX STATUS

The directors expect that AEI will be taxed in Australia as a public company.

9.3 CORPORATE GOVERNANCE POLICIES OF AEI

The directors have adopted practices and procedures for the corporate governance of AEI. These practices and procedures will establish the framework of how the directors carry out their duties and discharge their obligations.

9.3.1 Board of Directors and its Composition

The Board currently consists of a non-executive Chair, 1 non-executive director and 5 executive directors. All 5 executive directors have been directors since 1991. The extent of their participation in the day-to-day work of the Company varies from very part-time to full-time. The Company is required by its Constitution to:

“...order its affairs so as to provide for and support:

- (a) the development of worker's participation in the ownership and control of their work organisations and places;...”

As a consequence a staff advocate attends parts of AEI Board meetings (but has no power to vote).

The Board is responsible for the overall Corporate Governance of AEI. The Board acts on behalf of the shareholders and is accountable to the shareholders and seeks to identify the expectations of shareholders as

well as other regulatory and ethical expectation and obligations. The Board is responsible for identifying areas of significant business risk and ensuring mechanisms are in place to adequately manage those risks. In addition the Board sets the overall strategic goals and objectives and monitors achievement of goals.

The responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officer and senior staff. The Board ensures this team is appropriately qualified to discharge their responsibilities. The board sets the remuneration of the Chief Executive Officer.

The Board ensures management's objectives and activities are aligned with the expectations and risks identified by the Board through a number of mechanisms including the following:

- 1 establishment of the overall strategic direction and leadership of AEI;
- 2 approving and monitoring the implementation by management of AEI's strategic plan to achieve those objectives;
- 3 reviewing performance against its stated objectives, by receiving regular management reports on business situation, opportunities and risks;
- 4 monitoring and review of AEI's controls and systems including those concerned with regulatory matters to ensure statutory compliance and the highest ethical standards; and
- 5 review and adoption of the annual budget and monitoring the results against stated targets.

The Board considers corporate governance to be an important element of its responsibilities. It meets regularly throughout the year.

9.3.2 Committees

In order to assist the Board in its tasks, the Company has the following Committees:

- Audit Committee;
- Finance Committee;
- Compliance Committee; and
- Investment Committee.

9.3.2.1 Audit Committee

The Audit Committee is responsible for monitoring, managing, reporting on and making recommendations to the Board regarding the internal control of AEI (as a trading company). It is currently comprised of two non-executive directors. The committee is not responsible for AEI's duties and obligations as a funds manager. It is responsible for:

- assessment of the adequacy and effectiveness of internal controls over the Company's accounting and financial reporting systems, including controls over computerised systems;
- review of the audit plans, recommendations and performance of the external auditor; and
- evaluating the extent to which the planned scope of the audit can be relied upon to detect weaknesses in internal control, fraud and other illegal acts.

9.3.2.2 Finance Committee

The Finance Committee is responsible for monitoring, managing, reporting on and making recommendations to the Board regarding the financial prosperity of AEI. It is currently comprised of two executive directors, the CEO and the Financial Controller. It is responsible for:

- oversight of the budget development process and budget preparation;
- reviewing financial trends, claims & contingencies;
- examining proposals for unanticipated or abnormal expenditure programs and making recommendations to the Board on such proposals; and
- "trading company" statutory compliance and, once listed, compliance with the ASX listing rules.

9.3.2.3 Compliance Committee

The Compliance Committee is not a Committee of the Board. AEI is required to have a Compliance Committee under the *Corporations Act 2001* because it does not have a majority of external directors. The unit trusts managed by AEI are established under a Trust Deed and operated subject to a Compliance Plan. The Compliance Plan describes the method by which AEI will ensure the unit trusts are operated according to the *Corporations Act 2001* and the trust's own Constitution.

In order to ensure that the unit trusts are operated and administered in accordance with the Constitution and the *Corporations Act 2001*, AEI has appointed a Compliance Committee. The membership of the Committee is George Pooley (Chair of AEI's Board), Rod Griffiths and

Ruth Medd. Since 12 November 1999, the Compliance Committee has met quarterly to carry out its functions and to review reports written by the Compliance Officer and other Company employees. The Committee will continue to meet quarterly into the future.

9.3.2.4 Investment Committee

It is the responsibility of the Investment Committee to invest monies of the unit trusts for which AEI is the responsible entity. In addition, the Investment Committee is responsible for accurately valuing the property of the unit trusts. Valuation is undertaken in accordance with the Compliance Plan. For each Trust, the Board approves a specific "mandate" setting out risk and return objectives and reporting obligations. The Committee's membership is set out in section 5.6.

9.3.3 Superannuation

AEI's superannuation business is operated by AES. The Board of AES comprises the Chairperson of AEI and 2 other non-executive directors as well as 2 of the 5 AEI executive directors. The AES board is the Trustee of the Australian Ethical Superannuation fund.

9.3.4 Directors Access to Independent Professional Advice

For the purposes of the proper performance of their duties, directors are entitled to seek independent professional advice at AEI's expense, unless the Board determines otherwise.

9.3.5 Appointment and Retirement of Directors

The Constitution of AEI provides for 1/3 of the number of directors to retire each year. They may stand for re-election.

9.3.6 Committees Generally

It is the Board's policy that Committees should:

- be entitled to obtain such resources and information from AEI including direct access to employees of and advisers to AEI as they may require; and
- operate in accordance with terms of reference established by the Board (in the cases of the Audit Committee, Finance Committee and the Investment Committee). The operation of the Compliance Committee is governed by the *Corporations Act 2001*.

