PCP Holdings PLC

Report and Financial Statements

31 March 2006

Ernst & Young

Registered Number: 4235369

Registered No: 4235369

Directors

C M Hale	Chairman
M R Kary	Chief Executive Officer
J B Mansell	Chief Operating Officer
B J D Ashford-Russell	
T J Woolley	
P N Buckley	
J M B Cayzer-Colvin	

Secretary
N P Taylor

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

Bankers
HSBC Bank Plc
27-32 Poultry
London EC2P 2BX

Solicitors
Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Registered Office
4 Matthew Parker Street
London SW1H 9NP

Directors' report

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 March 2006.

Principal activities and review of business

The Company's sole purpose is to act as a holding company for the Polar Capital Group of companies, as shown in note 8 to the financial statements. One such subsidiary, Polar Capital LLP, provides discretionary investment management and advisory services to a range of clients and is authorised and is regulated by the Financial Services Authority.

Results and dividends

The Group made a profit of £22,917,000 after tax (2005 - £3,239,000). A final dividend of £4.35 was paid after the year end on 12 April 2006. A dividend of £1.13 per share was paid for the year ended 31 March 2005.

Charitable donations

During the year the Group made charitable donations of £30,000 (2005 - £15,000).

Directors and their interests

The directors of the Company at 31 March 2006 are as stated below. The interests of the directors in the ordinary shares of the Company at the start of the year or at the date of appointment and at the end of the year, together with any interests in share options are detailed in the tables below. All the interests are beneficial. M R Kary was appointed a director and chief executive officer on 1 April 2005. All other directors were in office throughout the year.

	Ordinary shares 31 March 2006	*Ordinary shares 31 March 2005*	*Share options over ordinary shares 31 March 2006*	*Share options over ordinary shares 31 March 2005*
M R Kary	55,500	Nil	22,000	Nil
C M Hale	60,000	51,546	Nil	8,454
B J D Ashford-Russell	305,867	335,867	Nil	Nil
T J Woolley	278,784	308,784	Nil	Nil
P N Buckley	Nil	Nil	Nil	Nil
J M B Cayzer-Colvin	Nil	Nil	Nil	Nil
J B Mansell	33,381	12,500	13,619	34,500

Option holder	*Date of grant*	*No. of shares*	*Exercise price*	*Exercise date*
J B Mansell	2 Oct 2002	5,000	£4	2 Oct 2006 – Oct 2012
	13 May 2003	7,500	£7.15	13 May 2007 – 12 May 2013
	17 Feb 2004	1,119	£10.16	17 Feb 2008 – 16 Feb 2014
M R Kary	1 April 2005	8,500	£20	31 March 2009 – 31 March 2015
	1 April 2005	8,500	£20	31 March 2010 – 31 March 2015
	1 April 2005	5,000	£20	1 April 2008 – 31 March 2015

Directors' report

Directors and their interests (continued)

The share options granted to Mr Kary, except for the last 5,000 (exercisable between 1 April 2008 and 31 March 2015), have performance targets related to the Earnings per Share of the company attached to them. The exercise date shown is the earliest possible exercise date for those shares, should the performance targets be met at that time.

Certain employees of Polar Capital Partners Limited ("PCPL") and partners of Polar Capital LLP hold Manager Preference Shares ("Manager Shares") or Manager Team Member Preference Shares ("Team Member Shares") in PCPL.

The terms of the Manager Shares entitle their holders, at some future date, to a value calculated on the basis of the relative contribution of the holder to PCPL as a whole. This value may be (at the discretion of PCP Holdings PLC) satisfied by the issue of ordinary shares in PCP Holdings PLC (the "Company"). The terms of the Team Member Shares are similar to those of the Manager Shares with the difference being that they are linked to and dependent on the relevant Manager Shares.

The rights of the Manager Shares and, in certain restricted circumstances Team Member Shares, provide that the holders have the ability to convert annually any time after the completion of three complete financial years. The Company may impose conversion after the completion of six full financial years.

