Polar Capital Holdings plc

Annual Report & Accounts 2013

Year ended
2013

POLAR CAPITAL

Contents

Who We Are

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

Founded in 2001, Polar Capital currently has 85 employees of whom 43 are investment professionals managing 20 funds and 7 managed accounts.

The Company is AIM quoted following its initial public offering in February 2007. Consistent with the Company's founding strategy of fostering an equity culture amongst its employees and providing high levels of transparency to clients, 37% of the equity is currently held by Directors, founders and employees.

Strategy

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

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

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

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

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

Polar Capital at a Glance

Financial Highlights

- Net inflows every quarter over the financial year, despite turbulent markets, with Assets under Management ("AUM") at 31 March 2013 up 42% to US$7.2bn (2012: US$5.08bn)
- Core operating profit excluding performance fees up 41% to £10m (2012: £7.1m)
- Profit before share-based payments and amortisation of intangibles of £16.8m (2012: £11.3m)
- Pre-tax profit £15.3m (2012: £9.6m)
- Basic earnings per share up 58% to 14.95p (2012: 9.48p) and adjusted* diluted earnings per share up 47% to 14.77p (2012: 10.06p)
- Dividends for the year up 44.4% to 13.0 per share (2012: 9.0p) including a second interim dividend of 11.0p per ordinary share to be paid on 9 August 2013 to shareholders on the register on 12 July 2013
- Shareholders' funds £53.8m (2012: £46.6m) including cash and investments of £62.1m (2012: £49m)
- Current AUM at 31 May 2013 of US$8.8bn

Corporate Highlights

- Two new funds launched during the period; the Global Alpha Fund and the Japan Alpha Fund further diversifying the number of strategies offered to investors
- Intention to launch a Global Financials Investment Trust post year end, utilising expertise gained through the acquisition of HIM Capital in 2010

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

Our funds/strategies at a Glance

Assets Under Management

	As at 31 March 2013 $m	As at 31 March 2012 $m
Technology	**1,255**	**1,481**
Technology Trust plc	823	837
Global Technology UCITS Fund	432	644
Japan	**2,389**	**1,517**
Japan UCITS Fund (including managed accounts run off the same strategy)	2,375	1,517
Japan Alpha UCITS Fund [A]	14	–
UK	**261**	**282**
UK Hedge Fund	–	9
UK Absolute Return UCITS Fund	36	35
UK Managed Accounts	225	238
Europe	**700**	**618**
European Forager Hedge Fund	528	499
European Conviction Hedge Fund	172	119
Healthcare	**616**	**347**
Global Healthcare Growth & Income Trust plc	228	180
Healthcare Opportunities UCITS Fund	388	167
Financials	**669**	**497**
Asian Financials UCITS Fund	73	57
Global Insurance UCITS Fund	485	352
Financials Income UCITS Fund	89	73
Financial Opportunities UCITS Fund	22	15
Emerging Markets	**571**	**149**
Emerging Markets Growth UCITS Fund (including managed accounts run off the same strategy)	195	107
Emerging Markets Income UCITS Fund	376	42
ALVA Global Convertible Hedge Fund	**40**	**39**
North American UCITS Fund	**637**	**137**
European Market Neutral Fund	**59**	**16**
European Market Neutral Hedge Fund	18	11
European Market Neutral UCITS Fund	41	5
Global Alpha UCITS Fund [B]	**11**	**–**
Total	**7,208**	**5,083**

A: Japan Alpha UCITS Fund was launched in November 2012
B: Global Alpha UCITS Fund was launched in December 2012

Analysis of Changes in Asset Types for the 12 Months to 31 March 2013

	Long $m	Hedge $m	Total $m
Total assets as at 31 March 2012	4,365	718	5,083
Net subscriptions/(redemptions)	1,533	85	1,618
Performance and currency movements	473	34	507
Total assets as at 31 March 2013	**6,371**	**837**	**7,208**

Chairman's Statement

Tom Bartlam
Chairman

I am pleased to report further significant progress by your Company in the financial year ended 31 March 2013. Assets under management (AUM) increased 42% over the year driven by strong inflows into a number of our funds and the improvement in most major markets in the latter half of our financial year.

Results

Pre-tax profits before share based payments and intangible asset amortisation/impairment increased from £11.3m to £16.8m with core pre-tax profit increasing from £7.1m to £10.0m. Net performance fees increased from £4.1m to £5.5m, our twelfth successive year of generating such fees.

Our balance sheet remains strong with gross cash and investments of £62.1m.

Market Background

In my outlook last year I expected another turbulent year and so it proved!

The opening months of our financial year saw markets fall sharply as the Euro saga came back to centre stage with renewed worries over the debt levels and economic contraction of the southern European countries with Greece in particular causing renewed alarm.

Markets recovered some ground over the summer months with the US Federal Reserve continuing with its aggressive program of quantative easing, the global economic news outside of Europe proving more encouraging than investors had thought and corporate earnings showing surprising resilience.

The recovery in markets was underwritten by the President of the European Central Bank, Mario Draghi, with his unprecedented statement on the 26 July that his institution would do "whatever it takes" to preserve the Euro, adding: "believe me, it will be enough." This led to a rally in the troubled bond markets of the key southern European states and encouraged further advances in the equity markets.

Apart from a few wobbles in the autumn ahead of the US Presidential election and the once in a decade change of leadership in China, many of the major equity markets continued to climb through the end of our financial year.

Over the twelve months the FTSE All Share Index increased 16.8% and the Morgan Stanley World Index increased 12.5%.

The most spectacular change in fortunes though came in Japan, where the newly elected Prime Minister Mr Abe embarked on an ambitious and radical three point strategy to reverse two decades of stagnation and deflation. The three 'arrows', as Mr Abe terms his plan, are fiscal expansion, monetary supply expansion and supply side reforms. The most striking of the three 'arrows', and the one that has had an instant impact on the stock market, has been the adoption by the Bank of Japan of a 2% inflation target and a commitment to double the monetary base to achieve this objective. This extreme increase in liquidity has weakened the Yen, a key objective of the plan, and has ignited the stock market on which many investors both domestically and international had given up hope.

The size of the move has been quite breathtaking, with the Nikkei 225 Index increasing over 45% from a recent low on the 12 October to the close of our financial year and has continued to make further significant gains in the opening months of our new financial year. Even allowing for the weakness of the Yen, the strength of the Japanese market has had a significant impact on the assets of our Japanese team and our overall AUM level.

Funds and Performance

We enjoyed another year of strong net inflows into our funds with net subscriptions of $1,618m, of which $1,553m was into our long-only products.

Interest in Japan picked up markedly after the changes in policy there and we saw significant inflows into our award winning Japanese fund. Flows have continued to be strong in the opening months of our new financial year. We are also starting to see some inflows into our Japan Alpha fund which we launched in November.

Although Japan has been the 'stand out' in terms of inflows, we also saw strong flows into a good number of our other long-only funds including North America, Global Emerging Markets Income, Healthcare Opportunities and Global Insurance.

The performance of our long-only funds remains strong as summarised in the table below:

Fund	1 Year Quartile	3 Years Quartile	5 Years Quartile
Japan Fund	4	1	1
Healthcare Opportunities	1	1	2
Emerging Markets Growth	3	–	–
Emerging Markets Income	1	–	–
Asian Financial	1	1	1
Financial Opportunities	2	–	–
Financials Income	1	1	–
Global Insurance	1	1	1
Global Technology	3	2	1
North America	2	–	–
Global Alpha	–	–	–

Source Lipper

On the alternative side, performance remained somewhat mixed with good returns being delivered by our two long/short European products, further building on their long term track record. Our Global Convertibles fund also had another solid year and has got off to a strong start in 2013.

The UK fund had another indifferent year and our European Market Neutral funds were also disappointing.

We did record net positive inflows for the twelve months on our hedge funds although nothing like the magnitude of our long-only business. We are though encouraged by the improvement in flows on this side of our business and are hopeful further flows will be seen in our new financial year for the European Conviction fund and the ALVA Global Convertibles fund.

Awards

We received a good number of awards at the fund level during the year. We were also delighted to be awarded the Specialist Fund Group of the Year at the inaugural S&P IQ Awards in the summer.

