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ASX Announcement

TAPS Trust (TTXPA) Total pages: 41

27 March 2009

TAPS Trust 2008 Annual Report

Attached is the TAPS Trust 2008 Annual Report which has been mailed to investors today.

For further enquiries, please contact:

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Claire Filson
Company Secretary
Hastings Funds Management Limited

Hastings
Funds Management

Trust-issued Adjustable Preferred Securities

Annual Report 2008

A member of the Westpac Group

TAPS 08

Trust-issued Adjustable Preferred Securities (TAPS) are cumulative, reset, preferred units in the TAPS Trust. TAPS Trust was established by Hastings as Responsible Entity for the Hastings Diversified Utilities Fund (HDF) to finance the purchase of a 50 percent interest in Mid Kent Water (now merged with South East Water).

TAPS were listed on the Australian Securities Exchange on 6 May 2005 under the code TTXPA. Quarterly distributions to TAPS holders have been underpinned by the stable cash flows generated by Mid Kent Water, a regulated water utility in south east England. In December 2007, Mid Kent Water was merged with South East Water, another regulated water utility in south east England. As a result of the merger, the cash flows from the merged group now underpin the distributions to TAPS holders (and other creditors in accordance with their respective rankings) further enhancing cash flow coverage to TAPS holders. TAPS distributions are also guaranteed by HDF, subject to certain conditions as set out in the TAPS Product Disclosure Statement.

About this report

Hastings Funds Management Limited (Hastings) aims to make this Annual Report an accurate and easy-to-read document for investors and other interested parties. This report provides information about TAPS Trust's activities and performance during the year. Your feedback and suggestions for improvement are welcomed. If you have any comments on the report, please contact Hastings' Company Secretary on +61 3 9654 4477 or at investor_relations@hfm.com.au

Overview

TAPS holders receive a floating rate distribution of 2.00 percent per annum over the 90 day bank bill rate, paid quarterly.

In 2008, TAPS holders were entitled to four 100 percent tax deferred distributions.

March distribution

$2.2887/security

June distribution

$2.4458/security

September distribution

$2.4601/security

December distribution

$2.2584/security

Total for the year $9.4530/security

Asset Location

South East Water (including Mid Kent Water).

South East Water is the largest regulated water-only company in England and Wales, and supplies water to over two million customers across Kent, Sussex, Hampshire, Berkshire and Surrey. The merger between South East Water and Mid Kent Water aims to allow optimisation of key business functions and should provide cost effective and enhanced customer service.

The Year in Review

Welcome to the TAPS Trust Annual Report for the year ended 31 December 2008.

The TAPS Trust is a registered managed investment scheme that was established by the Hastings Diversified Utilities Fund (HDF) to issue TAPS. The proceeds from the TAPS issue were used by HDF to finance the acquisition of 50 percent of Mid Kent Water. Distributions paid to TAPS holders have been underpinned by the stable cash flows generated by Mid Kent Water, a regulated water utility in south east England. In October 2006, HDF acquired an interest in South East Water, another regulated water utility in south east England. Subsequently, in December 2007, Mid Kent Water was merged with South East Water, and as a result of the merger, the cash flows from the merged group now underpin the distributions to TAPS holders. This is a favourable outcome for TAPS holders as the merger results in significant additional cash flow coverage for TAPS holders. TAPS distributions are also guaranteed by HDF, subject to certain conditions as set out in the TAPS Product Disclosure Statement (PDS) dated 15 March 2005.

Distributions to TAPS holders

TAPS holders were entitled to four distribution payments during the financial year ended 31 December 2008 totalling $9.4530 per security, and were 100 percent tax deferred. The total distribution paid to TAPS holders during the period was $10.4 million.

TAPS Trust financial report

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.

	Year ended 31 December 2008 $'000
Operating revenue	(4,019)
Operating expenses	(1,660)
Distributions to TAPS holders	(10,398)
Net loss attributed to ordinary securityholders (HDF)	(16,077)

Summary

South East Water performed in line with expectations during 2008, with management focusing on the pricing review and consolidating the business to maximise the benefits of the merged entity.

Thank you for your support through 2008.

Tom Meinert Chief Operating Officer
TAPS Trust
17 March 2009

Review of Investment Portfolio

South East Water
including Mid Kent Water

South East Water (incorporating Mid Kent Water) is the largest regulated water-only company in England and Wales, and supplies water to over two million customers across Kent, Sussex, Hampshire, Berkshire and Surrey. The merger between South East Water and Mid Kent Water aims to allow optimisation of key business functions, and should provide cost effective and enhanced customer service.

South East Water is the largest of 11 regulated water-only companies by regulatory capital value in England and Wales. It holds a rolling 25 year licence for the provision of water-related services to more than two million customers within an appointed area of more than 5,600 square kilometres in the south east of England.

South East Water is subject to limited competition, with water services licences in England and Wales being allocated on a regional basis.

Water company prices in England and Wales are regulated, with prices and returns set by the industry regulator, Ofwat, every five years. The latest regulatory determination was effective from 1 April 2005, securing prices until 31 March 2010. Over 90 percent of South East Water's revenue comes from regulated sources.

Unaudited (1) (2)	% Change	Half year ended 30 September 2008 £m	Half year ended 30 September 2007 £m
Revenue	1.6	85.9	84.5
EBITDA	1.7	51.1	50.2
Operating profit	3.7	35.2	34.0
Profit after tax	(18.2)	13.8	16.8

(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) South East Water and Mid Kent Water were merged in December 2007. The above 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.

Right Pan Lake, South East Water, United Kingdom

Financial highlights

The most recent financial results for South East Water are the unaudited interim results for the half year ended 30 September 2008 (South East Water results cover the first full period of trading as the merged business). Operating results were steady for the combined South East Water/Mid Kent Water, 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.

Operational performance

Consumption levels are around two percent above those experienced in 2007, a fairly modest increase as a result of a further wet summer. Water sources are currently at or above long-term average levels, and no restrictions are envisaged in the coming European summer months.

