

LAZARD FUND MANAGERS LIMITED
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003
REGISTERED NUMBER: 1970853

<u>Contents</u>	<u>Page</u>
Report of the Directors	1 - 2
Report of the Independent Auditors	3
Profit and Loss Account	4
Balance Sheet	5
Notes on the Financial Statements	6 - 10



LAZARD FUND MANAGERS LIMITED

BOARD OF DIRECTORS

M R Chapman

W J Smith

(appointed 25 February 2003)

C W Wilson

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company trades as authorised corporate director to Lazard Investment Funds, an open ended investment company. The company expects to continue to trade in this way for the foreseeable future. At the end of the year there were thirteen sub-funds of Lazard Investment Funds and one common investment fund under management.

The company is regulated by The Financial Services Authority.

SHARE CAPITAL

The authorised share capital was increased from £1,000,000 to £5,000,000 on 19 May 2003.

On 19 May 2003, a further 1,000,000 ordinary £1 Shares were allotted at par to Lazard Asset Management Limited.

On 25 June 2003, a further 400,000 ordinary £1 Shares were allotted at par to Lazard Asset Management Limited for total consideration of £400,000, which the company used to repay the subordinated loan to Lazard Asset Management Holdings Limited.

RESULTS FOR THE YEAR

The loss for the year after taxation was £623,715 (2002: profit £139,774). An interim dividend of £750,000, (2002: £Nil) was paid to Lazard Asset Management Limited on 30 December 2003.

No final dividend is proposed (2002: £Nil).

DIRECTORS

The present directors are listed above. W J Smith was appointed a director on 25 February 2003. M A Elliott was appointed on 24 February 2003 and resigned on 11 February 2004. R P A Tyler resigned as a director on 31 January 2003.

DIRECTORS' INTERESTS

None of the directors had any interests in the shares of the company or any UK group company at any time during the year.

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as

LAZARD FUND MANAGERS LIMITED

REPORT OF THE DIRECTORS (Continued)

extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the period. In preparing those financial statements, the directors confirm that suitable accounting policies have been used and applied consistently, they have made judgements and estimates that are reasonable and prudent and prepared the financial statements on the going concern basis. The directors also confirm that applicable accounting standards have been followed.

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

BY ORDER OF THE BOARD



H Dunbar-Jonson
Company Secretary

50 Berkeley Street
London W1J 8HA

30 April 2004

LAZARD FUND MANAGERS LIMITED

Independent Auditors' Report to the Members of Lazard Fund Managers Limited

We have audited the financial statements of Lazard Fund Managers Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the directors' have not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Matthew L. Touche LLP
Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

30 April 2004

LAZARD FUND MANAGERS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>Note</u>	<u>2003</u>	<u>2002</u>
		£	£
Turnover	2	7,993,472	7,292,442
Administrative expenses	3	(8,759,211)	(8,287,792)
		<hr/>	<hr/>
Operating loss		(765,739)	(995,350)
Interest receivable		75,144	100,397
Other income	4	68,064	848,727
		<hr/>	<hr/>
Loss on Ordinary Activities before Taxation		(622,531)	(46,226)
Tax (charge) / credit on loss on ordinary activities	5	(1,184)	186,000
		<hr/>	<hr/>
(Loss) / Profit on Ordinary Activities after Taxation		(623,715)	139,774
Dividends		(750,000)	-
		<hr/>	<hr/>
Transfer (from) / to Reserves	10	(1,373,715)	139,774
		<hr/>	<hr/>

No gains or losses have been recognised in these financial statements in the current or prior year other than those reflected in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

A reconciliation of the movement in shareholders' funds is shown in note 11.

All activities of the company are regarded as continuing.

There is no difference between the loss on ordinary activities before taxation and the transfer (from) / to reserves stated above, and their historical cost equivalents.

