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Results announcement

TAPS Trust (TTXPA)

Total pages: 39

26 February 2009

Appendix 4E – Report for the year ended 31 December 2008

Please find enclosed the following documents:

A. Results for announcement to the market
B. Commentary on the results
C. Financial report for the year ended 31 December 2008
D. Independent auditor's report

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Claire Filson
Company Secretary
Hastings Funds Management Limited

A. Results for announcement to the market

TAPS Trust financial results

The table below summarises the TAPS Trust financial results for the year ended 31 December 2008. The financial results reflect that distributions to Trust-issued Adjustable Preferred Securities (TAPS) securityholders take the form of a return of capital which is not reflected as revenue in the income statement. This is further discussed in Section B.

	Change from previous corresponding period		Year to 31 December 2008 ($'000)	Year to 31 December 2007 ($'000)
Revenues from ordinary activities	(Down 160.9%)	to	(4,019)	6,598
Profit/(loss) from ordinary activities after tax attributable to members	(Down 249.4%)	to	(16,077)	(4,601)
Net profit/(loss) for the period attributable to members	(Down 249.4%)	to	(16,077)	(4,601)
Net cash flows from operating activities	Up > 466.7%	to	1,731	(472)

Distributions to TAPS securityholders

The table below summarises the distributions to TAPS securityholders for the year ended 31 December 2008. Please refer to Section B for further details and commentary.

Distributions	2008 Amount per security	2007 Amount per security
March 2008 quarter distribution	$2.2887	$2.0745
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount	$2.2887	$2.0745
Record date to determine entitlement to the distribution	31 March 2008	30 March 2007
Payment date for March distribution	21 April 2008	23 April 2007
June 2008 quarter distribution	$2.4458	$2.1200
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount	$2.4458	$2.1200
Record date to determine entitlement to the distribution	30 June 2008	29 June 2007
Payment date for June distribution	21 July 2008	20 July 2007
September 2008 quarter distribution	$2.4601	$2.1231
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount	$2.4601	$2.1231
Record date to determine entitlement to distribution	30 September 2008	28 September 2007
Payment date for September distribution	21 October 2008	19 October 2007
December 2008 quarter distribution	$2.2584	$2.2332
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount	$2.2584	$2.2332
Record date to determine entitlement to distribution	31 December 2008	31 December 2007
Payment date for December distribution	22 January 2009	22 January 2008

There is no Distribution Reinvestment Plan currently in operation for the TAPS Trust.

B. Commentary on the results

TAPS Trust financial results

The table below summarises the TAPS Trust financial results for the year ended 31 December 2008.

	Year to 31 December 2008 $'000	Year to 31 December 2007 $'000
Operating revenue	(4,019)	6,598
Responsible entity fees	(982)	(1,153)
Operating expenses (before finance costs)	(189)	(153)
Finance costs	(2)	(2)
Amortisation of establishment costs	(487)	(485)
Distributions to TAPS securityholders	(10,398)	(9,406)
Net profit/(loss) attributable to ordinary securityholders	(16,077)	(4,601)

The Hastings Diversified Utilities Fund (HDF) holds the ordinary securities in the TAPS Trust and the financial report for the year ended 31 December 2008 is prepared on this basis.

TAPS Trust reported a net loss attributable to ordinary securityholders (i.e. HDF) of $16.1 million. This net loss is explained by understanding the accounting treatment of the cash flows of the TAPS Trust. In particular:

- TAPS Trust receives the majority of its cash flows from the now merged South East Water and Mid Kent Water businesses via a return of capital. A return of capital is reflected in the cash flow statement rather than the income statement, hence the lack of accounting earnings.
- The distributions paid to TAPS securityholders are treated as an expense under Australian International Financial Reporting Standards (AIFRS), therefore increasing the net loss attributable to ordinary securityholders.
- It is this structure that results in the majority of distributions to TAPS securityholders being tax deferred.

TAPS Trust distributions

The table below outlines the distributions paid by the TAPS Trust during the year ended 31 December 2008.

	Year to 31 December 2008	Year to 31 December 2007
Distribution per TAPS security	$9.4530	$8.5508
Tax deferred component of distribution	$9.4530	$8.5508
Percentage tax deferred	100%	100%
Number of TAPS on issue	1,100,000	1,100,000
Net Tangible Asset (NTA) / Ordinary Security ($)	(360,665)	(199,899)

TAPS securityholders were paid distributions totalling $10.4 million during the year ended 31 December 2008 or $9.4530 per security.

The cash flows which underpin the distributions to TAPS securityholders are sourced from the now merged South East Water business (merged with Mid Kent Water). TAPS distributions are also guaranteed by HDF, subject to certain conditions as set out in the TAPS Product Disclosure Statement.

B. Commentary on the results

South East Water asset update

The table below summarises South East Water's financial results (unaudited) for the half year ended 30 September 2008 (note South East Water has a March year end):

South East Water operating results (1) (2)	Change from previous corresponding period	Half year to 30 September 2008 (£ million)	Half year to 30 September 2007 (£ million)
Revenue	Up 1.6%	85,873	84,499
EBITDA	Up 1.7%	51,084	50,221
Operating profit	Up 3.7%	35,249	33,981
Profit before tax	Down 18.2%	13,766	16,828
Net cash from operating activities	Down 8.8%	47,195	51,761

(1) The financial results above relate to South East Water Limited (i.e. the merged regulated entity) only and are prepared in accordance with UK GAAP.
(2) SEW and MKW were merged in December 2007. 1H09 results reflect the half year of trading to 30 September 2008 for the combined operations. Although the two businesses were not merged during the previous corresponding period, their results have been amalgamated under common accounting policies to allow this comparison for illustrative purposes.

Operating results were steady for the combined SEW / MKW with revenue for the half year ended 30 September 2008 of £85.9 million, up by 1.6 percent on the corresponding period despite one off price reductions mandated by the Competition Commission at the time of the merger. EBITDA was up by 1.7 percent for the half year ended 30 September 2008, despite ongoing merger costs. Profit before tax was affected by increased finance costs as a result of higher interest rates (LIBOR), additional capex borrowings and the effect of higher inflation on index linked loans.

Key highlights for the South East Water half year included:

- Continued execution of the merger plan, in particular the successful integration of operational activity has continued during the period with a centralised control room scheduled to go live in Snodland by May 2009.
- Continued delivery of the capital programme with £43.9 million invested in the half year ended 30 September 2008. South East Water remains on track to achieve its regulatory approved capital programme for the current regulatory period.
- The customer service function has now been internalised with an in-house call centre operational as of September 2008 and consolidation of the Mid Kent Water and South East Water billing and customer service platforms to be completed by the end of 2009.
- Water resources are currently at or above historic average levels and no restrictions are envisaged for the coming northern hemisphere summer.
- The next regulatory price review process is progressing:
    - A draft business plan was submitted to the UK water regulator (Ofwat) in August 2008.
    - The final business plan will be submitted to Ofwat on 7 April 2009 with a draft determination expected in July 2009 and a final determination in November 2009.
    - The outcome of the regulatory price review will take effect in 2010.