Merger activity has continued at pace. Having in-sourced all customer service activity, the new in-house call centre was fully functioning by the autumn, and South East Water is seeing the benefit of the changes in the service performance, although there remains much to be achieved. South East Water has appointed a Customer Service Director, reflecting the importance of customer service delivery to the enlarged business.

Capital program

In the current financial year, South East Water will spend approximately £77 million on its capital program, which will bring cumulative spend in line with the funded capital program for four years of the 2005–2010 regulatory contract.

Key schemes include the installation of a new disinfection plant at Bray, water treatment works, pipeline linkage of some 17 kilometres to a key storage facility, development of new sources to meet current water resource plan targets and major upgrade of key reservoir and treatment plant facilities.

Looking ahead

The United Kingdom is currently experiencing a sharp economic downturn brought on by the global financial crisis. South East Water's management is closely monitoring the potential impacts of the economic downturn on the business and is seeking to implement a number of measures to mitigate any potential impact. However, at this stage, the precise impact of the economic downturn on the financial performance of the business is difficult to determine.

Retail Price Index

In line with the general economic downturn, the UK Retail Price Index (RPI) has declined in recent months. To ensure that South East Water remains in compliance with its debt covenants, the shareholders in South East Water have made a capital injection so that appropriate gearing levels will be maintained in the event that the annualised RPI for March 2009 falls to a level as low as -3.0 percent per annum.

Price review 2010–2015

The price review is now progressing at considerable pace. South East Water submitted and published its draft business plan in August last year. Comments from Ofwat and other stakeholders have been received, and South East Water is currently preparing its final business plan for submission in April. Ofwat will issue draft price determinations in late July and final prices will be set by the regulator in November 2009.

Water resource plan – 2010–2035

In conjunction with the price review process, South East Water has published a draft water resource plan, which extends to 2035. Subsequent to a public consultation period, South East Water has prepared its response, which has been submitted to government. South East Water awaits directions on the plan, which should be received later in the year. The final business plan embraces all funding requirements for water resource projects for the 2010–2015 period consistent with the water resource plan.

Hastings Funds Management

Global Offices

Company History

1994	Hastings Funds Management Limited (Hastings) established in Melbourne, Australia
Nov 1994	Established Utilities Trust of Australia (UTA)
Mar 1997	Hastings' Australian Infrastructure Fund (AIX) listed on the ASX
Mar 1999	Established Hastings Yield Fund (HYF)
Jun 2000	Commenced management of The Infrastructure Fund (TIF)
Feb 2001	Launched Hastings Private Equity Fund (HPEF)
Dec 2001	Established Hastings Hancock International Timberland Fund (HHIT)
Aug 2002	Westpac Banking Corporation acquired 51 percent of Hastings
Oct 2003	Established Hastings Income Trust (HIT)
Mar 2004	Established Hastings Infrastructure Fund (HIF)
Dec 2004	Hastings Diversified Utilities Fund (HDF) listed on the ASX
Mar 2005	Hastings established alliance with HOCHTIEF AirPort Capital
May 2005	TAPS Trust (TTXPA) listed on the ASX
Apr 2005	Hastings High Yield Fund (HHY) listed on the ASX
Nov 2005	Westpac Banking Corporation completed 100 percent acquisition of Hastings
Dec 2005	Hastings opened United Kingdom/Europe office in London
Sep 2006	Hastings opened United States office in New York
Oct 2007	Hastings' assets under management in excess of $5 billion
Dec 2007	Hastings announced integration with Westpac's Specialised Capital Group (SCG)
Dec 2007	Hastings formalised alliance with Zachry American Infrastructure
Oct 2008	Hastings integration with SCG completed bringing assets under management to over $7 billion and total staff to over 160

Hastings Funds Management Limited Board

Liam Forde

BSc (Econ), MAICD, CFTP

Term of office: Chairman since 26 October 2006, Director since January 2006

Non-executive and Independent: Yes

External directorships: *Current:* Director of Hastings Management Pty Ltd, Westpac Funds Management Limited, Westpac Funds Management Administration Pty Ltd, Rosecorp Pty Ltd Advisory Board, Colostar Pty Limited and Lynas Corporation Limited. *Previous:* Director of Baulderstone Hornibrook Pty Ltd.

Skills, experience and expertise: Liam brings to Hastings a wealth of experience and knowledge developed over a career spanning more than 30 years. He has held senior executive positions in a variety of industries, including Ford Motor Company in the UK, Simpson Holdings Limited and Baulderstone Hornibrook in Australia.

His industry experience covers retailing, domestic appliance manufacture and distribution, electronics, automotive, and the development, financing and construction of major infrastructure. He is an experienced executive who has operated as Chief Executive Officer (CEO) and in cross-functional roles across a diverse range of industries operating in both domestic and international markets, including Europe, Indonesia, China, India, Vietnam, Panama and Thailand. He was formerly Chief Executive of Baulderstone Hornibrook, one of Australia's leading construction and engineering companies.

HFML Board committee membership: Liam was a member of the Audit and Compliance Committee from January 2006 to September 2007. He was Chairman from January 2006 to July 2007.

Steve Boulton

BBus, MTM, GAICD, FAIM, CMAHRI

Term of office: Director since September 2007

Non-executive and Independent: No

External directorships: *Current:* Director of Australian Infrastructure Fund Limited, Hastings Management Pty Ltd, Westpac Funds Management Limited, Westpac Funds Management Administration Pty Ltd and Australia Pacific Airports Corporation Limited. *Previous:* Steve was previously a director of a number of Babcock & Brown related entities and industry sector boards.

Skills, experience and expertise: Steve was appointed to the role of Chief Executive of Hastings in September 2007. Prior to this, Steve held the position of Chief Executive of Babcock & Brown Infrastructure and its Fund Manager, with assets spread globally across three continents. Steve was Chairman/Director of each of the major fund investments in the broad portfolio, which included electricity and gas transmission and distribution, seaports, power generation and rail networks.

