Polar Capital Holdings plc

Annual Report & Accounts 2011

POLAR CAPITAL HOLDINGS plc

Contents

Who we are

Polar Capital Holdings plc is a specialist investment management company offering professional and institutional investors a range of geographical and sector funds. The Company's investment strategies have a fundamental research driven approach. The Company has long-only and absolute return funds in its product range.

Founded in 2001, Polar Capital currently has 66 employees of whom 34 are investment professionals managing 16 funds and 4 managed accounts. These funds have combined assets under management of $3.9bn as at 31 March 2011.

The Company is AIM quoted following its IPO in February 2007. Consistent with the Company's founding strategy of fostering an equity culture amongst its employees and providing high levels of transparency to clients, 45% of the equity is currently held by Directors, founders and employees.

Group strategy

The Company's goal is to become a leading specialist fund management company through a strategy of delivering to professional and institutional investors a range of fundamentally driven investment products that deliver differentiated risk adjusted returns over the long term.

Our core philosophy is to focus on investment performance over and above the gathering of assets. We believe there is an alignment of interest between the investment managers we recruit, their focus on delivering superior returns and the interests of professional and institutional clients who are seeking differentiated investment product.

In addition to providing clients with superior investment products we place great emphasis on providing high levels of customer service, operational integrity, independent risk control and compliance supervision. We believe such a combination will increasingly differentiate us in the marketplace and deliver attractive levels of long term earnings and dividend growth to our shareholders.

We place great emphasis on providing and maintaining an entrepreneurial, vibrant, collegiate and transparent environment for our fund managers and our employees. We believe this will become an increasingly important factor in the attraction and retention of talented people.

The Company will continue to maintain a strong and healthy balance sheet providing our clients with added comfort during turbulent times.

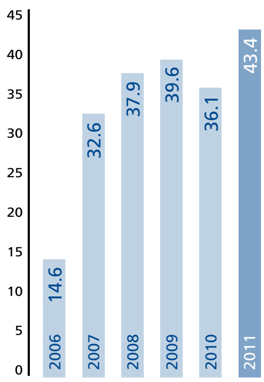
Overview

Polar Capital at a glance

- Assets under management ("AUM") rose 53% to US$3.87bn at 31 March 2011 (2010: US$2.53bn)
- Core operating profit excluding performance fees £3.6m (2010: nil)
- Profit before share-based payments and intangible asset amortisation impairment £10.2m (2010: £3.7m)
- Pre-tax profit £9.2m (2010: £3.1m)
- Basic earnings per share up to 8.6p (2010: 3.1p); diluted earnings per share up to 8.2p (2010: 3.0p) and adjusted* diluted earnings per share up to 9.5p (2010: 3.8p)
- Dividends for the year up 61% to 7.5p per share (2010: 4.5p)
- Shareholders' funds £43.3m (2010: £36.1m) including cash and investments of £48.6m (2010: £39.4m)

* Adjusted to exclude cost of share-based payments and intangible asset amortisation/impairment

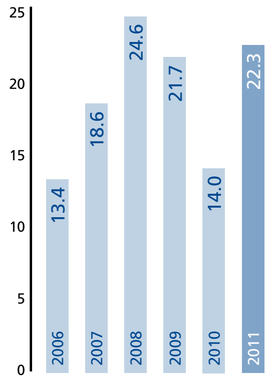
Shareholders' funds
£ million



Percentage change
2010-2011

+20%

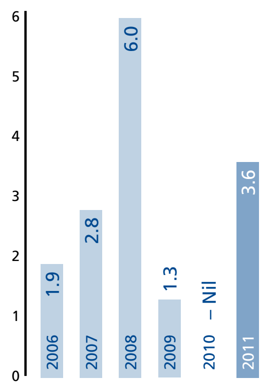
Net management and advisory fees
£ million



Percentage change
2010-2011

+59%

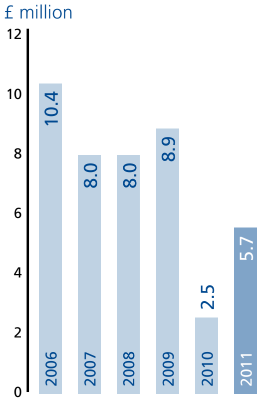
Core profitability
£ million



Percentage change
2010-2011

N/A%

Net performance fee profitability
£ million



Percentage change
2010-2011

+128%

Our funds/strategies at a glance
(Assets under Management)

Analysis of changes in asset types for the 12 months to 31 March 2011

	Long $m	Hedge $m	Total $m
Total assets as at 31 March 2010	1,575	955	2,530
Performance and currency movements	333	45	378
Acquisition of HIM Capital	249	–	249
Net subscriptions/(redemptions)	947	(229)	718
Total assets as at 31 March 2011	3,104	771	3,875

	31 March 2011 $m	31 March 2010 $m
Technology	**1,402**	**815**
Technology Trust plc	762	598
Global Technology UCITS Fund	640	217
Japan	**1,063**	**682**
Japan UCITS Fund (including managed accounts run off the same strategy)		
UK	**170**	**206**
UK Hedge Fund (including managed accounts run off the same strategy)	26	34
UK Absolute Return UCITS Fund	144	172
Europe	**576**	**504**
European Forager Hedge Fund	479	386
European Conviction Hedge Fund	97	118
Macro	**–**	**245**
Discovery Fund		
Healthcare	**233**	**78**
Global Healthcare Growth & Income Trust plc	151	
Healthcare Opportunities UCITS Fund	82	78
Financials*	**296**	**–**
Far Eastern Financial Fund	70	
European Financial Fund	30	
Global Insurance UCITS Fund	129	
Financial Income Fund	67	
Global Emerging Markets**	**96**	**–**
Global Emerging Markets Growth UCITS Fund (including managed accounts run off the same strategy)	83	
Global Emerging Markets Income UCITS Fund	13	
ALVA Global Convertibles Hedge Fund ***	**39**	**–**
Total	**3,875**	**2,530**

* HIM Capital was acquired in September 2010
**Global Emerging Markets was launched in December 2010
***ALVA Global Convertibles was launched in November 2010

Chairman's statement

Tom Bartlam
Chairman

I am pleased to report an increase in our AUM to $3.9 billion at 31 March 2011, which rose 53% from the previous year end and 26% from the level reported in our interim results at the end of September. The growth in assets has been through a combination of absolute performance from our funds, continued client inflows across a number of our products and through the assets acquired in the purchase of HIM Capital in September.

Results

The significantly higher level of AUM for the year allowed us to increase pre-tax profits before share based payments and intangible asset amortisation/impairment from £3.7m to £10.2m. We were able to generate a core pre-tax profit of £3.6m and net performance fees were £5.7m which is more than double last year's figure.

Our balance sheet remains strong with gross cash and investments of £48.6m.

Market Background

In my statement last year I said we could expect the external environment to remain challenging and indeed that proved the case!

The opening months of our fiscal year were marked by the Greek debt crisis which caused considerable volatility and downward pressure on markets. The European Union responded to worries over Greece and other heavily indebted nations such as Ireland and Portugal with the creation of the European Financial Stability Facility (EFSF), a vehicle designed to provide emergency funding for the troubled states as their access to the capital markets dried up and became increasingly expensive.

Whilst it is difficult to believe that adding more debt to an economy already buckling under its debt load is a sensible long term solution, the EFSF did have the desired effect of stabilising markets over the summer months. Investors returned their interest to the global economy which in spite of the turmoil in Europe had continued its recovery. Particularly strong growth was seen out of China and other parts of Asia but even in the developed economies the pace of economic activity improved notably in the United States and Germany. Consequently the results coming out of the corporate sector generally remained positive and with valuations still reasonable, global stock markets began to recover and move back into positive territory. This trend continued until the closing weeks of our fiscal year and the unfolding of the tragedy surrounding the Japanese earthquake and tsunami.

Over the year most major markets did in fact produce positive returns despite the considerable volatility. The MSCI World Index was up 14.3% over the period whilst in the UK, the FTSE All Share Index was up a more modest 9.3%. The Japanese market, for understandable reasons, was one of the few major markets to be down over the period with the Nikkei 225 falling 10.4%.

Funds and Performance

This was another very good year for performance on our long only funds and this is well summarised in the table below. All our long only funds open at the start of the fiscal year outperformed their benchmarks. Five out of seven funds were ranked top quartile in their peer group (over 12 months) and the other two were a creditable second quartile (source Lipper).

Fund	Peer Group Ranking	Quartile Ranking
Global Technology	2/18	1
Japan	12/77	1
Healthcare Opportunities	48/122	2
Insurance	19/107	1
European Financials	30/107	2
Asian Financials	12/107	1
Financials Income	15/107	1

This continued good performance resulted in good inflows across most of our long only funds with particularly strong flows coming into our award winning Global Technology and Japanese UCITS Funds.

On the hedge fund side the performance was more mixed although the European Forager Fund again had a good year adding to its excellent long term track record. The Fund was again nominated in its category at the Eurohedge Annual Awards - the 5th time it has been nominated and a testament to the team's consistency of returns. The European team's second fund, Conviction, after a dull spell, has also started to perform well during the testing conditions experienced over the opening months of 2011 and we are hopeful therefore of seeing good inflows into the Conviction Fund as we progress through the year.

The UK funds have disappointed. After an encouraging 2008 and 2009 they had a frustrating 2010 and the strategy's performance so far in 2011 has been weak. Our macro strategy continued to struggle and the Discovery Fund was eventually closed in January which was a disappointment to all concerned.

Encouragingly though our recently launched Alva Global Convertibles Fund has started well.

Developments

As well as showing strong growth in our existing long only funds we have over the course of the last year further added to our capabilities. We acquired in September 2010 HIM Capital, which brought three experienced fund managers and four existing funds in the financials sector. We also recruited in the second half of the year two teams, led by highly regarded fund managers, offering expertise in the Global Emerging Markets and Global Convertibles sectors. I would like to warmly welcome all the fund managers and their teams and wish their funds success.

Dividend

The Board has declared a second Interim dividend of 6.0p (2010: 3.5p) to be paid in August 2011 (2010 in March). Together with the interim dividend of 1.5p paid in January 2011 the total dividend for the year amounts to 7.5p. This is a significant increase on the total dividend of 4.5p paid last year and reflects the Company's improved profitability, the health of the balance sheet and our quiet optimism on the outlook for the business in the coming financial year.

Outlook

Your Company made good progress last year on a number of fronts. Assets under Management increased, core profitability and overall profitability improved, new investment teams were added, new products were launched and our financial position strengthened. We therefore enter the current fiscal year with a degree of optimism and feel we are well placed to grow the business further in the year ahead.

Chairman's statement
continued

We are though mindful of the external environment which will have a significant influence on our progress and which continues to offer no shortage of causes for concern. Turmoil in the Middle East, rising inflation in the developed and developing economies and a resurfacing of concerns over Southern Europe's debt situation are but some of the factors combining to create a very febrile and uncertain outlook. Notwithstanding this, we remain confident in our strategy for growth and in our ability to capitalise on the substantial opportunity we see ahead.

Annual General Meeting

The Annual General Meeting will again be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN at 12.30pm on 8 September and I encourage shareholders to attend and meet the Board. Full details of the meeting and the resolutions are set out in the separate notice of meeting.

I would like to conclude by acknowledging the contribution of the executive management team who have played a major role in delivering the marked improvement in the business in the last financial year.

Tom Bartlam
Chairman

Chief Executive's statement

Tim Woolley
Chief Executive

When I wrote to you last year I saw three major avenues of growth for Polar Capital in the coming year:

– Increase the assets in our existing products
– Increase the range of products offered by our existing teams
– Acquire and recruit additional investment teams

It is pleasing to report that we made progress in all three areas. The inflows into our existing products were outlined in the Chairman's Statement and I will therefore confine myself to addressing the second and third areas.