South East Water is regulated in real price terms and as a consequence South East Water's revenues and regulatory capital value are affected by movements in the Retail Price Index in the UK. This is partially mitigated by linking a portion of South East Water's cost base to inflation via the use of index linked debt. However, a perfect hedge is difficult to achieve. There is also a difference in the indexation timing of South East Water's regulatory capital value, debt, and revenues.

A recent unusual decline in the UK Retail Price Index is likely to result in an increase in South East Water's gearing levels. As a consequence an equity capital injection is being considered by the shareholders of South East Water (which include HDF). As at the date of signing this report the amount and timing of any capital injection had not been finalised.

C. Financial report for the year ended 31 December 2008

TAPS Trust

ARSN 113 037 317

Annual Financial Report for the Year Ended 31 December 2008

Directors' report

The directors of Hastings Funds Management Limited (Hastings), the Responsible Entity for TAPS Trust, present their report together with the financial report of TAPS Trust (the Scheme) for the year ended 31 December 2008.

Directors

The names of the directors of the Responsible Entity for the Scheme in office during the year and up to the date of this report are:

William Forde - Chairman
Steve Boulton - Director
Alan Freer - Director
Stephen Gibbs - Director (appointed 16 December 2008)
Mike Hutchinson - Director
Jim McDonald - Director
Sean McElduff - Director
Jim Tate - Director

All directors were in office from the beginning of the year until the date of this report unless otherwise stated.

Company Secretaries

The names of the Company Secretaries of the Responsible Entity in office during the year and until the date of this report are Kim Rowe and Claire Filson.

Scheme information

TAPS Trust is an Australian registered Scheme and is incorporated and domiciled in Australia.

The registered office of the Responsible Entity is located at Level 15, 90 Collins Street, Melbourne, Victoria, 3000.

At 31 December 2008 the Scheme had no employees (2007 - Nil employees).

Principal activities

The Scheme's principal activity is to invest in the redeemable preference shares of an investment vehicle, HDF International Holdings 1 Pty Ltd through which Hastings Diversified Utilities Fund (HDF) ultimately holds a 50 percent interest in South East Water, a water utility located in the United Kingdom.

There has been no change in the principal activity of the Scheme during the year.

Results of operations

The operating loss before finance costs attributable to unitholders of the Scheme for the year ended 31 December 2008 was $16,077,000 (2007 – $4,601,000).

Distributions

During the year ended 31 December 2008, four distributions to TAPS holders were declared. A distribution of $2.29 per TAPS was paid on 21 April 2008 for the quarter ended 31 March 2008 (2007 – $2.07), a distribution of $2.45 per TAPS was paid on 21 July 2008 for the quarter ended 30 June 2008 (2007 – $2.12), a distribution of $2.46 per TAPS was paid on 21 October 2008 for the quarter ended 30 September 2008 (2007 – $2.12) and a final distribution of $2.26 per TAPS was paid on 22 January 2009 for the quarter ended 31 December 2008 (2007 – $2.23).

No distributions were declared or paid to ordinary or A class unitholders during the year.

Directors' report (continued)

Units on issue

100 fully paid $1 ordinary units were on issue at 31 December 2008 (2007 - 100).

1 A class fully paid $1 unit was on issue at 31 December 2008 (2007 - 1).

1,100,000 Trust-issued Adjustable Preferred Securities (TAPS) were on issue at 31 December 2008 (2007 - 1,100,000). TAPS are fully paid to $100 per security.

Scheme assets

At 31 December 2008 the Scheme held assets to a total value of $75,490,000 (2007 – $89,146,000). The basis for valuation of the assets is disclosed in Note 1 to the financial statements.

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the financial year under review.

Matters subsequent to the end of the financial year

South East Water is regulated in real price terms and as a consequence South East Water's revenues and regulatory capital value are affected by movements in the Retail Price Index in the United Kingdom (UK). This is partially mitigated by linking a portion of South East Water's cost base to inflation via the use of index linked debt. However, a perfect hedge is difficult to achieve. There is also a difference in the indexation timing of South East Water's regulatory capital value, debt, and revenues.

A recent unusual decline in the UK Retail Price Index is likely to result in an increase in South East Water's gearing levels. As a consequence an equity capital injection is being considered by the shareholders of South East Water (which include HDF). As at the date of signing this report the amount and timing of any capital injection had not been finalised.

Since 31 December 2008 there has not been any other matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Scheme.

Likely developments and expected results of operations

In the opinion of the directors of the Responsible Entity, the inclusion of information relating to likely developments in the operations of the Scheme is likely to prejudice the interests of the Scheme and therefore this information has not been included in this report.

Indemnification and insurance of officers and auditor

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Hastings Funds Management Limited or the auditor of the Scheme. So long as the officers of Hastings Funds Management Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is in no way indemnified out of the assets of the Scheme.

Fees paid to and interests held in the Scheme by the Responsible Entity and its associates

For the year ended 31 December 2008, Hastings was entitled to a Responsible Entity management fees of $982,000 (2007 - $1,153,000).

Interests in the Scheme

The interests in the units issued by the Scheme held by the Responsible Entity, directors of the Responsible Entity and their director related entities as at 31 December 2008 are detailed in Note 19 to the financial statements.

Environmental regulation

The operations of the Scheme are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

The Scheme is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Signed in accordance with a resolution of the directors of Hastings Fund Management Limited as Responsible Entity for the Scheme.

Steve Boulton

Director

26 February 2009

PricewaterhouseCoopers
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Auditor's Independence Declaration to the Directors of Hastings Funds Management Limited, as the Responsible Entity for TAPS Trust

As lead auditor for the audit of TAPS Trust for the year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of TAPS Trust during the period.

JF Power

JF Power
Partner
PricewaterhouseCoopers

Melbourne
26 February 2009

Income Statement

	Notes	2008 $'000	2007 $'000
Income			
Interest income	2	**3,281**	1,263
Net gain/(loss) - securities	3	**(7,300)**	5,335
Total income		**(4,019)**	6,598
Expenses			
Audit fees		**54**	29
Tax fees		**16**	17
Responsible Entity management fees		**982**	1,153
Finance costs	5	**10,887**	9,893
Other expenses		**119**	107
Total expenses		**12,058**	11,199
Operating profit/(loss) before finance costs attributable to unitholders		**(16,077)**	(4,601)
Finance costs attributable to unitholders			
Distributions to ordinary and A class unitholders	6	**-**	-
(Increase)/decrease in net liabilities attributable to unitholders	14	**16,077**	4,601
Net profit/(loss) for the year		**-**	-

The above Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet

	Notes	**2008 $'000**	2007 $'000
Assets			
Cash and cash equivalents	7(b)	**1,102**	540
Receivables	8	**5,563**	5,246
Other assets	9	**14**	14
Security assets	10	**68,811**	83,346
Total assets		**75,490**	89,146
Liabilities			
Payables	11	**2,745**	2,777
Security liability	12	**1,966**	-
Trust-issued Adjustable Preferred Securities	13	**106,845**	106,358
Total liabilities (excluding net liabilities attributable to unitholders)		**111,556**	109,135
Net liabilities attributable to unitholders		**(36,066)**	(19,989)
Represented by:			
Issued units - Ordinary	14	**-**	-
Issued units - A class	14	**-**	-
Undistributed profit/(loss) attributable to ordinary unitholders	14	**(36,066)**	(19,989)
Total unitholders' interests		**(36,066)**	(19,989)

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

In accordance with AASB132 *Financial Instruments: Presentation,* unitholders' interests are classified as a liability and accordingly the Scheme has no equity for financial statement purposes.

