POLAR CAPITAL HOLDINGS plc

Annual report 2008

Polar Capital Holdings plc Annual report 2008

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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.

Polar Capital at a glance

Corporate financial highlights

- Assets under management at 31 March 2008 down 8.8% at US$3.1bn (2007: US$3.4bn)
- Core operating profit, excluding performance fees, up over 110% to £6.0m (2007: £2.8m)
- Pre-tax profitability up 42.2% to £14.5m (2007: £10.2m)

Shareholder financial highlights

- Basic earnings per share up 3.5% to 14.6p (2007: 14.1p); diluted earnings per share up 3.2% to 13.0p (2007: 12.6p) and adjusted* diluted earnings per share up 8.1% to 14.6p (2007: 13.5p)
- Second interim dividend for the year of 7.0p per share (2007: 5.5p) giving a total dividend for the year, increased by 9.7%, to 8.5p per share (2007: 7.75p)
- Increase in shareholders' funds to £37.9m (2007: £32.6m) including cash and investments of £44.1m (2007: £35.3m)

* Adjusted to exclude cost of share-based payments, see note 8.

Our funds at a glance

Technology

31 March 2008	$737m
30 September 2007	$1,035m
31 March 2007	$1,013m

Japan

31 March 2008	$659m
30 September 2007	$1,068m
31 March 2007	$1,082m

UK

31 March 2008	$124m
30 September 2007	$108m
31 March 2007	$129m

Europe

31 March 2008	$568m
30 September 2007	$499m
31 March 2007	$358m

Global opportunities

31 March 2008	$627m
30 September 2007	$590m
31 March 2007	$437m

Global emerging markets

31 March 2008	$288m
30 September 2007	$446m
31 March 2007	$269m

Utilities

31 March 2008	$44m
30 September 2007	$47m
31 March 2007	$41m

Macro

31 March 2008	$70m
30 September 2007	$56m
31 March 2007	$53m

Healthcare

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

Note: above analysis excludes single $7m sub-advisory US equities account.

Analysis of changes in assets types for the 12 months to 31 March 2008

	Long	Hedge	Advisory	Total
Total assets as at 31 March 2007 ($m)	1,563	1,553	291	3,407
Long-only transferred to hedge ($m)	(95)	95	–	–
Performance and currency movements ($m)	(214)	88	(16)	(142)
Net subscriptions/fund closures ($m)	(328)	270	(63)	(121)
Total assets as at 31 March 2008 ($m)	**926**	**2,006**	**212**	**3,144**

Our strategy and markets

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, sales and regulatory platform.

Industry background

There are a number of trends in the fund management industry which should benefit Polar Capital

- an increase in overall savings as developed country populations increase their savings rates;
- an increase in asset allocations to alternative asset classes and absolute return strategies and subsequently the growing use of risk adjusted performance measurements;
- a growing polarisation between alpha and beta strategies, causing a shift in asset allocation away from traditional investment houses to, on the one hand, quantitative houses offering cheap and effective ways to track market indices (beta strategies) and, on the other hand, to managers such as Polar Capital who offer better risk adjusted returns through hedge funds, property, commodities, private equity, and other specialist asset management products (alpha strategies);
- the move of a number of private banking and wealth management groups to an open architecture environment, whereby a range of products managed by independent asset managers are offered to their customers so as to increase choice. These changes have the effect of opening up captive client pools to independent asset managers such as Polar Capital;
- the desire of many fund managers to have the freedom to manage funds in line with their own convictions rather than centrally imposed parameters and to have a direct financial participation in the performance of the funds they manage; and
- increasing compliance, regulatory and financial reporting burdens making it more attractive for managers to share a common operating and sales and marketing platform than setting up their own stand alone ventures.

Chairman's statement

Tom Bartlam
Chairman

> "This is the second annual report since Polar Capital Holdings plc listed on AIM and my first since becoming Chairman at the Annual General Meeting last September."

I would firstly like to thank on behalf of the other directors Mr Charles Hale, who stood down as Chairman last September but has agreed to remain on the Board as a Non-executive director, for his work and leadership in developing the Group since his appointment in 2002. I know that he has made a tremendous difference in guiding the business over the last five years.

Markets

The Group has been faced with a dramatic change in markets since August last year when the initial signs of the current credit crisis appeared. The bull markets of the last four years have given way to volatile markets driven not only by the credit crisis but also by concerns over reducing consumer expenditure and a weakening economy in much of the Western world, combined with the inflationary pressures caused by the very large increases we have seen in many commodity prices. Weakening equity markets have been accompanied by a movement of money to other uncorrelated asset classes. The challenges facing fund managers have increased and the rapid changes have found weaknesses in certain funds and investment strategies particularly those utilising significant leverage or investing in less liquid assets, leading in some cases to entire investment houses closing. The ability to navigate through the uncharted waters we now face will test many more managers and a period of continuing market uncertainty is likely before we see a return to more benign markets. While these difficult markets present challenges to companies such as Polar Capital I believe that we should be well placed to meet them with proven and talented fund managers, strong operational infrastructure and marketing capabilities backed by supportive shareholders.

Results

Our assets under management ("AUM"), having grown steadily during the year to a peak of US$4bn in October 2007, fell sharply to US$3.1bn at the end of our financial year as a result of the credit crisis adversely affecting markets generally, and in Polar Capital's case its Japanese and technology funds in particular. This represented a disappointing fall of 8.8% in AUM from US$3.4bn at the beginning of the year.

Chairman's statement
continued

Despite this our core profitability was up from £2.8m to £6.0m, pre tax profits grew by 42.2% to £14.1m and the adjusted earnings per share showed a 3.5% increase to 14.6p per share for the financial year. We have a strong balance sheet with cash of £31.0m and investments in our funds totalling £12.8m.

While these results benefited from the healthy start to the last financial year resulting from increasing AUM, it is prudent to sound a note of caution about the current financial year, with our core profitability in the first few months of the year being adversely affected by our reduced level of AUM.

The new fiscal year has started as anticipated in much the same way as the last one ended. Investment markets and especially financial stocks and consumer-related stocks have generally been weak with the focus on a further and more protracted economic slowdown, stagflation and the rising price of oil. The performance of the majority of Polar Capital's funds has however been quite encouraging through this period, with the performance of our long-only funds being relatively strong and our hedge funds broadly preserving capital and performing well against the competitor universe. As at 1 July 2008 the Group's AUM was approximately US$3.3bn.

Funds

Our range of funds has had mixed performance over the year with the Japanese funds feeling the impact of investor's disenchantment with the Japanese equity market. This has led to continuing redemptions in both our Japanese long-only fund and our underperforming Japanese hedge fund. We also decided, due to poor performance within the long-only Asian fund, to close that product and on the hedge fund side we have taken the opportunity to rationalise our fund range through the closure of the modest-sized Asian technology and Asian absolute return funds, both of which had delivered unsatisfactory returns. These decisions will allow us to devote greater resources to our remaining funds, many of which have delivered strong returns through these very turbulent markets.

While we are disappointed that our new financial year will be starting from a lower base level of assets than we anticipated, we believe that, once markets stabilise and volatility diminishes we are well placed to grow assets from both existing and new funds. We believe that the good performance of a number of our funds positions them well for current and future marketing.

Dividend

In line with the Group's stated policy on dividends of paying out a material proportion of net profits before performance fees, together with the majority of the net performance fees, we are paying a second interim dividend of 7.0p per share to shareholders on the register on 18 July 2008. The dividend will be paid on 8 August 2008. This will bring the total for the year to 8.5p per share, an increase of 9.7% over last year's dividend.

Board changes

As a product of becoming a public company the Group has over the last year appointed independent Non-executive directors to strengthen its Board. I joined the Board in July 2007 along with Hugh Aldous. Hugh was a partner in Grant Thornton and serves on a number of different company boards. He has taken over the chair of the Audit Committee. We have also appointed Michael Thomas as a director. Michael retired in December 2007 from full time executive duties after a long and successful career at Martin Currie as head of the Japanese team. He joined the Board in January 2008. I believe that both Hugh and Michael will prove insightful and will provide the wisdom and guidance that a growing company requires. Michael will stand for election at the next AGM and the Board supports his election.

Annual General Meeting

The Annual General Meeting this year will be held on 11 September and I encourage all shareholders to attend. This will provide you with an opportunity to meet the directors, and a separate notice detailing the business of the meeting is enclosed with this document.

Tom Bartlam
Chairman

15 July 2008

Chief Executive's statement

Mark Kary
Chief Executive

"The first full fiscal year as a public company has seen Polar Capital operating in one of the most challenging periods in investment markets for many years.

While this underlying environment has inevitably created a headwind for some of our asset growth targets and has led to adjustments in our business, we enter the new fiscal year believing that markets will continue to be challenging but cautiously encouraged about our prospects."

Review of the year – the investment industry

The fiscal year has been dominated by the global credit crisis which began in July 2007 and which led to very difficult and volatile market conditions initially in August. There were a number of hedge funds in particular that performed poorly during this period. These disappointments were largely in quantitative strategies, but the 20-30% drawdowns in a number of previously well regarded and high profile funds sparked the first serious debate on the sustainability and reliability of hedge fund returns arguably since the collapse of Long-Term Capital Management during the Russian Crisis of August 1998. The deterioration of the US housing market, the dislocation in funding and capital markets, and the collapse of structured credit markets all led to significantly higher volatility levels from the benign levels of the past few years and the first sustained period of difficult equity market conditions since 2002. The large write downs by many of the world's largest banks and investment banks accentuated the crisis and eventually led to the failure of a number of high-profile hedge funds and the rescue of Bear Stearns in March 2008. This crisis and the inevitable concerns over the spillover into corporate earnings and the real economy have caused developed global equity markets to fall around 25% from their 2007 autumn highs.

