Interim report and accounts 2008

Who we are

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

Our objective is to achieve strong, sustainable earnings and dividend growth by building a highly diversified family of long-only, long-bias, equity long/short and other fundamentally driven hedge fund strategies managed under the Polar Capital brand.

Today Polar Capital has a staff of 55 of whom 28 are investment professionals managing 14 funds, four managed accounts and two advisory relationships. These funds, which are aimed at institutional and professional investors, have combined assets under management as at 30 September 2008 of US$2.87bn.

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Polar Capital at a glance

Financial highlights for the six months to 30 September 2008

- Assets under management at 30 September 2008 fell by 9% to US$2.87bn compared to US$3.14bn at 31 March 2008 (September 2007: US$3.8bn)
- Pre-tax profits down 67% to £1.5m (30 September 2007: £4.5m)
- Basic undiluted earnings per share down to 0.59p (30 September 2007: 3.93p) and adjusted diluted earnings per share down to 1.25p (30 September 2007: 4.46p)
- Interim dividend per ordinary share of 1.0p declared (2007: 1.5p), to be paid in January 2009
- £19.3m of cash and £14.6m of investments held on the balance sheet

Group strategy

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

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

Our funds/strategies at a glance

Technology

30 September 2008	**$559m**
31 March 2008	$737m
30 September 2007	$1,035m

Japan

30 September 2008	**$328m**
31 March 2008	$659m
30 September 2007	$1,068m

UK

30 September 2008	**$180m**
31 March 2008	$124m
30 September 2007	$108m

Europe

30 September 2008	**$525m**
31 March 2008	$568m
30 September 2007	$499m

Global opportunities

30 September 2008	**$797m**
31 March 2008	$627m
30 September 2007	$590m

Global emerging markets

30 September 2008	**$213m**
31 March 2008	$288m
30 September 2007	$446m

Global utilities

30 September 2008	**$34m**
31 March 2008	$44m
30 September 2007	$47m

Macro

30 September 2008	**$151m**
31 March 2008	$70m
30 September 2007	$56m

Healthcare

30 September 2008	**$76m**
31 March 2008	$23m
30 September 2007	–

Note: above analysis excludes single $7m sub-advisory US equities account (March 2008: $7m; September 2007: $27m).

Analysis of changes in asset types for the six months to 30 September 2008

	Long	Hedge	Advisory	Total
Brought forward 31 March 2008 ($m)	1,016	2,005	122	3,143
Performance and currency movements ($m)	(83)	(196)	(54)	(333)
Net subscriptions and redemptions ($m)	35	317	(10)	342
Outflows from Japanese hedge fund ($m)	–	(282)	–	(282)
Total assets as at 30 September 2008 ($m)	**968**	**1,844**	**58**	**2,870**

Chief Executive's statement

Mark Kary
Chief Executive

"There is no doubt that the current environment in the asset management industry is very difficult and the pressure of hedge fund industry redemptions will create a challenging nearer term operating environment for Polar Capital. We do however take considerable comfort from the strong 2008 performance across the large majority of our funds and the current competitive positioning of our business. We believe this will provide a solid foundation for growing our assets under management as investor sentiment begins to stabilise."

Investment performance

Polar Capital's funds have had to operate in a period of unprecedented volatility and negative market sentiment. The first six months of Polar Capital's fiscal year have seen a continuation and a deterioration of the bear market conditions that started in the summer of 2007 and the performance of nearly all markets has now erased all the gains of the 2003 to 2007 bull market.

Against this backdrop we are very pleased with the year to date performance of our funds, especially our hedge funds. Despite all the publicity about poor hedge fund performance, five of Polar Capital's seven hedge funds are generating positive year to date returns through to 30 November 2008. At a time when only 5-10% of all hedge funds are making money for their investors this is a remarkable achievement and under normal circumstances would be leading to significant inflows of assets. Given however, the current dramatic contraction that the industry is witnessing, it is inevitable that inflows of any significance are unlikely to materialise until the new calendar year by which time the pressure of redemptions should have eased at least a little and investors can once more focus on the fundamentals of their portfolios.

Polar Capital's business has inevitably continued to be challenged by this environment. By definition, our long-only assets which, at the beginning of the period represented 36% of our total assets, cannot be immune from underlying market falls and by 30 November 2008 represented 33% of overall assets. At the time of our 2008 annual report we made it clear that the goal for our long-only business in these difficult market conditions was to protect assets with differentiated performance to ensure that the funds are well positioned for any resumption of the uptrend in markets. It is pleasing that all our long-only businesses have performed well, with the new Global healthcare opportunities fund and Japan fund doing especially well against their relevant benchmarks.

