Polar Capital Holdings plc

Annual Report & Accounts 2009

POLAR CAPITAL HOLDINGS plc

Contents

Front cover image of Pen Hadow taken by Martin Hartley at Resolute Bay, in advance of Pen's successful attempt to become the first person ever to complete a solo unsupported journey from Canada to the North pole in 2003.

Who we are

Polar Capital Holdings plc is a research driven investment management company providing a highly entrepreneurial environment for outstanding portfolio managers within a structure that offers a level of marketing, administrative and operational support normally found in much larger organisations.

Today Polar Capital has a staff of 52 of whom 25 are investment professionals managing 11 funds, five managed accounts and one advisory relationship. These funds, which are aimed at institutional and professional investors, have combined assets under management as at 31 March 2009 of US$1.5bn.

Group strategy

Polar Capital's objective is to deliver strong, sustainable earnings and dividend growth by:

- building a highly diversified family of long-only, long-bias, equity long/short and other fundamentally driven hedge fund strategies managed under the Polar Capital brand;
- recruitment of talented fund managers through the provision of an incentivised, entrepreneurial and attractive operating environment together, where necessary, with the provision of seed capital for new funds;
- delivery of excellent investment performance by allowing fund managers to focus on fund management;
- ensuring an alignment of interests between shareholders, fund investors and fund managers by restricting the size and number of funds in order to avoid the trade-off between asset accumulation and performance;
- broadening and deepening fund investor relationships to ensure the full utilisation of Polar Capital's existing capacity while laying the groundwork for the launch of future funds;
- reducing the volatility of the Group's revenues by broadening the existing fund range into other less correlated asset classes; and
- maintaining and enhancing the levels of service provided to both fund managers and clients by investing as necessary in Polar Capital's operational, risk, sales and regulatory platform.

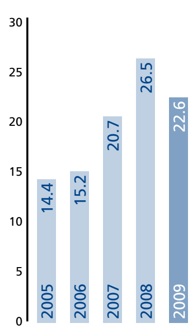
Overview

Polar Capital at a glance

- Assets under management at 31 March 2009 down 52% at US$1.5bn (2008: US$3.1bn)
- Pre-tax profitability down 17% to £12.1m (2008: £14.5m)
- Basic earnings per share down 17% to 12.1p (2008: 14.6p); diluted earnings per share down 13% to 11.3p (2008: 13.0p) and adjusted* diluted earnings per share down 32% to 9.9p (2008: 14.6p)
- Second interim dividend for the year of 3.5p per share (2008: 7.0p) giving a total dividend for the year, decreased by 47%, to 4.5p per share (2008: 8.5p)
- Increase in shareholders' funds to £39.6m (2008: £37.9m) including cash and investments of £44.2m (2008: £44.1m)

* Adjusted to exclude cost of share-based payments, see note 20.

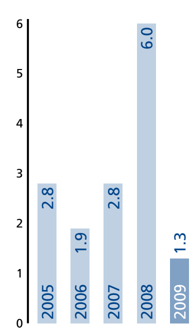
Gross management and advisory fees
£ million



Percentage change
2008-2009

-14.7%

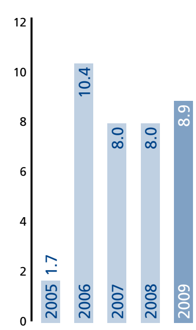
Core profitability
£ million



Percentage change
2008-2009

-78.3%

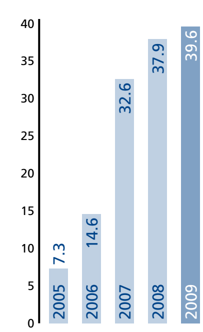
Net performance fee profitability
£ million



Percentage change
2008-2009

+11.3%

Shareholders funds
£ million



Percentage change
2008-2009

+4.5%

Our funds/strategies at a glance

(Assets under Management)

Technology	$m
31 March 2009	**407**
30 September 2008	559
31 March 2008	737

Japan	$m
31 March 2009	**306**
30 September 2008	328
31 March 2008	659

UK	$m
31 March 2009	**95**
30 September 2008	180
31 March 2008	124

Europe	$m
31 March 2009	**340**
30 September 2008	525
31 March 2008	568

Macro	$m
31 March 2009	**219**
30 September 2008	151
31 March 2008	70

Global emerging markets	$m
31 March 2009	**45**
30 September 2008	213
31 March 2008	288

Healthcare	$m
31 March 2009	**64**
30 September 2008	76
31 March 2008	23

Note: analysis excludes single $4m sub-advisory US equities account.

Analysis of changes in assets types for the year to 31 March 2009

	Long $m	Hedge $m	Advisory $m	Total $m
Total assets as at 31 March 2008	1,016	2,005	122	3,143
Performance and currency movements	(316)	(144)	(24)	(484)
Net subscriptions/(redemptions) from on going business	46	(170)	(63)	(187)
Net outflows from closed funds	–	(992)	–	(992)
Total assets as at 31 March 2009	746	699	35	1,480

Chairman's statement

Tom Bartlam
Chairman

Results

In our last financial year we have operated in the most turbulent global financial markets seen for generations. In this most challenging environment, on which I comment later, I am disappointed to have to report a fall in our AUM from $3.1bn to $1.5bn. Our core profitability for the year also fell materially to £1.3m primarily as a result of declining AUM. Performance fees however were strong, resulting in pretax profits of £12.1m down only 16.5% from the previous year which in the circumstances was a creditable result.

Market background

Since I last reported to you in July 2008, conditions in the world economies and equity markets have deteriorated dramatically with the financial credit crisis bringing into question much of the global financial system. Although some of these conditions were apparent last summer, it was not until September when Lehman Brothers failed and the US and UK Governments moved-in to bail out failing banks that the scale of the systemic damage became clearer. The speed of the collapse in the banking industry was exceptional and took the scale of the problem to the point that investors withdrew from the equity and capital markets, and interbank loans all but ceased. This inevitably became a worldwide recession and hit hardest the developed economies of the US, Japan, UK and Continental Europe.

Against such a backdrop global equity markets went into free-fall with one financial shock after another and investor sentiment turning to "cash as the best investment". Over our financial year the FTSE World Index was down over 22.4% and the S&P 500 Composite Index showed a dollar fall of 31.8%. Over the same period the UK has seen Sterling fall by 28% against both the US Dollar and the Japanese Yen. The determination of governments and regulators around the world to stem the financial problems has been widely reported in the press and shareholders should be familiar with the chain of events. After providing rescue packages for the banks, governments are having to address the real economy which is reeling from the aftershocks of the financial damage and companies large and small are finding that they have unsustainable business models.

While equity markets have recovered from their lows in March, the jury is still out on whether we will see the recovery being a sustained recovery or a simple bear market rally. It is impossible to estimate the full depth or length of the current recession but experience suggests that it will take years before a full recovery is made. While some investors believe that there are green shoots, others point to the mountains of toxic debt that need to be washed out of the system to allow even modest economic growth. The cost of the unprecedented financial support from many governments to their financial systems will have to be paid for in due course by lower public sector spending and higher taxation. This is likely to slow down any recovery in the economy and prolong the effects of the current recession.

Funds and performance

Our open-ended funds have had a mixed year with good relative performance but still suffering indiscriminate redemption pressure from investors seeking to obtain cash from any funds open to withdrawals. Such redemption pressures were exacerbated by investors also having to raise funds to recover losses caused by the fraudulent activities of some investment managers. These pressures now appear to have stopped.

While we have lost some AUM due to market and currency movements, and some from redemptions from strongly performing funds, we also decided to close certain funds in line with the Company's focus of achieving the best possible returns for investors by ensuring that our managers deliver strong and consistent risk adjusted investment performance.

In addition, the most significant loss of AUM arose from the closure of the successful Paragon fund, our global opportunities fund, in the last quarter of the financial year following the decision of the investment manager to resign to take some time away from the industry. This resulted in over $540m being returned to investors.

