

Polar Capital Partners Limited

Report and Financial Statements

31 March 2010



4053650

Polar Capital Partners Limited

Registered No 4053650

Directors

T J Woolley
J B Mansell
B J D Ashford-Russell
N P Taylor
M R Kary (Resigned on 31 December 2009)
C M Hale (Resigned on 10 February 2010)
J M B Cayzer-Colvin (Resigned on 10 February 2010)

Secretary

N P Taylor

Auditors

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

Bankers

HSBC Bank PLC
City of London
60 Queen Victoria Street
EC4N 4TR

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Registered Office

4 Matthew Parker Street
London SW1H 9NP

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Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2010

Principal activities and review of business

The Company is the managing member of Polar Capital LLP. Polar Capital LLP provides fund management services and is regulated by the Financial Services Authority. The Company also provides support services to Polar Capital LLP. The key performance indicators for the Company are linked to those of Polar Capital LLP and relate to the performance of the funds under the management of Polar Capital LLP.

The Company is and has been throughout the period a wholly owned subsidiary of Polar Capital Holdings plc.

Results and dividends

The Company made a profit after taxation of £2,157,000 (2009 £8,060,000). In the year to 31 March 2010, dividends amounting to 6,099,996 have been paid (2009 £5,693,000).

Future developments

No future developments are planned which would have a significant impact on the Company.

Principal risks and uncertainties

The principal risks and uncertainties for the Company are linked to those of Polar Capital LLP, therefore primarily the loss of key investment personnel and that assets under management decrease as a result of poor investment performance, redemptions, market value movements or other market factors.

Post balance sheet events

There are no post balance sheet events, which require any adjustment to or disclosure in the financial statements.

Directors

The directors, who have held office during the year, are listed on page one.

Charitable donations

Charitable payments made during the year to 31 March 2010 amounted to £7,700 to 6 charities involved with health and welfare (2009 the Company contributed £25,000 as one of corporate sponsors of the Catlin Arctic Survey, a pioneering scientific expedition to help determine the lifespan of the Arctic Ocean's sea ice cover and £2,000 to 5 charities involved with health and welfare).

Share Capital

Certain employees of the Company and partners of Polar Capital LLP hold Manager Preference Shares of 10p each ("Manager Shares") or Team Member Preference Shares of 10p each ("Team Member Shares") in the Company.

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

The rights of the Manager Shares and, in certain restricted circumstances Team Member Shares, provide that the holders have the ability to convert annually any time after the completion of three complete

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Directors' report

financial years Polar Capital Holdings plc may impose conversion after the completion of six full financial years

The Manager Shares and Team Member Preference Shares acquired by Polar Capital Holdings plc on a crystallisation event automatically become deferred shares. Deferred shares have no rights to vote or to income but may be redeemed for £1 in aggregate per class of former preference share and received £1 on the winding up of the company.

On 30 November 2009 the following classes of Manager Preference shares and Team Member Preference shares became deferred shares of 10p each under the provisions of the Articles of Association ,

1000 K Manager Preference Shares,
1000 L Manager Preference Shares,
1000 J1 Manager Team Member Preference shares
1000 G1 Manager Team Member Preference shares,

On 24 February 2010, under the provisions of the Articles of Association, the remaining 300 B Manager Preference Shares subject to the Crystallisation Process were converted to Deferred Shares and were redeemed on 3 March 2010.

There have been two Crystallising Events in respect of the Manager Shares and the Team Member Shares where Polar Capital Holdings plc elected to satisfy the Crystallisation Value by issuing new ordinary shares as detailed in the table below.