We have just celebrated the first year anniversary of our Global Healthcare Growth and Income Trust. The Trust was launched with an initial £89m despite the appalling market conditions at the time caused by the Greek and Irish debt crisis. The successful launch, despite the unhelpful market backdrop, reflected the strong underlying investment rationale for the product and Polar Capital's growing profile within the UK wealth management industry. Our optimism on the product and the sector has proved well founded with the Trust delivering on both its income and capital appreciation objectives in its opening year.

We remain mindful of not overstretching the investment resources of a team but where there is capacity and the product has a strong investment rational then we will continue to create further interesting products along the lines of the Global Healthcare Growth and Income Trust.

As to the addition of new investment teams we had considerable success here with the arrival of three new teams during the year.

In September we completed the acquisition of HIM Capital, a small specialist investment boutique managing long only funds in the financials sector. This brought us a team of three highly experienced fund managers in Alec Foster, John Yakas and Nick Brind whose combined experience of the sector amounts to in excess of 75 years. The team manage a total of four funds, all with excellent track records with a combined AUM of $245m at the time of the acquisition. This figure had increased to $296m at the end of our financial year as the team benefited from the sales and marketing resource of Polar Capital and being exposed to a wider client base than before the acquisition.

The second team that arrived was on the hedge fund side and comprises of two senior managers and two assistants who specialise in global convertibles. The two lead managers, David Keetley and Steve McCormick, have extensive experience and are widely recognised as experts in the convertibles area. The team arrived at the end of September with David being based in our London office and Steve being based at our newly created Connecticut office.

Their first product, the ALVA Global Convertibles Fund, has had an excellent start gaining 8.4% in US dollars over the five months to the end of March and we are hopeful that the Fund will start to attract inflows as we progress through the new financial year. The team though undoubtedly have the expertise and capacity to launch additional products in due course.

The third and final team to join us was the Global Emerging Markets (GEM) team led by William Calvert, an experienced and well recognised manager with an excellent track record of outperformance against his benchmark and his peer group. William is supported by two experienced assistant managers covering Asia and Latin America respectively.

In addition to a significant third party mandate that arrived with this team, we launched the Global Emerging Markets Growth Fund at the start of December 2010 and the Global Emerging Markets Income Fund in January 2011. Although the initial sums are modest, there is considerable investor interest in both funds. As sentiment towards the

Chief Executive's statement
continued

sector improves we expect the funds to grow significantly over the coming years given the strong secular investment case underpinning the two funds combined with the team's experience and record.

For the year ahead our strategy remains unchanged. We continue to see considerable scope to increase the AUM in our existing product range without compromising performance. It is encouraging that the momentum we saw at the end of our fiscal year has continued into the opening months of the current year.

We will continue to expand the product range offered by our existing teams where there is a strong investment rational to do so. Indeed, we have already added to our product range in the new fiscal year with the launch of the Financial Opportunities Fund at the beginning of May 2011.

We will continue to look for exceptional investment talent although it is unlikely we will add teams at the pace we did in the previous year. I would though hope to add one or two more proven teams by the end of our fiscal year. Our original vision when we established Polar was to have ten to twelve investment teams and that still feels a sensible number for which to aim.

We will continue to invest in the support infrastructure of the Group to ensure we meet our traditionally high standards as our AUM increases, but given the investments we have made over the years, we would not expect to add additional resource at the same rate as our expected AUM growth. We have made important hires in our sales and marketing function over recent months including a marketing manager and a senior international sales person. Furthermore, we expect another experienced individual on the client support side will be joining us during the summer. All three hires will help ensure we continue to give our expanding client base the high level of service they expect.

As we look to the new fiscal year our Chairman has highlighted the uncertainty in the outlook for markets and the global economy. Notwithstanding this, we continue to see a great opportunity for us to expand our presence in the global wealth management industry. We believe our strategy of focusing on active management and providing clients with differentiated products that have strong performance supported by quality service, operational integrity, corporate transparency and financial strength is the right one for our Group and for the much changed environment post the 2008 financial crisis.

We enter the current year with confidence. Our fund performance continues to be good and we have good momentum with inflows into a broader range of products. Our competitive position has further improved giving us greater financial strength to invest and support our plans for growth in the years ahead.

I would like to conclude by thanking all our staff for their excellent work over the year, our shareholders for their loyal support and our clients for their continued interest and ongoing support of our products.

Tim Woolley
Chief Executive

Financial review

John Mansell
Finance Director

Profit and Loss account

The Group made a profit (pre tax, pre share-based payments and pre intangible asset amortisation/impairment) for the year of £10.2m (2010: £3.7m). The table below summarises the break down of the source of the profits:

	Year to 31 March 2011 £'m	Year to 31 March 2010 £'m
Core operating profit	3.6	–
Performance fee profit	5.7	2.5
Interest and similar income	0.9	1.2
Profit before tax and before share-based payments	10.2	3.7
Share-based payments	(0.5)	(0.6)
Amortisation/impairment of intangible assets	(0.5)	–
Profit before tax	9.2	3.1

The rise in core operating profitability, by and to £3.6m, was simply a product of the increase in AUM. The Group's AUM at the start of the year was $2.53bn compared to $1.48bn at March the previous year and the average AUM over the year was $3.20bn compared to $1.93bn the year before. The year saw net core revenues rise by £7.8m and costs only rise by £4.2m.

The rise in total core operating costs from £14.3m to £18.5m is explained by a number of factors that are tabulated below. Total operating costs include the interests that staff have in the Group's gross performance fee receipts of £9.0m (2010: £3.7m). This explains how total operating costs have risen to £27.5m (2010: £18.0m).

The table below summarises the break down of the make up of costs as referred to above:

	Year to 31 March 2011 £'m	Year to 31 March 2010 £'m
Salaries and bonuses	8.9	8.1
Manager interests in core fees	3.5	1.6
Other staff costs	–	0.4
Core compensation costs	12.4	10.1
Other operating costs	6.1	4.2
Total core operating costs	18.5	14.3
Performance fee costs	9.0	3.7
Operating costs	27.5	18.0

Share-based payments

The face of the consolidated income statement includes a line titled "share-based payments" which accounts for a charge of £0.5m (2010: £0.6m). The figures can be broken down as follows:

Analysis of the cost of share-based payments:

	Year to 31 March 2011 £'m	Year to 31 March 2010 £'m
IFRS cost attributed to preference shares	–	0.4
IFRS credit attributed to team departing and changes to est. shares crystallising	–	(0.1)
IFRS cost attributed to conventional options	0.5	0.3
Total cost of share-based payments	0.5	0.6

Financial review
continued

The preference shares, in the event that a manager is successful, deliver to their holder equity in the Group and are designed to deliver simultaneously to the Group an increase in profitability due to the sacrifice that a manager makes as they give up their interest in the revenues generated from their funds.

The effect that the charge for share-based payments and the charge for amortisation of intangible assets (see below) has on the EPS figures of the Group are as follows:

	Year to 31 March 2011	Year to 31 March 2010
Diluted earnings per share	8.2p	3.0p
Impact of share-based payments	0.6p	0.8p
Impact of intangible asset amortisation	0.7p	–
Adjusted diluted earnings per share	9.5p	3.8p

Preference shares

A separate class of preference shares is issued by Polar Capital Partners Limited to each of the leading fund managers. These shares provide each manager with an economic interest in the funds that they run and ultimately enable the manager to convert their interest in the revenues generated from their funds into equity in Polar Capital Holdings plc. The equity is awarded in return for the forfeiture of their economic interest and vests over three years with the full quantum of the dilution being reflected in the diluted share count (and so diluted EPS) from the point of conversion. The event has been designed to be, at both the actual and the diluted levels, earnings enhancing to shareholders.

In the year to 31 March 2011 (as well as 2010) no preference shares converted. As at 31 March 2011 two sets have the ability to call for a conversion where the call has to be made on or before 30 November 2011 if conversion is to take place from 31 March 2011.

Amortisation/impairment of intangible assets

On 21 September 2010, the Group acquired 100% of the voting shares of HIM Capital Holdings Limited ("HIM"), a specialist fund manager with an established track record of managing financial funds and with approximately $245m of assets under management, thereby establishing a strong financials sector franchise for the Group. The acquisition generated intangible assets of £1.7m representing the acquired investment management contracts which were taken onto the Group's balance sheet (i.e. the consideration above the value of tangible assets purchased). These intangible assets and the associated deferred tax liability/goodwill of £0.4m is being amortised/impaired over a period of approximately two years. This resulted in a charge of £0.5m for the year ended March 2011, leaving £1.6m of intangible assets in the year end balance sheet.

Balance Sheet and cash

The Group generated £12.7m of cash in the year from its operating activities (2010: £2.3m). The cash flow statement shows that less dividends were paid in the year (£1.1m in 2011, £5.7m in 2010). This was due to the acceleration of the payment of last year's second interim dividend into March 2010 (it would conventionally have been paid in July 2010) which resulted in the recording in 2010 of all dividends declared in respect of the 2010 financial year.

During the year the Group redeemed £33.2m of investments in its funds and made £42.3m of subscriptions into its funds, raising its investment in its own managed funds at the year end to £29.4m (2010: 19.7m).

At the year end the sum of available-for-sale financial assets plus cash was £48.6m.

Business Risk

There are a range of risks and uncertainties faced by the Group which are more fully described in the Directors' Report. Amongst the major risks to the business strategy is the loss of assets under management due to markets falling, poor investment performance or the loss of key investment personnel. These events will not only have an immediate impact on the management fees earned by the Group but also deprive the Group of possible performance fees.

Going Concern

The Financial Reporting Council has determined that all companies should carry out a rigorous assessment of all the factors affecting the business in deciding to adopt a going concern basis for the preparation of the accounts.

The Directors have reviewed and examined the financial and other processes embedded in the business, in particular the annual budget process and the financial stress testing inherent in the Internal Capital Adequacy Assessment Process ("ICAAP") process. On the basis of such review and the significant liquid assets underpinning the balance sheet the Directors consider that the adoption of a going concern basis, covering a period of at least 12 months from the date of this report, is appropriate.

John Mansell
Finance Director

Board of Directors

Non-executive Chairman and Executive Directors

Tom Bartlam†*^
Non-executive Chairman
Appointed to the Board in July 2007 and became Chairman following the AGM in September 2007. Tom was a managing director of Intermediate Capital Group plc which he co-founded from 1989 until his retirement in 2005. He is non-executive Chairman of Pantheon International Participations plc and a non-executive director of Numis Corporation plc and Henderson Fledgling Trust plc.

Tim Woolley
Chief Executive Officer and Founder
Appointed to the Board in 2002 and became chief executive on 2 November 2009. Tim joined Henderson Global Investor's technology team in 1996 and left with Brian Ashford-Russell to establish Polar Capital in 2001.

John Mansell
Chief Operating Officer and Finance Director
Appointed to the Board in 2002, having joined Polar Capital in 2001. Prior to joining Polar Capital he spent 11 years at Lazard Asset Management. He is a fellow of the Institute of Chartered Accountants of England and Wales.

† member of Audit Committee
* member of Remuneration Committee
^ member of Nomination Committee

Non-executive Directors

Michael Thomas*^
Non-executive Director

Appointed to the Board January 2008. Michael was a director of Martin Currie Limited and investment manager of the Japanese team until his retirement in 2007. He remains on the board of Martin Currie Pacific Investment Trust plc.

Hugh Aldous†^
Non-executive Director and Chairman of the Audit Committee

Appointed to the Board in July 2007. Hugh was a partner in Grant Thornton UK LLP and was formerly a partner in RSM Robson Rhodes from 1976 where he was latterly head of its financial services team. Hugh is Chairman of Capita Sinclair Henderson Ltd and SPL Guernsey ICC Ltd and is a non-executive director of The Eastern European Trust plc, Innospec Inc, Henderson TR Pacific Investment Trust plc and Elderstreet VCT.

Brian Ashford-Russell†*
Non-executive Director and Founder

Appointed to the Board in 2002. Brian was head of the technology team at Henderson Global Investors from 1987 until September 2000 and is a co-founder of Polar Capital. He was the appointed fund manager of Polar Capital Technology Trust plc, from launch in 1996 until May 2006.