Investment performance over the last year has been good with five of our seven hedge funds producing positive returns in 2008 and our long strategies, notably Japan, showing strong relative returns. If investor sentiment reappears in the way we expect with a greater emphasis on transparency in the fund management process coupled with a demand for strong risk controls, all set against a heightened regulatory environment, we should be able to win business by offering the right combination of investment performance and operational integrity.

Dividend

It is the Group's policy on dividends to pay out a material proportion of net profits before performance fees, together with the majority of the net performance fees. The Company enjoyed relatively good net profit performance in the last financial year but the Board is mindful of the fall in core operating profits and of the current trading outlook being more challenging and consequently of revenues being less predictable. While the Board is hopeful of attracting new investment flows in the current financial year it has deemed it prudent this year to reduce the dividend by more than the policy would normally dictate.

The Board has declared a second interim dividend of 3.5p per share to shareholders on the register on 17 July 2009. The dividend will be paid on 7 August 2009. This will bring the total for the year to 4.5p per share, which is a decrease of 47% over last year's dividend total of 8.5p.

Outlook

We expect the economic and financial environment to remain challenging in our current financial year, which makes forecasting difficult. The significant reduction in our AUM in the second half of last year will reduce the level of fund management fees and impact performance fees. Our challenge is both to retain and increase our AUM. In this we will be helped by our strong balance sheet with its high cash reserves, our robust operating platform with increased resource in risk management and compliance and the strong performance of our funds. These factors support our belief that we should be well placed to be a beneficiary of new investment inflows when money starts flowing back into the market.

Board changes

It was with great sadness that we learned of Peter Buckley's death on 2 December 2008. Peter had been involved with the establishment of Polar Capital and served on its Board from the date of its establishment in 2001. He made a major contribution to the Board and his wise counsel will be sorely missed.

Annual General Meeting

The Annual General Meeting this year will be held on 10 September and I encourage all shareholders to attend as this will be an opportunity to meet the Directors. A separate notice detailing the business of the meeting will be sent to shareholders in due course.

Tom Bartlam
Chairman

23 June 2009

Chief Executive's statement

Mark Kary
Chief Executive

While these are clearly challenging times for Polar Capital and the asset management industry, there are some encouraging signs that industry conditions have stabilised and are beginning to improve. Polar Capital has experienced a stabilisation of AUM since the year end. Importantly, Polar Capital is fortunate to have a robust balance sheet, a strong track record of fund performance and a willingness to invest in the business at this time of considerable opportunity.

Review of the year – investment industry

We have witnessed, as described in the Chairman's statement, an extraordinary 12 month fiscal period with global equity markets materially down, and the global hedge fund industry having contracted from over $2,000bn in assets to an estimated current range of $750bn to $1,000bn. Investors in hedge funds sought to raise cash in their portfolios only to find that anything between 10% and 50% of the funds in which they were invested did not have the liquidity in their underlying portfolios to meet such requests. This resulted in a very large number of hedge funds restricting redemptions either by applying gates or fully suspending redemptions for a more significant period of time. Investors therefore had little choice other than to raise cash from the more liquid and typically better performing funds that were still open for business. The impact of such behaviour and liquidity mismatches on the industry's reputation was compounded when in December 2008 the Securities and Exchange Commission announced the $50bn Madoff fraud.

Review of the year – Polar Capital

With such an industry backdrop, there is no doubt that Polar Capital has had to operate in a very challenging environment where the majority of our funds have contracted as a result either of underlying markets or of investor redemptions. Across the business assets under management have fallen from $3.1bn at the beginning of the fiscal year to $1.5bn at 31 March 2009. This fall includes our decision a year ago to close a number of funds (Asia long only and hedge, Japan hedge, Global Utilities and Columbus) whose performance we felt was not of the quality needed to build a long term and compelling proposition. It also reflected the closure of the Paragon Fund at the end of March 2009 as a result of the decision of the manager to resign. The fall also includes the impact on our equity long only business of the fall in global stock markets, and on our hedge fund business from the extreme industry redemption phenomena.

However we are very encouraged by the investment performance of nearly all our funds over this period. In our long only business the Japanese funds enjoyed another impressive performance year outperforming the TOPIX benchmark by some 14% and creating one of the most impressive 5 year records amongst its peer group. Our Healthcare business completed a very solid first full year in an asset class well suited to these difficult market and economic conditions. And importantly our long established Technology business has seen the new leadership team bed down well and deliver some impressive performance.

Despite all the background noise surrounding the hedge fund industry five of Polar Capital's seven hedge funds produced positive returns in calendar 2008 and delivered the type of consistent and absolute returns that the industry has always promoted. That impressive performance has continued into 2009 and we are encouraged by the prospects for our Forager and Conviction funds (European), our Discovery fund (Macro) and the UK funds (both in hedge fund and UCITS3 structures).

While our business flows have been negatively impacted by investor sentiment and the very specific liquidity problems surrounding the hedge fund industry, we draw some comfort that by fiscal year end industry redemptions were abating, and from an increase in Polar Capital's new business pitches across the broad range of our funds. This suggests that pipelines and visibility are slowly being restored.

Current business outlook

The current operating environment in the asset management industry is challenging and many investors are still reeling from the impact of 2008 events and performance. Furthermore while it is clearly difficult to predict the outcome for financial markets, we expect a multi-year global deleveraging cycle, with the banking system only slowly getting recapitalised. This is likely to lead to several years of sub trend economic growth with a corresponding period of volatile and difficult financial market performance.

In spite of this backdrop there are a number of important and positive trends developing for Polar. Firstly, as we have written before, the secular environment for financial markets may have changed and with it the era of unrestricted access to deep and plentiful finance with investors adopting a more discerning and conservative approach to asset allocation. Certainly across the hedge fund industry this should see increased allocations to less aggressive, directional and correlated funds, and towards more fundamentally driven, understandable, liquid and consistent ones. Given Polar Capital's focus on fundamental research based strategies with a real emphasis on absolute return, such an industry trend should be to our advantage.

The second theme involves the boutique business model. Inevitably at times of stress, a natural conservatism will favour the longer established and better branded institutions. However in an investment environment where performance, differentiated product, and absolute return are arguably going to be a lot more important, the more entrepreneurial performance driven boutique model still has a critical role. The challenge for the boutique industry will be that investors will be more demanding in their due diligence process due to tighter regulations.

Chief Executive's statement
continued

Over the last several years Polar Capital has made significant investments in its operational infrastructure, particularly in risk management, compliance and distribution. We feel comfortable that such institutional robustness will be a significant competitive advantage as the boutique/specialist asset management industry rebuilds its credibility.

The third important trend relates to future asset flows. 2008 served as the first real test of the hedge fund industry's ability to generate absolute returns and the first test of how industry players would conduct themselves at a time of pressure. Many players failed the tests, but the shrinkage in the industry should create an opportunity rather than be seen as the start of a longer-term decline. We expect a number of weaker players to drop out of the industry leaving a smaller group of players with stronger business propositions to prosper. Polar Capital's investment performance and the integrity with which we conducted ourselves during the period of stress should stand us in good stead.

Summary

Polar Capital operates in an industry that has been stress tested by enormous challenges over the last two years and whose credibility and reputation has suffered accordingly. It will take investors time to rebuild their own businesses and to re-establish confidence in the broader investment industry. However this should be balanced against the opportunities created by fundamental changes that the industry is undergoing and the increased moves to more defensive allocations within the typical investor asset allocation. Polar Capital's historic investment performance, the differentiated nature of its products, its integrity, its strong balance sheet, the proximity of its funds to their respective high water marks, and its robust infrastructure platform all suggest the Company's competitive positioning has improved over this period. The key will be to ensure that we can deliver the new asset flows to take advantage of this opportunity.

Prospects

The fall in AUM in the period to $1.5bn at the year end implies a material reduction in our core revenues. Consequently the results of the Group for the 12 months ending March 2010 will be dependant on performance fees generated and/or by a net inflow of funds into our products in the year ahead. While these are clearly challenging times for Polar and the asset management industry, there are some encouraging signs that industry conditions have stabilised and are beginning to improve. Polar Capital has experienced a stabilisation of AUM since the year end. Importantly, Polar is fortunate to have a robust balance sheet, a strong track record of fund performance and a willingness to invest in the business at this time of considerable opportunity.

