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Annual report 2007

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POLAR CAPITAL HOLDINGS PLC



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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

### Financial highlights

- > Assets under management at 31 March 2007 up 39% at US\$3 406bn (2006 US\$2 458bn)
- > Pre-tax core profitability up 42% at £2 7m (2006 £1 9m)
- > Pre-tax post manager distribution performance fees £8m (after exceptionally strong 2006 £10 4m)
- > Pre-tax profits before IPO costs of £11 7m (2006 £11 9m)
- > Basic undiluted earnings per share 14 7p (2006 16 9p)
- > Adjusted diluted earnings per share (pre-IPO costs) of 14 4p (2006 15 1p)
- > Second interim dividend of 5 5p making a total distribution for the year of 7 75p per share
- > Increase in shareholders funds to £31 5m (2006 £14 6m) including £31 4m of cash (2006 £19 4m)

### Confident outlook

- > Investment performance strong across the firm
- > Newer funds beginning to get traction
- > Considerable operating leverage potential
- > A number of new fund manager recruitment initiatives in place

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### Our history (years ending 31 March)

#### 2001 Genesis of the firm

The firm receives its regulatory approval and takes on its first client Polar Capital Technology Trust PLC

Profitable from its first accounting period the firm is able to invest in an operational platform of a breadth and depth not usually associated with such a young company

#### 2002 First full year of trading

The Company diversifies from its technology origin as it recruits a Japanese equity and a UK equity team

UCITS range launched The scope and intent of the Polar Capital Preference Shares are designed and implemented

#### 2003 First full year of hedge fund management

The firm wins its first hedge fund award The firm's hedge fund assets under management on 31 March 2003 are \$180m

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## 2004

Assets grow by 146%

The Company recruits a European equity team and the award winning European Forager Fund is launched. The founding Polar strategies – the Technology team, the Japan team and the UK team – all take in significant net inflows.

## 2005

A year of consolidation

The award-winning Paragon Fund completes its first year. The firm's first GEM product is launched – the Asia ex Japan Fund – as part of the UCITS range.

## 2006

CEO appointed

Mark Kary joins from Morgan Stanley as CEO. The Global Utilities desk is established. The GEM team is completed with the arrival of both Eastern European and Latin American managers.

## 2007

Seeding arrangement put in place

Polar launches six new funds including its first non-equity but still fundamentally research-based product, the (FX Macro) Discovery Fund.

XL Re – a subsidiary of the NYSE listed XL Capital – buys a minority stake in the business in return for the commitment to seed new products with up to \$175m over three years. The Company IPOs in February 2007.

## Our funds at a glance

“As at 31 March there are eight business units with assets under management totalling US\$3.4bn. Six of the business units manage assets of more than US\$100m.

We calculate that there remains within the existing funds in the current environment approximately US\$4.5bn of spare capacity.

We continue to seek new investment strategies and teams.”

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### Technology

	Launch Date
Technology Trust	Feb 2001*
Advisory Account	Feb 2001*
Global Technology Fund	June 2001
Technology Hedge Fund	June 2001

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Total assets under management

**\$1,013m**

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\* from date management contract was awarded to Polar Capital

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### Global opportunities

	Launch Date
Paragon Hedge Fund	April 2004

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Total assets under management

**\$437m**

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## Japan

	Launch Date
Japan Fund	Oct 2001
Japan Hedge Fund	Dec 2001
Managed Account	Mar 2004

Total assets under management

**\$1,082m**

## UK

	Launch Date
UK Hedge Fund	Nov 2001

Total assets under management

**\$129m**

## Europe

	Launch Date
Forager Hedge Fund	June 2003
Conviction Hedge Fund	Apr 2006

Total assets under management

**\$358m**

## Global Emerging Markets

	Launch Date
Asia ex Japan Fund	Oct 2004
Latam Fund	May 2006
Elbrus Fund	May 2006
Lotus Hedge Fund	Jul 2006
Columbus Hedge Fund	Feb 2007

Total assets under management

**\$269m**

## Utilities

	Launch Date
Global Utilities Hedge Fund	Nov 2005

Total assets under management

**\$41m**

## Macro

	Launch Date
Discovery Hedge Fund	May 2006

Total assets under management

**\$53m**

## 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. Key elements of this strategy are

- > 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 fully 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

The directors believe that there are a number of current trends in the fund management industry which have benefited, and should continue to benefit, Polar Capital. These include

- > 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 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

## Chief Executive's statement

“The past financial year witnessed significant development, culminating in our successful flotation in February.

We believe we have built a strong business model and operational platform which provides the opportunity to leverage growth. Trends in the Asset Management industry and our own funds' performance support this view and we look forward to the future with confidence.”

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**Mark Kary**  
Chief Executive

### Introduction

Given that this is Polar Capital Holdings' first annual report as an AIM listed group, it might be worth highlighting a brief history of the Company and what it is intending to achieve. The Company was established in 2001 by its two founders, Brian Ashford-Russell and Tim Woolley, with backing from Caledonia Investments plc, the London Stock Exchange listed investment trust company linked to the Cayzer family. The aim was to create a specialist asset management company which would seek to build a broad family of funds diversified by asset class, geographical and sectoral specialisation, strategy and structure. The Company would seek to incorporate the best of the institutional and boutique asset management models, combining the robustness of an institutional operating platform with the entrepreneurship, transparency and equity ownership associated with a boutique, to create a very differentiated environment for world class portfolio managers. Furthermore the driving philosophy of the business was (and is) one that focused primarily on investment performance and less on asset gathering, so as to create an environment where the interests of portfolio managers, investors and shareholders would be best aligned.

Just over six years on, the Group has assets under management of US\$3.4bn diversified across eight different business units: Technology, Japan, UK, Europe, Global Opportunities, Global Emerging Markets, Utilities and Macro. All our current investment strategies are fundamentally research driven and this is where we continue to intend to build the business. At the fiscal year end 54% of the assets were in long-only equity strategies and 46% in hedge funds. 54 people currently work in the Group, of whom 31 are dedicated investment professionals. Our business is centralised in London with small research offices in Tokyo and Moscow.

### Review of the year

The financial year 2006/7 has been an unusually busy year for Polar, dominated by a significant number of investments made to facilitate future growth and by some important strategic management milestones. Over the course of the year we launched six new hedge funds and recruited three new investment management teams. In the early part of the Spring 2006 we launched the European equity long/short Conviction Fund, the FX/Macro Discovery Fund, the Russia/CIS focused Elbrus Fund and the Latin America Fund. In the early Summer

## Chief Executive's statement continued

of 2006 we seeded our Asia equity long/short Lotus Fund and then in February 2007 the Global Emerging Markets equity long/short Columbus Fund. We are very pleased with the progress that these funds have made and believe that they represent significant potential for the future.

We continued to make important investments in our infrastructure to ensure that both our portfolio managers and investors in our funds were well supported. During the year we recruited a Chief Portfolio Risk Officer and a Director of Sales and Marketing.