Steve has also held Chief Executive roles with Powerco Limited, an electricity and gas distribution utility, which he led through an IPO onto the NZX, and with Allgas, a natural gas and LPG distribution and retailing entity listed on the ASX. In these CEO roles, Steve grew the funds/assets under management, business ownership and operations by leading a range of mergers and acquisition transactions in the infrastructure and utility sectors, with exposure to both equity and debt capital markets.

Steve has held a range of executive and management positions, including roles in ENERGEX and Shell Coal. He has management experience in listed, unlisted and public utilities through his 30-year career. Steve holds a Bachelor of Business and a Masters of Technology Management and is a Fellow of the Australian Institute of Management.

HFML Board committee membership: No.

Alan Freer

B.Ec, FAICD

Term of office: Director since September 2007

Non-executive: Yes

Independent: No

External directorships: *Current:* Director of Electranet Pty Ltd and member of Victoria Police Finance and Physical Resources Committee. *Previous:* Director of Epic Energy Holdings Pty Ltd, Ausdoc Group Ltd, Electricity Services Victoria, Treasury Corporation of Victoria and Australian Pipeline Industry Association Ltd.

Skills, experience and expertise: Alan has had a career spanning over 35 years in both the public and private sectors. He has a broad background, with extensive experience in the energy and logistics industries and expertise in managing multi-divisional and geographically dispersed businesses.

Most recently, Alan was Managing Director of the Hastings' managed Epic Energy from July 2004 to July 2007, and made a valuable contribution by transforming Epic Energy into one of Australia's best performing gas pipeline organisations. Previously, Alan was Managing Director of Ausdoc Group Ltd, and held senior executive positions with Email Limited and the State Electricity Commission of Victoria. Alan has practised as a Certified Practising Accountant.

HFML Board committee membership: Alan was appointed a member of the Audit and Compliance Committee in September 2007.

Stephen Gibbs

BEcon, MBA

Term of office: Director since December 2008

Non-executive and Independent: Yes

External directorships: *Current:* Director of Hastings Management Pty Ltd, Westpac Funds Management Limited, Westpac Funds Management Administration Pty Ltd, Australian Income Protection Pty Limited, Director and Secretary of Steve Gibbs Kate Wood & Associates Pty Ltd. *Previous:* Director of Boeing Australia Limited and Aerospace Technologies of Australia.

Skills experience and expertise: Stephen joined the Hastings Board following an extensive and successful career, which included senior roles in industry, superannuation and investment management. Stephen was Chief Executive Officer of Australian Reward Investment Alliance (ARIA), a position he held from January 2000 until January 2008. During his eight year tenure, Stephen managed ARIA's significant growth from approximately $10 billion in funds under management to nearly $20 billion. Prior to his role at ARIA, Stephen was the Executive Officer of the Australian Institute of Superannuation Trustees. Stephen brings a deep knowledge of the issues facing investors, the management of asset portfolios and a range of other skills to the Hastings Board.

HFML Board committee membership: No.

Mike Hutchinson

BSc (Hons), CPEng

Term of office: Director since March 2000

Non-executive and Independent: Yes

External directorships: *Current:* Australian Infrastructure Fund Limited, Westpac Funds Management Limited, Westpac Funds Management Administration Pty Ltd and Epic Energy Holdings Pty Ltd. *Previous:* Director of Pacific Hydro Ltd, OTC Ltd, the Australian Postal Corporation and the Australian Graduate School of Management Ltd. Chairman of HiTech Group Australia Ltd.

Skills, experience and expertise: Mike is a qualified civil engineer, educated at the University of Newcastle upon Tyne, United Kingdom, and Harvard Business School. He was formerly an international transport engineering consultant, with experience in the United Kingdom, France, Australia, Africa, South East Asia and the Pacific. From 1980 to 1999, he was a senior official with the Australian Government, mainly working in the transport and communications sectors. He worked closely on reform of the Australian Government's state-owned enterprise sector from 1987 to 1996 and was acting Managing Director of the former OTC Ltd in 1989. He led the government's major privatisation program over the period 1996 to 1999, including Telstra, ANL Ltd, Australian National and most of Australia's airports, and he worked closely on the regulation of privatised infrastructure. Since 2000, he has practised as a private consultant and company director. He has been a trustee of the Australian Government's superannuation schemes and a consultant to a global investment bank.

HFML Board committee membership: Mike has been a member of the Audit and Compliance Committee since 2003 and was appointed Chairman on 23 July 2007.

Jim McDonald
FAICD

Term of office: Director since July 2007

Non-executive and Independent: Yes

External directorships: *Current:* Director of Westpac Funds Management Limited, Westpac Funds Management Administration Pty Ltd, Chairman of WDS Limited (previously Walter Diversified Services Limited). *Previous:* Chairman of Vortex Pipes Limited, Director of Pearlstreet Limited, Australian Pipeline Limited and East Australian Pipeline Limited.

Skills, experience and expertise: Jim brings to Hastings significant expertise and knowledge, with over 30 years' experience in industry. Jim was Managing Director and CEO of Australian Pipeline Trust from 2000 to 2005. Prior to that, he was General Manager Pipeline Division of Australian Gas Light Company from 1996 to 2000. Jim's previous experience also includes 15 years with ESSO Australia Ltd in oil and gas production in Bass Strait.

HFML Board committee membership: Jim was appointed a member of the Audit and Compliance Committee in July 2007.

Sean McElduff
BBus (Accounting/Law), GAICD

Term of office: Director since October 2002, Chairman from June 2004 to October 2006 and continues as a Director

Non-executive: Yes

Independent: No

External directorships: *Current:* Director of Westpac Funds Management Limited, Westpac Funds Management Administration Pty Ltd, Westpac Institutional Holdings Pty Ltd, Westpac Private Equity Pty Ltd and other Westpac companies. *Previous:* Director of a number of Westpac related entities and Epic Energy East Pipelines Pty Ltd.