- the holder of the A Manager Shares elected for a Crystallising Event to occur as at 31 March 2005 in respect of the 1,000 A Manager Shares and the 1,000 A1 Team Member Shares, and
- the holder of the B Manager Shares elected for a Crystallising Event to occur as at 31 March 2007 in respect of the 1,000 B Manager Shares and the 1,000 B1 Team Member Shares

In accordance with the Articles the consideration on a Crystallising Event is released over four years with 10% being paid on Crystallisation and 30% on the anniversary of the Crystallising Event in each of the next three years. Shares in PCH were issued as follows:

	Preference shares exchanged	PCH shares issued
12 December 2005	100 A / 100 A1	726,000
31 March 2006	300 A / 300 A1	2,178,040
31 March 2007	300 A / 300 A1	2,178,040
27 September 2007	100 B / 100 B1	560,864
31 March 2008	300 A / 300 A1 300 B / 300 B1	3,860,755
31 March 2009	300 B	1,629,589
24 February 2010	300B	1,629,589

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Seven classes of Manager Shares and Team Member Shares were in existence as at 31 March 2010 with the earliest holder conversion dates ranging from 1 April 2007 to 1 April 2011 and the earliest Company conversion dates ranging from 1 April 2010 to 1 April 2014

1,000 shares of each class were issued to the respective holders

<i>Class of Preference Share</i>	<i>Earliest holder conversion date</i>	<i>Earliest company conversion date</i>
C Manager Shares	1 April 2007	1 April 2010
H Manager Shares	1 April 2009	1 April 2012
J Manager Shares	1 April 2009	1 April 2012
J2 Team Member Shares	1 April 2009	1 April 2012
J3 Team Member Shares	1 April 2009	1 April 2012
O1 Manager Shares	1 April 2011	1 April 2014
O2 Manager Shares	1 April 2011	1 April 2014

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

Payment of Suppliers

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

- i) wherever appropriate to agree the terms of payment when agreeing each transaction,
- ii) to ensure the supplier is aware of the terms, and
- iii) to abide by terms of payments

In all other circumstances the Company is committed to paying suppliers within 30 days of receipt of a valid invoice

Auditors

Under Section 487(2) of the Companies Act 2006 which came into force on 1 October 2007 the auditors of a private company are deemed to be automatically reappointed provided that they were originally appointed by shareholder resolution. Ernst & Young LLP were appointed auditors to the Company by shareholder resolution passed on 25 July 2002. On the same date an elective resolution was passed by the shareholders to dispense with the annual reappointment of the auditors in accordance with Section 386 of the Companies Act 1985.

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

Going Concern

The Company has adequate financial resources and as a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

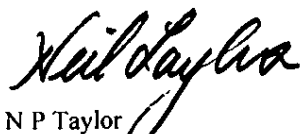
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Directors' report

Copies of Accounts

Copies of the group financial statements are available from the secretary at 4 Matthew Parker Street, London SW1H 9NP

On behalf of the board

A handwritten signature in black ink, appearing to read 'N P Taylor', written over the printed name.

N P Taylor
Director and Secretary
5 October 2010

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards & Applicable Law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report

to the members of Polar Capital Partners Limited

We have audited the financial statements of Polar Capital Partners Limited for the year ended 31 March 2010, which comprise Profit and Loss Account, Balance Sheet, Cash Flow Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement [set out on (page 5)], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's [(APB's)] Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

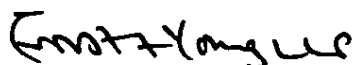
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Deborah Weston (Senior Statutory Auditor)
for and on behalf of Ernst & Young, Statutory Auditor
London
8 October 2010

Profit and loss account

for the year ended 31 March 2010

		<i>Year ended 31 March 2010 £000</i>	<i>Year ended 31 March 2009 £000</i>
	<i>Notes</i>		
Turnover	2	-	-
Operating expenses		(15,070)	(21,677)
Operating loss	3	(15,070)	(21,677)
Income from investments	6	16,769	33,298
Interest receivable and other income		1,424	129
Amounts written off investments		-	(275)
Profit on ordinary activities before taxation		3,123	11,475
Taxation on profit on ordinary activities	7	(966)	(3,415)
Profit on ordinary activities after taxation		2,157	8,060