9.3.7 Continuous Disclosure Protocol

At present AEI is an "unlisted disclosing entity" pursuant to section 111AL of the *Corporations Act 2001*. As such AEI has existing procedures to deal with its on-going disclosure obligations. Once listed, AEI will become a "listed disclosing entity". AEI will be required to disclose to the ASX any information concerning AEI which a reasonable person would expect to have a material effect on the price or value of securities of AEI, unless certain exemptions from the obligation to disclose apply. To enable it to meet its obligations, AEI has appointed the Company Secretary as Disclosure Officer. The Disclosure Officer will be required to collate and, where appropriate, disclose share price sensitive information.

9.3.8 Identification and Management of Significant Business Risk

The Board has identified the significant areas of potential business and legal risk for AEI.

The identification, monitoring and, where appropriate, the reduction of significant risk to AEI are monitored by the Board and are more particularly described in section 8.

The Board reviews and monitors the parameters under which such risks will be managed.

9.3.9 Annual Review

It is the Board's policy that the Board should at least every 2 years review:

- its performance and that of management; and
- the allocation of work between the Board and management.

9.3.10 Ethical Standards and Share trading

AEI recognises the need for directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity or share trading. The AEI code of conduct requires that "as a general rule (staff and directors) should not buy and sell AEI shares between the close of the financial year, or half-year and the announcement of our results."

9.3.11 Equity Participation by Directors and Staff

Reflecting a number of provisions in the Constitution, the Board encourages staff to own shares. There are two ways the Company encourages staff share ownership. Firstly, prior to recommending a dividend, the Board is required to consider the payment of a staff bonus. The Constitution provides that this bonus can be (and it often has been) satisfied by the issue of Shares. The bonus is divided so that all full-time staff and executive directors get an equal share, (part-time staff receive a pro-rata share). For further details see sections 1.6 and 9.7.2

The Company also has an employee share ownership plan for staff and executive directors under which options are granted. The plan is described in detail in section 9.8.

There has recently been substantial commentary, particularly in the United States, about the accounting treatment of option schemes. Accounting standards have not yet been changed to reflect the criticism that option grants should be treated as an employment expense. There are international proposals that when staff fully own options the market value of the grant should be treated as an expense. AEI accounts presented in this document do not use such a proposed treatment (because they are required to comply with current Australian accounting standards). Even if proposed standards had been introduced in Australia it is unlikely any of the figures presented in this document would be materially affected. There are two reasons:

- firstly, staff will not fully own any options until the 2004/2005 financial year;
- secondly, all options are issued 10% "out of the money", i.e. staff have to pay 10% more than the share price at the date of the grant of the options, when they exercise the options. As a consequence their market value stems solely from the possibility the share price will increase.

9.4 LEGAL PROCEEDINGS

Except as set out below, the directors are not aware of any litigation of a material nature pending or threatened which may significantly affect the business of AEI.

9.4.1 Proceedings against AEI as a trading company

AEI is not aware of any claim or proceeding against it which would have a material effect on its business.

9.4.2 Proceedings against AEI as Single Responsible Entity ('SRE')

In its capacity as responsible entity for the unit trusts, AEI has from time to time been threatened with legal action in respect of certain transactions, such as when it seeks to enforce its security for a loan that is in default. The Company believes that there is no such action currently on foot that would be likely to succeed, although there is one current matter in which such a threat has been made.

Investors should note that under clause 8.6 of the constitutions of the unit trusts, AEI, as SRE of the unit trusts, is indemnified out of the assets of the trust in respect of any loss, cost expense or other liability which may arise in performance of its duties except where it fails to act honestly, is otherwise in breach of its duties under the *Corporations Act 2001* or intentionally or recklessly fails to exercise the degree of care or diligence that it was required to exercise.

9.5 MATERIAL CONTRACTS

The directors consider that certain contracts are significant or material to AEI or are of such a nature that an investor may wish to have particulars of them when making an assessment of whether to apply for Shares ('Material Contracts').

The main provisions of the Material Contracts are summarised below.

9.5.1 Agreement with Ascalon Capital Managers Ltd

The Company entered into an Investment Agreement with Ascalon, Trevor Lee, Alistair Clark, Howard Pender, James Thier and Caroline Le Couteur on 7 December 2001. Under the agreement, Ascalon agreed to subscribe for 114,148 fully paid ordinary shares in the Company at \$15.00 per share.

By way of subscription notice dated 14 December 2001, the Company required Ascalon to subscribe for the shares. On 17 December 2001, Ascalon subscribed for and was allotted 114,148 fully paid ordinary shares in the Company in consideration for payment of \$1,712,220.

Under the agreement, the Company was required to appoint Raymond De Lucia as a Director of the Company.

Subject to the Constitution of the Company, and for so long as Ascalon holds not less than 10% of the issued capital of the Company, the Company and the shareholders who are parties to the agreement must use their reasonable endeavours to ensure that:

- an Ascalon nominee does not cease to hold a directorship;
- the functions of the directorship are not materially altered,

unless Ascalon approves beforehand or the law requires it.

At a General Meeting held on 28 February 2002, Raymond De Lucia was elected as a director of the Company by Shareholders.

For so long as Ascalon holds not less than 10% of the issued capital of the Company, Board consent is required for the Company to do certain acts.

The Company has provided a number of warranties to Ascalon under the agreement. Those warranties can only be actioned by way of written notice within 12 months of the date of the agreement (24 months in respect of some warranties).

In the event that the Board of the Company proposes to list the Company, the parties have agreed that notwithstanding any other provision of the agreement, nothing contained in the agreement shall prevent the listing of the Company and the agreement shall be amended to the extent required by the Australian Stock Exchange to allow listing to proceed.

9.5.2 Agreement for Services with Ascalon Operations and Services Pty Limited ACN 095 283 186 ("AOSPL")

The Investment Agreement discussed in the sub-section above was subject to a condition precedent requiring the Company to enter into an Agreement for Services with AOSPL.

The Company entered into such an agreement on 7 December 2001.