At the end of October we finalised a seeding arrangement with a subsidiary of XL Capital Ltd (NYSE: XL) whereby they undertook to provide US\$175m in aggregate of seed capital for a number of fund launches over the next two year period. They also made a significant equity investment in Polar Capital. XL Capital is a New York Stock Exchange listed insurance, reinsurance and risk management business that is well known for taking a selective number of strategic stakes in alternative asset management companies. We are delighted to have them on board as a shareholder and seeding partner and access to such capital should contribute significantly in our efforts to recruit talented managers to the Polar Capital platform.

On 6 February 2007 Polar Capital listed its shares on AIM raising approximately £4.6m (net of expenses) of additional capital to facilitate Polar Capital's ability to seed selectively future fund launches. Importantly the intention to float dated back to when the Company was founded in 2001, the belief being that it would be important for a company built around the ownership of equity to create both a value and liquidity for that equity. We also believe that the transparency that the listing brings should significantly enhance our brand and reputation.

### Fund performance

Assets under management during the year grew by 36% from US\$2.5bn to US\$3.4bn. Given that 2006/7 was a year of significant investment, we are very pleased with progress made. Net inflows contributed US\$729m and performance US\$220m. Core operating profit increased 42% from £1.9m in 2006 to £2.7m in 2007. As expected, performance fees were down from £25.8m to £20.6m on a very difficult comparison with 2005/6 and net of performance fee distributions and bonuses from £10.4m to £8.0m.

At the individual fund level the trends are encouraging. Not only have we established a number of new funds with considerable scope for growth, but there have been further positive developments in longer standing funds. Most notably, the Japan equity long/short fund has performed exceptionally well in an especially difficult environment for Japanese hedge funds and has seen its assets increase from US\$93m to US\$407m over the year. The Paragon Fund has been spun out of the UK business unit to form a new Global Opportunities unit, its assets under management have grown from US\$254m to US\$437m over the year and it has enjoyed another year of strong returns.

### Dividend

The Board's dividend policy is to return surplus earnings to shareholders which are over and above that required to fund the growth of the business. In the absence of unforeseen circumstances this involves paying out a material portion of net profits before performance fees together with the majority of net performance fees.

The Board has declared a second interim dividend for the year of 5.5p. The interim dividend will be paid on 3 August 2007 to ordinary shareholders on the Company's Register of members at the close of business on 6 July 2007. The ex-dividend date is 4 July 2007.

### Current trading and outlook

Although stock markets around the world have enjoyed very strong performance over the last four years, our business is becoming increasingly less sensitive to overall market direction. Over 50% of our assets are now in hedged strategies and our long-only business will continue to become more differentiated and less correlated. We believe that the traditional asset management industry is undergoing a very meaningful long-term change, firstly as investors increase their allocations to absolute return strategies to seek better risk/return ratios, and secondly as asset allocators increase commitments to more focused, less benchmarked and less correlated long-only investment strategies. We believe that Polar Capital is well positioned to benefit from both of these important trends. All this having been said, it should not be forgotten that we are today a business very focused on equity markets and inevitably therefore at least partly exposed to their direction.

Coming into the new financial year the business has strong momentum. Since the year end assets under management have grown 12% to US\$3.8bn as at 31 May 2007 and now comprise 39% in long-only equity strategies, 54% in hedge funds and 7% in advisory and managed accounts. Our longer established businesses all have the opportunity to grow significantly, our long-term investment outlook for the Technology sector has become considerably more constructive, our Japanese business is benefiting from the recruitment of additional research analysts in Tokyo, and our UK business appears successfully to be rebuilding its performance record after an indifferent year in 2006/7. Equally, many of our newer funds have now built initial track records which should permit successful marketing efforts as the year progresses, most notably the European Conviction Fund, some of our Emerging Market Funds, and the Global Utilities Fund. We calculate that in the existing funds in the current environment we have approximately US\$4.5bn of spare capacity.

Furthermore our strategy has been to try to launch one or two additional business units each year. Such additions will be focused on areas that have synergies with our existing fundamental research based platform and are focused on opportunities in hedge fund strategies in the sectoral and credit space, and in the long-only business on more differentiated value and thematic strategies.

#### Directors

As reported at the time of our IPO the directors were aware that the composition of the Board was not fully in compliance with good Corporate Governance guidelines. I have pleasure in welcoming on behalf of the Board the appointment of two new independent non-executive directors, Mr Tom Bartlam and Mr Hugh Aldous. Tom will join the Board on 24 July 2007 as Chairman elect and will become Chairman following the AGM on 19 September 2007. Hugh will also join the Board on the same date and will become Chairman of the Audit Committee. I believe that both Tom and Hugh will bring a wealth of experience and prove invaluable in the next stage of the Group's development. On behalf of the Board I would also like to pay tribute to Charles Hale who has been Chairman since 2002 and has played an important and strategic role in the development of the Group.

#### Staff and shareholders

I would like to say a big thank you to all our staff for their efforts in what has been an especially busy year, to our longer standing investors for all their support, and to our new shareholders for joining us on what we think will be a very exciting journey.

**Mark Kary**  
Chief Executive

## Financial review

“The Company has assets under management of US\$3.4bn diversified across eight business units.

Over the course of the year we have launched six new hedge funds and recruited three new investment management teams.”

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**John Mansell**  
Chief Operating Officer and Finance Director

The financial review discusses the results for the Group for the financial year and refers to the Group's profit and loss account and balance sheet. The key performance indicators are given in graphic form on pages 3 and 12.

Before exploring the detail within the financial statements there are two important technical characteristics of the Group that are worthy of comment. Firstly the existence and function of preference shares in Polar Capital Partners Limited and secondly the existence of the minority interest in the Group's profit and loss account and balance sheet.

The preference shares are the means that enable the interest that any manager has in the core, pre-performance fee, profitability of their business unit to be converted into equity of the Group. This exchange which was explained in detail in the IPO admission document will result in future issuances of equity to managers who convert their interests. Such events will dilute the Company's share capital but are designed to be earnings enhancing to the Group as a whole.

The minority interests in the financial statements are dominated by the existence and role of Polar Capital LLP within the Group structure. At Polar there are three main entities, Polar Capital Holdings plc which owns the entire share capital of Polar Capital Partners Limited and this company in turn is the corporate and controlling member of Polar Capital LLP.

The limited liability partnership, Polar Capital LLP, is the regulated entity in the Group and it holds the investment management contracts with the customers of the Group.

The majority of fund managers are partners within the LLP and they receive their interest in the performance and revenue stream of their products as partnership drawings. Such distributions are disclosed as the minority interest in the Group's profit and loss account. In order to obtain the overall net profitability of the business it is necessary to net off both the profit before tax and profit after tax figures with the disclosed minority interest.

### Profit and loss account

The business has two primary revenue streams, management fees and performance fees. The former is primarily a function of the level of assets managed by the firm and the latter, though undoubtedly having a relationship with the value of assets is primarily a function of the performance of the firm's products.