All the above revenue and expense items arose from continuing operations

Statement of total recognised gains and losses

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

The notes on pages 10 to 23 form part of these financial statements

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Balance sheet

as at 31 March 2010

		31 March 2010 £000	31 March 2009 £000
	Notes		
Fixed assets			
Tangible assets	9	51	163
Investments	10	23,121	14,979
		<u>23,172</u>	<u>15,142</u>
Current assets			
Investments	11	1,392	871
Debtors	12	2,130	8,532
Deferred tax asset	13	91	-
Cash at bank		2,047	901
		<u>5,660</u>	<u>10,304</u>
Creditors' amounts falling due within one year			
Deferred tax liability	13	-	5
Current creditors	14	17,893	11,192
		<u>17,893</u>	<u>11,197</u>
Net current liabilities		<u>(12,233)</u>	<u>(893)</u>
Net assets		<u>10,939</u>	<u>14,249</u>
Capital and reserves			
Called up share capital	15	1,017	1,018
Share premium account	16	53	52
Capital reserve	16	680	680
Profit and loss account	16	9,189	12,499
		<u>10,939</u>	<u>14,249</u>
Shareholders' funds		<u>10,939</u>	<u>14,249</u>

These financial statements were approved by the board of directors on 5 October 2010 and were signed on its behalf by


 Neil Taylor
 Director

The notes on pages 10 to 21 form part of these financial statements

Cash flow statement

at 31 March 2010

		<i>Year ended 31 March 2010 £000</i>	<i>Year ended 31 March 2009 £000</i>
	<i>Notes</i>		
Net cash inflow from operating activities	17	16,548	9,289
Returns on investments and servicing of finance			
Interest received		6	129
Net cash inflow from returns on investments and servicing of finance		6	129
Taxation paid		(1,940)	(3,964)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(5)	(29)
Payments to acquire investments		(23,527)	(2,156)
Receipts on disposal of investments		16,685	3,177
Payment to acquire current asset investment		(521)	(461)
Receipts on disposal of current asset investments		-	148
		(7,368)	679
Dividend paid	16	(6,100)	(5,693)
Net cash inflow/(outflow) before financing		1,146	440
Increase/(decrease) in cash		1,146	440
Cash at the beginning of the year		901	461
Cash at the end of the year		2,047	901

The notes on pages 10 to 23 form part of these financial statements

Cash flow statement

at 31 March 2010

1. Accounting policies

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

Basis of preparation

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

Group Accounts

The company has not prepared group accounts as it is exempt from so doing under section 400 of Companies Act 2006 because it is a wholly owned subsidiary of a parent undertaking incorporated in the United Kingdom and its accounts are included in the consolidated financial statements of that parent undertaking

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.

Fixed assets

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

Depreciation is charged on a straight-line basis as follows

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

Pensions

The company 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 and is recognised, together with a corresponding increase in equity, over the period in which the employees become fully entitled to the award ('vesting period').

Cash flow statement

at 31 March 2010

1. Accounting policies (continued)

Taxation and deferred taxation

The provision is made for corporation tax at the current rates on the excess of taxable income over allowable expenses

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

Investments

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

Operating leases

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

2. Turnover

The company provides support services to Polar Capital LLP, the FSA regulated entity of the Group, and therefore has no turnover. The company has contributed 99.5% of the capital of Polar Capital LLP, and earns investment income from which it funds the day-to-day operations. It has no turnover.

3. Operating loss

	<i>Year ended 31 March 2010 £000</i>	<i>Year ended 31 March 2009 £000</i>
This is stated after charging		
Staff costs (note 4)	7,946	6,503
Operating lease commitments		
- land and buildings	520	720
- other	492	273
Operating lease rentals due on land and buildings	-	71
Depreciation (note 9)	114	250
Auditors' remuneration on behalf of the company and group entities		
- audit services	86	104
- non audit services	22	177
	<hr/>	<hr/>

Cash flow statement

at 31 March 2010

4. Staff costs including directors' emoluments

	<i>Year ended 31 March 2010 £000</i>	<i>Year ended 31 March 2009 £000</i>
Salaries	6,256	6,430
Social security costs	723	727
Pensions costs	335	354
Share based payments (note 20)	632	(1,008)
	<u>7,946</u>	<u>6,503</u>

There were no pension contributions outstanding at the year end (2009 £Nil)

Average number of full time employees, including executive directors

Fund management	13	21
Administration	30	26
	<u>43</u>	<u>47</u>

All employees are directly or indirectly engaged in the Company's business, namely the provision of support services to Polar Capital LLP

