POLAR CAPITAL

Polar Capital Holdings plc

Annual Report and Accounts for the year ended 31 March 2014

Year ended
2014

Contents

Polar Capital at a Glance

The Polar Capital Holdings Group is a specialist investment management Group offering professional and institutional investors a range of geographical and sector funds. The Group investment strategies have a fundamental research driven approach. The Group has long-only and absolute return funds in its product range.

Highlights

- Net inflows every quarter over the financial year, despite turbulent markets, with Assets under Management ("AUM") at 31 March 2014 up 83% to US$13.2bn (2013: US$7.2bn)
- Core operating profit excluding performance fees up 146% to £24.6m (2013: £10.0m)
- Profit before share-based payments and amortisation of intangibles of £34.2m (2013: £16.8m)
- Pre-tax profit £32.7m (2013: £15.3m)
- Basic earnings per share up 106% to 30.78p (2013: 14.95p) and adjusted* diluted earnings per share up 97% to 29.04p (2013: 14.77p)
- Dividends for the year 25.0p per share (2013: 13.0p) including a second interim dividend of 21.0p per ordinary share to be paid on 18 July 2014 to shareholders on the register on 4 July 2014
- Shareholders' funds £74.2m (2013: £53.8m) including a strong cash position
- The Global Financials Investment Trust was launched on 1 July 2013 raising £153m

*Adjusted to exclude cost of share-based payments and intangible asset amortisation.

Our Funds/Strategies
(in chronological order)

Assets Under Management

	As at 31 March 2014 $m	As at 31 March 2013 $m
Technology	**1,793**	**1,255**
Technology Trust plc	1,043	823
Global Technology UCITS Fund	750	432
Japan	**5,629**	**2,389**
Japan UCITS Fund*	5,478	2,375
Japan Alpha UCITS Fund	151	14
UK	**–**	**261**
UK Hedge Fund	–	–
UK Absolute Return UCITS Fund*	–	36
UK Managed Accounts	–	225
Europe	**761**	**700**
European Forager Hedge Fund	602	528
European Conviction Hedge Fund	159	172
Healthcare	**1,184**	**616**
Global Healthcare Growth & Income Trust plc	321	228
Healthcare Opportunities UCITS Fund	854	388
Biotechnology UCITS Fund	9	–
Financials	**1,063**	**669**
Asian Financials UCITS Fund	46	73
Global Insurance UCITS Fund	582	485
Financials Income UCITS Fund	106	89
Financial Opportunities UCITS Fund	27	22
Global Financials Trust plc	302	–
Emerging Markets	**832**	**571**
Emerging Markets Growth UCITS Fund*	303	195
Emerging Markets Income UCITS Fund	529	376
Convertibles	**103**	**40**
ALVA Global Convertible Hedge Fund*	73	40
Global Convertible UCITS Fund	30	–
North American UCITS Fund	**1,729**	**637**
European Market Neutral Fund	**70**	**59**
European Market Neutral Hedge Fund	20	18
European Market Neutral UCITS Fund	50	41
Global Alpha UCITS Fund	**85**	**11**
Total	**13,249**	**7,208**

* Including managed accounts run off the same strategy

Analysis of Changes in Asset Types for the 12 Months to 31 March 2014

	Long $m	Hedge $m	Total $m
Total assets as at 31 March 2013	6,371	837	7,208
Net subscriptions/(redemptions)	4,914	28	4,942
Closure of UK team	(252)	(41)	(293)
Performance and currency movements	1,282	110	1,392
Total assets as at 31 March 2014	**12,315**	**934**	**13,249**

Chairman's Statement

Tom Bartlam
Chairman

Our last financial year proved an exceptional one with assets under management increasing 83%, well beyond our expectations at the start of the year. We benefited from exceedingly strong inflows into a number of our funds but particularly our Japanese funds and from the strength in most major global equity markets.

Results

Pre-tax profits before share based payments and intangible asset amortisation/impairment increased from £16.8m to £34.2m with core pre-tax profit increasing from £10.0m to £24.6m. Net performance fees increased from £5.5m to £7.6m, our thirteenth successive year of generating such fees.

Our balance sheet remains strong with net cash now standing at £47.0m.

Market Background

Over recent years I have been writing to you against a background of turbulence and volatility in global stockmarkets. This year proved somewhat of a contrast with many of the major developed stockmarkets around the world posting strong gains. In Japan for example the Nikkei 225 was up 21.1% and in the US the Standard and Poor's 500 Composite was up 21.3%. In Europe there was considerable variation in individual country returns although the broad based MSCI Europe Total Return Index increased a healthy 24.5%. The UK was somewhat of a laggard in comparison, the FTSE All Share Index rising just 8.9%. Some of the less developed markets had a difficult year contributing to a lacklustre performance from MSCI Emerging Market Total Return Index. This fell 1.4% over the period as investors fretted over the impact on the Emerging Market economies of the US Federal Reserve's desire to reduce monetary stimulus through a reduction in its QE2 (Quantative Easing) programme.

The improved economic and market backdrop in the developed markets had a significant bearing on our year given our degree of exposure to long only equity funds investing in developed market equities. The higher market levels have a direct impact on the level of assets in many of our funds. There is an indirect impact as well – with our clients feeling more confident about the economic outlook and the prospects for equities they have increased their allocations to equity products considerably over the last twelve months either by reducing their cash levels or through a reduction in their bond exposure. Our net inflows for the twelve months were almost $5bn – a very material increase in the level of flows we had been enjoying in recent previous years.

Funds and Performance

Although the overall market background improved significantly over the period, we would not have achieved the level of asset growth and inflows we did without having strong performing and differentiated products to offer to clients. This is well illustrated by the inflows we experienced into our Japanese funds where our award winning team had delivered exceptional outperformance to investors over many years and have benefited from a surge in investor interest in Japan following the reforms being pursued by the government and the aggressive monetary policy being pursued by the Bank of Japan.

By the end of our financial year, the Japanese team was managing assets in excess of $5bn – this was the first time in our history that a team has reached $5bn in assets. This is testimony not only to the team and its approach and performance record but also the success of our investment into distribution and client service over the last five years.

Chairman's Statement continued

Although Japan accounted for over fifty percent of our net inflows, we also saw strong inflows into a wide range of other funds. In particular good inflows were seen into our North America, Emerging Market Income and Healthcare Opportunities UCITS funds.

The short term performance in a number of our funds has been less strong than we have been accustomed to although inevitably with active funds that are taking meaningful 'bets' against their indices there will be periods of underperformance as well as outperformance. The long term record on our long only funds remains very strong and we remain highly confident in our teams' ongoing ability to deliver substantial outperformance to our clients over the medium and longer term.

On the absolute/hedge fund side, we had good returns from the Forager and ALVA funds which both posted double digit returns over the period. Returns from our European Market Neutral funds and our Conviction fund were rather muted.

Awards

At a group level we were pleased to win the 'Specialist Group' awards at the Investment Europe Fund Manager of the Year Awards and at the Investment Company of the Year Awards. At a fund level we won awards for: Asian Financials; Global Technology; Japan; Global Insurance; North America; Healthcare Opportunities; Emerging Markets Income and Financial Income.

Developments

For the first time in a number of years we did not add to the number of investment teams, indeed the number actually reduced during the year with the decision to close down our UK leg which had seen assets dwindle over recent years following a poor period of performance.

Although the number of teams went down, our product range continued to expand with a number of new fund launches.

At the beginning of July we completed the very successful launch of our Global Financials Investment Trust which raised an initial £153m, one of the largest equity focused investment trust launches in recent years.

Later in the year we launched two new UCITS funds – a global convertible fund and a biotechnology fund. Both have produced strong initial returns for clients and we anticipate both will become significant products for us over the medium term.

Dividend

As previously stated the Board believes that the level of dividend should reflect the Company's trading results, its cash resources and also its future prospects. The total dividend for any year is always a distribution of the majority of the Group's total earnings for the year. To assist shareholders in forecasting and understanding the size of the Group's future first interim dividend payments, always paid in January, these will going forward be predicated on half of the first half year's core earnings.

The Board has declared a second interim dividend of 21.0p (2013: 11.0p) to be paid in July 2014. Together with the interim dividend of 4.0p paid in January 2014 the total dividend for the year amounts to 25.0p (2013: 13.0p).

Outlook

The global economy looks set for steady growth in the year ahead with inflationary pressures remaining muted. The US economy is growing at a reasonable rate and starting to add jobs but not at a sufficient pace to trigger inflationary pressures or a more aggressive reining in of QE2.

In Europe the UK is growing quite robustly despite last year's scepticism from the International Monetary Fund over the government's strategy and even in Continental Europe there are tentative signs of a return to growth albeit at a very subdued level. Chinese growth may have slowed from the heady levels of the last decade but at 5% plus it is still growing at a meaningful rate and with the recent election of a new pro-business Prime Minister, India may well be set for a period of accelerated growth over the coming years.

The outlook for global growth thus remains reasonable and this should provide the opportunity for good businesses to do well. Valuations on a number of major markets although do not look cheap and good earnings growth may be required if further gains are to be made near term. The outlook is certainly not without risk and whilst progress has been made on debt levels in certain sectors and countries, overall debt levels remain high by historical standards and in some areas are on the rise again. It remains uncertain as to how various markets will fare if the US Federal Reserve reduces QE further than expected.

However, near term the biggest threat would appear to be geopolitical. Recent events in the Ukraine and the Middle East have created nervousness and uncertainty in markets which could get worse over the coming months if events unfold in an unpredictable and dangerous manner. Tensions also seem on the rise in Asia between China and a number of its neighbours. Such tensions have an impact on client confidence and allocations and we have seen this in our own fund flows over recent weeks.

We enter the new financial year therefore with a degree of a caution although we remain confident in our long term outlook given our expanded product set and with the further investments we have made in investment teams, distribution and operations personnel.

Inevitably given the huge success of our Japanese team, the direction of the Japanese market and client allocations to that market will have a significant influence on our short term results. However, our ability to develop a $5bn plus franchise gives us increased confidence we have the right ingredients and strategy to achieve similar success with a number of our other teams over time, who are addressing considerably larger market opportunities than our Japan team.

Annual General Meeting

The Annual General Meeting will again this year be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN at 2.30pm on Monday 28 July 2014 and I would encourage shareholders to attend to meet the Directors.

Full details of the meeting are given in the separate Notice of Annual General Meeting.

Tom Bartlam
Chairman

19 June 2014

Chief Executive's Report

Tim Woolley
Chief Executive

Our Chairman has updated you on the events of the past year so I will not dwell further on that but focus my report on our strategy for further growth in the years ahead.

So far we have followed the same strategy that we started the Company with over thirteen years ago. Our intent remains to build a sizeable global specialist investment boutique using fundamentally researched strategies in both long only and absolute return funds. Our strategy set a limit of twelve investment teams, so we still have scope to increase our team count by a third and remain true to the original strategy.

After an eighteen month period of consolidation in terms of team numbers, we are now actively looking to make additions again. We are encouraged by the number and quality of unsolicited approaches we are now receiving from managers across a variety of strategies as our profile continues to increase within the industry.

When we established Polar we set out to create the environment, ethos and financial model to attract and retain talented active fund managers and allow them to thrive and deliver differentiated performance to our clients. It is encouraging to note that ninety percent of our funds have outperformed their benchmarks net of all costs and fees since they were launched.

The table below illustrates the performance of our long only UCITS range of products. Inevitably over the shorter time periods there will be some variation in performance given the active nature of our funds but the long term performance record remains excellent.