Developments

We launched our first fund specifically targeted at the institutional market with the launch of the Global Alpha fund in November. Given the long lead times in developing business in the institutional market we would not expect any significant inflows for the fund until late 2015/early 2016, although over the medium term this represents another exciting initiative for the Company.

Post our year end we have announced the intention to launch a Global Financials Investment Trust utilising the expertise we gained through the acquisition of HIM Capital in 2010. As with our Healthcare Investment Trust launch in 2010, we see an interesting investment opportunity in a sector that has fallen out of favour with investors but where we see tangible signs of improvement in the fundamentals.

Chairman's Statement continued

Dividend
The Board believes that the level of cash dividend should reflect the Company's trading results, its cash resources and also its future prospects. In light of results to 31 March 2013 and the continued confidence in the future of the business the Board has declared a second interim dividend of 11.0p (2012: 7.5p) to be paid in August 2013. Together with the interim dividend of 2p paid in January 2013 the total dividend for the year amounts to 13.0p.

Outlook
One would expect the equity markets to consolidate near term given the extent of recent gains. The inflation outlook for now appears subdued, interest rates are unlikely to rise for some considerable time yet and whilst the European economic issues remain severe, continued steady growth in the rest of the world economy looks set to continue, with the USA in particular set to benefit enormously from its rapid shift from the world's largest energy importer to a potential energy net exporter over the coming years as shale gas developments expand rapidly.

With bond markets looking fully valued unless we again enter into another global recession, equities look set to continue to attract further flows given the enormous injections of liquidity by the Bank of Japan and the continued accommodative stance of both the US Federal Reserve and the European Central Bank.

While the outlook for equity markets appears benign the continued recovery is still relatively fragile and dependent on continuing QE and no major political or economic shocks to upset their progress. Should there be any meaningful shift in these benign conditions then we could see a reversal of the recent growth.

We have entered the new financial year with continued strong growth in AUM which rose from US$7.2bn to US$8.8bn at the end of May and have a wider selection of funds and a broader client base. We regard the sequential growth in AUM over the recent quarters as quite exceptional and should caution against expecting the same rate of growth to continue. We are however, optimistic on the outlook for our business and the achievement of further growth in AUM and profits in the current financial year and, assuming our strong investment performance can be maintained, we believe we are well positioned to benefit from any further gains in global equity markets.

Annual General Meeting
The Annual General Meeting will again this year be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN at 2.30pm on Tuesday 23 July 2013 and I would encourage shareholders to attend to meet the Directors. Full details of the meeting are given in the separate Notice of Annual General Meeting.

Tom Bartlam
Chairman

13 June 2013

Chief Executive's Report

Tim Woolley
Chief Executive

This is now my fourth year of writing to you since I took over as Chief Executive in November 2009 and we continue to execute on the strategy that I set out at that time and despite having travelled a long way since then I see no reason to change course.

We remain committed to fundamentally researched active management believing that done well it produces far superior investment outcomes for clients than the increasing array of 'cheap' passive strategies. We take a somewhat Germanic view of life in our role as a 'manufacturer of investment product' – we do not seek to make the cheapest product but rather a premium product whose performance more than compensates for the higher initial price.

It is encouraging that as our Chairman's review of the year's results has shown, we are finding an increasing number of clients both in the UK and overseas whose primary focus is to identify products that provide the best investment outcomes for their clients. Where there are such variations in the performance of products or services as in investment management, it is unusual to find that the cheapest product or service delivers the best long term outcome to the client.

We will continue to focus on the premium end of the market where our interests are aligned with our clients and continue to deliver investment products that deliver differentiated and superior returns over the medium and longer term. It is encouraging to note that 12 out of our 14 long only funds have outperformed their index net of all charges since launch and all of the funds that have been open three years or more have outperformed their benchmarks net of all charges, most by a significant margin.

Returning to our strategy for further growth it remains centred on the following four initiatives:

1) Further increase the assets in our existing funds to their investment capacity limit.

2) Launch additional investment driven products from existing teams.

3) Seek to recruit or acquire high quality active investment managers and teams either as additions to existing teams or through the establishment of additional strategies.

4) Invest further in our distribution capability both in our home market of the UK and our targeted overseas markets of Europe and North America.

I am encouraged by the progress we have made not just over the last twelve months but over the last three and half years and despite the significant growth we have achieved, I believe our opportunity today is greater than at any point in our twelve year history.

When I first wrote to you in March 2010 we had six investment teams, today we have eleven. Of the six teams we had in 2010 only three had assets in their strategy of $500m or over whilst today we have seven strategies with assets over $500m and all seven have the capacity to run several billion dollars.

Our original goal was to have ten to twelve world class investment teams all making a significant contribution to the Company. Today we have eleven teams but only seven of the teams are currently making a contribution to corporate profitability.

Chief Executive's Report continued

I think we have certainly demonstrated we are prepared to take the long term view when choosing and backing our investment teams. The Japanese team has been with us almost since the founding days of Polar, joining us in April 2001. The team has always made a significant contribution to corporate profitability although Japan has never enjoyed much popularity with investors until recently.

We added our Healthcare team over five years ago when the sector was very much out of favour and we added our Financials team during the depths of the financial crisis. We are certainly prepared to weather losses on those teams we continue to believe in for the longer term but we do expect over time all of our investment teams to deliver superior performing products to our clients and make a significant contribution to corporate profitability. The upside for shareholders therefore remains substantial if we are able to increase the number of teams making a significant contribution from the current seven to our long term goal of twelve.

We continue to invest in our distribution capability and in client service. Back in November 2009 we had just seven people in distribution and client service, today we have fifteen plus two third party distribution agreements and this number will grow again in this financial year. Our geographic focus remains our home market of the UK, Continental Europe where we have been making significant strides over the last twelve months and the North American market where we have had a long term commitment and focus on our hedge fund side. These three markets will remain our geographic focus for the foreseeable future as there remains substantial opportunity in each of them to grow our client base and assets further.

Finally I would like to thank all our clients for their trust in us and their ongoing support, to thank our shareholders for their loyalty and enthusiasm for what we are trying to achieve and to thank all our Polar people whose skill, dedication, commitment, hard work and enthusiasm has produced such an excellent year. The ongoing commitment and enthusiasm of such an outstanding group of people gives me optimism that we will be able to achieve further success in the years ahead.

T.J.Woolley
Chief Executive Officer

13 June 2013

Financial Review

John Mansell
Finance Director

Profit and Loss account

The Group made a profit (pre tax, pre share-based payments and pre intangible asset amortisation) for the year of £16.8m (2012: £11.3m). The table below summarises the break down of the source of the profits:

	31 March 2013 £'m	31 March 2012 £'m
Core operating profit	10.0	7.1
Performance fee profit	5.5	4.1
Interest and similar income	1.3	0.1
Profit before tax and before share-based payments	16.8	11.3
Share-based payments	(1.0)	(0.6)
Amortisation of intangible assets	(0.5)	(1.1)
Profit before tax	15.3	9.6

The rise in core operating profitability by £2.9m to £10.0m is simply a product of the increase in Assets Under Management. The year saw net core revenues rise by £7.0m and core costs only rise by £4.1m.

The rise in total core operating costs by £4.1m from £21.2m to £25.3m is explained by a number of factors that are tabulated below. Total operating costs include an amount of £7.9m (2012: £5.2m) payable to staff from the Group's gross performance fee receipts. This explains how total operating costs have risen to £33.2m (2012: £26.4m).

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

	31 March 2013 £'m	31 March 2012 £'m
Salaries and bonuses	13.5	11.0
Core distributions	4.8	3.3
Core compensation costs	18.3	14.3
Other operating costs	7.0	6.9
Total core operating costs	25.3	21.2
Performance fee costs	7.9	5.2
Total operating costs	33.2	26.4

Core distributions are formulaically linked to the profitability of the investment teams and it is therefore unsurprising that this cost has increased as profits have risen. The relatively static level of other operating costs provides some confidence in the potential operating leverage of the Group as core management fee revenues rise.