This crisis and especially the headline news on the closure and very poor performance of a number of hedge funds have led to investor concerns about their exposure to the asset class and the balance of their allocations. This has led in the short term to reduced inflows for the industry and the first quarter of 2008 saw the lowest quarterly net inflows into the hedge fund industry since 2004.

In the short term there is clearly some digestion going on in the hedge fund industry. Recent industry returns have been too volatile and too correlated to equity markets and to each other, and some of the positive expectations of diversification have not been achieved. Investors are starting to reallocate at least partly to less aggressive, less directional, more fundamentally driven, more consistent and less correlated strategies.

Chief Executive's statement continued

Review of the year – Polar Capital

Polar Capital's business has inevitably been challenged by this environment. Our assets under management which grew strongly in the first half of the year shrunk in the second half of the year for a number of reasons: the 40% of our assets that are invested in long-only funds fell as world stock markets fell from their highs; the Japanese franchise has suffered in particular as the market has fallen 27% from its July 2007 highs, as investors have aggressively de-allocated from the region, and following disappointing performance from our Japanese hedge fund; overall asset inflows have slowed as investors have taken stock of their allocations; and finally Polar Capital announced early in the new year that it was closing three of its funds (Technology hedge fund, Asia hedge fund and Asia long-only). These funds represented approximately US$194m of assets and their closure stems from the Company's long held view that all its fund managers need to deliver strong and consistent risk adjusted investment performance. Inevitably difficult market conditions are more likely to expose the weakest funds and it will always be important that Polar Capital aims to achieve and maintain the highest standards.

In the autumn of 2007, we recruited Gareth Powell from Framlington and Dan Mahony from Morgan Stanley to develop the new Healthcare business unit. We launched the Global Healthcare Opportunities Fund in December 2007, and we are pleased with the performance and progress to date.

At the 31 March 2008, 64% of our assets were in hedge fund strategies and 36% in long-only. While our philosophy continues to be to build both businesses through the identification of talented managers we do think that the current skew to hedge funds better suits the environment that we are in and that in the medium term it is likely that this part of our business is likely to grow more quickly.

Investment performance

With the exception of the three funds now closed and our Japanese equity long/short fund, we are encouraged by the investment performance of our funds. Our goal for our long-only business is to protect assets to the extent possible in these difficult market conditions with differentiated product and performance and to ensure that the funds are well positioned for a resumption of the uptrend in markets.

Our hedge funds generally performed well in 2007 and again on a year to date basis in 2008. Particularly encouraging has been the performance of our Discovery, Paragon, Conviction, Forager, UK, Elbrus and Latam funds. In an environment where many of the competitors have struggled, this would suggest that these funds are well set to attract new assets.

Changes in the investment environment

Until the summer of 2007, the investment community had enjoyed a four year bull market in equity and credit virtually unparalleled in history. The recent turbulence has had the inevitable impact of shaking the tree very hard and the competitive landscape has and will continue to alter very markedly. What appears clear is that investors are slowly beginning to realise that the secular environment for financial markets may have changed, that the era of unrestricted access to cheap and plentiful finance may be over, and that a more discerning and conservative approach to asset allocation needs to take place. Some of the more directional and in hindsight more correlated allocations to real estate, long-only equities and private equity are being revisited, and arguably there may be a more guarded approach to commodities and emerging markets at least in the short to medium term. A logical conclusion would suggest that investors lower their bull market weightings to equities, and that in the hedge fund universe they seek out strategies that genuinely seek to protect capital and that have the ability to produce uncorrelated and positive returns in all environments.

In the short term there is clearly some indigestion going on amongst asset allocators. However, as investors revisit their strategies they will start to reallocate at least in part to less aggressive, less directional and less correlated funds on the one hand, and more fundamentally driven and consistent funds on the other.

Current outlook

While such an environment will clearly present challenges for the business, we do think there are several very important opportunities for the Company. Firstly the opportunity for market share gains is perhaps better than at any time. Investors are revising their allocations and the choice of strategies that have the potential to achieve either strong relative or absolute returns is more limited than for many years. We do believe that Polar Capital has a number of funds that are especially attractive in this environment; uncorrelated strategies like our FX/Macro Discovery Fund, products with a record of preserving capital at difficult times like UK Equity long/short Fund, more defensive sector strategies like Healthcare and Utilities, and funds positioned for more difficult times like the Paragon Fund all represent very differentiated marketing opportunities for us. At the same time there has been significant weakness in the smaller and medium capitalisation sectors especially in the UK, Europe and Japan creating investment opportunities which on a long-term basis look more compelling than for many years.

The Forager and Conviction Funds specifically focus on these sectors in Europe, while our Japanese long-only business has a long pedigree of operating in the smaller company space in Japan. While it is never going to be easy to predict market trends and investor sentiment we are encouraged with the potential for demand for a number of our funds in this current environment.

The second opportunity is to further diversify the business. As we have indicated before we are encouraged that our European and Global Opportunities businesses continue to grow in importance, so that now with Technology and Japan they represent the more established units within the overall business. We would expect that during the course of the year that both the UK and Macro businesses can grow, and that some of our other younger businesses will increasingly get traction. Furthermore we believe that the current climate will potentially present more attractive recruitment and bolt on acquisition opportunities; our aim continues to be to add one to two new business units each year.

The third opportunity is presented by the UCITS III Regulatory Environment. We believe the UK Private Wealth Management industry has been rather slow and reluctant to embrace allocations to hedge funds. Historically this has been driven by the industry's lack of focus on third-party collectives, by a lack of familiarity and comfort with the asset class, by the positive tone to equity markets, and by tax and regulatory considerations. Today allocations to third-party collectives are rising significantly, there is generally more familiarity with the asset class although some of the more sensationalist headlines mean the scepticism will not disappear immediately, and equity market conditions have become more difficult. Importantly the European Union's UCITS III Product Directive has expanded the range and type of financial instruments permitted in a UCITS fund. As a result the UK Private Wealth Management industry can now for the first time access an open-ended regulated fund vehicle inside which a genuine absolute return capital preservation strategy can be managed. Polar Capital intends to capture this opportunity having launched a UK equity focused absolute return UCITS III fund. We already have a six year track record on running the identical strategy in an offshore Cayman Island structure where both the absolute and risk adjusted returns compared to the FTSE 100 have been impressive. While we expect this new business area to build gradually we are hopeful that this can become an important contributor to the business over a number of years.

Summary

From an investment market's standpoint, we are now seeing the financial crisis spilling over into a more prolonged downturn in the global economy. Despite this we are encouraged by the current positioning of the business. We have a number of the funds and strategies which should lend themselves well to current and expected investor demand. At the same time our fund performance has generally started the calendar year positively on a relative basis, and should permit us to raise assets in a number of different areas.

Our infrastructure platform is arguably stronger than it has ever been with the investment we have made in sales and marketing resource starting meaningfully to pay off and with a significant new hire in the risk management space recently announced.

We believe these market conditions, whilst undoubtedly challenging, represent a real opportunity for Polar Capital to demonstrate differentiated performance and continue to attract top talent.

Staff and shareholders

The market conditions have meant that this has been a difficult and challenging time for our staff and shareholders. I would like to thank them for their terrific loyalty and support, and would hope that there are enough exciting opportunities in the business today that we can all look forward to rather better times going forward.

Mark Kary
Chief Executive

4 July 2008

Financial review

John Mansell
Chief Operating Officer and Finance Director

The financial review discusses the results for the Group for the year ended March 2008 and specifically refers to the Group's income statement and balance sheet.

Profit and loss account

The year saw a 15% increase in the Group's income to £47.6m (2007: £41.3m). Management and advisory fees accounted for £5.8m of the increase as they rose to £26.5m (2007: £20.7m) and performance fees for the balance of £0.5m as they rose to £21.1m (2007: £20.6m). Hedge funds generated 65% (2007: 46%) of the firm's £26.4m ad valorem management fees (often termed by the Group as its "Core Income"). The increase was simply a function of the increase in the value and percentage of hedge fund assets managed.

On going operating expenses increased 11.2% to £31.7m (2007: £28.5m once the £1.0m of one-off IPO costs are extracted); the single largest component of which are the firm's compensation costs which are analysed below:

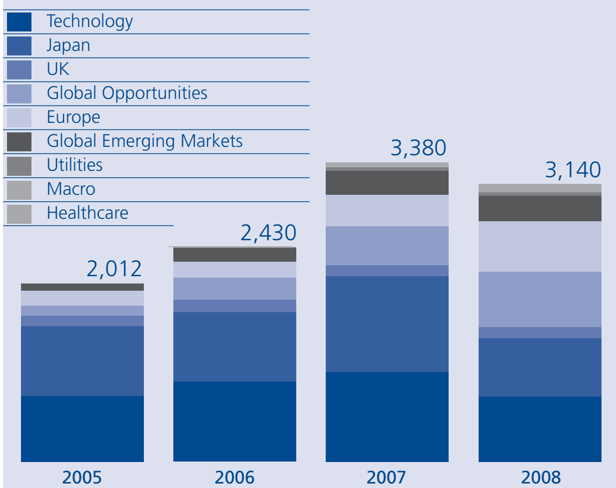
	Year to 31 March 2008 £'m	Year to 31 March 2007 £'m
Salaries and bonuses	**8.1**	7.5
Core distributions	**2.2**	2.3
Other staff costs	**0.9**	0.7
Total pre performance fee interests	**11.2**	10.5
Performance fee interests	**13.0**	12.5
Total cash compensation cost*	**24.2**	23.0
Shared-based payments	**1.2**	0.5
Total compensation cost*	**25.4**	23.5

*Of this cost £9.6m (2007: £15.4m) was paid as partnership profit allocations.