Fund	1 Year Quartile	3 Years Quartile	5 Years Quartile	Since Inception Quartile
Japan Fund	4	3	2	1
Healthcare Opportunities	1	1	1	1
Emerging Markets Growth	2	1	–	2
Emerging Markets Income	3	1	–	1
Asian Financial	4	3	1	1
Financial Opportunities	3	–	–	1
Financials Income	1	1	–	1
Global Insurance	3	1	2	1
Global Technology	1	3	1	1
North America	2	–	–	1
Global Alpha	3	–	–	2
Japan Alpha	1	–	–	2
Biotechnology	–	–	–	1
Global Convertibles	–	–	–	1

Source Lipper

The huge recent success of our long established Japanese team has somewhat masked the success we have had on the long only side with our newer teams. The table below illustrates the progress we have made over the last three years:

Team	AuM March 2011 ($m)	AuM March 2014 ($m)
Healthcare	233	1,184
Financials	296	1,063
Emerging Markets	96	832
North America	–	1,729

The success we have enjoyed in recent years with our long only teams has moved our business mix heavily towards long only both in terms of quantity of products and percentage of our overall assets under management. The significant rise in the level of global markets since the nadir of the financial crisis in March 2009 has been a factor but we undoubtedly have been more successful at identifying talent on the long only side compared to our efforts on the alternative side.

We do though remain firmly committed to developing our alternatives business both through investing further in the existing teams and bringing on new managers. The alternatives market has bifurcated between the traditional Cayman hedge funds which remain popular with North American clients and the less developed but rapidly growing market for alternative UCITS products, which are now becoming the product type of choice for European buyers looking to allocate to absolute return strategies.

Our recent experience with the launch of our Global Convertible UCITS product is illustrative of the trend. The fund was launched in November and already has nearly $100m. We anticipate we will launch additional alternative UCITS product over the coming year to tap into this exciting opportunity on the alternative side.

On the long only side of the business there remains ongoing debate over the merits of passive versus active fund management. We have believed since the outset of Polar that given the ease with which computer models could replicate long only indices and create passive products and strategies, running 'active' long only funds in a "closet index" way would become an increasingly challenged business model. So it is proving with the giant US firms who already control and dominate the supply of passive products continuing to increase their market share at the expense of the "active closet indexers".

As an increasing number of clients replace a part of their active portfolio with passive products, they are looking for genuine alpha generating managers to take on an increasing share of the remaining active portfolio and deliver the outperformance that passive products intrinsically can never provide. The opportunity for us thus continues to expand.

Undoubtedly one of the challenges with high alpha generating products is to manage the capacity issue. Every active management strategy has a limit in terms of assets managed and capability to continue to deliver outperformance. The level of assets will vary enormously according to the strategy and the underlying investments associated with that strategy. We strive to limit the size of our funds either through a soft closure (no monies accepted from new clients) as we have done with our Japan UCITS fund or a hard closure (no monies accepted from either new or existing clients) as is the case with our Forager Fund in order to ensure long term investment performance is not compromised.

This will inevitably limit our ultimate growth potential at an individual product level and within a team and strategy at some point. Despite our rapid growth over recent years, the existing capacity levels with our current teams and current products do still provide ample opportunity for further expansion. If we are successful in adding more teams this year or launch additional products with our existing teams, then our opportunity set will expand even further.

We continue to believe the overall outlook for global wealth creation and the management of that wealth remains encouraging. In the developed economies there is a growing realisation that people are making insufficient provision for their retirement and with life expectancy continuing to rise, someone wishing to retire at sixty has to consider the possibility of making provision for a further twenty to thirty years!

In our home market recent changes by the UK government to pension legislation will likely increase the demand over time for equity related products, particularly those with an income focus.

In the emerging markets there remains enormous potential for further wealth creation and further growth in the middle classes over the coming decades despite some recent setbacks in a number of those economies.

As long as we are able to keep delivering differentiated performance on our products and value to our clients, we remain optimistic that our current positioning and strategy will allow us to deliver significant further profit and dividend growth to shareholders over the long term. We do though have to recognise that last year was an exceptional year in terms of profit and dividend growth and it would be unrealistic to anticipate a similar level of growth in the coming year – indeed, we expect an altogether more challenging year.

I will close with thanks to all our clients for their tremendous support over the last twelve months and thanks to all at Polar who helped make such an exceptional year possible. We are very much a people business and I believe we are a group whose professionalism, dedication and esprit de corps will continue to serve clients well for many years to come and allow us to grow the business significantly over the medium term.

Tim Woolley
19 June 2014

Financial Review

John Mansell
Finance Director

Results of the year

It is pleasing to report that the Group has delivered profits that are in all respects an improvement compared to last year's good numbers. The results for the year show that the increase in AUM delivered the anticipated improvement in core operating margin. In addition, the good performance of the Group's products has led to an increase in net performance fees as well as the profits realised from the Group's investments.

Revenues	31 March 2014 £'m	31 March 2013 £'m
Net management fees (net of commissions and fees payable)	66.3	35.3
Performance fees	19.2	13.5
Total revenues	85.5	48.8

The 87% increase in net management fees was a product of the increase in assets managed by the Group. As reported previously, AUM that started the year at $7.2bn ended the year 83% higher at over $13.2bn. The increase in performance fee revenues was attributable to the general out performance of Polar's products against their respective benchmarks.

Costs	31 March 2014 £'m	31 March 2013 £'m
Salaries, bonuses and other staff costs	15.9	13.5
Core distributions	16.7	4.8
Core compensation costs	32.6	18.3
Other operating costs	9.0	7.0
Core operating costs	41.6	25.3
Performance fee interests	11.6	7.9
Total operating costs	53.2	33.2

The headline 60% increase in operating costs to £53.2m includes the performance fee interests that are paid to managers. The 64% increase in core operating costs is less than the 87% increase in net management fee revenues, which has led to the improvement in margins as detailed below.

The increase in the salaries, bonuses and other staff costs reflects an increase in staff head count through the business as the Group invests for future growth.

The increase in core distributions is a reflection of the interests that managers have in their individual business units as they become profitable. These interests are strongly correlated to the increase in the Group's AUM and the improvement in the Group's profits.

Profits	31 March 2014 £'m	31 March 2013 £'m
Core operating profit	24.6	10.0
Performance fee profit	7.6	5.5
Interest and similar income	2.0	1.3
Profit before share-based payments, amortisation and tax	34.2	16.8
Share-based payments	(1.5)	(1.0)
Amortisation of intangible assets	–	(0.5)
Profit before tax	32.7	15.3

The headline profit before tax for the year has increased to £32.7m from £15.3m.

The Group believes that the best measure of profitability is the profit before share based payments (as detailed more fully below), amortisation and tax. On this basis the Group has improved year on year over 100% delivering £34.2m of profits against £16.8m the year before. The improvement has come from:

- **Core operating profits**
  profits have risen faster than the rise in revenues as a product of an improvement in margins; rising to 36% from 28% the year before.

- **Performance fee profits**
  good performance across the product range in 2013 has delivered an increase in performance fees.

- **Interest and similar income**
  improved profits have been realised from the Group's Investments.

The most encouraging feature of the year has been, as the AUM have risen, the delivery of the improved core profit margin. This provides comfort that operational leverage of the business is being achieved through the control of the Group's fixed overheads.

Share-based payments

The face of the consolidated income statement includes a line titled "share-based payments" which accounts for a charge of £1.5m (2013: £1.0m). The figures are broken down as follows:

	31 March 2014 £'m	31 March 2013 £'m
Cost attributed to preference shares	0.6	0.3
Cost attributed to conventional options	0.9	0.7
Total cost of share-based payments	1.5	1.0

Earnings per share

The effect that the charge for share-based payments and the charge for amortisation of intangible assets (see below) has on the EPS figures of the Group are as follows:

	31 March 2014 Pence	31 March 2013 Pence
Diluted earnings per share	27.4	13.1
Impact of share-based payments	1.6	1.0
Impact of intangible asset amortisation	nil	0.6
Adjusted diluted earnings per share	29.0	14.7

Preference shares

A separate class of preference shares is issued by Polar Capital Partners Limited to each of the leading fund managers. These shares provide each manager with an economic interest in the funds that they run and ultimately enable the manager to convert their interest in the revenues generated from their funds into equity in Polar Capital Holdings plc. The equity is awarded in return for the forfeiture of their current core economic interest and vests over three years with the full quantum of the dilution being reflected in the diluted share count (and so diluted EPS) from the point of conversion. The event has been designed to be, at both the actual and the diluted levels, earnings enhancing to shareholders.

In the year to 31 March 2014 one set of preference shares converted into Polar Capital Holdings equity (zero in year to March 2013). The product of the recent event is that a total of 1.39m shares are to be issued of which 0.56m have been issued as at 31 March 2014. The remaining 0.83m shares will be issued in two equal tranches on 31 March 2015 and 31 March 2016. Simultaneous to the initial commitment to issue these new shares in Polar Capital Holdings the recipient of the shares has forfeited a fixed economic interest in the business unit to which the shares were associated amounting to a value of £0.5m per annum.

Financial Review continued

As at 31 March 2014 one additional set of preference shares have the ability to call for a conversion. The call has to be made on or before 30 November 2014 if any conversion is to take place with effect from 31 March 2014.

Amortisation of intangible assets

On 21 September 2010, the Group acquired 100% of the voting shares of HIM Capital Holdings Limited, a specialist fund manager with an established track record of managing financial funds and with approximately $245m of assets under management, thereby establishing a strong financials sector franchise for the Group. The product of the acquisition was that intangible assets of £1.7m representing the acquired investment management contracts were taken onto the Group's balance sheet (i.e. the consideration above the value of tangible assets purchased). These intangible assets and the associated deferred tax liability/goodwill of £0.4m have been amortised/impaired over a period of two years. This resulted in a charge of £0.5m in last year's accounts. At 31 March 2013 the intangible asset and the associated deferred tax liability / goodwill sums had been fully amortised so there was no further charge this year.

Balance Sheet and cash

At the year end the cash balances of the Group had increased by £16.1m to £47.0m (2013: £30.9m). The increase was a product of the £43.7m of cash generated from the Group's operating activities (2013: £20.7m), the payment of £12.2m of dividends, £6.1m of tax, the net investment of £9.5m of cash into investments and investment hedging and £0.2m of new equity issued.

At the balance sheet date the Group held £43.9m of investments in its funds (2013: £31.2m).

Capital management

The Group believes in retaining a strong balance sheet. The Chairman's statement documents that the Group's dividend policy is to distribute the majority of its earnings. The Capital that is retained in the business is used to either seed new investment products or if not so required is invested into the Group's absolute return funds as investment capital. As at March 2014 there were no pure investments, but £43.9m of the Group's balance sheet was invested to seed fledgling funds. The majority of the interest and investment revenues in the year were a product of this seeding program, where £3.5m of profits were produced from the realisation or roll over of investments and the associated currency hedging while £1.5m of losses were a function of the mark to market losses made on the long only investment hedging program.

Business risk

There is a range of risks and uncertainties faced by the Group which are more fully described in the Strategic Report. Amongst the major risks to the business strategy is the loss of assets under management due to markets falling, poor investment performance or the loss of key investment personnel. These events will not only have an immediate impact on the management fees earned by the Group but also deprive the Group of possible performance fees.

Going concern

The Financial Reporting Council has determined that all companies should carry out a rigorous assessment of all the factors affecting the business in deciding to adopt a going concern basis for the preparation of the accounts.

The Directors have reviewed and examined the financial and other processes embedded in the business, in particular the annual budget process and the financial stress testing inherent in the Internal Capital Adequacy Assessment Process ("ICAAP"). On the basis of such review and the significant liquid assets underpinning the balance sheet relative to the Group's predictable operating cost profile, the Directors consider that the adoption of a going concern basis, covering a period of at least 12 months from the date of this report, is appropriate.

John Mansell
Finance Director

19 June 2014

Business Overview

The Group is required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out a report to shareholders outlining a fair review of the strategy and performance of the Group during the year ended 31 March 2014, the position of the Group at the year end and a description of the principal risks and uncertainties.

Full details of the Groups' activities are set out in the Strategic Report comprising of the Chairman's Statement, Chief Executive's Report and the Finance Director's Report and this business review which should be read in conjunction the Report of the Directors which follows.

Who We Are

The Polar Capital Holdings Group is a specialist investment management Group offering professional and institutional investors a range of geographical and sector funds. The Group investment strategies have a fundamental research driven approach. The Group has long-only and absolute return funds in its product range.

Founded in 2001, the Group currently has 99 employees of whom 47 are investment professionals managing 22 funds and 5 managed accounts.