Chief Executive's statement
continued

In our hedge fund business we made the decision to close two funds in line with the Company's long-held view that all its managers need to deliver strong and consistent risk adjusted investment performance. Inevitably difficult market conditions are more likely to expose the weaker funds and it will always be important that Polar Capital aims to achieve and maintain the highest standards. In July we closed our underperforming Japan equity long/short fund which at the beginning of the calendar year had assets of US$400m. In October we closed our Global utilities fund in which we only had the original seed capital and during December the Columbus fund, again with only seed capital, is expected to be wound-down.

Financial review

Despite in the six months to 30 September 2008 seeing not only encouraging net inflows of US$342m but also the benefits of superior absolute performance in our hedge funds and superior relative performance in our long-only funds, Assets under Management ("AUM") in the period fell by 9% from US$3.14bn to US$2.87bn. The fall was not only a function of redemptions but also the closure of funds (US$282m), market falls reducing the value of our long-only assets (US$137m) and the comparative strength of the US Dollar to Sterling, Yen and the Euro.

In this challenging environment the profitability of the business was as follows:

	Six months to 30 September 2008 £m	Six months to 30 September 2007 £m	Year to 31 March 2008 £m
Core operating profitability	**0.9**	3.4	6.0
Performance fee profitability	**–**	0.3	8.0
Interest and similar income	**0.6**	0.8	1.7
Profit before tax before share-based payments	**1.5**	4.5	15.7

There has been an erosion of the business's operating margins as the 16% fall in average AUM (compared to the same period in 2007) has accounted for a 66% fall in the profitability of the Company. This is unsurprising.

However, on a more positive note the Company continues to value its strong balance sheet which, at 30 September 2008, contained £34m either in cash or invested in Polar Capital's funds.

The Board have decided to pay a first interim dividend of 1.0p per share (2007:1.5p per share) to reflect the fact that the profits for the year ended March 2009 are not expected to achieve the level of 2008 and also recognising that the first interim dividend has historically been significantly less than the second interim dividend. The first interim dividend will be paid on 20 January 2009 to shareholders on the register at 30 December 2008 and the shares will trade ex-dividend from 24 December 2008.

With AUM at their current level this year's results are expected to be materially influenced by the existence of performance fees. Net performance fee receipts to the end of November 2008, which are expected to dominate the total of such receipts in the year, are in excess of 50% higher than the £3.9m of net receipts from performance fees over the same period in 2007. The receipt of any additional net performance fee receipts in the remainder of the year will be dependent on the performance of the relevant two funds in the closing months of the financial year.

Looking forward the trading conditions for the Company are expected to be challenging in the near term. Even with the pleasing performance of the majority of the funds the Company can not be immune from the pressure of redemptions that is affecting the industry. In the short term, this is expected to apply further pressure to the operating margins of the core ad valorem management fee profitability of the business.

Investment industry

Our 2008 annual report highlighted our growing concerns for the sustainability and reliability of hedge fund returns, and how the very poor headline news might have an increasingly negative effect on investor sentiment and exposure to the sector. Through to 30 November 2008 the HFR Hedge Fund Index is down just over 22% for the year which, for an industry that grew assets to around US$2.5 trillion on the basis that it could deliver positive risk-adjusted returns and preserve capital, is very disappointing. At the same time, investors including family offices, private banks, endowments, pension funds and the fund of hedge fund industry, whose expertise it is to put hedge fund strategies together in a diversified and risk managed structure have delivered returns that are too volatile, too negative and too correlated to each other and to equity markets.

The industry therefore finds itself in some considerable disarray. Given this is the first year of negative returns for hedge funds since the Long Term Capital Management and Russian crises of 1998, it is not surprising that the industry is suffering outflows. These outflows have accelerated into the fourth quarter of the calendar year as investors have been increasingly worried about a number of issues. Firstly, whether they will actually get cash for their redemptions in a timely manner or whether funds will be gated or redemptions suspended. Secondly, with growing concerns of counterparty risk, post the bankruptcy of Lehman Brothers. And thirdly, as part of an overall deleveraging effort, to raise cash from wherever it is available. The combination of poor performance and redemptions could well lead to at least a 50% contraction of the hedge fund industry with a large number of hedge funds and investors in hedge funds forced to close their businesses.