Sarah Street*^
Non-executive Director

Appointed to the Board in 2006. Sarah is Executive Vice President and Chief Investment Officer of XL Group plc.

Jamie Cayzer-Colvin†*^
Non-executive Director and Chairman of Remuneration Committee

Appointed to the Board in 2002. Jamie is a director of Caledonia Investments plc and a non-executive director of Close Brothers Group plc, India Capital Growth Fund plc, Eddington Capital Management Limited, Henderson Smaller Companies Investment Trust plc and Ermitage Limited.

Directors' report including the Business Review and Corporate Governance Report

The Directors present their report including the business review and report on corporate governance together with the audited consolidated financial statements of Polar Capital Holdings plc for the year ended 31 March 2011.

Principal activities

Polar Capital Holdings plc ("the Company") is the parent Company of Polar Capital Partners Limited which was established in 2001. The Company and its subsidiaries ("the Group") provide research driven specialist investment management and offer a diversified family of long-only, long-bias, equity long/short and other fundamentally driven hedge fund strategies under the Polar Capital brand.

The Group also provides a centralised sales, operational and regulatory platform to support its fund management activities.

The Company is incorporated in England and Wales under registered number 4235369 and its registered office is at 4 Matthew Parker Street, London SW1H 9NP.

Business review and future developments

A review of the performance and likely future development of the business of the Company and Group is presented in the Chief Executive's Statement and the Financial Review on pages 7 to 11. Principal risks and uncertainties facing the Group and how they are controlled are described on pages 16 and 17.

The Group's head office is in London and it has offices in Tokyo, Jersey and Connecticut. During the year the office in Kiev was closed.

The Group expects to continue expanding its funds under management in the coming year through acquisition or recruitment of new investment teams, growth in the existing funds and through new fund management mandates.

Results and dividends

The consolidated results for the Group for the year ended 31 March 2011 are shown on page 27. The profit for the year attributable to shareholders was £6.3m compared with £2.2m in 2010.

The Directors have declared two interim dividends in respect of the financial year ended 31 March 2011 amounting to 7.5 p per share (2010: 4.5 p per share). The first interim dividend of 1.5p per share was paid on 21 January 2011 to shareholders on the register on 7 January 2011. The second interim dividend of 6.0p per share will be paid on 5 August 2011 to shareholders on the register on 15 July 2011. The shares will trade ex dividend from 13 July 2011.

Capital structure

The capital structure of the Company is detailed in Note 17 on page 44. Of the 75,769,960 shares (2010: 75,063,157) in issue at the year-end, 2,106,312 shares (2010: 2,556,312) are held by the Trustee of the Polar Capital Employee Benefit Trust for the benefit of the Company and employees. The Trustee has elected to waive all dividends in respect of any shares held by the Trustee and it does not vote the shares held by it.

On a show of hands at a general meeting of the Company every holder of a share present in person or by proxy shall have one vote and each share has one vote on a poll. There are no restrictions on the transfer of shares.

During the year the Company issued 706,803 shares for the acquisition of HIM Capital Limited.

Directors

Biographies of the Directors who served during the year are set out on pages 12 and 13.

The Articles of Association require all Directors who held office at the time of the two preceding AGMs and did not retire by rotation at either of them to retire from office by rotation. Mr Thomas was reappointed at the annual general meeting in 2007 and therefore in accordance with the Articles of Association stands for reappointment at the AGM in 2011.

Mr Hale retired as a Director on 9 September 2010 at the conclusion of the AGM.

Directors' interests

The interests of the Directors in the Company's shares and options are detailed on page 23.

None of the Directors except for Mr Ashford-Russell have an interest in any contract with the Group or

Company. Mr Ashford-Russell is a non-executive director of Polar Capital Technology Trust plc which has contracted with Polar Capital LLP for the provision of investment management services. Details are provided in Note 25 on page 52.

Donations

The charitable payments made during the year to 30 March 2011 amounted to £22,800 to 9 different national and local charities involved with health and welfare (2010: £7,700 to 6 charities).

Creditor payment policy

The Group does not follow any code or standard on payment practice, but seeks to agree the terms of payment with its suppliers at the time of contract, and to make payment in accordance with those terms subject to satisfactory performance.

The Group is committed to paying suppliers within 30 days of receipt of a valid invoice.

Auditors

Ernst & Young LLP have agreed to offer themselves for reappointment as Auditors of the Group and a resolution requesting approval of their reappointment and to authorise the Directors to determine their remuneration will be presented at the AGM.

Substantial shareholdings

As at 7 July 2011, the Company had received the following notices for the purposes of Part 5 of the FSA's Disclosure and Transparency Rules based on the shares in issue at 30 June 2011:

	Number of ordinary shares	% of voting rights held
Caledonia Investments PLC	10,716,640	14.1
B J D Ashford-Russell	8,700,000	11.5
XL Group plc	8,000,000	10.6
T J Woolley	7,000,000	9.2
R J Salter	5,248,840	6.9
P Hardy	5,231,963	6.9
Blackrock Inc	3,443,500	4.5
Artemis Investment Management	3,308,442	4.4
Legal & General Group plc	3,000,000	4.0

In all cases except as disclosed below the interest was held directly. The interests of Mr Ashford-Russell, Blackrock Inc and Mr Mansell are held wholly or partly indirectly.

Annual General Meeting ("AGM")

The AGM will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN at 12.30pm on 8 September 2011. Full details of the resolutions and explanations of each resolution are given in the separate notice of meeting sent to shareholders.

Corporate social responsibility

The Board recognises that it should take account of the needs of society and the environment and maintain high ethical standards. It takes collective responsibility for Corporate Social Responsibility ("CSR") policy and has focused on: staff welfare; respecting the environment; and treating customers fairly. The extent to which individual principles have been formalised is appropriate to the size of the organisation and these are documented in both the staff handbook and the compliance manual.

Staff welfare

The Group's success is largely dependent on recruiting, retaining, and developing the best financial services professionals. To achieve this the Group seeks to ensure that working conditions are of a high standard and has in place good and effective management/staff communications, with the ability for staff to engage in decisions. The Group also encourages participation in the success of the business through share options and has a range of benefits to support staff, including ill health protection and life cover. The Group is committed to equal opportunities and diversity in staff selection and opportunities for promotion, with appropriate consideration being given to applications for employment from disabled persons.

The Group aims to remunerate staff in line with market practice, to provide development opportunities and to encourage staff motivation and retention.

Directors' report including the Business Review and Corporate Governance Report

continued

The environment

The Group has implemented processes to manage environmental risks so as to reduce, reuse and recycle, wherever possible, waste materials.

Treating Customers Fairly

Treating Customers Fairly is part of the Group's business ethos and ensures its regulated business complies with the FSA Principle, "A firm must pay due regard to the interests of its customers and treat them fairly". The fair treatment of customers is central to our corporate culture.

Principal risks and uncertainties

The Group is required to report on the principal risks and uncertainties facing the Group. Polar Capital has a risk management framework that provides a structured process for identifying, assessing and managing risks associated with the Group's business objectives and strategy. Risks arise from external sources as well as those which are inherent commercial risks in the market place and business, as well as operational risks contained in the systems and processes employed within the business.

External risks

External risks arise from political, legal, regulatory and economic changes. Changes in legislation, particularly taxation, can affect investment behaviour, making investment generally, and specific kinds of investment products in particular, either more or less appealing. Changes in interpretation of existing tax laws also can impact on the Group's business. These changes cannot be predicted but the Group consults with its external advisors and seeks to operate within the applicable legislation.

Failure to comply with regulations particularly those issued by the Financial Services Authority or the London Stock Exchange could result in the Group losing the ability to operate as a regulated financial services business or its AIM quotation being suspended or withdrawn. The Group's investment activities are regulated primarily by the Financial Services Authority in the UK and the Group is also subject to regulation in the various other jurisdictions in which it operates. In the context of the current regulatory environment, the Board believes its regulated business has sufficient resources for compliance monitoring and to take corrective action when warranted. The Group seeks to operate within applicable Financial Services Authority Principles, Rules and Regulations and those issued by the London Stock Exchange to govern the trading of the Company's shares on AIM.

The Board through the work of the Audit Committee receives and reviews regular reports on the compliance controls in place to prevent or detect any noncompliance of the Group with rules and regulations.

Economic and market risk

Economic risks arise from the concept, design and implementation of the Group's business model. The Group operates in a highly competitive industry and if it is unable to compete effectively with its competitors its business could be adversely affected. Polar Capital's key areas for competition include historical investment performance, its ability to attract and retain the best investment professionals, and quality of service. The Board reviews the business strategy periodically and considers financial, fund performance and operational information regularly. The Group's reputation is one of its most important assets since it operates in an industry where integrity, customer trust and confidence are paramount. There is a system of internal controls which seek to ensure that events which could damage or call into question the reputation of the Group, its products or staff are prevented.

Portfolio risk

The Group has a formal Risk Committee that convenes monthly and is chaired by the Group's Chief Risk Officer ("CRO") and comprises the Chief Executive, the Chief Operating Officer and Mr Ashford-Russell. The committee reviews all the portfolios managed by the firm and has presented to it analysis produced by the CRO relating to portfolio structure, exposure, concentration, returns, liquidity and risk. Portfolio managers present to this committee on a regular basis or when requested.

The Group is subject to the effects of exchange rate fluctuations as Sterling is the Group's reporting currency but the Group's business is often conducted in jurisdictions which generate revenue, expenses and liabilities in other currencies. A summary of the Group's foreign currency exposures as at 31 March 2011 can be seen in Note 22 to the accounts.

The loss of a client or a significant investor in a large fund could damage the financial position of the Group. Regular contact is maintained with all clients and fund investors and the strategy of the Group is to diversify its earnings streams to be less susceptible to such events.

The Group has a number of key fund managers the loss of which could result in significant investor redemptions from the funds they manage and loss of revenue to the Group.

Operational risk

Operational risk arises from potentially inadequate or failed processes, people and also stems from external factors. If any of the Group's financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in the Group's internal processes, people or systems, the Group could suffer financial loss, disruption of or to its businesses, liability to clients, regulatory problems or damage to its reputation. The Group also relies, through its outsourcing arrangements, on a number of third-party providers of administration and other back office functions.

The Group's core businesses have in place disaster recovery plans covering current business requirements, which are tested annually and are considered adequate. Suppliers of administration and IT services and other back office functions have disaster recovery plans and business continuity plans. The Group also continues to develop its systems in response to expected growth and increased sophistication in the investment management market. The Board believes that the Group has appropriate financial and management controls in place. The Board regularly reviews statements on internal controls and procedures and subjects the books and records of the Company to an annual control audit under the ICAEW's technical release AAF 01/06 – Assurance reports on internal controls of service organisations made available to third parties.

Corporate Governance

The Board of Directors recognises the importance of good Corporate Governance and intends that best practice is adopted and applied in so far as it is appropriate for a company and group of its size and stage of development. As an AIM traded Company neither the UK Corporate Governance Code issued by the FRC in respect of accounting periods commencing after 29 June 2010 nor the previous Combined Code on Corporate Governance apply, however the Board intends to comply with the requirements of the Corporate Governance guidelines published by the Quoted Companies Alliance (the QCA Guidelines) for AIM companies and with certain of the principal requirements of the Combined Code. This report describes how the Company has applied the principles of good Corporate Governance throughout the year and steps which are being taken to develop the corporate policies.

The Board

Composition

The Directors who served during the year are listed on pages 12 and 13 together with their individual biographies.

In assessing the independence of non-executive Directors, the Board took account of their experience, character and judgement, and their dependence on, or relationships with the Group. In all cases the Board felt the Directors were independent in character and judgement, however the guidance issued on independence by the QCA and in the Combined Code generally used to assess independence consider the holding of a previous executive position within the Group, or a material business relationship with the Group including shareholdings, to impair the perceived independence of the non-executive Director.

