Zambia Copper Investments Limited

Annual Report 2006

Chairman's report

I am pleased to present the Company's audited annual financial statements for the fifteen months ended 31 March 2006. It will be noted that these results reflect a satisfactory consolidated net profit figure of USD 38.5 million, which compares favourably to the USD 13.6 million published for the period ended 31 December 2005.

Shareholders will recall that, with effect from the date of the acquisition by Vedanta Resources plc ("Vedanta") of 51% of Konkola Copper Mines plc ("KCM"), KCM's accounting status in ZCI's books changed from Subsidiary to Associated Company. In the present financial period, the book cost of the Company's investments in KCM has been increased by the Company's share in the income of KCM, which amounts to USD 37.6 million. The Directors are of the opinion that the present results correctly reflect the Company's 28.4% share in the income of KCM.

The results indicate that while KCM and by extension, the Company, have benefited from the consistently high price of copper over the past 10 months, the Directors are of the view that disappointingly low production levels at KCM have resulted in KCM not having been able to maximise its profitability further by taking advantage of the currently favourable copper market.

The period was marred by the sad passing of the previous Chairman, Jean-Pierre Rozan. This unfortunate event necessitated certain changes to the Company's board and in January 2006, Michel Clerc, Chairman of AMZCI, the association of minority shareholders in France, was elected to the Board. In February 2006, I was elected to assume the position of Chairman of the Company.

The most significant issue that has occupied the attention of the Board as well as that of our shareholders over the past ten months and beyond, is the continuing negotiation with Vedanta resulting from the exercise by Vedanta of its call option in terms of the Vedanta Call Option Deed ("the Deed") over the remaining 28.4% of KCM shares held by ZCI through its wholly owned subsidiary, ZCI Holdings S.A. In August 2005, Vedanta gave notice that it intended to exercise its call option and since that date, the Board of ZCI has attempted to finalise the terms of reference to be submitted to the Independent Bank ("the Bank") for the purposes of settling the letter of engagement and enabling the Independent Bank to progress with the valuation.

The Board is extremely conscious of the fact that this process could be the most significant event in the history of the Company and is making every effort to ensure that the interests of the Company and its shareholders are protected. It is evident from the length of the negotiations to date, that the ultimate outcome of the call option process is substantial for both parties and your Board is mindful of the fact that continued vigilance will be necessary to ensure that the Company's rights and interests are not undermined. The Directors believe that the appointment of the Bank is likely to be finalised shortly and that the remaining few issues remain to be resolved between Vedanta and the Bank directly, after which further announcements will be made. At that stage, shareholders will be advised of the approximate timing of the valuation and the expected duration of the entire process to its ultimate conclusion.

Shareholders are reminded that in the event that Vedanta is unwilling to pay the option exercise price as determined by the Bank, it shall not be required to proceed with the associated purchase of ZCI's KCM shares. In terms of the provisions of the Deed, ZCI shall be bound to accept the valuation made by the Bank. As before, shareholders are advised to exercise caution when dealing in ZCI's securities until detailed announcements are made.

Thomas Kamwendo
Chairman

Bermuda

Report of the directors

Nature of business

ZCI is Bermudian registered with its primary listing on the JSE Securities Exchange SA (the "JSE"). It has a secondary listing on the Paris Bourse. The Company's major asset is it's holding of 28.4% of the share capital of KCM, a Zambian registered mining company.

Going concern

The directors have reviewed the audited consolidated accounts prepared by KCM for the year ending 31 March 2006 and are of the view that these indicate that sufficient funding, ownership and management arrangements have been secured to enable KCM and the Company to continue in operation as going concerns for the foreseeable future. The directors, therefore, consider that the preparation of the financial statements on a going concern basis is appropriate.

Dividends

No dividends were paid or proposed by ZCI in respect of the period ended 31 March 2006.

Directors and officers

During the period the following changes to the composition of the Board occurred:

Resignations
B Ireton (15 March 2005)
JP Rozan (Deceased - 19 December 2005)

Appointments
M Clerc (Appointed 18 January 2006)

Directorate
The directors of the Company as at 31 March 2006 were:
Non-Executive
T. Kamwendo (Chairman)
D. Rodier
S. Georgala
M. Clerc

Mr T. Kamwendo was elected as chairman on 8 February 2006.

Directors meetings and remuneration

Between 1 January 2005 and 31 March 2006, the ZCI Board met on seven occasions, in addition to the Annual General Meeting, to consider issues of an operational nature, strategy, as well as those having a material effect on ZCI and the Group.