For an industry that has had very few barriers to entry this contraction is arguably very healthy and will most likely lead to a significant market share gain and growth opportunity for the survivors. Those houses and funds with longer-term track records that have managed to preserve capital and generate absolute performance through such a difficult period should be well positioned. At the same time the difficult global economic backdrop, the likelihood of continued market volatility, and the unlikelihood of any medium-term return to bull market conditions, would all suggest that investors should continue their longer-term trend to increase absolute return allocations at the expense of long-only equity exposure.

Outlook and challenges

There is little doubt that this is the most challenging environment the asset management industry has seen since 1972-1974 and already some practitioners are making the comparison with the 1930s. What is clear is that visibility on the global economic outlook and medium and longer-term investor attitudes to risk, are poor.

There is much discussion at present on the severity and length of the economic downturn and the future outlook for the hedge fund industry. While we do not claim to have any crystal ball, our inherent caution would suggest that the process of deleveraging across the banking system, the private equity industry, the consumer and investors and the consequent rebuilding of balance sheets will take several years to work its way through and that during this period the economies of both the developed and developing world are likely to be challenged. In such an environment we are unlikely to return to bull market conditions quickly, although we fully expect the general market dislocation to throw up a number of very compelling investment opportunities. It is too early to draw conclusions, but we believe that the competitive landscape will be far less crowded and that investors and the industry will demand far higher standards. Greater transparency, more managed accounts, more emphasis on risk management, and a closer examination of the more qualitative aspects of a business have all become central issues. At the same time it is likely that some of the higher performance fee structures seen elsewhere in the market will come under pressure, performance fees themselves will likely have to be earned over a multi-year period, and there is likely to be far greater scrutiny of counterparty risk. Investors in hedge funds are likely to communicate more clearly their return expectations and targets, to generally lower the risk and volatility of their portfolios, and focus more scientifically on risk reward and the delivery of absolute performance.

Summary

While the general lack of visibility on the global economies and risk appetite is not helpful, Polar Capital can take comfort from the current competitive positioning of its business. The performance of the Paragon, Conviction, Discovery, UK, Latam and Forager hedge funds in this bear market has been exceptional and if more focus within the industry is going to be placed on the delivery of absolute returns then these funds are well placed to grow their asset bases significantly. This process should be helped as each of these funds now

Chief Executive's statement
continued

has a minimum 30-month track record and in most cases considerably longer. Equally, while flows into our long-only equity business are likely to be more dependant on market direction, the track record and defensive characteristics of our Healthcare business, and the long and impressive track record of our Japanese fund in a market that is beginning to look very cheap, should be very helpful.

Finally when the industry is clearly raising standards we also take comfort from our historic emphasis on creating a strong infrastructure platform across operations, compliance, sales and marketing and risk management, all of which we anticipate will play a greater role in investor decision making going forward.

Tribute to Peter Buckley
Everyone at Polar Capital was extremely sad to hear the news of Peter Buckley's untimely death. On behalf of the whole Board and the staff at Polar Capital I wish to record our thanks to Peter who was instrumental in the founding of Polar Capital eight years ago. Throughout this period and despite numerous other commitments, he gave us access to his great wisdom and remarkable astuteness. He was a man of integrity and conviction who both believed in and actually implemented a philosophy of long-term investment and close partnership with his investee companies. In a financial world, marked in recent years by the greed and short termism which have been responsible for the current problems, that approach has proved, as successful as it was – for a while – unfashionable. It would come as no surprise to anyone who knew him that he should have been so prescient in anticipating the current crisis. We will greatly miss him.

Mark Kary
Chief Executive

11 December 2008

Consolidated Income Statement
for the six months to 30 September 2008

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 restated £'000	(Audited) Year to 31 March 2008 £'000
Revenue	**12,050**	14,612	47,569
Interest receivable and similar income	**567**	811	1,715
Gross income	**12,617**	15,423	49,284
Cost of sales	**(432)**	(1,069)	(1,896)
Net fees	**12,185**	14,354	47,388
Operating costs before share-based payments	**(10,636)**	(9,803)	(31,689)
Profit on ordinary activities before share-based payments	**1,549**	4,551	15,699
Share-based payments	**(530)**	(602)	(1,204)
Profit on ordinary activities before taxation	**1,019**	3,949	14,495
Taxation	**(603)**	(1,365)	(4,860)
Profit on ordinary activities after taxation	**416**	2,584	9,635
Basic earnings per ordinary share	**0.59p**	3.93p	14.57p
Diluted earnings per ordinary share	**0.55p**	3.62p	13.00p
Adjusted earnings per ordinary share	**1.25p**	4.46p	14.63p