In light of this the Board has decided that Mr Ashford-Russell should not be considered independent as he previously held an executive position with the Group and that Mr Cayzer-Colvin and Ms Street should not be considered to be independent due to the fact that the companies that employ them have sizeable shareholdings and investments in the Group.

Mr Bartlam, Mr Aldous and Mr Thomas are considered independent non-executive Directors and are free from any associations or relationships with the Group or its investment funds except for the fees they receive as Directors and any shares they may hold in the Group.

Directors' report including the Business Review and Corporate Governance Report

continued

Role and responsibilities

The Board as a whole is responsible for the Group's objectives and policies and the proper governance of the Company. The Board meets regularly through out the year and it met seven times in the financial year ended 31 March 2011. It has a formal agenda of items for consideration at each meeting but also convenes at additional times when required.

The Board provides overall strategic direction to the executive management, by monitoring the operating and financial results against plans and budgets; reviewing the performance of management; assessing the adequacy of risk management systems and monitoring their application; setting the Company's values and standards; and ensuring that the Company's obligations to its shareholders and others are understood and met. The posts of Chairman and Chief Executive are held by different Directors.

The Chairman's primary role is to ensure that the Board and individual Directors are able to operate efficiently by setting the agenda, style and tone of Board discussions to promote constructive debate and effective decision making.

The Chief Executive, Mr Woolley leads the executive management team which meets regularly and is primarily responsible for the implementation of the Board's policies and strategies, effective communication with shareholders and that all Board members develop an understanding of the views of investors and for managing the activities of the Company other than in relation to those matters specifically reserved to the Board or delegated to its committees.

The role of the non-executive Directors is to challenge constructively, and contribute to, the development of strategy; to scrutinise the performance of management in meeting agreed goals and objectives and monitor their performance; and through the various committees to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

All Directors receive appropriate and timely information to ensure that they are properly briefed in advance of Board meetings and have unlimited access to the advice and services of the Company Secretary and other senior management should further information be required. The Company Secretary is responsible for advising the Chairman and the Board on governance matters.

Conflicts of Interests

The Companies Act 2006 ("the Act") imposes a duty on Directors to avoid a situation in which they have or could have a conflict of interest or possible conflict with the interests of the Company.

Each Director has provided the Company with a statement of all conflicts of interest and potential conflicts of interest. These have been approved by the Board and recorded in a register. The Board may impose conditions on authorising any conflict or potential conflict situations. Each Director has agreed to notify the Chairman and the Company Secretary of any changes to his circumstances which would impact on the notified conflicts or potential conflicts and obtain approval before entering into any situation which might give rise to a conflict or potential conflict with the interests of the Company.

Directors are reminded at each Board meeting of their obligations to notify any changes in their statement of conflicts and also to declare any benefits from third parties in their capacity as a Director of the Company which might give rise to a conflict or potential conflict with the Company's interests. No Director has declared receipt of any benefits in his capacity as a Director of the Company.

Only Directors not involved in the conflict or potential conflict participate in the authorisation process. Directors, in deciding whether to authorise a situation, take into account their duty to promote the Company's success. The Board as part of its year-end has considered the register of conflicts, conditions imposed on such conflicts or potential conflicts and the operation of the notification and authorisation process. They concluded that the process has operated effectively during the period.

A procedure has been established for non-executive Directors to have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. No such advice was requested during the year.

The Company maintains Directors' and officers' liability insurance, which is reviewed annually to ensure that cover is held at an appropriate level.

The Board has established guidelines requiring specific matters to be decided by the full Board of Directors, including material acquisitions and disposals, investments and capital projects. Matters that are reserved for the Board are generally forwarded to the Board for consideration with a recommendation from the executive management or appropriate committee.

Directors' appointment, induction and training

All new Directors appointed by the Board are required to seek reappointment by shareholders at the next general meeting of the Company following their appointment and subsequently all Directors are required to retire by rotation in accordance with the Articles. Under the terms of the Articles any Director who held office at the two previous AGMs is required to offer himself for reappointment at the next AGM. Mr Thomas stands for reappointment at the forthcoming AGM.

On appointment, new Directors are offered induction and training considered appropriate by the Board and subsequently as necessary.

Board Committees

The Board has created and delegated certain specific areas of responsibility to four standing committees. The full terms of reference of all the committees are published on the Company's website. The Board sees minutes of all committee meetings and the chairman of the committee reports to the Board on any significant matters. The Board also receives copies of all minutes from subsidiary companies for information.

Allotment Committee

This committee which is comprised of any two Directors was created to allot and issue shares arising from the exercise of Board approved share awards or shares arising from previously Board approved crystallisations of fund manager preference share arrangements.

Audit Committee

The Audit Committee is chaired by Mr Aldous and the other members are Mr Bartlam, Mr Cayzer-Colvin, and Mr Ashford-Russell.

The Audit Committee formally meets at least three times a year. Only Committee members and observers are entitled to attend meetings, however the Chief Executive, the Chief Financial Officer and Chief Operating Officer, the Head of Compliance and the Chief Risk Officer and other Directors may be invited to attend for all or part of the meetings. The external Auditors of the Company will attend the meetings on a regular basis and will have unrestricted access to the Committee and its Chairman.

The purpose of the Audit Committee is to assist the Board in discharging its corporate governance responsibilities in relation to the Group's external Auditors, to provide assurance regarding the reliability and appropriateness of the disclosure of the financial statements, and any announcements relating to the Group's financial performance. The Committee also has responsibilities for reviewing any significant financial reporting judgements contained in the financial statements and monitoring risk and internal controls throughout the business.

The Committee performs this role through monitoring the integrity of the financial statements of the Group and the system of accounting to ensure compliance with relevant and appropriate account standards. The Committee also considers by way of meetings and reports, the appointment, remuneration and work of the Auditors including the independence of the Auditors, the effectiveness of the audit and any changes in the terms of their appointment. The Committee also considers any non audit services provided by the Auditors. The Committee further examines and receives reports on the Group's regulatory capital adequacy requirements, compliance, and control procedures and systems for managing risks arising from the operation of the business, its financial position or the regulatory environment which governs it.

The Committee has direct access to the Auditors, and receives periodic reports from management and the Auditors on significant financial reporting issues.

Nomination Committee

The Nomination Committee is chaired by Mr Bartlam and comprises of all the non-executive Directors. The Committee is responsible for all aspects of the appointment of Directors, succession planning and appointments to the Board, consideration and recommending the reappointment of retiring Directors of the Company together with evaluation of Directors' performance and effectiveness.

Directors' report including the Business Review and Corporate Governance Report

continued

Remuneration Committee

The Remuneration Committee is chaired by Mr Cayzer-Colvin and its other members are Mr Bartlam, Mr Ashford-Russell, Ms Street and Mr Thomas.

The Remuneration Committee meets as required and at least once each year. Other senior management and external advisers may be invited to attend meetings as the Remuneration Committee considers appropriate.

The Committee has general oversight of all remuneration arrangements for executive Directors and senior managers and it considers all material elements of remuneration policy, remuneration and incentives with reference to independent remuneration research and professional advice. Recommendations are made to the Board on the framework for executive remuneration including the design and implementation of equity based incentive schemes.

Internal control

The Board has overall responsibility for the Group's system of internal control including financial operational compliance and risk management controls.

The Group's fund management activity is regulated by the Financial Services Authority of the United Kingdom (FSA) and the Board has adopted procedures and controls designed to ensure its obligations under the FSA Rules and the Financial Services and Markets Act 2000 are met.

The Group's system of internal control is designed to manage, rather than eliminate, risk of failure to achieve business objectives. It is recognised that such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Audit Committee, as part of its role, has reviewed and monitored the effectiveness of the internal controls for the year ended 31 March 2011 and concluded that there was a satisfactory process in place to identify and manage such risks.

Relations with shareholders

The Company welcomes dialogue with institutional shareholders in order to achieve a mutual understanding of objectives. The Chief Executive and the Chief Financial Officer seek meetings with larger institutional shareholders and private client stockbrokers after the announcement of year end and half year results. The AGM also provides a forum for investors to meet the Directors, both formally and informally. The Chairmen of all of the Board's committees will be available to answer questions at the AGM of the Company.

The Group's website (www.polarcapital.co.uk) contains regularly updated information regarding the Group's funds, and is where all announcements and shareholder reports are published.

By order of the Board

Neil Taylor
Company Secretary

4 Matthew Parker Street
London SW1H 9NP

7 July 2011

Audit Committee report

The constitution and composition of the Audit Committee is given on page 19. There have been no changes over the financial year to 31 March 2011.

During the year the Committee met three times and considered the following issues:

- the scope of the annual audit and agreement with the external Auditors of the key areas of focus;
- the reports from the external Auditors concerning their audit of the annual financial statements of the Group;
- the financial disclosures contained in the annual reports to shareholders;
- reports from management and Auditors on the effectiveness of the Group's system of internal financial control including the risk map and ICAAP requirements;
- the independence and objectivity of the external auditors and the level and nature of non-audit services provided by them; and
- the performance of the external Auditors and the level of fees charged for their services.

The Chairman reported to the Board on any significant issues.

The Audit Committee has discussed the specific non-audit activities provided by the Auditors to ensure that none of these services would put the Auditor in the position of auditing their own work. The Audit Committee believes the objectivity and independence of the Auditors is maintained, notwithstanding that non-audit work may be undertaken.

Remuneration Committee report

The constitution and composition of the Remuneration Committee is given on pages 19 and 20.

The Remuneration Committee has met six times over the past year to consider:

- recommendations from the executive for remuneration packages for existing and new fund managers;
- recommended salary levels for 2011 and bonus payments for 2010 across the Group; and
- examine the terms of a long-term equity incentive plan for senior managers.

The Committee when considering remuneration arrangements also takes into account the packages offered to other staff. During the year the Remuneration Committee received support from the Chief Operating Officer and the Company Secretary.

Executive Directors

Appointed terms

Executive Directors are employed under continuing contracts of employment that can be terminated by either party under notice provisions of up to 12 months.

Remuneration

Each executive Director receives a basic salary determined by the Committee and is considered for a discretionary bonus based on a general range of factors including the overall success of the Company and the individual's seniority, function and personal contribution. Executive Directors also benefit from medical, life and permanent health insurance. They also participate in the Company's pensions arrangements. The Company's policy on pension provision is to provide a fixed percentage of 10% of basic salary to be paid into personal pension arrangements for all staff and Directors.

The total remuneration paid to the executive Directors who served during the year was as follows:

	Year ended 31 March 2011 £	Year ended 31 March 2010 £
T J Woolley		
Basic salary	250,000	110,417
Bonus	250,000	–
Taxable benefits	2,806	3,145
Pension	23,000	11,042
J B Mansell		
Basic salary	175,000	175,000
Bonus	175,000	132,500
Taxable benefits	4,126	4,626
Pension	14,000	17,500

Further details of Directors' remuneration disclosable under the Companies Act are contained in Note 6 on page 39.

Non-executive Directors

Remuneration

Non-executive Directors' fees are determined by the full Board.

Appointment terms

The non-executive Directors have letters of appointment, setting out the terms and conditions of their appointment and their expected time commitment. It is the Company's policy that non-executive Directors should be appointed for an initial period of three years (from the next general meeting following their initial appointment in the case of new non-executive Directors) and that they may be re-appointed for two further terms of three years each. Re-appointment at the end of such periods should not be considered automatic and each Director's contribution will be carefully assessed. The letters of appointment provide for termination of the Director's appointment under certain circumstances and in all cases without any compensation.

Remuneration

	Year ended 31 March 2011 £	Year ended 31 March 2010 £
T H Bartlam	70,000	70,000
H G C Aldous	35,000	35,000
B J D Ashford-Russell	55,000	55,000
J M B Cayzer-Colvin*	20,000	20,000
C M Hale (retired 9 September 2010)	14,600	35,000
Ms S E Street*	20,000	20,000
M Thomas	30,000	30,000

* Under the terms of their appointment the Director's fees may be paid to their principal employers if so elected or to their designee. The fee for Mr Cayzer-Colvin was paid to Caledonia Investments plc and Ms Street's fee was paid to XL Group plc.