Seventeen classes of Manager Shares and Team Member Shares were in existence as at 31 March 2006 as follows with the earliest holder conversion dates ranging from 1 April 2007 to 1 April 2009 and the earliest company conversion dates ranging from 1 April 2008 to 1 April 2012.

Class of Preference Share	*Earliest holder conversion date*	*Earliest company conversion date*
A	1 April 2005	1 April 2008
A1	1 April 2005	1 April 2008
B	1 April 2005	1 April 2008
B1	1 April 2005	1 April 2008
C	1 April 2007	1 April 2010
D	1 April 2007	1 April 2010
D1	1 April 2007	1 April 2010
E	1 April 2008	1 April 2011
F	1 April 2009	1 April 2012
G1	1 April 2009	1 April 2012
G2	1 April 2009	1 April 2012
G3	1 April 2009	1 April 2012
H	1 April 2009	1 April 2012
J	1 April 2009	1 April 2012
K	1 April 2009	1 April 2012
K1	1 April 2009	1 April 2012
L	1 April 2009	1 April 2012
L1	1 April 2009	1 April 2012

The maximum number of ordinary shares which may be issued per Manager Share class is limited to 25% of the Company's issued share capital at the point of calculation.

Directors' report

In accordance with the Articles of PCPL the holder of the A class Manager Shares elected for a Crystallising Event to occur as at 31 March 2005 in respect of the 1,000 A class Manager Shares and the 1,000 A1 class Team Member Shares. The Company elected to satisfy the Crystallisation Value by issuing new ordinary shares. On 12 December 2005 18,150 new ordinary shares were issued in exchange for 100 A class Manager Shares and 100 A1 class Team Member Shares. A further 54,451 new ordinary shares were issued on 31 March 2006 in exchange for 300 A class Manager Shares and 300 A1 class Team Member Shares.

The 400 A class Manager Shares and the 400 A1 class Team Member Shares acquired by the Company automatically became deferred shares. Deferred shares have no rights to vote or to income but may be redeemed for £1 in aggregate per class of former preference share and receive £1 on the winding up of PCPL.

Payment of Suppliers

The Group's suppliers are vital to its success. We are committed to establishing mutually beneficial relationships with them, based on the same high ethical standards that apply to all our dealings. It has been and will continue to be the Company's policy for the forthcoming financial year:

i) wherever appropriate to settle the terms of payment when agreeing each transaction;
ii) to ensure the supplier is aware of the terms; and,
iii) to abide by terms of payment.

In all other circumstances the Company is committed to paying suppliers within 30 days of receipt of a valid invoice. The creditor days for the Group for the year ended 31 March 2006 were 25 days (2005 - 24 days).

Appointment of Auditors

A resolution will be proposed at the annual general meeting to re-appoint Ernst & Young LLP as Auditors to the Company and to authorise the directors to fix their remuneration. So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware. The directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

Copies of Accounts

Copies of the Group financial statements are available from the Secretary at 4 Matthew Parker Street, London, SW1H 9NP.

By order of the board

Neil Taylor

N P Taylor
Secretary

4 Matthew Parker Street
London
SW1H 9NP

19 June 2006

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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Independent auditors' report

to the members of PCP Holdings PLC

We have audited the group and company financial statements (the "financial statements") of PCP Holdings PLC for the year ended 31 March 2006, which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, and the related notes 1 to 24. These financial statements have been prepared on the basis of 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 auditors' 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 are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the 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 financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if 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.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and 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 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 financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the group and company as at 31 March 2006 and of the profit of the group for the year then ended;
- The financial statements have been prepared in accordance with the Companies Act 1985; and
- The information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
19 June 2006

Group profit and loss account

for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £000	Year ended 31 March 2005 restated £000
Turnover	2	40,963	18,732
Operating expenses		(14,416)	(14,299)
Operating profit	3	26,547	4,433
Interest receivable and similar income		347	304
Interest payable and similar charges	6	–	(11)
Profit on ordinary activities before taxation		26,894	4,726
Taxation on profit on ordinary activities	7	(3,977)	(1,487)
Profit on ordinary activities after taxation		22,917	3,239
Dividend	16	(1,200)	(1,592)
Minority interests	14	(15,194)	–
Retained profit for the year		6,523	1,647

All the above revenue and expense items arose from continuing operations.