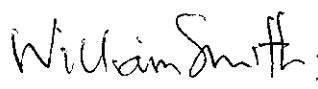
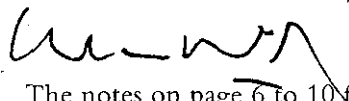
The notes on pages 6 to 10 form an integral part of these financial statements.

LAZARD FUND MANAGERS LIMITED

BALANCE SHEET AT 31 DECEMBER 2003

	<u>Note</u>	<u>2003</u>	<u>2002</u>
		£	£
Current Assets			
Investments	1d	19,994	16,584
Debtors	6	9,126,042	5,816,659
Cash at bank		615,860	860,716
		<hr/>	<hr/>
		9,761,896	6,693,959
Current liabilities			
Creditors due within one year	7	(7,551,726)	(4,510,074)
		<hr/>	<hr/>
Net current assets		2,210,170	2,183,885
Deferred tax	8	-	-
		<hr/>	<hr/>
Net Assets		2,210,170	2,183,885
		<hr/>	<hr/>
Capital and Reserves			
Called up share capital	9	1,950,000	550,000
Profit and loss account	10	260,170	1,633,885
		<hr/>	<hr/>
Equity shareholders' funds		2,210,170	2,183,885
		<hr/>	<hr/>

The financial statements on pages 4 to 10 were approved by the Board of Directors on 30 April 2004 and were signed on its behalf by:

) Directors
)

The notes on page 6 to 10 form an integral part of these financial statements.

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2003**

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention.

(b) Turnover

Turnover represents investment management fees receivable during the year and net income from transactions in units during the year as reflected in note 2 and is derived entirely from activities performed in the UK.

(c) Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(d) Investments

All current asset investments represent shares / units held in the managers box. These are valued at mid market price.

2. TURNOVER

	<u>2003</u>	<u>2002</u>
	£	£
Transactions in units of the unit trusts under management		
Units sold	514,373,431	394,624,294
Units liquidated	179,434,008	194,062,241
	693,807,439	588,686,535
Costs of units sold and liquidated	(693,693,889)	(588,584,614)
Stamp duty	-	-
Net income from transactions in units	113,550	101,921
Management fees	7,879,922	7,190,521
	7,993,472	7,292,442

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003(continued)

3. ADMINISTRATIVE EXPENSES

- a) The company has no direct employees (2002: Nil). The directors receive no emoluments in respect of their services as directors of the company (2002: £Nil). The directors, and other staff involved in the company's operations, are employed by Lazard Asset Management Limited, are remunerated by that company and that remuneration is included in a management charge levied by that company.
- b) Audit fees are charged to and paid by Lazard Asset Management Limited.

4. OTHER INCOME

Other income relates to the profit recognised during the year in respect of the sale of the company's fund of funds business.

5. TAXATION CHARGE / (CREDIT)

	<u>2003</u>	<u>2002</u>
	£	£
UK Corporation tax		
Group relief at 30 % (2002 – 30%)	-	-
Adjustment in respect of prior year	1,184	-
Deferred taxation	-	(186,000)
	<hr/>	<hr/>
	1,184	(186,000)
	<hr/>	<hr/>
	<u>2003</u>	<u>2002</u>
	£	£
Corporation tax:		
Corporation tax charge for the year	1,184	-
	<hr/>	<hr/>

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2002: 30%). The current year tax charge for the year is less than 30% for the reasons set out in the following reconciliation:

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003(continued)

5. TAXATION (continued)	<u>2003</u>	<u>2002</u>
	£	£
Loss on ordinary activities before tax	(622,531)	(46,226)
Tax on loss on ordinary activities at standard rate	(186,759)	(13,868)
Factors affecting charge:	-	-
Rollover relief	-	(440,618)
Losses carried forward or available for surrender to other companies in the group for which no credit taken	186,759	268,486
Sale of fund of funds business subject to tax in subsequent period on fulfilment of contractual conditions	-	186,000
Adjustment in respect of prior year	1,184	-
Current tax charge for the year	1,184	-

The tax on gain on disposal of the personal portfolio business accounted for in the prior period has been reduced under the rollover relief provisions as a result of investment by a fellow subsidiary in the Lazard group. No payment is due by the company for the benefit of rollover relief obtained.