Skills, experience and expertise: Sean joined Westpac in 1977 and Westpac Institutional Bank in 1984. In 1990, he transferred to New York for three years and on return to Australia established Westpac's Securitisation Business Unit. He is currently responsible for Westpac's Specialised Capital Group.

Since 1993, Sean has run business units in the wholesale bank unit, including securitisation, corporate finance, equities and advisory, and sales and marketing. In 1999, he was appointed General Manager and became a member of both the bank's Management Council and Westpac Institutional Bank's Executive Team.

HFML Board committee membership: Sean was a member of the Audit and Compliance Committee from 2003 to July 2007.

Jim Tate
BCom, MCom, FAICD

Term of office: Director since June 2004

Non-executive: Yes

Independent: No

External directorships: *Current:* Director of Westpac Institutional Holdings Pty Ltd, Westpac Custodian Nominees Pty Ltd and other Westpac companies. *Previous:* Director of a number of GE related companies.

Skills, experience and expertise: Jim has over 30 years' experience in the financial services sector, 20 with Westpac Banking Corporation. Through the late 1980s and early 1990s, he held a number of managerial roles in Westpac's Australian Financial Markets Group, mainly in fixed income and derivatives.

After six years heading the bank's operations in New York and London, he returned to Australia in 1999 where he has undertaken a number of General Manager roles within Westpac Institutional Bank, including Corporate Banking and Chief Financial Officer. From 2000 to 2003, he managed the integration, and later, sale of Australian Guarantee Corporation (AGC) to GE Capital. He is currently General Manager of the consolidated Westpac Group's lending to small and medium business enterprises throughout Australia.

HFML Board committee membership: No.

Corporate Governance

Hastings has adopted and operates under each of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations. To the extent that Hastings does not fully comply with a particular recommendation, the non-compliance is disclosed and explained in this Corporate Governance Statement.

1. Board of Directors

1.1 Board's role and responsibilities

Hastings is the Responsible Entity, Trustee and Manager of a number of funds. The Board of Hastings has the responsibility of managing and administering the Fund for the benefit of the securityholders and is accountable to the securityholders for the performance of the Fund.

The Board has adopted a Charter and the full terms are available at www.hfm.com.au. The Board has the following responsibilities and functions:

- consideration and approval of the strategy of Hastings and its funds;
- adoption of annual business plans and budgets;
- monitoring performance against agreed business plans;
- delegation of authority to management;
- establishment of, and delegation to, Board sub-committees;
- monitoring significant business risks and their internal controls;
- consideration, approval and endorsement of major policies, including the Code of Conduct;
- capital structure;
- dividend declarations;
- approval of new debt, debt refinancing and retirement of debt;
- approval of financial statements;
- assessing its own performance and the performance of individual directors;
- appointing and, where appropriate, removing the Chief Executive (CE), Chief Financial Officer and the Company Secretary.

The Board has adopted a formal delegation of authority in favour of the CE, Company Secretary and senior members of management to allow management to carry on the business of the Fund.

1.2 Composition of the Board and independence

The directors have adopted the definition of independence recommended by the ASX Corporate Governance Council. Directors are considered independent if they are free of any business or management relationship that could materially interfere with the discharge of their duties or the exercise of their judgement.

The Board of Hastings consists of eight directors, four of whom are independent. Westpac Banking Corporation (Westpac), the owner of Hastings, has recently reviewed the composition of the Board to ensure that it achieves a balance of skills, experience and knowledge to allow directors to discharge their duties and responsibilities and to position Hastings for future growth.

- **Liam Forde, Chairman**: Following the retirement of Tim Poole, Hastings' Managing Director, on 15 June 2007, the Chairman of the Board was appointed Executive Chairman of Hastings on an interim basis until a replacement CE was appointed. The Board has assessed that whilst Liam was not independent between 15 June and 3 September, owing to the short-term interim nature of the arrangement, Liam resumed his independent status from 3 September 2007 (when Steve Boulton commenced as CE).
- **Steve Boulton, CE**: Steve was appointed with effect from 3 September 2007 and is an executive of Hastings and is not independent.
- **Mike Hutchinson**: Mike is also a director of Australian Infrastructure Fund Limited (AIFL), which is a major client of Hastings. The Board has formally assessed the independence status of Mike and resolved that he remains independent for the following reasons:
  - he is only one of several directors on the Board of Hastings, is a non-executive director and as such cannot unduly influence the Board's decision-making process;
  - he is a non-executive director of AIFL, only one of a number of directors on the AIFL Board and is remunerated by way of a fixed fee and not incentive arrangements;
  - he has disclosed his interest as a director of AIFL and always declines to vote on those matters where a potential conflict of interest arises between Hastings and AIFL; and
  - he has demonstrated personal integrity and independence in all his dealings with both Hastings and AIFL.
- **Jim McDonald**: Jim was appointed to the Board with effect from 1 July 2007 and is an independent director.
- **Alan Freer**: Alan was appointed to the Board on 1 September 2007. He is currently a consultant to Hastings and was formerly Chief Executive Officer of Epic Energy from 2004 to 2007. He is not independent.
- **Stephen Gibbs**: Stephen was appointed to the Board on 16 December 2008 and is an independent director.
- **Jim Tate and Sean McElduff**: Jim and Sean are employees of Westpac and neither is independent.

The number of Hastings Board meetings held during the year and the number of meetings attended by each director is shown below.

Hastings Board meetings	Scheduled meetings		Extraordinary meetings (1)	
	Meetings held while a director	Number of meetings attended	Meetings held while a director	Number of meetings attended
Liam Forde	10	9	8	6
Steve Boulton	10	9	8	8
Alan Freer	10	10	8	8
Mike Hutchinson	10	8	8	7
Jim McDonald	10	10	8	7
Sean McElduff	10	8	8	6
Jim Tate	10	8	8	3
Stephen Gibbs (2)	1	1	0	0

(1) Extraordinary meetings may be called at short notice. Even though every effort is made to schedule a meeting for all directors to attend, sometimes this is not possible.
(2) Stephen Gibbs was appointed with effect from 16 December 2008.

