

Results announcement

TAPS Trust (TTXPA)

Total pages: 41

19 February 2010

Appendix 4E – Report for the year ended 31 December 2009

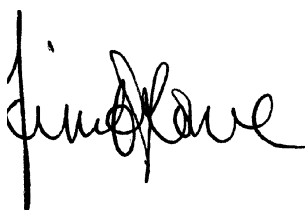
Please find enclosed the following documents:

- A. Results for announcement to the market
- B. Commentary on the results
- C. Annual Financial Statements for the year ended 31 December 2009
- D. Independent auditor's report

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Kim Rowe
Company Secretary
Hastings Funds Management Limited

A. Results for announcement to the market

TAPS Trust financial results

The table below summarises the TAPS Trust financial results for the year ended 31 December 2009. The financial results reflect distributions to Trust-issued Adjustable Preferred Securities (TAPS) holders take the form of a return of capital which is not reflected as revenue in the statements of comprehensive income. This is further discussed in Section B.

	Change from previous corresponding period		Year to 31 December 2009 (\$'000)	Year to 31 December 2008 (\$'000)
Net cash flows from operating activities	Down >100%	to	(532)	1,731
Income from ordinary activities	Up >100%	to	2,550	(4,019)
Profit/(loss) from ordinary activities after tax attributable to unitholders	Up 69%	to	(5,017)	(16,077)
Net profit/(loss) for the period attributable to unitholders	Up 69%	to	(5,017)	(16,077)

Distributions to TAPS holders

The table below summarises the distributions to TAPS holders for the year ended 31 December 2009. Please refer to Section B for further details and commentary.

Distributions	Year to 31 December 2009 Amount per security	Year to 31 December 2008 Amount per security
March quarter distribution	\$1.4548	\$2.2887
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount ⁽¹⁾	\$1.4548	\$2.2887
Record date to determine entitlement to the distribution	31 March 2009	31 March 2008
Payment date for March distribution	20 April 2009	21 April 2008
June quarter distribution	\$1.2748	\$2.4458
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount ⁽¹⁾	\$1.2748	\$2.4458
Record date to determine entitlement to the distribution	30 June 2009	30 June 2008
Payment date for June distribution	21 July 2009	21 July 2008
September quarter distribution	\$1.3006	\$2.4601
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount ⁽¹⁾	\$1.3006	\$2.4601
Record date to determine entitlement to the distribution	30 September 2009	30 September 2008
Payment date for September distribution	21 October 2009	21 October 2008
December quarter distribution	\$1.3493	\$2.2584
Franked amount per security	-	-
Foreign sourced income	-	-
Tax deferred amount ⁽¹⁾	\$1.3493	\$2.2584
Record date to determine entitlement to the distribution	31 December 2009	31 December 2008
Payment date for December distribution	22 January 2010	22 January 2009

(1) Please refer to the Annual Distribution Statement for confirmation of the tax components of all distributions for the calendar year ending 31 December 2009.

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

B. Commentary on the results

TAPS Trust financial results

The table below summarises the TAPS Trust financial results for the year ended 31 December 2009.

	Year to 31 December 2009 \$'000	Year to 31 December 2008 \$'000
Operating income	2,550	(4,019)
Responsible entity management fees	(464)	(982)
Operating expenses (before finance costs)	(205)	(189)
Finance costs	(2)	(2)
Amortisation of establishment costs	(485)	(487)
Distributions to TAPS holders	(5,917)	(10,398)
Net profit/(loss) attributable to unitholders	(5,017)	(16,077)

The HDUF Finance Trust holds the ordinary units in the TAPS Trust and the Annual Financial Statements for the year ended 31 December 2009 is prepared on this basis.

TAPS Trust reported a net loss attributable to ordinary unitholders (i.e. Hastings Diversified Utilities Fund, HDF) of \$5.0 million. This net loss is explained by understanding the accounting treatment of the cash flows of TAPS Trust. In particular:

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

TAPS Trust distributions

The table below outlines the distributions paid by TAPS Trust during the year ended 31 December 2009.

	Year to 31 December 2009	Year to 31 December 2008
Distribution per TAPS security	\$5.3795	\$9.4530
Tax deferred component of distribution	\$5.3795	\$9.4530
Percentage tax deferred ⁽¹⁾	100%	100%
Number of TAPS on issue	1,100,000	1,100,000
Net Tangible Asset (NTA) / Ordinary Unit (\$)	(410,836)	(360,665)

(1) Please refer to the Annual Distribution Statement for confirmation of the tax components of all distributions for the calendar year ending 31 December 2009.

TAPS holders were paid distributions totalling \$5.9 million during the year ended 31 December 2009 or \$5.3795 per security. Distributions were lower compared to the previous corresponding period (\$10.4 million, or \$9.4530 per security) due to a reduction in the 90 day Bank Bill Rate over the period.

The cash flows which underpin the distributions to TAPS holders are sourced from the South East Water business. TAPS distributions are also guaranteed by HDF, subject to certain conditions as set out in the TAPS Product Disclosure Statement.

B. Commentary on the results *continued*

South East Water asset update

The table below summarises South East Water's financial results (unaudited) for the half year ended 30 September 2009 (note South East Water has a March year end):

	Change from previous corresponding period	Half year ended 30 September 2009 (£'000)	Half year ended 30 September 2008 (£'000)
South East Water operating results ⁽¹⁾			
Revenue	Up 5.1%	90,233	85,873
EBITDA	Up 10.5%	56,446	51,084
Operating profit	Up 6.4%	37,511	35,249
Profit before tax	Up 88.5%	25,945	13,766
Net cash from operating activities	Up 4.5%	49,304	47,195

(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.