Financial Review continued

Share-based payments

The face of the consolidated income statement includes a line titled "share-based payments" which accounts for a charge of £1.0m (2012: £0.6m). The figures are broken down as follows:

Analysis of the cost of share-based payments:

	31 March 2013 £'m	31 March 2012 £'m
Cost attributed to preference shares	0.3	–
Cost attributed to conventional options	0.7	0.6
Total cost of share-based payments	1.0	0.6

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

	31 March 2013	31 March 2012
Diluted earnings per share	13.1p	8.1p
Impact of share-based payments	1.0p	0.7p
Impact of intangible asset amortisation	0.6p	1.2p
Adjusted diluted earnings per share	14.7p	10.0p

Preference shares

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

In the year to 31 March 2013 no set of preference shares converted into Polar equity (one in 2012). The product of the 2012 event is that a total of 8.2m shares are to be issued of which 5.75m have been issued as at 31 March 2013. The remaining 2.45m shares will be issued on 31 March 2014. Simultaneous to the initial commitment from 1 April 2011 to issue these new shares in Polar Capital Holdings plc the recipient of the shares forfeited a fixed economic interest in the business unit to which the shares were associated amounting to a value of £2.0m per annum.

As at 31 March 2013 two further sets of preference shares have the ability to call for a conversion. The call has to be made on or before 30 November 2013 if any conversion is to take place with effect from 31 March 2013.

Amortisation of intangible assets

On 21 September 2010, the Group acquired 100% of the voting shares of HIM Capital Holdings Limited ("HIM"), a specialist fund manager with an established track record of managing financial funds and with approximately $245m of assets under management, thereby establishing a strong financials sector franchise for the Group. The product of the acquisition was that intangible assets of £1.7m representing the acquired investment management contracts were taken onto the Group's balance sheet (i.e. the consideration above the value of tangible assets purchased). These intangible assets and the associated deferred tax liability / goodwill of £0.4m is being amortised / impaired over a period of two years. This resulted in a charge of £0.5m in this year's accounts (2012: £1.1m).

At the 31 March 2013 the intangible asset and the associated deferred tax liability / goodwill sums had been fully amortised so recording a nil value in the year-end balance sheet.

Balance Sheet and cash

At the year end the cash balances of the Group had increased by £8.3m to £30.9m (2012: £22.6m). The increase was a product of the £20.7m of cash generated from the Group's operating activities (2012: £9.0m), the payment of £7.3m of dividends and £2.2m of tax, and the net investment of £2.9m of cash into investments and investment hedging.

At the balance sheet date the Group held £31.2m of investments in its funds (2012: £26.4m).

At the year end the sum of available for sale investments plus cash was £62.1m (2012: £49.0m).

Business Risk

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

Going Concern

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

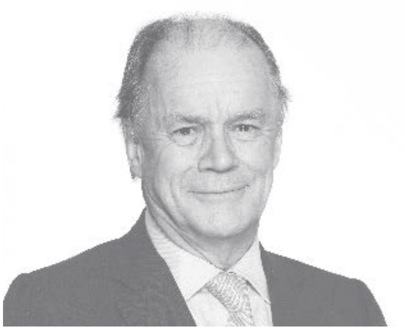
The Directors have reviewed and examined the financial and other processes embedded in the business, in particular the annual budget process and the financial stress testing inherent in the Internal Capital Adequacy Assessment Process ("ICAAP"). On the basis of such review and the significant liquid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

John Mansell
Finance Director

13 June 2013

Board of Directors

Non-executive Chairman and Executive Directors



Tom Bartlam†*^
Non-executive Chairman
Appointed to the Board in July 2007 and became Chairman in September 2007.

Tom was a managing director of Intermediate Capital Group plc which he co-founded from 1989 until his retirement in 2005. He is non-executive Chairman of Pantheon International Participations plc and Miton Income Opportunities Trust plc. Tom is also a non-executive director of Numis Corporation plc.

Tim Woolley
Chief Executive Officer and Founder
Appointed to the Board in 2002 and became chief executive in November 2009.

Tim joined Henderson Global Investor's technology team in 1996 and left with Brian Ashford-Russell to establish Polar Capital in 2001.

John Mansell
Chief Operating Officer and Finance Director
Appointed to the Board in 2002, having joined Polar Capital in 2001.

Prior to joining Polar Capital he spent 11 years at Lazard Asset Management. John is a fellow of the Institute of Chartered Accountants of England and Wales.

Non-executive Directors

Hugh Aldous†^
Non-executive Director and Chairman of the Audit Committee
Appointed to the Board in 2007.

Hugh was a partner in Grant Thornton UK LLP and was formerly a partner in RSM Robson Rhodes from 1976 where he was latterly head of its financial services team. Hugh is Chairman of Capita Sinclair Henderson Ltd and SPL Guernsey ICC Ltd and is a non-executive director of Innospec Inc, Asian Total Return Investment Company plc (formerly Henderson Asian Growth Trust plc), and Elderstreet VCT.

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 the India Capital Growth Fund plc and Chairman of Henderson Smaller Companies Investment Trust plc.

Brian Ashford-Russell†
Non-executive Director and Founder
Appointed to the Board in 2002.

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

George Bumeder*^
Non-executive Director
Appointed to the Board on 8 September 2011.

George is senior vice president of XL Group Investments LLC, a subsidiary of the XL Group plc.

Michael Thomas*^
Non-executive Director
Appointed to the Board in 2008.

Michael was a director of Martin Currie Limited and investment manager of the Japanese team until his retirement in 2007. He is on the board of Japaninvest plc.

† 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 2013.

Principal activities

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

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

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

Business review and future developments

A review of the performance and likely future development of the business of the Company and Group is presented in the Chairman's Statement, Chief Executive's Statement and the Financial Review on pages 4 to 11. Principal risks and uncertainties facing the Group and how they are controlled are described on pages 16 and 17.

The Group's head office is in London and it has offices in Tokyo, Jersey, Connecticut and Switzerland.

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

Results and dividends

The consolidated results for the Group for the year ended 31 March 2013 are shown on page 27. The profit for the year attributable to shareholders was £11.6m compared with £7.1m in 2012.

The Directors have declared two interim dividends in respect of the financial year ended 31 March 2013 amounting to 13.0p per share (2012: 9.0p per share). The first interim dividend of 2.0p per share was paid on 18 January 2013 to shareholders on the register on 4 January 2013. The second interim dividend of 11.0p per share will be paid on 9 August 2013 to shareholders on the register on 12 July 2013. The shares will trade ex dividend from 10 July 2013.

Capital structure

The capital structure of the Company is detailed in Note 17 on page 46. Of the 82,451,741 ordinary shares (2012: 79,327,908) in issue at the year-end, ordinary shares 1,710,365 (2012: 1,986,312) are held by the Trustee of the Polar Capital Employee Benefit Trust for the benefit of the Company and employees. The Trustee has elected to waive all dividends in respect of any ordinary shares held by the Trustee and it does not vote the ordinary shares held by it.

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

During the year the Company issued 3,123,833 ordinary shares of which 2,468,961 ordinary shares were in connection with the crystallisation of the C manager preference shares and 654,872 ordinary shares were to cover 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 AGMs and did not retire by rotation at either of them to retire from office by rotation and all new Directors appointed by the Board are required to seek reappointment by shareholders at the next general meeting of the Company following their appointment.

In accordance with the Articles of Association Mr Bartlam, Mr Aldous, Mr Ashford-Russell, Mr Cayzer-Colvin, Mr Mansell and Mr Woolley all retire from office and being eligible offer themselves for re-election at the Annual General Meeting.

Directors' interests

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

None of the non-executive Directors except for Mr Ashford-Russell have an interest in any contract with the Group or Company. Mr Ashford-Russell is a non-executive director of Polar Capital Technology Trust plc which has contracted with Polar Capital LLP for the provision of investment management services. Details are provided in Note 24 on page 55.

Donations

The charitable payments made during the year to 31 March 2013 amounted to £5,950 to 4 different national and local charities involved with health and welfare (2012: £4,400 to 6 charities).

Creditor payment policy

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

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

Auditors

Ernst & Young LLP have agreed to offer themselves for reappointment as Auditors of the Group in accordance with section 487(2) of the Companies Act 2006 and a resolution requesting approval of their reappointment and to authorise the Directors to determine their remuneration will be presented at the AGM.