The table shows that in absolute terms cash compensation costs excluding performance fee distributions rose 6.7% to £11.2m (2007: £10.5m) with total compensation costs including performance fee interests rising 6.0% to £24.2m (2007: £23.0m). In relative terms the compensation costs have moved as follows:

- as a percentage of total operating costs, cash compensation costs accounted for 76.3% of operating costs (less listing fees) down from 80.1% in 2007; and

Assets under management by business unit
US$'m



- as a percentage of gross revenues, cash compensation costs fell to 50.8% from 55.7% in 2007.

Compensation costs include both staff costs and partnership profit allocations.

The overall profit before tax for the period can be broken down into the following buckets:

	Year to 31 March 2008 £'m	Year to 31 March 2007 £'m
Core operating profit	**6.0**	2.8
Performance fee profit	**8.0**	8.0
Interest & similar income	**1.7**	0.9
	15.7	11.7
IPO costs	**–**	(1.0)
Profit before tax before share-based payments	**15.7**	10.7
Share-based payments	**(1.2)**	(0.5)
Profit before tax	**14.5**	10.2

The core operating profit of the business benefited from the fact that revenues have increased more than costs. Consequently the core operating margin (excluding interest and similar income) increased in the year to 22.7% (2007: 13.5%) and the overall operating margin increased to 29.4% (2007: 26.1%). These operating margin metrics are a key litmus test to the operating efficiency of the business. It is encouraging that the increase in average AUM has, as expected and hoped, delivered a corresponding increase in margin.

The tax charge which in 2007 was depressed by an unexpected and exceptional one-off benefit from options that had been granted over a number of years has returned to a more normal 30.1% (2007: 23.8%) excluding share-based payments.

Share-based payments

The face of the consolidated income statement includes a line titled "share-based payments" which accounts for £1.2m of costs in 2008 and £0.5m in 2007. The vast majority of these two figures is the product of the imposition of IFRS 2 in relation to the characteristics of Polar Capital's preference shares.

Analysis of the cost of share-based payments:

	Year to 31 March 2008 £'m	Year to 31 March 2007 £'m
IFRS cost attributed to preference shares	**1.1**	0.5
IFRS cost attributed to conventional options	**0.1**	–
Total cost of share-based payments	**1.2**	**0.5**

These preference shares which, in the event that a manager is successful, deliver to their holder equity in the Group are designed to simultaneously deliver to the Group an increase in profitability due to the sacrifice that a manager makes as they give up their previous interest in revenues generated from their products. Despite this intended earnings-enhancing feature the application of IFRS has imposed a cost, as quantified above, to reflect the future dilution without recognising the offsetting benefit.

The imposition of this IFRS has dampened the Group's EPS figures:

	Year to 31 March 2008	Year to 31 March 2007
Diluted earnings per share*	**13.0p**	12.6p
Impact of share-based payments	**1.6p**	0.9p
Adjusted diluted earnings per share	**14.6p**	13.5p

*The EPS figures have been calculated to reflect the consideration receivable when options vest. This credit was not recognised in 2007.

Preference shares

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

In the year ended March 2008 one set of these preference shares vested. The product of the event was that in the year £2.2m of costs were saved (not distributed) in return for the issue of 5.6m shares over three years. In percentage terms the profits of the Group benefited 16.0% from the event in return for a 7.0% increase in the diluted share count. As at March 2008 a further nine sets of these preference shares remain, and of these, one set has the ability to call for an equity conversion where the call has to be made by 30 November 2008 if conversion is to take place effective from 31 March 2008.

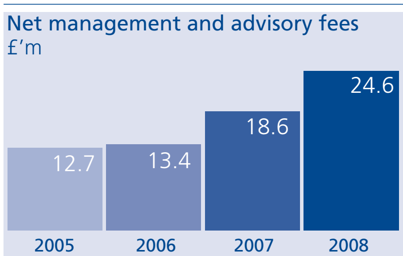
Balance sheet and cash

The generation of cash has remained an important characteristic of the Group. In the year £12.1m (2007: £5.1m) of cash was generated from operating activities.

The Group made net investments into its managed funds of £9.2m in the year to take its investment in its own funds to £12.8m (2007: £3.9m). The sum of these realisable investments plus cash rose to £44.1m at the year end (2007: £35.3m). Total shareholders' funds have risen to £37.9m (2007: £32.6m).

Application of new accounting standards

The financial statements have been prepared under IFRS. A reconciliation showing how last year's 2007 numbers have been affected by the application of the new standards is included by way of note to the accounts.



Percentage increase
2007–2008
+32%

Financial review continued

Regulatory environment

The past financial year has witnessed the arrival of two significant regulatory standards that are a product of Europe's desire to harmonise investment services and practices across the community, firstly the Capital Resources Directive ("CRD") and secondly The Markets in Financial Instruments Directive ("MiFID"). The common thread that links these developments is the Internal Capital Adequacy Assessment Process ("ICAAP") a piece of work required by regulated entities to challenge the sufficiency of a firm's regulatory capital as measured against the risks faced by a firm. Polar Capital took the opportunity to re-examine its appetite to risk and to challenge its exposure to all risks identified. The product of the exercise was confirmation that the Group continued to have sufficient regulatory capital to manage the risks that it faced.

This conclusion was not a surprise given the relative strength of the Group's balance sheet and the limitations that the Group is not permitted to take any principal trading position nor to enter into a client relationship with retail customers.

In the year the Group appointed a new Head of Compliance and Legal Affairs. The appointment signalled the first time that this role had been split away from the direct responsibility of the COO. We are delighted to have obtained the services of a senior compliance professional who has joined the firm from the FSA.

Other matters

As we entered the year ended March 2008 Polar Capital was encouraged by the appointment of additional independent directors to the Boards of its open ended products. An immediate benefit of this has been the establishment of a more challenging and comprehensive pricing committee whose objective is to ensure the correct and appropriate pricing of all instruments in all of Polar's open ended products. The committee has been of particular use during these times of such market volatility and illiquidity.

Principal risks and uncertainties

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

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 can not be predicted but the Group seeks advice on such matters from its advisors and seeks to operate within the applicable legislation.

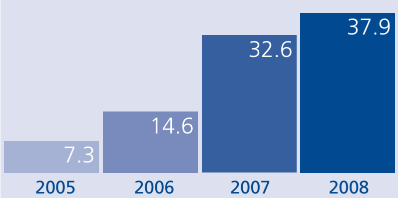
Failure to comply with regulations particularly those issued by the Financial Services Authority or the London Stock Exchange could result in the Group losing the ability to operate as a regulated financial services business or its AIM listing being suspended or withdrawn. The Group's investment activities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

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

Economic and market risk

Economic risks arise from the concept, design and implementation of the Group's business model. The Group operates in a highly competitive industry and if it is unable to compete effectively with its competitors its business could be materially adversely affected. Polar Capital's key areas for

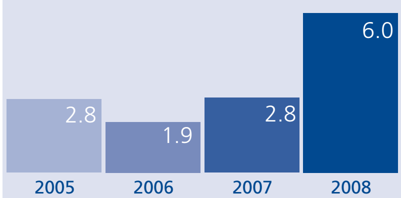
Shareholders' funds
£'m



Percentage increase
2007–2008

+16.3%

Core profitability
£'m



Percentage increase
2007–2008

+114%

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"). 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.

Business risks

Business risks arise from the commercial aspects of operating the business. If Polar Capital's investment performance is unsatisfactory this could have a material adverse effect on the Group's business. Portfolio managers meet regularly as a group to discuss investment themes and ideas and individually with the executive to review performance and discuss strategy.

The Group operates in a competitive industry and the ability to recruit, develop and retain capable people is of fundamental importance to Polar Capital's strategy. The loss of a number of key employees, in particular highly-skilled senior fund managers, may hinder the future growth of the business. The Group aims to remunerate staff in line with market practice, to provide development opportunities and to encourage staff motivation and retention.

The Group is subject to the effects of exchange rate fluctuations as UK Pounds Sterling is the Group's reporting currency but the Group's business is often conducted in jurisdictions which generate revenue, expenses and liabilities in other currencies. A hedging policy is operated by the Group and the financial parameters of such hedging has been summarised in note 10 to the accounts.

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

Operational risk

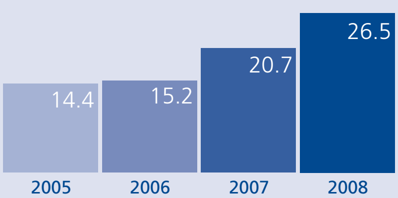
Operational risk arises from potentially inadequate or failed processes, people and systems or from external factors. If any of the Group's financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in the Group's internal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

The Group's core businesses have in place disaster recovery plans covering current business requirements, which have been tested and are considered adequate. Suppliers of administration and IT services and other back office functions have disaster recovery plans and business continuity plans. The Group also continues to develop its systems in response to expected growth and increased sophistication in the investment management market. The Board believes that the Group has appropriate financial and management controls in place. The Board regularly reviews statements on internal controls and procedures and subjects the books and records of the Company to an annual audit.

