Chairman's Letter

"Hirco's strategy of staying focused on its area of expertise has served it well, and it has emerged from the economic downturn in a strong financial position and reinforced its status as a trusted brand."

Dear Fellow Shareholders,

I am pleased to report a year of continued advancement towards our core objective of creating long-term value for our shareholders.

In my letter last year, I reported solid progress against a background of an increasingly turbulent global market. The severity and speed of the global downturn during the first half of our 2009 reporting year (October 2008 to March 2009) was even more dramatic than most people had anticipated, although this has been countered to some extent by the improvements seen in the second half of the reporting year (April to September 2009), resulting in two very different operating climates.

India's real estate sector, which had been experiencing tremendous growth prior to the global downturn, was hit much harder this year than the overall reduction in the country's GDP growth would suggest. This reflects a sudden loss of confidence at the consumer level, which had an immediate negative impact on large purchases such as housing and automobiles.

At the outset of our reporting year, all indicators suggested a challenging environment ahead, with inflation reaching 12%, high and rising unemployment, and tighter credit market conditions for the real estate sector as a whole. Some customers were delaying decisions to buy new homes and, consequently, the pace of sales slowed. We in turn modified our construction timescales to accommodate the economic conditions prevailing at the time.

During the second half of our reporting year, an improvement in the overall economic outlook, the recovery in India's equity markets, the easing of credit markets, an increase in mortgage lending and a clear mandate for the government all helped to boost confidence. The recovery in sentiment was particularly evidenced in the equity markets, where year to date in 2009 real estate companies have raised over US$2 billion and registered eight IPO filings with the Securities and Exchange Board of India.

Within this challenging and dynamic environment for most of the year, the Company's operating performance has been very creditable.

At our Hiranandani Palace Gardens townships in Chennai in southeast India and Panvel, a suburb of Mumbai, we saw increased quarterly sales at a slightly higher average price per square foot. The rising confidence in the second half of the year that the worst was over for the Indian economy translated into strong increases in both sales and sales enquiries in the last quarter. We also continued to make steady progress in the construction of phase 1 of our developments, with the first residential buildings in the Chennai township expected to be ready for delivery in the next several months.

Several factors enabled us to sustain our growth in a competitive market, including:

- our partnership with Hiranandani;
- the high quality of our township developments and their strategic locations;
- adjusting our product to meet customer demands; and
- the operating companies' prudent strategy of maintaining a strong balance sheet, which has allowed us to maintain our focus on growth and not be diverted by the pressures of raising equity or servicing debt as has befallen some of our competitors. This fiscal discipline has left us well placed to benefit from the recovery in the broader market.

While we continue to monitor market conditions closely, we have the flexibility to mobilise development resources as opportunities arise and fully benefit from the upturn in the Indian economy.

The Mumbai region may see a contraction in supply in the coming months due to a general slowdown in construction activity and the re-phasing of developments by various developers. We see this as positive for our business, as we release more buildings for pre-sale, and look to accelerating timelines.

In Chennai, we have recently seen a revival in appetite for, and increased volumes of transactions in newly launched projects and those under construction, such as ours. Customers continue to be price sensitive.

Whilst our current focus remains strongly on residential development in both townships, we plan to start pre-selling commercial buildings in 2010.

RESULTS TO 30 SEPTEMBER 2009

During the full year ended 30 September 2009, Hirco PLC had net investment income of £48.9 million, compared with £44.2 million for the previous year ended 30 September 2008. Investment income is mainly dividend accrued on participating preference shares in Burke companies at a 12% compounded annual rate.

For the first half of the year ended 30 September 2009, Hirco PLC reported a loss of £30.9 million. For the second half of the year, Hirco PLC reported a gain of £13.2 million, which results in a full year loss of £17.7 million. The fair value loss on investment was £58.1 million, administrative expenses were £8.4 million and loss after tax was £17.7 million, representing a loss per share of 23 pence. NAV increased 17 pence over the figure of 672 pence that we reported with our half-year results in April 2009; and in less than three years our NAV has risen by 45% from 474 pence when Hirco shares were issued to its current 689 pence.

