Polar Capital Holdings plc

Half Year Report & Accounts 2010

POLAR CAPITAL HOLDINGS plc

Contents

Who we are

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

Founded in 2001, Polar currently has 57 employees of whom 28 are investment professionals managing 14 funds, and 7 managed accounts. These funds have combined assets under management of US$3.1bn as at 30 September 2010.

The Company is AIM quoted following its IPO in February 2007. Consistent with the Company's founding strategy of fostering an equity culture amongst its employees and providing high levels of transparency to clients, 50% of the equity is currently held by Directors, founders and employees.

Polar Capital at a glance

Financial highlights

- Assets under management ("AUM") at 30 September 2010 over 20% at US$3.1bn compared to US$2.5bn at 30 March 2010 (30 September 2009: US$1.9bn)
- Profit before tax and share-based payments of £2.3m (30 September 2009: loss of £0.4m)
- Basic earnings per share of 1.89p (30 September 2009: loss per share of 0.62p) and adjusted* diluted earnings per share of 2.17p (30 September 2009: loss per share of 0.34p)
- First interim dividend per ordinary share of 1.5p declared (2009: 1.0p) to be paid in January 2011
- Well capitalised, with a strong balance sheet comprising cash and investments of £37.6m

Corporate highlights

- New Global Healthcare Investment Trust launched in June 2010, raising £89m
- Acquisition of HIM Capital in September 2010, establishing a financials sector franchise
- Formation of Global Emerging Markets and Global Convertibles teams in October 2010

* Adjusted to exclude cost of share-based payments

Our funds/strategies at a glance

(Assets under Management)

Analysis of changes in assets types for the six months to 30 September 2010

	Long US$m	Hedge US$m	Total US$m
Total assets as at 31 March 2010	1,575	955	2,530
Performance and currency movements	8	(18)	(10)
Net subscriptions/(redemptions) from ongoing business	356	(73)	283
Acquisition of HIM Capital	249	–	249
Total assets at 30 September 2010	2,188	864	3,052

Technology	US$m
30 September 2010	**985**
31 March 2010	815
30 September 2009	634

Japan	US$m
30 September 2010	**740**
31 March 2010	682
30 September 2009	407

UK	US$m
30 September 2010	**243**
31 March 2010	206
30 September 2009	149

Europe	US$m
30 September 2010	**532**
31 March 2010	504
30 September 2009	355

Macro	US$m
30 September 2010	**89**
31 March 2010	245
30 September 2009	282

Global emerging markets	US$m
30 September 2010	**–**
31 March 2010	–
30 September 2009	24

Healthcare	US$m
30 September 2010	**214**
31 March 2010	78
30 September 2009	45

Financials	US$m
30 September 2010	**249**
31 March 2010	–
30 September 2009	–

Chief Executive's statement

Tim Woolley
Chief Executive

I am pleased to report a further increase in our Assets under Management (AUM) to US$3.1bn at the end of September 2010. This is an increase of over 20% since the March year end AUM and an increase of more than 60% from the AUM level at the interim stage last year. The results are all the more encouraging given that they have been achieved against a highly uncertain background in markets and the global economy.

When I wrote to you in the Annual Report at the March year end I outlined three major avenues of growth for Polar Capital over the coming years:

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

I am now able to report progress on all three fronts.

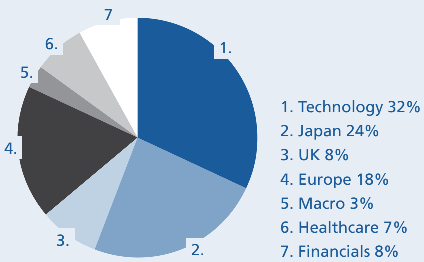
Over the period we were able to increase assets in nearly all our strategies. We have seen particularly good growth in our Technology, Japanese and Healthcare long only strategies and our European and UK hedge fund strategies.