Cash Flow Statement

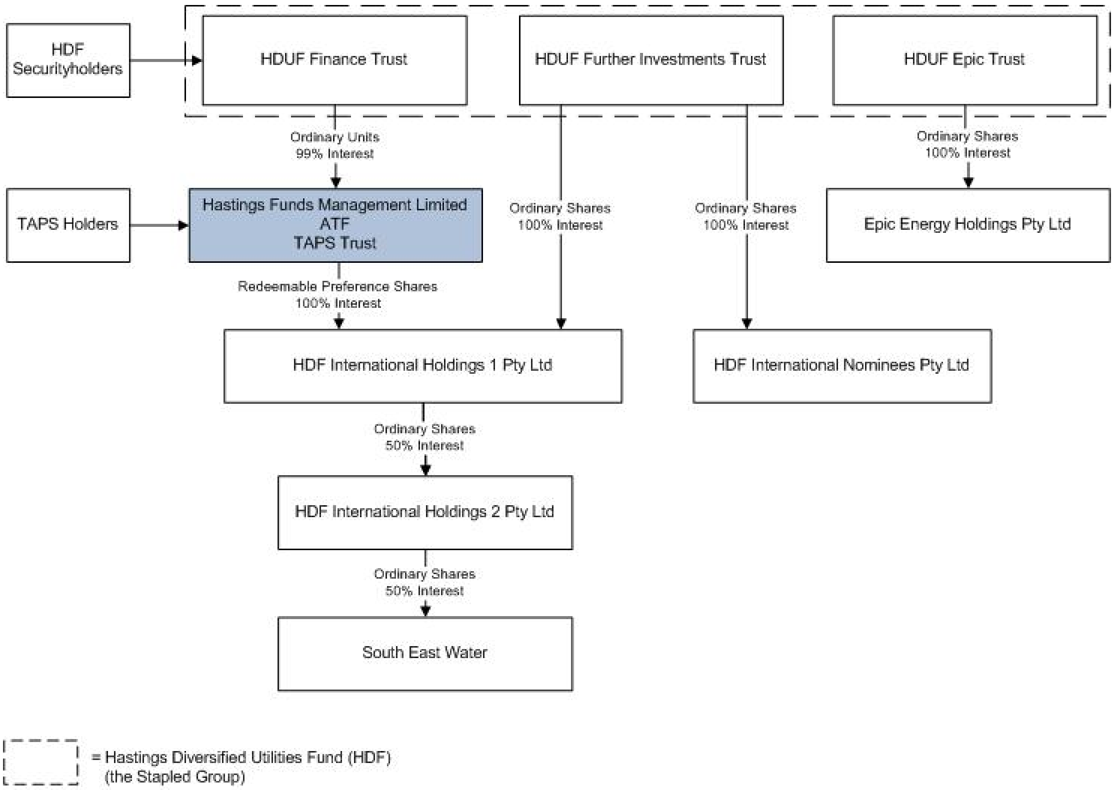
	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Interest received		**2,960**	851
Finance costs paid (excluding TAPS distributions)		**(2)**	(2)
Operating expenses paid		**(1,227)**	(1,321)
Net cash flows from/(used in) from operating activities	7(a)	**1,731**	(472)
Cash flows from investing activities			
Proceeds from unlisted security capital repayments		**9,201**	10,077
Net cashflows from/(used in) investing activities		**9,201**	10,077
Cash flows from financing activities			
TAPS distributions paid		**(10,370)**	(9,219)
Net cash cashflows from/(used in) financing activities		**(10,370)**	(9,219)
Net increase/(decrease) in cash and cash equivalents		**562**	386
Cash and cash equivalents at the beginning of the year		**540**	154
Cash and cash equivalents at the end of the year	7(b)	**1,102**	540

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

(a) Structure

The diagram below details the corporate structure of TAPS Trust ("the Scheme") and its related entities:



TAPS Trust was established under a Constitution dated 18 February 2005, with Hastings Funds Management Limited (Hastings) as Trustee. On 4 March 2005 the Scheme was registered as a managed investment scheme. Accordingly, Hastings became the Responsible Entity for the Scheme.

The Scheme's Trust-issued Adjustable Preferred Securities (TAPS) commenced trading on the Australian Stock Exchange (ASX) on 6 May 2005. The Scheme's obligations to pay money which becomes due and payable to TAPS holders are guaranteed. Refer to Note 13 for further details.

The principal activity of TAPS Trust is to invest in redeemable preference shares issued by HDF International Holdings 1 Pty Ltd.

(b) Basis of preparation

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, the Scheme's Constitution and the *Corporations Act 2001* in Australia.

The financial report has been prepared on a historical cost basis except for unlisted securities, which are measured at fair value.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Scheme, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

The Balance Sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

The Scheme was in a net liability attributable to unitholders position of $36,066,000 as at 31 December 2008 (2007 - $19,989,000 net liability).

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

The net liability situation arises because the significant income sources of the Scheme, being interest and unrealised gains from unlisted securities are less than the Scheme's expenses. As such, this gives rise to the operating loss before finance costs attributable to unitholders for the year. The major expense of the Scheme is the Trust-adjusted Preferred Securities (TAPS) distributions, which are recorded as a finance cost within the Income Statement.

The TAPS distributions are the major cash outflow commitments of the Scheme and the Scheme generates sufficient cash flows to meet the TAPS distributions by redeeming the Scheme's holdings in unlisted securities.

The financial statements are prepared on a going concern basis since:

- The Scheme has adequate sources of cash flows to meet its obligations arising from TAPS distributions; and in any event,
- The TAPS do not have a maturity date until 30 June 2015 and whilst earlier redemption may occur, any redemptions are at the discretion of TAPS Trust; and
- The Scheme has been issued a letter of financial support dated 26 February 2009 from its parent entity, Hastings Funds Management Limited (Hastings) in its capacity as Responsible Entity for HDUF Finance (HDUF Finance Trust), undertaking that for so long as the Scheme is a wholly owned subsidiary of HDUF Finance, HDUF Finance intends to financially support the Scheme to the extent that the Scheme can continue to pay its debts as and when they become due and payable.

Refer to Note 13(a) for the conditions associated with the TAPS securities including the existence of the guarantee to the TAPS holders by Hastings in its capacities as Responsible Entity for each of the schemes comprising Hastings Diversified Utilities Fund (being HDUF Finance Trust, HDUF Further Investments Trust and HDUF Epic Trust).