Over the year ended March 2007, gross management and advisory fees increased by 36% from £15.1m in 2006 to £20.7m in the year ended 2007, as a consequence of the assets managed by the firm increasing from US\$2.5bn to US\$3.4bn. Performance fees fell to £20.6m from £25.8m in 2006. The 2006 figures were skewed by an unusually large long-only performance fee receipt from a single long-only product.

Interest and other income increased to £1.1m (2006: £0.3m) as a product of the higher cash balances held by the Group.

Looking at costs, stripping out the costs of the IPO of £1m (2006: £0.2m) the operating expenses have increased from £14.2m in 2006 to £15.0m in 2007. These costs exclude the minority interests in each of the two years but as the minority interest reflects the interest that managers have in management fee and performance fee income that they deliver, the above mentioned adjusted operating costs provide a good indication as to the cost of maintaining the Group's central infrastructure. Against this year-on-year increase of 5.6% in central costs the firm saw a 60% increase in business units (eight in the year ended March 2007 compared to five for 2006) and a 60% increase in products managed (16 compared to ten). Having demonstrated the relative insensitivity of the cost base of the Group to the increased quantum of business, we hope and expect that operating leverage of the business will become apparent as the firm attracts further assets to manage.

Looking at the profitability of the Group (factoring in the effect of the LLP split between the prime revenue streams, the operating profit of the Group (excluding one-off costs including that of the IPO) was £11.7m (2006: £11.9m). Included in the 2007 figure is £2.7m of core profitability (2006: £1.9m) and £8.0m (2006: £10.3m) of net performance fee profitability.

Though the headline rate of tax appears to be in the region of 10% the true tax rate can be ascertained once the minority interest is taken into account and is 24% (2006: 34%). The reason for the unusually low 2007 tax rate is that the Group benefited from a £1m credit arising from the deductibility of EMI options. This benefit more than compensated for the lack of deductibility of the costs of the IPO. In 2008 shareholders should expect a reversion to a rate more in line with the standard 30% rate of corporation tax.

### Shareholder returns

The basic EPS has fallen to 14.7p per share (2006: 16.9p per share) and on a diluted basis to 12.8p (2006: 14.7p per share). If the costs of the IPO are excluded then the diluted EPS falls to 14.4p per share (2006: 15.1p per share).

The reduction in these EPS numbers is primarily a consequence of the 20% increased equity in issue as a product of the XL Capital issuance in October 2006, the IPO issuance in February 2007 and the 7% fall in earnings.

### Dividend policy

The Company has a policy of paying two dividends per year. A first interim dividend equating to 2.25p per share was paid in October 2006. The Board has declared a second interim dividend of 5.5p per share, making a total distribution linked to the profits of the year of 7.75p per share. The dividends for the year total £4.6m which in relation to the post tax profits of the year of £8.1m represents a 57% distribution of profits.

### Balance sheet

At the balance sheet date the Group had £3.7m (2006: £1m) at cost, invested in funds which it manages. Unrealised investment gains at 31 March 2007 totalled £0.25m (2006: £nil). Going forward it is the intention of the Board to increase the number and value of similar investments into Polar funds that have been launched recently.

Cash balances at the year end at £31.4m (2006: £19.4m) have been swelled through the issuance of equity to XL Capital in October 2006 (£7.6m) and the net proceeds of the IPO (£4.6m).

Shareholders' funds have increased to £31.5m (2006: £14.6m).

Immediately preceding the IPO the Company had a 40 for 1 share split. On a like for like basis the number of shares at the beginning of the year was 50,847,680 (on a diluted basis 57,817,440) and the number of shares in issue on 31 March 2007 was 66,902,360 (on a diluted basis 72,362,000). The increase was primarily the result of the equity issuance to XL in October 2006 and then the IPO in February 2007. The weighted average number of shares over the year ended March 2007 was 55,584,556 (on a diluted basis 63,634,996).

### Changes in accounting standards

The results for the year ended 31 March 2007 have been prepared under UK GAAP. As an AIM listed Company, Polar Capital is required to adopt IFRS for the financial year ending 31 March 2008, and will do so.

## Financial review continued

Over the past few years, UK GAAP has converged with IFRS, and the Group has adopted these changes as required. This can be seen in the accounts for the year to 31 March 2006 with the adoption of FRS20 "Share-based payments"

The Group expects the majority of changes to comply with IFRS to be presentational. Items identified as significant include the re-designation of financial assets as "available for sale" and amounts reported at fair value. This would mean any unrealised gains or losses being recognised in equity.

No other material changes are expected.

### Regulatory environment

From the genesis of the business, when in early 2001 it obtained its IMRO regulatory approval, Polar Capital has set itself as one of its founding principles the objective of maintaining a robust and scaleable operational infrastructure. The business had the benefit at its origin of being appointed in February 2001 as investment manager to a London-listed investment trust, the Polar Capital Technology Trust PLC. This allowed the firm from the outset to invest in an operational environment of the highest quality and disproportionate to the then size of the business.

As the business has matured and diversified we have continued, ahead of its growth, to invest in its infrastructure. Management

continues to place a high importance on minimising industry and business specific risks. Realistically not all risks can be eradicated but we believe with the correct controls in place, senior management promoting them and the entire organisation striving to improve them, we can both minimise the risks that we face whilst simultaneously strengthening the fabric of the overall business.

The pace of regulatory change has continued. 2007 has and will witness changes which the Company has and is continuing to prepare itself for as the year progresses. The Capital Requirements Directive (CRD) has already introduced certain organisational requirements and the Markets in Financial Instruments Directive (MIFID) will introduce new rules which come into force on 1 November 2007. The common thread of the two directives has been encapsulated within a piece of regulation labelled the "Common Platform". The Common Platform will prompt new rules to be included in seven new chapters of the Senior Management arrangements, Systems and Controls (SYSC) section of the FSA handbook. The SYSC chapters of the FSA handbook are pivotal as they lay out the responsibilities of senior management and the control framework expected within all regulated firms. This is an ever present constant regulatory theme, and the arrival of MIFID only reinforces this key regulatory tenet.

### 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 Company'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 with in 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 receives and reviews regular reports on the compliance controls in place to prevent or detect any non-compliance of the Company with rules and regulations.

#### Economic and market risk

Economic risks arise from the concept, design and implementation of the Company'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 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.

#### 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 23 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

## Board of directors

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### **1 Charles Hale\*\***

#### **Non-executive Chairman (age 71)**

Appointed to the Board in 2002. 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. Prior to 1984 he was a general partner of Lehman Brothers Kuhn Loeb and Managing Director of AG Becker International.

#### **Executive directors**

### **2 Mark Kary**

#### **Chief Executive (age 49)**

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.

### **3 Brian Ashford-Russell\***

#### **Director/Founder (age 48)**

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.