The recital to the agreement states that AOSPL has agreed to provide certain services to the Company (funds administration services) in the event the Company executes an Investment Management

Agreement or where AOSPL has agreed to provide these services for other funds managed by the Company.

"Investment Management Agreement" is defined as a contractual agreement between AOSPL and the Company for the Company to provide investment management services to AOSPL substantially in the form of the Investment and Financial Services Association investment management agreement.

The Company and AOSPL have entered into an Investment Management Agreement (see below) and hence the Agreement for Services has been activated.

9.5.3 Investment Management Agreement with Ascalon Operations and Services Pty Limited ACN 095 283 186 ("AOSPL")

On 12 September 2002 the Company and AOSPL entered into an Investment Management Agreement substantially in the form of the Investment and Financial Services Association investment management agreement.

Under the agreement, the Company will invest and manage the Ascalon Ethical Fund.

9.5.4 Agreements with The Centre for Australian Ethical Research Pty Ltd ACN 101 201 905 ('CAER P/L')

AEI and CAER P/L have entered into the following agreements:

- AEI will loan approximately \$400,000 to CAER P/L over three years to enable CAER P/L to establish itself. The loan will be repayable over fifteen years from the date of the last drawdown, which is scheduled for August 2005. Security for the loan is a combination of a fixed and floating charge over CAER P/L's assets and CAER P/L's shareholders agreeing to provide their CAER P/L shares as security. While the balance of the loan exceeds \$20,000, AEI is entitled to appoint a director to CAER P/L's Board (one director out of a maximum of five);
- CAER P/L will, under a consultancy agreement, provide ethical research services to AEI for some years. AEI will pay CAER P/L 0.065% per annum of its FUM for provision of the services; and
- AEI will, under a facilities and administration services agreement, provide office space and administrative support to CAER P/L for some years on a cost recovery basis

9.5.5 Agreement with Australian Ethical Superannuation Pty Ltd ACN 079 259 733 ('AES')

AEI and AES entered an agreement in June 1998. In the agreement, AEI agrees to provide administration, promotional and other services to AES. AES agrees to pay for these services at the cost to AEI of providing them.

For the term of the agreement, AEI guarantees all debts and liabilities of AES to the level of \$100,000 and to this level AEI will meet any deficiency of funds and meet any debts or liabilities, short or long term.

9.6 SHARE CAPITAL

As at the date of this Prospectus, AEI has the following capital structure. It has approximately 140 Shareholders and 35 option holders.

| | Number |
|-----------------------------------|---------|
| Total issued capital | 763,702 |
| Options over fully paid-up Shares | 69,888 |

Substantial Shareholders in AEI as at the date of this Prospectus are set out in the following table.

| Holder | Number of Shares |
|------------------------------|------------------|
| Ascalon Capital Managers Ltd | 114,148 |
| Trevor Roland Lee | 52,297 |
| Alistair David Clark | 52,023 |
| Howard Pender | 49,945 |
| James Thier | 44,509 |
| Caroline Le Couteur | 41,497 |

9.6.1 Shares and Options held by Directors

Section 9.10 sets out the Share and option holdings of the directors.

9.6.2 Options

AEI has 69,888 options on issue. These options have been issued to employees under AEI's Employee Share Ownership Plan as is further described in section 9.8. The terms and conditions attaching to such options are also described in that section.

9.7 AEI'S CONSTITUTION

The following is a broad summary (though not an exhaustive or definitive statement) of the Constitution of AEI adopted by shareholders on 28 November 2001.

A copy of the Constitution will be provided by the Company upon request.

9.7.1 Voting

Subject to restrictions on voting from time to time affecting any class of shares, and to the paragraphs set out immediately below, at general meetings of members, a member present in person or by proxy or by attorney under power, or in the case of a corporation by its duly authorised representative, has one vote on a show of hands and, on a poll, one vote for each fully paid share held.

If a member has appointed more than one person as authorised representative, proxy or attorney, then none of those appointees is entitled to vote on a show of hands.

Where a person is entitled to vote in more than one capacity (for example as a member and as a proxy) that person is entitled to only one vote on a show of hands.

At the date of this Prospectus, there are no voting restrictions on the Shares.

9.7.2 Dividends

The directors before recommending any dividend to be paid out of the profits of any one year must have first:

- 1 paid to current employees, or other persons performing work for the Company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted;
- 2 gifted an amount equivalent to ten percent (10%) of what the profit for that year would have been had not the abovementioned bonus and amount gifted been deducted. The abovementioned amount shall be gifted to a non-profit organisation for any useful charitable, benevolent or conservation purpose, providing however that the Company, its employees and shareholders do not receive any immediate material benefit nor its directors any personal benefit. Directors who hold office in non-profit organisations

to which it is proposed the Company makes such tithe shall not be entitled to vote on the disposition of monies to that particular organisation.

Subject to the above and the rights of the persons (if any) entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid on the shares in respect of which the dividend is paid.

The directors may in lieu of paying a bonus or an incentive payment to employees or others issue to any employee or person performing work for the Company Shares in the Company. Shares are to be issued at a price which, in the opinion of the directors, reflects the current market value of the Shares.

The Company's policy for determining current market value is set out in section 9.9.

The operation of the bonus and tithe is discussed in detail in section 1.6.

9.7.3 Rights on Winding Up

9.7.3.1 Distribution in kind

If the Company is wound up, whether voluntarily or otherwise, the liquidator may divide among all or any of the contributories as the liquidator thinks fit in specie or kind any part of the assets of the Company, and may vest any part of the assets of the Company in trustees on any trusts for the benefit of all or any of the contributories as the liquidator thinks fit.

9.7.3.2 Variation of rights of contributories

If thought expedient, any division may be otherwise than in accordance with the legal rights of the contributories and, in particular, any class may be given preferential or special rights or may be excluded altogether or in part, but in case any division otherwise than in accordance with the legal rights of the contributories is determined, any contributory who would be prejudiced by the division has a right to dissent and ancillary rights as if the determination were a special resolution passed under the *Corporations Act 2001* relating to the sale or transfer of the Company's assets by a liquidator in a voluntary winding up.