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

Consolidated Statement of Recognised Income and Expense
for the six months to 30 September 2008

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 £'000	(Audited) Year to 31 March 2008 £'000
Profit for the financial period	**416**	2,584	9,635
Gains/(losses) on the revaluation of available-for-sale financial assets	**258**	(204)	(332)
(Losses)/gains on the fair valuation of hedging contracts	**(536)**	–	(42)
Deferred tax in respect of available-for-sale financial assets	**60**	61	97
Deferred tax in respect of employee share options	**92**	(253)	(759)
Total recognised gains and losses	**290**	2,188	8,599

Consolidated Balance Sheet
as at 30 September 2008

	(Unaudited) 30 September 2008 £'000	(Unaudited) 30 September 2007 £'000	(Audited) 31 March 2008 £'000
Fixed assets	**291**	437	396
Available-for-sale financial assets	**14,615**	11,810	12,779
Deferred tax assets	**330**	601	214
Total non-current assets	**15,236**	12,848	13,389
Current assets			
Other financial assets	**–**	–	47
Receivables	**3,861**	3,307	8,162
Cash at bank and in hand	**19,326**	22,546	31,326
Total current assets	**23,187**	25,853	39,535
Total assets	**38,423**	38,701	52,924
Non-current liabilities			
Deferred tax liabilities	**–**	5	–
Current liabilities			
Other financial liabilities	**489**	–	–
Trade and other payables	**3,547**	6,522	12,555
Current tax liabilities	**583**	461	2,509
Total current liabilities	**4,619**	6,983	15,064
Total liabilities	**4,619**	6,988	15,064
Net assets	**33,804**	31,713	37,860
Capital and reserves			
Called up share capital	**1,786**	1,688	1,786
Share premium account	**15,097**	15,059	15,097
Investment in own shares	**(510)**	(558)	(558)
Other reserves	**397**	1,153	523
Retained earnings	**17,034**	14,371	21,012
Total shareholders' funds – equity interests	**33,804**	31,713	37,860

Consolidated Cash Flow Statement
for the six months to 30 September 2008

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 restated £'000	(Audited) Year to 31 March 2008 £'000
Cash flows generated from operating activities			
Cash generated from operations	**(3,125)**	3,935	15,502
Tax paid	**(2,493)**	(1,900)	(3,433)
Net cash (outflow)/inflow generated from operating activities	**(5,618)**	2,035	12,069
Returns on investment and servicing of finance			
Equity dividends paid	**(4,924)**	(3,619)	(4,616)
Issue of share capital	**–**	24	50
Issue of preference shares by subsidiary undertaking	**–**	–	2
Payments in relation to investment in own shares	**(102)**	–	–
Receipts in relation to disposal of own shares	**150**	–	–
Net cash (outflow)/inflow from financing activities	**(4,876)**	(3,595)	(4,564)
Cash flows generated from investing activities			
Interest received and similar income	**567**	811	1,681
Interest paid and similar charges	**(23)**	(24)	(115)
Purchase of property, plant and equipment	**–**	–	11,828
Purchase of available-for-sale financial assets	**(2,050)**	(8,084)	(20,976)
Net cash outflow used in investing activities	**(1,506)**	(7,297)	(7,582)
Net (decrease)/increase in cash and cash equivalents	**(12,000)**	(8,857)	(77)
Cash and cash equivalents at start of period	**31,326**	31,403	31,403
Cash and cash equivalents at end of period	**19,326**	22,546	31,326

Notes to the financial statements
for the six months to 30 September 2008

1 Principal accounting policies

Polar Capital Holdings plc is a public limited company registered in England and Wales. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation
The financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

At the date of authorisation of these financial statements IFRS 8 "Operating Segments" was in issue but not yet effective. The Group has not adopted this standard and does not anticipate it will have any material impact on these financial statements when it comes into effect.