It has been an exceptional period with times of huge stress and uncertainty. I would like to thank our shareholders and clients for their support through this difficult time and all the staff for their tremendous loyalty, teamwork and work ethic over the last year.

Mark Kary
Chief Executive

23 June 2009

Financial review

John Mansell
Chief Operating Officer and Finance Director

The financial review discusses the results for the Group for the year ended March 2009 and specifically refers to the Group's income statement and balance sheet.

Profit and loss account

The pre-tax profits of the Group for the year fell £2.4m (17%) to £12.1m from £14.5m in 2008.

The fall was primarily due to a fall of £4.7m in the core management fee profitability of the business from £6.0m to £1.3m. This reduction was a consequence of the fall in the Group's AUM from $3.1bn in March 2008 to $1.5bn at this reporting date. Interest and other income fell due to lower returns on cash in the year. This was ameliorated by an increase in the performance fee profitability of the business which rose to £8.9m (2008: £8.0m).

The increase in managers' interests in their fees as a result of the higher percentage of performance fees in group revenues led to costs rising faster than the increase in total revenues.

The table below summarises the break down in the profit streams in the business:

	Year to 31 March 2009 £'m	Year to 31 March 2008 £'m
Core operating profit	1.3	6.0
Performance fee profit	8.9	8.0
Interest & similar income	0.9	1.7
Profit before tax before share-based payments	11.1	15.7
Share-based payments	1.0	(1.2)
Profit before tax	12.1	14.5

Operating expenses rose by £8.2m to £40.0m. Within this figure central costs actually fell by 6.5% to £7.1m but one off losses on realised investments amounted to £0.8m.

Financial review
continued

Operational costs accounted for £32.1m (80%) of the Group's operating expenses as compared to £24.2m (76%) in 2008. The increase in these costs is due to an increase in the share of total revenues accounted for by performance fees.

	Year to 31 March 2009 £'m	Year to 31 March 2008 £'m
Salaries and bonuses	7.7	8.1
Core distributions	2.2	2.2
Other staff costs	0.8	0.9
Total pre performance fee interests	10.7	11.2
Performance fee interests	21.4	13.0
Total cash compensation cost*	32.1	24.2
Shared-based payments	(1.0)	1.2
Total compensation cost*	31.1	25.4

* Of this cost £18.6m (2008: £9.6m) was paid as partnership profit allocations

Share-based payments

The face of the consolidated income statement includes a line titled "share-based payments" which accounts for a £1.0m credit in 2009 and £1.2m cost in 2008. This can be broken down as follows:

Analysis of the cost of share-based payments:

	Year to 31 March 2009 £'m	Year to 31 March 2008 £'m
IFRS cost attributed to preference shares	0.2	1.1
IFRS credit attributed to team departing and changes to estimated shares crystallising	(1.4)	–
IFRS cost attributed to conventional options	0.2	0.1
Total cost of share-based payments	(1.0)	1.2

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 previous interest in revenues generated from their products.

Due to the departure of the Global Opportunities Team in early 2009 and a reduction in the estimated number of shares crystallising, the charge for the year not only reduced significantly from £1.1m to £0.2m, but a credit was received against amounts charged in previous years of £(1.4)m. This resulted in an overall credit to the Income Statement of £1.0m.

The effect of IFRS on the Group's EPS figures is as follows:

	Year to 31 March 2009	Year to 31 March 2008
Diluted earnings per share*	11.3p	13.0p
Impact of share-based payments	(1.4)p	1.6p
Adjusted diluted earnings per share	9.9p	14.6p

* The EPS figures have been calculated to reflect the consideration receivable when options vest.

Preference shares

A class of preference share issued by Polar Capital Partners Limited is held by each of the fund managers at Polar Capital. These shares provide managers with an economic interest in the funds they run and ultimately enable managers to convert their interest in the core net management fee profitability of their product's into equity in Polar Capital Holdings plc. The equity that is awarded in return for the forfeiture of their economic interest vests over three years, but the full quantum of the dilution is reflected in the diluted share count (and so diluted EPS) from the point of conversion. The event has been designed such that the transaction is expected to be at both the actual and diluted levels earnings enhancing to shareholders.

In the year ended March 2009 no preference shares vested. As at March 2009 a further six sets of these preference shares remain, and of these, two sets have the ability to call for an equity conversion where the call has to be made by 30 November 2009 if conversion is to take place effective from 31 March 2009.

Balance sheet and cash

The Group generated £9.4m of cash in the year (2008: £15.5m) from its operating activities. In the year £4.2m of tax and £5.6m of dividends were paid, both amounts related predominantly to the Group's financial performance of the preceding financial year. This lagged affect is usual. The year also saw a net inflow of £1.9m from its investing activities, a combination of interest income and net receipts from investments redeemed and made.

The product of these movements is that at the year end the sum of investments plus cash remained relatively steady at £44.2m (2008: £44.1m). Total shareholders' funds have risen to £39.6 m (2008: £37.9m).

Business Risk

There are a range of risks and uncertainties faced by the Group which are more fully described in the Directors' Report. One of the major risks to the business strategy is the loss of assets under management due to poor investment performance or the loss of key investment personnel. Both events will not only have an immediate impact on the quantum of ad valorem management fees earned by the Group they will also have the effect that the Group will have a reduced pool of assets on which performance fees can be earned.

John Mansell
Chief Operating Officer and Finance Director

23 June 2009

Board of Directors

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 remains on its board as a non-executive director and is non-executive Chairman of Pantheon International Participations plc and a non-executive director of Numis Corporation plc and F&C UK Select Trust plc.

Tim Woolley*
Director/Founder
Appointed to the Board in 2002. Tim joined Henderson Global Investor's technology team in 1996 and left with Brian to establish Polar Capital Partners in 2001.

Mark Kary
Chief Executive Officer
Appointed to the Board in 2005. Mark began his career in finance at Chemical Bank in 1982. He joined Morgan Stanley's UHNW Private Wealth Management Group in 1986 and from 2002, he was the Managing director in charge of Morgan Stanley's Northern European UHNW business. He resigned in 2005 to become the CEO of Polar Capital.

John Mansell
Chief Financial Officer and Chief Operating Officer
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.

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.

Charles Hale†*^
Non-executive Director
Appointed to the Board in 2002 and served as Executive Chairman until September 2007. Prior to joining Polar Capital Charles was managing director and Vice Chairman of CSFB Europe Limited, having been Chairman of Donaldson, Lufkin & Jenrette International, the London based subsidiary of Donaldson, Lufkin & Jenrette Inc., until its acquisition by CSFB in November 2000.

Hugh Aldous†^
Non-executive Director and Chairman of the Audit Committee
Appointed to the Board in July 2007 and to the Chair of the Audit Committee. 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 Melorio plc and The Eastern European Trust plc and is a non-executive director of Innospec Inc, Henderson TR Pacific Investment Trust plc and Elderstreet VCT.

Brian Ashford-Russell*
Non-executive Director/Founder
Appointed to the Board in 2002. Brian was head of the technology team at Henderson Global Investors from 1987 until his resignation in September 2000 to set up Polar Capital in 2001. 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 Capital Ltd and a non-executive director of the Managed Funds Association.

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 and Ermitage Limited.

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

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 2009.

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.

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 6 to 11. Principal risks and uncertainties facing the Company and its subsidiary undertakings and how they are controlled are described on pages 15 to 17.

The Group's head office is in London and it has offices in Tokyo and Kiev. The office in Singapore is in the process of being closed.

The Group expects to continue expanding its funds under management in the coming year through 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 2009 are shown on page 26. The profit for the year attributable to shareholders was £8,371,000 compared with £9,635,000 in 2008.

The Directors declared on 12 December 2008 a first interim dividend for the year ended 31 March 2009 of 1.0p per share which was paid on 20 January 2009 to shareholders on the register on 24 December 2008.

A second interim dividend of 3.5p per share, was declared on 23 June 2008 in respect of the year ended 31 March 2009 to make a total distribution for the year of 4.5p per share (2008: 8.5p per share).

