

Chairman's Letter



*Niranjan Hiranandani
Chairman*

Dear Fellow Shareholders,

The year ended 30 September 2010 can be best summarised as one of mixed results and unexpected challenges.

In my letter last year, I reported nascent signs of an improving economic outlook and a recovery in India's equity markets. This positive trend has continued throughout the reporting year and it looks increasingly likely that we are witnessing a return to a long-term upward trend.

GDP growth, having dipped last year to 5.8%, is now forecast by the Reserve Bank of India to reach 8.8% in FY2011. The Asian Development Bank is forecasting growth to remain high at 8.7% in FY2012. We have also seen the return of robust business confidence and positive consumer sentiment. There are signs of an ongoing recovery in the real estate sector that is both broad based and sustained.

However, the BSE Realty Index is down 17% over the reporting period and has significantly underperformed the broader market, with the BSE Sensex index rising 17% over the same period.

Indian wholesale price inflation, having increased steadily over the last 12 months to levels above 10%, is now easing, but continues to affect fuel and construction raw material prices.

We continued to make steady progress in the construction of phase 1 of our developments, with the first low-rise buildings in the Chennai township being completed and the high-rise buildings reaching their full height of 15 and 27 storeys. The sales office and show apartment building in Panvel is expected to be completed in early 2011. In addition the Ministry of Environmental Affairs has approved the development of the Navi

Mumbai International Airport, within close proximity to our site. We expect this announcement to further enhance the attractiveness of our Panvel township.

On 6 June 2010, Hirco celebrated a very significant landmark as the first residential apartments in Chennai were handed over to enthusiastic owners. This exciting event demonstrates that the projects in which Hirco PLC invested have now moved from the design, planning and construction stage to the delivery and execution phase. From now on, completed apartments will be released to owners on a regular basis, with the next block of apartments expected to be released in the first half of 2011.

The impact and duration of the global recession and the long time it has taken to obtain permits have caused a lengthening of the projects' overall development timeline. Some asset classes, such as commercial office space, have yet to see any significant recovery. This has delayed the commencement of commercial and retail asset construction at both townships.

As is explained in note 13, the Jones Lang LaSalle Meghraj feasibility study, completed earlier this year and subject to a previous announcement, shows that the project timelines have been extended. The impact of this is that the preference dividend accrues and compounds over a longer period. This means the fair value gain on the Group's investment, as at 30 September 2010, is very uncertain and a fair value adjustment deemed appropriate by the Directors has been made against this in the financial statements.

At each accounting date, this will be reviewed in light of the most current cash flow projections of the project companies. However, the long-term returns to Hirco PLC shareholders under the current structure will continue to accrue at 12%, compounded annually over a longer period.

Results to 30 September 2010

During the full year ended 30 September 2010, we reported an after-tax loss of £13.6 million, representing a loss per share of £0.18 based on 76,526,984 shares outstanding. This is driven principally by net investment income of £54.5 million, compared with £48.9 million for the previous year ended 30 September 2009, and fair value loss on investments of £63.8 million. Investment income is mainly dividend accrued on participating preference shares in Burke companies at a 12% compounded annual rate.

The fair value loss on investment, following the Directors' adjustment, was £63.8 million and administrative expenses were £4.2 million.

As at 30 September 2010, Hirco PLC had a net asset value (NAV) of £513.5 million, representing £6.71 per share, down £0.18 per share compared with a NAV of £527.1 million or £6.89 per share as of 30 September 2009. Hirco's NAV as

of 30 September 2010 represents a cumulative increase of 42% from a NAV of £4.74 per share at the time of the IPO.

The decrease in value over the full year ended 30 September 2010 is primarily attributable to the downward adjustment in the fair value of the investments, deemed appropriate by the Directors.

Administrative expenses of approximately £4.2 million include the ongoing costs of the Board and professional costs. Your Board has taken steps to reduce costs and these are explained in the Report of the Directors.

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 2010 of the total of four projects in which Hirco had invested in Chennai and Panvel.