Remuneration Code

Disclosure of the group's Remuneration Code will be made along side its Pillar 3 disclosure which is available on the Group's website www.polarcapital.co.uk

Substantial shareholdings

As at 13 June 2013, the Company had received the notices for the purposes of Part 5 of the FCA's Disclosure and Transparency Rules from the undernoted shareholders. The percentage voting rights is calculated based on the number of shares shown in the notice divided by 82,451,741, the number of shares in issue as at 13 June 2013:

	Number of ordinary shares shown in notice	% of voting rights held
Blackrock Inc	8,042,194	9.75
Caledonia Investments PLC	8,016,640	9.72
XL Group plc	8,000,000	9.70
B J D Ashford-Russell	7,000,000	8.49
T J Woolley	6,000,000	7.28
R Gurner	5,972,922	7.24
Artemis Investment Management	3,308,442	4.01

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

Annual General Meeting ("AGM")

The AGM will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN at 2.30pm on Tuesday 23 July 2013. Full details of the resolutions and explanations of each resolution are given in the separate notice of meeting sent to shareholders.

Corporate social responsibility

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

Staff welfare

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

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

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 FCA 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.

Directors' Report Including the Business Review and Corporate Governance Report continued

Principal risks and uncertainties

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

External risks

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

Failure to comply with regulations particularly those issued by the Financial Conduct Authority or the London Stock Exchange could result in the Group losing the ability to operate as a regulated financial services business or its AIM quotation being suspended or withdrawn. The Group's investment activities are regulated primarily by the Financial Conduct 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 Conduct Authority Principles, Rules and Regulations and those issued by the London Stock Exchange to govern the trading of the Company's shares on AIM.

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

Economic and market risk

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

Portfolio risk

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

The Group is subject to the effects of exchange rate fluctuations as Sterling is the Group's reporting currency but the Group's business is often conducted in jurisdictions which generate revenue, expenses and liabilities in other currencies. A summary of the Group's foreign currency exposures as at 31 March 2013 can be seen in Note 22 to the accounts.

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

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

Operational risk

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

The Group's core businesses have in place disaster recovery plans covering current business requirements, which are tested annually and are considered adequate. Suppliers of administration and IT services and other back office functions have disaster recovery plans and business continuity plans. The Group also continues to develop its systems in response to expected growth and increased sophistication in the investment management market. The Board believes that the Group has appropriate financial and management controls in place.

The Board regularly reviews statements on internal controls and procedures and has on an annual basis subjected the books and records of the Company to an annual control audit carried out in accordance with the International Standard ISAE 3402 – Assurance Reports on Controls at a Service Organisation.

Corporate Governance

The Board of Directors recognises the importance of good Corporate Governance and intends that best practice is adopted and applied in so far as it is appropriate for a company and group of its size and stage of development. As an AIM traded Company the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) 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 UK Corporate Governance Code. This report describes how the Company has applied the principles of good corporate governance throughout the year and steps which are being taken to develop the corporate policies.

The Board

Composition

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

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

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

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

Role and responsibilities

The Board as a whole is responsible for the Group's objectives and policies and the proper governance of the Company. The Board meets regularly throughout the year and it met eight times, including Board Committee meetings, in the financial year ended 31 March 2013. It has a formal agenda of items for consideration at each meeting but also convenes at additional times when required.

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

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

Directors' Report Including the Business Review and Corporate Governance Report continued

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

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

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

Conflicts of Interests

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

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

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

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

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

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

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

Directors' appointment, induction and training

All new Directors appointed by the Board are required to seek reappointment by shareholders at the next general meeting of the Company following their appointment and subsequently all Directors are required to retire by rotation in accordance with the Articles.

Under the provisions of the Articles any Director who held office at the two previous AGMs is required to offer himself for reappointment at the next AGM. Mr Bartlam, Mr Aldous, Mr Ashford-Russell, Mr Cayzer-Colvin, Mr Mansell and Mr Woolley all stand for re-appointment under this provision.

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

Board Committees

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

Allotment Committee

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

Audit Committee

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

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

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

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

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

Nomination Committee

The Nomination Committee is chaired by Mr Bartlam and the other members are Mr Aldous, Mr Cayzer-Colvin, Mr Thomas and Mr Bumeder. The Committee is responsible for all aspects of the appointment of Directors, succession planning and appointments to the Board, consideration and recommending the reappointment of retiring Directors of the Company together with evaluation of Directors' performance and effectiveness.

Remuneration Committee

The Remuneration Committee is chaired by Mr Cayzer-Colvin and its other members are Mr Bartlam, Mr Bumeder and Mr Thomas.

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

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

Internal control

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

The Group's fund management activity is regulated by the Financial Conduct Authority of the United Kingdom (FCA) and the Securities Exchange Commission of the USA (SEC) and the Board has adopted procedures and controls designed to ensure its obligations under the FCA Rules and the Financial Services and Markets Act 2000 as well as the SEC Rules and the Investment Advisors Act 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.

Directors' Report Including the Business Review and Corporate Governance Report continued

The Audit Committee, as part of its role, has reviewed and monitored the effectiveness of the internal controls for the year ended 31 March 2013 and concluded that there was a satisfactory process in place to identify and manage such risks.

Relations with shareholders

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

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

By order of the Board

Neil Taylor
Company Secretary

4 Matthew Parker Street
London SW1H 9NP
13 June 2013

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 2013.

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

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

The Chairman reported to the Board on any significant issues.

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

There were no matters brought to the Audit Committee's attention in respect of the 2013 audit which was material or significant or which should be brought to shareholders' attention.

The Audit Committee has recommended the re-appointment of the auditors at the AGM.

Remuneration Committee Report

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

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; and
- recommended salary levels for 2013 and bonus payments for 2012 across the Group.

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

Executive Directors

Appointed terms

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

Remuneration

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

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

	Year ended 31 March 2013 £	Year ended 31 March 2012 £
T J Woolley		
Basic salary	250,000	250,000
Bonus	350,000	175,000
Taxable benefits	2,700	3,300
Pension	20,000	20,000
	622,700	448,300
J B Mansell		
Basic salary	225,000	225,000
Bonus	337,500	125,000
Taxable benefits	4,300	4,800
Pension	18,000	18,000
	584,800	372,800

Further details of Directors' remuneration, disclosable under the Companies Act, are contained in Note 6 on page 40.

Non-executive Directors

Remuneration

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

Appointment terms

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

Remuneration

	Year ended 31 March 2013 £	Year ended 31 March 2012 £
T H Bartlam	70,000	70,000
H G C Aldous	35,000	35,000
B J D Ashford-Russell	59,000	59,800
J M B Cayzer-Colvin*	20,000	20,000
Ms S E Street (retired 8 September 2011)*	–	15,000
Mr. G Bumeder*	20,000	5,000
M Thomas	30,000	30,000
	234,000	234,800

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

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

Directors' interests in the shares of the Company

The interests of those Directors who were in office at 31 March 2013, the end of the financial year and 31 March 2012:

	31 March 2013	31 March 2012
T H Bartlam	50,000	50,000
H G C Aldous	40,000	40,000
B J D Ashford-Russell		
beneficial	6,750,000	7,750,000
non beneficial	250,000	250,000
J M B Cayzer-Colvin	4,250	4,250
J B Mansell		
beneficial	1,712,000	1,720,000
non beneficial	160,000	160,000
G Bumeder	–	–
M Thomas	–	–
T J Woolley	6,000,000	6,500,000

There have been no changes in the interests of the Directors who were in office at 31 March 2013 in the shares of the Company between 31 March 2013 and 13 June 2013.

Options to acquire ordinary shares held by the Directors and changes there to during the year ended 31 March 2013 and up to 13 June 2013 are described below:

T J Woolley

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

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

J B Mansell

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

On 26 July 2011 Mr Mansell was granted a share option over 350,000 ordinary shares at an exercise price of 197.5p per share. The option is not subject to any performance conditions and will become exercisable on the fourth anniversary of grant..

Conditions of option awards

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

Share prices over the financial year

The shares have traded at prices between 167.5p (17 August 2012) and 305p (28 March 2013) per share. The share price on 31 March 2013 was 305p per share.

Statement of Directors' Responsibilities in Relation to the Group's Financial Statements

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

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

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

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

Disclosure of Information to the Auditors

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

Going Concern

The Board assessment of the Group's position as at 31 March 2013 and the factors impacting the forthcoming year are set out in the Chairman's statement, the Chief Executive's statement and in the Directors' Report which incorporates the business review and corporate governance statements.