None of the non-executive Directors have any ongoing direct financial or contractual interests in the Company other than their fees and shareholdings as disclosed in this report.

Directors' interests in the shares of the Company

The interests of those Directors who were in office at 31 March 2011, the end of the financial year and 31 March 2010:

	31 March 2011	31 March 2010
T H Bartlam	50,000	50,000
H G C Aldous	40,000	30,000
B J D Ashford-Russell		
beneficial	8,450,004	10,000,000
non beneficial	250,000	–
J M B Cayzer-Colvin	4,250	4,250
J B Mansell		
beneficial	1,720,000	1,720,000
non beneficial	160,000	160,000
Ms S E Street	–	–
M Thomas	–	–
T J Woolley	8,000,000	8,800,000

In the period since the financial year end and up to 7 July 2011, Mr Woolley sold 1,000,000 shares reducing his interest to 7,000,000 shares. Mr Woolley was also granted a share option on 27 June 2011 over 600,000 shares. Further details of the share option are given below. There have been no other changes in the interests of the Directors who were in office at 31 March 2011 in the shares of the Company between 31 March 2011 and 7 July 2011.

Options to acquire ordinary shares held by the Directors and changes thereto during the year ended 31 March 2011 and up to 7 July 2011 are described below:

T J Woolley

On 20 December 2010 Mr Woolley was granted a share option over 1,000,000 ordinary shares at an exercise price of 145p per share. The option is not subject to any performance conditions and will become exercisable as to one third on each of the vesting dates being 31 March 2012, 31 March 2013 and 31 March 2014.

On 27 June 2011 Mr Woolley was granted a share option over 600,000 ordinary shares at an exercise price of 191.7p per share. The option is not subject to any performance conditions and will become exercisable on the fourth anniversary of grant.

J B Mansell

On 22 January 2010 Mr Mansell was granted a share option over 1,000,000 ordinary shares at an exercise price of 91.5p per share. The option is not subject to any performance conditions and will become exercisable as to one third on each of the vesting dates being 31 March 2012, 31 March 2013 and 31 March 2014.

The options granted to Mr Woolley and Mr Mansell are subject to the requirement that in order to exercise the option the option holder must be employed by the Company on the relevant vesting date subject to certain defined "good leaver" situations. The options will lapsed on the tenth anniversary of the date of grant. The options have been issued in accordance with the rules of the Polar Capital Equity Incentive Plan, by the use of the provisions relating to Equity Settled Share Appreciation Rights ("ESARS"). The use of the ESARS provisions allows the Company to issue to the option holder only the number of shares that would equate to the number of shares over which the option becomes exercisable less the number of shares that would have needed to be sold to fund the purchase of that number of shares on the exercise date.

Share prices over the financial year

The shares have traded at prices between 84.1p and 146.5p per share with the low being on 14 April 2010 and the high being on 05 January 2011. The share price on 31 March 2011 was 136p per share.

Statement of Directors' responsibilities in relation to the Group's financial statements

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice – 'UK GAAP').

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Group and parent company and the financial performance and cash flows of the Group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS and UK GAAP respectively is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and parent company's financial position and financial performance; and
- state that the Group and parent company have complied with IFRS and UK GAAP, respectively, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the Auditors

Each of the Directors at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information, being information needed by the Auditor in connection with preparing its report, of which the Group's Auditors are unaware. Having made enquiries of fellow Directors and the Group's Auditor, each Director has taken all the steps that he is obliged to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's Auditors are aware of the information.

Going concern

The Board assessment of the Group's position as at 31 March 2011 and the factors impacting the forthcoming year are set out in the Chairman's statement, the Chief Executive's statement and in the Directors' Report which incorporates the business review and corporate governance statements.

The financial position of the Group, its cash flows, and its liquidity position are described in the Financial Review on pages 9 to 11. Note 22 to the financial statements include the Group's policies and process for managing its capital; its financial risk management objectives; details of financial instruments; and hedging activities. Exposure to credit risk and liquidity risk are also disclosed.

The Group has considerable financial resources and after making enquiries the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future despite the continued uncertain economic outlook. Accordingly the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Independent Auditors' report to the members of Polar Capital Holdings plc

for the year ended 31 March 2011

We have audited the consolidated (the 'Group') and parent company (the 'Company') financial statements of Polar Capital Holdings plc for the year ended 31 March 2011 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheets, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provision of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' report to the members of Polar Capital Holdings plc

for the year ended 31 March 2011 continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Matthew Price (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor

London

7 July 2011

Notes:

The maintenance and integrity of the Polar Capital Holdings plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

for the year ended 31 March 2011

	Note	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Revenue	2	39,066	21,701
Finance income	3	873	1,197
Gross income		39,939	22,898
Commissions and fees payable		(2,242)	(1,134)
Net income		37,697	21,764
Operating costs before share-based payments		(27,530)	(18,001)
Operating profit before share-based payments, amortisation/impairment and tax		10,167	3,763
Share-based payments		(452)	(633)
Amortisation/impairment of intangible assets	24	(540)	–
Profit for the year before tax	4	9,175	3,130
Taxation	7	(2,841)	(970)
Profit for the year attributable to ordinary shareholders		6,334	2,160
Basic earnings per ordinary share	9	8.64p	3.06p
Diluted earnings per ordinary share	9	8.22p	2.97p
Adjusted earnings per ordinary share	9	9.50p	3.84p

All of the items in the above statements are derived from continuing operations.

Consolidated statement of comprehensive income

for the year ended 31 March 2011

	Note	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Profit for the year attributable to ordinary shareholders		6,334	2,160
Other comprehensive income			
Net loss on the revaluation of available-for-sale financial assets	11	(239)	(104)
Deferred tax effect		71	29
		(168)	(75)
Net gain/(loss) on the fair valuation of hedging contracts	11	473	(248)
Deferred tax effect		7	–
		480	(248)
Total comprehensive income for the year, net of tax, attributable to ordinary shareholders		6,646	1,837

The notes on pages 32 to 52 form part of these financial statements.

Consolidated balance sheet

as at 31 March 2011

	Note	31 March 2011 £'000	31 March 2010 £'000
Non-current assets			
Property, plant and equipment	10	53	51
Intangible assets	24	1,620	–
Available-for-sale financial assets	11	29,418	19,693
Deferred tax assets	15	640	220
Total non-current assets		31,731	19,964
Current assets			
Trade and other receivables	13	3,555	3,949
Cash and cash equivalents	14	19,194	19,706
Other financial assets	11	225	–
Total current assets		22,974	23,655
Total assets		54,705	43,619
Non-current liabilities			
Deferred tax liabilities	15	391	127
Current liabilities			
Other financial liabilities	11	–	248
Trade and other payables	16	9,265	6,215
Current tax liabilities		1,697	896
Total current liabilities		10,962	7,359
Total liabilities		11,353	7,486
Net assets		43,352	36,133
Capital and reserves			
Issued share capital	17	1,895	1,877
Share premium		15,905	15,268
Investment in own shares		(1,167)	(1,392)
Capital and other reserves		1,243	585
Retained earnings		25,476	19,795
Total equity – attributable to ordinary shareholders		43,352	36,133

The notes on pages 32 to 52 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 7 July 2011

Hugh Aldous
Chairman of the Audit Committee

John Mansell
Finance Officer

Consolidated statement of changes in equity

for the year ended 31 March 2011

	Share capital £'000	Share premium £'000	Own shares £'000	Capital reserves £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
As at 1 April 2009	1,827	15,097	(871)	404	416	22,745	39,618
Profit for the year	–	–	–	–	–	2,160	2,160
Other comprehensive income	–	–	–	–	(323)	–	(323)
Total comprehensive income	–	–	–	–	(323)	2,160	1,837
Dividends	–	–	–	–	–	(5,743)	(5,743)
Issue/(redemption) of shares	50	171	(521)	(41)	–	–	(341)
Share-based payment	–	–	–	–	–	633	633
Deferred tax in respect of employee share options	–	–	–	–	129	–	129
As at 1 April 2010	1,877	15,268	(1,392)	363	222	19,795	36,133
Profit for the year	–	–	–	–	–	6,334	6,334
Other comprehensive income	–	–	–	–	312	–	312
Total comprehensive income	–	–	–	–	312	6,334	6,646
Dividends	–	–	–	–	–	(1,105)	(1,105)
Issue of shares	–	–	225	–	–	–	225
Issue of share capital	18	637	–	–	–	–	655
Share-based payment	–	–	–	–	–	452	452
Deferred tax in respect of employee share options	–	–	–	–	346	–	346
As at 31 March 2011	1,895	15,905	(1,167)	363	880	25,476	43,352

The notes on pages 32 to 52 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2011

	Notes	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Cash flows generated from operating activities			
Cash generated from operations	20	12,704	2,323
Tax paid		(2,369)	(2,149)
Net cash inflow generated from operating activities		10,335	174
Investing activities			
Interest received and similar income		32	(102)
Purchase of property, plant and equipment	10	(44)	(5)
Proceeds from sale of available-for-sale financial assets	11	33,168	16,684
Purchase of available-for-sale financial assets	11	(42,291)	(23,527)
Acquisition of a subsidiary	23	(1,487)	–
Net cash outflow used in investing activities		(10,622)	(6,950)
Financing activities			
Equity dividends paid	18	(1,105)	(5,743)
Issue of share capital		655	180
Receipts/(payments) in relation to investment in own shares		225	(521)
Net cash (outflow) from financing activities		(225)	(6,084)
Net (decrease) in cash and cash equivalents		(512)	(12,860)
Cash and cash equivalents at start of the year		19,706	32,566
Cash and cash equivalents at end of the year		19,194	19,706

The notes on pages 32 to 52 form part of these financial statements.

Company balance sheet

at 31 March 2011

	Notes	31 March 2011 £'000	31 March 2010 £'000
Fixed assets			
Investments	12	1,017	1,017
Current assets			
Debtors	13	25,983	12,734
Corporation tax receivable		17	23
Cash and short-term deposits		4	15,201
		26,004	27,958
Creditors – amounts falling due within one year			
Other creditors		–	(1,541)
		–	(1,541)
Net current assets		26,004	26,417
Net assets		27,021	27,434
Capital and reserves			
Called up share capital	17	1,895	1,877
Share premium account	17	15,905	15,268
Retained earnings	17	9,542	10,610
Reserves	17	(321)	(321)
Shareholders' funds		27,021	27,434

The notes on pages 32 to 52 form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2011

1. Principal accounting policies

General

Polar Capital Holdings plc (the 'Company') is a public limited company registered in England and Wales whose shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The Company financial statements have been prepared in accordance with UK GAAP and under the historical cost convention. No profit and loss account is presented for the Company as permitted under section 408 of the Companies Act 2006.

Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms and economic circumstances as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets

The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life of the assets, currently estimated as being approximately two years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets is recognised in the income statement.

Fixed assets

Fixed assets are stated at cost, less depreciation and accumulated impairment provisions. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful economic life. The carrying value of property, plant and equipment is assessed annually and any impairment is charged to the income statement.

Depreciation is charged on a straight line basis as follows:

Leasehold improvements	25%
Computer equipment	33%
Office furniture	33%

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount, being the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their net present value using a post-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and it is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Initial recognition and measurement

Financial assets are initially recognised at fair value, being the consideration given, plus, any directly attributable transaction costs. Purchases and sales of financial assets are recognised at trade date, being the date when the Group commits to purchase or sell the asset.

Subsequent measurement

The Group's investments in the funds that it manages are designated as "available-for-sale" financial assets and are included in non-current assets. Such assets are subsequently carried at fair value, with any gains or losses arising from changes in fair value being recognised as other comprehensive income in other reserves. Available-for-sale financial assets are derecognised when such assets are sold and the Group has transferred substantially all risks and rewards of ownership. When derecognition occurs, a realised gain or loss is recognised in the income statement, calculated as the difference between the net sales proceeds and the original cost of the financial asset. Any fair value gains or losses previously recognised in other comprehensive income are recycled into the income statement as part of this calculation of the gain or loss arising on derecognition.