Revenue for the six months ended 30 September 2009 was £90.2 million, up by 5.1 percent on the corresponding period, reflecting allowed tariff increases. EBITDA was £56.4 million, up by 10.4 percent and operating profit was £37.5 million, up 6.4 percent on the corresponding period, reflecting operating spend efficiencies. Profit before tax of £25.9 million, up 88.5 percent on the corresponding period, benefits from a reduced swap fair value charge.

Key highlights for South East Water's half-year included:

- Intensive dialogue and negotiation with the UK water regulator (Ofwat) over the period ultimately led to a satisfactory Final Determination for SEW.
- The regulatory price review process for 2010-2015 has been completed:
 - Final Determination from Ofwat was published on 26 November 2009.
 - SEW stated publicly that it was not going to appeal the decision on 22 December 2009.
 - SEW has been refining its business plan going forward following receipt of the Final Determination.
 - The outcome of the regulatory price review will take effect from the year commencing 1 April 2010.
- Focus on and development of SEW's cash collection processes to limit the impact to SEW of the wider economic environment.
- Continued delivery of the capital programme with £30.8 million invested in the six months ended 30 September 2009. South East Water remains on track to achieve its regulatory approved capital programme for the current regulatory period.
- Water resources are currently at or above historic average levels and no restrictions are envisaged for the next northern hemisphere summer.

South East Water remains in full compliance with its banking covenants, including gearing and coverage ratios, which will next be tested at 31 March 2010.

**C. Annual Financial Statements for the year ended 31
December 2009**

TAPS Trust

ARSN 113 037 317

Annual Financial Statements for the Year Ended 31 December 2009

Directors' Report

The directors of Hastings Funds Management Limited (Hastings) as Responsible Entity for TAPS Trust, present their report together with the financial statements of TAPS Trust (the Scheme) for the year ended 31 December 2009.

Responsible Entity

The Responsible Entity of TAPS Trust is Hastings Funds Management Limited (ABN 27 058 693 388). The Responsible Entity's registered office is Level 16, 90 Collins Street, Melbourne, Victoria, 3000.

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.

The Scheme did not have any employees during the year.

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

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:

Alan Cameron	(appointed as Chairman on 6 October 2009 and Director since 14 April 2009)
Steve Boulton	
Jim Evans	(appointed 6 October 2009)
William Forde	(retired as Chairman on 6 October 2009 and continues as a Director)
Alan Freer	(retired 6 October 2009)
Stephen Gibbs	
Mike Hutchinson	(retired 31 December 2009)
Jim McDonald	
Sean McElduff	(retired 6 October 2009)
Jim Tate	(retired 14 April 2009)
Les Vance	(appointed 6 October 2009)

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

Company secretaries

The company secretaries of the Responsible Entity in office during the year and until the date of this report (unless otherwise stated) are Claire Filson (resigned 31 December 2009) and Kim Rowe.

Review and results of operations

The Scheme has continued to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement (PDS) and in accordance with the provisions of the Scheme's Constitution.

Results

The operating loss before finance costs attributable to unitholders of the Scheme for the year ended 31 December 2009 was \$5,017,000 (2008 – \$16,077,000 loss).

Directors' Report (continued)

Distributions

During the year ended 31 December 2009, four distributions to TAPS holders were declared and paid by the Scheme as follows:

- a distribution of \$1.45 per TAPS for the quarter ended 31 March 2009 (2008 - \$2.29 per TAPS) was paid on 20 April 2009;
- a distribution of \$1.27 per TAPS for the quarter ended 30 June 2009 (2008 - \$2.45 per TAPS) was paid on 21 July 2009;
- a distribution of \$1.30 per TAPS for the quarter ended 30 September 2009 (2008 - \$2.46 per TAPS) was paid on 21 October 2009; and
- a final distribution of \$1.35 per TAPS for the quarter ended 31 December 2009 (2008 - \$2.26 per TAPS) was paid on 22 January 2010.

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 2009 (2008 - 100).

1 A class fully paid \$1 unit was on issue at 31 December 2009 (2008 - 1).

1,100,000 Trust-issued Adjustable Preferred Securities (TAPS) were on issue at 31 December 2009 (2008 - 1,100,000). TAPS are fully paid to \$100 per security.

Scheme assets

At 31 December 2009 the Scheme held assets to a total value of \$67,779,000 (2008 - \$75,490,000). The basis for valuation of the assets is disclosed in Note 2 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

Since 31 December 2009 there has not been any matter or circumstance not otherwise dealt with in these financial statements 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 law, 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

Fees paid to the Responsible Entity and its associates out of the Scheme property during the year is disclosed in Note 5 to the financial statements.

No fees were paid out of the Scheme's property to the directors of the Responsible Entity during the year.

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial year is disclosed in Note 21(3)(a).

Directors' Report (continued)

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 an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

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

This report is made in accordance with a resolution of the directors of Hastings Fund Management Limited as Responsible Entity for the Scheme.