1.3 Nomination and remuneration of directors

Hastings has not established a nomination committee because the nomination, appointment and remuneration of its directors is determined by its sole shareholder, Westpac. Westpac's Nomination Committee approves the appointment of the non-executive directors. The remuneration of the external directors is determined by the Remuneration Committee of Westpac. Neither Hastings' directors nor its employees are remunerated out of the property of the Fund.

1.4 Independent professional advice

After consultation with the Chairman, directors may seek independent professional advice at the expense of Hastings. Following its receipt, such advice would normally be made available to all directors.

1.5 Conflicts of interest

The directors are required to disclose any actual or potential conflicts of interest and to abstain from participating in any discussion or voting on any matter in which they have a material personal interest, except with the prior approval of the Board. Directors are also required to inform the Chairman of any proposed Board or executive appointments they are considering to determine whether there is any actual or perceived conflict with the director's duties to the Fund or Hastings.

All related party transactions or potential conflicts of interest involving any director or any related parties of either the directors or Hastings, such as Westpac, are disclosed. Hastings has established a related party sub-committee that considers all related party transactions. The sub-committee comprises any two directors, excluding any Westpac or Hastings employee, and subject to those directors not having a material personal interest in the matter being considered. The sub-committee, inter alia, reviews all Westpac banking relationships with Hastings and Hastings' funds.

1.6 Review of Board performance

Following a recent review of the Board's composition, a performance review will be conducted during 2009.

The performance of all Hastings' staff, including the CE and senior management, is reviewed annually as part of the process of setting business plans and objectives and to assist in clarifying roles and responsibilities. The Hastings Performance Management System is designed to ensure that individual and team performance is consistent with the strategic objectives of Hastings, including the paramount interests of investors in Hastings' funds, and those performance expectations, measures and targets are clearly defined, agreed and reviewed throughout the year.

1.7 Operation of the Board

The Board meets regularly and is provided with all necessary information to participate in an informed discussion of all agenda items. The Board also meets in the absence of management to discuss the operations of the Board and a range of other matters.

Hastings has an induction process for new directors, and directors are encouraged to update and enhance their skills and knowledge by funding appropriate training programs. There is also an induction process for all staff to ensure that they understand their responsibilities.

1.8 Company Secretaries

The directors have unfettered access to the Company Secretaries, who are accountable to the Board on governance matters. The Board is responsible for the appointment and removal of the Company Secretaries.

2. Audit & Compliance Committee

The Board has established an Audit & Compliance Committee with a formal charter setting out its roles and responsibilities. The Charter is available for inspection on the Hastings website at www.hfm.com.au.

The duties of the Audit & Compliance Committee include:
- reviewing the financial management and internal controls, including reviewing the financial statements and the adequacy of the scope and quality of the annual and half year statutory audits;
- monitoring the internal audit function;
- external audit, including the selection and appointment of the internal and external auditor;
- risk management; and
- monitoring compliance, including fund compliance.

The Audit & Compliance Committee consists of three members, all non-executive, with the majority being independent. Since 23 July 2007, the Chairman of the committee is Mike Hutchinson; Alan Freer and Jim McDonald are members. Individual directors' details are set out on pages 7 to 9.

A performance review will be conducted later this calendar year.

All directors of the Board are entitled to attend the Committee meetings and are provided with copies of the Committee papers and all minutes. The Chairman of the Committee provides the Board with a verbal report following each Audit & Compliance Committee meeting. The internal and external auditor, CE, Chief Financial Officer, Company Secretary and Head of Compliance attend by invitation.

The number of Audit & Compliance Committee meetings held during the year and the number of meetings attended by each member is shown below.

Hastings Audit & Compliance Committee meetings	Scheduled meetings		Extraordinary meetings [1]	
	Meetings held while a director	Number of meetings attended	Meetings held while a director	Number of meetings attended
Mike Hutchinson	4	4	2	2
Alan Freer	4	3	2	2
Jim McDonald	4	4	2	2

(1) Extraordinary meetings may be called at short notice. Even though every effort is made to schedule a meeting for all directors to attend, sometimes this is not possible.

3. Auditor independence

PricewaterhouseCoopers is the external auditor of the Fund. The Audit Partner is invited to attend Audit & Compliance Committee meetings and to attend any securityholder meetings and answer any questions about the conduct of the audit and the preparation and content of the Auditor's Report.

The Board has adopted a policy in relation to the provision of non-audit services by its auditor that might detract from the auditor's independence and impartiality or be perceived as doing so. Specifically, it has been determined that the auditor should not provide the following services to the Fund:

- independent valuations of assets for the purpose of determining the value of assets owned by the Fund;
- taxation services related to development of a new product for the Fund where fees are success based; and
- bookkeeping or other services related to accounting records or financial statements of the Fund.

Hastings has also appointed Ernst & Young as Internal Auditor to audit the compliance plan of the Fund and all other schemes of which it is Responsible Entity.

4. Risk management

Hastings has developed a comprehensive risk assessment process to identify and manage its material business risks and document how it manages and mitigates those risks.

The Audit & Compliance Committee monitors risk and compliance processes. The Audit & Compliance Committee reviews the processes in place for the identification, management and reporting of business and financial risk, and reviews the reported findings. As part of this process, each year Hastings prepares and provides a representation letter to the Board. This representation letter addresses the compliance, legal and accounting requirements; risks (both financial and business); the nature, extent and effectiveness of risk management processes, internal compliance, accounting and internal control systems; and corporate conduct generally.