### **4 Tim Woolley\***

#### **Director/Founder (age 49)**

Appointed to the Board in 2002. Tim joined Henderson's technology team in 1996 and left with Brian to establish Polar Capital Partners in 2001.

### **5 John Mansell**

#### **Chief Operating Officer and Finance Director (age 48)**

Appointed to the Board in 2002. John 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**

### **6 Jamie Cayzer-Colvin\*\***

#### **Non-executive director (age 42)**

Appointed to the Board in 2002. Jamie is a director of Caledonia Investments Plc and a non-executive director of Rathbone Brothers Plc.

### **7 Peter Buckley**

#### **Non-executive director (age 64)**

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.

### **8 Sarah Street\***

#### **Non-executive director (age 45)**

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.

† member of Audit Committee

\* member of Remuneration Committee

In addition to the directors listed here, all of whom were directors at 31 March 2007 the financial year end, Mr Tom Bartlam and Mr Hugh Aldous will be appointed as independent non-executive directors on 24 July 2007. Mr Bartlam will be chairman elect and will succeed Mr Hale at the conclusion of the AGM on 19 September 2007. Mr Aldous will become Chairman of the Audit 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 2007

### 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.

### Change of name

The name of the Company was changed by special resolution on 11 September 2006 from PCP Holdings plc to Polar Capital Holdings plc.

### New Articles of Association

On 12 January 2007 a special resolution was passed which adopted new Articles of Association subject to the Company's shares being admitted to trading on AIM. The shares of the Company were admitted to trading on AIM on 6 February 2007.

### 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 has offices in London, Tokyo and Moscow.

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 2007 are shown on page 27. The profit for the year attributable to shareholders was £23,780,000, compared with £22,917,000 in 2006.

The directors declared on 25 June 2007 a second interim dividend for the year ended 31 March 2007 of 5.5p on each ordinary share which, together with the first interim dividend of 2.25p per share, makes a total distribution for the year of 7.75p per share (2006 10.875p per share). The comparative dividends for the year ended 31 March 2006 have been adjusted to reflect the sub-division of the ordinary shares which became effective on 6 February 2007 when each ordinary share of £1 was divided into 40 ordinary shares of 2.5p each.

The second interim dividend will be paid on 3 August 2007 to shareholders on the register on 6 July 2007. The shares traded ex-dividend from 4 July 2007.

### Capital structure

The capital structure of the Company is detailed in Note 17 on page 37. Of the 66,902,360 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.

### Directors

Biographies of the directors who served during the year are set out on page 15.

On 31 October 2006, Ms Street was appointed an additional Director of the Company. As the forthcoming AGM will be the first general meeting since her appointment, she will be seeking election under Article 100 of the Company's Articles of Association.

With effect from 24 July 2007 Mr Tom Bartlam and Mr Hugh Aldous will be appointed additional independent non-executive directors of the Company. They will both be seeking election at the forthcoming AGM.

In accordance with Article 95 of the Current Articles of Association all directors who held office at the time of the two preceding AGMs and did not retire by rotation at either of them shall retire from office by rotation. Under the previous Articles of Association directors were not required to retire at AGMs. All the directors therefore will be standing for re-election at the AGM. Their respective re-elections are supported by the Board.

#### Directors' interests

The interests of the directors in the Company's shares are detailed in the directors' remuneration report on page 24.

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 is an investment trust which has contracted with Polar Capital LLP for the provision of investment management services. Details are provided in Note 24 to the financial statements on page 40.

#### Donations

Charitable payments made during the year amounted to £30,000 (2006: £30,000). Charitable payments in 2007 were made to over 15 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. At 31 March 2007 the Company had an average of 30 days purchases owed to trade creditors (2006: 37 days).

#### Substantial shareholdings

As at 23 July 2007, 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 2007:

	Number of ordinary shares	% of voting rights held
Caledonia Investments PLC	10,666,640	15.94
B J D Ashford-Russell	10,000,000	14.95
T J Woolley	8,800,000	13.15
XL Capital	8,000,000	11.96
R J Salter	3,288,520	4.92
M R Kary	2,220,000	3.32
C M Hale	2,160,000	3.23

#### 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.

#### Annual General Meeting

The AGM will be held at St Stephen's Club, 34 Queen Anne's Gate, Westminster, London SW1H 9AB at 10am on 19 September 2007. 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

23 July 2007

## 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

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

### Background

As announced at the time of admission to trading on 6 February 2007 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 although strictly the Combined Code does not apply to the Company

For the majority of the year under review the Company was a private unlisted company which operated in accordance with a shareholders' agreement which governed matters such as Board composition, matters requiring Board decision and other matters relating to shareholders' rights and duties. During this period there were standing committees of the Board for Audit and Remuneration matters. The terms of these committees together with a schedule of matters reserved for Board decision, were revised during the year and an additional standing committee to deal with Board nominations was created at the date of admission to AIM

As stated at the IPO the directors are aware that the composition of the Board was not fully in compliance with the QCA Guidelines. They considered, however, that at the time of Admission to AIM the composition of the Board was appropriate for a rapidly growing entrepreneurial company where a significant proportion of the equity is owned by employees and their related interests. The Company engaged Hanson Green to assist in the identification of suitable candidates to be additional non-executive directors. On 24 July 2007 Mr Tom Bartlam will be appointed to the Board as Chairman elect. He will become Chairman following the AGM when Mr Charles Hale will stand down as Chairman but remain a non-executive director. On the same date Mr Hugh Aldous will also be appointed to the Board and he will also take on the Chairmanship of the Audit Committee

### The Board

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 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

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

## Corporate Governance continued

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

### Composition

The Board comprised of eight directors as at 31 March 2007, four of the directors are executive and four non-executive. The directors who served during the year are listed on page 14 and their individual biographies appear on page 15.

In assessing the independence of non-executive directors, the Board took account of their experience, character and judgement, 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 having sizeable shareholdings in the Company. It is the Board's intention to review this on an annual basis. Their role as 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.

Two additional independent non-executive directors will be appointed on 24 July 2007.

The posts of Chairman and Chief Executive are held by different directors. The Board was led by the Chairman, Mr Hale. 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.

### Board committees

The Board has delegated certain specific areas of responsibility to three standing committees.

#### Audit Committee

The Audit Committee was chaired by Mr Cayzer-Colvin throughout the year and its other member is Mr Hale. Mr Hugh Aldous will become Chairman. Further independent non-executive directors will join the Committee on their appointment to the Board. 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 twice 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.

#### Remuneration Committee

The Remuneration Committee is chaired by Mr Cayzer-Colvin and its other members are Mr Hale, Mr Ashford-Russell, Mr Woolley and Ms Street. 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.

#### **Nomination Committee**

The Nomination Committee terms of reference have been drawn-up although no directors have been appointed to the Committee. The Nomination Committee would normally be responsible for considering appointments to the Board of the Company and will be involved in the selection process of the new non-executive directors. The appointments of Ms Street, Mr Bartlam and Mr Aldous were handled by the whole Board and all the directors met and approved the appointments.