The Group assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of a financial asset classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as objective evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement – is removed from other reserves and recognised in the income statement. Impairment losses recognised in the income statement, if subsequently reversed, are taken through other comprehensive income and not the income statement.

Notes to the financial statements
for the year ended 31 March 2011 continued

1. Principal accounting policies continued

Trade and other receivables
Trade receivables are initially recognised at fair value, and are subsequently carried at the lower of original fair value and their recoverable amount.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and in hand, deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial liabilities
All financial liabilities are recognised initially at fair value. The Group's financial liabilities include trade and other payables and derivative financial instruments. A financial liability ceases to be recognised when the relevant obligation has been discharged.

Derivative financial instruments and hedge accounting
Forward currency contracts are used to hedge the risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are classified as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Forward currency contracts used for currency hedging purposes are treated as cash flow hedges and the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while the ineffective portion is taken to the income statement. Amounts taken to equity are transferred to the income statement when the hedged items affect profit or loss.

Gain or losses realised on hedging contracts are recognised in the income statement.

Trade and other payables
Trade and other payables are initially recognised at fair value and subsequently at amortised cost.

Pensions
The Group operates a defined contribution money purchase pension scheme covering the majority of its staff. The costs of the pension scheme are charged to the income statement in the period in which they are incurred.

Income recognition

Revenue
Revenue represents fees receivable (excluding value added tax) during the period for discretionary investment management services. Management fees and performance fees are recognised when receivable. Performance fees, which are based on the investment performance achieved for certain client portfolios relative to predefined benchmarks, are recognised as revenue at the end of the period over which the performance is measured.

Interest receivable and similar income
Interest receivable is recognised on an accruals basis using effective interest methods. Dividend income from investments is recognised on the date that the right to receive payment has been established.

Commissions and fees payable
Commissions and fees payable to third parties are in respect of the management of investment management contracts. Commissions and distribution fees payable to third parties are recognised over the period for which the service is provided.

Operating leases
Amounts payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Taxation
Current tax
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Tax relating to items charged or credited directly to equity is also dealt with in equity.

Deferred tax
Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payments
Equity-settled share-based payments are measured at fair value of the equity instruments at the date of grant. The cost of equity-settled transactions is recognised, together with an increase in equity reserves, on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Foreign currency/translation
The Group's consolidated financial statements are presented in Sterling which is also the functional currency for the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences are taken to the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations whose functional currency is not Sterling are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at average exchange rates for the accounting period. Exchange differences arising, if any, are taken through the consolidated statement of comprehensive income to equity.

Notes to the financial statements
for the year ended 31 March 2011 continued

1. Principal accounting policies continued

Dividend recognition
Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid.

Own shares held
The Group operates an employee benefit trust for the purpose of satisfying certain retention awards to employees. Own shares held are equity shares of the Company acquired and held by this trust. Such shares are recognised at cost and are presented in the Group balance sheet as a deduction from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Company's own shares.

Segment reporting
The financial information provided to the Chief Executive is on an aggregated basis. Strategic and financial management decisions are determined centrally and, on this basis, the Group is a single segment investment management business.

Judgements and key sources of estimation uncertainty
The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities and expenses are as follows:

Share-based payments
The estimation of share-based payment cost requires the selection of an appropriate valuation model, consideration on appropriate input criteria for the model and an estimation as to the number of awards that will vest.

Deferred tax
Deferred tax is recognised based on differences between the carrying value of assets and liabilities and the tax value of assets and liabilities. Deferred tax assets are only recognised to the extent that the Group estimates that future taxable profits will be available to offset them.

Impairment of available for sale financial assets
The Group reviews any decrease in value of available for sale financial assets on a regular basis and exercises judgement in determining whether such a decrease in value is either significant or prolonged and therefore an impairment of the asset.

Future changes in accounting policy
The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has decided not to early adopt them:

	Standards issued or revised but not yet effective	**Effective for period beginning on or after**
IAS 24 Revised	Related Party Disclosures	1 January 2011
IAS 12 Revised	Deferred Tax – Recovery of Underlying Assets	1 January 2012
IFRS 9	Financial Instruments	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

The Group has not early adopted these standards and is still assessing the impact on the Group's future financial statements.

2. Operating segments

The Group is a specialist investment management group offering professional and institutional investors a range of geographical and sector investment opportunities. The Group's assets under management are managed as eight business units based on its products and services but as the strategic and financial management decisions are determined centrally, by the Chief Executive, the Group only has one class of business, being the provision of investment management and advisory services.

The Group's revenue generating operations are in London, with small offices in Tokyo, Jersey and Connecticut that do not generate any revenue.

2.1 Geographical analysis of income (based on the residency of source)

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
UK	6,345	3,328
Ireland	16,120	5,507
Cayman	14,147	11,470
USA	293	583
Europe	2,389	433
Other	–	116
(Loss)/profit on hedging	(228)	264
	39,066	21,701

2.2 Analysis of income by type of fees

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Investment management fees	24,389	15,137
Investment advisory fees	116	44
Investment performance fees	14,789	6,256
(Loss)/profit on hedging	(228)	264
	39,066	21,701

3. Finance income

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Interest income on cash and cash equivalents	53	192
Net realised (loss) on derivatives	(21)	(294)
Net realised gain on available for sale assets	841	1,299
	873	1,197

Notes to the financial statements

for the year ended 31 March 2011 continued

4. Profit before taxation

This is stated after charging:

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Staff costs including partnership profit allocations	22,197	14,492
Depreciation	42	114
Operating lease rentals – land and buildings	756	520
Operating lease rentals – other	566	492
Auditors' remuneration		
Audit services		
– provision for current year	83	86
– Internal controls review	40	40

5. Staff costs including Directors' emoluments

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Salaries	9,649	9,256
Social security costs	633	736
Pension costs	297	335
Partnership profit allocations	10,848	3,533
Share-based payments (Note 21)	452	632
	21,879	14,492

Pension costs outstanding at the year-end amounted to nil (2010 nil).

	Year to 31 March 2011	Year to 31 March 2010
Average number of partners and full time employees, including executive directors:		
Fund Management	28	22
Administration	31	30
	59	52

All employees are directly or indirectly engaged in the Group's business.

6. Directors' emoluments

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Total emoluments including partnership profit allocations	1,012	1,079
Company contributions to money purchase pension schemes	37	47
The amounts in respect of the highest paid Director are as follows:		
Emoluments	500	399
Company contributions paid to money purchase scheme	23	19

The number of Directors who are accruing benefits under the Company pension scheme is as follows:

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Money purchase scheme	2	3

The total remuneration paid to executive directors who served during the year is disclosed in the Remuneration Committee report on page 22.

Director's emoluments include both salaries and partnership profit allocations earned through Polar Capital LLP. Also included are sums paid to third parties in respect of Directors' services amounting to £40,000 (2010: £40,000).

Options to acquire ordinary shares held by the Directors during the year ended 31 March 2011 were as follows:

Mr Woolley was granted on 20 December 2010 an option over 1,000,000 shares at 145p per share. The option is not subject to any performance conditions and will become exercisable as to one third on each of the vesting dates being 31 March 2012, 31 March 2013 and 31 March 2014. The option is subject to the requirement that in order to exercise the option Mr Woolley must be employed by the Company on the relevant vesting date subject to certain defined good leaver situations. The option will lapse on the tenth anniversary of the date of grant. The Option has been issued in accordance with the rules of the Polar Capital Equity Incentive Plan, by the use of the provisions relating to Equity Settled Share Appreciation Rights ("ESARS"). The use of the ESARS provisions allows the Company to issue to Mr Woolley only the number of shares that would equate to the number of shares over which the option becomes exercisable less the number of shares that would have needed to be sold to fund the purchase of that number of shares on the exercise date.

Mr Mansell held, at the beginning of the financial year, an option over 1,000,000 shares at 91.5p per share. The option is not subject to any performance conditions and will become exercisable as to one third on each of the vesting dates being 31 March 2012, 31 March 2013 and 31 March 2014. The option is subject to the requirement that in order to exercise the option Mr Mansell must be employed by the Company on the relevant vesting date subject to certain defined good leaver situations. The option will lapse on the tenth anniversary of the date of grant. The Option has been issued in accordance with the rules of the Polar Capital Equity Incentive Plan, by the use of the provisions relating to Equity Settled Share Appreciation Rights ("ESARS"). The use of the ESARS provisions allows the Company to issue to Mr Mansell only the number of shares that would equate to the number of shares over which the option becomes exercisable less the number of shares that would have needed to be sold to fund the purchase of that number of shares on the exercise date.

Notes to the financial statements
for the year ended 31 March 2011 continued

7. Taxation
The major components of Corporation tax for the years ended 31 March 2011 and 2010 are:

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
UK Corporation tax:		
UK Corporation tax on profits of the year	2,989	1,072
Adjustments in respect of prior periods	79	(8)
Total current tax	3,068	1,064
Foreign Tax:		
Current year	–	–
Deferred tax:		
Originating and reversal of temporary differences	(233)	(94)
Rate change adjustment	6	–
Total tax	2,841	970

Reconciliation of tax charge
The tax assessed on the profit on ordinary activities during the year differs from the standard rate of corporation tax of 28% (2010: 28%). The differences are reconciled below:

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Profit on ordinary activities before taxation	9,175	3,130
Tax on profit on ordinary activities at standard rate of 28% (2010: 28%)	2,569	876
Adjustments in respect of prior periods	79	(48)
Rate change adjustment	21	–
Deferred tax not recognised	–	7
Disallowed expenses	193	37
Other – share-based payments	(21)	98
Total tax	2,841	970

8. Subsidiary undertakings
Details of the Company's subsidiary undertakings as at 31 March 2011 are as follows:

Principal subsidiary undertakings	Country of incorporation	Natural of business and registration
Polar Capital Partners Limited	UK	Services company
Polar Capital Secretarial Services Limited	UK	Dormant
Polar Capital Partners (Jersey) Limited	Jersey	Investment management
Polar Capital Services (Jersey) Limited	Jersey	Investment management
Polar Capital (America) Corporation	USA	Investment advisory
HIM Capital Holdings Limited	UK	Holding company
HIM Capital Limited	UK	Investment management
Polar Capital Ukraine Limited	UK	Dormant
Polar Capital Limited Liability Partnership	UK	Investment management

All of the above entities are wholly owned, except for Polar Capital LLP in which Polar Capital Partners Limited has contributed 99.5% of the capital. All subsidiaries are owned indirectly, other than Polar Capital Partners Limited.

9. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the year of £6,333,786 (2010: £2,160,011) and on 73,326,706 (2010: 70,588,270) ordinary shares, being the weighted number of ordinary shares.

The calculation of diluted earnings per ordinary share is based on the profit of the year of £6,333,786 (2010: £2,160,011) and 77,082,044 (2010: 72,675,335) ordinary shares, being the weighted average number of ordinary shares allowing for all options of 3,755,338 (2010: 2,087,065) which are dilutive.

The calculation of adjusted earnings per ordinary share is based on profit for the year of £6,333,786 but adjusted for the cost of share-based payments of £452,428, amortisation of intangibles of £428,500 and impairment of goodwill of £111,410 (2010: profit of £2,160,011 adjusted for the cost of share-based payments of £631,814) and 77,082,044 (2010: 72,675,335) ordinary shares being the weighted average number of ordinary shares allowing for all dilutive options.

As at 31 March 2011, the fully diluted number of ordinary shares which would be in issue is 85,197,338 shares, if all outstanding options were exercised.