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Statement of total recognised gains and losses

There were no recognised gains or losses other than those passing through the profit and loss account.

The notes on pages 11 to 23 form part of these financial statements.

Group balance sheet

at 31 March 2006

	Notes	*Year ended 31 March 2006* £000	*Year ended 31 March 2005 restated* £000
Fixed assets			
Tangible assets	9	595	235
Investments	11	1,001	1
		1,596	236
Current assets			
Investment in own shares	11	764	572
Debtors	12	4,780	2,424
Cash at bank and in hand	19	19,403	8,279
		24,947	11,275
Creditors: amounts falling due within one year	13	(11,109)	(3,588)
Net current assets		13,838	7,687
Total assets less current liabilities		15,434	7,923
Minority interests	14	(42)	(18)
Net assets		15,392	7,905
Capital and reserves			
Called-up share capital	15	1,271	1,084
Share premium account	16	1,016	200
Profit and loss account	16	12,482	5,921
Capital reserve	16	623	700
Equity shareholders' funds		15,392	7,905

These financial statements were approved by the board of directors on 19 June 2006 and were signed on its behalf by:

M Kary
Director

J B Mansell
Director

The notes on pages 11 to 23 form part of these financial statements

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Company balance sheet
at 31 March 2006

	Notes	*Year ended 31 March 2006 £000*	*Year ended 31 March 2005 restated £000*
Fixed assets			
Investments	10	1,017	1,017
Current assets			
Cash		2,005	294
Creditors: amounts falling due within one year	13	755	–
Net current assets		1,250	294
Net assets		2,267	1,311
Capital and reserves			
Called-up share capital	15	1,271	1,084
Share premium account	16	1,016	200
Reserves	16	(20)	27
Equity shareholders' funds		2,267	1,311

The notes on pages 11 to 23 form part of these financial statements

Group cash flow statement

for the year ended 31 March 2006

	Notes	*Year ended 31 March 2006* £000	*Year ended 31 March 2005 restated* £000
Net cash inflow from operating activities	18	23,968	6,324
Returns on investments and servicing of finance			
Interest received		347	303
Interest paid		–	(11)
Issue of preference share capital by subsidiary undertaking		10	1
Distributions to minority interests		(8,675)	–
Net cash inflow from returns on investments and servicing of finance		(8,318)	293
Taxation paid		(2,633)	(2,203)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(520)	(204)
Payment to acquire fixed asset investments		(1,000)	–
Payment to acquire current asset investment		(945)	–
Receipts on disposal of investment		752	–
		(1,713)	(204)
Dividend paid		(1,200)	(1,592)
Net cash inflow before financing		10,104	2,618
Financing			
Issue of share capital		1,020	–
Repayment of loan		–	(1,000)
Receipts from loan granted		–	20
		1,020	(980)
Increase in cash	19	11,124	1,638

The notes on pages 11 to 23 form part of these financial statements.

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Notes to the financial statements

at 31 March 2006

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting convention.

The group financial statements consolidate the financial statements of the company and its subsidiaries drawn up to 31 March. No profit and loss account is presented for the company as permitted by section 230 of the Companies Act 1985.

During the year the group resolved to adopt FRS 20. This has led to a prior year adjustment in respect of share based payments, previously not recognised. As a result of this, group profit or the year ended 31 March 2005 has reduced by £36,000 and a corresponding increase in equity has been recognised.