#### **Internal control**

The Board has overall responsibility for the Group's system of internal control including financial operational compliance and risk management controls, although the review of internal financial controls is delegated to the Audit Committee.

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.

#### **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 interim 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](http://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

The Audit Committee is a standing committee of the Board whose members are Mr Cayzer-Colvin and Mr Hale. The terms of reference of the Committee are published on the Company's website.

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 and any announcements relating to the Company's financial performance and for reviewing any significant financial reporting judgements contained in them. It undertakes this role by monitoring the accounting policies and practices ensuring they are appropriate and properly applied, considering, in conjunction with the Auditors the scope of the audit process and the result of the audit together with any management issues which may arise. The Committee also monitors the independence of the Auditors and the balance of audit and non-audit work they undertake.

The Committee also reviews and monitors the integrity of the Company's systems of internal financial control and the annual and interim financial statements before they are approved by the Board.

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

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 on the effectiveness of the Company's system of internal financial control
- The independence and objectivity of the external auditors and the level and nature of non-audit services provided by them
- 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 is a standing committee of the Board whose members are Mr Cayzer-Colvin, Mr Hale, Ms Street, Mr Ashford-Russell and Mr Woolley. The terms of reference of the Committee are published on the Company's website.

The Remuneration 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.

In particular the Committee

- determines and agrees with the Board the policy for the remuneration of the executive directors and senior executive management which includes the determining the targets for any performance related remuneration and payments thereunder, and
- approves the granting of any share incentive awards within the limits set by the Board including the individual awards to executive directors and other senior executives and the performance targets to be used.

The Committee also reviews and assesses annually the remuneration trends across the Company.

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

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

During the year, the Remuneration Committee received advice from Herbert Smith, the Company's legal advisers, on the implementation of an Equity Incentive Plan to cover share options both approved and unapproved, the introduction of a Long-Term Incentive Plan arrangement and a bonus deferral plan. This plan has not been implemented yet. Internal support was provided to the Remuneration Committee by the Chief Operating Officer and the Company Secretary.

### Executive directors

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

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.

Further details of directors' remuneration disclosable under the Companies Act are contained in note 6 on page 33.

### Non-executive directors

Up to 6 February 2007 the non-executive directors did not receive a fee. As part of the process of preparing the Company for its IPO, non-executive directors received 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.

With effect from 6 February 2007 each non-executive director was entitled to a fee at the rate of £20,000 per annum.

Under the terms of appointment for Mr Buckley and Mr Cayzer-Colvin, their fees may be paid to Caledonia Investments plc at its election. Caledonia Investments plc has elected for the fees in respect of Mr Buckley and Mr Cayzer-Colvin for the period from 6 February 2007 to 31 March 2007 to be paid to it.

## Remuneration Committee report continued

Under the terms of appointment for Ms Street, she or her designee is eligible to receive her fee Ms Street has waived her fee for the period from 6 February 2007 to 31 March 2007 The waiver in respect of current fees may however be revoked at any time and the fees paid to XL Re or any of its affiliates

Following a review of the fees paid to the Chairman his fee was increased from £35,000 pa to £60,000 pa from 1 April 2007

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 2007, at the end of the financial year and 31 March 2006 or their date of appointment are as follows

	31 March 2007	31 March 2006*
C M Hale	2,160,000	2,400,000
M R Kary	2,220,000	2,220,000
J B Mansell	1,880,000	1,335,240
B J D Ashford-Russell	10,000,000	12,234,600
T J Woolley	8,800,000	11,151,360
P N Buckley	0	0
J M B Cayzer-Colvin	4,250	0
S E Street	0	0**

\* Adjusted for 40 for 1 share split on 6 February 2007

\*\* On date of appointment at 31 October 2007

Options to acquire ordinary shares held by the directors during the year ended 31 March 2007 are shown in the table below

Name	Grant date	Opening balance*	Granted	Exercised*	Lapsed	Closing balance*	Exercise price*	Market price at exercise date	Exercisable from	Expiry date	
J B Mansell	2 Oct 02	200,000	0	200,000	0	0	10p	190p	2 Oct 06	2 Oct 12	
	13 May 03	300,000	0	300,000	0	0	17 875p	190p	13 May 07	12 May 13	
	17 Feb 04	44,760	0	44,760	0	0	25 4p	190p	17 Feb 08	16 Feb 14	Note 1
M R Kary	1 Apr 05	340,000	0	0	0	340,000	50p		31 Mar 09	31 Mar 15	Note 2
	1 Apr 05	340,000	0	0	0	340,000	50p		31 Mar 10	31 Mar 15	Note 3
	1 Apr 05	200,000	0	0	0	200,000	50p		1 Apr 08	31 Mar 15	

\* Adjusted for 40 for 1 share split on 6 February 2007

The opening balance represents the number of shares held under option on 31 March 2006

Note 1 Exercised early under the terms of the share option scheme

Note 2 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 before the expiry date

Note 3 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 before the expiry date

There have been no changes in the interests of the directors who were in office at 31 March 2007 in the shares of the Company since 31 March 2007 and 23 July 2007

## Directors' responsibilities

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year that 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 year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and applied them consistently,
- make judgements and estimates that are reasonable and prudent,
- follow applicable United Kingdom accounting standards, and
- prepare the financial statements on a going-concern basis

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

### **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 members of Polar Capital Holdings plc for the year ended 31 March 2007

We have audited the Group and parent company financial statements (the "financial statements") of Polar Capital Holdings plc for the year ended 31 March 2007 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group 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 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' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we 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.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises our strategy and markets, Chief Executive's statement, financial review, Board of directors, Corporate Social Responsibility, Corporate Governance, Audit Committee report and Remuneration Committee report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

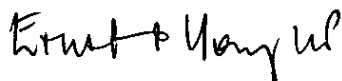
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity 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 the Group's and the parent company's affairs as at 31 March 2007 and of the Group's profit for the year then ended,
- the financial statements have been properly 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  
Registered Auditor



London  
23 July 2007

## Group profit and loss account for the year ended 31 March 2007

	Notes	31 March 2007 £'000	31 March 2006 £'000
<b>Turnover</b>	2	<b>41,269</b>	40,963
<b>Operating expenses</b>		<b>(16,045)</b>	(14,416)
<b>Operating profit</b>	3	<b>25,224</b>	26,547
Loss on disposal of fixed assets		(6)	–
<b>Profit on ordinary activities before interest and taxation</b>		<b>25,218</b>	26,547
Interest receivable and other income		1,108	347
Interest payable and similar charges		(9)	–
<b>Profit on ordinary activities before taxation</b>		<b>26,317</b>	26,894
Taxation	7	(2,537)	(3,977)
<b>Profit on ordinary activities after taxation</b>		<b>23,780</b>	22,917
Minority interest	16	(15,630)	(15,194)
<b>Profit for the year</b>		<b>8,150</b>	7,723
Basic earnings per ordinary share	9	14 7p	16 9p
Diluted earnings per ordinary share	9	12 8p	14 7p
Adjusted diluted earning per ordinary share	9	14 4p	15 1p