John Mansell
Chief Operating Officer and Finance Director

15 July 2008

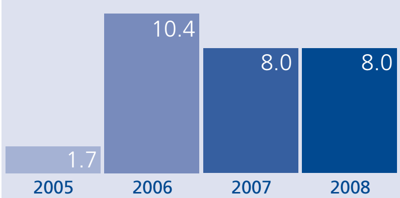
Gross management and advisory fees
£'m



Percentage increase
2007–2008

+28%

Net performance fee profitability
£'m



Percentage decrease
2007–2008

+0%

Board of directors

Chairman

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

Executive directors

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

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

Brian Ashford-Russell*
Director/Founder
Appointed to the Board in 2002. Brian was head of the technology team at Henderson Global Investors from 1987 until his resignation in September 2000 to set up Polar Capital in 2001. He was the appointed fund manager of Polar Capital Technology Trust plc, from launch in 1996 until May 2006.

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

Non-executive directors

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

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

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

Peter Buckley^
Non-executive director
Appointed to the Board in 2002. Peter is Chairman of Caledonia Investments plc and is a non-executive director of Close Brothers Group plc, and Bristow Group Inc. He is a member of the Institute of Chartered Accountants of Scotland.

Sarah Street*^
Non-executive director
Appointed to the Board in 2006. Sarah is Executive Vice President and Chief Investment Officer of XL Capital Ltd and a non-executive director of the Managed Funds Association.

Jamie Cayzer-Colvin†*^
Non-executive director and Chairman of Remuneration Committee
Appointed to the Board in 2002. Jamie is a director of Caledonia Investments plc and a non-executive director of Close Brothers Group plc, India Capital Growth Fund plc, Eddington Capital Management Limited and Ermitage Limited.

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

Directors' report

The directors present their report and the audited consolidated financial statements of Polar Capital Holdings plc for the year ended 31 March 2008.

Principal activities

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

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

Business review and future developments

A review of the performance and likely future development of the business of the Company and Group is presented in the Chief Executive's statement and the Financial Review on pages 7 to 13. Principal risks and uncertainties facing the Company and its subsidiary undertakings and how they are controlled are described on pages 12 and 13. The Group's head office is in London and it has offices in Tokyo, Kiev and Singapore.

The Group expects to continue expanding its funds under management in the coming year through growth in the existing funds and through new fund management mandates.

Results and dividends

The consolidated results for the Group for the year ended 31 March 2008 are shown on page 27. The profit for the year attributable to shareholders was £9,635,000 compared with £7,654,000 in 2007.

The directors declared on 11 December 2007 a first interim dividend for the year ended 31 March 2008 of 1.5p on each share which was paid on 19 January 2008 to shareholders on the register on 21 December 2007. A second interim dividend of 7.0p per share, was declared on 4 July 2008 in respect of the year ended 31 March 2008 to make a total distribution for the year of 8.5p per share (2007: 7.75p per share).

The second interim dividend will be paid on 8 August 2008 to shareholders on the register on 18 July 2008. The shares will trade ex-dividend from 16 July 2008.

Post Balance Sheet events

Since the balance sheet date the Moscow office has been closed and a new office in Kiev opened. The Singapore office is in the process of being closed.

Capital structure

The capital structure of the Company is detailed in Note 15 on page 41. Of the 71,443,979 shares in issue at the year end, 1,100,160 are held by the Trustee of the Polar Capital Employee Benefit Trust for the benefit of the Company and employees. The Trustee has elected to waive all dividends in respect of any shares held by the Trustee. The Trustee cannot vote the shares held by it. Each share has one vote on a poll.

During the year the Company issued 120,000 shares for cash in satisfaction of the exercise of share options and 4,420,755 shares as a result of the crystallisation process of the A and B class Preference Shares issued by Polar Capital Partners Limited to fund managers and their teams.

Directors

Biographies of the directors who served during the year are set out on pages 14 and 15.

On 24 July 2007, Mr Bartlam and Mr Aldous were appointed as additional directors of the Company and in accordance with the Articles of Association retired at the AGM on 19 September 2007, and being eligible, were re-appointed.

On 15 January 2008, Mr Thomas was appointed as an additional director. As the forthcoming AGM will be the first general meeting since Mr Thomas's appointment, he will be seeking election under the Company's Articles of Association.

The Articles of Association require all directors who held office at the time of the two preceding AGM and did not retire by rotation at either of them to retire from office by rotation. All the directors who were in office at the last AGM retired and were either appointed or re-appointed at that AGM. No directors are therefore required to retire under this provision and offer themselves for re-appointment at this year's AGM.

Directors' interests

The interests of the directors in the Company's shares are detailed in the directors' remuneration report on page 23.

None of the directors except for Mr Ashford-Russell had an interest in any contract with the Group or Company. Mr Ashford-Russell is a director of Polar Capital Technology Trust plc which has contracted with Polar Capital LLP for the provision of investment management services. Details are provided in Note 22 on page 49.

Donations

Charitable payments made during the year amounted to £30,000 (2007: £30,000). Charitable payments in 2007 were made to over 20 different national and local charities with a common theme of children's medical and welfare needs.

Creditor payment policy

The Company does not follow any code or standard on payment practice, but seeks to agree the terms of payment with its suppliers at the time of contract, and to make payment in accordance with those terms subject to satisfactory performance. The Company is committed to paying suppliers within 30 days of receipt of a valid invoice.

Substantial shareholdings

As at 15 July 2008, the Company had received the following notices for the purposes of Part 5 of the FSA's Disclosure and Transparency Rules based on the shares in issue at 30 June 2008:

	Number of ordinary shares	% of voting rights held
Caledonia Investments PLC	10,666,640	14.9
B J D Ashford-Russell	10,000,000	14.0
T J Woolley	8,800,000	12.3
XL Capital	8,000,000	11.2
R J Salter	5,248,840	7.4
M R Kary	2,220,000	3.1
C M Hale	2,160,000	3.0
P Hardy	2,172,735	3.0

In all cases the interest was held directly.

Auditors

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

New Articles of Association

A special resolution will be proposed at the AGM on 11 September to adopted new Articles of Association. The Companies Act 2006 ("the 2006 Act"), which is replacing the Companies Act 1985 ("the 1985 Act") is being implemented in stages and will be fully in force by 1 October 2009. Under Resolution 7, the Company is adopting new Articles of Association ("the Articles") which will reflect the changes in company law brought about by the 2006 Act which are already in force or which are to come into effect on 1 October 2008, as well as some minor technical or clarifying changes.

Annual General Meeting ("AGM")

The AGM will be held at Cayzer House, 30 Buckingham Gate, London SW1H 6NN at 12.30pm on 11 September 2008. A separate notice of meeting is enclosed with this report.

By order of the Board

Neil Taylor
Company Secretary

4 Matthew Parker Street
London SW1H 9NP
15 July 2008

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 are contained in both the staff handbook and the compliance manual.

Staff welfare

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

The environment

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

Treating Customers Fairly

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

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 Combined Code on Corporate Governance does not apply, however the Board intends to comply with the requirements of the Corporate Governance guidelines published by the Quoted Companies Alliance (the QCA Guidelines) for AIM companies and with certain of the principal requirements of the Combined Code.

This report describes how the Company has applied the principles of good Corporate Governance throughout the year and steps which are being taken to develop the corporate policies.

The Board

As stated at the IPO in February 2007 the directors were aware that the composition of the Board was not fully in compliance with the QCA Guidelines. The Company engaged Hanson Green to assist in the identification of suitable candidates to be additional Non-executive directors and on 24 July 2007, Mr Tom Bartlam and Mr Hugh Aldous were appointed to the Board. Mr Bartlam became Non-executive Chairman following the AGM on 19 September 2007 when Mr Charles Hale stood down as Chairman but remained as a Non-executive director. Mr Aldous took over the Chairmanship of the Audit Committee. A further independent Non-executive director, Mr Michael Thomas was appointed to the Board on 15 January 2008.

Composition

The Board comprised of 11 directors as at 31 March 2008, four of the directors are executive and seven Non-executive. The directors who served during the year are listed on pages 14 and 15 together with their individual biographies.

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

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

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 Company.

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.

Role and responsibilities

The Board as a whole is responsible for the Group's objectives and policies and the proper governance of the Company. It normally meets six times a year and has a formal agenda of items for consideration at each meeting but also convenes at additional times when required.

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

Corporate Governance
continued

The posts of Chairman and Chief Executive are held by different directors. The Board was led by the Mr Hale up to the AGM in September 2007 when Mr Bartlam succeeded him. The Chairman's primary role is to ensure that the Board and individual directors are able to operate efficiently by setting the agenda, style and tone of Board discussions to promote constructive debate and effective decision making. The Chief Executive, Mr Kary, heads the executive management team and is primarily responsible for the implementation of the Board's policies and strategies, effective communication with shareholders and that all Board members develop an understanding of the views of investors and for managing the activities of the Company other than in relation to those matters specifically reserved to the Board or delegated to its committees.

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

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

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

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

Directors' appointment, induction and training

All new directors appointed by the Board are required to seek election by shareholders at the next general meeting of the Company following their appointment and subsequently all directors are required to retire by rotation in accordance with the Articles. Under the terms of the Articles any director who held office at the two previous AGMs is required to offer himself for re-appointment at the next AGM.

Mr Thomas stands for appointment at the AGM as this will be the first AGM since he joined the Board. No other directors stand for re-appointment at the forthcoming AGM as all the other directors stood for re-election at the last AGM.

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

Board committees

The Board has created and delegated certain specific areas of responsibility to four standing committees.