The second interim dividend will be paid on 7 August 2009 to shareholders on the register on 17 July 2009. The shares will trade ex-dividend from 15 July 2009.

Capital structure

The capital structure of the Company is detailed in Note 16 on page 40. Of the 73,073,568 shares (2008: 71,443,979) in issue at the year-end, 2,032,834 shares (2008: 1,100,160) 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. The Trustee cannot vote the shares held by it.

Each share has one vote on a poll.

During the year the Company issued 1,629,589 shares (2008: 4,420,755) as a result of the crystallisation process of the B class Preference Shares issued by Polar Capital Partners Limited to fund managers and their teams. No other shares were issued in the financial year (2008: 120,000 shares for cash in satisfaction of the exercise of share options).

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 AGM and did not retire by rotation at either of them to retire from office by rotation. No Directors are required to retire under this provision and offer themselves for re-appointment at this year's AGM.

Directors' interests

The interests of the Directors in the Company's shares and Options are detailed in the Directors' remuneration report on pages 22 and 23.

None of the Directors except for Mr Brian Ashford-Russell had an interest in any contract with the Group or Company. Mr Brian Ashford-Russell is a 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 22 on page 48.

Donations

The charitable payments made during the year to 31 March 2009 amounted to £2,000 to 5 charities involved with health and welfare. (2008: £30,000 to over 20 different national and local charities). The Company contributed £25,000 as one of the corporate sponsors of the Catlin Arctic Survey, a pioneering scientific expedition to help determine the lifespan of the Arctic Ocean's sea ice cover.

Creditor payment policy

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

Substantial shareholdings

As at 1 July 2009, 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 31 May 2009:

	Number of ordinary shares	% of voting rights held
Caledonia Investments PLC	10,716,640	14.7
B J D Ashford-Russell	10,000,000	13.7
T J Woolley	8,800,000	12.0
XL Capital	8,000,000	10.9
R J Salter	5,248,840	7.2
P Hardy	3,802,374	5.2
M R Kary	2,220,000	3.0

In all cases the interest was held directly.

Auditors

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

Annual General Meeting ("AGM")

The AGM will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN at 12.30pm on 10 September 2009. A separate notice of meeting wiill be 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 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 are contained 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 up to date and pleasant 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 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, and operational risks contained in the systems used by and in the business and their operation.

Directors' report including the Business Review and Corporate Governance Report
continued

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 seeks advice on such matters from its 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 listing 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 listing 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 non-compliance 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 of the chief executive, the chief operating officer, the head of compliance and the head of operations. 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 aims to remunerate staff in line with market practice, to provide development opportunities and to encourage staff motivation and retention.

The Group is subject to the effects of exchange rate fluctuations as UK Pounds 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 2009 can be seen in note 21 to the accounts.

At this stage of the Group's development the loss of a client or a significant investor in a large fund could significantly 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.

Operational risk
Operational risk arises from potentially inadequate or failed processes, people and stems or 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 have been tested 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 AAF control audit.

Corporate Governance Report

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 the Combined Code on Corporate Governance does not 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

There have been no changes to the Board over the financial year except for the sad death of Mr Peter Buckley on 2 December 2008.

Composition

The Board comprised of 10 Directors as at 31 March 2009, three of the Directors are executive and seven non-executive.

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 Company. 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 with the Company, or a material business relationship with the Company including shareholdings, to impair the perceived independence of the non-executive Director.

In light of this the Board has decided that Mr Charles Hale and Mr Brian Ashford-Russell should not be considered independent as they both previously held executive positions with the Company and that Mr Jamie Cayzer-Colvin and Ms Sarah 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 Company.

Mr Tom Bartlam, Mr Hugh Aldous and Mr Michael 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 Company.

The role of the non-executive Directors is to challenge constructively, and contribute to, the development of strategy; to scrutinize 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.

Role and responsibilities

The Board as a whole is responsible for the Group's objectives and policies and the proper governance of the Company. It normally meets six times a year and 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.

Directors' report including the Business Review and Corporate Governance Report

continued

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 Mark Kary, heads 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.

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

Following the introduction of the provisions of the Companies Act 2006 ("the Act") on 1 October 2008, which 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, the Company introduced additional procedures to handle such situations. Under the Act public companies may authorise conflicts or potential conflicts if the Articles of Association contain provisions to this effect. The Articles of Association adopted by shareholders at the annual general meeting on 10 September 2008 give the Directors the authority to deal with conflicts of interest.

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 or her 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 since its introduction.

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 required 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 election 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 re-appointment at the next AGM.

No Directors stand for re-appointment at the forthcoming AGM as all Directors stood for re-election at either the AGM in 2007 or the AGM in 2008.

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 comprises 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.

The Allotment Committee met twice in the financial year to 31 March 2009 to deal with the transfer of shares from employee benefit trust on the exercise of share options and the issue of shares arising from the crystallisation of preference shares.

Audit Committee

The Audit Committee is chaired by Mr Hugh Aldous and the other members are Mr Tom Bartlam, Mr Jamie Cayzer-Colvin Mr and Charles Hale. Mr Brian Ashford-Russell and Mr Tim Woolley are entitled to attend all meetings of the Audit Committee as observers.

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 Finance Director, the 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 Company's external Auditors, to provide assurance regarding the reliability and appropriateness of the disclosure of the financial statements, and any announcements relating to the Company'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 further examines and receives reports on the Company'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 Tom 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 re-appointment of retiring Directors of the Company together with evaluation of Directors' performance and effectiveness.

The Committee met once during the financial year to 31 March 2009 to consider the composition of the Board, the effectiveness of the Board and the contribution of individual Directors.

Remuneration Committee

The Remuneration Committee is chaired by Mr Jamie Cayzer-Colvin and its other members are Mr Charles Hale, Mr Tom Bartlam, Mr Brian Ashford-Russell, Mr Tim Woolley, Ms Sarah Street and Mr Michael Thomas.

Directors' report including the Business Review and Corporate Governance Report
continued

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 2009 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 Finance Director 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 Company'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

1 July 2009

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 2009.

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 Company;
- the financial disclosures contained in the annual reports to shareholders;
- reports from management and Auditors on the effectiveness of the Company'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 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 page 19. There have been no changes over the financial year to 31 March 2009.

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

- recommendations from the executive for remuneration packages for existing and new fund managers;
- recommended salary levels for the year commencing 1 April 2009 and bonus payments for the year ended 31 March 2009 across the Group; and
- 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. The Committee received information on industry remuneration levels in a report commissioned from Mclagan.

The Committee advised by MM&K received proposals for the introduction of a long-term equity incentive arrangement for executive Directors and key senior staff. This work is continuing.

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 executive Directors.

The remuneration of Mr Brian Ashford-Russell and Mr Tim Woolley who are members of the Committee is determined by the members of the Remuneration Committee other than themselves.

Basic remuneration paid to the executive Directors were:

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
M R Kary	250,000	250,000
J B Mansell	175,000	150,000
T J Woolley	100,000	125,000

Further details of Directors' remuneration disclosable under the Companies Act are contained in note 5 on page 35.

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-elected 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

Mr Tom Bartlam as Chairman receives a fee of £70,000 pa.

Mr Jamie Cayzer-Colvin, and Ms Sarah Street are entitled to a non-executive Director's fee of £20,000 pa which, under the terms of their appointment may be paid to their principal employers if so elected or to their designee. The fee for Mr Jamie Cayzer-Colvin was paid to Caledonia Investments plc and Ms Sarah Street's fee was paid to XL Re.

Mr Peter Buckley who served as a non-executive Director up to his death on 2 December 2008 was entitled to a non-executive Director's fee of £20,000 pa which, under the terms of his appointment may be paid to his principal employers if so elected or to their designee. The fees for Mr Peter Buckley for this period were paid to Caledonia Investments plc.

Mr Hugh Aldous and Mr Michael Thomas each received a non-executive Director's fee of £30,000 pa and Mr Hugh Aldous received an additional fee of £5,000 for chairmanship of the Audit Committee.

Mr Charles Hale received a fee of £35,000 pa.