10. Tangible fixed assets

2011	Office Furniture £'000	Computer Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost				
As at 1 April 2010	159	414	693	1,266
Additions	3	33	8	44
Disposals	(2)	(11)	–	(13)
As at 31 March 2011	160	436	701	1,297
Depreciation				
As at 1 April 2010	156	399	660	1,215
Charge for the year	3	17	22	42
Disposals	(2)	(11)	–	(13)
As at 31 March 2011	157	405	682	1,244
Net book value at 31 March 2011	3	31	19	53

2010				
Cost				
As at 1 April 2009	162	413	693	1,268
Additions	–	5	–	5
Disposals	(3)	(4)	–	(7)
As at 31 March 2010	159	414	693	1,266
Depreciation				
As at 1 April 2009	148	366	592	1,106
Charge for the year	10	36	68	114
Disposals	(2)	(3)	–	(5)
As at 31 March 2010	156	399	660	1,215
Net book value at 31 March 2010	3	15	33	51

Notes to the financial statements
for the year ended 31 March 2011 continued

11. Financial assets and liabilities
1) Available-for-sale financial assets

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
At beginning of year	19,693	11,655
Purchases	42,291	23,527
Redemptions	(32,327)	(15,385)
Loss on movement in fair value	(239)	(104)
At end of year	29,418	19,693

The Group's available-for-sale financial assets are investments in the funds it manages as well as shares in an Exchange Traded Fund (ETF) purchased as a hedge against fair value changes on the investment in the Global Emerging Markets funds that it manages, all of which are listed. The fair value of available for sale financial assets are derived from quoted market prices in active markets.

The net gain on disposal is:

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Proceeds	33,168	16,684
Cost	(32,327)	(15,385)
Net gain	841	1,299

2) Other financial assets and liabilities
Other financial assets and liabilities consist of the fair value movement in foreign currency hedges taken out by the Group, as described in note 22.

At year end, the Group had eight open contracts under such hedges to sell US Dollars totalling $16,900,000 (2010: USD $7,500,000), for a total of £10,641,000 (2010: £4,690,560). There was one open Sterling/Yen contract to sell a total of ¥ 64,300,000 (2010: ¥ 33,395,500), for a total of £486,000 (2010: £250,000).

The fair value gain movements on all hedges are as follows:

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
At beginning of year	(248)	–
Realised through income statement	250	–
Movement in fair value	223	(248)
At end of year	225	(248)

12. Investment
The investment is the Company's wholly owned subsidiary Polar Capital Partners Limited.

13. Trade and other receivables

	Year ended 31 March 2011 Group £'000	Year ended 31 March 2011 Company £'000	Year ended 31 March 2010 Group £'000	Year ended 31 March 2010 Company £'000
Trade debtors	2,947	–	3,449	–
Other receivables	161	25,983	158	12,734
Prepayments and accrued income	447	–	342	–
Total	3,555	25,983	3,949	12,734

Other receivables for the Company are due from Polar Capital Partners Limited.

14. Cash and cash equivalents

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Cash at bank and in hand	19,194	4,679
Short-term deposits	–	11,000
Other liquid investments	–	4,027
Total	19,194	19,706

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents is £19,193,725 (2010: £19,706,171)

15. Deferred taxation

In the Finance Bill 2011 the Government announced a reduction to the corporation tax rate for 2011 to 26%. The rate will eventually be reduced to 23%, by way of a 1% reduction per annum. The reduction of the corporate tax rate to 25% with effect from 1 April 2012 and further proposed reductions have not yet been legislated and therefore it is appropriate to recognise the full DTA at 26%.

	31 March 2011 Group £'000	31 March 2011 Company £'000	31 March 2010 Group £'000	31 March 2010 Company £'000
Deferred tax asset				
At beginning of year	220	–	3	–
Deferred tax on share-based payments	427	–	170	–
Capital allowances	(13)	–	12	–
Deferred tax on other financial assets and liabilities	(58)	–	–	–
Prior year adjustment	64	–	35	–
At end of year	640	–	220	–

Deferred tax assets at year end consist of deferred tax on share based payments of £600k (2010: £173), on other financial assets and liabilities of £6k (2010: nil) and capital allowances of £34k (2010: 47k).

Notes to the financial statements
for the year ended 31 March 2011 continued

15. Deferred taxation continued

	31 March 2011 Group £'000	31 March 2011 Company £'000	31 March 2010 Group £'000	31 March 2010 Company £'000
Deferred tax liabilities				
At the beginning of year	127	–	162	–
Deferred tax on intangible assets	335	–	–	–
Deferred tax on available-for-sale financial assets	(71)	–	(30)	–
Prior year adjustment	–	–	(5)	–
At end of year	391	–	127	–

Deferred tax liabilities at year end consist of deferred tax on intangible assets of £335k (2010: nil) and deferred tax on unrealised gains on available for sale assets of £56k (2010: 127k).

16. Trade and other payables

	31 March 2011 Group £'000	31 March 2011 Company £'000	31 March 2010 Group £'000	31 March 2010 Company £'000
Other taxes and social security costs	–	–	1,008	–
Other creditors	4,734	–	1,964	1,541
Accruals and deferred income	4,531	–	3,243	–
Total	9,265	–	6,215	1,541

17. Issued share capital and reserves

1) Issued share capital

Group and Company

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Authorised		
Comprising 200,000,000 ordinary shares of 2.5p each	5,000	5,000
Allotted, called up and fully paid:		
75,769,960 ordinary shares of 2.5p each (2010: 75,063,157 ordinary shares of 2.5p each)	1,895	1,877

The increase in share capital arises from shares issued as part of the acquisition of HIM Capital Limited (see Note 23).

2) Nature and purpose of reserves

Share premium

Share premium records the difference between the nominal value of shares issued and the full value of the consideration received.

Own shares held

The Group has made a loan to the Polar Capital Employee Benefit Trust to enable it to acquire ordinary shares in Polar Capital Holdings plc. The assets of the Employee Benefit Trust are included on the Group's Balance Sheet and the investment in own shares (held at cost) is deducted from equity as required by IAS32. At 31 March 2011 there were 2,106,312 shares of 2.5p each (2010:2,556,312 shares of 2.5p each) held by the Employee Benefit Trust.

Capital reserves

The capital reserve represents a share repurchase reserve and preference shares issued by a subsidiary company, and is offset by movements in share capital of Polar Capital Holdings Plc issued under this preference share scheme as described in note 21.

Other reserves

Other reserves relate to movements in:

- deferred tax assets that arise on share-based payments
- movements in the fair value of available for sale financial assets
- movements in the fair value of other financial assets

Company	Share capital £'000	Share premium account £'000	Retained earnings £'000	Reserves £'000	Total £'000
As at 1 April 2009	1,827	15,097	10,220	(279)	26,865
Issue of shares	50	171	–	(42)	179
Dividends	–	–	(5,743)	–	(5,743)
Profit for the year	–	–	6,133	–	6,132
As at 1 April 2010	1,877	15,268	10,610	(321)	27,434
Issue of shares	18	637	–	–	655
Dividends	–	–	(1,105)	–	(1,105)
Profit for the year	–	–	37	–	37
As at 31 March 2011	1,895	15,905	9,542	(321)	27,021

18. Dividends paid and proposed

Dividends on ordinary shares declared and paid during the year:

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
First interim dividend for 2011: 1.5p per share (2010: 1p per share)	1,105	712
Second interim dividend for 2011: nil (2010: 3.5p per share)	–	2,544

Dividends on ordinary shares proposed for approval by the board of directors (not recognised as a liability at 31 March 2011):

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Second interim dividend for 2011: 6p per share (2010: nil)	4,546	–

Notes to the financial statements
for the year ended 31 March 2011 continued

19. Operating lease commitments
As at 31 March 2011 the Group had non-land and buildings, operating lease commitments as follows:

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Amounts payable within one year	148	135
Amounts payable between two and five years	256	87

These leases consist of a number of market feed and other technology related subscriptions, with no one material contract.

As at 31 March 2011, the Group had operating lease commitments in respect of its rented premises as follows:

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Amounts payable within one year	776	585
Amounts payable between two and five years	2,138	1,725
Amounts payable in more than five years	–	494

The material lease relates to the rental of the Group's premises at 4 Matthew Parker Street in London, and expires in February 2015. During the year lease rentals were re-evaluated to current prevailing market rates.

20. Cash generated from operations
Reconciliation of profit before taxation to cash generated from operations:

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Cash flows from operating activities		
Profit on ordinary activities before tax	9,175	3,130
Interest receivable and similar income	(117)	(192)
Depreciation of tangible fixed assets	42	114
Decrease in receivables	392	3,235
Increase/(decrease) in trade and other payables	3,040	(3,594)
(Profit) on disposal of available for sale assets	(841)	(1,299)
Loss on disposal of fixed assets	–	3
Loss on derivatives	21	294
Amortisation of intangibles	540	–
Share-based payment	452	632
Cash generated from operations	12,704	2,323

21. Share-based payments

Manager and Team Preference Shares ("Preference Shares")

Certain employees of the Group and partners of Polar Capital LLP hold Manager Preference Shares or Manager Team Member Preference Shares (together "Preference Shares") in Polar Capital Partners Limited, a group company.

The terms of the Manager Shares entitle their holders, at their option and at a future date, to a value calculated on the basis of the relative contribution of the holder to the Group as a whole. This value may (at the discretion of the company's parent undertaking, Polar Capital Holdings plc) be satisfied by the issue of ordinary shares in Polar Capital Holdings plc. The issue of the Preference Shares constitutes a share-based payment under IFRS2 and the cost is the estimated fair value, at the date of issue of the preference shares, of the effective entitlement to the ordinary shares. The number of ordinary shares will vary and the holder, initially, and the Group, ultimately, determines the start of the three period ("crystallisation") over which the ordinary shares are awarded, although this will always be at least three years after the end of the financial accounting period in which the preference shares are issued.

The share-based payments charge for the year under this scheme was £nil (2010: £324,114).

The total cost to the consolidated income statement is £452,428 (2010: £633,322), which is made up of the charge detailed above and a further share-based payments charge for the employee options of £452,428 (2010: £309,208) as detailed further in the notes.

The following table illustrates the number of, and movements in, the estimated number of ordinary shares to be issued. No subscription price is payable on the issue of the ordinary shares.

Estimated number of ordinary shares to be issued:

	Awards to which IFRS2 applies	Crystallised
At 1 April 2009	8,124,010	1,629,589
Issue in the year ("crystallised")	–	(1,629,589)
Leaver in the year	(636,946)	–
Movement in the year	2,680,758	–
At the beginning of the year	10,167,822	–
Issue in the year ("crystallised")	–	–
Leaver in the year	–	–
Movement in the year	456,450	–
At the end of the year	10,624,272	–

The fair value of these share-based payments is estimated using a Black-Scholes-Merton option pricing model. The following table lists the inputs to the model.

	2007 Awards	2004 Awards
Dividend yield (%)	10.16%	15.30%
Expected share price volatility	40.00%	40.00%
Risk free interest rate	5.25%	5.25%
Expected life of options	6 years	6 years

The share price volatility was calculated by reference to the Company's historic share price.

Notes to the financial statements
for the year ended 31 March 2011 continued

21. Share-based payments continued

Group Equity Incentive Plan

As part of an ongoing program to retain and incentivise employees, the Group issues share options under the following schemes:

Enterprise management incentive scheme

Share options in Polar Capital Holdings plc are granted to directors and employees under an Enterprise Management Incentive Scheme. These shares have a vesting period of either three or four years, and the exercise price for each option is the market value of the shares on the date it was granted. Early exercise conditions exist in the event of a takeover of more than 75% of the share capital of the Company.

Save as you Earn scheme

Share options in Polar Capital Holdings plc are granted to employees under a HMRC approved Save As You Earn scheme. These shares have a vesting period of five to seven years, and the exercise price for each option is the market value of the shares on the date the option was granted, subject to a discount of up to 20%. The scheme is linked to a SAYE savings contract.

Company share option scheme

Share options in Polar Capital Holdings plc are granted to employees under a HMRC approved arrangement up to a value at the date of grant of £30,000. These shares have a vesting period of either three or four years from the date of grant, and the exercise price for each option is the market value of the shares on the date it was granted.

Unapproved share option scheme

In cases where the terms of the schemes above cannot be met, unapproved share options are granted, under the terms of the Group's Equity Incentive Plan. These options vest in either four to five years, and are granted at a price agreed by the Directors of the Group.