5. Directors' emoluments

	<i>Year ended 31 March 2010 £000</i>	<i>Year ended 31 March 2009 £000</i>
Emoluments	931	986
Company contributions to money purchase pension schemes	59	64
The amounts in respect of the highest paid director are as follows		
Emoluments	399	253
Company contributions paid to a money purchase scheme	19	25
The number of directors who are accruing benefits under the company pension scheme is as follows		
	<i>No</i>	<i>No</i>
Money purchase scheme	3	4

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

Cash flow statement

at 31 March 2010

6. Income from investments

Income from investments represents profit allocation from the company's investment in Polar Capital LLP

7. Taxation on profit on ordinary activities

	<i>Year ended 31 March 2010 £000</i>	<i>Year ended 31 March 2009 £000</i>
UK corporation tax		
UK corporation tax on profits for the year	1,064	3,253
Adjustments in respect of previous periods	(2)	108
Total current tax	1,062	3,361
Deferred tax		
Originating and reversal of timing differences	(96)	54
Total tax	966	3,415

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 28% (2009 - 28%) The difference is reconciled below

	<i>Year ended 31 March 2010 £000</i>	<i>Year ended 31 March 2009 £000</i>
Profit on ordinary activities before tax	3,123	11,475
Tax on profit on ordinary activities at standard rate of 28% (2009 - 28%)	875	3,213
Depreciation in excess of capital allowances	12	(1)
Disallowed expenses	38	235
Other timing differences	41	-
Other permanent differences	-	(193)
Other – share based payments	98	-
Foreign tax	-	(1)
Adjustments in respect of prior periods	(2)	108
Total current tax	1,062	3,361

Cash flow statement

at 31 March 2010

8. Subsidiary undertakings

Details of the Company's subsidiary undertakings at 31 March 2010 are as follows

<i>Principal subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Nature of business and registration</i>
Polar Capital Secretarial Services Limited	Great Britain	Dormant
Polar Capital Partners (Jersey) Limited	Channel Islands	Investment management
Polar Capital Ukraine Limited	Great Britain	Investment management
Polar Capital Limited Liability Partnership	Great Britain	Investment management

All of the above entities are wholly owned, except for Polar Capital LLP in which the company has contributed 99.5% of the capital

9. Tangible fixed assets

	<i>Leasehold improvements</i>	<i>Office furniture</i>	<i>Computer equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost				
At 1 April 2009	693	163	407	1,263
Additions	-	-	5	5
Disposals	-	(3)	(4)	(7)
At 31 March 2010	693	160	408	1,261
Accumulated depreciation				
At 1 April 2009	592	148	360	1,100
Charge for the year	68	10	36	114
Disposals	-	(2)	(2)	(4)
At 31 March 2010	660	156	394	1,210
Net book value				
At 31 March 2009	101	15	47	163
At 31 March 2010	33	4	14	51

10. Investments

The value of listed investments represents interests in open-ended vehicles managed by Polar Capital Partners LLP. Unlisted investments represent investments in subsidiaries as disclosed in note 8

	<i>Unlisted</i>	<i>Listed</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost as at 1 April 2009	3,883	11,096	14,979
Additions	-	23,527	23,527
Disposals	-	(15,385)	(15,385)
Cost as at 31 March 2010	3,883	19,238	23,121

The market value of listed investments at the balance sheet date was £ 19,692,802 (2009 - £11,655,288)

Cash flow statement

at 31 March 2010

11. Current asset investments

The investment represents a holding in the ordinary shares of Polar Capital Holdings plc and is held by the Polar Capital Employee Benefit Trust and acquired using a loan from the company as referred to in note 22

	<i>No of shares</i> <i>2010</i>	<i>Loan</i> <i>2010</i> <i>£000</i>	<i>No of shares</i> <i>2009</i>	<i>Loan</i> <i>2009</i> <i>£000</i>
Brought forward	2,032,834	871	1,100,160	558
Increases	523,478	521	1,232,674	461
Reductions	-	-	(300,000)	(148)
Carried forward	<u>2,556,312</u>	<u>1,392</u>	<u>2,032,834</u>	<u>871</u>