Alan Cameron

Chairman

19 February 2010

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

As lead auditor for the audit of TAPS Trust for the year ended 31 December 2009, 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
Partner
PricewaterhouseCoopers

Melbourne
19 February 2010

Statement of Comprehensive Income

	Notes	2009 \$'000	2008 \$'000
Income			
Interest income	3	45	3,281
Net gain/(loss) - securities	4	<u>2,505</u>	<u>(7,300)</u>
Total income/(loss)		<u>2,550</u>	<u>(4,019)</u>
Expenses			
Responsible Entity management fees	5	464	982
Audit fees		65	54
Tax fees		10	16
TAPS holder communication expenses		81	79
Finance costs	7	6,898	10,887
Other expenses		<u>49</u>	<u>40</u>
Total expenses		<u>7,567</u>	<u>12,058</u>
Operating profit/(loss) before finance costs attributable to unitholders		(5,017)	(16,077)
Finance costs attributable to unitholders			
Distributions to ordinary and A class unitholders	8	-	-
(Increase)/decrease in net liabilities attributable to unitholders	16	<u>5,017</u>	<u>16,077</u>
Profit/(loss) for the year		-	-
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>-</u>	<u>-</u>

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

Statement of Financial Position

	Notes	2009 \$'000	2008 \$'000
Assets			
Cash and cash equivalents	9(b)	2,108	1,102
Receivables	10	4,758	5,563
Other assets	11	18	14
Security assets	12	<u>60,895</u>	68,811
Total assets		<u>67,779</u>	<u>75,490</u>
Liabilities			
Payables	13	1,531	2,745
Security liabilities	14	-	1,966
Trust-issued Adjustable Preferred Securities	15	<u>107,331</u>	106,845
Total liabilities (excluding net assets/(liabilities) attributable to unitholders)		<u>108,862</u>	<u>111,556</u>
Net assets/(liabilities) attributable to unitholders (liability)		<u>(41,083)</u>	<u>(36,066)</u>
Represented by:			
Issued units - Ordinary	16	-	-
Issued units - A class	16	-	-
Undistributed profit/(loss) attributable to ordinary unitholders	16	<u>(41,083)</u>	(36,066)
Total unitholders' interests		<u>(41,083)</u>	<u>(36,066)</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

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

Statement of Cash Flows

	Notes	2009 \$'000	2008 \$'000
<i>Cash flows from operating activities</i>			
Interest received		340	2,960
Finance costs paid (excluding TAPS distributions)		(2)	(2)
Operating expenses paid		<u>(870)</u>	<u>(1,227)</u>
Net cash inflow/(outflow) from operating activities	9(a)	<u>(532)</u>	<u>1,731</u>
<i>Cash flows from investing activities</i>			
Proceeds from unlisted security capital repayments		<u>8,456</u>	<u>9,201</u>
Net cash inflow/(outflow) from investing activities		<u>8,456</u>	<u>9,201</u>
<i>Cash flows from financing activities</i>			
TAPS distributions paid		<u>(6,918)</u>	<u>(10,370)</u>
Net cash inflow/(outflow) from financing activities		<u>(6,918)</u>	<u>(10,370)</u>
Net increase/(decrease) in cash and cash equivalents		1,006	562
Cash and cash equivalents at the beginning of the year		<u>1,102</u>	<u>540</u>
Cash and cash equivalents at the end of the year	9(b)	<u>2,108</u>	<u>1,102</u>

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

1 General information

TAPS Trust (the Scheme) was established in Australia 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 of the Scheme.

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

The registered office of the Responsible Entity is located at Level 16, 90 Collins Street, Melbourne, Victoria, 3000.

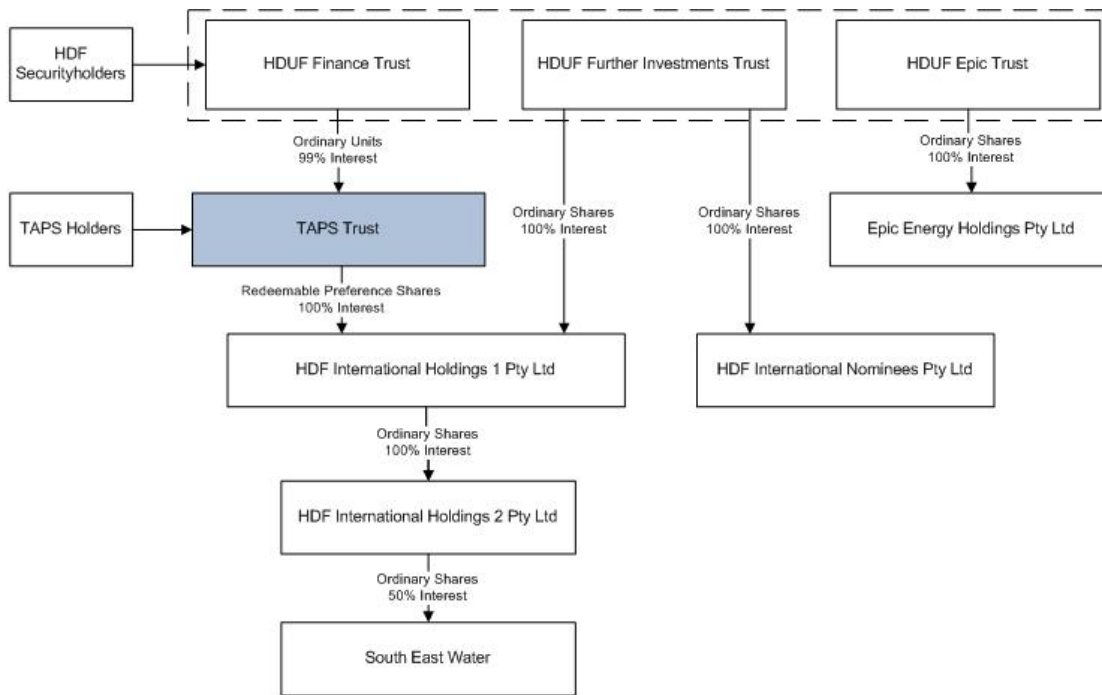
As at 31 December 2009, the Scheme had no employees (2008 - Nil employees).