The functional and presentation currency of the Scheme is Australian dollars.

The accounting policies adopted are consistent with those of the previous financial year.

The financial report of the Scheme for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of directors of the Responsible Entity on 26 February 2009.

(c) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2008 reporting period. The directors’ assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set below:

(i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8.*

AASB 8 and AASB 2007-3 are effective for annual reporting periods beginning on or after 1 January 2009. The Scheme has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but may affect the segment disclosures.

(ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101.*

The revised AASB 101 is applicable to annual reporting periods beginning on or after 1 January 2009. The Scheme has not adopted this standard early. It requires the presentation of a Statement of Comprehensive Income and makes changes to the Statement of Changes in Equity but will not affect any of the amounts recognised in the financial statements.

1 Summary of significant accounting policies (continued)

(iii) AASB 132 *Financial Instruments: Presentation* and AASB 2008-2 *Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation* (Revised AASB 132)

The amendments to AASB 132 and AASB 2008-2 are effective for reporting periods commencing on or after 1 January 2009. Application of these standards will not affect any of the amounts recognised in the financial statements as the Scheme is obligated to distribute all of its taxable income in accordance with the Scheme's Constitution. Accordingly, there will be no change to classification of unitholders' interests as a liability and therefore no impact.

(iv) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 132.*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial statements of the Scheme, as the Scheme already capitalises borrowing costs relating to qualifying assets.

(d) Significant accounting estimates, judgements and assumptions

In applying the Scheme's accounting policies management continually evaluates estimates, judgements and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Scheme. All estimates, judgements and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the estimates, judgements and assumptions. Significant estimates, judgements and assumptions are outlined below:

Valuation of unlisted securities

Fair values of unlisted securities are determined by projecting future cash flows and then discounting these cash flows back to their present value using a post-tax risk adjusted discount rate. The carrying amount of unlisted securities held by the Scheme at 31 December 2008 was $68,811,000 (31 December 2007 – $78,011,000). Further details are provided in Note 1(h).

Global credit markets are extremely volatile. The fair value of unlisted securities has been adjusted to reflect market conditions at the end of the reporting period. While this represents the best estimates of fair value at the end of the reporting period, the current market uncertainty means that if the unlisted securities were to be sold, the price achieved may differ from the fair value recorded at the end of the reporting period.

Valuation of derivative securities

The fair value of derivative securities is determined by reference to the fair value of the derivative securities as advised by the counterparty to the derivative security on the balance sheet date. In assessing fair value, the projected future cash flows under the derivative security are discounted to their present value using a pre-tax, risk adjusted discount rate. Where applicable, foreign currency discounted cash flows are translated back to the local currency using the spot foreign exchange rate. The carrying amount of derivative securities held by the Scheme at 31 December 2008 was a liability of $1,966,000 (31 December 2007 – $5,335,000 asset). Further details are provided in Note 1(h).

(e) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

1 Summary of significant accounting policies (continued)

(e) Foreign currency translation

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

(f) Cash and cash equivalents

For Cash Flow Statement presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term, high liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

(g) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(m). Amounts are generally received within 30 days of being recorded as receivables.

(h) Securities

Investments in securities are recorded at fair value through the Income Statement upon initial recognition. After initial recognition, securities are measured at fair value as they are managed and performance evaluated on a fair value basis in accordance with the Scheme's investment strategy.

Unlisted securities

Investments in unlisted securities comprise redeemable preference shares which are recorded at fair value through the Income Statement.

Costs incidental to the acquisition of unlisted securities are recognised in the Income Statement when incurred. Gains and losses arising from movements in the fair value of unlisted securities are recognised through the Income Statement.

Purchases and sales of unlisted securities that require delivery of securities within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that the Scheme commits to purchase or sell the securities.

Derivative securities

Derivative securities are recorded at fair value through the Income Statement.

All such derivative securities are initially recognised at fair value, being the mark to market amount between parties. After initial recognition, derivatives are measured at fair value consistent with the Scheme's investment strategy. Unrealised gains or losses arising from movements in the fair value of derivatives are recognised through the Income Statement.

In assessing fair value, the projected future cash flows under the derivative security are discounted to their present value using a pre-tax, risk adjusted discount rate. Where applicable, foreign currency discounted cash flows are translated back to the local currency using a spot exchange rate.

(i) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the balance sheet date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the Balance Sheet when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

1 Summary of significant accounting policies (continued)

(j) Borrowings

All loans and borrowings are initially recognised at fair value being the consideration received.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised and as well as through the amortisation process.

Trust-issued Adjustable Preferred Securities

On the issue of the Trust-issued Adjustable Preferred Securities (TAPS), TAPS are recorded at fair value and as liabilities on the Balance Sheet.

After initial recognition, the TAPS are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and is recognised in the Income Statement. The corresponding distributions on TAPS are charged as a finance cost through the Income Statement.

The calculation of the distribution to TAPS holders is as outlined in the TAPS Product Disclosure Statement (PDS) dated 15 March 2005.

(k) Financial instruments issued by the Scheme

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. In accordance with AASB 132 *Financial Instruments: Presentation*, unitholders' interests are defined as "puttable instruments" and therefore classified as liabilities and disclosed in the Balance Sheet as net liabilities attributable to unitholders. Any transaction costs arising on the issue of such financial instruments are recognised as a reduction of the proceeds received.

(l) Net liabilities attributable to unitholders

Net liabilities attributable to unitholders comprises the residual interest in the assets of the Scheme after deducting its liabilities. It is represented by issued ordinary units, issued A class units and undistributed profit/(loss) attributable to unitholders.

As units issued by the Scheme are classified as financial liabilities, any amounts paid or payable as well as net liability movements attributable to unitholders are recorded as an expense and presented in the Income Statement as finance costs attributable to unitholders.

(m) Income and expense recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenues or expenses are recognised:

Distribution income

Distribution income is recognised when there is control over the right to receive the distribution payment.

Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Gain/(loss) - derivative securities - unrealised

Unrealised gains or losses arising from changes in the fair value of derivative securities are calculated as the difference between the fair value at year end and at the previous valuation point.

1 Summary of significant accounting policies (continued)

(m) Income and expense recognition (continued)

Finance costs

Loan arrangements and other fees incurred on the issuance of debt are amortised over the lower of the term of the loan to which they relate and the expected period of benefit. Other finance costs are recognised as an expense when incurred, except when they are capitalised.

Other expenses

Expenses are recognised in the Income Statement when the Scheme has a present obligation (legal or constructive) as a result of a past event that can be reliably measured. Expenses are recognised in the Income Statement if expenditure does not produce future economic benefits that qualify for recognition in the Balance Sheet.

Responsible Entity fees

For the year ended 31 December 2008, in accordance with the Scheme's Constitution, the Responsible Entity received a management fee of 1% of the Scheme’s market capitalisation (2007 – 1%) charged quarterly in arrears.