Allotment Committee

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

Audit Committee

The Audit Committee was Chaired by Mr Cayzer-Colvin until 18 September 2007 when Mr Aldous became Chairman. The other members of the Committee are Mr Bartlam, Mr Cayzer-Colvin and Mr Hale. Mr Ashford-Russell and Mr Woolley are entitled to attend all meetings of the Audit Committee as observers. The Audit Committee formally meets at least three times a year. Only Committee members and observers are entitled to attend meetings, however the Chief Executive, the Finance Director, the Chief Operating Officer and the Chief Risk Officer and other directors may be invited to attend for all or part of the meetings. The external Auditors of the Company will attend the meetings on a regular basis and will have unrestricted access to the Committee and its Chairman.

The purpose of the Audit Committee is to assist the Board in discharging its Corporate Governance responsibilities in relation to the Company's external Auditors and to provide assurance regarding the reliability and appropriateness of the disclosure of the financial statements, any announcements relating to the Company's financial performance and for reviewing any significant financial reporting judgements contained in them. The Committee performs this role through monitoring the integrity of the financial statements of the Group and the system of accounting to ensure compliance with relevant and appropriate account standards. The Committee also considers by way of meetings and reports, the appointment, remuneration and work of the Auditors including the independence of the Auditors, the effectiveness of the audit and any changes in the terms of their appointment. The Committee further examines and receives reports on the Company's regulatory capital adequacy requirements, compliance, and control procedures and systems for managing risks arising from the operation of the business, its financial position or the regulatory environment which governs it.

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

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

Remuneration Committee
The Remuneration Committee is Chaired by Mr Cayzer-Colvin and its other members are Mr Hale, Mr Bartlam, Mr Ashford-Russell, Mr Woolley, Ms Street and Mr Thomas. The Remuneration Committee meets as required and at least once each year. Other senior management and external advisers may be invited to attend meetings as the Remuneration Committee considers appropriate. The Committee has general oversight of all remuneration arrangements for executive directors and senior managers and it considers all material elements of remuneration policy, remuneration and incentives with reference to independent remuneration research and professional advice. Recommendations are made to the Board on the framework for executive remuneration including the design and implementation of equity based incentive schemes.

The full terms of reference of all the Committees are published on the Company's website.

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

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

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

The Audit Committee, as part of its role, has reviewed and monitored the effectiveness of the internal controls for the year ended 31 March 2008 and concluded that there was a satisfactory process in place to identify and manage such risks.

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

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

Audit Committee report

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

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

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

Remuneration Committee report

The Remuneration Committee has met on a number of occasions over the past year to consider recommendations from the executive for remuneration packages for existing and new fund managers and to consider salary and bonus payments across the Group.

The Committee has also considered equity incentives and share option arrangements and has reviewed as part of its annual assessment the remuneration trends across the Group.

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

During the year, the Remuneration Committee received support from the Chief Operating Officer and the Company Secretary.

Executive directors

Appointed terms

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

Remuneration

Each executive director receives a basic salary determined by the Committee and is considered for a discretionary bonus based on a general range of factors including the overall success of the Company and the individual's seniority, function and personal contribution. Executive directors also benefit from medical, life and permanent health insurance.

They also participate in the Company's pensions arrangements. The Company's policy on pension provision is to provide a fixed percentage of basic salary to be paid into personal pension arrangements or, in the case of Mr Ashford-Russell, as a cash supplement. The percentage of basic salary is 10% for all staff and directors.

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

Basic salaries paid to the executive directors were:

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
M R Kary	**250,000**	250,000
J B Mansell	**150,000**	150,000
B J D Ashford-Russell*	**137,500**	137,500
T J Woolley	**125,000**	125,000

* includes 10% pension paid as salary

Further details of directors' remuneration disclosable under the Companies Act are contained in note 5 on page 36.

Non-executive directors

Appointment terms

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

Remuneration

The Chairman receives a fee of £70,000 pa.

Each of Mr Buckley, Mr Cayzer-Colvin and Ms Street are entitled to a Non-executive director's fee of £20,000 pa which, under the terms of their appointment may be paid to their principal employers if so elected or to their designee.

Remuneration Committee report
continued

In the year to 31 March 2008:
- Caledonia Investments plc elected to receive the fees for Mr Buckley and Mr Cayzer-Colvin; and
- Ms Street, waived her fee for the period from 31 March 2007 to 1 January 2008 (£15,000) and from that date the fee has been paid to XL Re.

Mr Aldous and Mr Thomas each receive a Non-executive director's fee of £30,000 pa and Mr Aldous received an additional fee of £5,000 for chairmanship of the Audit Committee. Mr Hale received a fee of £35,000 pa.

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

Directors' interests in the shares of the Company

The interests of those directors who were in office at 31 March 2008, the end of the financial year and 31 March 2007 or their date of appointment are as follows:

	31 March 2008	31 March 2007
T H Bartlam	**0**	0*
H G C Aldous (see note below)	**10,000**	10,000*
B J D Ashford-Russell	**10,000,000**	10,000,000
P N Buckley	**0**	0
J M B Cayzer-Colvin	**4,250**	4,250
C M Hale	**2,160,000**	2,160,000
M R Kary	**2,220,000**	2,220,000
J B Mansell	**1,880,000**	1,880,000
S E Street	**0**	0
M Thomas	**0**	0**
T J Woolley	**8,800,000**	8,800,000

* On date of appointment at 24 July 2007
** On date of appointment at 15 January 2008

There have been no changes, except as noted below, in the interests of the directors who were in office at 31 March 2008 in the shares of the Company between 31 March 2008 and 15 July 2008.

On 4 April 2008 Mr Aldous purchased 10,000 shares and on 4 July 2008 Mr Aldous purchased a further 10,000 shares to bring his total beneficial interest to 30,000 shares.

Options to acquire ordinary shares held by the directors during the year ended 31 March 2008 are shown in the table below:

Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Exercisable from	Expiry date	
M R Kary	1 Apr 05	340,000	0	0	0	340,000	50p	31 Mar 09	31 Mar 15	Note 1
	1 Apr 05	340,000	0	0	0	340,000	50p	31 Mar 10	31 Mar 15	Note 2
	1 Apr 05	200,000	0	0	0	200,000	50p	1 Apr 08	31 Mar 15	

The opening balance represents the number of shares held under option on 31 March 2007.

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

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

Statement of directors' responsibilities in relation to the Group 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 as adopted by the European Union.

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

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and

- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Audit information

Each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of the information.

Going concern

The directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors' report to the shareholders of Polar Capital Holdings plc
for the year ended 31 March 2008

We have audited the consolidated and parent company financial statements of Polar Capital Holdings plc for the year ended 31 March 2008 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated and Company Balance Sheets, Consolidated Cash Flow Statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the director's report is consistent with the Group financial statements.

Ernst & Young LLP
Registered Auditor

London
15 July 2008

Consolidated Income Statement
for the year ended 31 March 2008

	Notes	**Year to 31 March 2008 £'000**	Year to 31 March 2007 £'000 restated
Revenue	2	**47,569**	41,269
Interest receivable and similar income		**1,715**	1,108
Gross income		**49,284**	42,377
Cost of sales		**(1,896)**	(2,165)
Net fees		**47,388**	40,212
Operating costs before share-based payments		**(31,689)**	(29,473)
Profit on ordinary activities before share-based payments		**15,699**	10,739
Share-based payments		**(1,204)**	(533)
Profit on ordinary activities before taxation	3	**14,495**	10,206
Taxation	6	(**4,860)**	(2,552)
Profit on ordinary activities after taxation		**9,635**	7,654
Basic earnings per ordinary share	8	**14.57p**	14.05p
Diluted earnings per ordinary share	8	**13.00p**	12.64p
Adjusted earnings per ordinary share	8	**14.63p**	13.53p

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

Consolidated Statement of Recognised Income and Expense
for the year ended 31 March 2008

	Notes	**Year to 31 March 2008 £'000**	Year to 31 March 2007 £'000 restated
Profit for the financial period		**9,635**	7,654
(Loss)/gains on the revaluation of available-for-sale financial assets	10	**(332)**	220
Gain on the fair valuation of hedging contracts	10	**(42)**	89
Deferred tax in respect of employee share options		**(759)**	706
Deferred tax in respect of available-for-sale financial assets		**97**	(65)
Total recognised gains and losses		**8,599**	8,604

The notes on pages 31 to 51 form part of these financial statements.

Consolidated Balance Sheet
as at 31 March 2008

	Notes	**Year to 31 March 2008 £'000**	Year to 31 March 2007 £'000 restated
Fixed assets	9	**396**	537
Available-for-sale financial assets	10	**12,779**	3,929
Deferred tax assets	13	**214**	856
Total non-current assets		**13,389**	5,322
Current assets			
Other financial assets	10	**47**	89
Receivables	12	**8,162**	4,228
Cash at bank and in hand		**31,326**	31,403
Total current assets		**39,535**	35,720
Total assets		**52,924**	41,042
Non-current liabilities			
Deferred tax liabilities	13	**–**	66
Current liabilities			
Trade and other payables	14	**12,555**	7,360
Current tax liabilities		**2,509**	995
Total current liabilities		**15,064**	8,355
Total liabilities		**15,064**	8,421
Net assets		**37,860**	32,621
Capital and reserves			
Called up share capital	16	**1,786**	1,673
Share premium account	16	**15,097**	15,050
Investment in own shares	16	**(558)**	(558)
Other reserves	16	**523**	1,667
Retained earnings	16	**21,012**	14,789
Total shareholders' funds – equity interests	17	**37,860**	32,621

The financial statements were approved by the Board of directors on 15 July 2008.

H G C Aldous
Chairman, Audit Committee

J B Mansell
Chief Financial Officer

The notes on pages 31 to 51 form part of these financial statements.