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

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

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

For the year ended 31 March 2013

We have audited the financial statements of Polar Capital Holdings Plc for the year ended 31 March 2013 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Changes in Equity, and the related notes 1 to 23.The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of Directors and Auditor

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

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

For the year ended 31 March 2013

Opinion on other matter Prescribed by the Companies Act 2006

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

Matters on which we are Required to Report by Exception

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

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

Matthew Price

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

London
13 June 2013

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

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

Consolidated Income Statement
For the year ended 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Revenue	2	51,691	39,940
Finance income	3	1,299	72
Gross income		52,990	40,012
Commissions and fees payable		(2,919)	(2,228)
Net income		50,071	37,784
Operating costs before share-based payments		(33,242)	(26,494)
Operating profit before share-based payments, amortisation/impairment and tax		16,829	11,290
Share-based payments		(941)	(594)
Amortisation/impairment of intangible assets	23	(540)	(1,080)
Profit for the year before tax	4	15,348	9,616
Taxation	7	(3,707)	(2,568)
Profit for the year attributable to ordinary shareholders		11,641	7,048
Basic earnings per ordinary share	9	14.95p	9.48p
Diluted earnings per ordinary share	9	13.11p	8.13p
Adjusted earnings per ordinary share (Non GAAP measure)	9	14.77p	10.06p

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

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Profit for the year attributable to ordinary shareholders		11,641	7,048
Other comprehensive income			
Net gain/(loss) on the revaluation of available-for-sale financial assets	3.2	6	(124)
Deferred tax effect		(1)	34
		5	(90)
Net movement on cash flow hedges	3.2	(1,009)	(22)
Current tax effect		55	72
Deferred tax effect		204	(78)
		(750)	(28)
Total comprehensive income for the year, net of tax, attributable to ordinary shareholders		10,896	6,930

The notes on pages 32 to 55 form part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Non-current assets			
Property, plant and equipment	10	85	71
Intangible assets	23	–	540
Deferred tax assets	15	4,140	1,711
Total non-current assets		4,225	2,322
Current assets			
Available-for-sale financial assets	11	31,246	26,426
Trade and other receivables	13	7,216	5,107
Cash and cash equivalents	14	30,940	22,583
Other financial assets	11	–	158
Total current assets		69,402	54,274
Total assets		73,627	56,596
Non-current liabilities			
Deferred tax liabilities	15	24	206
Current liabilities			
Trade and other payables	16	16,113	8,493
Other financial liabilities	11	1,068	–
Current tax liabilities		2,659	1,299
Total current liabilities		19,840	9,792
Total liabilities		19,864	9,998
Net assets		53,763	46,598
Capital and reserves			
Issued share capital	17	2,062	1,983
Share premium		16,094	16,010
Investment in own shares		(1,017)	(1,107)
Capital and other reserves		3,848	2,135
Retained earnings		32,776	27,577
Total equity – attributable to ordinary shareholders		53,763	46,598

The notes on pages 32 to 55 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 13 June 2013.

Hugh Aldous
Chairman of the Audit Committee

John Mansell
Finance Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

	Share capital £'000	Share premium £'000	Own shares £'000	Capital reserves £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
As at 1 April 2011	1,895	15,905	(1,167)	363	880	25,476	43,352
Profit for the year	–	–	–	–	–	7,048	7,048
Other comprehensive income	–	–	–	–	(118)	–	(118)
Total comprehensive income	–	–	–	–	(118)	7,048	6,930
Dividends	–	–	–	–	–	(5,541)	(5,541)
Issue of shares	6	105	60	–	–	–	171
Issue of share capital against preference shares	82	–	–	(82)	–	–	–
Share-based payment	–	–	–	–	–	594	594
Current tax in respect of employee share options	–	–	–	–	129	–	129
Deferred tax in respect of employee share options	–	–	–	–	963	–	963
As at 1 April 2012	1,983	16,010	(1,107)	281	1,854	27,577	46,598
Profit for the year	–	–	–	–	–	11,641	11,641
Other comprehensive income	–	–	–	–	(745)	–	(745)
Total comprehensive income	–	–	–	–	(745)	11,641	(10,896)
Dividends	–	–	–	–	–	(7,372)	(7,372)
Issue of shares	17	84	90	–	–	(11)	180
Issue of share capital against preference shares	62	–	–	(62)	–	–	–
Share-based payment	–	–	–	–	–	941	941
Current tax in respect of employee share options	–	–	–	–	311	–	311
Deferred tax in respect of employee share options	–	–	–	–	2,209	–	2,209
As at 31 March 2013	2,062	16,094	(1,017)	219	3,629	32,776	53,763

The notes on pages 32 to 55 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2013

	Notes	31 March 2013 £'000	31 March 2012 £'000
Cash flows generated from operating activities			
Cash generated from operations	20	20,665	8,985
Tax paid		(2,172)	(3,083)
Net cash inflow generated from operating activities		18,493	5,902
Investing activities			
Interest received and similar income		(123)	12
Purchase of property, plant and equipment		(60)	(49)
Proceeds from sale of available-for-sale financial assets		30,915	24,745
Purchase of available-for-sale financial assets	11	(33,676)	(21,851)
Net cash outflow used in investing activities		(2,944)	2,857
Financing activities			
Equity dividends paid	18	(7,372)	(5,541)
Issue of share capital		90	111
Receipts in relation to investment in own shares		90	60
Net cash outflow from financing activities		(7,192)	(5,370)
Net increase/(decrease) in cash and cash equivalents		8,357	3,389
Cash and cash equivalents at start of the year		22,583	19,194
Cash and cash equivalents at end of the year		30,940	22,583

The notes on pages 32 to 55 form part of these financial statements.

Company Balance Sheet

At 31 March 2013

	Notes	31 March 2013 £'000	31 March 2012 £'000
Fixed assets			
Investments	12	1,017	1,017
Current assets			
Debtors	13	26,184	26,023
Cash and short-term deposits		63	141
		26,247	26,164
Creditors – amounts falling due within one year			
Corporate tax payable		–	8
Other creditors		42	41
		42	49
Net current assets		26,205	26,115
Net assets		27,222	27,132
Capital and reserves			
Called up share capital	17	2,062	1,983
Share premium account	17	16,094	16,010
Retained earnings	17	9,542	9,542
Reserves	17	(476)	(403)
Shareholders' funds		27,222	27,132

The notes on pages 32 to 55 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2013

1 Principal Accounting Policies

General

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

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, assets at fair value through profit or loss and derivative financial instruments that have been measured at fair value.

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

Basis of consolidation

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

Business combinations

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment on an annual basis and any impairment losses are charged to the income statement.

Intangible assets

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

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

Fixed assets

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

Depreciation is charged on a straight line basis as follows:

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

Impairment of non-financial assets

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

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

Financial instruments

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

Financial assets

Initial recognition and measurement

Financial assets are initially recognised at fair value, being the consideration given, plus, any directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss where transaction costs are immediately recognised in the consolidated income statement. Purchases and sales of financial assets are recognised at trade date, being the date when the Group commits to purchase or sell the asset.

Subsequent measurement

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried on the Balance Sheet at fair value with net changes in fair value recognised in the income statement.

Notes to the Financial Statements continued

For the year ended 31 March 2013

1 Principal Accounting Policies continued

Trade and other receivables

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

Cash and cash equivalents

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

Financial liabilities

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

Derivative financial instruments and hedge accounting

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques such as using recent arm's length market transactions.

Trade and other payables

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

Pensions

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

Income recognition

Revenue

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

Interest receivable and similar income

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

Commissions and fees payable

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

Operating leases

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

Taxation

Current tax

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

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

Deferred tax

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

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

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

Share-based payments

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

Notes to the Financial Statements continued

For the year ended 31 March 2013

1 **Principal Accounting Policies** continued

Foreign currency/translation

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

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

All exchange differences are taken to the income statement.

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

Dividend recognition

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

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds.

Own shares held

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

Segment reporting

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

Judgements and key sources of estimation uncertainty

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

Share-based payments

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

Deferred tax

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

Impairment of available for sale financial assets

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

Consolidation of seed investments

The Group has a number of seed investments in funds that it manages. Management have concluded that the Group does not control the underlying funds and therefore has not consolidated these funds in its financial statements.