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 15(d) for further details.

2 Summary of significant accounting policies

(a) Structure

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



 = Hastings Diversified Utilities Fund (HDF)
(the Stapled Group)

2 Summary of significant accounting policies (continued)

(b) Basis of preparation

The financial statements are general purpose financial statements and have been prepared in accordance with the Scheme's Constitution, the requirements of the Australian Accounting Standards (including Interpretations) and the *Corporations Act 2001*.

The financial statements have been prepared on a historical basis convention, except for unlisted and derivative securities, which have been measured at fair value.

The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Statement of Financial Position 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 position of \$41,083,000 as at 31 December 2009 (2008 - \$36,066,000 net liability).

The net liability situation arises because the significant income sources of the Scheme, being interest and unrealised gains from derivative 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-issued Adjustable Preferred Securities (TAPS) distributions, which are recorded as a finance cost within the Statement of Comprehensive Income.

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 Scheme has been issued a letter of financial support dated 19 February 2010 from its parent entity, Hastings Funds Management Limited (Hastings) in its capacity as Responsible Entity for HDUF Finance Trust, undertaking that for so long as the Scheme is a wholly owned subsidiary of HDUF Finance Trust, HDUF Finance Trust intends to financially support the Scheme to the extent that the Scheme can continue to pay its debts and when they become due and payable.

Refer to Note 15(e) 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 financial statements of the Scheme for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of directors of the Responsible Entity. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

The accounting policies adopted are consistent with those of the previous financial year, except as set out below.

(c) Changes in accounting policy

Initial application of AASB 8 *Operating Segments*

The Scheme has adopted the new accounting standard AASB 8 *Operating Segments* which became operative for the annual reporting period commencing on 1 January 2009. Refer to Note 2(q) and Note 18.

This has not resulted in an increase in the number of reportable segments presented.

2 Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2009 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

- (i) *AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2010)*

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Scheme will apply the revised standards from 1 January 2010. The Scheme does not expect that any adjustments will be necessary as the result of applying the revised rules.

- (ii) *Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)*

In December 2009, the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Scheme has not yet determined the potential effects of the amendments.

(e) 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

The fair value of unlisted securities is determined by an appropriately qualified independent valuer, KPMG Corporate Finance, 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 as at 31 December 2009 was \$60,355,000 (31 December 2008 - \$68,811,000).

Global capital markets continue to be 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 estimate of fair value at the end of the reporting period, 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.

Further information in relation to unlisted securities is provided in Note 2(h).

Valuation of derivative securities

The fair value of derivative securities is determined by projected future cash flows under the derivative contract and then discounting these cash flows back to their present value using a pre-tax, risk adjusted discount rate.

The carrying amount of derivative securities held by the Scheme as at 31 December 2009 was an asset of \$540,000 (31 December 2008 - \$1,966,000 liability).

Further information in relation to derivative securities is provided in Note 2(h).

(f) 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 Statement of Comprehensive Income.

2 Summary of significant accounting policies (continued)

(f) Foreign currency translation (continued)

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.

(g) Cash and cash equivalents

For Statement of Cash Flows 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 on the Statement of Financial Position.

(h) 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. Amounts are generally received within 30 days of being recorded as receivables.

(i) Securities

Securities are recorded at fair value through the profit and loss upon initial recognition. Costs incidental to the acquisition of securities are recognised in the profit and loss when incurred.

After initial recognition, securities are measured at fair value as securities are managed and their performance evaluated on a fair value basis in accordance with the Scheme's investment strategy.

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

Realised gains or losses are recognised through the profit and loss upon sale or restructure of securities and are calculated as the difference between the settlement and the fair value at the previous valuation point.

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

Unlisted securities

Unlisted securities comprise redeemable preference shares.

The fair value of unlisted securities are determined by an appropriately qualified independent valuer, KPMG Corporate Finance (KPMG), primarily 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 independent valuations assume investments are not being sold and if they were to be realised then there may be potential capital gains tax implications for the Scheme or unitholders depending on the structure of any disposal. Discount rates used are developed on an individual unlisted security basis as determined by the independent valuer. KPMG calculates the relevant discount rate applied to the cash flows of each asset using the Capital Asset Pricing Model method, whereby a premium is added to the risk free rate. The premium takes into account the risk of comparable companies and also incorporates firm specific risk. KPMG uses a 10 year government bond rate in the relevant country as a proxy for the risk free rate.

2 Summary of significant accounting policies (continued)

(i) Securities (continued)

Derivative securities

Derivative securities comprise cross currency coupon swaps.

The fair value of derivative securities is determined by projected future cash flows under the derivative contracts and then discounting these cash flows back 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.

(j) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

(k) Borrowings and Trust-issued Adjustable Preferred Securities on issue

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 Statement of Comprehensive Income when the liabilities are derecognised and as well as through the amortisation process.