All the above revenue and expense items arose from continuing operations

## Group statement of total recognised gains and losses for the year ended 31 March 2007

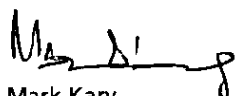
There were no recognised gains or losses other than those passing through the profit and loss account

The notes on pages 31 to 40 form part of these financial statements

## Group balance sheet at 31 March 2007

	Notes	31 March 2007 £'000	31 March 2006 £'000
<b>Fixed assets</b>			
Tangible assets	10	537	595
Investments	12	3,709	1,001
		<b>4,246</b>	<b>1,596</b>
<b>Current assets</b>			
Debtors	13	4,228	4,780
Deferred tax asset	14	2	-
Cash and short-term deposits		31,403	19,403
<b>Total current assets</b>		<b>35,633</b>	<b>24,183</b>
<b>Creditors – amounts falling due within one year</b>	15	<b>(8,291)</b>	<b>(11,109)</b>
<b>Net current assets</b>		<b>27,342</b>	<b>13,074</b>
Minority interests	16	(64)	(56)
<b>Net assets</b>		<b>31,524</b>	<b>14,614</b>
<b>Capital and reserves</b>			
Called up share capital	17	1,673	1,271
Share premium account	17	15,050	1,016
Investments in own shares	17	(558)	(764)
Profit and loss account	17	14,804	12,482
Capital reserve	17	555	609
<b>Shareholders' funds</b>	18	<b>31,524</b>	<b>14,614</b>

The notes on pages 31 to 40 form part of these financial statements

  
Mark Kary  
Director

  
John Mansell  
Director

## Company balance sheet at 31 March 2007

	Notes	31 March 2007 £'000	31 March 2006 £ 000
<b>Fixed assets</b>			
Investments	11	1,017	1,017
<b>Current assets</b>			
Debtors	13	539	-
Cash and short-term deposits		15,354	2,005
		15,893	2,005
<b>Creditors – amounts falling due within one year</b>	15	(75)	(755)
<b>Net current assets</b>		15,818	1,250
<b>Net assets</b>		16,835	2,267
<b>Capital and reserves</b>			
Called up share capital	17	1,673	1,271
Share premium account	17	15,050	1,016
Reserves	18	112	(20)
<b>Shareholders' funds</b>		16,835	2,267

The notes on pages 31 to 40 form part of these financial statements

## Group cash flow statement for the year ended 31 March 2007

	31 March 2007 £'000	31 March 2006 £'000
<b>Operating activities</b>		
<b>Operating profit for the year</b>	<b>25,224</b>	<b>26,547</b>
Depreciation charge	228	160
Decrease/(increase) in trade and other receivables	554	(2,524)
Decrease in trade and other payables	(160)	(174)
Share based payment	52	38
Other non-cash reserve movements	(55)	(79)
<b>Net cash flow from operating activities</b>	<b>25,843</b>	<b>23,968</b>
<b>Returns on investment and servicing of finance</b>		
Interest received and similar income	1,108	347
Interest paid and similar charges	(9)	-
Issue of preference share capital by subsidiary undertaking	7	10
Distributions to minority interests	(17,264)	(8,675)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(16,158)</b>	<b>(8,318)</b>
<b>Taxation paid</b>	<b>(3,563)</b>	<b>(2,633)</b>
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible fixed assets	(176)	(520)
Payments to acquire fixed asset investments	(2,708)	(1,000)
Payment in relation to investment in own shares	(550)	(945)
Receipts in relation to disposal of own shares	756	752
	<b>(2,678)</b>	<b>(1,713)</b>
<b>Dividend paid</b>	<b>(5,880)</b>	<b>(1,200)</b>
<b>Net cash (outflow)/inflow before financing</b>	<b>(2,436)</b>	<b>10,104</b>
<b>Financing</b>		
Issue of share capital	14,436	1,020
<b>Increase in cash and cash equivalents</b>	<b>12,000</b>	<b>11,124</b>
Cash and cash equivalents at the beginning of the year	19,403	8,279
<b>Cash and cash equivalents at the end of the year</b>	<b>31,403</b>	<b>19,403</b>

The notes on pages 31 to 40 form part of these financial statements

# Notes to the financial statements as at 31 March 2007

## 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 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.

As a result of the Company listing its shares on AIM in February 2007, its ordinary shares became publicly traded and FRS 22 applies. Earnings per share information has been provided accordingly.

### 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 and the gains or losses on translation are included in the profit and loss account.

### Turnover

Turnover represented fees receivable (excluding value added tax) during the year for discretionary investment management and advisory services. Management 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, were recognised as revenue at the end of the period over which performance is measured.

### Fixed assets

Fixed assets are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost 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 money purchase pension scheme covering the majority of its employees. The costs of the pension scheme are charged to the profit and loss account in the period in which they are incurred.

### 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 transactions), the payments are accounted for in accordance with FRS 20.

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).

### Interest accounting

Interest receivable and payable is recognised on an accruals basis.

### Leases policy

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

## Notes to the financial statements continued as at 31 March 2007

### 1 Accounting policies continued

#### Deferred taxation

The charge for taxation is based on the profit for the year and includes tax deferred due to timing differences. 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.

### 2 Geographical analysis (based on the residency of the source)

The Group's assets under management are managed as eight 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 research offices in Tokyo and Moscow, and it therefore has only one geographic location.

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £ 000
UK	3,731	3,254
Ireland	7,656	14,769
Cayman	29,072	21,191
Canada	454	607
Other	356	1,142
	<b>41,269</b>	<b>40,963</b>

The analysis of turnover is as follows

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £ 000
Investment management fees	20,184	14,495
Investment advisory fees	490	669
Investment performance fees	20,595	25,799
	<b>41,269</b>	<b>40,963</b>

### 3 Operating profit

This is stated after charging

	Year ended 31 March 2007 £ 000	Year ended 31 March 2006 £ 000
Staff costs	7,675	7,545
Depreciation	228	160
Operating lease rentals – land and buildings	653	653
– other	53	53
Auditors' remuneration		
Audit services	40	37
Other services relating to taxation	48	40
Services relating to corporate finance transactions entered into by the Company	215	60
Internal controls review	35	15
All other services	7	9

## 4 Analysis of profit after tax

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Net core revenues*	18,514	13,398
Total operating expenses	<b>(15,737)</b>	(11,495)
Core operating profit	2,777	1,903
Net performance fee**	8,041	10,365
Net operating profit	10,818	12,268
Net interest	914	347
HMRC settlement	(15)	(705)
Profit before tax & listing fees	11,717	11,910
Listing fees	<b>(1,030)</b>	(210)
Profit before tax	10,687	11,700
Taxation	<b>(2,537)</b>	(3,977)
Profit after tax	<b>8,150</b>	7,723