Mr Brian Ashford-Russell served as an executive Director up to 1 November 2008 when he became a non-executive Director. He received a salary for the period up to 1 November 2008 of £125,000 pa plus a payment of 10% of salary in lieu of any pension contribution. Since 1 November Mr Brian Ashford-Russell received a fee of £55,000 pa.

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 2009, the end of the financial year and at 31 March 2008:

	31 March 2009	31 March 2008
T H Bartlam	50,000	–
H G C Aldous	30,000	10,000
B J D Ashford-Russell	10,000,000	10,000,000
J M B Cayzer-Colvin	4,250	4,250
C M Hale	2,160,000	2,160,000
M R Kary	2,220,000	2,220,000
J B Mansell	1,880,000	1,880,000
S E Street	–	–
M Thomas	–	–
T J Woolley	8,800,000	8,800,000

There have been no changes in the interests of the Directors who were in office at 31 March 2009 in the shares of the Company between 31 March 2009 and 1 July 2009.

Options to acquire ordinary shares held by the Directors during the year ended 31 March 2009 are shown in the table below:

Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Exercisable from	Expiry date	
M R Kary	1 Apr 05	340,000	–	–	–	340,000	50p	31 Mar 09	31 Mar 15	Note 1
	1 Apr 05	340,000	–	–	–	340,000	50p	31 Mar 10	31 Mar 15	Note 2
	1 Apr 05	200,000	–	–	–	200,000	50p	1 Apr 08	31 Mar 15	

The opening balance represents the number of shares held under option on 31 March 2008.

Note 1: Exercisable from the date on which the accounts for the year ended 31 March 2009 are approved provided that the earnings per share have reached or exceeded 31.5p per share at that date.

Note 2: Exercisable from the date on which the accounts for the year ended 31 March 2010 are approved provided that the earnings per share have reached or exceeded 37.5p per share at that date.

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

The Directors are responsible for preparing the annual report and the Group's financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

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

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRS, 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 Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulations. 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.

Audit information

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 of which the Company's Auditors are unaware and the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of the information.

Going concern

The Board assessment of the Group's position as at 31 March 2009 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 is as described in the Financial Review on pages 9 to 11. Note 21 to the financial statements include the Group's policies and processes for managing its capital, its financial risk management objectives and 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 shareholders of Polar Capital Holdings plc

for the year ended 31 March 2009

We have audited the consolidated and parent Company financial statements of Polar Capital Holdings plc for the year ended 31 March 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated and Company Balance Sheets, Consolidated Cash Flow Statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the consolidated financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement and in the financial review that is cross referred from the business review and future developments section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's statement, the Chief Executive's statement, financial review, Corporate Governance statement, Remuneration Committee's report and Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2009 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Director's report is consistent with the Group financial statements.

Ernst & Young LLP
Registered Auditor

London

1 July 2009

Consolidated income statement
for the year ended 31 March 2009

	Note	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Revenue	2	51,056	47,689
Interest receivable and similar income		888	1,715
Gross income		51,944	49,404
Cost of sales		(852)	(1,896)
Net fees		51,092	47,508
Operating costs before share-based payments		(39,989)	(31,809)
Profit on ordinary activities before share-based payments		11,103	15,699
Share-based payments		1,008	(1,204)
Profit on ordinary activities before taxation	3	12,111	14,495
Taxation	6	(3,740)	(4,860)
Profit on ordinary activities after taxation		8,371	9,635
Basic earnings per ordinary share	8	12.06p	14.57p
Diluted earnings per ordinary share	8	11.31p	13.00p
Adjusted diluted earnings per ordinary share	8	9.95p	14.63p

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

Consolidated statement of recognised income and expense
for the year ended 31 March 2009

	Note	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Profit for the financial period		8,371	9,635
Gains/(loss) on the revaluation of available-for-sale financial assets	10	670	(332)
Loss on the fair valuation of hedging contracts		(47)	(42)
Deferred tax in respect of employee share options		(95)	(759)
Deferred tax in respect of available-for-sale financial assets		(188)	97
Total recognised gains and losses		8,711	8,599

The notes on pages 30 to 48 form part of these financial statements.

Consolidated balance sheet

as at 31 March 2009

	Note	31 March 2009 £'000	31 March 2008 £'000
Fixed assets	9	162	396
Available-for-sale financial assets	10	11,655	12,779
Deferred tax assets	14	3	214
Total non-current assets		11,820	13,389
Current assets			
Other financial assets	10	–	47
Receivables	12	7,184	8,162
Cash at bank and in hand	13	32,566	31,326
Total current assets		39,750	39,535
Total assets		51,570	52,924
Non-current liabilities			
Deferred tax liabilities	14	162	–
Current liabilities			
Trade and other payables	15	9,809	12,555
Current tax liabilities		1,981	2,509
Total current liabilities		11,790	15,064
Total liabilities		11,952	15,064
Net assets		39,618	37,860
Capital and reserves			
Called up share capital	17	1,827	1,786
Share premium account	17	15,097	15,097
Investment in own shares	17	(871)	(558)
Other reserves	17	820	523
Retained earnings	17	22,745	21,012
Total shareholders' funds – equity interests		39,618	37,860

The notes on pages 30 to 48 form part of these financial statements.

The financial statements were approved by the Board of Directors on 1 July 2009.

Hugh Aldous
Chairman of the Audit Committee

John Mansell
Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 March 2009

	Notes	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Cash flows generated from operating activities			
Cash generated from operations	19	9,482	15,502
Tax paid		(4,179)	(3,433)
Net cash inflow generated from operating activities		5,303	12,069
Financing activities			
Equity dividends paid	17	(5,630)	(4,616)
Issue of share capital		–	50
Issue of preference shares by subsidiary undertaking		–	2
Payments in relation to investment in own shares		(463)	–
Receipts in relation to disposal of own shares		150	–
Net cash(outflow)/inflow from financing activities		(5,943)	(4,564)
Investing activities			
Interest received and similar income		888	1,681
Purchase of property, plant and equipment	9	(29)	(115)
Proceeds from sale of available-for-sale financial assets	10	3,177	11,828
Purchase of available-for-sale financial assets	10	(2,156)	(20,976)
Net cash outflow generated from/(used in) investing activities		1,880	(7,582)
Net increase/(decrease) in cash and cash equivalents		1,240	(77)
Cash and cash equivalents at start of period		31,326	31,403
Cash and cash equivalents at end of period		32,566	31,326

The notes on pages 30 to 48 form part of these financial statements.

Company balance sheet

at 31 March 2009

	Notes	31 March 2009 £'000	31 March 2008 £'000
Fixed assets			
Investments	11	1,017	1,017
Current assets			
Debtors	12	1,881	4,084
Cash and short-term deposits		24,763	21,479
		26,644	25,563
Creditors – amounts falling due within one year			
Other creditors		(630)	–
Corporation tax due		(166)	(191)
		(796)	(191)
Net current assets		25,848	25,372
Net assets		26,865	26,389
Capital and reserves			
Called up share capital	17	1,827	1,786
Share premium account	17	15,097	15,097
Retained earnings	17	10,220	9,744
Reserves	17	(279)	(238)
Shareholders' funds		26,865	26,389

The notes on pages 30 to 48 form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2009

1 Principal accounting policies

Polar Capital Holdings plc is a public limited company registered in England and Wales. 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 IFRS as adopted by the European Union and the Companies Act 1985 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.

The Company financial statements have been prepared in accordance with UK GAAP and under the historical cost convention.

At the date of authorisation of these financial statements, IASI (Revised 2007) "Presentation of financial statements", IFRS 8 "Operating Segments" and certain elements of IFRS 2 "Group & Treasury Share Transactions" were in issue but not yet effective. The Group has not adopted these standards and does not anticipate they will have any material impact on these financial statements when they come into effect.

Basis of consolidation

The consolidated financial statements incorporated the financial statements of the Company and entities controlled by the Company (its subsidiary undertakings). Where necessary adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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%

Financial assets and liabilities

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

Financial assets are initially recognised at fair value, being the consideration given, together with any acquisition costs associated with the asset. 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 in equity. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred 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 directly in equity 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 equity and recognised in the income statement. Impairment losses recognised in the income statement, if subsequently reversed, are taken through equity and not the income statement.