Trust-issued Adjustable Preferred Securities

Upon issue, Trust-issued Adjustable Preferred Securities (TAPS) are initially recognised at fair value being the consideration received and as liabilities on the Statement of Financial Position.

After initial recognition, TAPS are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs. Gains and losses are recognised in the profit and loss through the amortisation process.

TAPS distributions are charged as a finance cost through the profit and loss.

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

(l) 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 Statement of Financial Position as net assets/(liabilities) attributable to unitholders. Any transaction costs arising on the issue of such financial instruments are recognised as a reduction of the proceeds received.

(m) Net assets/(liabilities) attributable to unitholders

Net assets/(liabilities) attributable to unitholders comprise 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 ordinary 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 Statement of Comprehensive Income as finance costs attributable to unitholders.

2 Summary of significant accounting policies (continued)

(n) 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:

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.

Responsible Entity fees

Refer to Note 5 for further information on Responsible Entity management fees.

The Responsible Entity is also 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.

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income if expenditure does not produce future economic benefits that qualify for recognition in the Statement of Financial Position.

(o) 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 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.

(p) 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).

(q) 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.

2 Summary of significant accounting policies (continued)

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

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

Cash flows are included in the Statement of Cash Flows 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.

(r) Segment reporting

The Scheme has applied AASB 8 *Operating Segments* from 1 January 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Hastings (acting in its capacity as the Responsible Entity for the Scheme), which makes strategic decisions.

(s) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(t) Comparatives

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

(u) 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.

3 Interest income

	2009 \$'000	2008 \$'000
Cash and cash equivalents	45	68
Derivative securities	-	3,213
Total interest income	45	3,281

4 Net gain/(loss) - securities

	2009 \$'000	2008 \$'000
Net gain/(loss) - derivative securities		
Net gain/(loss) - foreign exchange - unrealised	2,505	(7,300)
Net gain/(loss) - derivative securities	2,505	(7,300)
Net gain/(loss) - securities	2,505	(7,300)

5 Responsible Entity management fees

	2009 \$'000	2008 \$'000
Responsible Entity management fees	464	982
Total Responsible Entity management fees	464	982

In accordance with the TAPS Trust Constitution and PDS, the Responsible Entity is entitled to receive a management fee of an amount equal to 1% of the Scheme's market capitalisation. The management fee is accrued daily and is calculated and charged quarterly in arrears.

On 1 July 2009, the Responsible Entity announced that it would rebate future Responsible Entity management fees paid by TAPS Trust up to the first Reset Date of the TAPS, being 30 June 2010. Responsible Entity management fees in respect of TAPS Trust would have been \$1,027,231 for the year ended 31 December 2009 had the Responsible Entity not implemented the rebate arrangement.

For further information in relation to the Responsible Entity refer to Note 21(3).

6 Audit fees

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

	2009 \$	2008 \$
Amounts received or due excluding GST, by <i>PricewaterhouseCoopers</i> , for:		
Audit and review of the financial statements	35,420	31,475
Compliance plan audit	3,060	3,000
Total audit fees	38,480	34,475

7 Finance costs

	2009 \$'000	2008 \$'000
Bank fees	2	2
Derivative securities	494	-
Distribution to TAPS Holders	5,917	10,398
Amortisation of TAPS issue costs	485	487
Total finance costs	6,898	10,887

8 Distributions to unitholders

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

9 Reconciliation of operating profit/(loss) before finance costs attributable to unitholders to net cash inflow/(outflow) from operating activities

	2009 \$'000	2008 \$'000
(a) Reconciliation of operating profit/(loss) before finance costs attributable to unitholders to net cash inflow/(outflow) from operating activities		
Operating profit/(loss) before finance costs attributable to unitholders	(5,017)	(16,077)
Adjustments for non-cash items and non-operating items:		
Net (gain)/loss - securities	(2,505)	7,300
Distributions to TAPS holders	5,917	10,398
Amortisation of TAPS issue costs	485	487
Changes in operating related assets and liabilities:		
(Increase)/decrease in receivables	806	(318)
(Increase)/decrease in other assets	(4)	-
Increase/(decrease) in payables	(214)	(59)
Net cash inflow/(outflow) from operating activities	(532)	1,731
(b) Components of cash and cash equivalents		
Cash at bank	2,108	1,102
Total cash and cash equivalents	2,108	1,102

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

10 Receivables

	2009 \$'000	2008 \$'000
Other receivables	2	19
Loan receivable - parent entity	4,736	4,736
Receivable - derivative securities	20	808
Total receivables	<u>4,758</u>	<u>5,563</u>

Other receivables and the payment agreement receivable are non-interest bearing and are normally settled within 30 days.

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

11 Other assets

	2009 \$'000	2008 \$'000
Prepayments	18	14
Total other assets	<u>18</u>	<u>14</u>

12 Security assets

	2009 \$'000	2008 \$'000
Security assets		
Unlisted securities	60,355	68,811
Derivative securities	540	-
Total security assets held at fair value through profit or loss	<u>60,895</u>	<u>68,811</u>

	2009 \$'000	2008 \$'000
Unlisted securities		
HDFIH1 - Redeemable Preference Shares	60,355	68,811
Total unlisted securities	<u>60,355</u>	<u>68,811</u>

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

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

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

12 Security assets (continued)

	2009 \$'000	2008 \$'000
Derivative securities		
Cross currency swap	540	-
Total derivative securities	540	-

13 Payables

	2009 \$'000	2008 \$'000
TAPS distribution payable	1,484	2,484
Accrued expenses	47	30
Payable - Responsible Entity	-	231
Total payables	1,531	2,745

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

Refer to Note 15(c) for further details on the TAPS distribution payable.