The Responsible Entity is entitled under the Scheme's Constitution to be reimbursed for certain expenses incurred in administering the Scheme. The basis on which the expenses are reimbursed is defined in the Scheme’s Constitution.

(n) Distributions

The Scheme’s Constitution requires the Responsible Entity to distribute to each ordinary unitholder an amount representing the distributable income entitlement of each ordinary unitholder in respect of a distribution period. Distributions are determined by reference to the taxable income of the Scheme. Only ordinary unitholders are entitled to receive income distributions.

Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses on investments are transferred to net assets/(liabilities) attributable to ordinary unitholders and are not distributable and assessable until realised. Capital losses are not distributed to ordinary unitholders but are retained to be offset against any realised capital gains.

(o) Income tax

Under current legislation, the Scheme is not subject to income tax provided the taxable income of the Scheme is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Scheme).

(p) Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Reduced income tax credits recoverable by the Scheme from the Australian Taxation Office are recognised as receivables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

1 Summary of significant accounting policies (continued)

(p) Goods and Services Tax (GST) (continued)

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(q) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(r) Rounding of amounts

The Scheme is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(s) Financial guarantee contracts

Where material, financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2 Interest income

	2008 $'000	2007 $'000
Cash and cash equivalents	**68**	31
Payment agreement – parent entity	**3,213**	1,232
Total interest income	**3,281**	1,263

3 Net gain/(loss) - securities

	2008 $'000	2007 $'000
Net gain/(loss) - derivative security - foreign exchange - unrealised	**(7,300)**	5,335
Net gain/(loss) - securities	**(7,300)**	5,335

4 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Scheme:

	2008 $	2007 $
Audit services		
Amounts received or due excluding GST by PricewaterhouseCoopers for:		
Audit and review of the financial reports	**31,475**	22,000
Other audit work under the *Corporations Act 2001*	**3,000**	3,000
Total remuneration for audit services	**34,475**	25,000

5 Finance costs

	2008 $'000	2007 $'000
Bank fees	**2**	2
Distributions to TAPS holders	**10,398**	9,406
Amortisation of TAPS issue costs	**487**	485
Total finance costs	**10,887**	9,893

6 Distributions to unitholders

No distributions were declared or paid to ordinary or A class unitholders.

7 Cash and cash equivalents

	2008 $'000	2007 $'000
(a) Reconciliation of operating profit/(loss) before finance costs attributable to unitholders to net cash flows from/(used in) operating activities		
Operating profit/(loss) before finance costs attributable to unitholders	**(16,077)**	(4,601)
Adjustments for non-cash and non-operating items:		
Net (gain)/loss - derivative security - foreign exchange - unrealised	**7,300**	(5,335)
Distributions to TAPS holders	**10,398**	9,406
Amortisation of TAPS issue costs	**487**	485
Changes in operating related assets and liabilities:		
(Increase)/decrease in receivables	**(318)**	(412)
Increase/(decrease) in payables	**(59)**	(15)
Net cash flows from/(used in) operating activities	**1,731**	(472)
(b) Components of cash and cash equivalents		
Cash at bank	**1,102**	540
Total cash and cash equivalents	**1,102**	540

Cash and cash equivalents earn interest at floating rates based on daily deposit rates.

8 Receivables

	2008 $'000	2007 $'000
Other receivables	**19**	22
Loan receivable - parent entity	**4,736**	4,736
Receivable - payment agreement - parent entity	**808**	488
Total receivables	**5,563**	5,246

Terms and conditions

Other receivables and the payment agreement receivable are non-interest bearing and are normally settled on 30 day terms.

The loan receivable from the parent entity is non-interest bearing and is repayable on demand.

9 Other assets

	2008 $'000	2007 $'000
Prepayments	**14**	14
Total other assets	**14**	14

10 Security assets

	2008 $'000	2007 $'000
Unlisted securities	**68,811**	78,011
Derivative security	**-**	5,335
Total security assets held at fair value through profit or loss	**68,811**	83,346

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in Note 18.

Unlisted securities

The Scheme owns 100% of redeemable preference shares (RPS) in HDF International Holdings 1 Pty Ltd (HDFIH1). Each RPS has an issue price of $1 and is redeemable at HDFIH1's discretion subject to the terms of its Constitution.

The Scheme is entitled to receive non-cumulative preference unfranked dividends from the RPS equal to:

- the amount of any profit received by HDFIH1 as a dividend on the shares it owns in South East Water via HDF International Holdings 2 Pty Ltd, to the extent such dividend was paid by South East Water at any time after the last dividend payment date;
- multiplied by the issue price of RPS; and
- divided by the aggregate issue price of all RPS on issue at that time.

11 Payables

	2008 $'000	2007 $'000
TAPS distribution payable	**2,484**	2,457
Payable – Responsible Entity	**231**	287
Other payables	**30**	33
Total payables	**2,745**	2,777

Terms and conditions

All payables are non-interest bearing and generally settled on 30 days term.

Refer to Note13 for further details on the TAPS distribution payable.

12 Security liability

	2008 $'000	2007 $'000
Derivative security	**1,966**	-
Total security liability held at fair value through profit or loss	**1,966**	-

13 Trust-issued Adjustable Preferred Securities

	2008 **$'000**	2007 $'000
Trust-issued Adjustable Preferred Securities (TAPS)	**106,845**	106,358
Total TAPS	**106,845**	106,358

An overview of the risk exposures relating to TAPS is included in Note 18.

	2008 **No.'000**	2007 No.'000
(a) Issued TAPS (number)		
Issued TAPS at the beginning of the year	**1,100**	1,100
Issued TAPS at the end of the year	**1,100**	1,100

(b) Issued TAPS (dollars)		
Issued TAPS at beginning of the year	**106,358**	105,873
Amortisation of TAPS issue costs	**487**	485
Issued TAPS at the end of the year	**106,845**	106,358

(c) Distribution to TAPS holders

TAPS 31 March distribution paid	**2,518**	2,282
TAPS 30 June distribution paid	**2,690**	2,332
TAPS 30 September distribution paid	**2,706**	2,335
TAPS 31 December distribution declared and payable	**2,484**	2,457
Total TAPS distributions	**10,398**	9,406

During the year ended 31 December 2008, four distributions to TAPS holders were declared. A distribution of $2.29 per TAPS was paid on 21 April 2008 for the quarter ended 31 March 2008 (2007 – $2.07), a distribution of $2.45 per TAPS was paid on 21 July 2008 for the quarter ended 30 June 2008 (2007 – $2.12), a distribution of $2.46 per TAPS was paid on 21 October 2008 for the quarter ended 30 September 2008 (2007 – $2.12) and a final distribution of $2.26 per TAPS was paid on 22 January 2009 for the quarter ended 31 December 2008 (2007 – $2.23).

13 Trust-issued Adjustable Preferred Securities (continued)

(d) Terms and conditions

Each TAPS is a cumulative, reset, preferred unit in the Scheme which has an issue price or face value of $100 and a maturity date of 30 June 2015 unless redeemed or exchanged.