Derivative financial instruments

Forward currency contracts are used to hedge the risks associated with foreign currency fluctuations. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Forward 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 directly in equity, 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.

Gains or losses realised on hedging contracts are recognised against revenue in the income statement.

Trade receivables

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

Pensions

The Group operates a defined contribution money purchase pension scheme covering the majority of its employees. The costs of the pension scheme are charged to the profit and loss account in the period in which they are incurred.

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.

Trade payables

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

Income recognition

Revenue

Revenue represents fees receivable (excluding value added tax) during the period for discretionary investment management and advisory 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.

Cost of sales

Cost of sales includes fees and commissions payable to third parties 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.

Notes to the financial statements

for the year ended 31 March 2009 continued

1 Principal accounting policies continued

Operating leases

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

Taxation

The income 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. Income tax relating to items charged or credited directly to equity is also dealt with through equity.

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 (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based instrument is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Segmental reporting and functional currency

The Directors are of the opinion that the Group is engaged in a single, unified, business of managing investments. No segmental reporting is therefore provided. The functional currency of each company in the Group is pounds sterling.

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 are as follows:

Impairment of available for sale financial assets

The Group reviews any diminution in value to available for sale financial assets, and determines if this is an impairment of the asset.

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

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.

Foreign currency/monetary balances
The consolidated financial statements are reported in Sterling, which is the functional curency of all Group companies.

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rate ruling at the balance sheet date. Foreign exchange differences are recognised in the consolidated income statement.

2 Geographical analysis (based on the residency of the source)
The Group's assets under management are managed as seven business units but the Group only has one class of business, being the provision of investment management and advisory services. The Group's operations are in London, with small offices in Tokyo and Kiev, and it therefore has only one geographic location.

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
UK	3,008	3,617
Ireland	3,339	5,042
Cayman	44,859	38,193
USA	1,074	–
Canada	211	318
Other	393	399
(Loss)/profit on hedging	(1,828)	120
	51,056	47,689

The analysis of turnover is as follows:

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Investment management fees	22,350	26,122
Investment advisory fees	216	354
Investment performance fees	30,318	21,093
(Loss)/profit on hedging	(1,828)	120
	51,056	47,689

Notes to the financial statements

for the year ended 31 March 2009 continued

3 Profit before taxation

This is stated after charging:

		Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Staff costs including partnership profit allocations		31,166	25,373
Depreciation		255	257
Operating lease rentals	– land and buildings	764	674
	– other	749	576
Operating lease rentals received	– land and buildings	71	88
(Loss)/profit on disposal of investment		(773)	34
Auditors' remuneration			
Audit services			
– provision for current year		84	55
– underprovision for prior year		20	7
Other services relating to taxation		137	127
IFRS conversion		–	42
Internal controls review		40	35
All other services		–	55

4 Staff costs including Directors' emoluments

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Salaries	12,340	13,512
Social security costs	910	815
Pension costs	354	337
Partnership profit allocations	18,570	9,505
Share-based payments	(1,008)	1,204
	31,166	25,373

Pension costs outstanding at the year-end amounted to nil (2008: nil).

	Year to 31 March 2009	Year to 31 March 2008
Average number of partners and full time employees, including executive Directors:		
Fund Management	30	35
Administration	25	24
	55	59

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

5 Directors' emoluments including partnership profit allocations

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Emoluments including partnership profit allocations	1,107	1,117
Company contributions to money purchase pension schemes	52	64
The amounts in respect of the highest paid director are as follows:		
Emoluments	430	503
Company contributions paid to money purchase scheme	25	25

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

	Year to 31 March 2009 Number	Year to 31 March 2008 Number
Money purchase scheme	3	3

Directors emoluments include both salaries and partnership profit allocations earned through Polar Capital LLP.

Options to acquire ordinary shares held by the Directors during the year ended 31 March 2009 are shown in the table below:

Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Exercisable from	Expiry date	
M R Kary	1 Apr 05	340,000	–	–	–	340,000	50p	31 Mar 09	31 Mar 15	Note 1
	1 Apr 05	340,000	–	–	–	340,000	50p	31 Mar 10	31 Mar 15	Note 2
	1 Apr 05	200,000	–	–	–	200,000	50p	1 Apr 08	31 Mar 15	

The opening balance represents the number of shares held under option on 31 March 2008.

Note 1: Exercisable from the date on which the accounts for the year ended 31 March 2009 are approved provided that the earnings per share have reached or exceeded 31.5p per share at that date.

Note 2: Exercisable from the date on which the accounts for the year ended 31 March 2010 are approved provided that the earnings per share have reached or exceeded 37.5p per share at that date.

6 Taxation on profit on ordinary activities

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
UK Corporation tax		
UK Corporation tax on profits of the year	3,430	4,739
Adjustments in respect of prior periods	219	201
Total current tax	3,649	4,940
Foreign Tax		
Current year	1	7
Deferred tax		
Originating and reversal of temporary differences	90	(88)
Rate change adjustment	–	1
Total tax	3,740	4,860

Notes to the financial statements

for the year ended 31 March 2009 continued

6 Taxation on profit on ordinary activities continued

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% (2008: 30%). The differences are reconciled below:

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Profit on ordinary activities before taxation	12,111	14,495
Tax on profit on ordinary activities at standard rate of 28% (2008: 30%)	3,391	4,349
Adjustments in respect of prior periods	241	201
Rate change adjustment	–	1
Disallowed expenses	80	433
Other – share-based payments	28	(124)
Total tax	3,740	4,860

7 Subsidiary undertakings

Details of the Company's subsidiary undertakings as at 31 March 2009 are as follows:

Principal subsidiary undertakings	Country of incorporation	Natural of business and registration
Polar Capital Partners Limited	Great Britain	Services company
Polar Capital Secretarial Services Limited	Great Britain	Dormant
Polar Capital (America) Corporation	USA	Payroll company
Polar Capital Partners (Jersey) Limited	Channel Islands	Investment management
Polar Capital Ukraine Limited	Great Britain	Investment management
Polar Capital Limited Liability Partnership	Great Britain	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.

8 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the year of £8,371,134 (2008: £9,634,665) and on 69,411,145 (2008: 66,139,295) 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 £8,371,134 (2008: £9,634,665) and 73,996,814 (2008: 74,101,201) ordinary shares, being the weighted average number of ordinary shares allowing for all options of 4,479,608 (2008: 4,301,105) which are dilutive and shares issued on the last day of the year and not yet issued under a crystallised event of 3,259,178 (2008: 3,365,190).

The calculation of adjusted earnings per ordinary share is based on profit for the year of £8,371,134 but adjusted for the credit of share-based payments of £1,008,583 (2008: profit of £9,634,665 adjusted for the cost of share-based payments of £1,204,271) and 73,996,814 (2008: 74,101,201) ordinary shares being the weighted average number of ordinary shares allowing for all dilutive options and shares not yet issued under a crystallisation event.

As at 31 March 2009, the fully diluted number of ordinary shares which would be in issue is 77,249,931 shares, if all outstanding options were exercised and all shares that are due as the result of a crystallisation event were issed.

9 Tangible fixed assets

	Office Furniture £'000	Computer Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost				
As at 1 April 2008	160	408	686	1,254
Additions	6	12	11	29
Disposals	(4)	(7)	(4)	(15)
As at 31 March 2009	162	413	693	1,268
Depreciation				
As at 1 April 2008	130	308	420	858
Charge for the year	20	62	173	255
Disposals	(2)	(4)	(1)	(7)
As at 31 March 2009	148	366	592	1,106
Net book value				
As at 1 April 2008	30	100	266	396
As at 31 March 2009	14	47	101	162

10 Financial assets

1) Available-for-sale financial assets

	Year ended 31 March 2009 £'000	Year to 31 March 2008 £'000
At beginning of period	12,779	3,929
Purchases	2,156	20,976
Redemptions	(3,950)	(11,794)
Gain/(loss) on movement in fair value	670	(332)
At end of period	11,655	12,779

The Group's available-for-sale financial assets are investments in the funds it manages, all of which are listed.