Restatement
In the financial statements of 30 September 2007, no charge had been made in relation to the Manager and Team Preference Shares share-based payments. A charge has been made in the year to 31 March 2008, and to 30 September 2008, and the comparative has therefore been restated. The number of shares and the profit after taxation used in the earnings per share calculation as set out in note 5 has also been adjusted accordingly.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary undertakings). All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Depreciation is charged on a straight-line basis as follows:

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

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

Available-for-sale financial assets
Available-for-sale financial assets are initially recognised at fair value, being the consideration given together with any acquisition costs associated with the asset. The Group's investments in the funds that it manages are designated as "available-for-sale" financial assets and are included in non-current assets. Such assets are subsequently carried at fair value, with any gains or losses arising from changes in fair value being recognised in equity. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. When derecognition occurs a realised gain or loss is recognised in the income statement, calculated as the difference between the net sales proceeds and the original cost of the financial asset. Any fair value gains or losses previously recognised directly in equity are recycled into the income statement as part of this calculation of the gain or loss arising on derecognition.

1 Principal accounting policies continued

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

Derivative financial instruments

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

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

Pensions

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

Trade receivables

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

Cash and cash equivalents

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

Trade payables

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

Income recognition

Revenue

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

Interest receivable and similar income

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

Cost of sales

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

Operating leases

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

Notes to the financial statements continued
for the six months to 30 September 2008

1 Principal accounting policies continued

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

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

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

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

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

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

Segmental reporting and functional currency
The directors are of the opinion that the Group is engaged in a single, unified, business of managing investments. No segmental reporting is therefore provided. The Group functional currency is pounds Sterling, as its operating activities are based in the UK and all or substantially of its income and expenses are based in pounds Sterling.

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

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

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

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

Foreign currency/monetary balances
The individual financial statements of each subsidiary are presented in the functional currency of the Group. Balances are therefore reported in Sterling, which is the functional currency of all Group companies, and has been used as the presentation currency for the consolidated financial statements.

2 Revenue

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 £'000	(Audited) Year to 31 March 2008 £'000
Investment management fees	**11,912**	13,422	26,122
Investment advisory fees	**131**	193	354
Investment performance fees	**7**	997	21,093
Revenue	**12,050**	14,612	47,569

3 Profit on ordinary activities before taxation

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 restated £'000	(Audited) Year to 31 March 2008 £'000
Profit on ordinary activities before taxation is stated after charging:			
Staff costs	**5,454**	5,705	25,373
Depreciation of tangible fixed assets	**128**	124	257
Operating lease rentals – land & buildings	**328**	326	674
– other	**417**	53	139
Auditors' remuneration			
Audit services			
– Current year	**40**	30	55
– Under provision in prior year	**24**	42	42
Other services relating to taxation	**63**	22	127
All other services	**56**	88	97

4 Dividends

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 £'000	(Audited) Year to 31 March 2008 £'000
Dividend paid	**4,924**	3,619	4,616

5 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit for the period of £416,002 (September 2007: £2,584,032; March 2008: £9,634,665) and on 70,543,819 (September 2007: 65,829,318; March 2008: 66,139,295) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per ordinary share is based on the profit for the period of £416,002 (September 2007: £2,584,032; March 2008: £9,634,665) and on 75,453,858 (September 2007: 71,445,552; March 2008: 74,101,201) ordinary shares, being the weighted average number of ordinary shares allowing for all dilutive options of 4,479,608 (September 2007: 4,223,040; March 2008: 4,301,105) and shares not issued under a crystallised event of 3,365,190 (September 2007: 7,225,825; March 2008: 3,365,190).

Notes to the financial statements continued
for the six months to 30 September 2008

6 Available-for-sale financial assets

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 £'000	(Audited) Year to 31 March 2008 £'000
At beginning of period	**12,779**	3,929	3,929
Additions	**2,050**	8,085	20,976
Redemptions	**–**	–	(11,794)
Permanent dimunition in value	**(472)**	–	–
(Loss)/gain on movement in fair value	**258**	(204)	(332)
At end of period	**14,615**	11,810	12,779

The Group's available-for-sale financial assets are principally in the funds it manages, all of which are listed. The Group has made a decision to close the Global Utilities fund. As a result the value of the Group's investment in this fund has been considered to be permanently reduced. In line with the accounting policies, this diminution in value has been recognised through the consolidated income statement.