\* Net core revenues are investment management and advisory fees less commissions payable thereon

\*\* Net performance fees are investment performance fees less amounts payable therefrom to fund managers

## 5 Staff costs including directors' emoluments

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Salaries	6,593	6,406
Social security costs	756	810
Pension costs	274	291
Share-based payments (note 21)	52	38
	<b>7,675</b>	7,545

Pension costs outstanding at the year-end amounted to nil (2006 nil)

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Average number of full time employees, including executive directors		
Fund management	21	22
Administration	21	20
	<b>42</b>	42

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

## 6 Directors' emoluments

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Emoluments	1,272	1,215
Company contributions to money purchase pension schemes	64	68
<b>The amounts in respect of the highest paid director are as follows</b>		
Emoluments	426	342
Company contributions paid to money purchase scheme	25	20

## Notes to the financial statements continued as at 31 March 2007

### 6 Directors' emoluments continued

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

	Year ended 31 March 2007 Number	Year ended 31 March 2006 Number
Money purchase scheme	5	5

Certain directors are also members of Polar Capital LLP and are entitled to receive a profit allocation from the LLP

Further information on the shares and options held by directors at the financial year end and gains made on options exercised during the financial year can be found on page 24

### 7 Taxation on profit on ordinary activities

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
UK Corporation tax		
UK Corporation tax on profits of the year	2,633	3,981
Adjustments in respect of prior periods	(94)	-
<b>Total current tax</b>	<b>2,539</b>	<b>3,981</b>
Deferred tax		
Originating and reversal of timing differences	(2)	(4)
<b>Total tax</b>	<b>2,537</b>	<b>3,977</b>

#### 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 differences are reconciled below

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Profit on ordinary activities before taxation	26,317	26,894
Tax on profit on ordinary activities at standard rate of 30% (2006 30%)	7,895	8,068
Depreciation in excess of capital allowances	30	34
Adjustments in respect of prior periods	(94)	-
Disallowed expenses	436	401
Other timing differences	(44)	48
Income taxable on individual members of the LLP	(4,698)	(4,569)
Other permanent differences	(986)	-
Small companies rate tax relief	-	(1)
<b>Total current tax</b>	<b>2,539</b>	<b>3,981</b>

The Finance Act 2007 will reduce the corporate income tax rate from 30% to 28% and change capital allowance with effect from 1 April 2008 Had the changes been effective for these financial statements there would have been no change to the effective rate of tax

## 8 Subsidiary undertakings

Details of the Company's subsidiary undertakings as at 31 March 2007 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	International holding company
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 Ltd has contributed 99.5% of the capital. All subsidiaries are owned indirectly, other than Polar Capital Partners Limited.

## 9 Earnings per ordinary share

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

The calculation of basic earnings per ordinary share is based on the profit for the year of £8,150,091 (2006 £7,723,297) and on 55,584,556 (2006 45,705,661) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per ordinary share is based on the profit for the year of £8,150,091 (2006 £7,723,297) and 63,634,996 (2006 52,630,271) ordinary shares, being the weighted average number of ordinary shares allowing for all dilutive options of 4,500,240 (2006 4,791,720) and shares not yet issued under a crystallised event of 3,550,200 (2006 2,132,890).

The calculation of adjusted earnings per ordinary share is based on the profit for the year of £8,150,091, but adjusted for listing costs of £1,030,294 (2006 profit of £7,723,297 adjusted for listing costs of £210,000) and 63,634,996 (2006 52,630,271) ordinary shares, being the weighted average number of ordinary shares allowing for all dilutive options and shares not yet issued under a crystallised event.

## 10 Tangible fixed assets

	Office Furniture £ 000	Computer Equipment £ 000	Leasehold Improvements £ 000	Total £ 000
<b>Cost</b>				
As at 1 April 2006	112	265	594	971
Additions	36	98	42	176
Disposals	–	(8)	–	(8)
<b>As at 31 March 2007</b>	<b>148</b>	<b>355</b>	<b>636</b>	<b>1,139</b>
<b>Depreciation</b>				
As at 1 April 2006	83	188	105	376
Charge for the year	20	56	152	228
Disposals	–	(2)	–	(2)
<b>As at 31 March 2007</b>	<b>103</b>	<b>242</b>	<b>257</b>	<b>602</b>
<b>Net book value</b>				
<b>31 March 2006</b>	<b>29</b>	<b>77</b>	<b>489</b>	<b>595</b>
<b>31 March 2007</b>	<b>45</b>	<b>113</b>	<b>379</b>	<b>537</b>

## Notes to the financial statements continued as at 31 March 2007

### 11 Investment

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

### 12 Group investments

The value of listed investments represents interests in open-ended vehicles managed by the Company. 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 2006	1,001
Additions	2,709
Disposals	(1)
<b>Cost as at 31 March 2007</b>	<b>3,709</b>

The market value of listed investments at the balance sheet date was £3,929,607 (2006: £1,003,000)

### 13 Debtors

	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000	Year ended 31 March 2006 Group £'000	Year ended 31 March 2006 Company £'000
Trade debtors	3,607	–	3,666	–
Other debtors	168	539	797	–
Prepayments and accrued income	453	–	317	–
	<b>4,228</b>	<b>539</b>	<b>4,780</b>	–

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

### 14 Deferred tax asset

	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000	Year ended 31 March 2006 Group £'000	Year ended 31 March 2006 Company £'000
<b>Deferred tax asset</b>				
At 1 April	–	–	–	–
Movement during the year	11	–	–	–
Prior year adjustment	(9)	–	–	–
At 31 March	<b>2</b>	–	–	–

The deferred tax asset is in relation to accelerated capital allowances

## 15 Creditors: amounts falling due within one year

	Year ended 31 March 2007 Group £'000	Year ended 31 March 2007 Company £'000	Year ended 31 March 2006 Group £ 000	Year ended 31 March 2006 Company £ 000
Corporation tax	995	75	2,019	–
Other taxes and social security costs	1,114	–	1,076	–
Trade creditors	–	–	95	–
Other creditors	5,509	–	7,224	755
Accruals and deferred income	673	–	695	–
	<b>8,291</b>	<b>75</b>	<b>11,109</b>	<b>755</b>

## 16 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

## 17 Called up share capital

### Group and Company

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £ 000
<b>Authorised</b>		
Comprising 200,000,000 ordinary shares of 2 5p each	5,000	5,000
<b>Allotted, called up and fully paid</b>		
66,902,360 ordinary shares of 2 5p each (2006 1,271,192 ordinary shares of £1 each)	1,673	1,271

On 6 February 2007 there was a 40 for 1 share split in connection with the admission of the Company's shares to AIM

The increase in share capital arises from options exercised (£66,000), shares issued under incentive schemes (£55,000) and placing of shares (£281,000)

## 18 Reserves

### Group

	Share capital £ 000	Own shares £ 000	Share premium account £ 000	Profit & loss account £ 000	Capital reserves £ 000	Total shareholders' funds £ 000
As at 1 April 2006	1,271	(764)	1,016	12,482	609	14,614
Issue/(redemption) of shares	402	206	14,034	–	(54)	14,588
Profit for the year	–	–	–	8,150	–	8,150
Dividends	–	–	–	(5,880)	–	(5,880)
Share-based payment	–	–	–	52	–	52
As at 31 March 2007	1,673	(558)	15,050	14,804	555	31,524

## Notes to the financial statements continued as at 31 March 2007

### 18 Reserves continued

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. In accordance with UITF 32, 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 FRS 25. At 31 March 2007 there were 1,100,160 shares of 2.5p each (2006: 50,489 shares of £1 each) held by the Employee Benefit Trust.