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

12. Debtors

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Other debtors	111	187
Prepayments and accrued income	313	278
Amounts owed by Polar Capital LLP	1,706	8,067
	<u>2,130</u>	<u>8,532</u>

13. Deferred tax

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Deferred tax	91	-
Deferred tax asset		
At 1 April 2009	-	49
Movement during the year	54	-
Prior year adjustment	37	(49)
At 31 March 2010	<u>91</u>	<u>-</u>

Reconciliation of deferred tax asset

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Deferred tax asset		
Capital allowance	47	-
Share-based payments	44	-
At 31 March 2010	<u>91</u>	<u>-</u>

Cash flow statement

at 31 March 2010

	2010	2009
	£000	£000
Deferred tax liability		
At 1 April 2009	(5)	-
Movement during the year	-	(1)
Prior year adjustment	5	(4)
At 31 March 2010	-	(5)

14 Creditors: amounts falling due within one year

	2010	2009
	£000	£000
Corporation tax	923	1,803
Other taxes and Social Security costs	1,008	146
Other creditors	19	180
Accruals and deferred income	474	3,227
Amounts owed to Group companies	15,469	5,836
	<u>17,893</u>	<u>11,192</u>

15. Called up share capital

	2010	2009
	£	£
Allotted, called up and fully paid:		
1,016,666 ordinary shares of £1 each	1,016,666	1,016,666
300 B manager preference shares of 10p each	-	30
1,000 C manager preference shares of 10p each	100	100
1,000 G1 team member preference shares of 10p each	-	100
1,000 H manager preference shares of 10p each	100	100
1,000 J manager preference shares of 10p each	100	100
1,000 J1 team member preference shares of 10p each	-	100
1,000 J2 team member preference shares of 10p each	100	100
1,000 J3 manager preference shares of 10p each	100	100
1,000 K manager preference shares of 10p each	-	100
1,000 L manager preference shares of 10p each	-	100
1,000 O1 manager preference shares of 10p each	100	100
1,000 O2 manager preference shares of 10p each	100	100
	<u>1,017,366</u>	<u>1,017,796</u>

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

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

Cash flow statement

at 31 March 2010

15. Called up share capital (continues)

There have been two Crystallising Events in respect of the Manager Shares and the Team Member Shares where Polar Capital Holdings Plc elected to satisfy the Crystallisation Value by issuing new ordinary shares as detailed in the table below

- the holder of the A Manager Shares elected for a Crystallising Event to occur as at 31 March 2005 in respect of the 1,000 A Manager Shares and the 1,000 A1 Team Member Shares, and
- the holder of the B Manager Shares elected for a Crystallising Event to occur as at 31 March 2007 in respect of the 1,000 B Manager Shares and the 1,000 B1 Team Member Shares

In accordance with the Articles the consideration on a Crystallising Event is released over four years with 10% being paid on Crystallisation and 30% on the anniversary of the Crystallising Event in each of the next three years. Shares in PCH were issued as follows

	Preference shares exchanged	PCH shares issued
12 December 2005	100 A / 100 A1	726,000
31 March 2006	300 A / 300 A1	2,178,040
31 March 2007	300 A / 300 A1	2,178,040
27 September 2007	100 B / 100 B1	560,864
31 March 2008	300 A / 300 A1 300 B / 300 B1	3,860,755
31 March 2009	300 B	1,629,589
24 February 2010	300 B	1,629,589

The Manager Shares and Team Member Preference Shares acquired by Polar Capital Holdings plc on a crystallisation event automatically become deferred shares. Deferred shares have no rights to vote or to income but may be redeemed for £1 in aggregate per class of former preference share and receive £1 on the winding up of the company.