Company Balance Sheet
at 31 March 2008

	Notes	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
Fixed assets			
Investments	11	**1,017**	1,017
Current assets			
Debtors	12	**4,084**	539
Cash and short-term deposits		**21,479**	15,354
		25,563	15,893
Creditors – amounts falling due within one year			
Current tax liabilities		**(191)**	(75)
Net current assets		**25,372**	15,818
Net assets		**26,389**	16,835
Capital and reserves			
Called up share capital	16	**1,786**	1,673
Share premium account	16	**15,097**	15,050
Retained earnings	16	**9,744**	240
Reserves	16	**(238)**	(128)
Shareholders' funds		**26,389**	16,835

The notes on pages 31 to 51 form part of these financial statements.

Consolidated Cash Flow Statement
for the year ended 31 March 2008

	Notes	**Year to 31 March 2008 £'000**	Year to 31 March 2007 £'000 restated
Operating activities			
Cash generated from operations	19	**15,502**	8,634
Tax paid		**(3,433)**	(3,562)
Net cash inflow generated from operating activities		**12,069**	5,072
Financing activities			
Equity dividends paid	17	**(4,616)**	(5,880)
Issue of share capital		**50**	14,381
Issue of preference shares by subsidiary undertaking		**2**	7
Payments in relation to investment in own shares		**–**	(550)
Receipts in relation to disposal of own shares		**–**	756
Net cash (outflow)/inflow from financing activities		**(4,564)**	8,714
Investing activities			
Interest received and similar income		**1,681**	1,108
Interest paid and similar charges		**–**	(9)
Purchase of property, plant and equipment	9	**(115)**	(177)
Proceeds from sale of available-for-sale financial assets	10	**11,828**	–
Purchase of available-for-sale financial assets	10	**(20,976)**	(2,708)
Net cash outflow generated from/(used in) investing activities		**(7,582)**	(1,786)
Net (decrease)/increase in cash and cash equivalents		**(77)**	12,000
Cash and cash equivalents at start of period		**31,403**	19,403
Cash and cash equivalents at end of period		**31,326**	31,403

The notes on pages 31 to 51 form part of these financial statements.

Notes to the financial statements
for the year end 31 March 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.

Adoption of International Financial Reporting Standards ("IFRS") in the financial year ending 31 March 2008
In the current year Polar Capital Holdings plc and is subsidiaries (together referred to as "the Group") have adopted all the standards and interpretations issued by the international Accounting Standards Boards and the International Financial Reporting Interpretations Committee that are relevant to its operations and effective for the Group's financial year beginning on 1 April 2007. The adoption of these standards and interpretations has resulted in changes to the Group's accounting policies and the principal impact of the adoption of IFRS on the results of the year end 31 March 2007 are set out in note 24 to these financial statements.

Basis of preparation
The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets.

At the date of authorisation of these financial statements, IFRS 8 "Operating Segments" and IFRS2 "Group and Treasury Share Transactions" were in issue but not yet effective. The Group has not adopted these standards and does not anticipate they will have any material impact on the financial statements when they come into effect.

Restatement
In prior years no charge has been made in relation to the Manager and Team Preference Shares share-based payments. As set out in note 20 a charge has been made for the year ended 31 March 2008 and the comparatives restated. As set out in note 8, the number of shares used in the calculation of earnings per ordinary share for the prior year have also been adjusted.

In prior years profit allocations to members of Polar Capital LLP were presented as minority interests in the Group profit and loss account. In the current year, these amounts are included in staff costs in the Consolidated Income Statement. Also in the prior year commission payable was included in operating expenses, whereas in the current year it has been separately identified as cost of sales in the Consolidated Income Statement. Comparative amounts (being £1,896,000 and £2,165,000 respectively) have been restated accordingly.

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

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

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

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

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

Available-for-sale financial assets
Financial assets are initially recognised at fair value, being the consideration given, together with any acquisition costs associated with the asset. The Group's investments in the funds that it manages are designated as "available-for-sale" financial assets and are included in non-current assets. Such assets are subsequently carried at fair value, with any gains or losses arising from changes in

Notes to the financial statements continued
for the year end 31 March 2008

1 Principal accounting policies continued

fair value being recognised in equity. Available-for-sale financial assets are derecognised when sold, at which point a realised gain or loss is recognised in the Consolidated Income Statement, calculated as the difference between the net sales proceeds and the original cost of the financial asset, with fair value gains or losses previously recognised directly in equity recycled into the Consolidated Income Statement.

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 Consolidated 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.

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and in hand, deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

Income recognition
Revenue
For the purpose of the Consolidated Income Statement 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.

1 Principal accounting policies continued

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.

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 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 Consolidated 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 the majority of its operating activities are based in the UK.

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

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

Notes to the financial statements continued
for the year end 31 March 2008

1 Principal accounting policies continued

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

Foreign currency/monetary balances
The 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 Geographical analysis (based on the residency of the source)

The Group's assets under management are managed as nine business units but the Group only has one class of business, being the provision of investment management and advisory services. The Group's operations are in London, with small offices in Tokyo, Singapore and Kiev, and it therefore has only one geographic location.

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
UK	**3,617**	3,731
Ireland	**5,042**	7,656
Cayman	**38,193**	29,072
Canada	**318**	454
Other	**399**	356
	47,569	41,269

The analysis of turnover is as follows:

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
Investment management fees	**26,122**	20,184
Investment advisory fees	**354**	490
Investment performance fees	**21,093**	20,595
	47,569	41,269

3 Profit on ordinary activities before taxation

This is stated after charging:

		Year to Year to 31 March 2008 £'000	Year to 31 March 2007 restated £'000
Staff costs including partnership profit allocations		**25,373**	23,510
Depreciation		**257**	228
Operating lease rentals	– land and buildings	**674**	653
	– other	**139**	131
Operating lease rentals received	– land and buildings	**88**	88
Auditors' remuneration			
Audit services			
– provision for current year		**55**	40
– underprovision for prior year		**42**	–
Other services relating to taxation		**127**	48
Services relating to corporate finance transactions entered into by the Company		**–**	215
IFRS conversion		**42**	–
Internal controls review		**–**	35
All other services		**55**	7

4 Staff costs including directors' emoluments

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
Salaries	**13,512**	6,593
Social security costs	**815**	756
Pension costs	**337**	274
Partnership profit allocations	**9,505**	15,354
Share-based payments	**1,204**	533
	25,373	23,510

Pension costs outstanding at the year-end amounted to nil (2007:nil).

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
Average number of partners and full-time employees, including executive directors:		
Fund Management	**35**	31
Administration	**24**	21
	59	52

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

Notes to the financial statements continued
for the year end 31 March 2008

5 Directors' emoluments

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
Emoluments including partnership profit allocations	**1,117**	1,174
Company contributions to money purchase pension schemes	**64**	64
The amounts in respect of the highest paid director are as follows:		
Emoluments	**386**	487
Company contributions paid to money purchase scheme	**25**	25

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

	Year to 31 March 2008 Number	Year to 31 March 2007 Number
Money purchase scheme	**3**	4

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

Options to acquire ordinary shares held by the directors during the year ended 31 March 2008 are shown in the table below.

Name	Grant date	Opening balance	Granted	Exercised	Lapsed	Closing balance	Exercise price	Exercisable from	Expiry date	
M R Kary	1 Apr 05	340,000	0	0	0	340,000	50p	31 Mar 09	31 Mar 15	Note 1
	1 Apr 05	340,000	0	0	0	340,000	50p	31 Mar 10	31 Mar 15	Note 2
	1 Apr 05	200,000	0	0	0	200,000	50p	1 Apr 08	31 Mar 15	

The opening balance represents the number of shares held under option on 31 March 2007.

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

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

6 Taxation on profit on ordinary activities

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
UK Corporation tax		
UK Corporation tax on profits of the year	**4,739**	2,633
Adjustments in respect of prior periods	**201**	(94)
Total current tax	**4,940**	2,539
Foreign Tax		
Current year	**7**	–
Deferred tax		
Originating and reversal of timing differences	**(88)**	13
Rate change adjustment	**1**	–
Total tax	**4,860**	2,552

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 30% (2007: 30%). The differences are reconciled below:

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
Profit on ordinary activities before taxation	**14,495**	10,206
Tax on profit on ordinary activities at standard rate of 30% (2007:30%)	**4,349**	3,062
Depreciation in excess of capital allowances	**–**	30
Adjustments in respect of prior periods	**201**	(94)
Rate change adjustment	**1**	–
Disallowed expenses	**433**	580
Share-based payments	**(124)**	(1,026)
Total current tax	**4,860**	2,552

Notes to the financial statements continued
for the year end 31 March 2008

7 Subsidiary undertakings

Details of the Company's subsidiary undertakings as at 31 March 2008 are as follows:

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

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

8 Earnings per ordinary share

Earnings has been calculated by taking the profit on ordinary activities after taxation.

The calculation of basic earnings per ordinary share is based on the profit for the year of £9,634,665 (2007: £7,653,218 restated) and on 66,139,295 (2007: 54,484,396) ordinary shares, being the weighted number of ordinary shares. The number has been adjusted from that used in the calculation in the prior year financial statements of 55,584,556 which gave earnings per share of 14.7p.

The calculation of diluted earnings per ordinary share is based on the profit of the year of £9,634,665 (2007: £7,653,218 restated) and 74,101,201 (2007: 60,528,572) ordinary shares, being the weighted average number of ordinary shares allowing for all dilutive options of 4,301,105 (2007: 4,500,240) and shares not yet issued under a crystallised event of 3,365,190 (2007: 2,178,160). The number has been adjusted from that used in the calculation in the prior year financial statements of 63,634,996 which gave earnings per share of 12.8p.