In addition to increasing the assets in our existing products we also increased our range of products offered by existing teams with the successful launch of our Global Healthcare Growth and Income Trust in June. We managed to raise £89m which was an excellent achievement given the appalling market background at the time as a result of the Greek debt crisis.

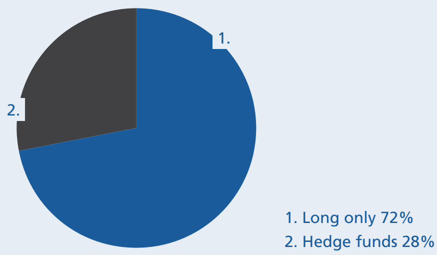
Finally we are also able to report significant progress in the acquisition and recruitment of additional investment teams.

In September we announced the acquisition of HIM Capital, a specialist financials long only boutique. This is an exciting development for Polar as it opens up another specialist sector for us with a highly experienced team with an excellent track record.

AUM split by business unit as at 30 September 2010



AUM split by strategy as at 30 September 2010



Chief Executive's statement

continued

The acquisition brought us four funds with total assets of around US$245m, five investment professionals and two support people. We see significant opportunity over the medium term in marketing the four funds to our client base both in the UK and overseas and also expanding the fund range further over the coming months.

In addition to the HIM Capital acquisition we have added two further teams which are equally as exciting. In the long only space we have hired a Global Emerging Markets team led by William Calvert, a highly experienced manager with a long track record of out performance against his peers. We are in the process of launching two funds with the team, a global emerging markets growth fund and a global emerging markets income fund.

The latter is one of the first funds in the London market to offer clients an income focus relating to Emerging Markets and is consistent with our desire to launch investment led products tailored to suit the needs of our clients.

The third team we have added is Global Convertibles which is an absolute return strategy where we see significant potential over the next few years. The Polar Alva Convertibles fund launched on the 1 November and will be run jointly by two very experienced hedge fund managers David Keetley and Steve McCormick. David and Steve previously had a very successful record managing several billion dollars of convertibles within a US based multi-strategy fund.

We are delighted to have all three teams on board and it is testament to our improving market position that we have been able to attract such good and experienced talent. The addition of the teams significantly expands our market opportunity with existing clients as well as potentially new clients and will help us to achieve the diversification in our business that is central to our strategy.

Financial review

The profitability of the business in the period has been set out below:

	Six months to 30 Sept 2010	Six months to 30 Sept 2009	Year to 31 March 2010
Core operating profitability	£1.7m	£(0.9)m	£0.0m
Performance fee profitability	£0.5m	£0.1m	£2.5m
Interest and similar income	£0.1m	£0.4m	£1.2m
Profit before tax before share-based payments	£2.3m	£(0.4)m	£3.7m

The AUM at the end of the period closed at US$3.1bn up 24% from the position at 31 March 2010. The growth was primarily a function of the increase in long only assets managed as a product of both healthy net subscriptions and also the acquisition of HIM Capital.

The core operating profit of the business is directly correlated to the value of AUM managed by the Company. It is pleasing to note the improved trend as the loss of £0.9m in the equivalent period last year, that rose to a £0.9m core profit in the six months to March 2010 has now grown to a profit of £1.7m in this six month period.

The calculation and payment of performance fees falls mainly in the second half of the Company's financial year. It is encouraging that as at the end of September 2010 there existed on a mark to market basis fees in excess of the quantum of such fees received in the whole of last year, albeit that the actual receipt of such amounts in the second half is susceptible to both market and fund performance.

Looking forward the trading conditions for the Company cannot be taken for granted. There are many positive factors that provide confidence, particularly the performance of the firm's funds, the flows received over the past quarters and also the arrival of new investment talent to enable the launching of new products. But adverse market conditions could dampen this short term optimism.

The Company has historically paid two dividends a year, an initial small dividend in January and a second that follows later in the year whose quantum is a function of the results for the year as a whole.