Future changes in accounting policy

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods, but the Group has decided not to early adopt them:

	Standards issued or revised but not yet effective	Effective for period beginning on or after
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2013

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

2. Operating Segments

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

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

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

	31 March 2013 £'000	31 March 2012 £'000
UK	6,281	9,145
Ireland	24,686	19,103
Cayman	18,968	10,221
Europe	1,798	1,332
(Loss)/profit on forward currency contracts	(42)	139
	51,691	39,940

Notes to the Financial Statements continued

For the year ended 31 March 2013

2. Operating Segments continued

2.2 Analysis of income by type of fees

	31 March 2013 £'000	31 March 2012 £'000
Investment management fees	38,122	30,284
Investment advisory fees	150	200
Investment performance fees	13,461	9,317
Loss/(profit) on forward currency contracts	(42)	139
	51,691	39,940

3. Other Income

3.1 Finance income

	31 March 2013 £'000	31 March 2012 £'000
Interest income on cash and cash equivalents	9	7
Net loss on financial instruments at fair value through profit or loss	(494)	34
Net realised (loss)/ gain on forward currency contracts	(327)	5
Net realised gain on available for sale assets	2,111	26
	1,299	72

3.2 Components of other comprehensive income

	31 March 2013 £'000	31 March 2012 £'000
Available for sale financial assets:		
Gains/(losses) arising during the year	2,117	(98)
Reclassification adjustments for gains included in the income statement	(2,111)	(26)
	6	(124)
Cash flow hedges – Forward currency contracts:		
(Losses)/gains arising during the year	(1,378)	122
Reclassification adjustments for losses/(gains) included in the income statement	369	(144)
	(1,009)	(22)

No ineffective gains or losses arose on cash flow hedges during the year.

4. Profit Before Taxation

4.1 This is stated after charging:

	31 March 2013 £'000	31 March 2012 £'000
Staff costs including partnership profit allocations	26,893	20,067
Depreciation	46	36
Auditors' remuneration (Note 4.2)	129	144
Operating lease rentals – land and buildings	817	817
Operating lease rentals – other	761	681

4.2 Auditors' remuneration:

	31 March 2013 £'000	31 March 2012 £'000
Audit of Group financial statements	43	40
Other fees		
– local statutory audits of subsidiaries	33	33
– tax advisory services	8	21
– internal controls review	45	50
Auditors' remuneration	129	144

5. Staff Costs Including Directors' Emoluments

	31 March 2013 £'000	31 March 2012 £'000
Salaries	9,682	8,504
Social security costs	731	735
Pension costs	337	388
Partnership profit allocations	15,490	9,846
Share-based payments (Note 21)	941	594
	27,181	20,067

Pension costs outstanding at the year-end amounted to nil (2012: nil).

	31 March 2013	31 March 2012
Average number of partners and full time employees, including executive directors:		
Fund Management	42	37
Administration	41	35
	83	72

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

Notes to the Financial Statements continued

For the year ended 31 March 2013

6. Directors' Emoluments

	31 March 2013 £'000	31 March 2012 £'000
Total emoluments including partnership profit allocations	1,403	1,018
Company contributions to money purchase pension schemes	38	38
The amounts in respect of the highest paid Director are as follows:		
Emoluments	603	428
Company contributions paid to money purchase scheme	20	20

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

	31 March 2013	31 March 2012
Defined contribution scheme	2	2

The total remuneration paid to executive directors who served during the year is disclosed in the Remuneration Committee Report on page 23.

Director's emoluments include both salaries and partnership profit allocations earned through Polar Capital LLP. Also included are sums paid to third parties in respect of Directors' services amounting to £40,000 (2012: £40,000).

7. Taxation

With effect from 1 April 2012 the UK corporation tax rate changed from 26% to 24%.

The major components of Corporation tax for the years ended 31 March 2013 and 2012 are:

	31 March 2013 £'000	31 March 2012 £'000
UK Corporation tax:		
UK Corporation tax on profits of the year	4,174	3,020
Adjustments in respect of prior periods	(258)	(132)
Total current tax	3,916	2,888
Foreign Tax:		
Current year	(8)	17
Deferred tax:		
Originating and reversal of temporary differences	(218)	(364)
Rate change adjustment	17	27
Total tax	3,707	2,568

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 24% (2012: 26%). The differences are reconciled below:

	31 March 2013 £'000	31 March 2012 £'000
Profit on ordinary activities before taxation	15,406	9,616
Tax on profit on ordinary activities at standard rate of 24% (2012: 26%)	3,689	2,500
Adjustments in respect of prior periods	(270)	(132)
Rate change adjustment	10	26
Disallowed expenses	247	195
Other – share-based payments	31	(21)
Total tax	3,707	2,568

8. Subsidiary Undertakings

Details of the Company's subsidiary undertakings as at 31 March 2013 are as follows:

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

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

9. Earnings Per Ordinary Share

The calculation of basic earnings per ordinary share is based on the profit for the year of £11,640,700 (2012: £7,047,837) and 77,847,031 (2012: 74,379,559) 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 £11,640,700 (2012: £7,047,837) and 88,823,800 (2012: 86,653,207) ordinary shares, being the weighted average number of ordinary shares allowing for all options of 8,507,871 (2012: 7,335,892) which are dilutive.

The calculation of adjusted earnings per ordinary share is based on profit for the year of £11,640,700 but adjusted for the cost of share-based payments of £940,800, amortisation of intangibles of £428,000 and impairment of goodwill of £111,410 (2012: profit of £7,047,837 adjusted for the cost of share-based payments of £593,800, amortisation of intangibles of £857,000 and impairment of goodwill of £222,820) and 88,823,800 (2012: 86,653,207) ordinary shares being the weighted average number of ordinary shares allowing for all dilutive options.

As at 31 March 2013, the fully diluted number of ordinary shares which would be in issue is 91,718,200 shares, if all outstanding options were exercised.

Notes to the Financial Statements continued

For the year ended 31 March 2013

10. Tangible Fixed Assets

2013	Office Furniture £'000	Computer Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost				
As at 1 April 2012	169	473	711	1,353
Additions	12	48	–	60
Disposals	–	–	–	–
As at 31 March 2013	181	521	711	1,413
Depreciation				
As at 1 April 2012	160	426	696	1,282
Charge for the year	7	33	6	46
Disposals	–	–	–	–
As at 31 March 2013	167	459	702	1,328
Net book value at 31 March 2013	14	62	9	85

2012	Office Furniture £'000	Computer Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost				
As at 1 April 2011	160	436	701	1,297
Additions	9	37	10	56
Disposals	–	–	–	–
As at 31 March 2012	169	473	711	1,353
Depreciation				
As at 1 April 2011	157	405	682	1,244
Charge for the year	3	21	14	38
Disposals	–	–	–	–
As at 31 March 2012	160	426	696	1,282
Net book value at 31 March 2012	9	47	15	71

11. Financial Assets and Liabilities

1) Available-for-sale financial assets

	31 March 2013 £'000	31 March 2012 £'000
At beginning of year	26,426	29,418
Purchases	33,676	21,851
Redemptions	(28,862)	(24,719)
Net movement in fair value	6	(124)
At end of year	31,246	26,426

The Group's available-for-sale financial assets are investments in the funds it manages all of which are listed. The fair value of available for sale financial assets are derived from quoted market prices in active markets.

2) Other financial assets and liabilities

Other financial assets	31 March 2013 £'000	31 March 2012 £'000
Financial instruments at fair value through other comprehensive income		
Cash flow hedges		
Foreign exchange forward contracts	–	123
Financial instruments at fair value through profit or loss		
Securities	–	35
	–	158

Other financial liabilities	31 March 2013 £'000	31 March 2012 £'000
Financial instruments at fair value through other comprehensive income		
Cash flow hedges		
Foreign exchange forward contracts	608	–
Financial instruments at fair value through profit or loss		
Securities	460	–
	1,068	–

Financial instruments at fair value through other comprehensive income consist of the fair value movement in foreign currency hedges taken out by the Group, as described in note 22.