On 30 November 2009 the following classes of Manager Preference shares and Team Member Preference shares became deferred shares of 10p each under the provisions of the Articles of Association

1000 K Manager Preference Shares,
1000 L Manager Preference Shares,
1000 J1 Manager Team Member Preference shares
1000 G1 Manager Team Member Preference shares

On 24 February 2010 under the provisions of the Articles of Association the remaining 300 B Manager Preference Shares, subject to the Crystallisation Process were converted to Deferred Shares and were redeemed on 3 March 2010

<i>Allotment of Shares</i>	<i>Ordinary</i>	<i>Non-voting preference</i>	<i>Total</i>
	£	£	£
As at 1 April 2009	1,016,666	1,130	1,017,796
Redeemed and cancelled during year	-	430	-
As at 31 March 2010	1,016,666	700	1,017,796

Cash flow statement

at 31 March 2010

16. Reserves

	<i>Share capital £000</i>	<i>Share premium account £000</i>	<i>Capital reserves £000</i>	<i>Profit & loss account £000</i>	<i>Total £000</i>
At 1 April 2008	1,019	51	680	11,140	12,890
Issue of shares	(1)	1	-	-	-
Profit for the year	-	-	-	8,060	8,060
Dividend	-	-	-	(5,693)	(5,693)
Share based payments	-	-	-	(1,008)	(1,008)
At 1 April 2009	1,018	52	680	12,499	14,249
Redemption	(1)	1	-	-	-
Profit for the year	-	-	-	2,157	2,157
Dividend	-	-	-	(6,100)	(6,100)
Share based payments	-	-	-	633	633
At 31 March 2010	1,017	53	680	9,189	10,939

17. Reconciliation of profit before tax to net cash inflow from operating activities

	<i>2010 £000</i>	<i>2009 £000</i>
Profit before tax	3,123	11,475
Depreciation charges	114	250
Decrease in debtors	6,402	1,714
(Decrease)/increase in creditors	7,581	(4,066)
Interest receivable	(6)	(129)
Non cash movement – share based payments	632	(1,008)
(Profit)/loss on disposal of investments	(1,300)	773
Loss/(profit) on disposal of fixed assets	2	2
Other non cash movements	-	278
Net cash inflow from operating activities	16,548	9,289

18. Operating lease commitments

At 31 March 2010 the company had non land and buildings, operating lease commitments as follows

	<i>2010 £000</i>	<i>2009 £000</i>
Leases expiring in less than 1 year	136	146
Leases expiring between 2 and 5 years	87	127

Cash flow statement

at 31 March 2010

18. Operating lease commitments (continues)

At 31 March 2010 the company had annual operating lease commitments in respect of its rented premises as follows

Leases expiring in less than 1 year	585	503
Leases expiring between 2 and 5 years	1,725	2,090
Leases expiring in more than 5 years	494	1,225

The material lease relates to the rental of the Group's premises at 4 Matthew Parker Street in London, and expires in February 2015. The rent was fixed until February 2010, and in accordance with the provision of the lease is being re-negotiated to prevailing market rates. This review has not been settled at the year end and for the purpose of the above disclosure, rental costs have been presumed to remain constant.

19. Share based payments

Manager and Team Preference Shares

Certain employees of the company and partners of Polar Capital LLP hold Manager Preference Shares ("Manager Shares") or Team Member Preference Shares ("Team Member Shares") (together "Preference Shares") in the company.

The terms of the Preference Shares entitle their holders at their option and at a future date, to a value calculated on the basis of the relative contribution of the holder to the group as a whole. This value may be (at the discretion of the company's parent undertaking, Polar Capital Holdings Plc) 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 cost is the estimated fair value, at the date of issue of the preference shares, of the effective entitlement to the ordinary shares. The number of ordinary shares will vary and the holder, initially, and the Polar Capital Holdings plc, ultimately, determines the start of the three-year period ("crystallisation") over which the ordinary shares are awarded, although this will always be at least three years after the end of the financial accounting period in which the preference shares are issued. Advantage has been taken of the transitional provisions in FRS20 to apply the standard to awards made after 7 November 2002 only.

The share based payments charge for the year under this scheme was £324,114 (2009 £209,761), and there was a reduction in the number of shares due to crystallise.