7 Reconciliation of equity

	Share capital £'000	Share premium £'000	Own shares £'000	Capital reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 31 March 2007 (Audited)	**1,673**	**15,050**	**(558)**	**555**	**1,112**	**14,789**	**32,621**
Profit for the financial period	–	–	–	–	–	9,635	9,635
Equity dividends paid	–	–	–	–	–	(4,616)	(4,616)
Issue of share capital	113	47	–	(108)	–	–	52
Employee share options charge	–	–	–	–	–	1,204	1,204
Fair value hedging	–	–	–	–	(42)	–	(42)
Fair value financial assets	–	–	–	–	(332)	–	(332)
Movements in deferred tax	–	–	–	–	(662)	–	(662)
At 31 March 2008 (Audited)	**1,786**	**15,097**	**(558)**	**447**	**76**	**21,012**	**37,860**
Profit for the financial period	–	–	–	–	–	416	416
Equity dividends paid	–	–	–	–	–	(4,924)	(4,924)
Issue of share capital	–	–	48	–	–	–	48
Employee share options charge	–	–	–	–	–	530	530
Fair value hedging	–	–	–	–	(536)	–	(536)
Fair value financial assets	–	–	–	–	258	–	258
Movements in deferred tax	–	–	–	–	152	–	152
At 30 September 2008 (Unaudited)	**1,786**	**15,097**	**(510)**	**447**	**(50)**	**17,034**	**33,804**

8 Notes to the cash flow statement

Reconciliation of profit before taxation to cash generated from operations

	(Unaudited) Six months to 30 September 2008 £'000	(Unaudited) Six months to 30 September 2007 restated £'000	(Audited) Year to 31 March 2008 £'000
Cash flows from operating activities			
Profit on ordinary activities before tax	**1,019**	3,949	14,495
Less interest received	**(567)**	(811)	(1,715)
Depreciation of tangible fixed assets	**128**	124	257
Decrease/(increase) in receivables	**4,301**	920	(3,934)
(Decrease)/increase in trade and other payables	**(9,008)**	(835)	5,195
Share-based payment	**530**	602	1,204
Other non-cash reserve movements	**472**	(14)	–
Cash generated from operations	**(3,125)**	3,935	15,502

9 Related party transactions

BJD Ashford-Russell is a member of Polar Capital LLP and a director of the Polar Capital Technology Trust plc ("the Trust"). Polar Capital LLP is the appointed investment manager of the Trust. The total fees received by the Group as investment manager of the Trust for the six months to 30 September 2008 were £1,824,295 (September 2007: £1,856,890).

At the end of the period, the Group had an outstanding loan due of £510,304 (September 2007: £557,804) from the Polar Capital Employee Benefit Trust, which was set up in 2002 to hold ordinary shares in Polar Capital Holdings plc for the benefit of employees.

10 The publication of non-statutory accounts

The financial information contained in this interim report does not constitute statutory accounts as defined in s240 of the Companies Act 1985. The financial information for the six months ended 30 September 2008 and 2007 has not been audited. The information for the year ended 31 March 2008 has been extracted from the latest published audited accounts, which have been filed with the Registrar of Companies. The report of the independent auditor on those financial statements contained no qualification or statement under s237(2) or (3) of the Companies Act 1985.

Shareholder information

Directors
T Bartlam, Non-executive Chairman
M Kary, Chief Executive
J Mansell, Chief Operating Officer
T Woolley, Executive Director
B Ashford-Russell, Non-executive director
H Aldous, Non-executive director,
Chairman of Audit Committee
J Cayzer-Colvin, Non-executive director,
Chairman of Remuneration Committee
C Hale, Non-executive director
Ms. S Street, Non-executive director
M Thomas, Non-executive director

Polar Capital Holdings plc
Company No. 4235369

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

The ISIN number is GB00B1GCLT25 and the SEDOL code is B1GCLT2.

Registered office
4 Matthew Parker Street
London SW1H 9NP

Tel: 020 7227 2700

Company Secretary
Neil Taylor

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder helpline: 0870 601 5366
Website www.shareview.co.uk

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

Key dates
First interim dividend for the financial year ended 31 March 2009
Amount: 1.0p per ordinary share
Ex-dividend date: 24 December 2008
Record date: 30 December 2008
Payment date: 20 January 2009

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

Bankers
HSBC Bank plc

Nominated adviser and corporate broker
Numis Securities Ltd
10 Paternoster Square
London EC4M 7LT

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

Charity share donations
Sharegift, an independent charity share-donation scheme, accepts donations of small parcels of shares where their value makes them uneconomic to sell. If you wish to donate your shares in this way, see www.sharegift.org (tel: 020 7337 0501) or contact the Company's registrars.

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