Financial instruments at fair value through profit or loss reflect the change in fair value of short positions of securities used to hedge fair value changes in the Group's seed investments. Such hedges are not designated as fair value hedges for hedge accounting purposes.

Notes to the Financial Statements continued
For the year ended 31 March 2013

12. Investment

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

13. Trade and Other Receivables

	31 March 2013 Group £'000	31 March 2013 Company £'000	31 March 2012 Group £'000	31 March 2012 Company £'000
Trade debtors	6,143	–	4,312	–
Other receivables	305	26,184	340	26,023
Prepayments and accrued income	768	–	455	–
Total	7,216	26,184	5,107	26,023

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

14. Cash and Cash Equivalents

	31 March 2013 £'000	31 March 2012 £'000
Cash at bank and in hand	30,940	22,583
	30,940	22,583

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents at year end is £30,939,867 (2012: £22,582,195).

15. Deferred Taxation

Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012 and substantially enacted on 3 July 2012. Accordingly, deferred tax balances have been revalued to the lower rate of at 23% for the purposes of these financial statements.

The rate will eventually be reduced to 21% with effect from 1 April 2014 with a further 1% reduction from 1 April 2015. These further reductions have not yet been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

	31 March 2013 Group £'000	31 March 2012 Group £'000
Deferred tax asset		
At beginning of year	1,711	640
Deferred tax on share-based payments	2,289	1,090
Capital allowances	(10)	(13)
Deferred tax on other financial assets and liabilities	132	(6)
Prior year adjustment	18	–
At end of year	4,140	1,711

Deferred tax assets at year end consist of deferred tax on share based payments of £3,997,000 (2012: £1,690,000), on other financial assets and liabilities of £132,000 (2012: £nil) and capital allowance of £11,000 (2012: £21,000).

	31 March 2013 Group £'000	31 March 2012 Group £'000
Deferred tax liabilities		
At the beginning of year	206	391
Deferred tax on intangible assets	(111)	(223)
Deferred tax on available-for-sale financial assets	1	(34)
Deferred tax on financial assets and liabilities	(72)	72
At end of year	24	206

The deferred tax liability at year end consists of deferred tax on intangible assets of £nil (2012: £111,000), deferred tax on other financial assets and liabilities of £nil (2012: £72,000) and deferred tax on unrealised gains on available for sale assets of £24,000 (2012: £23,000) in relation to tax on unrealised gains.

16. Trade and Other Payables

	31 March 2013 Group £'000	31 March 2013 Company £'000	31 March 2012 Group £'000	31 March 2012 Company £'000
Corporate tax payable	–	–	–	8
Other creditors	12,672	42	4,933	41
Accruals and deferred income	3,441	–	3,560	–
Total	16,113	42	8,493	49

Notes to the Financial Statements continued

For the year ended 31 March 2013

17. Issued Share Capital and Reserves

1) Issued share capital

Group and Company

	31 March 2013 £'000	31 March 2012 £'000
Authorised		
Comprising 200,000,000 ordinary shares of 2.5p each	5,000	5,000
Allotted, called up and fully paid:		
82,451,741 ordinary shares of 2.5p each		
(2012: 79,327,908 ordinary shares of 2.5p each each)	2,062	1,983

The increase in share capital arises from 654,872 shares issued on exercise of employee share options as well as the issue of 2,468,961 shares in connection with the crystallisation of manager preference shares as described in Note 21.

2) Nature and purpose of reserves

Share premium

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

Own shares held

The Group has made a loan to the Polar Capital Employee Benefit Trust to enable it to acquire ordinary shares in Polar Capital Holdings plc. The assets of the Employee Benefit Trust are included on the Group's Balance Sheet and the investment in own shares (held at cost) is deducted from equity as required by IAS32. At 31 March 2013 there were shares of 1,710,365 at 2.5p each (2012: 1,986,312 shares of 2.5p each) held by the Employee Benefit Trust.

Capital reserves

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

Other reserves

Other reserves relate to movements in:

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

Company	Share capital £'000	Share premium account £'000	Retained earnings £'000	Reserves £'000	Total £'000
As at 1 April 2011	1,895	15,905	9,542	(321)	27,021
Issue of shares	88	105	–	(82)	111
Dividends	–	–	(5,541)	–	(5,541)
Profit for the year	–	–	5,541	–	5,541
As at 1 April 2012	1,983	16,010	9,542	(403)	27,132
Issue of shares	79	84	–	(73)	90
Dividends	–	–	(7,372)	–	(7,372)
Profit for the year	–	–	7,372	–	7,372
As at 31 March 2013	2,062	16,094	9,542	(476)	27,222

18. Dividends Paid and Proposed

Dividends on ordinary shares declared and paid during the year:

	31 March 2013 £'000	31 March 2012 £'000
First interim dividend for 2013: 2.0p per share (2012: 1.5p per share)	1,565	1,121
Second interim dividend for 2012: 7.5p (2011: 6.0p)	5,807	4,420
Total dividend paid and charged to equity	7,372	5,541

Dividends on ordinary shares proposed for approval by the board of directors (not recognised as a liability at 31 March 2013):

	31 March 2013 £'000	31 March 2012 £'000
Second interim dividend for 2012: 11.0p per share (2012: 7.5 p per share)	8,882	5,807

The Board has declared a second interim dividend of 11.0p (2012: 7.5p) to be paid in July 2013. Together with the first interim dividend of 1.5p paid in January 2012 the total dividend for the year amounts to 13.0p (2012: 9.0p).

Notes to the Financial Statements continued
For the year ended 31 March 2013

19. Operating Lease Commitments

As at 31 March 2013, the Group had non-land and buildings, operating lease commitments as follows:

	31 March 2013 £'000	31 March 2012 £'000
Amounts payable within one year	319	309
Amounts payable between two and five years	140	134

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

As at 31 March 2013, the Group had operating lease commitments in respect of its rented premises as follows:

	31 March 2013 £'000	31 March 2012 £'000
Amounts payable within one year	760	817
Amounts payable between two and five years	1,103	2,181

The material lease relates to the rental of the Group's premises at 4 Matthew Parker Street in London, and expires in February 2015.

20. Cash Generated From Operations

Reconciliation of profit before taxation to cash generated from operations:

	31 March 2013 £'000	31 March 2012 £'000
Cash flows from operating activities		
Profit on ordinary activities before tax	15,348	9,616
Interest receivable and similar income	(9)	(7)
Depreciation of tangible fixed assets	46	36
Increase in receivables	(2,109)	(1,552)
Increase/(decrease) in trade and other payables	7,326	(772)
Profit on disposal of available for sale assets	(2,281)	(26)
Loss/(gain) on instruments at fair value through profit or loss	494	(34)
Loss on derivatives	369	273
Amortisation of intangibles	540	857
Share-based payment	941	594
Cash generated from operations	20,665	8,985

21. Share-based Payments

Manager and Team Preference Shares ("Preference Shares")

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

The terms of the Preference 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 year period ("crystallisation") over which the ordinary shares are awarded, although this will always be at least three years after the end of the financial accounting period in which the preference shares are issued.

The share-based payments charge for the year under this scheme was £287,400 (2012: nil).

The total cost to the consolidated income statement is £940,800 (2012: £593,800), which is made up of the charge relating to the preference shares of nil (2012: nil) and a further share-based payments charge for the employee options of £653,400 (2012: £593,800) as detailed further in the notes.

Notes to the Financial Statements continued

For the year ended 31 March 2013

21. Share-based Payments continued

Manager and Team Preference Shares ("Preference Shares") continued

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

Estimated number of ordinary shares to be issued:

	Awards to which IFRS2 applies	Crystallised
At 1 April 2011	10,624,272	–
Exercise of preference shares (crystallisation event)	(8,229,870)	8,229,870
Issue in the year ("crystallised")	–	(3,291,948)
Movement in the year	(488,646)	–
At 1 April 2012	1,905,756	4,937,922
Issue in the year ("crystallised")	–	(2,468,961)
Movement in the year	453,099	–
At the end of the year	2,358,855	2,468,961

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.