14 Security liabilities

	2009 \$'000	2008 \$'000
Security liabilities		
Derivative securities	-	1,966
Total security liabilities held at fair value through profit or loss	-	1,966

	2009 \$'000	2008 \$'000
Derivative securities		
Cross currency swap	-	1,966
Total derivative securities	-	1,966

15 Trust-issued Adjustable Preferred Securities

	2009 \$'000	2008 \$'000
Trust-issued Adjustable Preferred Securities (TAPS)	<u>107,331</u>	106,845
Total TAPS	<u>107,331</u>	<u>106,845</u>

	2009 No '000	2008 No '000
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(a) Issued TAPS (number)

Issued TAPS at the beginning of the year	<u>1,100</u>	1,100
Issued TAPS at the end of the year	<u>1,100</u>	<u>1,100</u>

	2009 \$ '000	2008 \$ '000
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(b) Issued TAPS (dollar)

Issued TAPS at the beginning of the year	<u>106,845</u>	106,358
Amortisation of TAPS issue costs	<u>486</u>	487
Issued TAPS at the end of the year	<u>107,331</u>	<u>106,845</u>

During the year ended 31 December 2009, four distributions to TAPS holders were declared and paid by the Scheme as follows:

- a distribution of \$1.45 per TAPS for the quarter ended 31 March 2009 (2008 - \$2.29 per TAPS) was paid on 20 April 2009;
- a distribution of \$1.27 per TAPS for the quarter ended 30 June 2009 (2008 - \$2.45 per TAPS) was paid on 21 July 2009;
- a distribution of \$1.30 per TAPS for the quarter ended 30 September 2009 (2008 - \$2.46 per TAPS) was paid on 21 October 2009; and
- a final distribution of \$1.35 per TAPS for the quarter ended 31 December 2009 (2008 - \$2.26 per TAPS) was paid on 22 January 2010 .

(c) 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 earlier.

Each TAPS holder is entitled to receive a cumulative, quarterly floating rate distribution based on the 90 day bank bill rate plus a margin of 2% per annum up until the first Reset Date (30 June 2010) when certain terms may be changed by the Responsible Entity.

TAPS are redeemable at a TAPS holder's request on any Reset Date or if a Trigger Event occurs as defined in the TAPS PDS, with the Responsible Entity to elect whether the redemption is to be satisfied by way of cash or exchange into a number of HDF stapled securities or a combination of both.

The Responsible Entity was able to redeem or exchange 50% of TAPS on issue on 31 December 2009 however it elected not to initiate this action.

At any Reset Date or after certain specified Trigger Events outlined in the TAPS PDS, the Responsible Entity may elect to redeem or exchange some or all of the TAPS and/or change certain terms of the TAPS, including the frequency and timing of Distribution Payment Dates and Record Dates, the distribution rate and timing of the next Reset Date.

15 Trust-issued Adjustable Preferred Securities (continued)

(d) 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.

Following the approximate \$250 million HDF capital raising which took place during the financial year, HDF has cash coverage over the \$110 million TAPS on issue.

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.

16 Net assets/(liabilities) attributable to unitholders

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

	2009 No. '000	2008 No. '000	2009 \$'000	2008 \$'000
Issued ordinary units				
Opening balance	-	-	-	-
Ordinary units issued during the year	-	-	-	-
Closing balance ⁽¹⁾	-	-	-	-

	2009 No. '000	2008 No. '000	2009 \$'000	2008 \$'000
Issued A class units				
Opening balance	-	-	-	-
A class units issued during the year	-	-	-	-
Closing balance ⁽²⁾	-	-	-	-

⁽¹⁾ The Scheme has 100 ordinary units at \$1 each on issue (2008 - 100 ordinary units at \$1). Due to rounding, the value is disclosed as nil in these financial statements.

⁽²⁾ The Scheme has 1 A class unit at \$1 on issue (2008 - 1 A class unit at \$1). Due to rounding, the value is disclosed as nil in these financial statements.

16 Net assets/(liabilities) attributable to unitholders (continued)

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.

	2009 \$'000	2008 \$'000
Undistributed profit/(loss) attributable to ordinary unitholders		
Opening balance	(36,066)	(19,989)
Operating profit/(loss) before finance costs attributable to unitholders	(5,017)	(16,077)
Closing balance	(41,083)	(36,066)

17 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.

	2009	2008
Basic operating profit/(loss) before finance costs attributable to unitholders per ordinary unit (dollars per unit)	(50,170)	(160,770)
Diluted operating profit/(loss) before finance costs attributable to unitholders per ordinary unit (dollars per unit)	(50,170)	(160,770)
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)	(5,017)	(16,077)

17 Earnings per unit (continued)

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 Statement of Comprehensive Income.

	2009	2008
Basic earnings per TAPS (dollars per unit)	5.38	9.45
Weighted average number of TAPS on issue ('000)	1,100	1,100
Earnings used in calculating basic earnings per TAPS (\$'000)	5,917	10,398

18 Segment information

Description of segments and segment information provided to the Board of Hastings

Operating segments are based on the reports reviewed by the Board of Hastings (acting in its capacity as the Responsible Entity of the Scheme), which are used to make strategic decisions in conjunction with the input and guidance from the chief operating officer of the Scheme and Hasting's head of listed infrastructure.