The expense recognised for share-based payments in this respect of these share schemes during the year was £452,428 (2010: £309,208).

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at beginning of the year	9,237,542	66p	4,479,608	66p
Granted during the year	4,054,229	115p	6,668,360	83p
Exercised during the year	(450,000)	(50p)	(360,000)	(50p)
Lapsed during the year	(1,308,081)	(89p)	(1,550,426)	(58p)
Outstanding at end of the year	11,533,690	93p	9,237,542	80p

The range of exercise prices for options outstanding at the end of the year was £0.025 – £1.45 (2010: £0.025 – £1.705).

The fair value of equity-settled share options granted is estimated at the date of grant using a Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 March 2011 and 31 March 2010.

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Dividend yield (%)	8.76%	9.86%
Expected share price volatility	40.00%	40.00%
Risk free interest rate	2.43%	0.50%
Expected life of options	Vesting period	Vesting period

The share price volatility was calculated by reference to the Company's historic share price.

No other features of options granted were incorporated into the measurement of fair value.

22. Financial instruments

The Group's financial assets comprise investments in available for sale assets, trade and other receivables and cash and cash equivalents. Financial liabilities comprise trade and other payables. The Group also enters in to derivative contracts.

The main areas of risk arising from the Group's financial instruments are credit risk, liquidity risk, market risk and capital risk. Each of these risks is discussed in detail below. The Group monitors financial risks on a consolidated basis and intra-Group balances are settled when it is deemed appropriate for both parties to the transaction. The Company is not exposed to material financial risk and separate disclosures for the Company have not been included. The Group has designed a framework to manage the risks of its business and to ensure that the Directors have in place risk management practices appropriate for a listed company. The management of risk within the Group is governed by the Board and overseen by the Audit Committee.

Credit risk

Credit risk is the risk of financial loss if a counterparty fails to settle its debt to the Group.

Fees due from funds managed by the Group are invoiced monthly or quarterly and are settled within 30 days of the invoice date. No trade receivables at year end are impaired and to date there have been no settlement issues with any funds. The risk is therefore regarded as low.

Amounts placed on deposit are invested according to a treasury policy that is designed to reduce concentration and counterparty risk. Investments in available for sale assets are monitored regularly. The carrying value of the Group's financial assets represents its maximum exposure to credit risk at the year end.

Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due. The Group maintains significant liquid resources in the form of cash or cash deposits in order to meet working capital and regulatory needs. The Group's treasury policy is designed to align the duration period of the cash investments to the working capital requirements of the Group with no investment being placed for a period of more than three months.

The Group's financial liabilities comprise trade and other payables and derivative instruments. The maturity dates for all financial liabilities fall within either one year or repayable on demand.

Price risk

Price risk is the risk that changes in market prices will affect the Group's income or value of its investments.

The Group holds available-for-sale financial assets consisting of investments in its own funds, which are sensitive to movements in market equity prices.

Should the market move by 10%, and all the funds (and hence the Group's investments) move by this same amount, it would result in a change to the carrying value of the assets of £2.9m (2010: £2.0m). This movement would be recognised in the consolidated statement of comprehensive income, unless it was deemed to be impairment in value, when it would be recognised in the income statement.

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows related to financial instruments will fluctuate because of changes to market interest rates.

The Group's cash and short-term deposits earn interest at a floating rate. Due to large cash balances the Group is sensitive to changing interest rates. A 100bp change in market interest rates would result in an approximate change to revenues of £192,000 (2010: £200,000) in either direction. The Group has no borrowings.

22. Financial instruments continued

Foreign currency risk

Foreign currency risk is the risk that changes in foreign exchange rates will cause the Group to suffer losses.

Although the majority of management fees are received in Sterling, certain of those fees are generated from assets based in other countries, in particular USD dollar-based assets and a smaller amount of Yen based assets.

In order to hedge the risk associated with these fees, the Group enters into a number of forward foreign currency contracts over a period of 15 months. Such forward foreign contracts are designated as cash flow hedges of expected future receipt of management fees. At year end, the Group had four open contracts to sell US dollars totalling $6,200,000 (2010: $4,500,000), for a total of £3,975,000 (2010: £2,767,483). There was one open Sterling/Yen contract to sell a total of ¥64,300,000 (2010: ¥33,395,500), for a total of £486,000 (2010: £250,000).

The Group also holds available for-sale financial assets consisting of investments in its own funds. Where such investments are made in assets denominated in a currency other than the Group's functional currency, Sterling, the Group is exposed to changes in foreign currency exchange rates.

At the year end there are three investments in non-hedged US Dollar products and the Group has therefore hedged against the risk of exposure to changes in the US Dollar/Sterling exchange rate. The Group therefore has a further three forward currency contracts over a period of 12 months for the sale of $10,700,000 to purchase £6,666,500. Such forward foreign contracts are designated as cash flow hedges of expected future receipt of cash on redemption of the investments.

Capital risk

All companies within the Group are managed as going concerns and have sufficient capital to meet their day-to-day needs and to fulfil any externally imposed capital requirements. The capital of the Group and the Company consists of equity attributable to equity holders of the parent company, comprising issued share capital, share premiums, reserves and retained earnings as disclosed in note 17.

The Group is supervised by the Financial Services Authority and submits appropriate returns on the capital adequacy of both the Group and the regulated entity, Polar Capital LLP. Throughout the year the Group and Company held surplus capital over the regulated requirement.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At the end of both the current as well as the comparative period, all available for sale assets held by the Group were Level 1 and all open forward foreign exchange contracts were Level 2. The carrying values of the Group's financial instruments are presented on the face of the balance sheet.

During the reporting period there were no transfers between levels in fair value measurements.

23. Business combinations

Acquisition of HIM Capital Holdings Limited

On 21 September 2010, the Group acquired 100% of the voting shares of HIM Capital Holdings Limited ("HIM"), a specialist fund manager with an established track record of managing financial funds and with approximately US$245 million of assets under management, thereby establishing a strong financials sector franchise for the Group.

The acquisition has been accounted for using the acquisition method. The Group consolidated financial statements include the results of HIM for the period from acquisition date. The fair values of the identifiable assets and liabilities of HIM as at the date of acquisition were:

Assets	Fair value at date of acquisition £'000	Fair value £'000
Cash	513	513
Receivables	117	117
	630	630
Liabilities		
Payables	(344)	(344)
Deferred tax on intangible assets	–	(446)
Tangible net assets acquired	286	(160)
Intangible assets acquired	1,714	1,714
Goodwill	–	446
Purchase consideration	2,000	2,000

Analysis of cash flows on acquisition:	£'000
Net cash acquired with the subsidiary (included in cash flows from investing activities)	513
Cash paid	(2,000)
Net cash outflow	(1,487)

The vendors committed to reinvest £655,000 of the £2m consideration into the share capital of the Group as indicated by the investing activities section of the cash flow statement and the statement of changes in equity.

The goodwill of £446,000 relates to deferred tax liabilities recognised on intangible assets acquired as part of the HIM acquisition.

From the date of acquisition, HIM has contributed £1,233,000 to the revenue of the Group. If the acquisition had taken place on 1 April 2010, the Group's revenue would have been £40,143,000.

Acquisition costs of £150,000 have been charged to the income statement and are included in operating costs.

24. Intangible assets

The Group's intangible assets comprise investment management contracts that have been identified as separately identifiable intangible assets arising on the acquisition of HIM Capital Holdings Limited, as well as goodwill attributable to the recording of deferred tax liabilities under IAS 12 against the initial recognition, on acquisition date, of the investment management contracts at fair value.

The investment management contracts are being amortised over a period of approximately two years from the date of acquisition. Goodwill is allocated fully to the investment management contracts acquired and is reviewed for impairment on an annual basis. For the year ended 31 March 2011 an impairment has arisen as a consequence of the amortisation of the investment management contracts and the release of the corresponding deferred tax liability.

Notes to the financial statements

for the year ended 31 March 2011 continued

24. Intangible assets continued

Cost	Goodwill £'000	Investment management contracts £'000	Total £'000
As at 1 April 2009 and 2010	–	–	–
Additions/acquisitions (Note 23)	446	1,714	2,160
As at 31 March 2011	446	1,714	2,160
Amortisation and impairment			
As at 1 April 2009 and 2010	–	–	–
Impairment/amortisation charge	111	429	540
As at 31 March 2011	111	429	540
Net book value			
At 31 March 2010	–	–	–
At 31 March 2011	335	1,285	1,620

25. Related party transactions

1) Group

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not included in this note.

B J D Ashford-Russell is a member of Polar Capital LLP (the "Partnership") and a director of the Polar Capital Technology Trust PLC (the Trust). The Partnership is the appointed investment manager of the Trust. The total fees received by the Group as investment manager of the Trust were £6,413,176 (2010: £3,216,594). The amounts receivable at year end in this respect were £829,866 (2010: £603,405).

At the end of the year, the Group had an outstanding loan due of £1,166,992 (2010: £1,391,992) from the Polar Capital Employee Benefit Trust, which was set up in 2002 to hold ordinary shares in Polar Capital Holdings plc for the benefit employees.

2) Company

The Company has intercompany balances with Polar Capital Partners Limited and with Polar Capital LLP. The debit balance with Polar Capital Partners Limited of £26,024,270 (2010: £12,734,575) relates primarily to outstanding dividends, with other small items making up the balance. The credit balance of £41,513 (2010: £1,541,512) with Polar Capital LLP relates to cash movements, from the Company investing cash on the subsidiaries behalf.

Remuneration of key management personnel

The remuneration of key management, which includes the executive and non executive Directors, is detailed below. Fur-ther details are included in Note 5 which details staff costs.

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Short-term employee benefits and partnership profit allocations	972	1,107

At the end of the year the Group had balances owing to or in regards to key personnel of £5,000 (2010: £5,000). This amount relates an amount owed to another company for the services of a non-executive director.

Options to acquire ordinary shares held by the directors during the year ended 31 March 2011 are disclosed in Note 6.

Included within the share-based payments charge disclosed in note 21, is an amount of £101,725 (2010: £25,359) relating to key management personnel.

Shareholder information and advisers

Polar Capital Holdings plc

Company No.
4235369

The shares are traded on the Alternative Investment Market of the London Stock Exchange and information on the share price and the Company can be accessed via the Company's website, www.polarcapital.co.uk or at www.londonstockexchange.com – code: POLR; or Bloomberg: POLR LN.

ISIN number
GB00B1GCLT25

SEDOL code
B1GCLT2

Website
www.polarcapital.co.uk

Registered office
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Tel: 020 7227 2700

Company Secretary
Neil Taylor

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

Shareholder helpline
0800 876 6660
(+44 121 415 7047)

Website
www.shareview.co.uk

Dividends

Where possible, it is recommended that dividend payments are made directly into a bank account to provide improved security and faster access to funds. You may give instruction via the registrar's website (www.shareview.co.uk) or in writing.

Key dates

First interim dividend
For the financial year ended 31 March 2011

Amount
1.5p per ordinary share

Ex-dividend date
5 January 2011

Record date
7 January 2011

Payment date
21 January 2011

Second interim dividend
For the financial year ended 31 March 2011

Amount
6.0p per ordinary share

Ex-dividend date
13 July 2011

Record date
15 July 2011

Payment date
5 August 2011

Annual General Meeting
8 September 2011

Auditors

Ernst & Young LLP
1 More London Place
London, SE1 2AF

Bankers

HSBC Bank plc

Nominated adviser and corporate broker

Numis Securities Ltd
10 Paternoster Square
London, EC4M 7LT

Solicitors

Herbert Smith LLP
Exchange House
Primrose Street,
London, EC2M 2HS

Charity share donations

Sharegift, an independent charity share-donation scheme, accepts donations of small parcels of shares where their value makes them uneconomic to sell. If you wish to donate your shares in this way, see www.sharegift.org (tel: 020 7930 3737) or contact the Company's Registrars.

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