	2008 Awards	2007 Awards
Dividend yield (%)	3.50	10.16
Expected share price volatility (%)	40.00	40.00
Risk free interest rate (%)	5.33	5.25
Weighted average share price (£)	1.21	0.50
Expected life of options (years)	6	6

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

Group Equity Incentive Plan

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

Enterprise management incentive scheme

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

Save as you Earn scheme

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

Company share option scheme

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

Unapproved share option scheme

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

The contractual term of all company share options, except for those issued under the SAYE scheme, is 10 years.

The expense recognised for share-based payments in this respect of these share schemes during the year was £653,400 (2012: £593,800).

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

	2013 Number	2013 WAEP	2012 Number	2012 WAEP
Outstanding at beginning of the year	14,427,972	116p	11,533,690	93p
Granted during the year	990,816	189p	3,372,482	186p
Exercised during the year[1]	(1,287,839)	(73p)	(416,000)	(45p)
Lapsed during the year	(377,339)	(93p)	(62,200)	(50p)
Outstanding at end of the year	13,753,610	126p	14,427,972	116p
Exercisable at end of the year	740,000	50p	880,000	50p

[1] Under the rules of the Group Equity Incentive Plan, unapproved share options may be issued as equity settled share appreciation rights, thereby enabling the Group to issue a net number of shares to employees on the exercise of options. During the year 654,872 shares (note 17) were issued to satisfy the total number of options exercised (2012: 266,000 shares)

The weighted average fair value of options granted during the year was £1.89 (2012: £1.87).

For options exercised during the year the weighted average share price at the date of exercise was £2.01 (2012: £1.92).

The weighted average remaining contractual life of the share options outstanding as at 31 March 2013 was 7 years (2012: 8 years).

The range of exercise prices for options outstanding at the end of the year was £0.5 – £1.975 (2012: £0.5 – £1.975).

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 2013 and 31 March 2012.

	31 March 2013	31 March 2012
Dividend yield (%)	5.00	5.50
Expected share price volatility (%)	38.5	30
Risk free interest rate (%)	0.66	2.13
Weighted average share price (£)	1.26	1.17
Expected life of options	Vesting period	Vesting period

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

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

Notes to the Financial Statements continued

For the year ended 31 March 2013

22. Financial Instruments

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

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

Credit risk

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

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

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

Liquidity risk

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

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

Price risk

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

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

Should the market move by 10%, and all the funds (and hence the Group's investments) move by this same amount, it would result in a change to the carrying value of the assets of £ 3.1m (2012: £2.6m). This movement would be recognised in the consolidated statement of comprehensive income, unless it was deemed to be impairment in value, when it would be recognised in the income statement.

Interest rate risk

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

The Group's cash and short-term deposits earn interest at a floating rate. Due to large cash balances the Group is sensitive to changing interest rates. A 50bp change in market interest rates would result in an approximate change to revenues of £ 128,600 (2012: £88,000) in either direction. The Group has no borrowings.

Foreign currency risk

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

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

In order to hedge the risk associated with these fees, the Group enters into a number of forward foreign currency contracts over a period of 15 months. At year end, the Group had four open contracts to sell US dollars totaling USD $9,900,000 (2012: USD $8,200,000), for a total of £6,222,600 (2012: £5,141,600). There was one open Sterling/ Yen contract to sell a total of ¥ 40,400,000 (2012: ¥ 40,400,000), for a total of £308,800 (2012: £308,800).

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

At the year end there are three investments in a non-hedged product and the Group has therefore hedged against the risk of exposure to changes in the foreign currency exchange rates caused by the underlying US Dollar/Euro assets with in these investments. The Group has a further two further forward currency contracts for the sale of USD $17,000,000 (2012: USD $18,543,500) to purchase £11,218,700 (2012: £11,980,500) and a forward currency contract for the sale of Euro 3,000,000 (2012: Euro 1,205,000) to purchase £2,547,800 (2012: £1,004,300).

The Group's hedging policy serves to substantially mitigate its exposure to foreign currency risk on its revenue and balance sheet investments. Any changes in foreign exchange rates will have an equal and opposite effect on the hedged items and open forward currency contracts.

Capital risk

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

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

Fair value hierarchy

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

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

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

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

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

During the reporting period there were no transfers between levels in fair value measurements. There are no level 3 financial instruments.

Notes to the Financial Statements continued

For the year ended 31 March 2013

23. Intangible Assets

The Group's intangible assets comprise investment management contracts that have been identified as separately identifiable intangible assets arising on the acquisition of HIM Capital Holdings Limited on 21 September 2010, as well as goodwill attributable to the recording of deferred tax liabilities under IAS 12 against the initial recognition, on acquisition date, of the investment management contracts at fair value.

The investment management contracts are being amortised over a period of approximately two years from the date of acquisition. Goodwill is allocated fully to the investment management contracts acquired and is reviewed for impairment on an annual basis. For the years ended 31 March 2013 and 2012 an impairment has arisen as a consequence of the amortisation of the investment management contracts and the release of the corresponding deferred tax liability.

	Goodwill £'000	Investment management contracts £'000	Total £'000
Cost			
As at 1 April 2011	446	1,714	2,160
Additions/acquisitions	–	–	–
As at 31 March 2012	446	1,714	2,160
Additions/acquisitions	–	–	–
As at 31 March 2013	446	1,714	2,160
Amortisation and impairment			
As at 1 April 2011	111	429	540
Impairment/amortisation charge	223	857	1,080
As at 31 March 2012	334	1,286	1,620
Impairment/amortisation charge	112	428	540
As at 31 March 2013	446	1,714	2,160
Net book value			
At 31 March 2012	112	428	540
At 31 March 2013	–	–	–

24. Related Party Transactions

1) Group

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

B J D Ashford-Russell is a member of Polar Capital LLP (the "Partnership") and a director of the Polar Capital Technology Trust plc (the Trust). The Partnership is the appointed investment manager of the Trust. The total fees received by the Group as investment manager of the Trust were £5,200,100 (2012: £8,219,367). The amounts receivable at the year end in this respect was £902,900 (2012: £835,758).

At the end of the year, the Group had an outstanding loan due of £1,017,131 (2012: £1,106,992) from the Polar Capital Employee Benefit Trust, which was set up in 2002 to hold ordinary shares in Polar Capital Holdings plc for the benefit of employees.

The investments in available for sale financial assets disclosed in note 11 are in affiliated funds that are managed by a subsidiary of the Group.

2) Company

The Company has intercompany balances with Polar Capital Partners Limited and with Polar Capital LLP. The balance receivable from Polar Capital Partners Limited of £26,184,000 (2012: £26,023,000 and the balance of £41,513 (2012: £41,513) payable to Polar Capital LLP relate to cash movements by the subsidiaries on behalf of the Company.

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 5 which details staff costs.

	31 March 2013 £'000	31 March 2012 £'000
Total emoluments including partnership profit allocations and pension contributions	1,441	1,056

At the end of the year the Group had balances owing to or in regards to key personnel of £1,667 (2012: £5,000). This amount relates an amount owed to another company for the services of a non-executive director.

Options to acquire ordinary shares held by the directors during the year ended 31 March 2013 are disclosed in the Remuneration Committees' report on pages 22 and 23.

Included within the share-based payments charge disclosed in note 21, is an amount of £171,900 (2012: £148,500) relating to key management personnel.

Shareholder Information and Advisers

Polar Capital Holdings plc

Company No.

4235369

Registered office

4 Matthew Parker Street
London, SW1H 9NP
Tel: 020 7227 2700

Company Secretary

Neil Taylor

Website

www.polarcapital.co.uk

Annual General Meeting

23 July 2013

Dividends

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

First interim dividend

For the financial year ended 31 March 2013

Amount

2.0p per ordinary share

Ex-dividend date

2 January 2013

Record date

4 January 2013

Payment date

18 January 2013

Second interim dividend

For the financial year ended 31 March 2013

Amount

11.0p per ordinary share

Ex-dividend date

10 July 2013

Record date

12 July 2013

Payment date

9 August 2013

Registrars

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Shareholder helpline

0800 876 6660
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Auditors

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London, SE1 2AF

Bankers

HSBC Bank plc

Nominated Adviser and Corporate Broker

Canaccord Genuity

88 Wood Street
London, EC2V 7QR

Solicitors

Herbert Smith Freehills LLP

Exchange House
Primrose Street,
London, EC2M 2EG

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 or at www.londonstockexchange.com – code: POLR; or Bloomberg: POLR LN.

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