The Scheme has one reportable segment being its investment in South East Water via its investment in HDF International Holdings 1 Pty Ltd's redeemable preference shares.

The Scheme is domiciled in Australia.

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

The segment information provided to the Responsible Entity to assess the performance of the operating segment is based on the results, assets and liabilities presented in the Statement of Comprehensive Income, Statement of Financial Position and notes to the financial statements.

19 Derivative securities

Cross currency swap contracts

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 the end of the reporting period are set out below:

Counterparty	Contract Date	Maturity Date	Foreign Currency	Foreign currency principal payable		AUD principal receivable		Foreign currency payable quarterly	Floating interest rate receivable quarterly	Fair value	
				2009 '000	2008 '000	2009 \$'000	2008 \$'000			2009 \$'000	2008 \$'000
HDUF Finance Trust ⁽¹⁾	14-Apr-05	30-Jun-10	GBP	n/a	n/a	110,000	110,000	1,050	AUD-BBR-BBSW + 3.50%	540	(1,966)
						110,000	110,000			540	(1,966)

⁽¹⁾ Also referred to as the Payment Agreement.

An overview of the risk exposures relating to derivative security is included in Note 20.

20 Financial risk management

Financial risk management objectives and policies

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

The Scheme has various other financial instruments such as receivables and 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 view, 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 swap 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 19 for further details of 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 the end of the reporting period is the carrying amount of those financial assets, net of any allowances for doubtful debts, as disclosed in the Statement of Financial Position 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.

20 Financial risk management (continued)

(a) Summarised sensitivity analysis

The following tables summarises the sensitivity of the Scheme's material financial assets and financial liabilities to movements in interest rates and foreign exchange rates after allowing for the impact of effective hedging arrangements.

	2009	Interest rate risk		Foreign exchange risk		
		Carrying Value \$'000	-1.00%	1.00%	-10.0%	10.0%
			Profit/(loss) \$'000	Profit/(loss) \$'000	Profit/(loss) \$'000	Profit/(loss) \$'000
Financial assets						
Cash and cash equivalents	2,108	(21)	21	-	-	
Unlisted securities	60,895	-	-	-	-	
Derivative securities	540	(1,100)	1,100	419	(343)	
Financial liabilities						
Payables	1,533	-	-	-	-	
Trust-issued Adjustable Preferred Securities	107,331	1,100	(1,100)	-	-	
Total increase/(decrease)		(21)	21	419	(343)	
	2008	Interest rate risk		Foreign exchange risk		
		Carrying Value \$'000	-0.75%	0.75%	-10.0%	10.0%
			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	-	-	-	-	
Derivative securities	1,966	(825)	825	1,469	(1,202)	
Trust-issued Adjustable Preferred Securities	106,845	825	(825)	-	-	
Total increase/(decrease)		(8)	8	1,469	(1,202)	

Interest Rate Sensitivity

The effect of a +/- 1% (2008 - +/- 0.75%) shift in interest rates has been selected for interest rate sensitivity as it represents the approximate historic 12 month average movement in the yield of the 10 year Australian Government Bond Rate (the risk free rate). In any 12 month period the shift in interest rates could be more or less than 1%.

A change in interest rates affects the interest revenue and interest expense of HDF, affecting cash and cash equivalents, derivative securities and Trust issued Adjustable Preferred Securities respectively.

The interest rate sensitivity assumes the discount rate used to determine the fair value of derivative securities is changed by the stated amount, whilst holding all other variables constant. The effect of a +/- 1% shift in interest rates on derivative securities has been approximated through valuation sensitivities performed at discount rates reflecting the selected range while all other valuation variables are held constant.

Foreign Exchange Rate Sensitivity

The effect of a +/- 10% (2008 - +/- 10%) movement in foreign exchange rates has been selected for foreign exchange rate sensitivity.

The Australian dollar appreciated 15% when compared with the British pound over the reporting period.

The 10% sensitivity was selected as it represents foreign exchange movements over a 12 month period in the context of the longer term historical volatility.

20 Financial risk management (continued)

(b) Foreign exchange risk

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

The table below summarises the Scheme's material foreign currency exposures:

	Exposures: GBP	
	2009 A\$'000	2008 A\$'000
Financial liabilities:		
Derivative security - principal payable	<u>84,785</u>	<u>107,992</u>
Net exposure	<u>84,785</u>	<u>107,992</u>

(c) Credit risk

There are no material amounts past due as at the end of the reporting period.

An overview of the Scheme's credit risk exposure is included in Note 10 - Receivables and Note 12 - 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:

	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total \$'000
2009				
TAPS distribution payable	5,937	17,811	2,968	26,716
Trust-issued Adjustable Preferred Securities	-	-	110,000	110,000
	<u>5,937</u>	<u>17,811</u>	<u>112,968</u>	<u>136,716</u>
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
	<u>9,937</u>	<u>29,811</u>	<u>134,842</u>	<u>174,590</u>

(e) Fair value measurements

As of 1 January 2009, the Scheme adopted the amendment to AASB 7 *Financial Instruments: Disclosures*, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

20 Financial risk management (continued)

(e) Fair value measurements (continued)

The only financial instruments that the Scheme fair values are its securities.

The fair values of securities that are not traded in an active market (for example, derivative and unlisted securities) are determined using valuation techniques. The processes by which the fair values of unlisted and derivative securities are determined are outlined in Note 2(h).