During the year, the group also adopted FRS 21. This represents a change in accounting policy with regard to dividends as these are now recognised in the period in which they are paid or approved by the members. Previously they were recognised in the period in respect of which they were declared. This change of accounting policy has resulted in a restatement of prior year reserves as indicated above.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. All gains or losses on translation are included in the profit and loss account.

Turnover

Turnover represents fees receivable (excluding value added tax) during the period for discretionary investment management and advisory services. 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 performance is measured.

Depreciation

Depreciation is provided to write off the cost less estimated residual value of each tangible fixed asset over its expected useful life. Depreciation is charged on a straight-line basis as follows:

Leasehold improvements	25%
Computer equipment	30%
Office furniture	30%

Pensions

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

Share based payments

Where employees (including directors) receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled'), the payments are accounted for in accordance with FRS 20.

FRS 20 is mandatory for accounting periods beginning on or after 1 January 2006. However, the group resolved to adopt FRS 20 early for the year ended 31 March 2006.

Notes to the financial statements

at 31 March 2006

1. Accounting policies (continued)

Share based payments (continued)

The cost of equity-settled transactions with employees is measured by reference to the directors' estimate of their fair value at the date of grant.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the employees become fully entitled to the award ('vesting period').

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits in the future against which the asset can be offset. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse.

Investments

Fixed asset investments are included at cost less provision for any permanent diminution in value. Current asset investments are included at the lower of cost and net realisable value.

2. Geographical analysis of turnover (based upon the residency of the source)

	Year ended 31 March 2006 £000	*Year ended 31 March 2005 £000*
United Kingdom	3,254	3,198
Ireland	14,769	4,816
Cayman	21,191	9,814
Canada	607	619
Other	1,142	285
	40,963	18,732

The analysis of turnover is as follows:

	Year ended 31 March 2006 £000	*Year ended 31 March 2005 £000*
Investment management fees	14,495	13,656
Investment advisory fees	669	698
Investment performance fees	25,799	4,378
	40,963	18,732

Notes to the financial statements

at 31 March 2006

3. Operating profit

	Year ended 31 March 2006 £000	Year ended 31 March 2005 restated £000
This is stated after charging:		
Staff costs (note 4)	7,545	8,732
Depreciation (note 9)	160	49
Auditors' remuneration - audit services	37	24
- non audit services	124	40

4. Staff costs including directors' emoluments

	Year ended 31 March 2006 £000	Year ended 31 March 2005 restated £000
Salaries	6,406	7,771
Social security costs	810	694
Pensions costs	291	231
Share based payments (note 21)	38	36
	7,545	8,732

Pensions costs outstanding at the year-end amounted to £nil (2005 - £nil).

Average number of full time employees:		
Fund Management	22	18
Administration	20	17
	42	35

All employees are directly or indirectly engaged in the group's business, namely investment management.

Notes to the financial statements

at 31 March 2006

5. Directors' emoluments

	Year ended 31 March 2006 £000	*Year ended 31 March 2005 £000*
Emoluments	1,215	1,010
Company contributions paid to money purchase pension schemes	68	52

The amounts in respect of the highest paid director are as follows:

Emoluments	342	228
Company contributions paid to a money purchase pension scheme	20	13

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

	No.	*No.*
Money purchase scheme	5	4

Certain directors are also members of the company's subsidiary Polar Capital LLP and are entitled to receive a profit allocation from the LLP.