During the year, Polar Capital Holdings plc paid a dividend of £4.35 per share on 12 April 2006 and a further £0.90 per share on 24 October 2006. These dividends when adjusted for the 40 for 1 share split on 6 February 2007 would have been equal to 10.875p per share and 2.25p per share.

#### Company

	Share capital £ 000	Share premium account £ 000	Reserves £ 000	Total £ 000
As at 1 April 2006	1,271	1,016	(20)	2,267
Issue of shares	402	14,034	(55)	14,381
Dividends	–	–	(5,880)	(5,880)
Retained profit for the year	–	–	6,067	6,067
<b>As at 31 March 2007</b>	<b>1,673</b>	<b>15,050</b>	<b>112</b>	<b>16,835</b>

### 19 Reconciliation of movement in shareholders' funds

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £ 000
Opening shareholders' funds	14,614	7,333
Issue of shares	14,588	725
Profit for the year	8,150	7,723
Dividends	(5,880)	(1,200)
Share-based payments	52	38
Adjustment on consolidation	–	(5)
Closing shareholders' funds	<b>31,524</b>	14,614

### 20 Operating lease commitments

As at 31 March 2007 the Group and Company had annual, non-land and buildings, operating lease commitments as follows:

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £ 000
Leases expiring in less than one year	53	53

As at 31 March 2007 the Group and Company had annual operating lease commitments in respect of its rented premises as follows:

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £ 000
Leases expiring between two and five years	653	653

## 21 Share-based payments

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

Certain employees of the Group and partners of Polar Capital LLP hold Manager Preference Shares ("Manager Shares") or Team Member Preference 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 (at the discretion of the company's parent undertaking, Polar Capital Holdings plc) be satisfied by the issue of ordinary shares in Polar Capital Holdings plc. The issue of the Preference Shares constitutes a share-based payment under FRS 20 and the value of this payment, which reflects estimates of the fair value of the Polar Capital Holdings plc ordinary shares and the entitlement to future income streams which the preference shareholders forego on receipt of these ordinary shares, has been calculated as nil. Advantage has been taken of the transitional provisions in FRS 20 to apply the standard to awards made after 7 November 2002 only.

### Enterprise management incentive scheme

Share options in Polar Capital Holdings plc are granted to directors and employees under an enterprise management incentive scheme. The expense recognised for share-based payments in this respect during the year is £51,608 (2006 £38,685)

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

	2007 Number	2007 WAEPS £	2006 Number	2006 WAEPS £
Outstanding at beginning of the year	119,793	11 55	87,793	11 55
Granted during the year	55,006	27 28	32,000	20 00
Exercised/lapsed during the year	(62,293)	(8 41)	–	–
40 for 1 share split*	4,387,734	–	–	–
Outstanding at end of the year	4,500,240	£0 52	119,793	13 81

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

The range of exercise prices for options outstanding at the end of the year was £0 50 – £0 95 (2006 £4 – £20 after the share split £0 10 – £0 50)

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 2007 and 31 March 2006

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Dividend yield (%)	11 44%	14 22%
Expected share price volatility	27 00%	36 00%
Risk free interest rate	5 25%	4 45%
Expected life of options	Vesting period	Vesting period

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

## 22 Contingent liabilities and financial commitments

Polar Capital LLP is the appointed manager of a UK listed investment trust. The Group is aware that the Association of Investment Companies along with one of its members has initiated legal proceedings against the HM Revenue and Customs to challenge UK VAT legislation, which does not exempt the management expenses of investment trusts. In the event that the challenge is successful, after any possible appeal and reference to the European Court of Justice, the Group may find itself in the position of having to reimburse its investment trust client for VAT incorrectly levied. It is possible that a proportion of any such repayment will not be able to be reclaimed from HM Revenue and Customs.

## 23 Derivatives and other financial instruments

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, foreign exchange risk and market price risk.

### Liquidity risk

The Group maintains sufficient liquid resources in the form of cash and cash deposits to meet working capital and regulatory capital needs.

### Interest rate risk

The Group's cash and short-term deposits earn interest at floating rate.

### Foreign exchange risk

All Group cash and deposit balances are in sterling. Group debtors included £38,942 denominated in US dollars (2006 £39,309). In order to hedge against risks associated with fees being dependent on dollar denominated investment portfolios, the Group enters into a number of forward foreign currency contracts. At the year end there were four open contracts to sell a total of US\$5,700,000 for a total of £2,985,419.

It is the Group's policy to aim to hedge 50% of its US dollar-based annual management fees.

Gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a future transaction, are not recognised until the transaction occurs.

### Market price risk

The Group's fixed-asset investments give rise to market price risk.

### Fair values

The Group's fixed asset investments are included in the financial statements at cost of £3,709,000 (2006 £1,001,000). The market value (which approximates to fair value) of these investments was £3,929,607 (2006 £1,003,000). The Group's other financial assets and liabilities are included in the financial statements at amounts which approximate to the fair value.

## 24 Related party transactions

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 £3,730,491 (2006 £3,253,956). The amounts receivable at year end in this respect were £633,970 (2006 £635,392).

At the end of the year, the Group had an outstanding loan due of £557,804 (2006 £763,996) from the Polar Capital Employee Benefit Trust, which was set up in 2002 to hold ordinary shares in Polar Capital Holdings plc for the benefit of employees.

## Shareholder information and advisers

**Polar Capital Holdings plc**  
Company No 4235369

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

The ISIN number is GB00B1GCLT25 and the SEDOL code is B1GCLT2

**Registered office**  
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Tel 020 7227 2700

**Company Secretary**  
Neil Taylor

**Registrars**  
**Lloyds TSB Registrars**  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

Shareholder helpline  
Website [www.shareview.co.uk](http://www.shareview.co.uk)

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](http://www.shareview.co.uk)) or in writing.

**Key dates**  
**Second interim dividend for the financial year ended**  
31 March 2007  
Ex-dividend date 4 July 2007  
Record date 6 July 2007  
Payment date 3 August 2007

**Annual General Meeting 19 September 2007**

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

**Bankers**  
**HSBC Bank plc**

**Nominated adviser and broker**  
**Bridgewell Limited**  
Old Change House  
128 Queen Victoria Street  
London EC4V 4BJ

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

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

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