9.7.4 Transfer of Shares

Except where required by law or the Constitution and subject to the Listing Rules, there are no restrictions on the transfer of shares of any class.

9.7.5 Issue of Further Shares

Subject to the provisions of the Constitution and the *Corporations Act 2001*, the directors may allot or otherwise dispose of further shares on such terms and conditions as they see fit without affecting any special rights conferred on the holders of any shares.

9.7.6 Proportional Takeover Provisions

Provisions prohibit the registration of any transfer of shares giving effect to an offer made under a proportional takeover scheme (that is, an offer for some but not all of a member's shares in the Company) until the members of the Company have passed an ordinary resolution approving the scheme. The offerer and any associates of the offerer are excluded from voting on that resolution. To remain effective, these provisions must be renewed by the Company in general meeting every three years.

9.7.7 Composition of the Board

The Company must have between 3 and 10 directors. At every Annual General Meeting at least one third (other than the Managing Director) must retire from office. A Director (other than a Managing Director) must retire from office at the conclusion of the third annual general meeting after which the Director was elected or re-elected. A retiring Director is eligible for re-election.

9.8 EMPLOYEE SHARE OWNERSHIP PLAN

Each year a pool of options which, if exercised, would amount to 5% of the existing ordinary share capital is issued to staff (including executive directors). Staff pay no consideration for the options and the options are exercisable at a price 10% in excess of the market price of the Shares, as determined by the directors. The Company's policy for determining current market value is set out in section 9.9.

Options are not exercisable for a period of three years from their date of grant.

Options issued under the plan lapse if an option holder is no longer an employee of AEI for any reason. The Board may, however, in its absolute discretion, allow a previous employee to retain their options under the scheme where the Board considers that to do otherwise would be substantially unfair to the employee, given the circumstances that surround their cessation of employment

After the three year period, the options must be exercised within three months.

Options are not transferable. Shares acquired upon the exercise of the options will be ordinary shares, without any further restrictions or conditions.

All staff may choose to receive options but there is a loading based on pay levels so that higher-paid full time staff receive proportionally more.

In addition to the above terms, if AEI is admitted to and remains on the official list of the ASX, the options issued under the plan shall have following additional terms:

- if at any time AEI undergoes a reorganisation of capital, the terms of the options and the rights of the option holder will be changed in a manner fair and reasonable to the parties and to the extent necessary to comply with the ASX Listing Rules in force at the time of that reorganisation;
- no option shall confer on its holder the right to participate in a new issue of securities made by AEI;
- if AEI makes a bonus issue of ordinary shares to holders of ordinary shares (other than an issue in lieu or satisfaction of dividends or by way of dividend reinvestment) the number of ordinary shares over which the option is exercisable may be increased by the number of ordinary shares which the option holder would have received if the option had been exercised before the record date for the bonus issue;
- if there is a pro rata issue (except a bonus issue) to the holders of ordinary shares, the exercise price of an option may be reduced according to the formula set out in ASX Listing Rule 6.22.2.

Details of options currently on issue under the Employee Share Ownership Plan are set out in section 1.5.

9.9 DETERMINATION OF CURRENT MARKET VALUE FOR THE EMPLOYEE SHARE OWNERSHIP PLAN AND FOR THE ISSUE OF SHARES IN LIEU OF BONUS

The following term is included in the current Employee Share Ownership Plan:

"The exercise price of the options will be the current market value of the underlying shares, as determined by the Board for the ESOP scheme, plus 10%."

AEI's Constitution contains the following rule:

The directors may in lieu of paying a bonus or an incentive payment to employees or others under Rule 15.1(c)(i) issue to any employee or person performing work for the Company shares in the Company. Shares are to be issued at a price which, in the opinion of the directors, reflects the current market value of the shares.

The Company's policy for determining the current market value of Shares for the purposes of the ESOP and the issue of Shares in lieu of bonus is as follows:

Where the Company's Shares are listed on the ASX the market value of the Shares shall be the weighted average sale price of the Shares over the five ASX trading days immediately preceding the date of grant or issue.

The calculation of the weighted average sale price will only include arm's length sales. The calculation may also exclude any day during which trading patterns do not represent the Company's normal trading patterns.

If the Shares of the Company are not traded on the ASX during any of the five ASX trading days immediately prior to the grant or issue the market value of the Shares will be a price determined by the Board using some other method it considers appropriate to calculate the market value with due regard to ASX trading in the Company's Shares and the Company's circumstances.

9.10 DIRECTORS' INTERESTS

The nature and extent of the interest (if any) that the directors of the Company hold, or held at any time during the last 2 years in:

- 1 the formation or promotion of the Company;
 - 2 property acquired or to be acquired by the Company in connection with:
 - (a) its formation or promotion; or
 - (b) the Offer; or
 - 3 the Offer,
- is set out below.

The amount (if any) that anyone has paid or agreed to pay, or the nature and the value of any benefit anyone has given or agreed to give to a Director of the Company, or proposed Director of the Company:

- 1 to induce them to become, or to qualify as, a Director of the Company; or
- 2 for services provided by a Director in connection with:
 - (a) its formation or promotion; or
 - (b) the Offer

is set out below.

9.10.1 Loans from Directors' associates

In the last two years the following loan facilities have been made available by directors' associates to AEI.

On 14 June 2001, the Company entered into four subordinated loan agreements whereby related parties agreed to lend the Company up to \$125,000. The loan facilities were provided by the following individuals:

Judy Henderson – \$25,000

Enid Le Couteur – \$50,000

Daisy Thier (1) – \$25,000

Daisy Thier (2) – \$25,000

These loan facilities were discharged in February 2002 and any loans provided under them were also fully repaid by that time.