TAPS are redeemable at a TAPS holder's request at any reset date (the first reset date being 30 June 2010) at the Responsible Entity's discretion, with the Responsible Entity to elect whether the redemption is to be satisfied by way of cash or a number of HDF stapled securities or a combination of both.

Each TAPS holder is entitled to receive a cumulative, quarterly floating rate distribution based on the minimum 90 day bank bill rate plus a margin of 2% per annum.

Guarantee from Hastings Diversified Utilities Fund (HDF) to TAPS Holders

The obligations of the Scheme to pay money which becomes due and payable to TAPS holders in accordance with the TAPS PDS dated 15 March 2005 are guaranteed to TAPS holders on a joint and several and subordinated basis by Hastings Funds Management Limited (Hastings) in its capacities as Responsible Entity for each of the schemes comprising HDF (being HDUF Finance Trust, HDUF Further Investments Trust and HDUF Epic Trust) as Guarantors under the Guarantee Deed Poll.

Claims against HDF under the Guarantee Deed are subordinated to the claims of all senior creditors of HDF but rank equally with all other unsecured creditors of HDF. Such claims are senior to the rights of HDF securityholders.

Under the terms of Guarantee Deed Poll, TAPS holders cannot:

- seek a winding up or appoint a receiver in respect of HDF; or
- require a payment from HDF in connection with TAPS prior to a winding up event of HDF.

Claims against HDF in liquidation, or following any winding up, rank:

- ahead of the claims of all HDF securityholders;
- equally with the claims of other creditors (other than creditors whose claims are expressly agreed to rank after the claims of TAPS holders under the Guarantee Deed Poll); and
- after the claims of all senior creditors.

If the Responsible Entity for the Scheme is not Hastings or a related body corporate, the Guarantee will only apply in respect of the face value of the TAPS and any outstanding distributions as at the date that Hastings or a related body corporate of Hastings ceases to be the Responsible Entity for the Scheme.

14 Net liabilities attributable to unitholders

Movements in number of units and net liabilities attributable to unitholders during the year were as follows:

	2008 No. '000 Liability	2007 No. '000 Liability	**2008 $'000 Liability**	2007 $'000 Liability
Net liabilities attributable to ordinary unitholders				
Opening balance	**-**	-	**-**	-
Ordinary units issued during the year	**-**	-	**-**	-
Closing balance*	**-**	-	**-**	-

14 Net liabilities attributable to unitholders (continued)

	2008 No. '000 Liability	2007 No. '000 Liability	**2008 $'000 Liability**	2007 $'000 Liability
Net liabilities attributable to A class unitholders comprise:				
Opening balance	**-**	-	**-**	-
A class units issued during the year	**-**	-	**-**	-
Closing balance^	**-**	-	**-**	-

	2008 $'000	2007 $'000
Undistributed profit/(loss) attributable to ordinary unitholders		
Opening balance	**(19,989)**	(15,388)
Operating profit/(loss) before finance costs attributable to unitholders	**(16,077)**	(4,601)
Closing balance	**(36,066)**	(19,989)

* The Scheme has 100 ordinary units at $1 each on issue (2007 - 100 ordinary units at $1). Due to rounding, the value is disclosed as nil in this report.

^ The Scheme has 1 A class unit at $1 on issue (2007 - 1 A class unit at $1). Due to rounding, the value is disclosed as nil in this report.

Terms and conditions

Ordinary unitholders have various rights under the Scheme's Constitution, including the right to:

- receive income distributions (noting that TAPS holders will be entitled to receive distributions in preference to ordinary unitholders);
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Scheme.

The rights, obligations and restrictions attached to each unit are identical in all respects.

A class unitholders do not have any voting rights or the right to receive income distributions.

15 Segment information

Primary geographic segment

The Scheme operates in one business segment, being investment in water infrastructure related securities. The results, assets and liabilities are presented in the Income Statement, Balance Sheet and notes to the financial statements.

Secondary geographic segment

The Scheme operates from one geographic location, being Australia, from where its investing activities are managed.

The Scheme holds Australian unlisted securities that ultimately derive their income from investments held in operating entities located in the United Kingdom.

16 Earnings per unit

The earnings per unit calculation that is performed in accordance with AASB 133 *Earnings per Share* results in earnings per unit of nil cents as AASB 133 refers to equity, whilst issued units are classified as debt.

The directors believe it is useful to calculate and disclose earnings per unit based on 'operating profit/(loss) before finance costs attributable to unitholders' and 'number of ordinary issued units'.

Basic operating profit/(loss) before finance costs attributable to unitholders per unit is calculated as operating profit/(loss) before finance costs attributable to unitholders, divided by the weighted average number of ordinary units on issue, adjusted for any bonus element.

Diluted operating profit/(loss) before finance costs attributable to unitholders per unit is not materially different from basic operating profit/(loss) before finance costs attributable to unitholders per unit.

	2008	2007
Basic operating profit/(loss) before finance costs attributable to unitholders per ordinary unit (dollars per unit)	**(160,770)**	(46,010)
Diluted operating profit/(loss) before finance costs attributable to unitholders per ordinary unit (dollars per unit)	**(160,770)**	(46,010)
Weighted average number of ordinary units on issue	**100**	100
Earnings used in calculating basic operating profit/(loss) before finance costs attributable to unitholders per ordinary unit ($'000)	**(16,077)**	(4,601)

The directors believe it is useful to calculate and disclose earnings per TAPS attributable to TAPS holders.

Earnings used in calculating this amount is equivalent to distributions paid to TAPS holders disclosed as finance costs in the Income Statement.

	2008	2007
Basic earnings per TAPS (dollars per unit)	**9.45**	8.55
Weighted average number of TAPS on issue ('000)	**1,100**	1,100
Earnings used in calculating basic earnings per TAPS ($'000)	**10,398**	9,406

17 Derivative securities

At 31 December 2008, the Scheme held the following derivative security:

Cross currency swap

The Scheme entered into a cross currency swap contract with its parent entity, HDUF Finance Trust, to protect its direct and indirect risks associated with foreign exchange fluctuations arising from capital reductions of its unlisted securities.

Details relating to the cross currency swap contract, including its fair value at balance sheet date are set out below:

Counterparty	Contract Date	Maturity Date	Foreign Currency	Foreign currency principal payable		AUD principal receivable		Fixed interest rate payable quarterly	Floating interest rate receivable quarterly	Fair value	
				2008 '000	2007 '000	2008 $'000	2007 $'000	% p.a.	% p.a.	2008 $'000	2007 $'000
HDUF Finance Trust	14-Apr-05	30-Jun-10	GBP	45,155	45,155	110,000	110,000	9.30%	AUD-BBR-BBSW + 3.50%	(1,966)	5,335
				45,155	45,155	110,000	110,000			(1,966)	5,335

An overview of the risk exposures relating to derivative security is included in Note 18.

18 Financial risk management

Financial risk management objectives and policies

The Scheme's principal financial assets and liabilities comprise cash and cash equivalents, receivables, investments in unlisted securities and Trust issued Adjustable Preferred Securities (TAPS).