As at 30 September 2009, Hirco had invested approximately £350.8 million or 97% of the net proceeds of the Company's IPO on the London Stock Exchange's AIM in December 2006, and had a net asset value (NAV) of £527.1 million, representing 689 pence per share, compared with a NAV of £544.8 million or 712 pence per share as of 30 September 2008.

The decrease in value over the full year ended 30 September 2009 is primarily attributable to a decline in value of the underlying projects in which Hirco PLC has invested, caused mainly by difficult conditions in India's real estate market and slowed pre-sales volume during the first half of this year. Although the value of the underlying projects has declined with respect to last year, we are heartened that the rate of decrease reduced sharply in the second half of the year. This improving situation is a reflection of better market conditions, our ability to consistently maintain price, and improvement in pre-sales volume and has resulted in the total net assets of the Group increasing during the second half of the year.

Administrative expenses of approximately £8.4 million include the ongoing costs of the PLC board and professional costs in relation to the aborted merger and debt transactions, as detailed at the half year.

NET VALUATION OF PROJECTS

The Board instructed Jones Lang LaSalle Meghraj Property Consultants, Pvt. Ltd. (JLL) to carry out a valuation as at 30 September 2009 of the total of four projects in which Hirco had invested in Chennai and Panvel.

As at 30 September 2009, the value of Hirco's interest in these four projects, excluding the accrued preference dividend, was £414.6 million. This value represents an approximate increase of £63.8 million or 18% from the total acquisition cost of approximately £350.8 million, but an approximate decrease of £58.1 million from the valuation at 30 September 2008, and a decrease of approximately £10.0 million from the valuation at 31 March 2009, which reflects the impact of foreign exchange movements and accrued preference dividends.

JLL used the valuation standards prescribed by the Royal Institute of Chartered Surveyors (RICS). JLL has adopted a consistent approach for each valuation performed to date.

To reach a comprehensive valuation, JLL takes the mid-point of the range derived from both a Direct Comparison Approach and a Residual Approach.

The Direct Comparison Approach compares the four projects with the value of other directly comparable properties after appropriate adjustments. The Residual Approach assumes the development was completed and sold at prices applicable at the date of valuation and values the land by deducting such items as development costs, professional fees and finance costs, developer's margin and risk.

The assumptions used in each of these methods are based on prevailing market conditions, any actual costs incurred and sales values achieved to date. By limiting the use of forward-looking assumptions, and relying upon existing market data, we believe that the methodology adopted by JLL is more conservative and hence appropriate for our projects, given their developmental stage.

CHAIRMAN'S LETTER CONTINUED

PROJECT PROGRESS

Significant progress has been made at our two major projects at Chennai and Panvel.

CHENNAI

Pre-sales of residential units in Hiranandani Palace Gardens Chennai began in May 2007. We are pleased to announce that as at 30 September 2009, sales consideration had been accepted on approximately 2.1 million square feet of buildable area at an average price of INR 4,214 (£55) per square foot.

The value of sales contracts in the Chennai township was £114.6 million.

Sales progressed throughout the reporting year, but the rate has improved significantly in the last few months. Approximately 70% of the units available for sale in phase 1 of the project have been pre-sold, and we will consider releasing more buildings for pre-sale in the first quarter of 2010.

We have a total of 17 low- and high-rise buildings under construction and the first of these is expected to be delivered in the next several months, with others following over the course of 2010 and 2011 as the community begins to take shape. In the background, but fundamental to the success of the project, we are building the water treatment plant, the sewage treatment plant and the roads that provide entry to the site and transport within the township. These are progressing smoothly and in line with our plans.

PANVEL

Pre-sales of residential units in Hiranandani Palace Gardens Panvel commenced in March 2008. As at 30 September 2009, sales consideration had been accepted on approximately 2.0 million square feet of buildable area at an average price of INR 4,384 (£57) per square foot.