The Board has decided to pay a first interim dividend of 1.5p (2009: 1.0p) to reflect the confidence that the Board has in the Company's affairs and in the knowledge that the quantum of any balancing dividend later in the year will be predicated on the performance of the Company over the entire twelve months. The 1.5p dividend will be paid on 21 January 2011 to shareholders on the register at 7 January 2011 and the shares will trade ex dividend from 5 January 2011.

Outlook

The next six months should be a period of consolidation for us as we focus on 'bedding in' the new teams, complete our series of planned fund launches and continue to focus on fulfilling the potential of our more established teams. We will though remain alert for opportunities as these are exciting times in our industry.

I would like to thank all our staff for their tremendous efforts over the last six months, our clients for their continuing interest and support of our products and our shareholders for their ongoing support and enthusiasm.

Tim Woolley
Chief Executive

9 December 2010

Consolidated income statement

for the six months to 30 September 2010

	(Unaudited) Six months to 30 Sept 2010 £'000	(Unaudited) Six months to 30 Sept 2009 £'000
Revenue	12,072	6,823
Interest receivable and similar income	76	453
Gross income	12,148	7,276
Cost of sales	(886)	(314)
Net fees	11,262	6,962
Operating costs before share-based payments	(8,929)	(7,328)
Profit/(loss) on ordinary activities before share-based payments	2,333	(366)
Share-based payments	(368)	(189)
Profit/(loss) on ordinary activities before taxation	1,965	(555)
Taxation	(584)	111
Profit/(loss) on ordinary activities after taxation	1,381	(444)
Basic earnings per ordinary share	1.89p	(0.62)p
Diluted earnings per ordinary share	1.71p	(0.59)p
Adjusted earnings per ordinary share	2.17p	(0.34)p

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

Consolidated statement of comprehensive income

for the six months to 30 September 2010

	(Unaudited) Six months to 30 Sept 2010 £'000	(Unaudited) Six months to 30 Sept 2009 £'000
Profit/(loss) for the financial period	1,381	(444)
Loss on the revaluation of available-for-sale financial assets	(735)	(139)
Gain on the fair valuation of hedging contracts	39	93
Deferred tax in respect of employee share options	116	192
Deferred tax in respect of available-for-sale financial assets	206	39
Other comprehensive income	(374)	185
Total comprehensive income for the period	1,007	(259)

Consolidated balance sheet

as at 30 September 2010

	(Unaudited) Six months to 30 Sept 2010 £'000	(Audited) Year to 31 March 2010 £'000
Fixed assets	42	51
Available-for-sale financial assets	20,464	19,693
Goodwill	1,714	–
Deferred tax assets	484	220
Total non-current assets	22,704	19,964
Current assets		
Receivables	3,099	3,949
Cash at bank and in hand	17,179	19,706
Total current assets	20,278	23,655
Total assets	42,982	43,619
Non-current liabilities		
Deferred tax liabilities	–	127
Current liabilities		
Other financial liabilities	209	248
Trade and other payables	3,920	6,215
Current tax liabilities	630	896
Total current liabilities	4,759	7,359
Total liabilities	4,759	7,486
Net assets	38,223	36,133
Capital and reserves		
Called up share capital	1,895	1,877
Share premium account	15,905	15,268
Investment in own shares	(1,332)	(1,392)
Other reserves	211	585
Retained earnings	21,544	19,795
Total shareholders' funds – equity interests	38,223	36,133

Consolidated statement of changes in equity

for the six months to 30 September 2010

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital reserves £'000	Other reserves £'000	Retained earnings £'000	Total shareholders' funds £'000
As at 1 April 2009	1,827	15,097	(871)	404	416	22,745	39,618
(Loss) for the period	–	–	–	–	–	(444)	(444)
Other comprehensive income	–	–	–	–	185	–	185
Total comprehensive income	–	–	–	–	185	(444)	(259)
Equity dividends paid	–	–	–	–	–	(2,487)	(2,487)
Share-based payment transaction	–	–	–	–	–	189	189
As at 30 September 2009 (unaudited)	1,827	15,097	(871)	404	601	20,003	37,061
As at 1 April 2010	1,877	15,268	(1,392)	363	222	19,795	36,133
Profit for the period	–	–	–	–	–	1,381	1,381
Other comprehensive income	–	–	–	–	(374)	–	(374)
Total comprehensive income	–	–	–	–	(374)	1,381	1,007
Issue of share capital	18	637	60	–	–	–	715
Share-based payment transaction	–	–	–	–	–	368	368
As at 30 September 2010 (unaudited)	1,895	15,905	(1,332)	363	(152)	21,544	38,223