The Chief Executive, and the Chief Financial Officer of Hastings have made the following certifications to the Board of Hastings:

- that the Fund's financial report presents a true and fair view, in all material respects, of the Fund's financial condition and operational results and are in accordance with relevant accounting standards;
- there is a sound system of risk management and internal compliance and control; and
- Hastings' risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

5. Disclosure and transparency

5.1 Communication with securityholders

The Board is committed to communicating effectively with unitholders to ensure that they are kept fully informed of all information necessary to assess the performance of the Fund.

Information is communicated via:

(a) the Annual Report;
(b) unitholders' briefings at which Hastings' management is available to respond to unitholders' questions;
(c) announcements; and
(d) Hastings' website at www.hfm.com.au.

5.2 Continuous Disclosure

The Board has adopted a Continuous Disclosure Policy in order for Hastings to meet its Listing Rules obligations and to ensure the market remains fully informed. A copy of the Continuous Disclosure Policy is available at www.hfm.com.au.

5.3 Insider Trading

The Board has adopted a policy on trading in securities issued by Hastings' funds. The policy specifies the periods during which directors and employees of Hastings can purchase and sell units in the Fund, and the authorisation procedure. A copy of the Trading Policy is available at www.hfm.com.au.

5.4 Code of Conduct

Hastings is committed to the highest standards of ethical conduct, and has adopted a Code of Conduct setting out acceptable standards of behaviour. The Code of Conduct is designed to promote ethical and responsible decision-making. This code applies without exception to all directors, executives, management and employees, and is aligned with Hastings' core values of teamwork, integrity and achievement.

The Code sets out seven foundation principles that govern our conduct and the behaviours which stakeholders can expect from us, namely:

- act with honesty and integrity;
- respect the law and act accordingly;
- respect confidentiality and do not misuse information;
- value and maintain professionalism;
- act as a team;
- manage conflicts of interest responsibly; and
- strive to be a good corporate citizen and achieve community respect.

A full copy of the Code of Conduct is available at www.hfm.com.au.

6. Remuneration framework

Details of amounts paid to Hastings as Responsible Entity of the Fund are disclosed in the related party note contained in the financial reports included in this Annual Report. Hastings is paid a management fee in accordance with the terms of the Fund's constitution. Hastings' is also entitled to an incentive fee that is calculated in accordance with the Fund's constitution. Details are set out in the notes to the financial statements. Hastings' directors and employees are not remunerated out of the property of the Fund.

Financial Information

TAPS

ARSN 113 037 317

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.

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 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.

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 15.

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
ABN 52 780 433 757

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2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

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

For the year ended 31 December 2008

	Note	**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

As at 31 December 2008

	Note	**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

For the year ended 31 December 2008

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

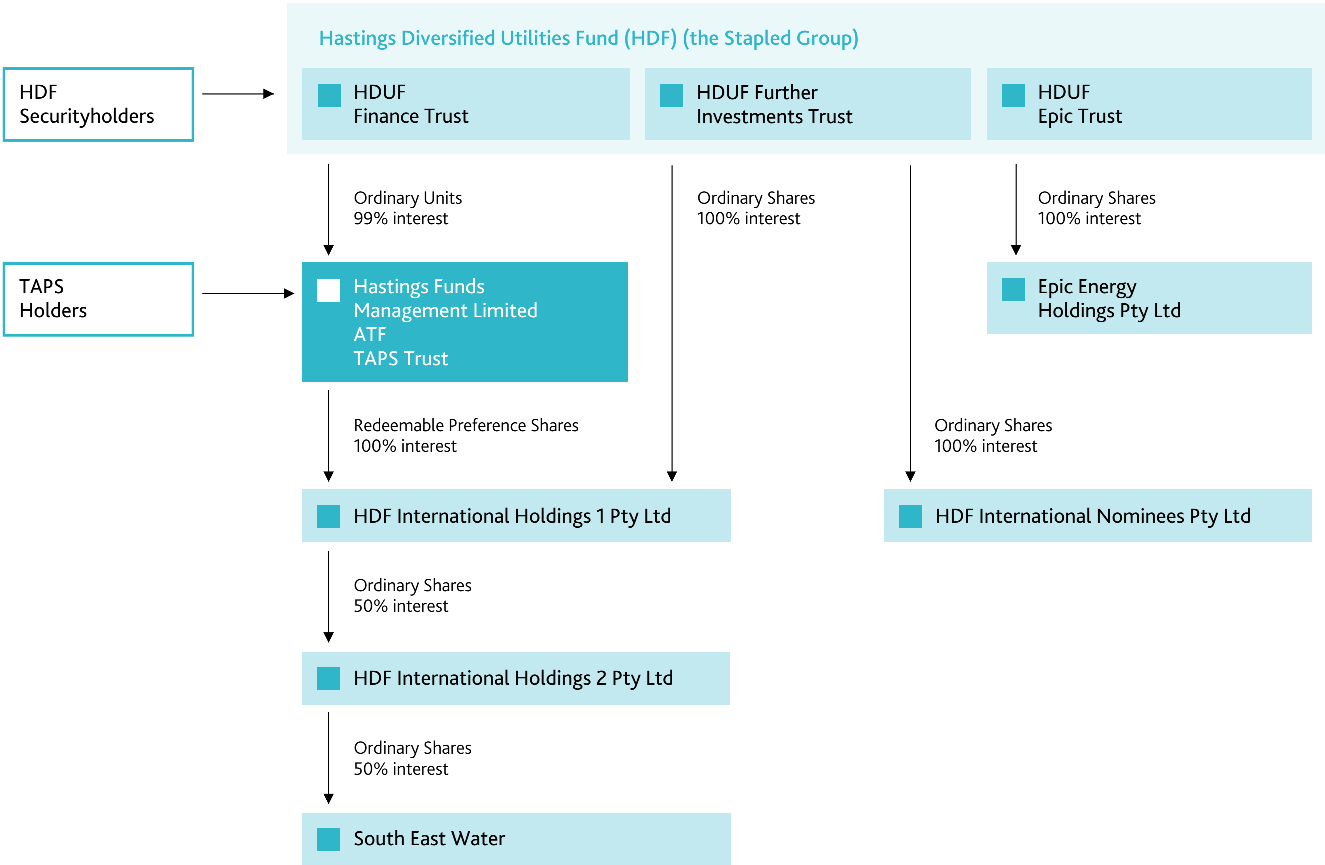
For the year ended 31 December 2008

	Note	**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) operating activities	7(a)	**1,731**	**(472)**
Cash flows from investing activities			
Proceeds from unlisted security capital repayments		9,201	10,077
Net cash flows from/(used in) investing activities		**9,201**	**10,077**
Cash flows from financing activities			
TAPS distributions paid		(10,370)	(9,219)
Net cash cash flows 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).