6. Interest payable and similar charges

	Year ended 31 March 2006 £000	*Year ended 31 March 2005 £000*
Interest payable on subordinated loan	–	11

7. Taxation on profit on ordinary activities

	Year ended 31 March 2006 £000	*Year ended 31 March 2005 £000*
UK Corporation tax		
UK Corporation tax on profits of the year	3,981	1,468
Adjustments in respect of previous periods	–	15
Total current tax	3,981	1,483
Deferred tax		
Originating and reversal of timing differences	(4)	4
Total tax	3,977	1,487

Notes to the financial statements

at 31 March 2006

7. Taxation on profit on ordinary activities (continued)

Reconciliation of tax charge

The tax assessed on the profit on ordinary activities during the year differs from the standard rate of corporation tax of 30% (2005 - 30%). The difference is reconciled below:

	Year ended 31 March 2006	*Year ended 31 March 2005 restated*
	£000	*£000*
Profit on ordinary activities before tax	26,894	4,726
Tax on profit on ordinary activities at standard rate of 30% (2005 - 30%)	8,068	1,418
Depreciation in excess of capital allowances	34	(4)
Adjustments in respect of previous periods	–	15
Disallowed expenses	402	47
Other short term timing differences	48	–
Revenue items in capital	(1)	–
Income taxable on individual members of the LLP	(4,569)	–
Small companies tax rate and relief	(1)	–
Adjustment in relation to adoption of FRS 20	–	7
Total current tax	3,981	1,483

8. Subsidiary undertakings

Details of PCP Holdings PLC subsidiary undertakings at 31 March 2006 are as follows:

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

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

Notes to the financial statements

at 31 March 2006

9. Tangible fixed assets

Group

	Leasehold improvements £000	*Office furniture £000*	*Computer equipment £000*	*Total £000*
Cost				
At 1 April 2005	163	82	207	452
Additions	431	30	59	520
Disposals	–	–	(2)	(2)
At 31 March 2006	594	112	264	970
Accumulated depreciation				
At 1 April 2005	–	70	147	217
Charge for the year	105	13	42	160
Disposals	–	–	(2)	(2)
At 31 March 2006	105	83	187	375
Net book value				
At 31 March 2006	489	29	77	595
At 31 March 2005	163	12	60	235

10. Fixed asset investment

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

There has been no movement in the year.

11. Group investments

Fixed asset investment

The value of investments represents interests in open-ended vehicles managed by the Group. The investments are held for the purpose of keeping certain currency share classes open and available for use by future investors, and for seeding certain funds.

	£000
Cost as at 1 April 2005	1
Additions	1,000
Cost as at 31 March 2006	1,001

The market value of these investments at the balance sheet date was £1,003,000 (2005 - £1,000).

Notes to the financial statements

at 31 March 2006

11. Group investments (continued)

Current asset investment

The investment represents a holding in the ordinary shares of PCP Holdings PLC and are held by the Polar Capital Employee Benefit Trust as referred to in note 23.

	No. of shares year ended 31 March 2006	*Loan year ended 31 March 2006 £000*	*No. of shares year ended 31 March 2005*	*Loan year ended 31 March 2005 £000*
Brought forward	56,020	572	58,020	592
Provided in year	47,000	945	–	–
Repaid in year	(52,531)	(753)	(2,000)	(20)
Carried forward	50,489	764	56,020	572

The Company has made a loan to the Polar Capital Employee Benefit Trust to enable it to acquire shares in PCP Holdings PLC. In accordance with UTIF 32, the assets of the Employee Benefit Trust are included on the Company's Balance Sheet.

12. Debtors

	Year ended 31 March 2006 Group £000	*Year ended 31 March 2006 Company £000*	*Year ended 31 March 2005 Group £000*	*Year ended 31 March 2005 Company restated £000*
Trade debtors	3,666	–	1,692	–
Other debtors	797	–	436	–
Prepayments and accrued income	317	–	128	–
Corporation tax	–	–	168	–
	4,780	–	2,424	–

Notes to the financial statements

at 31 March 2006

13. Creditors: amounts falling due within one year

	Year ended 31 March 2006 Group £000	*Year ended 31 March 2006 Company £000*	*Year ended 31 March 2005 Group restated £000*	*Year ended 31 March 2005 Company restated £000*
Corporation taxation	2,019	–	843	–
Other taxes and Social Security	1,076	–	–	–
Trade creditors	95	–	1,922	–
Other creditors	7,224	755	617	–
Accruals and deferred income	695	–	206	–
	11,109	755	3,588	–

14. Minority interests

Minority interests represent amounts attributable to external members of Polar Capital LLP and holders of non-voting preference shares in Polar Capital Partners Limited.