9.10.2 Personal Guarantees by Directors

The directors have not provided any personal guarantees in respect of obligations of the Company.

9.10.3 No Shareholding Qualifications

The directors are not required to hold any shares in AEI under the Constitution of the Company.

9.10.4 Remuneration of Directors

9.10.4.1 General

As remuneration for services, each director may be paid out of the funds of the Company an amount determined by the Board payable at the time and in the manner determined by the Board. The aggregate remuneration paid to all the directors in any one year must not exceed an amount fixed by the Company in general meeting from time to time. In the 2002 financial year, aggregate remuneration paid for the services of directors as directors (for both AEI and AES) was \$109,189, although \$15,000 of this amount related to services provided during the 2001 financial year. The expression "remuneration" in this paragraph does not include any amount which may be paid by the Company under the paragraphs set out below.

9.10.4.2 Expenses

The directors are entitled to be paid reasonable travelling, hotel and other expenses properly incurred by them in attending meetings of the Company or of the Board or of any committee of the Board, or in connection with the Company's business.

9.10.4.3 Remuneration for extra services

Any director who serves on any committee, or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a director, may be paid extra remuneration as determined by the Board.

9.10.4.4 Retirement benefits

Any director may be paid a retirement benefit, as determined by the Board, in accordance with the *Corporations Act 2001*. The Board may make arrangements with any director with respect to the payment of retirement benefits in accordance with the Constitution. To date, no retirement benefit has been paid under the Constitution nor have any arrangements been made to pay one in the future.

9.10.4.5 Superannuation contributions

The Company may pay superannuation contributions for each director to the extent necessary for the avoidance or minimisation of any penalty, charge, tax, or other impost on the Company under any applicable legislation which imposes a penalty, charge, tax or other impost on employers if a minimum level of superannuation contributions are not paid for an employee (within the meaning of the legislation).

9.10.4.6 Executive directors

Each of Howard Pender, Alistair Clark, Trevor Lee, James Thier and Caroline Le Couteur as executive directors of the Company, receive a salary and other benefits as employees of the Company (some as part-time employees). The salary and the other benefits that each may receive are on commercial terms commensurate with the salary packages available to executive officers of public companies of a similar size and industry grouping to the Company.

9.10.5 Consulting Arrangements with Directors or Director-related entities

The Company has had in the past consulting arrangements with the following directors or director-related entities:

- Trevor Lee;
- Wandoo Economics Pty Ltd, a company controlled by Howard Pender;
- CDG Computer Services Pty Ltd, a company that employs Caroline Le Couteur, for the provision of services by Caroline and other employees of CDG.

The aggregate payments made in respect of these consulting arrangements during the 2002 financial year was \$129,863 (exclusive of GST).

The Company has a continuing contract with CDG Computer Services Pty Ltd for the provision of services until 1 August 2003.

The Company also has a continuing contract with Wandoo Economics Pty Ltd. Wandoo has performed work from 1 July 2002 to the date of this Prospectus and the Company estimates that such work may amount to approximately \$7000 (exclusive of GST.)

9.10.6 Issues of shares and options to directors in lieu of director's fees

On 26 October 2001 the Company allocated 1,365 fully paid ordinary shares to executive directors for director's fees payable as at 30 June 2001 at a price of \$11 per share.

In the past, directors have also occasionally been issued with options in lieu of director's fees or cash remuneration for services. All such options have now been exercised or otherwise expired.

9.10.7 Directors Share and Option Holdings

Set out below are details of the interests of the directors in the securities of the Company immediately prior to lodgment of the Prospectus with ASIC. Interests include those held directly and indirectly.

| Director | Shares | Options (1) |
|---------------------------------|--------|-------------|
| Trevor Roland Lee | 52,297 | 291 |
| Alistair David Clark | 52,023 | 1,839 |
| Howard Pender | 49,945 | 981 |
| James Thier | 44,509 | 1,688 |
| Caroline Le Couteur | 41,497 | 2,218 |
| Frederick George Herbert Pooley | 0 | 0 |
| Raymond de Lucia | 0 | 0 |

Notes:

- (1) All options were issued under the Employee Share Ownership Plan described in section 9.8.

Interests held by directors jointly with others are as follows:

| Director | Shares | Options |
|----------------------|--------|---------|
| Alistair David Clark | 16,312 | 0 |

Interests held by other related parties are as follows:

| Person | Shares | Options |
|---|--------|---------|
| Mrs Daisy Thier (parent of James Thier, Director) | 13,849 | 0 |
| Robyn Pender (spouse of Howard Pender, Director) | 6,031 | 0 |

The directors may subscribe for Shares under this Prospectus.

9.10.8 Indemnity and Insurance

In accordance with the Constitution of the Company and to the extent permitted by law:

- 1 AEI will indemnify the directors and officers for any liability to persons other than AEI or its related bodies corporate that they may incur while acting in the capacity of an officer of AEI;
- 2 AEI may pay insurance premiums in respect of a contract insuring directors and other officers of AEI or its subsidiaries against any liability incurred by those directors or officers in their capacity as officers with AEI or its subsidiaries, except in circumstances prohibited by the *Corporations Act 2001*.

9.11 INTERESTS OF PROFESSIONALS, ADVISERS AND PROMOTERS

The nature and extent of the interests (if any) that:

- 1 a person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;
- 2 a promoter of the Company; or
- 3 a stockbroker or underwriter (but not a sub-underwriter) to the Issue,

holds, or held at any time during the last 2 years in:

- (a) the formation or promotion of the Company;
- (b) property acquired or to be acquired by the Company in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offer; or

- (c) the Offer,

is set out below.