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.

1. Summary of significant accounting policies continued

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.

(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.

(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.

1. Summary of significant accounting policies continued

(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 marketplace 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.

(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.

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 one percent of the Scheme's market capitalisation (2007 – one percent) 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.

1. Summary of significant accounting policies continued

(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.

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 percent 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 Note 13 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**
	$'000	$'000
(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).

(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 two percent 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*	**–**	**–**	**–**	**–**
Net liabilities attributable to A class unitholders comprise:				
Opening balance	–	–	–	–
A class units issued during the year	–	–	–	–
Closing balance^	**–**	**–**	**–**	**–**

* 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.

	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)**

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.

				Foreign currency principal payable		**AUD principal receivable/ (payable)**		**Fixed interest rate payable quarterly**	**Floating interest rate receivable quarterly**	**Fair value**	
Counterparty	**Contract date**	**Maturity date**	**Foreign currency**	**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 cash flows of the security. Forecast cash flows 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.

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.

18. Financial risk management continued

(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.

		Interest rate risk		Foreign exchange risk	
		-0.75%	0.75%	-10.0%	10.0%
2008	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)**

		Interest rate risk		Foreign exchange risk	
		-0.70%	0.70%	-10.0%	10.0%
2007	Carrying Value $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000
Financial assets					
Cash and cash equivalents	540	(4)	8	–	–
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 percent 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 six 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 percent 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 nine percent over the past 12 months. The 10 percent 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 percent ownership interest in TAPS Trust (2007 – 0.39 percent).

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.

(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	Tom Meinert
Position	Chief Operating Officer
Employer	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:

- 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 16 to 31 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

JF Power
Partner

Melbourne
26 February 2009

Investor Details

The securityholder information set out below was applicable as at 27 February 2009.

1. The voting rights are one vote per security.
2. The number of securityholders holding less than a marketable parcel was zero.
3. The percentage of the total holdings held by or on behalf of the 20 largest holders of these securities was 47.95 percent.

Twenty largest holders of securities	Number held	% of total
J P Morgan Nominees Australia Limited	156,358	14.21
RBC Dexia Investor Services Australia Nominees Pty Limited <GSENIP A/C>	71,006	6.46
CWC COFA Pty Ltd + CWC COFB Pty Ltd <CWC COF1 A/C>	54,000	4.91
Citicorp Nominees Pty Limited	37,777	3.43
UBS Wealth Management Australia Nominees Pty Ltd	33,419	3.04
HSBC Custody Nominees (Australia) Limited	21,115	1.92
Cogent Nominees Pty Limited	20,000	1.82
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	14,630	1.33
ANZ Nominees Limited <Cash Income A/C>	13,524	1.23
First Exar Pty Ltd	12,370	1.12
National Nominees Limited	11,500	1.05
Equity Trustees Limited <EQT High Inc Wholesale A/C>	11,405	1.04
Alimoc Pty Ltd <J A Law Family A/C>	10,000	0.91
ANZ Nominees Limited <SL Cash Income A/C>	10,000	0.91
Fortis Clearing Nominees P/L <Next Custodian A/C>	9,666	0.88
Ms Teresa Young	9,470	0.86
Common Sense Computing Pty Ltd <The Common Sense A/C>	9,000	0.82
Avanteos Investments Limited <Avanteos Super Fund No 2 A/C>	8,099	0.74
Mr William Barrett Capp + Mrs Margot Therese Lethlean Capp <W B Capp Super Fund A/C>	7,000	0.64
Thorwood Investments Pty Ltd	6,940	0.63
Total top 20 holders	**527,279**	**47.95**

4. The distribution of holders was as follows:

Holding	Number of holders	% of total	Securities	% of total
1 – 1,000	1,580	94.61	422,477	38.41
1,001 – 5,000	67	4.01	131,667	11.97
5,001 – 10,000	11	0.66	88,752	8.07
10,001 – 100,000	11	0.66	300,746	27.34
100,001 and over	1	0.06	156,358	14.21
Total	**1,670**	**100.00**	**1,100,000**	**100.00**

5. Substantial shareholder notices received as at 27 February 2009:

Name	Number of securities	% of total
Goldman Sachs JB Were Group Holdings Pty Ltd	71,744	6.52

6. TAPS Trust is not a listed investment entity.

Investor Information

Enquiries
You can access your securityholding information in a number of ways. The details are managed by the Fund's registrar, Computershare Investor Services Pty Limited, and can be accessed as detailed below.

Please note, your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) is required for access.

InvestorPhone
InvestorPhone provides telephone access 24 hours a day, seven days a week.
Step 1 Call 1300 556 074
Step 2 Enter your selection (1) TAPS or (2) HDF
Step 3 Follow the prompts to gain secure, immediate access to your:
– holding details
– registration details
– payment information.

Internet account access
There are two levels of Internet access, single holding access and portfolio access (Investor Centre).

Single holding access
Step 1 Go to www.computershare.com.au/investors
Step 2 Select 'Holding Enquiry' and enter TTXPA or TAPS Trust
Step 3 Enter your SRN or HIN
Step 4 Enter your postcode or select country (if outside Australia)
Step 5 Enter the randomly generated security code displayed (all holders) and click 'Submit'
Step 6 Read and agree to the Terms and Conditions and click 'Sign In'
Step 7 Access 'Investor Centre' to view, evaluate and manage your holding online.