The net gain on disposal is:

	Year ended 31 March 2009 £'000	Year to 31 March 2008 £'000
Proceeds	3,177	11,828
Cost	(3,950)	(11,794)
Net (loss)/gain	(773)	34

Notes to the financial statements

for the year ended 31 March 2009 continued

10 Financial assets continued

2) Other financial assets

Other financial assets consist of the fair value movement in foreign currency hedges taken out by the Group, as described in note 21. The Group hedges against the risk associated with US Dollar-based assets that it manages.

At year end, the Group had open contracts under such hedges of USD $4,000,000 (2008: USD $10,000,000), for a total of £2,790,530 (2008: £5,050,888). The fair value gain movements are as follows:

	Year ended 31 March 2009 £'000	Year to 31 March 2008 £'000
At beginning of period	47	89
Realised through income statement	(47)	(89)
Movement in fair value	–	47
At end of period	–	47

11 Investment

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

12 Debtors

	31 March 2009 Group £'000	31 March 2009 Company £'000	31 March 2008 Group £'000	31 March 2008 Company £'000
Trade debtors	6,582	–	7,206	–
Other debtors	295	1,881	621	4,084
Prepayments and accrued income	307	–	335	–
At 31 March 2009	7,184	1,881	8,162	4,084

All other debtors for the Company are due from Polar Capital Partners Limited.

13 Cash and short-term deposits

	31 March 2009 £'000	31 March 2008 £'000
Cash at bank and in hand	8,556	6,931
Short-term deposits	19,000	–
Other liquid investments	5,010	24,395
	32,566	31,326

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one and three months depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £32,566,567 (2008: £31,326,050).

14 Deferred taxation

	31 March 2009 Group £'000	31 March 2009 Company £'000	31 March 2008 Group £'000	31 March 2008 Company £'000
Deferred tax asset				
At 1 April	214	–	856	–
Movement re share-based payments	(161)	–	(759)	–
Other movements	(31)	–	117	–
Prior year adjustment	(19)	–	–	–
At 31 March 2009	3	–	214	–

The balance can by analysed as follows:

	31 March 2009 Group £'000	31 March 2009 Company £'000	31 March 2008 Group £'000	31 March 2008 Company £'000
Deferred tax asset				
Capital Allowances	–	–	19	–
Fair value on available-for-sale financial assets	–	–	31	–
Share-based payments	3	–	164	–
At 31 March 2009	3	–	214	–

	31 March 2009 Group £'000	31 March 2009 Company £'000	31 March 2008 Group £'000	31 March 2008 Company £'000
Deferred tax liability				
At 1 April	–	–	66	–
Movement during the year	158	–	(66)	–
Prior year adjustment	4	–	–	–
At 31 March 2009	162	–	–	–

The deferred tax liability consists of £5,000 in relation to capital allowances and £157,000 tax on unrealised gains.

15 Trade and other payables

	31 March 2009 Group £'000	31 March 2009 Company £'000	31 March 2008 Group £'000	31 March 2008 Company £'000
Other taxes and social security costs	146	–	149	–
Other creditors	2,430	629	3,105	–
Accruals and deferred income	7,233	–	9,301	–
At 31 March 2009	9,809	629	12,555	–

Notes to the financial statements

for the year ended 31 March 2009 continued

16 Called up share capital

Group and Company

	31 March 2009 £'000	31 March 2008 £'000
Authorised		
Comprising 200,000,000 ordinary shares of 2.5p each	5,000	5,000
Allotted, called up and fully paid:		
73,073,568 ordinary shares of 2.5p each (2008: 71,443,979 ordinary shares of 2.5p each)	1,827	1,786

The increase in share capital arises from shares issued under incentive schemes.

17 Reserves

Group	Share capital £'000	Share premium account £'000	Own shares £'000	Capital reserves £'000	Other reserves £'000	Retained earnings £'000	Total shareholders' funds £'000
As at 1 April 2007	1,673	15,050	(558)	555	1,112	14,789	32,621
Issue/(redemption) of shares	113	47	–	(108)	–	–	52
Profit for the year	–	–	–	–	–	9,635	9,635
Dividends	–	–	–	–	–	(4,616)	(4,616)
Gain on available for sale financial assets	–	–	–	–	(332)	–	(332)
Movements in deferred tax	–	–	–	–	(662)	–	(662)
Fair value movements in other financial assets	–	–	–	–	(42)	–	(42)
Share-based payment	–	–	–	–	–	1,204	1,204
As at 1 April 2008	1,786	15,097	(558)	447	76	21,012	37,860
Issue/(redemption) of shares	41	–	(313)	(43)	–	–	(315)
Profit for the year	–	–	–	–	–	8,371	8,371
Dividends	–	–	–	–	–	(5,630)	(5,630)
Gain/loss on available for sale financial assets	–	–	–	–	670	–	670
Movements in deferred tax	–	–	–	–	(283)	–	(283)
Fair value movements in other financial assets	–	–	–	–	(47)	–	(47)
Share-based payment	–	–	–	–	–	(1,008)	(1,008)
As at 31 March 2009	1,827	15,097	(871)	404	416	22,745	39,618

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 2009, there were 2,032,834 shares of 2.5p each (2008: 1,100,160 shares of 2.5p each) held by the Employee Benefit Trust.

During the year, Polar Capital Holdings plc paid a dividend of 7.0p per share on 8 August 2008 and a further 1.0p per share on 20 January 2009.

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 20.

Other reserves relate to movements in:

- deferred tax assets that arise on the exercise of options
- movements in the fair value of available for sale financial assets
- movements in the fair value of other financial assets

These movements are recognised through the Consolidated Statement of Recognised Income and Expense.

Company	Share capital £'000	Share premium account £'000	Retained earnings £'000	Reserves £'000	Total £'000
As at 1 April 2007	1,673	15,050	240	(128)	16,835
Issue of shares	113	47	–	(110)	50
Dividends	–	–	(4,616)	–	(4,616)
Profit for the year	–	–	14,120	–	14,120
As at 1 April 2008	1,786	15,097	9,744	(238)	26,389
Issue of shares	41	–	–	(41)	–
Dividends	–	–	(5,629)	–	(5,629)
Profit for the year	–	–	6,105	–	6,105
As at 31 March 2009	1,827	15,097	10,220	(279)	26,865

Notes to the financial statements

for the year ended 31 March 2009 continued

18 Operating lease commitments

1) As at 31 March 2009, the Group and Company had non-land and buildings, operating lease commitments as follows:

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Amounts payable within one year	146	118
Amounts payable between two and five years	127	50

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

As at 31 March 2009, the Group and Company had operating lease commitments in respect of its rented premises as follows:

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Amounts payable within one year	476	765
Amounts payable between two and five years	2,090	2,263
Amounts payable in more than five years	1,289	1,352

The material lease relates to the rental of the Group's premises at 4 Matthew Parker Street in London, and expires in February 2015. The rental is fixed until February 2010, and re-evaluated at prevailing market rates at the time on this date. For the purposes of the above disclosure, rental costs have been presumed to remain constant.

2) As at 31 March 2009, the Group and Company had land and building operating lease commitments due to them in respect of sublet rented premises as follows:

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Amounts receivable within one year	–	66
Amounts receivable between two and five years	–	–

19 Cash flow statement

Reconciliation of profit before taxation to cash generated from operations

	Year ended 31 March 2009 £'000	Year to 31 March 2008 £'000
Cash flows from operating activities		
Profit on ordinary activities before tax	12,111	14,495
Interest receivable and similar income	(888)	(1,681)
Depreciation of tangible fixed assets	255	257
Decrease/(increase) in receivables	978	(3,934)
(Decrease)/increase in trade and other payables	(2,746)	5,195
Loss/(profit) on disposal of investments	773	(34)
Loss on disposal of fixed assets	7	–
Share-based payment	(1,008)	1,204
Cash generated from operations	9,482	15,502

20 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. Advantage has been taken of the transitional provisions in IFRS2 to apply the standard to awards made after 7 November 2002 only.

The share-based payments charge for the year under this scheme was £209,761 (2008: £1,119,288), however the Group also recognised a credit of £1,379,368 due to a manager leaving the firm and therefore the scheme, and a reduction in the number of shares due to crystallise.