The calculation of adjusted earnings per ordinary share is based on profit for the year of £9,634,665 but adjusted for the cost of share-based payments of £1,204,271 (2007: profit of £7,653,218 adjusted for the cost of share-based payments of £533,487) and 74,101,201 (2007: 60,528,572) ordinary shares being the weighted average number of ordinary shares allowing for all dilutive options and shares not yet issued under a crystallisation event.

As at 31 March 2008, the fully diluted number of ordinary shares which would be in issue is 78,110,114 shares, if all outstanding options were exercised and all shares that are due as the result of a crystallisation event were issued.

9 Tangible fixed assets

	Office furniture £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
As at 1 April 2006	112	265	594	971
Additions	36	98	43	177
Disposals	–	(8)	–	(8)
As at 1 April 2007	148	355	637	1,140
Additions	12	54	49	115
Disposals	–	(1)	–	(1)
As at 31 March 2008	**160**	**408**	**686**	**1,254**
Depreciation				
As at 1 April 2006	83	188	105	376
Charge for the year	20	56	152	228
Disposals	–	(2)	–	(2)
As at 1 April 2007	103	242	257	602
Charge for the year	27	67	163	257
Disposals	–	(1)	–	(1)
As at 31 March 2008	**130**	**308**	**420**	**858**
Net book value				
As at 1 April 2007	45	113	379	537
As at 31 March 2008	**30**	**100**	**266**	**396**

10 Financial assets

1) Available-for-sale financial assets

	Year to 31 March 2008 £'000	Year to 31 March 2007 restated £'000
At beginning of period	**3,929**	1,001
Purchases	**20,976**	2,708
Redemptions	**(11,794)**	–
(Loss)/gain on movement in fair value	**(332)**	220
At end of period	**12,779**	3,929

The Group's available-for-sale financial assets are investments in the funds it manages, all of which are listed. In prior years under UK GAAP, these assets were held at historical cost (2007: £3,709,000).

The net gain on disposal is:

	Year to 31 March 2008 £'000	Year to 31 March 2007 restated £'000
Proceeds	**11,828**	–
Cost	**(11,794)**	–
Net gain	**34**	–

Notes to the financial statements continued
for the year end 31 March 2008

10 Financial assets continued

2) Other financial assets

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

At year end, the Group had open contracts under such hedges of US$10,000,000 (2007: US$5,700,000), for a total of £5,050,888 (2007: £2,985,419). The fair value gain movements are as follows:

	Year to 31 March 2008 £'000	Year to 31 March 2007 restated £'000
At beginning of period	**89**	–
Realised through the income statement	**(89)**	–
Movement in fair value	**47**	89
At end of period	**47**	89

11 Investment

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

12 Debtors

	Year ended 31 March 2008 Group £'000	**Year ended 31 March 2008 Company £'000**	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000
Trade debtors	**7,206**	**–**	3,607	–
Other debtors	**621**	**4,084**	168	539
Prepayments and accrued income	**335**	**–**	453	–
At 31 March 2008	**8,162**	**4,084**	4,228	539

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

13 Deferred tax asset

	Year ended 31 March 2008 Group £'000	**Year ended 31 March 2008 Company £'000**	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000
Deferred tax asset				
At 1 April 2007	**856**	**–**	160	–
Movement re share-based payments	**(759)**	**–**	679	–
Other movements	**117**	**–**	26	–
Prior year adjustment	**–**	**–**	(9)	–
At 31 March 2008	**214**	**–**	856	–

13 Deferred tax asset continued

The balance can be analysed as follows:

	Year ended 31 March 2008 Group £'000	**Year ended 31 March 2008 Company £'000**	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000
Deferred tax asset				
Capital allowances	**19**	**–**	2	–
Fair value of available-for-sale financial assets	**31**	**–**	–	–
Share-based payments	**164**	**–**	854	–
At 31 March 2008	**214**	–	856	–

	Year ended 31 March 2008 Group £'000	**Year ended 31 March 2008 Company £'000**	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000
Deferred tax liability				
At 1 April	**66**	**–**	–	–
Movement during the year	**(66)**	**–**	66	–
Prior year adjustment	**–**	**–**	–	–
At 31 March 2008	–	–	66	–

14 Trade and other payables

	Year ended 31 March 2008 Group £'000	**Year ended 31 March 2008 Company £'000**	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000
Other taxes and social security costs	**149**	**–**	1,114	–
Other creditors	**3,105**	**–**	5,573	–
Accruals and deferred income	**9,301**	**–**	673	–
At 31 March 2008	**12,555**	–	7,360	–

15 Called up share capital

Group and Company

	Year to 31 March 2008 £'000	Year to 31 March 2007 £'000
Authorised		
Comprising 200,000,000 ordinary shares of 2.5p each	**5,000**	5,000
Allotted, called up and fully paid:		
71,443,979 ordinary shares of 2.5p each (2007: 66,902,360 ordinary shares of 2.5p each)	**1,786**	1,673

The increase in share capital arises from options exercised (£3,000) and shares issued under incentive schemes (£110,000).

Notes to the financial statements continued
for the year end 31 March 2008

16 Reserves

Group

	Share capital £'000	Own shares £'000	Share premium account £'000	Profit and loss account £'000	Capital reserves £'000	Other reserves £'000	Total shareholders' funds £'000
As at 1 April 2006 as previously stated	1,271	(764)	1,016	12,482	609		14,614
IFRS transitional adjustments						162	162
As at 1 April 2006 as restated	1,271	(764)	1,016	12,482	609	162	14,776
Issue/(redemption) of shares	402	206	14,034		(54)		14,588
Profit for the year				7,654			7,654
Dividends				(5,880)			(5,880)
Gain on available-for-sale financial assets						220	220
Movements in deferred tax						641	641
Fair value movements in other financial assets						89	89
Share-based payment				533			533
As at 1 April 2007 as restated	1,673	(558)	15,050	14,789	555	1,112	32,621
Issue/(redemption) of shares	113		47		(108)		52
Profit for the year				9,635			9,635
Dividends				(4,616)			(4,616)
Loss on available-for-sale financial assets						(332)	(332)
Movements in deferred tax						(662)	(662)
Fair value movements in other financial assets						(42)	(42)
Share-based payment				1,204			1,204
As at 31 March 2008	**1,786**	**(558)**	**15,097**	**21,012**	**447**	**76**	**37,860**

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 IAS 32. At 31 March 2008 there were 1,100,160 shares of 2.5p each (2007: 1,100,160 shares of 2.5p each) held by the Employee Benefit Trust.

During the year, Polar Capital Holdings plc paid a dividend of 5.5p per share on 3 August 2007 and a further 1.5p per share on 19 January 2008.

The capital reserve represents a share repurchase reserve and preference shares issued by a subsidiary company, and is offset by movements in share capital of Polar Capital Holdings plc issued under this preference share scheme as described in note 20.

Other reserves relate to movements in:

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

16 Reserves continued

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

Company

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Reserves £'000	Total £'000
As at 1 April 2006	1,271	1,016	54	(73)	2,268
Issue of shares	402	14,034	–	(55)	14,381
Profit for the year	–	–	186	–	186
As at 1 April 2007	1,673	15,050	240	(128)	16,835
Issue of shares	113	47	0	(110)	50
Dividends	–	–	(4,616)	–	(4,616)
Profit for the year	–	–	14,120	–	14,120
As at 31 March 2008	**1,786**	**15,097**	**9,744**	**(238)**	**26,389**

17 Reconciliation of movement in shareholders' funds

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 restated £'000
Opening shareholders' funds	**32,621**	14,776
Issue of shares	**52**	14,588
Profit for the year	**9,635**	7,654
Dividends	**(4,616)**	(5,880)
Fair value movement on available-for-sale financial assets	**(332)**	220
Fair value movement in other financial assets	**(42)**	89
Share-based payments	**1,204**	533
Movements in deferred tax	**(662)**	641
Closing shareholders' funds	**37,860**	32,621

Notes to the financial statements continued
for the year end 31 March 2008

18 Operating lease commitments

1) As at 31 March 2008 the Group and Company had annual, non-land and buildings, operating lease commitments as follows:

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Amounts payable within one year	**118**	89
Amounts payable between two and five years	**50**	70

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

As at 31 March 2008 the Group and Company had annual operating lease commitments in respect of its rented premises as follows:

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Amounts payable within one year	**74**	–
Amounts payable between two and five years	**5,216**	5,823

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

2) As at 31 March 2008 the Group and Company had annual land and building operating lease commitments due to them in respect of sublet rented premises as follows:

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Amounts payable within one year	**66**	–
Amounts payable between two and five years	**–**	154

The rental agreement in regards to these premises expires on 24 December 2008.

19 Cash flow statement

Reconciliation of profit before taxation to cash generated from operations

	Year ended 31 March 2008 £'000	Year to 31 March 2007 £'000 restated
Cash flows from operating activities		
Profit on ordinary activities before tax	**14,495**	10,206
Interest receivable and similar income	**(1,715)**	(1,108)
Depreciation of tangible fixed assets	**257**	228
Decrease/(increase) in receivables	**(3,934)**	554
(Decrease)/increase in trade and other payables	**5,195**	(1,779)
Share-based payment	**1,204**	533
Cash generated from operations	**15,502**	**8,634**

20 Share-based payments

Manager and Team Preference Shares ("Preference Shares")

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

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

In 2007, it was deemed that the fair value under FRS20 was nil. This position has since been reviewed, and a prior year adjustment made to the 2007 numbers. The IFRS2 (the corresponding International GAAP standard to FRS20) charge to 2007 has been recorded as £481,873, and for the prior years £520,695. The charge for the year ended 31 March 2008 is £1,119,288.