The amount that anyone has paid or agreed to pay, or the nature and value of any benefit anyone has given or agreed to give for services provided by:

- 1 a person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;
- 2 a promoter of the Company; or
- 3 a stockbroker or underwriter (but not a sub-underwriter) to the Issue;

in connection with:

- 4 the formation or promotion of the Company; or
- 5 the Offer,

is set out below.

9.11.1 Investigating Accountants' Report

Thomas Davis & Co. has prepared the Investigating Accountant's Report and has performed work in relation to due diligence enquiries concerning the historical financial information included in the Prospectus. The Company has agreed to pay estimated fees of \$20,000 for this work (exclusive of GST).

Thomas Davis & Co. has also acted as AEI's auditor and tax agent since 1 July 2000. Since that time, the Company has paid Thomas Davis & Co. for performing audits, acting as its tax agent and providing assistance in preparing financial statements, upon commercial terms and rates.

9.11.2 Menzies George

Menzies George has acted for the Company as its legal adviser in respect of the Issue and has provided legal and management services to the Company in the period prior to the lodgment of the Prospectus. The Company has paid or agreed to pay estimated fees of \$100,000 for this work (exclusive of GST).

Menzies George has also provided other legal and management services to the Company over the last two years, upon commercial terms and rates.

9.12 HANDLING FEE PAYABLE

Applications made on Application Forms that bear the identification mark of an entity that is a member of the ASX or holds a dealers license issued by ASIC, may entitle that entity to receive a handling fee. This fee will be payable by the Company and will not be an additional charge on Applicants. Any fee payable will not exceed 5% of Application Money accepted in respect of an Application.

9.13 CONSENTS

Menzies George has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to be named in this Prospectus as solicitors to the Issue. Menzies George does not make any statement in this Prospectus, nor does any statement in this Prospectus purport to be based on a statement made by Menzies George and Menzies George takes no responsibility for any part of this Prospectus. Menzies George has not authorised or caused the issue of this Prospectus.

Thomas Davis & Co. has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to be named in this Prospectus as Investigating Accountants to the Issue and Auditor to AEI and to the inclusion of the Investigating Accountant's Report in the form and context in which it appears. Apart from the Investigating Accountant's Report and references to that report Thomas Davis & Co. does not make any statement in this Prospectus, nor does any statement in this Prospectus purport to be based on a statement made by it and Thomas Davis & Co. takes no responsibility for any other part of this Prospectus. Thomas Davis & Co. has not authorised or caused the issue of this Prospectus.

Registries Limited has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to be named in this Prospectus as Share Registry to AEI. Registries Limited does not make any statement in this Prospectus, nor does any statement in this Prospectus purport to be based on a statement made by Registries Limited and Registries Limited takes no responsibility for any part of this Prospectus. Registries Limited has not authorised or caused the issue of this Prospectus.

Sandhurst Trustees Ltd has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to the inclusion of certain statements made or purported to be made by it in section 8 of this Prospectus in the form and context in which they appear. Sandhurst Trustees Ltd has not authorised or caused the issue of this Prospectus.

United Funds Management Ltd has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to the inclusion of certain statements made or purported to be made by it in section 8 of this Prospectus in the form and context in which they appear. United Funds Management Ltd has not authorised or caused the issue of this Prospectus.

Ascalon Capital Managers Ltd has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to the inclusion of certain statements made or purported to be made by it in sections 1.8, 4.1 and 9.5 of this Prospectus in the form and context in which they appear. Ascalon Capital Managers Ltd has not authorised or caused the issue of this Prospectus.

Ascalon Operations and Services Pty Limited has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to the inclusion of certain statements made or purported to be made by it in section 9.5 of this Prospectus in the form and context in which they appear. Ascalon Operations and Services Pty Limited has not authorised or caused the issue of this Prospectus.

The Centre for Australian Ethical Research Pty Ltd has given and has not before lodgement of this Prospectus with ASIC withdrawn its written consent to the inclusion of certain statements made or purported to be made by it in sections 4.5 and 9.5 of this Prospectus in the form and context in which they appear. The Centre for Australian Ethical Research Pty Ltd has not authorised or caused the issue of this Prospectus.

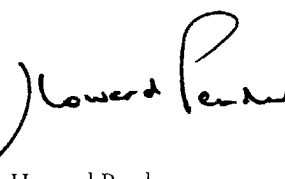
9.14 EXPENSES OF THE ISSUE

If the Issue proceeds, the total estimated costs of the Issue, including accounting fees, legal fees, lodgment fees, fees for other advisers, Prospectus design, printing and other miscellaneous expenses, will be approximately \$210,000 (excluding GST and any handling fees paid). These fees and expenses (and handling fees) are payable out of the proceeds of the Issue.

9.15 AUTHORISATION

This Prospectus is issued by Australian Ethical Investment Limited. Each Director has consented to the lodgment of this Prospectus with ASIC.

Signed on the date of this Prospectus on behalf of Australian Ethical Investment Limited by:



Howard Pender
Director

What is ethical investment?

Ethical investment has three dimensions:

- screening share portfolios;
- entering dialogue with companies (corporate engagement);
- making investments in community based financial institutions or making direct loans to foster local community development¹⁸.

AEI is one of the few organisations in the world which manages funds that undertake all three of these activities.

What is "portfolio screening"?

A lot of direct and pooled investment money flows to the stock market. Conventional investment houses managing stock-market portfolios will consider buying any stock, no matter what the activity of the company. By contrast, a "screened portfolio" includes or excludes stock based on particular social or environmental criteria. For example, a common screen is "no tobacco stocks".¹⁹

What screening techniques does AEI use?

All AEI screening is based on the Australian Ethical Charter set out at the beginning of this Prospectus. Unlike many "ethical" funds available in Australia, AEI uses both positive and negative screening. For example, not only does it exclude investment in companies involved in environmentally damaging activities, it actively seeks out businesses contributing positively to reduce human impact on the natural environment. AEI's screening process is "principle-based". It is not a rigid set of prescriptive black-letter statements. This enables AEI to deal with new issues as they arise.