There have been two significant recent changes to government legislation that have had an immediate effect on the valuations. The first concerns our development in Chennai where the Floor Space Index (FSI) has been increased by 28%, which allows us to build a further 7.2 million square feet of residential space and a further 0.6 million square feet of commercial space. Included

within this Local Government Order is the requirement to reserve land amounting to a minimum of 10% of the site area for lower-cost housing, either within the site or within a radius of five kilometres from the site. The implications of this recent change in FSI are currently being analysed by the Company and will be reported as soon as they become available.

Secondly, in an attempt to simplify the existing tax laws, the Government of India has proposed the new Direct Tax Code (DTC), expected to be implemented in April 2012. The DTC proposes to withdraw some of the current tax exemptions for SEZs such as the Minimum Alternate Tax (MAT) and the Dividend Distribution Tax (DDT). It also proposes to withdraw current tax benefits to certain units operating from an SEZ. These changes are expected to increase the tax burden of developers, as well as negatively impact the demand for SEZs in India. These will have a negative impact on our SEZ development at Panvel. Chennai is not an SEZ and will not be impacted.

Other factors common to all four developments that have impacted JLL's valuations are the assumption of extending the project development schedule and increasing the construction costs, including labour costs, by 5%.

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As at 30 September 2010, the value of Hirco's interest in its four projects, excluding the accrued preference dividend and prior to the Directors' adjustment, was £413.3 million. Following the Directors' adjustment, the value was £350.8 million. This value represents:

- a decrease of approximately £63.8 million from the valuation at 30 September 2009; and
- a decrease of approximately £75.7 million from the valuation at 31 March 2010.

The value also reflects the impact of foreign exchange movements, the increased length of the development schedule, the planned new Direct Tax Code, and changes to the FSI.

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.

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.

Project Progress to 30 September 2010

Chennai

Pre-sales of residential units in Hiranandani Palace Gardens Chennai began in May 2007. As at 30 September 2010, sales consideration had been accepted on approximately 2.2 million square feet of buildable area at an average price of INR 4,241 (£60) per square foot. The value of

sales contracts in the Chennai township at 30 September 2010 was £129.7 million.

Although sales progressed steadily throughout the reporting year, we have yet to see the anticipated upturn in net new sales. Approximately 62% of the 2,695 units available for sale in phase 1 of the project as at 30 September 2010 had been pre-sold. This follows the recent release for sale of two new buildings with a total of 312 apartments.

We have a total of 27 low- and high-rise buildings under construction and the first two low-rise buildings have been handed over to satisfied customers. The remaining nine low-rise buildings are scheduled to be completed by the first half of 2011. Construction of the six high-rise buildings has progressed rapidly with all floor slabs scheduled to be completed shortly.

The water treatment plant, the sewage treatment plant and the roads that provide entry to the site are now constructed. We also opened our new 4,000-square-foot Chennai sales office, which is designed to convey quality.



The first residential apartments in Chennai township phase 1 were officially handed over to customers in June 2010.

Panvel

Pre-sales of residential units in Hiranandani Palace Gardens Panvel, commenced in March 2008. As at 30 September 2010, sales consideration had been accepted on approximately 2.4 million square feet of buildable area at an average price of INR 4,664 (£66) per square foot.

The value of sales in the Panvel township at 30 September 2010, was £158.5 million.

The Panvel township has seen a higher sales rate than Chennai over the reporting period, as well as a 6% increase in average square foot prices during the year. In response to this steady demand, we planned and released for sale three additional 30-storey buildings with the top two floors reserved for the exclusive and luxurious Sky Palace apartments. Approximately 82% of the 2,659 units released for sale in phase 1 of the project as at 30 September 2010, had been pre-sold.

Construction has begun on-site, with major excavation and road construction completed for some parts of the development.

We expect to complete the new sales office and the 5,000-square-foot sample flat this year.

Recent Developments – Pre-sales through 30 November 2010

Chennai

As at 30 November 2010, sales consideration had been accepted on approximately 1.9 million square feet of buildable area at an average price of INR 4,168 (£60) per square foot. The value of sales contracts in the Chennai township at 30 November 2010 was £110.2 million.

These figures reflect cancellations of approximately 340,000 square feet in October and November 2010.