Consolidated cash flow statement

for the six months ended 30 September 2010

	(Unaudited) Six months to 30 Sept 2010 £'000	(Unaudited) Six months to 30 Sept 2009 £'000
Operating activities		
Cash generated from/(used in) operations	834	(3,019)
Tax paid	(1,145)	(1,977)
Net cash outflow generated from operating activities	(311)	(4,996)
Equity dividends paid	–	(2,487)
Receipts in relation to disposal of own shares	60	–
Receipts on issue of share capital as part of the acquisition of a subsidiary	655	–
Net cash inflow/(outflow) from financing activities	715	(2,487)
Investing activities		
Interest received and similar income	37	453
Purchase of property, plant and equipment	(14)	(5)
Proceeds from sale of available-for-sale financial assets	2,539	11,098
Purchase of available-for-sale financial assets	(4,006)	(8,547)
Acquisition of a subsidiary	(1,487)	–
Net cash outflow generated from/(used in) investing activities	(2,931)	2,999
Net decrease in cash and cash equivalents	(2,527)	(4,484)
Cash and cash equivalents at start of period	19,706	32,566
Cash and cash equivalents at end of period	17,179	28,082

Notes to the unaudited financial statements
for the six months ended 30 September 2010

1. General information, basis of preparation and accounting policies

Polar Capital Holdings plc ("the Company") is a public limited Company registered in England and Wales.

The unaudited interim condensed consolidated financial statements to 30 September 2010 have been prepared in accordance with IAS 34: Interim Financial Reporting.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2010 which 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 accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 March 2010, except as noted below.

Business acquisitions

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 and the amount of any non-controlling interest in the acquiree. 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 to the Group's 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.

Notes to the unaudited financial statements

for the six months ended 30 September 2010 continued

2. Revenue

	(Unaudited) Six months to 30 Sept 2010 £'000	(Unaudited) Six months to 30 Sept 2009 £'000
Investment management fees	11,018	6,346
Investment advisory fees	–	44
Investment performance fees	1,156	248
(Loss)/profit on hedging	(102)	185
	12,072	6,823

3. Profit on ordinary activities before taxation

	(Unaudited) Six months to 30 Sept 2010 £'000	(Unaudited) Six months to 30 Sept 2009 £'000
Profit on ordinary activities before taxation is stated after charging:		
Staff costs	6,291	4,957
Depreciation of tangible fixed assets	22	67
Operating lease rentals – land & buildings	315	117
– other	152	158
Auditor's remuneration		
Audit services		
– current year	75	75
Other services relating to taxation	42	5
All other services	–	2

4. Dividends

	(Unaudited) Six months to 30 Sept 2010 £'000	(Unaudited) Six months to 30 Sept 2009 £'000
Dividend paid	–	2,487

5. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the period of £1,380,697 (September 2009: loss £443,579) and on 72,981,606 ordinary shares (September 2009: 71,040,734), being the weighted number of ordinary shares.

The calculation of diluted earnings per ordinary share is based on the profit for the period of £1,380,697 (September 2009: loss of £443,579) and 80,760,728 ordinary shares (September 2009: 75,438,132), being the weighted average number of ordinary shares allowing for all options of 7,779,122 (September 2009: 5,184,742) which are dilutive.