Polar Capital Holdings plc is AIM quoted following its initial public offering in February 2007. Consistent with the Group's founding strategy of fostering an equity culture amongst its employees and providing high levels of transparency to clients, 36% of the equity is currently held by Directors, founders and employees.

The Group's head office is in London and it has offices in Tokyo, Jersey, Connecticut and Switzerland.

Strategy and Business Model

The Group's goal is to become a leading specialist fund manager through a strategy of delivering to professional and institutional investors a range of fundamentally driven investment products that deliver differentiated risk adjusted returns over the long term.

Our core philosophy is to focus on investment performance over and above the gathering of assets. We believe there is an alignment of interest between the investment managers we recruit, their focus on delivering superior returns and the interests of professional and institutional clients who are seeking differentiated investment product.

The Group provides research driven specialist investment products across long only, long basis, equity long/short and other fundamentally driven hedge fund strategies.

In addition to providing clients with superior investment products we place great emphasis on providing high levels of customer service, operational integrity, independent risk control and compliance supervision. We believe such a combination will increasingly set us apart in the marketplace and deliver attractive levels of long term earnings and dividend growth to our shareholders.

We place great emphasis on providing and maintaining an entrepreneurial, vibrant, collegiate and transparent environment for our fund managers and our employees. We believe this will become an increasingly important factor in the attraction and retention of talented people.

The Group will continue to maintain a strong and healthy balance sheet providing our clients with added comfort.

During the year the Company obtained verification that it met the Global Investment Performance Standards ('GIPS') for our performance measurement processes and procedures.

Principal risks and uncertainties

The Group, as any business operating in the financial services sector, faces a number of challenges to its successful operation and development. The principal risks and uncertainties facing the Group are addressed through a risk management framework that provides a structured process for identifying, assessing and managing risks associated with the Group's business objectives and strategy.

Risks arise from external sources as well as those which are inherent commercial risks in the market place and business, as well as operational risks contained in the systems and processes employed within the business.

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 cannot be predicted but the Group consults with its external advisors and seeks to operate within the applicable legislation.

Failure to comply with regulations, particularly those issued by the Financial Conduct 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 quotation being suspended or withdrawn. The Group's investment activities are regulated primarily by the Financial Conduct 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 Conduct Authority Principles, Rules and Regulations and those issued by the London Stock Exchange to govern the trading of the Company's shares on AIM.

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

The Audit Committee Report on pages 20 to 22 provides further details on the work undertaken.

Economic and market risk

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

Portfolio risk

The Group has a formal Risk Committee that convenes monthly and is chaired by the Group's Chief Risk Officer ("CRO") and comprises the Chief Executive, the Chief Operating Officer and Mr Ashford-Russell. The committee reviews all the portfolios managed by the firm and has presented to it analysis produced by the CRO relating to portfolio structure, exposure, concentration, returns, liquidity and risk. Portfolio managers present to this committee on a regular basis or when requested.

The Group is subject to the effects of exchange rate fluctuations as 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 summary of the Group's foreign currency exposures as at 31 March 2014 can be seen in Note 22 to the accounts.

The loss of a client or a significant investor in a large fund could 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.

The Group has a number of key fund managers the loss of which could result in significant investor redemptions from the funds they manage and loss of revenue to the Group. Each of the key managers has an economic interest in the success of their funds and the overall business.

Operational risk

Operational risk arises from potentially inadequate or failed processes, people and also stems 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 are tested annually 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 has on an annual basis subjected the Group to an annual internal control audit carried out in accordance with the International Standard ISAE 3402 – Assurance Reports on Controls at a Service Organisation.

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 these are documented in both the staff handbook and the compliance manual.

Staff welfare and gender diversity

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 of a high standard 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 Group aims to remunerate staff in line with market practice, to provide development opportunities and to encourage staff motivation and retention.

The environment

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

Treating Customers Fairly

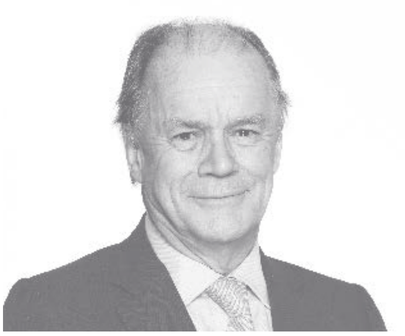
Treating Customers Fairly is part of the Group's business ethos and ensures its regulated business complies with the FCA Principle, "A firm must pay due regard to the interests of its customers and treat them fairly". The fair treatment of customers is central to our corporate culture.

Approved by the Board on 19 June 2014
By order of the Board.

Neil Taylor
Company Secretary

Board of Directors

Non-executive Chairman and Executive Directors



Tom Bartlam †*^
Non-executive Chairman
Appointed to the Board in July 2007 and became Chairman in September 2007.

Tom was a managing director of Intermediate Capital Group plc which he co-founded from 1989 until his retirement in 2005. He is non-executive Chairman of Pantheon International Participations plc and Jupiter Primadona Growth Trust plc as well as a non-executive director of The Diverse Income Trust plc.

Tim Woolley
Chief Executive Officer and Founder
Appointed to the Board in 2002 and became chief executive in November 2009.

Tim joined Henderson Global Investor's technology team in 1996 and left with Brian Ashford-Russell to establish Polar Capital in 2001.

John Mansell
Chief Operating Officer and Finance Director
Appointed to the Board in 2002, having joined Polar Capital in 2001.

Prior to joining Polar Capital he spent 11 years at Lazard Asset Management. John is a fellow of the Institute of Chartered Accountants of England and Wales.

Non-executive Directors

Hugh Aldous †^
Non-executive Director and Chairman of the Audit Committee

Appointed to the Board in 2007.

Hugh was a partner in Grant Thornton UK LLP and was formerly a partner in RSM Robson Rhodes from 1976 where he was latterly head of its financial services team. Hugh is Chairman of Capita Sinclair Henderson Ltd and SPL Guernsey ICC Ltd and is a non-executive director of Innospec Inc, Asian Total Return Investment Company plc (formerly Henderson Asian Growth Trust plc), and Elderstreet VCT.

Michael Thomas *^
Non-executive Director and Chairman of Remuneration Committee

Appointed to the Board in 2008.

Michael was a director of Martin Currie Limited and investment manager of the Japanese team until his retirement in 2007. He is on the board of Japaninvest plc. Michael succeeded Mr Cayzer-Colvin as chairman of the Remuneration Committee with effect from 25 February 2014.

Brian Ashford-Russell †
Non-executive Director and Founder

Appointed to the Board in 2002.

Brian was head of the technology team at Henderson Global Investors from 1987 until September 2000 and is a co-founder of Polar Capital. He was the appointed fund manager of Polar Capital Technology Trust plc, from launch in 1996 until May 2006.

George Bumeder *^
Non-executive Director

Appointed to the Board on 8 September 2011.

George is senior vice president of XL Group Investments LLC, a subsidiary of the XL Group plc.

Jamie Cayzer-Colvin †*^
Non-executive Director

Appointed to the Board in 2002.

Jamie is a director of Caledonia Investments plc and a non-executive director of the India Capital Growth Fund plc and Chairman of Henderson Smaller Companies Investment Trust plc. Jamie was succeeded by Mr Thomas as chairman of the Remuneration Committee with effect from 25 February 2014.

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

Directors' Report and Corporate Governance Report

The Directors present their report including a report on the on corporate governance arrangements and the audited consolidated financial statements of Polar Capital Holdings plc ("the Company") for the year ended 31 March 2014. Matters relating to the future developments of the business and identification of branches are given in the Strategic Report.

The Company is incorporated in England and Wales under registered number 4235369 and its registered office is at 4 Matthew Parker Street, London SW1H 9NP.

Directors

Biographies of the Directors who served during the year are set out on pages 14 and 15. All the Directors held office throughout the year under review and up to the signing of this Report.

The remuneration, and principal terms of employment and the interests of the Directors in the Company's shares and options are detailed is set out in the Directors' Remuneration Report on pages 23 to 25.

The Articles of Association require all Directors who held office at the time of the two preceding AGMs and did not retire by rotation at either of them to retire from office by rotation and all new Directors appointed by the Board are required to seek reappointment by shareholders at the next general meeting of the Company following their appointment.

In accordance with the Articles of Association Mr Thomas retires from office and being eligible offer himself for re-election at the Annual General Meeting.

Directors' interests and conflicts

None of the non-executive Directors except for Mr Ashford-Russell have any interest in any contract with the Group or Company.

Mr Ashford-Russell is a non-executive director of Polar Capital Technology Trust plc which has contracted with Polar Capital LLP for the provision of investment management services. Details are provided in Note 23.

The Board has approved a policy on the disclosure, approval and management of Directors' conflicts of interest. Under this policy Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate. The register of conflict is formally reviewed annually.

Directors are reminded at each Board meeting of their obligations to notify any changes in their statement of conflicts and also to declare any benefits from third parties in their capacity as a Director of the Company which might give rise to a conflict or potential conflict with the Company's interests. No Director has declared receipt of any benefits in his capacity as a Director of the Company.

Remuneration Code

Disclosure of the group's Remuneration Code will be made alongside its Pillar 3 disclosure which is available on the Group's website www.polarcapital.co.uk

Dividends

The Directors have declared two interim dividends in respect of the financial year ended 31 March 2014 amounting to 25.0p per share (2013: 13.0p per share). The first interim dividend of 4.0p per share was paid on 17 January 2014 to shareholders on the register on 3 January 2013. The second interim dividend of 21.0p per share will be paid on 18 July 2014 to shareholders on the register on 4 July 2014. The shares will trade ex dividend from 2 July 2014.

Capital structure

The capital structure of the Company is detailed in Note 17. Of the 87,354,203 ordinary shares (2013: 82,451,741) in issue at the year-end, ordinary shares 1,710,365 (2013: 1,710,365) 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 ordinary shares held by the Trustee and it does not vote the ordinary shares held by it.

On a show of hands at a general meeting of the Company every holder of an ordinary share present in person or by proxy shall have one vote and each ordinary share has one vote on a poll. There are no restrictions on the transfer of ordinary shares.

During the year the Company issued 4,902,462 (2013: 3,123,833) ordinary shares of which 2,468,961 (2013: 2,468,961) ordinary shares were in connection with the crystallisation of the C manager preference shares, 556,119 (2013: nil) ordinary shares were in connection with the crystallisation of the J manager preference shares and 1,877,382 (2013: 654,872) ordinary shares were to cover the exercise of share options.

The Company is subject to the UK City Code on Takeovers and Mergers.

Substantial shareholdings

As at 19 June 2014, the Company had received the notices for the purposes of Part 5 of the FCA's Disclosure and Transparency Rules from the undernoted shareholders. The percentage voting rights is calculated based on the number of shares shown in the notice divided by 87,354,203, the number of shares in issue as at 19 June 2014:

	Number of ordinary shares shown in notice	% of voting rights held
Caledonia Investments PLC	8,016,640	9.18
R Gurner	7,926,559	9.07
XL Group plc	7,000,000	8.01
B J D Ashford-Russell	6,600,000	7.56
T J Woolley	5,500,000	6.30
Hargreave Hale	4,458,950	5.10
In addition the Board is aware of the following interests in the ordinary shares of the Company of over 3%		
Blackrock Investment Managers	8,256,570	9.45

In all cases except as disclosed below the interest was held directly. The interests of Mr Ashford-Russell and Blackrock Inc are held wholly or partly indirectly.

There have been no changes notified to the Company since 31 March 2014 and the date of this report.

Annual General Meeting ("AGM")

The AGM will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN at 2.30pm on Monday 28 July 2014. Full details of the resolutions and explanations of each resolution are given in the separate notice of meeting sent to shareholders.

Corporate Governance

The Board of Directors recognises the importance of good corporate governance and intends that best practice is adopted and applied in so far as it is appropriate for a company and group of its size and stage of development. As an AIM traded Company the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) does not apply, however the Board intends to comply with the requirements of the Corporate Governance guidelines published by the Quoted Companies Alliance (the "QCA Guidelines") for AIM companies and with certain of the principal requirements of the UK Corporate Governance Code. This report describes how the Company has applied the principles of good corporate governance throughout the year and steps which are being taken to develop the corporate policies.