How can a potential investor in a screened portfolio tell if the manager is applying the screen as the investor thinks it should be?

There are two ways the industry has addressed this issue. Some conventional fund managers have teamed up with, for example, not-for-profit or research organisations who vouch-safe the ethical attributes of the portfolio. The other

highly transparent approach used by AEI is to publish the names of all investee companies. The AEI unit trust prospectus sets out the names of investees with an ethical profile and reasons why AEI feels each investment satisfies the Charter. AEI encourages unitholders and potential unitholders to contact us and comment on any issue they have with the investments profiled. AEI gets a regular stream of very useful comment.

Can conventional (for profit alone) investment houses successfully offer ethical investment products in the long-term?

AEI doesn't know. At AEI, the "Ethical" is everywhere. AEI only offers ethical products. Consideration of the issues raised by the Australian Ethical Charter is a legal obligation bearing upon every decision relating to the operation of the Company, AES and all the funds managed.

Where does Australian Ethical fit in the "Ethical Investment Industry"?

AEI is at the "Deep Green", capital-E 'ethical' end of the ethical investment spectrum which goes from "basic negative screen, eg no tobacco or alcohol" to principle-based, positive and negative screen.

What is direct dialogue or corporate engagement?

Sometimes, as a shareholder, AEI "gets involved". For example, if an existing investee company undertakes activities which AEI feels is outside the Charter, AEI will inform that company's Board and management. If the company doesn't change the activity, AEI will sell the stock.

What sort of organisations does AEI provide "direct loans" to?

AEI provides loans to groups where it feels their goals accord with the principles in the Charter. Sometimes these groups are not-for-profit organisations, sometimes they are small businesses. In addition, AEI invests in some financial institutions which in turn provide community finance, for example, regional banks and credit unions. A fuller description of all the AEI trust investments is set out in the unit trust prospectus and superannuation offer document which can be obtained by contacting AEI.

¹⁸ Domini, *A Socially Responsible Investing* (Dearbourne, Chicago: 2001) p 19

¹⁹ Allen Consulting, *Socially Responsible Investment in Australia* (self published, Melbourne : 2000), p 10

The following definitions apply throughout this document unless the context requires otherwise.

AEI means Australian Ethical Investment Limited ABN 47 003 188 930.

AES means Australian Ethical Superannuation Pty Ltd ABN 43 079 259 733.

Applicant(s) means person(s) who submit(s) a valid Application Form pursuant to this Prospectus.

Application Form means a form so described accompanying copies of this Prospectus.

Application List means a list of members of the public who have applied for Shares under the Offer.

Application means a valid application for a specified number of Shares under this Prospectus.

Application Money means the amount required to be submitted with an Application, being the Offer Price multiplied by the number of Shares applied for.

ASIC means the Australian Securities and Investments Commission.

ASTC means ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532.

ASX means Australian Stock Exchange Limited ACN 008 624 691.

Board means the Board of directors of AEI.

Charter means the Australian Ethical Charter set out in this Prospectus.

CHESS means the ASX Clearing House Electronic Subregistry System operated by ASTC in accordance with the *Corporations Act 2001*.

Closing Date means 5.00 pm Australian Eastern Standard Time on 28 November 2002 or such other date as AEI may determine.

Company means Australian Ethical Investment Limited ABN 47 003 188 930.

Directors means the directors of AEI.

Dollar or \$ means Australian Dollars.

Exposure Period means the period between the date of lodgment of this Prospectus with ASIC and ending seven days after such lodgment, unless the period is extended by ASIC in which event it means the extended period.

Forecast means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared.

FTE means full-time equivalent.

FUM means funds under management.

HIN means a Holder Identification Number under CHESS.

Issue means the issue of 93,750 Shares pursuant to this Prospectus.

Listing means quotation of AEI's Shares on the ASX.

Listing Rules means the official Listing Rules of the ASX.

Offer means the invitation made in this Prospectus to subscribe for 93,750 Shares at \$16.00 each.

Offer Price means \$16.00 per Share, being the amount payable in respect of each Share issued under this Prospectus.

Related Body Corporate means a body corporate, which is related to AEI pursuant to section 50 of the *Corporations Act 2001*.

SCH Business Rules has the same meaning as in the *Corporations Act 2001*.

Share means a fully paid issued ordinary share in the capital of the Company.

Shareholder means the holder of a Share.

Winding Up means proceedings commenced for an order that the Company be dissolved, wound up or liquidated or for the appointment of a provisional liquidator, liquidator, administrator, controller or similar official in respect of the Company or all or substantially all of its property.


AUSTRALIAN ETHICAL INVESTMENT LTD

ABN: 47 003 188 930

APPLICATION FORM
OFFER CLOSES 28 NOVEMBER 2002

This Application Form is for Shares in Australian Ethical Investment Limited, pursuant to a Prospectus dated 15 October 2002, which expires on 16 April 2003. You should read the entire Prospectus carefully before completing the Application Form. If you are in doubt as to how to deal with the Application Form, please contact your stockbroker or professional financial adviser without delay. A person who gives another person access to this Application Form (whether in paper or electronic form) must at the same time and by the same means give the other person access to the Prospectus and any applicable supplementary document. While the Prospectus is current, the Company will send you a paper copy of the Prospectus, this Application Form and any supplementary document on request, free of charge. The return of this Application Form with your cheque(s) for the Application Monies will constitute your offer to subscribe for Shares in the Company upon and subject to the terms of the Prospectus. It will also be an acknowledgement that you have read and understood the Prospectus and agree to be bound by the Company's Constitution. No signature is required.

A Securities Applied for

No of Securities

Price per Security

B

Total Application Amount

X

Must be a minimum of 125 Shares. Application for more than 125 Shares must be in multiples of 10 Shares.