15. Called up share capital

Group and Company

	Year ended 31 March 2006 £000	*Year ended 31 March 2005 £000*
Authorised		
Comprising 5,000,000 Ordinary shares of £1 each	5,000	5,000
Allotted, called up and fully paid		
1,271,192 Ordinary shares of £1 each	1,271	1,084

Notes to the financial statements
at 31 March 2006

16. Reserves
Group

	Share capital £000	*Share premium account £000*	*Profit and loss account £000*	*Capital reserves £000*	*Total £000*
At 1 April 2003 (as previously reported)	1,084	200	2,646	695	4,625
Prior year adjustment in respect of FRS 21	–	–	1,592	–	1,592
At 1 April 2004 (as restated)	1,084	200	4,238	695	6,217
Retained profit for the year (as restated)	–	–	1,647	–	1,647
Share based payments	–	–	36	–	36
Adjustment on consolidation	–	–	–	5	5
At 1 April 2005 (restated)	1,084	200	5,921	700	7,905
Issue of shares	187	816	–	(72)	931
Retained profit for the year	–	–	6,523	–	6,523
Share based payments	–	–	38	–	38
Adjustment on consolidation	–	–	–	(5)	(5)
At 31 March 2006	1,271	1,016	12,482	623	15,392

Company

	Share capital £000	*Share premium account £000*	*Reserves £000*	*Total £000*
At 1 April 2003 (as previously reported)	1,084	200	17	1,301
Prior year adjustment in respect of FRS 21	–	–	(4)	(4)
At 1 April 2004 (restated)	1,084	200	13	1,297
Retained profit for the year (as restated)	–	–	14	14
At 1 April 2005 (as restated)	1,084	200	27	1,331
Issue of shares	187	816	(72)	931
Retained profit for the year	–	–	25	25
At 31 March 2006	1,271	1,016	(20)	2,267

Notes to the financial statements

at 31 March 2006

17. Reconciliation of movement in shareholders' funds

	Year ended 31 March 2006	*Year ended 31 March 2005 restated*
	£000	*£000*
Opening shareholders' funds	7,905	6,217
Issue of shares	931	–
Retained profit for the year	6,364	1,445
Share based payments	265	238
Adjustments on consolidation	(5)	5
Closing shareholders' funds	15,460	7,905

18. Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 March 2006	*Year ended 31 March 2005*
	£000	*£000*
Operating profit	26,547	4,433
Depreciation charge	160	49
(Increase) in debtors	(2,524)	(42)
(Decrease)/increase in creditors	(174)	1,848
Share based payment	38	36
Other non-cash reserve movements	(79)	–
Net cash inflow from operating activities	23,968	6,324

19. Reconciliation of net cash flow to movement in net funds

	Year ended 31 March 2006	*Year ended 31 March 2005*
	£000	*£000*
Increase in cash in the year	11,124	1,638
Net cash at beginning of year	8,279	6,641
Net cash at end of year	19,403	8,279

Notes to the financial statements

at 31 March 2006

20. Operating lease commitments

At 31 March 2006 the group had annual, non land and buildings, operating lease commitments as follows:

	Year ended 31 March 2006 £000	*Year ended 31 March 2005 £000*
Leases expiring in less than 1 year	53	170

At 31 March 2006 the group had annual operating lease commitments in respect of its rented premises as follows:

Leases expiring between 2 and 5 years	653	415

21. Share based payments

Manager and team preference shares

Manager and Team Preference Shares

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

The terms of the Manager Shares entitle their holders at their option and at a future date, to a value calculated on the basis of the relative contribution of the holder to the group as a whole. This value may be (at the discretion of the company's parent undertaking, PCP Holdings PLC) satisfied by the issue of ordinary shares in PCP Holdings PLC. The issue of the preference shares constitutes a share based payment under FRS 20 and the value of this payment, which reflects estimates of the fair value of the PCP Holdings PLC ordinary shares and the entitlement to future income streams which the preference shareholders forego on receipt on these ordinary shares, has been calculated as nil.