The Board

Composition

The Directors who served during the year are listed on pages 14 and 15 together with their individual biographies.

In assessing the independence of non-executive Directors, the Board took account of their experience, character and judgement, and their dependence on, or relationships with the Group. In all cases the Board felt the Directors were independent in character and judgement, however the guidance issued on independence by both the QCA and the UK Corporate Governance Code, generally used to assess independence, consider the holding of a previous executive position within the Group, or a material business relationship with the Group including shareholdings, to impair the perceived independence of the non-executive Director.

In light of this the Board has decided that Mr Ashford-Russell should not be considered independent as he previously held an executive position with the Group and that Mr Cayzer-Colvin and Mr Bumeder should not be considered to be independent due to the fact that the companies that employ them have sizeable shareholdings and investments in the Group.

Mr Bartlam, Mr Aldous and Mr Thomas are considered independent non-executive Directors and are free from any associations or relationships with the Group or its investment funds except for the fees they receive as Directors and any shares they may hold in the Group.

Role and responsibilities

The Board as a whole is responsible for the Group's objectives and policies and the proper governance of the Company. The Board meets regularly throughout the year and it met formally five times. There have also been a number of committee meetings to address other issues as they arose during the year. It has a formal agenda of items for consideration at each meeting but also convenes at additional times when required.

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

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 Woolley leads the executive management team which meets regularly 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.

The role of the non-executive Directors is to challenge constructively, and contribute to, the development of strategy; to scrutinise the performance of management in meeting agreed goals and objectives and monitor their performance; and through the various committees to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

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 requested 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.

Conflicts of Interests

The Companies Act 2006 ("the Act") imposes a duty on Directors to avoid a situation in which they have or could have a conflict of interest or possible conflict with the interests of the Company.

Only Directors not involved in the conflict or potential conflict participate in the authorisation process. Directors, in deciding whether to authorise a situation, take into account their duty to promote the Company's success. The Board as part of its year-end has considered the register of conflicts, conditions imposed on such conflicts or potential conflicts and the operation of the notification and authorisation process. They concluded that the process has operated effectively during the period.

Directors' appointment, induction and training

All new Directors appointed by the Board are required to seek reappointment by shareholders at the next general meeting of the Company following their appointment and subsequently all Directors are required to retire by rotation in accordance with the Articles.

Under the provisions of the Articles any Director who held office at the two previous AGMs is required to offer himself for reappointment at the next AGM. Mr Thomas stands for re-appointment under this provision.

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

Internal control

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

The Group's fund management activity is regulated by the Financial Conduct Authority of the United Kingdom (FCA) and the Securities Exchange Commission of the USA (SEC) and the Board has adopted procedures and controls designed to ensure its obligations under the FCA Rules and the Financial Services and Markets Act 2000 as well as the SEC Rules and the Investment Advisors Act are met.

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

The Audit Committee, as part of its role, has reviewed and monitored the effectiveness of the internal controls for the year ended 31 March 2014 and concluded that there was a satisfactory process in place to identify and manage such risks.

The Board

The Board meets regularly and as required. There have been five Board meetings held in the year and there is a schedule of matters reserved for decision by the Board. All the Directors attended each Board meeting unless they were abroad on the date of the meeting with Mr Mansell, Mr Bumeder and Mr Thomas missing one meeting each.

Board Committees

The Board has created and delegated certain specific areas of responsibility to four standing committees. The full terms of reference of all the committees are published on the Company's website. The Board sees minutes of all committee meetings and the chairman of the committee reports to the Board on any significant matters. The Board also receives copies of all minutes from subsidiary companies for information.

Allotment Committee

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

Audit Committee

The Audit Committee formally meets at least three times a year. Only Committee members and observers are entitled to attend meetings, however the Chief Executive, the Finance Director and Chief Operating Officer, the Head of Compliance and the Chief Risk Officer and other Directors may be invited to attend for all or part of the meetings. The external Auditors of the Company will attend the meetings on a regular basis and will have unrestricted access to the Committee and its Chairman.

The purpose of the Audit Committee is to assist the Board in discharging its corporate governance responsibilities.

The Committee also has responsibilities for reviewing and monitoring risk and internal controls throughout the business.

The Audit Committee Report on pages 20 to 22 describes how the Committee has discharged its duties.

Nomination Committee

The Nomination Committee is chaired by Mr Bartlam and the other members are Mr Aldous, Mr Cayzer-Colvin, Mr Thomas and Mr Bumeder. The Committee is responsible for all aspects of the appointment of Directors, succession planning and appointments to the Board, consideration and recommending the reappointment of retiring Directors of the Company together with evaluation of Directors' performance and effectiveness.

Remuneration Committee

The Remuneration Committee was chaired by Mr Cayzer-Colvin until 25 February 2014 when Mr Thomas succeeded him. Mr Cayzer-Colvin has remained as a member of the committee along with Mr Bartlam and Mr Bumeder.

The Remuneration Committee meets as required and at least once each year. Other senior management and external advisers may be invited to attend meetings as the Remuneration Committee considers appropriate.

The Committee has general oversight of all remuneration arrangements for executive Directors and senior managers and it considers all material elements of remuneration policy, remuneration and incentives with reference to independent remuneration research and professional advice. Recommendations are made to the Board on the framework for executive remuneration including the design and implementation of equity based incentive schemes.

Relations with shareholders

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

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

Approved by the Board on 19 June 2014.
By order of the Board

Neil Taylor
Company Secretary

Audit Committee Report

The constitution and composition of the Audit Committee is given below. There have been no changes over the financial year to 31 March 2014.

The Committee is chaired by Mr Aldous and comprises Mr Bartlam, Mr Cayzer-Colvin and Mr Ashford-Russell. Mr Bartlam, as Chairman of the Board sits on the Committee not only due to his experience but also to enable him to be kept fully informed of any issues as they arise. The Board is satisfied that at least one member of the Committee has sufficient recent and relevant financial experience for the Committee to discharge it function effectively. The experience of the members of the Committee can be assessed from the Director's biographies set out on pages 14 and 15.

During the year the Committee met three times, with all members attending each meeting, and considered the following issues:

- the appropriateness and any changes to the accounting policies of the Group including any judgements required by such policies and the reasonableness of such;
- the scope of the annual audit and agreement with the external auditors of the key areas of focus;
- the reports from the external auditor concerning their audit of the annual financial statements of the Group;
- the financial disclosures contained in the annual reports to shareholders;
- reports from management and the auditor on the effectiveness of the Group's system of internal financial control including the risk map and ICAAP requirements;
- the independence and objectivity of the external auditor and the level and nature of non-audit services provided by them;
- the performance of the external auditor and the level of fees charged for their services;
- a policy for non-audit services which may be provided by the auditor in line with the FRC guidance; and
- a presentation from the executive management on the ability of the Group to continue operations for the foreseeable future and allow the Board to form an opinion on Going Concern.

Efficacy of audit process

The Audit Committee monitored and evaluated the effectiveness of the auditor and any changes in the terms of their appointment based on an assessment of their performance, qualification, knowledge, expertise and resources. The auditor independence was also considered along with other factors such as audit planning and accounting standards interpretations. This evaluation has been carried out throughout the year by meetings held with the auditor, review of the audit process and comments from management and others involved in the audit process.

The auditor is provided with an opportunity to address the Committee without the management present to raise any concerns or discuss any matters relating to the audit work and the cooperation of the management in providing any information and the quality of that information including the timeliness in responding to audit requests.

Consideration of the annual report and financial statements

The Committee performed its role through monitoring the integrity of the financial statements of the Group and the system of accounting to ensure compliance with relevant and appropriate accounting standards. The Scope of the audit was agreed in advance with a focus on areas of audit risk and the appropriate level of audit materiality. The auditors reported on the results of the audit work to the Committee and highlighted any issue which the audit work had discovered or the Committee had previously identified as significant or material in context of the financial statements.

Consideration of the semi-annual report and financial statements

The Committee considered and reviewed the semi-annual report and financial statements which were not audited or reviewed by the external auditors to ensure consistancy with the accounting policies used in the annual financial statements.

Non-audit work

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 Committee has also carried out a review of the non-audit services to satisfy itself that these are provided within the policy and have been delivered in an efficient and cost effective way. The Audit Committee believes the objectivity and independence of the auditors is maintained, notwithstanding that non-audit work may be undertaken.

Overview of Risk

The Committee has responsibility to assist the Board in maintaining an effective Internal Control environment and to that end examines and receives reports on the Group's regulatory capital adequacy requirements, compliance, and control procedures and systems for managing risks arising from the operation of the business, its financial position or the regulatory environment which governs it.

Risk is managed throughout the business and is embedded into the business in three key areas covering Portfolio and Investment Risks, Fund Management Business Support Areas & Operational Risk Management and Compliance. The Company has established a Risk Map which seeks to identify, quantify, measure and mitigate as far as possible those risks through a Risk Monitoring Programme ("RMP").

The Chief Compliance Officer ("CCO") manages the overall RMP and risk maps of all business areas. The RMP sets the framework under which risks are managed and controlled in adherence with the risk strategy outlined by the Board. To capture all risks to the Group, four business areas (Fund Management, Sales & Marketing, Overseas Offices and Infrastructure) are assessed against eight macro control objectives The CCO reports the outcome of the RMP to the Group's Audit Committee as part of the ICAAP.

The Chief Risk Officer monitors risk and chairs the Internal Investment Risk Committee which sits on a monthly basis to review individual fund and group level risks and ensures that fund managers do not exceed the risk and investment parameters.

The Chief Operating Officer ("COO") has responsibility for operational risk. Risks are identified, assessed and monitored. The COO chairs the Operational Risk Committee which sits on a monthly basis.

Appointment of auditors and tenure

The Committee also considers by way of meetings and reports, the appointment, remuneration and work of the auditor.

Ernst & Young LLP have provided audit services to the Group from 2002 and these have continued through the period from its initial public offering in February 2007 to date. The Audit Committee is aware of the changes being proposed for public interest enterprises including UK listed companies on regulated markets by the European Parliament and the changes to mandatory rotation of audit firms. While the Committee is mindful of such matters the Company is not subject to such requirements and the Committee is satisfied with the performance of the auditor and does not consider it necessary to put the external audit out to tender, but will follow FRC guidance.

There are no contractual obligations restricting the choice of external auditor.

The Committee having considered the above factors consider it appropriate to recommend to the Board and shareholders that Ernst & Young LLP be reappointed as auditors at the AGM.

Ernst & Young LLP have agreed to offer themselves for reappointment as auditors of the Group in accordance with section 487(2) of the Companies Act 2006 and a resolution requesting approval of their reappointment and to authorise the Directors to determine their remuneration will be presented at the AGM.

Significant Issues in Relation to the Financial Statements

There were no matters brought to the Audit Committee's attention in respect of the 2014 audit, which were material or significant or which should be brought to shareholders' attention.

Audit Committee Report continued

Conclusions in respect of the Annual Report and Financial Statements

The production and the audit of the Company's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors. In order to reach a conclusion that the Annual Report is fair, balanced and understandable, the Board has requested that the Committee advise on whether it considers these criteria satisfied. In so doing the Committee has given consideration to the following:

- The comprehensive control framework over the production of the Annual Report, including the verification processes in place to deal with the factual content;
- The extensive levels of review are undertaken in the production process, by the management and the Committee; and
- A clean SOC1 report confirming the effectiveness of internal control.

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31 March 2014, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, and has reported on these findings to the Board.

Hugh Aldous
Chairman of Audit Committee

19 June 2014

Remuneration Committee Report

The constitution and composition of the Remuneration Committee is given on page 19. Mr Thomas succeeded Mr Cayzer-Colvin as chairman of the Committee on 24 February 2014. Mr Cayzer-Colvin has remained as a member of the Committee.

Report of the Chairman of the Remuneration Committee

The Company is not subject to the large and Medium Sized Companies and Group (Accounts and Reports) (amendment) Regulations 2013 as it is not a company which is listed on a regulated market. It therefore does not have to prepare a Policy Report or Implementation Report which are subject to shareholder approval by way of ordinary resolutions proposed at the annual general meeting. However the Committee wishes to ensure that shareholders have a clear understanding of the remuneration paid by the Company and how the Committee has discharged it obligations.