C Write here the name(s) you wish to register the securities in (see reverse for details)

Name of Applicant 1

Name of Applicant 2 or <Account Name>

Name of Applicant 3 or <Account Name>

D Write here the postal address you wish to register the securities at

PO Box/Street Number/Street Name

Suburb/Town

State

Post Code

E CHESS HIN (if applicable)
☒
H Unitholder or Member Code

(if applicable – please include for preferential allocation treatment)

F Cheque Payment Details

Please fill out your cheque details and make your cheque payable to: Australian Ethical Investment Ltd Float Account.

| Name of drawer of cheque | Cheque No. | BSB No. | Account No. | Amount A\$ |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| Total Amount Enclosed | | | | <input type="text"/> |

G Telephone Number

GUIDE TO COMPLETING THE APPLICATION FORM

A Enter the number of Shares you wish to apply for. The application must be for a minimum of 125 Shares. Applications for greater than 125 Shares must be in multiples of 10 Shares.

B Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares applied for by the price per Share.

C Enter the full name you wish to appear on the statement of security holdings. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable name. Applications using the wrong form of name may be rejected. Clearing House Electronic Sub-Register System (CHES) participants should complete their name and address in the same format as presently registered in the CHES system

D Enter your postal address for all correspondence. All communications to you from the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

E Australian Ethical Investment Limited will apply to the ASX to participate in CHES, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHES, the Company will operate an electronic CHES subregister of security holdings and an electronic issuer sponsored subregister of security holdings. Together the two subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of securities allotted. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold securities allotted to you under this Application in uncertificated form on the CHES subregister, enter your CHES HIN. Otherwise, leave the Section blank and on allotment, you will be sponsored by the Company and a Securityholder Reference Number (SRN) will be allocated to you.

F Payment

Make your cheque or bank draft payable to "Australian Ethical Investment Ltd Float Account" in Australian currency and cross it "Not Negotiable". Your cheque or bank draft must be drawn on an Australian Bank, Credit Union or Building Society.

Complete the cheque details in the boxes provided. The amount must agree with the amount shown in box "B".

Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

Pin (do not staple) your cheque(s) to the Application Form where indicated.

G Enter your telephone number. This is not required but will assist us if there are any problems with your application.

H If you are a unit holder in the Australian Ethical Investment Trusts or a member of the Australian Ethical Superannuation Fund, include your unit holder or member code here. This is important for allocation preference.

Before completing the Application Form the applicant(s) should read the Prospectus to which the application relates. By lodging the Application Form, the applicant(s) agrees that this application is for securities in Australian Ethical Investment Ltd, is upon and subject to the terms of the Prospectus and the Constitution of the Company. The applicant(s) agrees to take any number of securities that may be allotted to the applicants(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Applications

Return the Application Form with cheque(s) attached to:

| | | |
|---|----|--|
| Registries Limited PO Box R67 Royal Exchange SYDNEY NSW 1223 | OR | Registries Limited Level 2, 28 Margaret Street SYDNEY NSW 2000 |
|---|----|--|

Application Forms must be received at the Sydney office of Registries Limited no later than 5.00pm Sydney time on 28 November 2002.

Correct forms of Registerable name

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. The name of the beneficial or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable names below.

| Type of Investor | Correct Form | Samples of Incorrect form |
|--|------------------------------|--|
| Individual | | |
| • Use given names, not initials | John Alfred Smith | J. A. Smith |
| Company | | |
| • Use company title, not abbreviations | ACB Pty Ltd | ABC P/L, ABC Co |
| Trusts | | |
| • Use trustee(s) personal name(s) | Janet Smith | Janet Smith Family Trust |
| • Do not use the name of the trust | <Janet Smith Family A/C> | |
| Deceased Estates | | |
| • use executor(s) personal name(s) | Michael Smith | Estate of Late John Smith |
| • Do not use the name of the deceased | <Est John Smith A/C> | |
| Partnerships | | |
| • Use partners personal name(s) | John Smith & Michael Smith | John Smith & Son |
| • Do not use the name of the partnership | <John Smith & Son A/C> | |
| Clubs/Unincorporated Bodies/Business Names | | |
| • Use office bearer(s) personal name(s) | Janet Smith | ABC Tennis Association |
| | <ABC Tennis Association A/C> | |
| Superannuation Funds | | |
| • Use name of trustee of fund | John Smith Pty Ltd | John Smith Pty Ltd Superannuation Fund |
| • Do not use the name of the fund | <Super Fund A/C> | |

**AUSTRALIAN ETHICAL INVESTMENT LTD**

ABN: 47 003 188 930

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| • Use office bearer(s) personal name(s) | Janet Smith | ABC Tennis Association |
| | <ABC Tennis Association A/C> | |
| Superannuation Funds | | |
| • Use name of trustee of fund | John Smith Pty Ltd | John Smith Pty Ltd Superannuation Fund |
| • Do not use the name of the fund | <Super Fund A/C> | |

DIRECTORS

Frederick George Pooley
Alistair David Clark
Caroline Margaret Le Couteur
Trevor Roland Lee
James Andrew Thier
Howard Pender
Raymond De Lucia

COMPANY SECRETARY

Chris Lee

REGISTERED OFFICE

Suite 66, Canberra Business Centre
Bradfield Street
DOWNER ACT 2602
1 800 021 227

LAWYERS TO THE ISSUE

Menzies George
Epicorp Building
401 Clunies Ross Street
ACTON ACT 2601

INVESTIGATING ACCOUNTANTS AND AUDITOR

Thomas Davis & Co.
ANZ Bank Building
Level 20
68 Pitt Street
SYDNEY NSW 2000

SHARE REGISTRY

Registries Limited
Level 2, 28 Margaret Street
SYDNEY NSW 2000
PO Box R67
Royal Exchange
SYDNEY NSW 1223