The Scheme has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The Scheme does not enter into or trade financial instruments for speculative purposes.

The main risks arising from the Scheme's financial instruments are price risk, inflation risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Responsible Entity reviews and agrees on policies for managing each of these risks on a regular basis and are summarised later in this note.

Price risk

Price risk is the risk of fluctuations in the price of the Scheme's unlisted securities. Due to its long term investment horizon, the Scheme does not hedge these short term fluctuations. Unlisted security price is affected by the underlying cashflows of the security. Forecast cashflows are reviewed at least annually by investee company management and boards during the budgeting process. Investee company is monitored throughout the year via board representation, management reporting and reviewed by investee committee.

Inflation risk

Regulated water utilities in the United Kingdom (UK), including South East Water, are regulated in real price terms. As a consequence, South East Water's revenues and regulatory capital value are exposed to movements in the Retail Price Index (RPI) in the UK. This risk is partially mitigated by linking a portion of South East Water's cost base to inflation via the use of index-linked debt, however a perfect hedge is difficult to achieve. In addition, there is a difference in the indexation timing of South East Water's regulatory capital value, debt and revenues. In a rapidly declining inflationary environment, there is a risk that South East Water's banking covenants could be impacted and in certain instances a capital injection may be required by South East Water's shareholders including HDF in order to maintain those banking covenants at appropriate levels.

Interest rate risk

Interest rate risk is the risk that a financial instrument's value may fluctuate as a result of changes in market interest rates. The Scheme has a cross currency coupon swap agreement in place with its parent entity, HDUF Finance Trust, to hedge the Scheme's direct and indirect risks associated with interest rate fluctuations arising from capital reductions of its unlisted securities. Refer to Note 17 for further details on the cross currency swap.

Foreign exchange risk

Foreign exchange risk is the risk that a financial instrument's value or the value of its cash flows may fluctuate as a result of changes in foreign exchange rates. The Scheme does not hedge the carrying values of its foreign currency denominated unlisted securities; however it does hedge its direct and indirect exposures to foreign currency fluctuations arising from the cash flows of its foreign currency denominated unlisted securities.

Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date is the carrying amount of those financial assets, net of any allowances for doubtful debts, as disclosed in the Balance Sheet and notes to the financial statements.

To manage credit risk, the Scheme deals only with creditworthy counterparties.

Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in raising funds to meet commitments associated with its financial instruments.

The liquidity of the Scheme is impacted by inflation risk, credit risk, foreign exchange risk and interest rate risk.

To manage liquidity risk arising from its quarterly distribution commitment to TAPS holders, the Scheme matches its cash inflows from unlisted security capital reduction proceeds via the cross currency swap arrangement with HDUF Finance Trust, to the cash outflows expected to TAPS holders.

18 Financial risk management (continued)

Financial risk management objectives and policies (continued)

The Scheme also actively monitors cash balances and forecast liabilities on a regular basis. In addition to available cash on hand, forecast operational cash flows are prepared to assist in meeting forecast liabilities as and when they fall due.

All the Scheme's financial liabilities other than the contractual undiscounted cash flows included in Note 18(d) are due within 12 months.

(a) Summarised sensitivity analysis

The following table summarises the profit /(loss) sensitivity of the Scheme's material financial assets and financial liabilities to interest rate risk and foreign exchange risk after allowing for the impact of effective hedging arrangements.

2008		Interest rate risk		Foreign exchange risk	
		-0.75%	0.75%	-10.0%	10.0%
	Carrying Value $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000
Financial assets					
Cash and cash equivalents	1,102	(8)	8	-	-
Unlisted securities	68,811	-	-	-	-
Financial liabilities					
Payables	2,745	-	-	-	-
Trust-issued Adjustable Preferred Securities	106,845	825	(825)	-	-
Derivative security	1,966	(825)	825	1,469	(1,202)
Total increase/(decrease)		(8)	8	1,469	(1,202)

2007		Interest rate risk		Foreign exchange risk	
		-0.70%	0.70%	-10.0%	10.0%
	Carrying Value $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000
Financial assets					
Cash and cash equivalents	540	(4)	4	-	-
Unlisted securities	78,011	-	-	-	-
Derivative security	5,335	(770)	770	2,665	(2,181)
Financial liabilities					
Payables	2,777	-		-	-
Trust-issued Adjustable Preferred Securities	106,358	770	(770)	-	-
Total increase/(decrease)		(4)	4	2,665	(2,181)

The impact of a +/- 0.75% shift in interest rates has been selected for interest rate sensitivity as it represents a realistic range based upon previous interest rate shifts in the last 6 months and the 12 month interest rate forecast that was issued in December 2008 by Westpac Banking Corporation. The interest rate sensitivity for floating rate instruments assumes expected cash flows to be received change by the stated amount.

The impact of a +/- 10% movement in foreign exchange rates has been selected for foreign exchange sensitivity as it represents a realistic range that the foreign exchange rates held could trade and their maturities. The Australian dollar appreciated against the British pound by 9% over the past 12 months. The 10% sensitivity was selected as it reasonably represents an expected foreign exchange movement over a 12 month period in the context of the longer term historical volatility.

18 Financial risk management (continued)

(b) Foreign exchange risk

The Scheme is exposed to foreign exchange risks arising from movements in the British pound (GBP)/Australian dollar (AUD) foreign exchange rate.

The Scheme has the following directly held material foreign currency exposures:

	2008 **A$'000**	2007 A$'000
GBP denominated financial liabilities carrying value		
Derivative security - notional principal payable	13,221	23,988
Net foreign currency exposure	13,221	23,988

(c) Credit risk

There are no material amounts past due as at the balance sheet date.

An overview of the Scheme's credit risk exposure is included in Note 8 - Receivables and Note 10 - Security assets.

(d) Liquidity Risk

All the Scheme's financial liabilities are due within 12 months, except for the following, for which the contractual undiscounted cash flows are:

2008

	Between 1 and 2 years $'000	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total $'000**
TAPS distribution payable	9,937	29,811	24,842	64,590
Trust-issued Adjustable Preferred Securities	-	-	110,000	110,000
	9,937	29,811	134,842	174,590

2007

	Between 1 and 2 years $'000	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total $'000**
TAPS distribution payable	9,828	29,484	34,398	73,710
Trust-issued Adjustable Preferred Securities	-	-	110,000	110,000
	9,828	29,484	144,398	183,710

(e) Fair value estimation

The carrying amounts of all the Scheme’s financial assets and financial liabilities recognised in the Balance Sheet and notes to the financial statements approximate their fair values. Refer to Note 1 for the methodologies and assumptions used to determine fair value.

19 Related party transactions

(1) Parent entity

The parent entity of the Scheme is HDUF Finance Trust.

Transactions with the parent entity during the year

- Payment agreement interest received or receivable from HDUF Finance Trust: $3,213,000 (2007 - $1,232,000).

For details on the derivative security in place with the parent entity, refer to Note 17.