The Remuneration Committee has met over the past year to consider:

- recommendations from the executive for remuneration packages for existing and new fund managers;
- recommended salary levels for 2014 and bonus payments for 2013 across the Group; and
- the remuneration of Mr Woolley and Mr Mansell as executive directors of the Group.

The Committee when considering remuneration arrangements also takes into account the packages offered to other staff. During the year the Remuneration Committee received support from the Chief Operating Officer and the Company Secretary.

Executive Directors salary and bonus awards

The Committee has agreed the following changes in respect of the Executive Directors salaries for the year commencing 1 April 2014 and cash bonus payments in respect of the financial year ended 31 March 2014.

Mr Woolley

Mr Woolley's base salary was increased on 1 April 2014 to £350,000pa to bring the base salary more in line with market norms for such a position.

He received a bonus of twice his salary in respect of the financial year ended 31 March 2014 amounting to £500,000. This award was made in recognition of the shareholder return achieved by the business and to acknowledge Mr Woolley's leadership in achieving the financial results.

Mr Mansell

Mr Mansell's base salary was increased on 1 April 2014 to £272,500pa.

He received a bonus of twice his salary in respect of the financial year ended 31 March 2014 amounting to £450,000. This award was made in recognition of the shareholder return achieved by the business and to acknowledge Mr Mansell's leadership in achieving the financial results.

Bonus award to non-executive Director

Payment to Mr Ashford-Russell

The Committee was also requested by the Executive Management to consider that a payment be made to Mr Ashford-Russell in respect of his contribution to the selection of new management teams and being part of the review panel overseeing investment manager's performance.

The Committee believes that the payment is justified on the grounds of the assistance that Mr Ashford-Russell has provided is beyond that expected of a non-executive Director and has contributed to the success that the business has enjoyed over the past year. The Committee has agreed that a single payment of £100,000 be made to Mr Ashford-Russell in respect of the year ended 31 March 2014.

Executive Directors Terms of Appointment

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

Remuneration

Each executive Director receives a basic salary determined by the Committee and is considered for a discretionary bonus based on a general range of factors including the overall success of the Company and 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 10% of basic salary to be paid into personal pension arrangements for all staff and Directors or a payment in lieu of being paid to his pension arrangements.

The total remuneration paid to the executive Directors who served during the year was as follows:

	Year ended 31 March 2014 £	Year ended 31 March 2013 £
T J Woolley		
Basic salary	250,000	250,000
Bonus	500,000	350,000
Taxable benefits	3,200	2,700
Pension	20,000	20,000
	773,200	622,700
J B Mansell		
Basic salary	225,000	225,000
Bonus	450,000	337,000
Taxable benefits	4,700	4,300
Pension	18,000	18,000
	697,700	584,800

Further details of Directors' remuneration, disclosable under the Companies Act, are contained in Note 6.

Non-executive Directors Terms of Appointment

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

Remuneration

Non-executive Directors' fees are determined by the full Board. The total remuneration paid to the non-executive Directors who served during the year was as follows:

	Year ended 31 March 2014 £	Year ended 31 March 2013 £
T H Bartlam	70,000	70,000
H G C Aldous	35,000	35,000
B J D Ashford-Russell#	159,700	59,700
J M B Cayzer-Colvin*	20,000	20,000
G Bumeder*	20,000	20,000
M Thomas	30,000	30,000
	334,700	234,700

Includes special payment of £100,000.

* Under the terms of their appointment the Director's fees may be paid to their principal employers if so elected or to their designee. The fee for Mr Cayzer-Colvin was paid to Caledonia Investments plc and the fee for Mr Bumeder was paid to XL Group plc.

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 and options of the Company

The interests of those Directors who were in office at 31 March 2014, the end of the financial year and 31 March 2013:

	31 March 2014 Shares	31 March 2013 Shares
T H Bartlam	50,000	50,000
H G C Aldous	40,000	40,000
B J D Ashford-Russell		
beneficial	6,350,000	6,750,000
non beneficial	250,000	250,000
J M B Cayzer-Colvin	4,250	4,250
J B Mansell		
beneficial	1,712,000	1,720,000
non beneficial	160,000	160,000
G Bumeder	–	–
M Thomas	4,000	–
T J Woolley	5,500,000	6,000,000

There have been no changes in the interests of the Directors who were in office at 31 March 2014 in the shares of the Company between 31 March 2014 and 19 June 2014.

Options

Options to acquire ordinary shares held by the Directors and changes there to during the year ended 31 March 2014 and up to 19 June 2014 are described below:

T J Woolley

Options Granted

On 20 December 2010 Mr Woolley was granted a share option over 1,000,000 ordinary shares at an exercise price of 145p per share. The option is not subject to any performance conditions and is exercisable in full from 31 March 2014.

On 27 June 2011 Mr Woolley was granted a share option over 600,000 ordinary shares at an exercise price of 191.7p per share. The option is not subject to any performance conditions and is exercisable in full from 27 June 2015.

On 4 July 2013 Mr Woolley was granted a share option over 500,000 ordinary shares at an exercise price of 388.0p per share. The option is not subject to any performance conditions and is exercisable in full from 4 July 2017.

Options Exercised and Outstanding

No options were exercised by Mr Woolley during the year and as at 31 March 2014 1,000,000 options out of the total grant of 2,100,000 are exerciseable.

J B Mansell

Options Granted

On 22 January 2010 Mr Mansell was granted a share option over 1,000,000 ordinary shares at an exercise price of 91.5p per share. The option is not subject to any performance conditions and vests one third on each of 31 March 2012, 31 March 2013 and 31 March 2014.

On 26 July 2011 Mr Mansell was granted a share option over 350,000 ordinary shares at an exercise price of 197.5p per share. The option is not subject to any performance conditions and is exercisable in full from 26 July 2015.

On 4 July 2013 Mr Mansell was granted a share option over 350,000 ordinary shares at an exercise price of 388.0p per share. The option is not subject to any performance conditions and is exercisable in full from 4 July 2017.

Options Exercised and Outstanding

Mr Mansell exercised 500,000 shares of the share options granted on 22 January 2010 on 5 March 2014 when the share price was 475p per ordinary share.

As at 31 March 2014 Mr Mansell had options outstanding and exercisable over 500,000 shares out of a total grant of 1,200,000 shares.

Conditions of option awards

The options granted to Mr Woolley and Mr Mansell are subject to the requirement that in order to exercise the option the option holder must be employed by the Company on the relevant vesting date subject to certain defined "good leaver" situations. The options will lapse on the tenth anniversary of the date of grant. The options have been issued in accordance with the rules of the Polar Capital Equity Incentive Plan, by the use of the provisions relating to Equity Settled Share Appreciation Rights ("ESARS"). The use of the ESARS provisions allows the Company to issue to the option holder only the number of shares that would equate to the number of shares over which the option becomes exercisable less the number of shares that would have needed to be sold to fund the purchase of that number of shares on the exercise date.

Share prices over the financial year

The shares have traded at prices between 292p (8 April 2013) and 563p (16 January 2014) per share. The share price on 31 March 2014 was 486p per share.

Michael Thomas

Chairman of Remuneration Committee

19 June 2014

Statement of Directors' Responsibilities in Relation to the Group's Financial Statements

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice – 'UK GAAP').

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

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS and UK GAAP respectively is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and parent company's financial position and financial performance; and
- state that the Group and parent company have complied with IFRS and UK GAAP, respectively, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to the Auditors

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, being information needed by the Auditor in connection with preparing its report, of which the Group's Auditors are unaware. Having made enquiries of fellow Directors and the Group's Auditor, each Director has taken all the steps that he is obliged to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's Auditors are aware of the information.

Going Concern

The Board with guidance from the Audit Committee has made an assessment of the Group's position as at 31 March 2014 and the factors impacting the forthcoming year are set out in the Strategic Report and in the Directors' Report which incorporates the corporate governance statements.

The financial position of the Group, its cash flows, and its liquidity position are described in the Financial Review on pages 8 to 10. Note 22 to the financial statements include the Group's policies and process for managing its capital; its financial risk management objectives; details of financial instruments; and hedging activities. Exposure to credit risk and liquidity risk are also disclosed.

The Group has considerable financial resources and after making enquiries the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future despite the continued uncertain economic outlook. Accordingly the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Independent Auditors' Report to the Members of Polar Capital Holdings plc

For the year ended 31 March 2014

We have audited the financial statements of Polar Capital Holdings plc for the year ended 31 March 2014, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet and the related notes 1 to 23. The financial reporting framework that has been applied in the preparation of the Consolidated Financial Statements is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union, and in the preparation of the parent company financial statements 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, 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 and express an opinion on 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 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 group's and parent 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditors' Report to the Members of Polar Capital Holdings plc continued

For the year ended 31 March 2014

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Matthew Price

(Senior statutory auditor) For and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 June 2014

Consolidated Income Statement
For the year ended 31 March 2014

	Note	31 March 2014 £'000	31 March 2013 £'000
Revenue	2	91,807	51,691
Finance income	3	2,061	1,299
Gross income		93,868	52,990
Commissions and fees payable		(6,327)	(2,919)
Net income		87,541	50,071
Operating costs before share-based payments		(53,274)	(33,242)
Operating profit before share-based payments, amortisation/impairment and tax		34,267	16,829
Share-based payments		(1,468)	(941)
Amortisation/impairment of intangible assets		–	(540)
Profit for the year before tax	4	32,799	15,348
Taxation	7	(7,765)	(3,707)
Profit for the year attributable to ordinary shareholders		25,034	11,641
Basic earnings per ordinary share	9	30.78p	14.95p
Diluted earnings per ordinary share	9	27.43p	13.11p
Adjusted diluted earnings per ordinary share (Non GAAP measure)	9	29.04p	14.77p

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

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2014

	Note	31 March 2014 £'000	31 March 2013 £'000
Profit for the year attributable to ordinary shareholders		25,034	11,641
Other comprehensive income – items that may be reclassified to income statement in subsequent periods			
Net gain/(loss) on the revaluation of available-for-sale financial assets	3.2	(384)	6
Deferred tax effect		80	(1)
		(304)	5
Net movement on cash flow hedges	3.2	1,859	(1,009)
Current tax effect		(129)	55
Deferred tax effect		(353)	204
		1,377	(750)
Total comprehensive income for the year, net of tax, attributable to ordinary shareholders		26,107	10,896

The notes on pages 34 to 56 form part of these financial statements.

Consolidated Balance Sheet
As at 31 March 2014

	Note	31 March 2014 £'000	31 March 2013 £'000
Non-current assets			
Property, plant and equipment	10	94	85
Deferred tax assets	15	7,472	4,140
Total non-current assets		7,566	4,225
Current assets			
Available-for-sale financial assets	11	43,912	31,246
Trade and other receivables	13	9,675	7,216
Cash and cash equivalents	14	47,041	30,940
Other financial assets	11	654	–
Total current assets		101,282	69,402
Total assets		108,848	73,627
Non-current liabilities			
Deferred tax liabilities	15	221	24
Current liabilities			
Trade and other payables	16	29,484	16,113
Other financial liabilities	11	1,965	1,068
Current tax liabilities		3,008	2,659
Total current liabilities		34,457	19,840
Total liabilities		34,678	19,864
Net assets		74,170	53,763
Capital and reserves			
Issued share capital	17	2,184	2,062
Share premium		16,288	16,094
Investment in own shares		(1,017)	(1,017)
Capital and other reserves		9,650	3,848
Retained earnings		47,065	32,776
Total equity – attributable to ordinary shareholders		74,170	53,763

The notes on pages 34 to 56 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 19 June 2014.