The value of sales in the Panvel township was £115.1 million. The Panvel township has seen an even more significant upturn in sales than the Chennai township in the most recent months and 68% of the units released for sale in phase 1 of the project have been pre-sold.

Construction has begun on-site, with major excavation and road construction completed for some parts of the development. We have also created a nursery in which 45,000 trees and plants are growing in preparation for re-planting in the gardens as required. Construction of the show flat complex is under way and is expected to be completed in the next few months.

REVIEW OF CRITICAL EVENTS

MERGER PROPOSAL

On 18 December 2008, the Board announced the proposal to transform the Group through a merger with Hirco Developments and the Investment Companies. It became apparent, following meetings with a number of shareholders, that there was a variety of views about the proposed merger and how to address Hirco's significant share price discount at the time. The Board, therefore, considered it essential that more time was given for the alternate views to be considered and the planned general meeting was adjourned.

The Board remains of the view that a merger represents a compelling proposition for shareholders and, in consultation with outside advisors, has commissioned a detailed strategic review, which is currently under way.

REQUISITIONED EGM

On 20 February 2009, the Company received a requisition to convene an Extraordinary General Meeting from Credit Suisse, acting as custodian to Laxey Partners Limited and holding approximately 10.05% of the Company's shares.

By 30 September 2009, sales consideration had been accepted on approximately 2.1 million square feet of buildable area at Hiranandani Palace Gardens Chennai, including the low-rise buildings pictured here (centre).

The resolutions proposed the removal of myself as your chairman and two Independent Non-Executive Directors, the appointment of four new directors, and that we should consider appointing a Director of the Company who is independent of the Hiranandani family to act as chairman.

We were pleased to report that at the EGM on 6 May 2009, shareholders rejected all resolutions by a substantial majority. The Board has committed to undertake a programme to seek a further experienced director to act as an independent Non-Executive Director. This process is under way.

DIVIDEND

In light of the results of the year and some of the uncertainties that prevail, the Board has decided not to declare a dividend this year. The Company is committed to pay dividends to shareholders from any free cash flow received from the Special Purpose Vehicles (Burke companies 1,2,3 and 4) as soon as reasonably practical following receipt. We fully recognize the importance of this aspect to our shareholders.

CORPORATE SOCIAL RESPONSIBILITY

As a major investor in large-scale townships, it is our constant endeavour to work with our partners to create and build sustainable communities that become highly desirable places in which to live. Through the project companies, we are constantly initiating new measures that improve the energy efficiency of our buildings. We focus on environmental sustainability, workplace health and safety, and on enhancing the economic growth in the local communities.

Far from being an add-on to what we do, we believe Corporate Social Responsibility is a vital part of our core business and delivers tangible benefits.

OUTLOOK

In its July forecast, the IMF has predicted India's GDP growth for 2009 will be 5.4%, up from an earlier prediction of 4.5%. Although this compares poorly with the 9% achieved in recent years, our national economy remains one of the fastest growing in the world, second only to China's.

Our four investments continue to perform in line with management expectations and the last three months of trading in our 2009 reporting year have given us reason to be cautiously optimistic that India will emerge from the global financial crisis more quickly than other major economies.

The Indian property market is recovering and will continue to recover. We believe Hiranandani Group is still unmatched in its ability to create townships of such high quality and at an affordable price. Its strategy of staying focused on its area of expertise – managing its costs and trusting its market experience – has served it well this year, and it has emerged from the economic downturn in a strong financial position and reinforced its status as a trusted brand.

Our share price has recovered from its historic low earlier this year, but still stands at a significant discount to net asset value. We believe that the market capitalisation materially undervalues the Company and its prospects. The Board continues to keep this situation under constant review with the objective of redressing this imbalance.

Although the past year has been challenging, we can take pride in this year's achievements. I would like to take this opportunity to thank everyone for their individual contribution to the progress we have made. We are very fortunate to have such a strong Board and an experienced management team.

I look forward to next year with growing confidence.

NIRANJAN HIRANANDANI
CHAIRMAN
29 OCTOBER 2009