Outstanding balances with the parent entity at the end of the year

- Loan receivable from HDUF Finance Trust: $4,736,000 (2007 - $4,736,000).
- Payment agreement receivable from HDUF Finance Trust: $808,000 (2007 - $488,000).

(2) Stapled Group and their controlled entities

HDUF Finance Trust, HDUF Epic Trust and HDUF Further Investments Trust are stapled. These stapled entities are known as Hastings Diversified Utilities Fund (HDF or the Stapled Group).

HDUF Further Investments Trust's wholly owned controlled entities comprise HDF International Holdings 1 Pty Ltd (HDFIH1), HDF International Holdings 2 Pty Ltd (HDFIH2) and HDF International Nominees Pty Ltd (HDFIHIN).

HDUF Epic Trust's wholly owned controlled entity is Epic Energy Holdings Pty Ltd (EEH).

Transactions with the Stapled Group and their controlled entities during the year

- Redemption of HDFIH1 Redeemable Preference Shares: $9,201,000 (2007 - $10,077,000).

(3) Responsible Entity

The Responsible Entity for the Scheme is Hastings Funds Management Limited (Hastings).

The immediate parent entity of Hastings is Hastings Management Pty Limited (formerly Westpac Institutional Holdings Pty Limited).

The ultimate parent entity of Hastings Management Pty Limited is Westpac Banking Corporation (Westpac).

The Responsible Entity and its related entities' interest in the financial instruments issued by the Scheme as at the end of the year

The Responsible Entity and its related entities held 4,990 TAPS Trust securities as at 31 December 2008 (2007 - 4,250). This represents a 0.45% ownership interest in TAPS Trust (2007 - 0.39%).

Transactions with the Responsible Entity and its related entities during the year

- Responsible Entity management fees paid and payable: $982,000 (2007 - $1,153,000).
- TAPS distributions paid or payable to Westpac: $47,000 (2007 - $36,000).

Outstanding balances with the Responsible Entity and its related entities at the end of the year

- Cash and cash equivalents held with Westpac: $1,102,000 (2007 - $540,000).
- Responsible Entity management fees payable: $231,000 (2007 - $287,000).

All transactions with related parties were conducted under normal commercial terms and conditions.

19 Related party transactions (continued)

(4) Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Hastings Funds Management Limited at any time during the financial year as follows:

William Forde - Chairman
Steve Boulton - Director
Alan Freer - Director
Stephen Gibbs - Director (appointed 16 December 2008)
Mike Hutchinson - Director
Jim McDonald - Director
Sean McElduff - Director
Jim Tate - Director

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the year:

Name	Position	Employer
Tom Meinert	Chief Operating Officer	Hastings Funds Management Limited

Key management personnel unitholdings

At 31 December 2008 no key management personnel held units in the Scheme (2007 - Nil).

Key management personnel compensation

Key management personnel are paid by Hastings Funds Management Limited. Payments made from the Scheme to Hastings Funds Management Limited do not include any amounts attributable to the compensation of key management personnel.

Key management personnel related entities

Sean McElduff is a Director of Hastings Management Pty Ltd, Westpac Private Equity Pty Ltd and other Westpac entities.

Jim Tate is a Director of Westpac Funds Management Limited, Westpac Custodian Nominees Pty Ltd and a number of other Westpac entities.

William Forde is a director of Westpac Funds Management Limited.

20 Contingent assets, liabilities and commitments

Guarantees

The Scheme, in its capacity as a guarantor, was a party to a $125 million multi-option facility (MOF) agreement dated 18 August 2005 (as amended) between:

- HDUF Finance Trust as borrower;
- Westpac Banking Corporation (Westpac) and Australia and New Zealand Bank (ANZ) as lenders; and
- Hastings Funds Management Limited in its capacity as Responsible Entity for each of HDUF Epic Trust, HDUF Further Investments Trust, HDF International Holdings 1 Pty Ltd and HDF International Holdings 2 Pty Ltd as guarantors.

This facility was repaid and cancelled on its expiry date of 18 August 2008.

The Scheme, in its capacity as a guarantor, was a party to a $107.5 million bridge facility dated 12 June 2007 between:

20 Contingent assets, liabilities and commitments (continued)

- HDUF Finance Trust as borrower;
- ANZ as lender; and
- Hastings Funds Management in its capacity as Responsible Entity for each of HDUF Epic Trust, HDUF Further Investments Trust, HDF International Holdings 1 Pty Ltd and HDF International Holdings 2 Pty Ltd as guarantors.

The facility was repaid and cancelled on 31 January 2008 (2007 - $5,130,000 drawn).

The Scheme, in its capacity as a guarantor, is a party to a $59.6 million single draw cash advance loan facility agreement (Loan Facility) dated 14 August 2008 between:

- HDUF Finance Trust as borrower;
- Westpac and ANZ as lenders; and
- Hastings Funds Management Limited in its capacity as Responsible Entity for each of HDUF Epic Trust, HDUF Further Investments Trust, HDF International Holdings 1 Pty Ltd and HDF International Holdings 2 Pty Ltd as guarantors.

At 31 December 2008, this loan facility was drawn to $59,600,000 (2007 - $Nil).

There are no other outstanding contingent assets, liabilities or commitments as at 31 December 2008.

21 Events occurring after the balance sheet date

South East Water is regulated in real price terms and as a consequence South East Water's revenues and regulatory capital value are affected by movements in the Retail Price Index in the United Kingdom (UK). This is partially mitigated by linking a portion of South East Water's cost base to inflation via the use of index linked debt. However, a perfect hedge is difficult to achieve. There is also a difference in the indexation timing of South East Water's regulatory capital value, debt, and revenues.

A recent unusual decline in the UK Retail Price Index is likely to result in an increase in South East Water's gearing levels. As a consequence an equity capital injection is being considered by the shareholders of South East Water (which include HDF). As at the date of signing this report the amount and timing of any capital injection had not been finalised.

Since 31 December 2008, there has not been any other matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Scheme.

Directors' declaration

In accordance with a resolution of directors of Hastings Funds Management Limited, as Responsible Entity for TAPS Trust (the Scheme), I state that:

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 5 to 29 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Scheme's financial position as at 31 December 2008 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and

(c) the financial report is in accordance with the provisions of the registered Scheme's Constitution.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 31 December 2008.

For and on behalf of Hastings Funds Management Limited, as Responsible Entity for the Scheme.

Steve Boulton

Director

26 February 2009

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the unitholders of TAPS Trust

Report on the financial report

We have audited the accompanying financial report of TAPS Trust (the scheme), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, and the directors' declaration for TAPS Trust.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the unitholders of TAPS Trust (continued)

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of TAPS Trust is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the scheme's financial position as at 31 December 2008 and of its performance for the year ended on that date; and

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

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

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of TAPS Trust (the scheme) for the year ended 31 December 2008 included on the Hastings Funds Management Limited (HMFL) web site. The directors of HMFL are responsible for the integrity of the web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

JF Power

JF Power
Partner

Melbourne
26 February 2009

D. Independent auditor's report

The financial report has been audited and the report is attached. Refer to Section C.