Hugh Aldous
Chairman of the Audit Committee

John Mansell
Finance Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

	Share capital £'000	Share premium £'000	Own shares £'000	Capital reserves £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
As at 1 April 2012	1,983	16,010	(1,107)	281	1,854	27,577	46,598
Profit for the year	–	–	–	–	–	11,641	11,641
Other comprehensive income	–	–	–	–	(745)	–	(745)
Total comprehensive income	–	–	–	–	(745)	11,641	10,896
Dividends	–	–	–	–	–	(7,372)	(7,372)
Issue of shares	17	84	90	–	–	(11)	180
Issue of share capital against preference shares	62	–	–	(62)	–	–	–
Share-based payment	–	–	–	–	–	941	941
Current tax in respect of employee share options	–	–	–	–	311	–	311
Deferred tax in respect of employee share options	–	–	–	–	2,209	–	2,209
As at 1 April 2013	2,062	16,094	(1,017)	219	3,629	32,776	53,763
Profit for the year	–	–	–	–	–	25,034	25,034
Other comprehensive income	–	–	–	–	1,073	–	1,073
Total comprehensive income	–	–	–	–	1,073	25,034	26,107
Dividends	–	–	–	–		(12,175)	(12,175)
Issue of shares	46	194	–	–	–	(38)	202
Issue of share capital against preference shares	76	–	–	(76)	–	–	–
Share-based payment	–	–	–	–	–	1,468	1,468
Current tax in respect of employee share options	–	–	–	–	1,874	–	1,874
Deferred tax in respect of employee share options	–	–	–	–	2,931	–	2,931
As at 31 March 2014	2,184	16,288	(1,017)	143	9,507	47,065	74,170

Further information relating to Reserves is disclosed in note 17 to the financial statements.

The notes on pages 34 to 56 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2014

	Notes	31 March 2014 £'000	31 March 2013 £'000
Cash flows generated from operating activities			
Cash generated from operations	20	43,715	20,665
Tax paid		(6,140)	(2,172)
Net cash inflow generated from operating activities		37,575	18,493
Investing activities			
Interest received and similar income		39	(123)
Purchase of property, plant and equipment		(68)	(60)
Proceeds from sale of available-for-sale financial assets		56,257	30,915
Purchase of available-for-sale financial assets	11	(65,730)	(33,676)
Net cash outflow used in investing activities		(9,502)	(2,944)
Financing activities			
Equity dividends paid	18	(12,175)	(7,372)
Issue of share capital		203	90
Receipts in relation to investment in own shares		–	90
Net cash outflow from financing activities		(11,972)	(7,192)
Net increase in cash and cash equivalents		16,101	8,357
Cash and cash equivalents at start of the year		30,940	22,583
Cash and cash equivalents at end of the year		47,041	30,940

The notes on pages 34 to 56 form part of these financial statements.

Company Balance Sheet
At 31 March 2014

	Notes	31 March 2014 £'000	31 March 2013 £'000
Fixed assets			
Investments	12	1,017	1,017
Current assets			
Debtors	13	26,301	26,184
Cash and short-term deposits		92	63
		26,393	26,247
Creditors – amounts falling due within one year			
Other creditors		–	42
		–	42
Net current assets		26,393	26,205
Net assets		27,410	27,222
Capital and reserves			
Called up share capital	17	2,184	2,062
Share premium account	17	16,288	16,094
Retained earnings	17	9,490	9,542
Reserves	17	(552)	(476)
Shareholders' funds		27,410	27,222

The notes on pages 34 to 56 form part of these financial statements.

Notes to the Financial Statements
For the year ended 31 March 2014

1 Principal Accounting Policies

General
Polar Capital Holdings plc (the 'Company') is a public limited company registered in England and Wales whose shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial instruments at fair value through profit or loss and derivative financial instruments that have been measured at fair value.

The Company financial statements have been prepared in accordance with UK GAAP and under the historical cost convention. No profit and loss account is presented for the Company as permitted under section 408 of the Companies Act 2006.

Basis of consolidation
The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms and economic circumstances as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment on an annual basis and any impairment losses are charged to the income statement.

Intangible assets
The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life of the assets, which continues to be estimated at two years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets is recognised in the income statement.

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%

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount, being the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their net present value using a post-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and it is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Financial instruments

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

Financial assets

Initial recognition and measurement

Financial assets are initially recognised at fair value, being the consideration given, plus, any directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss where transaction costs are immediately recognised in the consolidated income statement. Purchases and sales of financial assets are recognised at trade date, being the date when the Group commits to purchase or sell the asset.

Subsequent measurement

The Group's investments in the funds that it manages are designated as "available-for-sale" financial assets and are included in current assets. Such assets are subsequently carried at fair value, with any gains or losses arising from changes in fair value being recognised as other comprehensive income in other reserves. Available-for-sale financial assets are derecognised when such assets are sold and the Group has transferred substantially all risks and rewards of ownership. When derecognition occurs, a realised gain or loss is recognised in the income statement, calculated as the difference between the net sales proceeds and the original cost of the financial asset. Any fair value gains or losses previously recognised in the consolidated statement of comprehensive income are taken to the consolidated income statement as part of this calculation of the gain or loss arising on derecognition.

The Group assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of a financial asset classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as objective evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement – is removed from other reserves and recognised in the income statement. Impairment losses recognised in the income statement, if subsequently reversed, are taken through other comprehensive income and not the income statement.

Financial instruments at fair value through profit or loss

Financial instruments designated at fair value through profit or loss are carried on the Balance Sheet at fair value with net changes in fair value recognised in the income statement.

1 Principal Accounting Policies continued

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and in hand, deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial liabilities
All financial liabilities are recognised initially at fair value. The Group's financial liabilities include trade and other payables and derivative financial instruments. A financial liability ceases to be recognised when the relevant obligation has been discharged.

Derivative financial instruments and hedge accounting
Forward currency contracts are used to hedge the risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are classified as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Forward currency contracts used for currency hedging purposes are treated as cash flow hedges and the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while the ineffective portion is taken to the income statement. Amounts recognised as other comprehensive income are transferred to the income statement when the hedged items affect profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been effective throughout the financial reporting periods for which they were designated.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques such as using recent arm's length market transactions.

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

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

Income recognition
Revenue
Revenue represents fees receivable (excluding value added tax) during the period for discretionary investment management services. Management fees and performance fees are recognised when receivable. Performance fees, which are based on the investment performance achieved for certain client portfolios relative to predefined benchmarks, are recognised as revenue at the end of the period over which the performance is measured.

Interest receivable and similar income

Interest receivable is recognised on an accruals basis using effective interest method. Dividend income from investments is recognised on the date that the right to receive payment has been established.

Commissions and fees payable

Commissions and fees payable to third parties are in respect of the management of investment management contracts. Commissions and distribution fees payable to third parties are recognised over the period for which the service is provided.

Operating leases

Amounts payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Taxation

Current tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Tax relating to items charged or credited directly to equity is also dealt with in equity.

Deferred tax

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payments

Equity-settled share-based payments are measured at fair value of the equity instruments at the date of grant. The cost of equity-settled transactions is recognised, together with an increase in equity reserves, on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Foreign currency/translation

The Group's consolidated financial statements are presented in Sterling which is also the functional currency for the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences are taken to the income statement.

1 Principal Accounting Policies continued

Foreign currency/translation continued

On consolidation, the assets and liabilities of the Group's overseas operations whose functional currency is not Sterling are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at average exchange rates for the accounting period. Exchange differences arising, if any, are taken to other comprehensive income.

Dividend recognition

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds.

Own shares held

The Group operates an employee benefit trust for the purpose of satisfying certain retention awards to employees. Own shares held are equity shares of the Company acquired and held by this trust. Such shares are recognised at cost and are presented in the Group balance sheet as a deduction from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Company's own shares.

Segment reporting

The financial information provided to the Chief Executive is on an aggregated basis. Strategic and financial management decisions are determined centrally and, on this basis, the Group is a single segment investment management business.

Judgements and key sources of estimation uncertainty

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

Share-based payments

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

Deferred tax

Deferred tax is recognised based on differences between the carrying value of assets and liabilities and the tax value of assets and liabilities. Deferred tax assets are only recognised to the extent that the Group estimates that future taxable profits will be available to offset them.

Impairment of available for sale financial assets

The Group reviews any decrease in value of available for sale financial assets on a regular basis and exercises judgement in determining whether such a decrease in value is either significant or prolonged and therefore an impairment of the asset.

Consolidation of seed investments

The Group has a number of seed investments in funds that it manages. Management have concluded that the Group does not control the underlying funds and therefore has not consolidated these funds in its financial statements.

Changes in accounting policies and disclosures

The following new and revised standards and interpretations have been adopted in the current year:

IAS 1 (revised): Presentation of Items of Other Comprehensive Income	The amendment introduces separate subtotals for those items which may be reclassified or recycled to the income statement and those items that will not be reclassified. The amendment affects presentation only and has no impact on the Group's financial statements.
IFRS 13: Fair Value Measurement	This new standard establishes a single source of guidance under IFRS for all fair value measurements. The adoption of IFRS 13 has not had an impact on Group's fair value measurements. Where required, additional disclosures relating to assets and liabilities held at fair value have been made.

The adoption of the remaining new and revised standards and interpretations has not had an impact on the Group's financial statements.

Standards and amendments not yet effective

The following new standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2014 or later periods, but the Group has decided not to early adopt them:

Standards issued but not yet effective	Summary	Effective for period beginning on or after
Amendment to IAS 32: Offsetting Financial Assets and Financial Liabilities	The amendment clarifies the requirements for offsetting financial assets and liabilities on the balance sheet.	1 January 2014
IFRS 9: Financial Instruments: Classification and Measurement	IFRS 9 introduces revised measurement and classification criteria for financial assets and liabilities.	1 January 2018
IFRS 10: Consolidated Financial Statements	IFRS 10 provides a new, broader definition of control as the basis of consolidation.	1 January 2014
IFRS 11: Joint Arrangements	IFRS 11 provides revised guidance for entities accounting for interests in jointly controlled entities.	1 January 2014
IFRS 12: Disclosures of Interests in Other Entities	IFRS 12 sets out the requirements for disclosures relating to interest in subsidiaries, joint arrangements, associates and structured entities.	1 January 2014
IFRIC 21 Levies	IFRIC 21 sets out when to recognise a liability for imposed by legislation.	1 January 2014

The Group does not expect that the adoption of new accounting standards issued but not yet effective to have a significant impact on its financial statements, other than IFRS 10 Consolidated Financial Statements on adoption of which, the Group may be required to consolidate certain funds that are managed by the Group.

2. Operating Segments

The Group is a specialist investment management group offering professional and institutional investors a range of geographical and sector investment opportunities. The Group's assets under management are separated into products and services but as the strategic and financial management decisions are determined centrally, by the Chief Executive, the Group only has one class of business, being the provision of investment management and advisory services. The Group's revenue generating operations are in London, with small offices in Tokyo, Jersey, Connecticut and Geneva that do not generate any revenue.

2.1 Geographical analysis of income (based on the residency of source)

	31 March 2014 £'000	31 March 2013 £'000
UK	9,213	6,281
Ireland	61,898	24,686
Cayman	18,952	18,968
Europe	1,718	1,798
Profit/(loss) on forward currency contracts	26	(42)
	91,807	51,691

2.2 Analysis of income by type of fees

	31 March 2014 £'000	31 March 2013 £'000
Investment management fees	72,586	38,122
Investment advisory fees	–	150
Investment performance fees	19,195	13,461
Profit/(loss) on forward currency contracts	26	(42)
	91,807	51,691

3. Other Income

3.1 Finance income

	31 March 2014 £'000	31 March 2013 £'000
Interest income on cash and cash equivalents	13	9
Net loss on financial instruments at fair value through profit or loss	(1,505)	(494)
Net realised gain/(loss) on forward currency contracts	527	(327)
Net realised gain on available for sale assets	3,026	2,111
	2,061	1,299

3.2 Components of other comprehensive income

	31 March 2014 £'000	31 March 2013 £'000
Available for sale financial assets:		
Gains arising during the year	2,642	2,117
Reclassification adjustments for gains included in the income statement	(3,026)	(2,111)
	(384)	6
Cash flow hedges – Forward currency contracts:		
Gains/(losses) arising during the year	2,670	(1,378)
Reclassification adjustments for (gains)/losses included in the income statement	(811)	369
	1,859	(1,009)

No ineffective gains or losses arose on cash flow hedges during the year.