Enterprise management incentive scheme

Share options in PCP Holdings PLC, the company's parent undertaking, are granted to directors and employees of Polar Capital Partners Limited under an enterprise management incentive scheme. The expense recognised by the group for share based payments in this respect during the year is £38,685 (2005 - £36,177).

Notes to the financial statements

at 31 March 2006

21. Share based payments (continued)

Enterprise management incentive scheme (continued)

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

	2006 No.	*2006 WAEP £*	*2005 No.*	*2005 WAEP £*
Outstanding at beginning of the year	87,793	11.55	75,793	10.22
Granted during the year	32,000	20.00	12,000	20.00
Outstanding at end of the year	119,793	13.81	87,793	11.55

Included within this balance are options over 7,000 (2005 - 7,000) shares that have not been recognised in accordance with FRS 20 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20.

The weighted average fair value of options granted during the year was £1.75 (2005 - £1.77). The range of exercise prices for options outstanding at the end of the year was £4 - £20 (2005 - £4 - £20).

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 2006 and 31 March 2005.

Dividend yield (%)	14.22%
Expected share price volatility	36.00%
Risk free interest rate	4.45%
Expected life of options	Vesting period

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

22. Contingent liabilities and financial committments

Polar Capital Partners Limited ("Polar Capital") is the appointed manager of a UK listed investment trust. Polar Capital is aware that the Association of Investment Trust Companies along with one of its members has initiated legal proceedings against the HM Customs and Excise to challenge UK VAT legislation, which does not exempt the management expenses of investment trusts. It is not expected that the success or failure of this appeal will be known for several years. In the event that the challenge is successful, after any possible appeal and reference to the European Court of Justice, Polar Capital may find itself in the position of having to reimburse its investment trust client for VAT levied. It is expected that a proportion of any such repayment will not be able to be reclaimed from the Customs and Excise.

In order to hedge against risks associated with fees being dependent on dollar denominated investment portfolios, the company enters into a number of forward foreign currency contracts. At the year end there were four open contracts to sell a total of USD 3,000,000 for a total value of £1,708,051.

Notes to the financial statements

at 31 March 2006

23. Related party transactions

B 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 was £3,253,956 (2005 - £3,198,109). The amounts receivable at the year-end in this respect were £635,392.

At the end of the year, the Group had an outstanding loan of £763,996 (2005 - £572,091) due from the Polar Capital Employee Benefit Trust, which was set up in 2002 to fund the acquisition of ordinary shares in PCP Holdings PLC. A reconciliation of the movement in this loan is detailed in Note 11.

24. Events after the balance sheet date

On 12 April 2006, a final dividend of £4.35 was paid.

The dividend was not proposed until after the year end and, as such, has not been recognised in these financial statements, in accordance with the requirements of FRS 21.

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of PCP Holdings PLC will be held at 4 Matthew Parker Street, London, SW1H 9NP on Friday 14 July 2006 at 10.00 am for the following purposes:

1. to receive the report of the directors and the financial statements for the year ended 31 March 2006 together with the report of the auditors thereon, and

2. to re-appoint Ernst & Young LLP as the auditors of the company and to authorise the directors to determine the remuneration of Ernst & Young LLP.

To consider and if thought fit pass the following resolution as a special resolution:

3. That that Articles of Association in the form produced to the meeting and initialled by the Chairman for the purposes of identification be and are hereby approved and adopted as New Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association of the Company.

By order of the Board

Neil Taylor

N P Taylor
Secretary
4 Matthew Parker Street
London
SW1H 9NP

June 2006