The calculation of adjusted earnings per ordinary share is based on a profit for the period of £1,380,697 but adjusted for the share-based payments charge of £368,200 (September 2009: loss of £443,579 adjusted for the cost of share-based payments of £188,500) and 80,760,728 ordinary shares (September 2009: 75,438,132), being the weighted average number of ordinary shares allowing for all dilutive options.

As shown in note 20 of the Group's annual financial statements to 31 March 2010 the Group's total share-based payment charge is made up of a charge under a preference share scheme and a further charge for employee share options. For the period ended 30 September 2010 the charge for the preference share scheme amounted to £208,500 (September 2009: £98,500) and the charge for the employee share options amounted to £159,700 (September 2009: £90,000).

6. Available-for-sale financial assets

	(Unaudited) Six months to 30 Sept 2010 £'000	Audited year to 31 March 2010 £'000
At beginning of period	19,693	11,655
Additions	4,006	23,527
Redemptions	(2,500)	(15,385)
(Loss) on movement in fair value	(735)	(104)
At end of period	20,464	19,693

Notes to the unaudited financial statements

for the six months ended 30 September 2010 continued

7. Business Combinations

Acquisition of HIM Capital Holdings Limited

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

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

	(Unaudited) Fair value recognised on acquisition £'000
Assets	
Cash	513
Receivables	117
	630
Liabilities	
Payables	344
Total identifiable net assets at fair value	286
Goodwill arising on acquisition	1,714
Purchase consideration	2,000

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

The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of HIM with those of the Group.

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

8. Notes to the cash flow statement

Reconciliation of profit before taxation to cash generated from operations:

	(Unaudited) Six months to 30 Sept 2010 £'000	(Unaudited) Six months to 30 Sept 2009 £'000
Cash flows from operating activities		
Profit/(loss) on ordinary activities before tax	1,965	(555)
Less interest received	(76)	(453)
Depreciation of tangible fixed assets	22	67
Decrease in receivables	850	4,852
Decrease in trade and other payables	(2,295)	(6,819)
Share-based payment	368	189
Other non-cash reserve movements	–	(300)
Cash generated from operations	834	(3,019)

9. Related party transactions

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 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 were £2,831,430 (September 2009: £1,767,383). The amounts receivable at the period end in this respect were £674,460 (March 2010: £603,400).

At the end of the period, the Group had an outstanding loan due of £1,331,992 (March 2010: £1,391,992) from the Polar Capital Employee Benefit Trust, which was set up in 2002 to hold ordinary shares in the Company for the benefit of employees.

10. The publication of non-statutory accounts

The financial information contained in this Half Year report does not constitute statutory accounts as defined in S434 of the Companies Act 2006. The financial information for the six months ended 30 September 2010 and 2009 has not been audited. The information for the year ended 31 March 2010 has been extracted from the latest published audited accounts, which have been filed with the Registrar of Companies. The audited accounts filed with the Registrar of Companies contain a report of the independent auditor dated 29 June 2010. The report of the independent auditor on those financial statements contained no qualification or statement under S498 of the Companies Act 2006.

Shareholder information and advisers

Directors

T H Bartlam
Non-executive Chairman

T J Woolley
Chief Executive Officer

J B Mansell
Chief Operating Officer

H G C Aldous
Non-executive director,
Chairman of Audit Committee

B J D Ashford-Russell
Non-executive director

J M B Cayzer-Colvin
Non-executive director, Chairman of Remuneration Committee

Ms. S E Street
Non-executive director

M Thomas
Non-executive director

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Company Secretary
Neil Taylor

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Bankers

HSBC Bank plc

Nominated adviser and corporate broker

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Registrars

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Shareholder helpline
0871 384 2476

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

Website
www.shareview.co.uk

Shares

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

ISIN number
GB00B1GCLT25

SEDOL code
B1GCLT2

Dividends

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

Key dates

First interim dividend
For the financial year ended 31 March 2011

Amount
1.5p per ordinary share

Ex-dividend date
5 January 2011

Record Date
7 January 2011

Payment date
21 January 2011

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