Portfolio access
Step 1 Go to www.computershare.com.au/investors
Step 2 If you are a member enter your User ID and password and click 'Submit' or
Step 3 If you are not a member click the 'Register' button
Step 4 Follow the prompts to register. For security purposes, Computershare will generate a PIN and mail it to your registered address
Step 5 Access 'Investor Centre' to view, evaluate and manage your portfolio online.

Please address enquiries to:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001 Australia
Telephone (within Australia) 1300 556 074
Telephone (outside Australia) +61 3 9415 4217
Facsimile +61 3 9473 2500
Website www.computershare.com.au
Email web.queries@computershare.com.au.

Australian Securities Exchange listing
The securities are listed on the Australian Securities Exchange under the name TAPS Trust and under the code TTXPA. The securities participate in the Clearing House Electronic Subregister System (CHESS). For a current trading price, you can refer to the ASX website (www.asx.com.au).

Direct deposit of distributions
Distribution payments may be paid directly to a nominated Australian bank account. Payments are electronically credited and confirmed by mail directly to the registered address of the securityholder. A form for this purpose is available from the registrar.

Tax File Number (TFN) or Australian Business Number (ABN) information
While it is not compulsory for securityholders to provide a TFN, ABN or exemption notification, Hastings is normally obliged to deduct tax from any payments to securityholders who have not supplied such information.

There are three regimes of withholding tax, which apply in the following hierarchy:

- Non-resident withholding tax imposed on distributions of Australian sourced unfranked dividends and Australian sourced interest;
- Non-resident withholding tax imposed on distributions of net income, which applies to 'other' Australian sourced income and certain capital gains income components; and
- Tax File Number (TFN) withholding tax.

TFN withholding tax (currently at 46.5 percent) may be required to be deducted from both the taxable and tax-deferred components of distributions to investors who have not quoted their TFN, ABN (where it is appropriate to do so as an alternative), or exemption details.

Securityholders are entitled to quote an ABN instead of a TFN where the investment is made in the course or furtherance of an enterprise that is carried on by the securityholders. Securityholders who have not supplied their TFN, ABN or exemption notification may do so by writing to:

The Registrar
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001 Australia.

Change of address
Securityholders who change their registered address should immediately notify, in writing, to:

The Registrar
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001 Australia.

Issuer sponsored holders can also update their address via Investor Phone or Investor Centre.

Address changes for CHESS or broker sponsored holdings must be done through your sponsoring broker.

Privacy
We understand the importance you place on your privacy and are committed to protecting and maintaining the confidentiality of the personal information you provide to us. The Fund adopted the privacy policy of Hastings Funds Management Limited, which is located on the Hastings website (www.hfm.com.au).

Annual Report
To receive further copies of the TAPS Annual Report, please telephone Computershare Investor Services on 1300 556 074 (within Australia) or +61 3 9415 4217 (outside Australia).

Complaints handling
Customer service representatives are available between 8.30 am and 6.00 pm (AEST) weekdays, from anywhere in Australia, by calling the Registrar on 1300 556 074 (within Australia) or on +61 3 9415 4217 (outside of Australia).

If you have a concern, please write to Hastings at the address set out below or call the Complaints Manager to register your complaint by telephone on +61 3 9654 4477. Hastings will acknowledge your concern, investigate it and report back to you.

Complaints Manager
Hastings Funds Management Limited
Level 15
90 Collins Street
Melbourne VIC 3000 Australia.

If you are dissatisfied with Hastings' response, you may raise the matter directly with the Financial Ombudsman Service (FOS). Its contact details are:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001 Australia
Telephone (within Australia) 1300 780 808
Telephone (outside Australia) +61 3 8623 2019

Before you contact FOS, first try to resolve your concern with Hastings by calling +61 3 9654 4477.

Corporate Directory

TAPS Trust
ARSN 113 037 317

Responsible Entity
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ABN 27 058 693 388
Holder of Australian Financial Services
Licence No. 238309

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Facsimile +1 212 551 1997

Hastings Board of Directors
Liam Forde, Chairman
Steve Boulton, Chief Executive
Alan Freer
Stephen Gibbs
Mike Hutchinson
Jim McDonald
Sean McElduff
Jim Tate

Company Secretaries
Claire Filson
Kim Rowe

Disclaimer This report has been prepared by Hastings Funds Management Limited, holder of Australian Financial Services Licence number 238309, as responsible entity for the TAPS Trust. Hastings is a subsidiary of Westpac Banking Corporation (Westpac).

The information contained in this report is for informational purposes only and does not constitute an offer to issue or arrange to issue, financial products. The information contained in this report is not financial product advice. This report has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, you should read the publicly available information carefully and consider, with or without the assistance of a financial adviser, whether an investment is appropriate in light of your particular investment needs, objectives and financial circumstances. Past performance is no guarantee of future performance.

Neither Hastings, Westpac nor any other member of the Westpac Group gives any guarantee or assurance as to the performance of the Fund or the repayment of capital. Investments in the Fund are not investments, deposits or other liabilities of Hastings, Westpac or other members of the Westpac Group. Members of the Westpac Group may invest in or lend or provide other services to the Fund and may be paid fees and expenses in relation to Hastings' role as responsible entity.

All data in this report has been calculated using the most accurate sources available; however, any rates or totals may differ from those provided due to rounding. Asset results reflect the most current available and may be unaudited, and therefore subject to further adjustment following the publication of this report. Figures may also differ from those previously disclosed due to adjustments made following year end.

Hastings Funds Management is wholly owned by Westpac Banking Corporation. Hastings specialises in managed funds that provide access to infrastructure and alternative assets. Hastings' portfolio includes infrastructure investments, private equity, timberland and high yield debt investments. As at 31 December 2008 Hastings had approximately $7.0 billion in assets under management.