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

Estimated number of ordinary shares to be issued based on current profits

	Awards to which IFRS2 applies	Crystallised
At the beginning of the year	8,124,010	1,629,589
Issue in the year ("crystallised")	-	(1,629,589)
Leaver in the year	(636,946)	-
Movement in the year	2,680,758	-
At the end of the year	10,167,822	-

Cash flow statement

at 31 March 2010

19. Share based payments (continues)

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

	2007	2004
	<u>Awards</u>	<u>Awards</u>
Dividend yield (%)	10.16%	15.30%
Expected share price volatility	40%	40%
Risk free interest rate	5.25%	4.00%
Expected life of options	6 years	6 years

The share price volatility was calculated by reference to the company's historic share price and to that of similar companies in the same industry

The total credit to profit and loss account is £633,322(2009 credit £1,008,583), which is made up of the charge in relation to the preference shares, as detailed above, and a share based payments charge for the option schemes detailed below of £309,208 (2009 £161,024)

Group equity incentive plans

Enterprise management incentive scheme

Share options in Polar Capital Holdings plc are granted to directors and employees under an Enterprise Management Incentive Scheme. These shares have a vesting period of either three or four years, and the exercise price for each option is the market value of the shares on the date it was granted. Early exercise conditions exist in the event of a takeover of more than 75% of the share capital of the company.

Save as you Earn scheme

Share options in Polar Capital Holdings plc are granted to employees under a HMRC approved Save As You Earn scheme. These shares have a vesting period of five to seven years, and the exercise price for each option is the market value of the shares on the date the option was granted, subject to a discount of up to 20%. The scheme is linked to a SAYE savings contract.

Company share option scheme

Share options in Polar Capital Holdings plc are granted to employees under a HMRC approved arrangement up to a value at the date of grant of £30,000. These shares have a vesting period of either three or four years from the date of grant, and the exercise price for each option is the market value of the shares on the date it was granted.

Unapproved share option scheme

In cases where the terms of the schemes above cannot be met, unapproved share options are granted, under the terms of the Group's Equity Incentive Plan. These options vest in either four to five years, and are granted at a price agreed by the Directors of the Group.

The expense recognised for share-based payments in this respect of these share schemes during the year was £324,114 (2009 £161,024)

Cash flow statement

at 31 March 2010

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

	2010 No	2010 WAEP £	2009 No	2009 WAEP £
Outstanding at beginning of the year	4,479,608	66p	4,304,105	52p
Granted during the year	6,668,360	83p	781,288	94p
Exercised during the year	(360,000)	(50p)	(300,000)	(50p)
Lapsed during the year	(1,550,426)	(58p)	(302,785)	(65p)
Outstanding at end of the year	<u>9,237,542</u>	<u>80p</u>	<u>4,479,608</u>	<u>66p</u>

The range of exercise prices for options outstanding at the end of the year was £0.025 to £1.705 (2009 £0.025 – £1.705) Of the options outstanding at the end of the year 1,281,180 (2009 660,000) were exercisable at a weighted average price at 91.5p. The average share price of exercised options at the date of exercise was 88p.

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 2010 and 31 March 2009.

	Year ended 31 March 2010	Year ended 31 March 2009
Dividend yield (%)	9.86%	9.80%
Expected share price volatility	40%	40%
Risk free interest rate	5.00%	5%
Expected life of options	Vesting period	Vesting period

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

21. Contingent liabilities and financial commitments

In order to hedge against risks associated with fees earned by Polar Capital LLP being dependent on dollar denominated investment portfolios, the company enters into a number of forward foreign currency contracts. At the year end there were four open contracts to sell a total of USD 4,500,000 for a total of £2,767,483 (2009 USD 4,000,000 for a total of £2,790,530). There was one open Sterling/Yen contract to sell a total of 33,395,500 Yen for a total of £250,000.

The company has one further hedge for the sale of USD 3,000,000 to purchase £1,923,077, to hedge against the underlying USD assets in one of the firm's investment in its own funds.

22. Related Party transactions

At the end of the year, the Company had an outstanding loan due on £1,391,992 (2009 £870,902) from the Polar Capital Employee Benefit Trust, which was set up in 2002 to fund the acquisition of ordinary shares in Polar Capital Holdings plc. A reconciliation of the movement in this loan is detailed in Note 11.

23. Ultimate Parent Undertaking

The ultimate parent undertaking at the year-end was Polar Capital Holdings plc, a Company that is registered in England and Wales. A copy of the group accounts of the parent can be obtained from The Secretary, Polar Capital Partners Limited, 4 Matthew Parker Street, London SW1H 9NP.