Unlisted securities are included in Level 3 on the basis that the valuation techniques adopted are based on significant unobservable inputs.

Derivative securities are included in Level 2 on the basis that the spot and forward interest rates and foreign exchange rates utilised to value these instruments are observable directly or indirectly.

The following table presents the Scheme's assets and liabilities measured and recognised at fair value as at 31 December 2009. Comparative information has not been provided as permitted by the transitional provisions of the new rule

As at 31 December 2009	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Financial assets held at fair value through profit or loss:				
Security assets	-	540	60,355	60,895
Total assets	-	540	60,355	60,895
Liabilities				
Financial liabilities held at fair value through profit or loss:				
Security liabilities	-	-	-	-
Total liabilities	-	-	-	-

The following table present the changes in the Level 3 instruments for the year ended 31 December 2009.

As at 31 December 2009	Unlisted securities \$'000	Total \$'000
Opening balance	-	-
Transfer into Level 3	68,811	68,811
Capital repayments	(8,456)	(8,456)
Closing balance	60,355	60,355
Total gain/(loss) for the period included in the profit and loss that relates to assets held at the end of the reporting period	-	-

21 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 income - HDUF Finance Trust: \$Nil (2008 - \$3,213,000).
- Payment agreement interest expense - HDUF Finance Trust: \$494,000 (2008 - \$Nil).

For details in relation to derivative securities in place with the parent entity, refer to Note 19.

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

- Loan receivable from HDUF Finance Trust: \$4,736,000 (2008 - \$4,736,000).
- Payment agreement receivable from HDUF Finance Trust: \$20,000 (2008 - \$808,000).

(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: \$8,456,000 (2008 - \$9,201,000).

(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 at the end of the year

Interests in TAPS issued by TAPS Trust held by the Responsible Entity and its related entities at the end of the year are as follows:

2009						
Securityholder	Number of securities held Opening (Securities)	Number of securities acquired (Securities)	Number of securities disposals (Securities)	Number of securities held Closing (Securities)	Interest held (%)	Distributions declared (\$)
Hastings	-	-	-	-	-	-
Other Westpac group entities	4,990	7,612	(10,052)	2,550	0.23	24,987
	<u>4,990</u>	<u>7,612</u>	<u>(10,052)</u>	<u>2,550</u>		<u>24,987</u>
2008						
Securityholder	Number of securities held Opening (Securities)	Number of securities acquired (Securities)	Number of securities disposals (Securities)	Number of securities held Closing (Securities)	Interest held (%)	Distributions declared (\$)
Hastings	-	-	-	-	-	-
Other Westpac group entities	4,250	4,440	(3,700)	4,990	0.45	46,887
	<u>4,250</u>	<u>4,440</u>	<u>(3,700)</u>	<u>4,990</u>		<u>46,887</u>

21 Related party transactions (continued)

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

- Responsible Entity management fees expense: \$464,000 (2008 - \$982,000).
For further details in relation to Responsible Entity management fees refer to Note 5.
- TAPS distributions declared to Westpac group entities: \$25,000 (2008 - \$47,000).

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

- Cash and cash equivalents held with Westpac: \$2,108,000 (2008 - \$1,102,000).
- Responsible Entity management fees payable: \$Nil (2008 - \$231,000).
For further details in relation to Responsible Entity management fees payable refer to Note 5.
- TAPS distributions payable to Westpac group entities: \$3,000 (2008 - \$11,000).

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:

Alan Cameron	(appointed Chairman on 6 October 2009 and Director since 14 April 2009)
Steve Boulton	
Jim Evans	(appointed 6 October 2009)
William Forde	(retired as Chairman on 6 October 2009 and continues as a Director)
Alan Freer	(retired 6 October 2009)
Stephen Gibbs	
Mike Hutchinson	(retired 31 December 2009)
Jim McDonald	
Sean McElduff	(retired 6 October 2009)
Jim Tate	(retired 14 April 2009)
Les Vance	(appointed 6 October 2009)

(b) Other key management personnel

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

Name	Position	Employer
Tom Meinert (resigned 4 August 2009)	Chief Operating Officer	Hastings Funds Management Limited

(c) Key management personnel unitholdings

At 31 December 2009 no key management personnel held units in the Scheme or TAPS (2008 - Nil).

(d) 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.

22 Contingent assets, contingent liabilities and commitments

There are no outstanding contingent assets, contingent liabilities or commitments as at 31 December 2009.

23 Events occurring after the end of the reporting period

Since 31 December 2009, there has not been any matter or circumstance not otherwise dealt with in these financial statements that has significantly affected or may significantly affect the Scheme.

Directors' Declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements and are in accordance with the Scheme's Constitution; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 31 December 2009 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.

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*.

This declaration is made in accordance with a resolution of the directors of the Responsible Entity.



Alan Cameron

Chairman

19 February 2010

Independent auditor's report to the unitholders of TAPS Trust

Report on the financial report

We have audited the accompanying financial statements of TAPS Trust (the scheme), which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for TAPS Trust.

Directors' responsibility for the financial report

The directors of Hastings Funds Management Limited as Responsible Entity 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 2, 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.

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

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

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

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 2009 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 2.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of TAPS Trust for the year ended 31 December 2009 included on the Hastings Funds Management Limited web site (HFML). The HFML directors are responsible for the integrity of the HFML 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
19 February 2010

D. Independent auditor's report

The annual financial statements for the year ended 31 December 2009 have been audited and the independent auditor's report is attached. Refer to Section C.