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

Estimated number of ordinary shares to be issued:

	Awards to which IFRS2 applies	Pre-November 2002 awards	Crystallised
At the beginning of the year	9,070,569	5,608,650	2,178,160
Awarded in the year	1,947,590	–	–
Crystallisation	–	(5,608,650)	5,608,650
Ordinary shares issued in the year	–	–	(4,421,620)
At end of the year	11,018,159	–	3,365,190

Notes to the financial statements continued for the year end 31 March 2008

20 Share-based payments continued

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

	Year ended 31-Mar 2008 £'000
Dividend yield (%)	**4.90%**
Expected share price volatility	**33.03%**
Risk free interest rate	**5.00%**
Vesting period	**6 years**

The share price volatility was calculated by finding the daily returns for the period under review and calculating the standard deviation of these returns to derive a daily volatility. This daily volatility was then multiplied by the square root of 260, to create an annualised volatility for the model.

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 an 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 an 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 or five years, and are granted at a price agreed by the Directors of the Group.

The expense recognised for share-based payments in this respect of these share schemes during the year was £84,983 (2007: £51,608).

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

	2008 Number	**2008 WAEP**	2007 Number	2007 WAEP
Outstanding at beginning of the year	**4,500,240**	**52p**	119,793	£12.30
Granted during the year	**373,098**	**7p**	55,006	£27.28
Exercised during the year	**(120,000)**	**(42p)**	(62,293)	£(8.41)
Lapsed during the year	**(452,233)**	**(54p)**	–	–
40 for 1 share split*	–	–	4,387,734	40
Outstanding at end of the year	**4,301,105**	**53p**	4,500,240	52p

* On 6 February 2007 there was a 40 for 1 share split.

20 Share-based payments continued

The range of exercise prices for options outstanding at the end of the year was £0.025 – £1.705 (2007: £0.50 – £0.95).

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 2008 and 31 March 2007.

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Dividend yield (%)	**9.80%**	11.44%
Expected share price volatility	**33.03%**	27.00%
Risk free interest rate	**5.00%**	5.25%
Expected life of options	**Vesting period**	Vesting period

The share price volatility was calculated by finding the daily returns for the period under review and calculating the standard deviation of these returns to derive a daily volatility. This daily volatility was then multiplied by the square root of 260, to create an annualised volatility for the model.

The fair value of shares issued in the year, using the market value of shares at 31 March 2008, was £309,671.

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

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

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

21 Financial instruments

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

Credit risk

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

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

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

Liquidity risk

The Group maintains sufficient liquid resources in the form of cash or cash deposits in order to meet working capital and regulatory needs. The Group's treasury policy is designed to align the duration period of the cash investments to the working capital requirements of the Group with no investment being placed for greater than three months duration.

Notes to the financial statements continued
for the year end 31 March 2008

21 Financial instruments continued

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

- Interest rate risk
  The Group's cash and short term deposits earn interest at a floating rate. Due to large cash balances the Group is sensitive to changing interest rates. A 1% change in rates would result in an approximate change to revenues of £300,000 in either direction. The Group has no borrowings.

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

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

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

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

  Assets and liabilities
  At the balance sheet date the Group currently had foreign branch offices in Tokyo, Moscow and Singapore. None of these sites are fee generating, and funds to cover the day to day running of these operations are remitted as required. Minimal cash balances are held in foreign currencies.

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

	Assets 2008 £'000	Assets 2007 £'000	**Liabilities 2008 £'000**	Liabilities 2007 £'000
US Dollar	**84**	128	**–**	–
CAD Dollar	**20**	33	**–**	–
Japanese Yen	**39**	–	**–**	–
Singapore Dollar	**30**	–	**170**	–
Russian Rubles	**10**	8	**–**	–
Total	**183**	169	**170**	–

Represented by:	**Assets 2008**	Assets 2007	**Liabilities 2008**	Liabilities 2007
Cash balances	**49**	4	**–**	–
Fixed assets	**7**	–	**–**	–
Receivables	**80**	76	**–**	–
Trade and other payables	**–**	–	**170**	–
Other financial assets	**47**	89	**–**	–
Total	**183**	169	**170**	–

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

21 Financial instruments continued

Equity price risk

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

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

Capital risk

All companies within the Group are managed as going concerns and have sufficient capital to meet their day-to-day needs and to fulfil any externally imposed capital requirements. The capital of the Group and the Company consists of equity attributable to equity holders of the parent company, comprising issued share capital, share premiums, reserves and retained earnings as disclosed in notes 15 to 17.

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

22 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 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 £3,617,768 (2007: £3,730,491). The amounts receivable at year end in this respect were £509,748 (2007: £633,970).

At the end of the year, the Group had an outstanding loan due of £557,804 (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 employees.

2) Company

The Company had a total outstanding balance with a subsidiary of £4,084,165 (2007: £540,616). Of this £3,788,749 (2007: £169,018) related to dividends receivable, £373,807 (2007: £373,807) to a loan for shares purchased in the EBT, with the remainder being small, immaterial trading balances between the two companies.

3) Remuneration of key management personnel

The remuneration of key management, which includes the Executive and Non-Executive Directors, is detailed below. Further details are included in note 4 which details staff costs.

	Year ended 31 March 2008 £'000	Year ended 31 march 2007 £'000
Short-term employee benefits and partnership profit allocations	**1,117**	1,174

At the end of the year the Group had balances owing to or in regards to key personnel of £630,833 (2007: nil). This amounts is made up of £327,500 in relation to profit allocations from Polar Capital LLP, £255,000 in relation to bonuses owed at year end and £48,333 owed to other companies for the services of Non-Executive Directors.

Notes to the financial statements continued
for the year end 31 March 2008

22 Related party transactions continued

Options to acquire ordinary shares held by the Directors during the year ended 31 March 2008 are shown in the table on page 36 (note 5).

23 Post balance sheet events

Since the Balance Sheet date, the Group has begun the process of closing the Singapore Branch, due to the closure of two funds managed by the Group, namely the Asia UCITS and Lotus ARF. The Group has also closed its office in Moscow, and relocated it to Kiev, Ukraine.

24 IFRS transition

First time adoption of IFRS:
The transition date to IFRS from UK GAAP was 1 April 2006. The accounting policies are based on IFRS applied retrospectively and have been applied by the Group in arriving at its transition date balance sheet amounts.

Reconciliation from UK GAAP to IFRS:
The tables below reconcile total shareholders' funds at 1 April 2006 and 31 March 2007 under UK GAAP to total equity under IFRS, and the profit after taxation for the year ended 31 March 2007 from UK GAAP to IFRS.

Reconciliation of shareholders' funds under UK GAAP to shareholders' equity under IFRS

	31 March 2007 £'000	Transitional date 1 April 2006 £'000
UK GAAP – total shareholders' funds – equity interests	31,524	14,614
IFRS transition adjustments:		
Fair value of available for sale financial assets (1)	220	3
Deferred tax asset relating to share options (2)	692	160
Deferred tax asset/liability relating to available for sale financial assets (1)	(66)	(1)
Gain on the fair value of hedging controls (3)	89	–
IFRS adjustment to brought forward balances	162	–
IFRS – total shareholders' funds – equity interests	32,621	14,776

24 IFRS transition continued

Reconciliation of profit after taxation under UK GAAP to profit after taxation under IFRS

	31 March 2007 £'000
UK GAAP - profit on ordinary activities after taxation as previously stated	23,780
Prior year adjustments:	
Minority interest (4)	(15,630)
Share-based payments (5)	(481)
IFRS pre-tax transition adjustments:	
UK GAAP – Profit on ordinary activities as restated	7,669
IFRS transition adjustment:	
Deferred tax on share options (2)	(15)
IFRS – profit on ordinary activities after taxation	7,654

IFRS transition adjustments relating to profit after taxation and shareholders' equity

1) Fair value of investments

The Group has designated the investments held at the transition date as "available for sale", and they have therefore been valued at fair value, together with recognition of the corresponding deferred tax liability.

2) Tax on share options

Under IAS12 the Group has recognised a deferred tax asset in relation to the corporation tax deduction which is expected to arise on the future exercise of share options which had not been exercised at the balance sheet date. Under UK GAAP the value of this asset was restricted to both vested options and the cost associated with the share options which had been recognised in the profit and loss account. IAS12 also differs from UK GAAP in relation to the value of income tax deductions arising on the exercise of share options which can be recognised in the income statement whereas under IAS 12 the tax effect of a deduction exceeding the accounting cost previously recognised is taken directly to equity.

3) Fair value of hedging contracts

The Group has recognised the fair value of hedging contracts through equity. Under UK GAAP, hedging gains were not recognised until realised.

4) Reclassification of minority interest

In the prior year, profit allocation to members of Polar Capital LLP were presented as minority interests in the Group profit and loss account. In the current year, these amounts are included in staff costs in the Consolidated Income Statement and have therefore been reclassified in the comparatives.

5) Share-based payment

In the prior year, the share-based payment on the issue of preference shares had been calculated as nil. On review of this issue, a charge has now been raised under IFRS2.

Shareholder information and advisers

Polar Capital Holdings plc
Company No. 4235369

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

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

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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).

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
Second interim dividend for the financial year ended 31 March 2007

Ex-dividend date: 16 July 2008
Record date: 18 July 2008
Payment date: 8 August 2008

Annual General Meeting: 11 September 2008

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HSBC Bank plc

Nominated adviser and broker
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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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