6. DEBTORS	<u>2003</u>	<u>2002</u>
	£	£
Amounts due within one year:		
Trade debtors	9,126,042	5,816,659
	9,126,042	5,816,659

7. CREDITORS	<u>2003</u>	<u>2002</u>
	£	£
Amounts payable within one year:		
Trade creditors	6,429,315	3,172,527
Amounts owed to groups undertakings	-	400,000
Taxation	212,240	230,901
Other Creditors	910,171	706,646
	7,551,726	4,510,074

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003(continued)

8. DEFERRED TAX

	<u>2003</u>	<u>2002</u>
	£	£
Deferred taxation	-	-
Provision for deferred taxation consists of the following amounts:		
Opening balance	-	(186,000)
Current year credit	-	186,000
Balance as at 31 December	-	-

The opening balance on deferred tax in the prior period represented tax payable on the sale of the fund of funds business.

Unless claimed by other companies in the group there is a potential future tax benefit of approximately £280,000 (2002: £268,000), not recognised as a deferred tax asset, which is available to reduce tax payable on profits of the trade in future periods.

9. SHARE CAPITAL

	<u>2003</u>	<u>2002</u>
	£	£
Authorised 5,000,000 (2002: 1,000,000) ordinary shares of £1 each	5,000,000	1,000,000
Allotted, called up and fully paid: 1,950,000 (2002: 550,000 ordinary shares of £1 each)	1,950,000	550,000

The authorised share capital was increased from £1,000,000 to £5,000,000 on 19 May 2003. On 19 May 2003 1,000,000 ordinary £1 shares were allotted at par for cash and on 25 June 2003 a further 400,000 ordinary £1 shares were allotted at par for cash to Lazard Asset Management Limited.

10. RESERVES

	<u>2003</u>	<u>2002</u>
	£	£
Profit and loss account		
At 1 January	1,633,885	1,494,111
Transferred (from) / to reserves	(1,373,715)	139,774
At 31 December	260,170	1,633,885

LAZARD FUND MANAGERS LIMITED

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2003</u>	<u>2002</u>
	£	£
(Loss) / profit for the financial year	(623,715)	139,774
Dividends paid	(750,000)	-
Increase in share capital	1,400,000	500,000
	<hr/>	<hr/>
Net increase / (decrease) in shareholders' funds	26,285	639,774
Opening shareholders' funds	2,183,885	1,544,111
	<hr/>	<hr/>
Closing shareholders' funds	2,210,170	2,183,885
	<hr/>	<hr/>

12. CASH FLOW STATEMENT

The company is a member of a group whose parent company publishes consolidated financial statements that include a consolidated cash flow statement. It is, therefore, not required to produce a cash flow statement as part of these financial statements.

13. RELATED PARTY DISCLOSURES

The company is exempt from disclosing transactions with 90% or greater owned group companies which are related parties as it is part of a group whose ultimate holding company in the EU publishes consolidated financial statements.

14. ULTIMATE PARENT COMPANY

The parent company of the smallest group, which includes the company and for which group accounts are to be prepared, is Lazard Asset Management (UK) Holdings Limited a company incorporated in Great Britain and registered in England and Wales.

Copies of the parent's financial statements may be obtained from The Secretary, Lazard Asset Management (UK) Holdings Limited, 50 Berkeley Street, London, W1J 8HA.

The company's immediate controlling party is Lazard Asset Management Limited, a company incorporated in Great Britain and registered in England and Wales.

The company's ultimate parent company and ultimate controlling party is Lazard LLC, a Delaware Limited company, which is the parent undertaking of the largest group to consolidate these financial statements.