4. Profit before Taxation

4.1 This is stated after charging:

	31 March 2014 £'000	31 March 2013 £'000
Staff costs including partnership profit allocations	45,654	27,181
Depreciation	59	46
Auditors' remuneration (Note 4.2)	168	129
Operating lease rentals – land and buildings	912	817
Operating lease rentals – other	1,021	761

4.2 Auditors' remuneration:

	31 March 2014 £'000	31 March 2013 £'000
Audit of Group financial statements	46	43
Other fees		
– local statutory audits of subsidiaries	36	33
– tax advisory services	–	8
– GIPS Review	40	–
– internal controls review	46	45
Auditors' remuneration	168	129

Notes to the Financial Statements continued

For the year ended 31 March 2014

5. Staff Costs Including Directors' Emoluments

	31 March 2014 £'000	31 March 2013 £'000
Salaries	10,721	9,682
Social security costs	899	731
Pension costs	382	337
Partnership profit allocations	32,184	15,490
Share-based payments (Note 21)	1,468	941
	45,654	27,181

Pension costs outstanding at the year-end amounted to nil (2013: nil).

	31 March 2014	31 March 2013
Average number of partners and full time employees, including executive directors:		
Fund Management	45	42
Administration	47	41
	92	83

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

6. Directors' Emoluments

	31 March 2014 £'000	31 March 2014 £'000
Total emoluments including partnership profit allocations	1,768	1,403
Company contributions to money purchase pension schemes	38	38
The amounts in respect of the highest paid Director are as follows:		
Emoluments	753	603
Company contributions paid to money purchase scheme	20	20

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

	31 March 2014	31 March 2013
Defined contribution scheme	2	2

The total remuneration paid to executive directors who served during the year is disclosed in the Remuneration Committee Report.

Director's emoluments include both salaries and partnership profit allocations earned through Polar Capital LLP. Also included are sums paid to third parties in respect of Directors' services amounting to £40,000 (2013: £40,000).

7. Taxation

With effect from 1 April 2013 the UK corporation tax rate changed from 24% to 23%.

The major components of Corporation tax for the years ended 31 March 2014 and 2013 are:

	31 March 2014 £'000	31 March 2013 £'000
UK Corporation tax:		
UK Corporation tax on profits of the year	8,194	4,174
Adjustments in respect of prior periods	44	(258)
Total current tax	8,238	3,916
Foreign Tax:		
Current year	12	(8)
Prior year	(8)	–
Deferred tax:		
Originating and reversal of temporary differences	(505)	(218)
Rate change adjustment	133	17
Prior year adjustment	(105)	–
Total tax	7,765	3,707

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 23% (2013: 24%). The differences are reconciled below:

	31 March 2014 £'000	31 March 2013 £'000
Profit on ordinary activities before taxation	32,799	15,348
Tax on profit on ordinary activities at standard rate of 23% (2013: 24%)	7,543	3,689
Adjustments in respect of prior periods	(88)	(270)
Rate change adjustment	133	10
Disallowed expenses	37	247
Other – share-based payments	140	31
Total tax	7,765	3,707

8. Subsidiary Undertakings

Details of the Company's subsidiary undertakings as at 31 March 2014 are as follows:

Principal subsidiary undertakings	Country of incorporation	Natural of business and registration
Polar Capital Partners Limited	UK	Services company
Polar Capital Property Limited	UK	Services company
Polar Capital Secretarial Services Limited	UK	Dormant
Polar Capital Partners (Jersey) Limited	Jersey	Investment management
Polar Capital (America) Corporation	USA	Investment advisory
Polar Capital Limited Liability Partnership	UK	Investment management

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

9. Earnings Per Ordinary Share

The calculation of basic earnings per ordinary share is based on the profit for the year of £25,034,315 (2013: £11,640,700) and 81,333,171 (2013: 77,847,031) ordinary shares, being the weighted number of ordinary shares.

The calculation of diluted earnings per ordinary share is based on the profit of the year of £25,034,315 (2013: £11,640,700) and 91,273,900 (2013: 88,823,800) ordinary shares, being the weighted average number of ordinary shares allowing for all options of 9,940,725 (2013: 8,507,871) which are dilutive.

The calculation of adjusted earnings per ordinary share is based on profit for the year of £25,034,315 but adjusted for the cost of share-based payments of £1,467,900 (2013: profit of £11,640,700 adjusted for the cost of share-based payments of £940,800, amortisation of intangibles of £428,000 and impairment of goodwill of £111,410) and 91,273,900 (2013: 88,823,800) ordinary shares being the weighted average number of ordinary shares allowing for all dilutive options.

As at 31 March 2014, the fully diluted number of ordinary shares which would be in issue is 95,584,600 shares, if all outstanding options were exercised.

10. Tangible Fixed Assets

2014	Office Furniture £'000	Computer Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost				
As at 1 April 2013	181	521	711	1,413
Additions	16	52	–	68
Disposals	–	–	–	–
As at 31 March 2014	197	573	711	1,481
Depreciation				
As at 1 April 2013	167	459	702	1,328
Charge for the year	10	45	4	59
Disposals	–	–	–	–
As at 31 March 2014	177	504	706	1,387
Net book value at 31 March 2014	20	69	5	94

2013				
Cost				
As at 1 April 2012	169	473	711	1,353
Additions	12	48	–	60
Disposals	–	–	–	–
As at 31 March 2013	181	521	711	1,413
Depreciation				
As at 1 April 2012	160	426	696	1,282
Charge for the year	7	33	6	46
Disposals	–	–	–	–
As at 31 March 2013	167	459	702	1,328
Net book value at 31 March 2013	14	62	9	85

11. Financial Assets and Liabilities

1) Available-for-sale financial assets

	31 March 2014 £'000	31 March 2013 £'000
At beginning of year	31,246	26,426
Purchases	65,730	33,676
Redemptions	(52,680)	(28,862)
Net movement in fair value	(384)	6
At end of year	43,912	31,246

The Group's available-for-sale financial assets are investments in the funds it manages all of which are listed. The fair value of available for sale financial assets are derived from quoted market prices in active markets.

2) Other financial assets and liabilities

Other financial assets	31 March 2014 £'000	31 March 2013 £'000
Financial instruments at fair value through other comprehensive income		
Cash flow hedges		
Foreign exchange forward contracts	654	–
Financial instruments at fair value through profit or loss		
Securities	–	–
	654	–

Other financial liabilities	31 March 2014 £'000	31 March 2013 £'000
Financial instruments at fair value through other comprehensive income		
Cash flow hedges		
Foreign exchange forward contracts	–	608
Financial instruments at fair value through profit or loss		
Securities	1,965	460
	1,965	1,068

Financial instruments at fair value through other comprehensive income consist of the fair value movement in foreign currency hedges taken out by the Group, as described in note 22.

Financial instruments at fair value through profit or loss reflect the change in fair value of short positions of securities used to hedge fair value changes in the Group's seed investments. Such hedges are not designated as fair value hedges for hedge accounting purposes.

12. Investment

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

13. Trade and Other Receivables

	31 March 2014 Group £'000	31 March 2014 Company £'000	31 March 2013 Group £'000	31 March 2013 Company £'000
Trade debtors	7,553		6,143	–
Other receivables	1,221	26,301	305	26,184
Prepayments and accrued income	901	–	768	–
Total	9,675	26,301	7,216	26,184

Other receivables for the Company are due from Polar Capital Partners Limited.

14. Cash and Cash Equivalents

	31 March 2014 £'000	31 March 2013 £'000
Cash at bank and in hand	47,041	30,940

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents at year end is £47,040,804 (2013: £30,939,867).

15. Deferred Taxation

	31 March 2014 Group £'000	31 March 2013 Group £'000
Deferred tax asset		
At beginning of year	4,140	1,711
Deferred tax on share-based payments	3,022	2,289
Capital allowances	(7)	(10)
Deferred tax on available-for-sale financial assets and liabilities	56	–
Deferred tax on other financial assets and liabilities	174	132
Prior year adjustment	87	18
At end of year	7,472	4,140

Deferred tax assets at year end consist of deferred tax on share based payments of £7,001,000 (2013: £3,997,000), on other financial assets and liabilities of £411,300 (2012: £132,000), capital allowance of £4,000 (2013: £11,000) and on available-for-sale financial assets of £56,000 (2013: nil).

	31 March 2014 Group £'000	31 March 2013 Group £'000
Deferred tax liabilities		
At the beginning of year	24	206
Deferred tax on intangible assets	–	(111)
Deferred tax on available-for-sale financial assets and liabilities	(24)	1
Deferred tax on other financial assets and liabilities	221	(72)
At end of year	221	24

The deferred tax liability at year end consists of deferred tax on unrealised gains on available for sale assets of nil (2013: £24,000) and on other financial assets and liabilities of £221,000 (3013: nil).

16. Trade and Other Payables

	31 March 2014 Group £'000	31 March 2014 Company £'000	31 March 2013 Group £'000	31 March 2013 Company £'000
Other creditors	24,115	–	12,672	42
Accruals and deferred income	5,369	–	3,441	–
Total	29,484	–	16,113	42

17. Issued Share Capital and Reserves

1) Issued share capital

Group and Company

	31 March 2014 £'000	31 March 2013 £'000
Authorised		
Comprising 200,000,000 ordinary shares of 2.5p each	5,000	5,000
Allotted, called up and fully paid:		
87,354,203 ordinary shares of 2.5p each		
(2013: 82,451,741 ordinary shares of 2.5p each)	2,184	2,062

The increase in share capital arises from 1,877,382 shares issued on exercise of employee share options as well as the issue of 3,025,080 shares in connection with the crystallisation of manager preference shares as described in Note 21.

2) Nature and purpose of reserves

Share premium

Share premium records the difference between the nominal value of shares issued and the full value of the consideration received.

Own shares held

The Group has made a loan to the Polar Capital Employee Benefit Trust to enable it to acquire ordinary shares in Polar Capital Holdings plc. The assets of the Employee Benefit Trust are included on the Group's Balance Sheet and the investment in own shares (held at cost) is deducted from equity as required by IAS32. At 31 March 2014 there were 1,710,365 shares of 2.5p each (2013: 1,710,365 shares of 2.5p each) held by the Employee Benefit Trust.

Capital reserves

The capital reserve represents a share repurchase reserve and preference shares issued by a subsidiary company, and is offset by movements in share capital of Polar Capital Holdings plc issued under this preference share scheme as described in note 21.

Other reserves

Other reserves relate to movements in:

- deferred tax assets that arise on share-based payments
- movements in the fair value of available for sale financial assets
- movements in the fair value of other financial assets

Company	Share capital £'000	Share premium account £'000	Retained earnings £'000	Reserves £'000	Total £'000
As at 1 April 2012	1,983	16,010	9,542	(403)	27,132
Issue of shares	79	84	–	(73)	90
Dividends	–	–	(7,372)	–	(7,372)
Profit for the year	–	–	7,372	–	7,372
As at 1 April 2013	2,062	16,094	9,542	(476)	27,222
Issue of shares	122	194	(38)	(76)	202
Dividends	–	–	(12,175)	–	(12,175)
Profit for the year	–	–	12,161	–	12,161
As at 31 March 2014	2,184	16,288	9,490	(552)	27,410

18. Dividends Paid and Proposed

Dividends on ordinary shares declared and paid during the year:

	31 March 2014 £'000	31 March 2013 £'000
First interim dividend for 2014: 4.0p per share (2013: 2.0p per share)	3,262	1,565
Second interim dividend for 2013: 11.0p (2012: 7.5p)	8,913	5,807
Total dividend paid and charged to equity	12,175	7,372

Dividends on ordinary shares proposed for approval by the board of directors (not recognised as a liability at 31 March 2014):

	31 March 2014 £'000	31 March 2013 £'000
Second interim dividend for 2014: 21.0p per share (2013: 11.0p per share)	17,985	8,913

The Board has declared a second interim dividend of 21.0p (2013:11.0p) to be paid in July 2014.