As at 30 November 2010, reflecting these cancellations, approximately 55% of the 2,695 units released for sale in phase 1 of the project had been pre-sold. Bulk sales (buyers of more than six units) represent approximately 23% of the 1,480 units sold.

Panvel

As at 30 November 2010, sales consideration had been accepted on approximately 2.5 million square feet of buildable area at an average price of INR 4,755 (£67) per square foot. The value of sales contracts in the Panvel township at 30 November 2010 was £169 million. These figures reflect cancellations of approximately 73,000 square feet in October and November 2010.

As at 30 November 2010, reflecting these cancellations, approximately 85% of the 2,659 units released for sale in phase 1 of the project had been pre-sold. Bulk sales (buyers of more than six units) represent approximately 59% of the 2,248 units sold.

We have received two large cancellations. However, we are encouraged by the strong performance in gross sales which helped to mitigate the effect of these cancellations somewhat in Chennai and altogether in Panvel. This has also created the opportunity to resell these cancelled units, many of which were purchased at a much lower price point than our current offering, at a higher price per square foot.



“We are confident that the true underlying value of the Company is intact and going forward will continue to be enhanced for the benefit of all shareholders.”

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Management and Board changes

In June 2010, the Board of Directors announced the appointment of Peter Barge, former Chairman and CEO of Jones Lang LaSalle, Asia Pacific as an additional and senior non-executive director.

I am delighted to welcome an individual of Peter's reputation and experience. He has had a long and varied career in consultancy and the property industry and a 20-year association with Jones Lang LaSalle. He is also the author of several management books.

We have recently announced that Sir Rob Young, Priya Hiranandani and Nigel McGowan ceased to be members of the Board with effect from 22 September 2010. Sir Rob and Nigel have been non-executive directors and Priya has been Chief Executive Officer and Director since the Company's IPO in December 2006. Nigel McGowan will remain as Company Secretary.

I would like to express my thanks to Sir Rob, Nigel and Priya for the guidance and insight they have brought to the Hirco Board. Their experience and judgement will be much missed.

Corporate Governance

The Board recently engaged Deloitte to perform a review of the Board's functions. Deloitte has identified some areas of weakness and others requiring added improvement. Hirco is committed to the principles of good governance and is taking prompt action to move the Board aggressively toward the best practices outlined in the Deloitte report. As I have reported above, we have already acted upon Deloitte's recommendation that we address the balance and size of the Board. We are

also addressing all areas identified as weaknesses or in need of improvement and substantial progress has been made.

As of 30 September 2010, Hirco PLC had £4.9 million of cash. The Board is aware of its working capital position and is keeping under review the options and actions needed to ensure the Company has sufficient working capital. The Board has examined Hirco PLC's running costs and has targeted a reduction of 21%, resulting in expected future annual running costs of approximately £3.3 million.

Dividend

The impact of the global recession on the projects in which the Company invested, the debt covenants applicable to the project investments and the consequent extension of the timescales for completion of the projects continue to affect the Company's ability to make distributions of cash to shareholders.

In August 2010, the Board announced that as a consequence of the above factors it was prudent to assume that there will be no cash distributions to shareholders before 2013.

We fully recognize the importance of this aspect to our shareholders and the Board continues to urge the independent project companies to examine ways of releasing cash earlier.

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 also focus on environmental sustainability, workplace health and safety, and on enhancing the economic growth in the local communities.

Our success is built on our long-standing commitment to being an active and considerate member of the communities in which we operate. We will use our strength and expertise to make these communities both safer and stronger.

Outlook

Hirco PLC continues to be encouraged by the macroeconomic and real estate trends in India, and the ability of the projects to maintain pricing and execute on the ground in Chennai and Panvel. In spite of the extension to the development schedule, we believe our projects will create shareholder value in the long term.

Our strategy to restrict construction and maintain pricing during the economic downturn has largely proven to be the correct one and has enabled the Hirco PLC investment projects to maintain their brand premium. This is reflected in the significant value of sales contracts to date. It also positions the projects to take advantage of the inevitable upswing in property markets and capture more value.

Hirco PLC is confident that the true underlying value of the Company is intact and going forward will continue to be enhanced for the benefit of all shareholders.

Niranjan Hiranandani
Chairman

14 December 2010