The total credit to the consolidated income statement is £1,008,583 (2008: charge £1,204,271), which is made up of the charge and credit as detailed, and a share-based payments charge for the EMI options of £161,024 (2008: £84,983) 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	Pre November 2002 awards	Crystallised
At 1 April 2007	9,070,569	5,608,650	2,178,160
Issue in the year ("crystallised")	–	(5,608,650)	5,608,650
Leaver in the year	–	–	–
Movement in the year	1,947,590	–	(4,421,620)
At 1 April 2008	11,018,159	–	3,365,190
Issue in the year ("crystallised")	–	–	(1,629,589)
Leaver in the year	(1,947,590)	–	(106,012)
Movement in the year	(946,559)	–	–
At 31 March 2009	8,124,010	–	1,629,589

Notes to the financial statements

for the year ended 31 March 2009 continued

20 Share-based payments continued

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%	40%
Risk free interest rate	5.25%	4.00%
Expected life of options	6 years	6 years

The share price volatility was calculated by reference to the Company's historic share price and to that of similar companies in the same industry.

Group Equity Incentive Plan

As part of an ongoing programme 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 £161,024 (2008: £84,983).

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

	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Outstanding at beginning of the year	4,301,105	52p	4,500,240	52p
Granted during year	781,288	94p	373,098	7p
Exercised during the year	(300,000)	(50p)	(120,000)	(42p)
Lapsed during the year	(302,785)	(65p)	(452,233)	(54p)
Outstanding at end of the year	4,479,608	66p	4,301,105	53p

The range of exercise prices for options outstanding at the end of the year was £0.025 – £1.705 (2007: £0.025 – £1.705). Of the options outstanding at the end of the year, 660,000 (2008: nil) were exercisable at a weighted average price of 50p. The average share price of exercised options at the date of exercise was 96p.

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 2009 and 31 March 2008.

	Year ended 30 March 2009 £'000	**Year ended 31 March 2008 £'000**
Dividend yield (%)	9.80%	9.80%
Expected share price volatility	40.00%	40.00%
Risk free interest rate	5.00%	5.00%
Expected life of options	Vesting period	Vesting period

The share price volatility has been calculated by reference to the Company's historic share price and to that of similar companies in the same industry.

The fair value of share options issued in the year, using the market value of shares as at grant day was £285,170 (2008: £309,607).

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

The principal assumptions for shares granted in the year are as follows:

Exercise price	79p	98p	102.5p
Options granted	181,288	500,000	100,000
Vesting period	4 years	4 years	4 years
Weighted average share price at grant date	100.8p	100.8p	100.8p

For the year ending 31 March 2008 these were as follows:

Exercise price	2.5p	95p	170.5p
Options granted	96,000	227,098	50,000
Vesting period	4 years	4 years	4 years
Weighted average share price at grant date	178.5p	187.1p	170.5p

Notes to the financial statements
for the year ended 31 March 2009 continued

21. Financial instruments

The main areas of risk arising from the Group's financial instruments are credit risk, liquidity risk, market risk and capital risk. The directors' approach to them is set out below.

Credit risk

The credit risk of the Group is the risk of financial loss if a counterparty fails to settle its debt, and arises principally from fees due from funds, and from deposits placed with financial institutions.

Fees 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 or in liquidity funds are invested according to a treasury policy that is designed to reduce concentration and counterparty risk. The investments are monitored regularly.

Liquidity risk

The Group maintains sufficient 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 greater than three months duration.

Market risk:

Market risk is the risk that changes in market prices will affect the Group's income or value of its investments and includes equity price risk. Such changes could include changes to interest rates and foreign exchange.

- **Interest rate risk**

  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 1% change in rates would result in an approximate change to revenues of £300,000 in either direction. The Group has no borrowings.

- **Currrency risk**

  Income

  Although the majority of fees are received in Sterling, certain of those fees are generated from assets based in other currencies, in particular US dollar-based assets.

  In order to hedge against the risk associated with these fees, the Group enters into a number of forward foreign currency contracts over a period of 15 months. At the year end, the Group had four open contracts to sell a total of US$4,000.000 (2008: £10,000,000) for a total of £2,790,530 (2008: 5,050,888).

  These cash flow hedges were assessed to be highly effective in the year.

  Other financial assets consist of the fair valuation of hedging contracts. These contracts are based entirely in US dollars.

  Assets and liabilities

  At the balance sheet date the Group currently had foreign branch offices in Tokyo, Kiev and Singapore (dormant). None of these sites are fee generating, and funds to cover the day to day running of these operations are remitted as required. Minima! cash balances are held in foreign currencies.

A summary of foreign-currency denominated financial assets and liabilities can be seen in the table below.

Tables

	Assets 2009 £'000	Assets 2008 £'000	Liabilities 2009 £'000	Liabilities 2008 £'000
US Dollar	43	84	–	–
CAD Dollar	–	20	–	–
Japanese Yen	24	39	–	–
Singapore Dollar	31	30	2	170
Russian Rubles	–	10	–	–
Total	98	183	2	170

Represented by:

	Assets 2009 £'000	Assets 2008 £'000	Liabilities 2009 £'000	Liabilities 2008 £'000
Cash balances	85	49	–	–
Fixed assets	–	7	–	–
Receivables	13	80	–	–
Trade and other payables	–	–	2	170
Other financial assets	–	47	–	–
Total	98	183	2	170

Currency changes in relation to foreign currency denominated finanical assets and liabilities are not material to the group.

Equity price risk

The Group holds available-for-sale financial assets consisting of investments in its own funds, which are sensitive to movements in market equity prices. 77% (2008: 80%) of these investments are held in absolute return funds, which are designed to hedge against market risk.

Should the market move by 10%, and all the funds (and hence the investments) move by this same amount however, it would result in a change to the carrying value of the assets of £1.17m (2008: £1.28m). This movement would be recognised in the fair value of the asset through equity, unless it was deemed to be an impairment in value, when it would be recognised in the income statement.

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 notes 16 to 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. Throughtout the year the Group and Company held surplus capital over the regulated requirement.

Notes to the financial statements

for the year ended 31 March 2009 continued

22 Related party transactions

1) Group

Transactions between the Company and its subidiaries, 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 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 £2,917,985 (2008: £3,617,768). The amounts receivable at year end in this respect were £433,513 (2008: £509,748).

At the end of the year, the Group had an outstanding loan due of £870,902 (2008: £557,804) 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 £1,881,180 (2008: £4,084,165) relates primarily to outstanding dividends, with other small items making up the balance. The credit balance of £629,506 (2008: nil) 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. Further details are included in Note 4 which details staff costs.

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Short-term employee benefits and partnership profit allocations	1,107	1,117

At the end of the year, the Group had balances owing to or in regards to key personnel of £349,877 (2008: £630,833). This amount is made up of £309,877 in relation to profit allocations from Polar Capital LLP and £40,000 owed to other companies for the services of Non-executive Directors.

Options to acquire ordinary shares held by the Directors during the year ended 31 March 2009 are shown in the table on page 36 (note 5).

Included within the share-based payments charge disclosed in note 20, is an amount of £8,698 (2008: £12,073) relating to key management personnel.

Shareholder information and advisers

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4235369

Registered office
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Telephone
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Website
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Company Secretary
Neil Taylor

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder helpline
0871 384 2476
(Calls to this number are charged at 8p per minute from a BT landline. Other telephone provider costs may vary.)

Website
www.shareview.co.uk

Shares
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

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

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 or in writing.

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:

Website
www.sharegift.org

Telephone
Tel: 020 7930 3737

Or contact the Company's Registrars.

Key dates

First interim dividend
For the financial year ended 31 March 2009

Amount
1.0p per ordinary share

Ex-dividend date
24 December 2008

Record date
30 December 2008

Payment date
20 January 2009

Second interim dividend
For the financial year ended 31 March 2009

Amount
3.5p per ordinary share

Ex-dividend date
15 July 2009

Record date
17 July 2009

Payment date
7 August 2009

Annual General Meeting
10 September 2009

POLAR
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