Together with the first interim dividend of 4.0p paid in January 2014 the total dividend for the year amounts to 25.0p (2013: 13.0p).

19. Operating Lease Commitments

As at 31 March 2014, the Group had non-land and buildings, operating lease commitments as follows:

	31 March 2014 £'000	31 March 2013 £'000
Amounts payable within one year	298	319
Amounts payable between two and five years	334	140

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

As at 31 March 2014, the Group had operating lease commitments in respect of its rented premises as follows:

	31 March 2014 £'000	31 March 2013 £'000
Amounts payable within one year	797	760
Amounts payable between two and five years	–	1,103

The material lease relates to the rental of the Group's premises at 4 Matthew Parker Street in London, and expires in February 2015.

20. Cash Generated From Operations

Reconciliation of profit before taxation to cash generated from operations:

	31 March 2014 £'000	31 March 2013 £'000
Cash flows from operating activities		
Profit on ordinary activities before tax	32,799	15,348
Interest receivable and similar income	(13)	(9)
Depreciation of tangible fixed assets	59	46
Increase in receivables	(2,459)	(2,109)
Increase in trade and other payables	13,371	7,326
Profit on disposal of available for sale assets	(3,026)	(2,281)
Loss on instruments at fair value through profit or loss	1,505	494
(Gain)/loss on derivatives	11	369
Amortisation of intangibles	–	540
Share-based payment	1,468	941
Cash generated from operations	43,715	20,665

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 or Manager Team Member Preference Shares (together "Preference Shares") in Polar Capital Partners Limited, a group company.

The terms of the Preference Shares entitle their holders, at their option and at a future date, to a value calculated on the basis of the relative contribution of the holder to the Group as a whole. This value may (at the discretion of 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 IFRS2 and the cost is the estimated fair value, at the date of issue of the preference shares, of the effective entitlement to the ordinary shares. The number of ordinary shares will vary and the holder, initially, and the Group, ultimately, determines the start of the three year period ("crystallisation") over which the ordinary shares are awarded, although this will always be at least three years after the end of the financial accounting period in which the preference shares are issued.

The share-based payments charge for the year under this scheme was £607,000 (2013: £287,400).

The total cost to the consolidated income statement is £1,467,900 (2013: £940,800), which is made up of the charge detailed above and a further share-based payments charge for the employee options of £860,900 (2013: £653,400) as detailed further in the notes.

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

Estimated number of ordinary shares to be issued:

	Awards to which IFRS2 applies	Crystallised
At 1 April 2012	1,905,756	4,937,922
Exercise of preference shares (crystallisation event)	–	–
Issue in the year ("crystallised")	–	(2,468,961)
Movement in the year	453,099	–
At 1 April 2013	2,358,855	2,468,961
Exercise of preference shares (crystallisation event)	(1,390,296)	1,390,296
Issue in the year ("crystallised")	–	(3,025,080)
Movement in the year	1,118,937	–
At the end of the year	2,087,496	834,177

21. Share-based Payments continued

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

	2012 Awards	2008 Awards
Dividend yield (%)	4.55	3.50
Expected share price volatility (%)	42.00	40.00
Risk free interest rate (%)	1.58	5.33
Weighted average share price (£)	1.42	1.21
Expected life of options (years)	6	6

The share price volatility was calculated by reference to the Company's historic share price.

Group Equity Incentive Plan

As part of an ongoing program to retain and incentivise employees, the Group issues share options under the following schemes:

Enterprise management incentive scheme

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

Save as you Earn scheme

Share options in Polar Capital Holdings plc are granted to employees under 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 contractual term of all company share options, except for those issued under the SAYE scheme, is 10 years.

The expense recognised for share-based payments in this respect of these share schemes during the year was £860,900 (2013: £653,400).

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

	2014 Number	2014 WAEP	2013 Number	2013 WAEP
Outstanding at beginning of the year	13,753,610	126p	14,427,972	116p
Granted during the year	4,591,549	426p	990,816	189p
Exercised during the year[1]	(2,223,285)	78p	(1,287,839)	73p
Lapsed during the year	(15,027)	199p	(377,339)	93p
Outstanding at end of the year	16,106,847	218p	13,753,610	126p
Exercisable at end of the year	4,028,984	105p	740,000	50p

[1] Under the rules of the Group Equity Incentive Plan, unapproved share options may be issued as equity settled share appreciation rights, thereby enabling the Group to issue a net number of shares to employees on the exercise of options. During the year 1,877,382 shares (note 17) were issued to satisfy the total number of options exercised (2013: 654,872 shares)

The weighted average fair value of options granted during the year was £0.59 (2013: £0.38).

For options exercised during the year the weighted average share price at the date of exercise was £4.57 (2013: £2.01).

The weighted average remaining contractual life of the share options outstanding as at 31 March 2014 was 7 years (2013: 7 years).

The range of exercise prices for options outstanding at the end of the year was £0.5 – £4.93 (2013: £0.5 – £1.975).

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 2014 and 31 March 2013.

	31 March 2014	31 March 2013
Dividend yield (%)	3.3 – 3.9	5.00
Expected share price volatility (%)	24.5	38.5
Risk free interest rate (%)	0.9 – 1.4	0.66
Weighted average share price (£)	2.18	1.26
Expected life of options	Vesting period	Vesting period

The share price volatility was calculated by reference to the Company's historic share price.

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

22. Financial Instruments

The Group's financial assets comprise investments in available for sale assets, trade and other receivables and cash and cash equivalents. Financial liabilities comprise trade and other payables. The Group also enters in to derivative contracts.

The main areas of risk arising from the Group's financial instruments are credit risk, liquidity risk, market risk and capital risk. Each of these risks is discussed in detail below. The Group monitors financial risks on a consolidated basis and intra-Group balances are settled when it is deemed appropriate for both parties to the transaction. The Company is not exposed to material financial risk and separate disclosures for the Company have not been included. The Group has designed a framework to manage the risks of its business and to ensure that the Directors have in place risk management practices appropriate for a listed company. The management of risk within the Group is governed by the Board and overseen by the Audit Committee.

Credit risk

Credit risk is the risk of financial loss if a counterparty fails to settle its debt to the Group.

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

Amounts placed on deposit are invested according to a treasury policy that is designed to reduce concentration and counterparty risk. Investments in available for sale assets are monitored regularly. The carrying value of the Group's financial assets represents its maximum exposure to credit risk at the year end.

Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due. The Group maintains significant liquid resources in the form of cash or cash deposits in order to meet working capital and regulatory needs. The Group's treasury policy is designed to align the duration period of the cash investments to the working capital requirements of the Group with no investment being placed for a period of more than three months.

The Group's financial liabilities comprise trade and other payables and derivative instruments. The maturity dates for all financial liabilities fall within either one year or repayable on demand.

Price risk

Price risk is the risk that changes in market prices will affect the Group's income or value of its investments.

The Group holds available-for-sale financial assets consisting of investments in its own funds, which are sensitive to movements in market equity prices.

Should the market move by 10%, and all the funds (and hence the Group's investments) move by this same amount, it would result in a change to the carrying value of the assets of £4.4m (2013: £3.1m). This movement would be recognised in the consolidated statement of comprehensive income, unless it was deemed to be impairment in value, when it would be recognised in the income statement.

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows related to financial instruments will fluctuate because of changes to market interest rates.

The Group's cash and short-term deposits earn nominal amounts of interest at a floating rate and any change in market interest rates would result in negligible change to profit before tax. The Group has no borrowings.

Foreign currency risk

Foreign currency risk is the risk that changes in foreign exchange rates will cause the Group to suffer losses.

Although the majority of management fees are received in Sterling, certain of those fees are generated from assets based in other countries, in particular USD dollar-based assets and a smaller amount of Yen based assets.

In order to hedge the risk associated with these fees, the Group enters into a number of forward foreign currency contracts over a period of 15 months. At year end, the Group had five open contracts to sell US dollars totalling USD $17,700,000 (2013: USD $9,900,000), for a total of £11,142,300 (2013: £6,222,600). There was one open Sterling/ Yen contract to sell a total of ¥ 81,800,000 (2013: ¥ 40,400,000), for a total of £532,600 (2013: £308,800).

The Group also holds available for-sale financial assets consisting of investments in its own funds. Where such investments are made in assets denominated in a currency other than the Group's functional currency, Sterling, the Group is exposed to changes in foreign currency exchange rates.

At the year end there are five investments in a non-hedged product and the Group has therefore hedged against the risk of exposure to changes in the foreign currency exchange rates caused by the underlying US Dollar/Euro assets with in these investments. The Group has a further five further forward currency contracts for the sale of USD $45,400,000 (2013: USD $17,000,000) to purchase £27,385,000 (2013: £11,218,700).

The Group's hedging policy serves to substantially mitigate its exposure to foreign currency risk on its revenue and balance sheet investments. Any changes in foreign exchange rates will have an equal and opposite effect on the hedged items and open forward currency contracts.

Capital management

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

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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At the end of both the current as well as the comparative period, all available for sale financial assets and fair value through profit or loss financial instruments held by the Group were Level 1 and all open forward foreign exchange contracts were Level 2. The open forward foreign exchange contracts are held at fair value which represents the price to exit the contracts at balance sheet date. The carrying values of the Group's financial instruments are presented on the face of the balance sheet.

During the reporting period there were no transfers between levels in fair value measurements. There are no level 3 financial instruments.

23. Related Party Transactions

1) Group

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not included in this note.

B J D Ashford-Russell is a member of Polar Capital LLP (the "Partnership") 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 £5,940,800 (2013: £5,200,100). The amounts receivable at the year end in this respect was £1,072,600 (2012: £902,900).

At the end of the year, the Group had an outstanding loan due of £1,017,131 (2013: £1,017,131) 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.

The investments in available for sale financial assets disclosed in note 11 are in affiliated funds that are managed by a subsidiary of the Group.

2) Company

The Company has intercompany balances with Polar Capital Partners Limited and with Polar Capital LLP. The balance receivable from Polar Capital Partners Limited of £26,220,440 (2013: £26,184,000) and the balance of £81,362 receivable from Polar Capital LLP (2013: payable to £41,513) relate to cash movements by the subsidiaries on behalf of the Company.

Remuneration of key management personnel

The remuneration of key management, which includes the executive and non-executive Directors, is summarised below. Further details are included in Note 6 which details Directors' emoluments.

	31 March 2014 £'000	31 March 2013 £'000
Total emoluments including partnership profit allocations and pension contributions	1,806	1,441

At the end of the year the Group had balances owing to or in regards to key personnel of £5,000 (2013: £1,667). This amount relates an amount owed to another company for the services of a non-executive director.

Options to acquire ordinary shares held by the directors during the year ended 31 March 2014 are disclosed in the Remuneration Committees' Report.

Included within the share-based payments charge disclosed in note 21, is an amount of £151,300 (2013: £171,900) relating to key management personnel.

Shareholder Information and Advisers

Company No.

4235369

Registered office

4 Matthew Parker Street
London, SW1H 9NP
Tel: 020 7227 2700

Company Secretary

Neil Taylor

Website

www.polarcapital.co.uk

Annual General Meeting

28 July 2014
Please see seperate AGM Notice for details.

Dividends

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

First interim dividend
For the financial year ended 31 March 2014

Amount
4.0p per ordinary share

Ex-dividend date
31 December 2013

Record date
3 January 2014

Payment date
17 January 2014

Second interim dividend
For the financial year ended 31 March 2014

Amount
21.0p per ordinary share

Ex-dividend date
2 July 2014

Record date
4 July 2014

Payment date
18 July 2014

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

Shareholder helpline
0800 876 6660
(+44 121 415 7047)

Website
www.shareview.co.uk

Auditors

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

Bankers

HSBC Bank plc

Nominated Adviser and Corporate Broker

Canaccord Genuity
88 Wood Street
London, EC2V 7QR

Solicitors

Herbert Smith Freehills LLP
Exchange House
Primrose Street,
London, EC2M 2EG

Shares

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

ISIN number
GB00B1GCLT25

SEDOL code
B1GCLT2

Designed and produced by
ACCRUE FULTON
www.accruefulton.com

POLAR
CAPITAL