The total remuneration paid to Directors during the period was USD 195,036, which was allocated as follows:

B Ireton	USD 5,574
JP Rozan	USD 42,734
T. Kamwendo	USD 49,263
D. Rodier	USD 47,534
S. Georgala	USD 42,201
M. Clerc	USD 7,730

All of the current directors retire at the forthcoming annual general meeting in accordance with Bermudian Law and, being eligible, offer themselves for re-election. Subject to such re-election the Board proposes to re-elect T. Kamwendo as Chairman. A brief profile of the Directors is included hereunder:

<u>Thomas Kamwendo</u>

Thomas Kamwendo was born on 14 May 1958 in Mpika Zambia. He has a Bachelor of Science degree in Mechanical Engineering obtained from Brighton Polytechnic in the United Kingdom in 1983.

He has more than 20 years experience in the Zambian mining industry having started his professional career as an engineer in what is today KCM's Nchanga Division. He has been CEO of three engineering companies and is currently managing Partner of his own multidisciplinary consulting firm. He has served on the boards of directors of several companies and is also current chairman of two development financing institutions, and is chairman of the Copperbelt Development Foundation.

He served on a Presidential Commission of Enquiry into university education in Zambia. He has previously chaired the Environmental Council of Zambia and was, until December 2005, President of the Engineering Institution of Zambia.

<u>David Rodier</u>

David Rodier was born in Montreal, Canada, on 26 June 1943. He obtained a Bachelor's degree in Metallurgical Engineering from McGill University, Montreal, in 1966.

He gained his extensive working experience in the non-ferrous industry, starting with Cominco in British Columbia, (now Teck-Cominco) and later for Noranda Inc., where he was employed for 35 years and where he was involved with zinc and copper recycling. His experience includes a wide group of technical and managerial positions in zinc and copper businesses. His most recent positions were: Senior Vice President, Environment Safety and Health at Noranda between 1998 and 2002; Senior Vice President, Copper & Recycling at Noranda between 1995 and 1997; and President of Canadian Electrolytic Zinc between 1992 and 1995.

Mr. Rodier was Noranda's delegate to the World Business Council for Sustainable Development, the International Council for Mining and Metals, the International Zinc Association, the International Copper Association, the Mining Association of Canada and the Canadian Chemical Producers Association. He currently works as Senior Consultant, Sustainability for Hatch Associates, a global engineering company located in Ontario, Canada, which is devoted to the support of the Mining and Metallurgical industries.

<u>Steven Georgala</u>

Steven Georgala was born in Nelspruit, South Africa on 26 April 1957. He obtained a Bachelor of Commerce degree from the University of Stellenbosch in 1979 and a LL.B. degree from the same University in 1981. He completed his Articles with Webber Wentzel Bowens and was admitted as an Attorney and Notary in June 1984. In 1984 he obtained a Higher Diploma in Company Law from the University of the Witwatersrand. In December 1984, he was posted to the Luxembourg office of Webber Wentzel Bowens where he became a partner of the firm in 1987. The European offices of Webber Wentzel Bowens became Maitland & Co in 1993 and Mr. Georgala, now resident in Paris, France continues as a principal of Maitland & Co where he specialises in international tax planning.

<u>Michel Clerc</u>

Michel Clerc was born in Vernon, France on 27 June 1921. He obtained degrees in Law and Political Science in France and in English literature at Cambridge. Mr. Clerc is a journalist by profession, specializing in financial issues and has had several books published. He is also the former editor of Paris-Match magazine and was manager of Radio Luxembourg. Mr.

Clerc was a founder of AMZCI in 1999, an association of ZCI shareholders in France and is currently the president of this association.

Directors' interests

At 31 March 2006 the directors held no shares in ZCI, either beneficially or non-beneficially, and did not have any direct or indirect beneficial interests. There are no service contracts granted by ZCI, nor any of its subsidiaries, to any director of ZCI for services as directors, nor were there any contracts or arrangements existing during the financial period which require to be declared in terms of the requirements of the JSE.

Shareholders at 31 March 2006

Pursuant to the listing requirements of the JSE, to the best knowledge of the directors, and after reasonable enquiry, the spread of shareholders at 31 March 2006 was:

	Number of shares	**Percentage holding**
Non-public shareholders		
Copperbelt Development Foundation	55,932,533	44.3%
Trustees of the KCM Employee Share Ownership Trust	820,496	0.7%
Public shareholders	69,444,333	55%
		100.0%

At 31 March 2006 the number of public shareholders of the Company was 10,858.

According to the information available to the directors, the following are the only registered shareholders holding, directly or indirectly, more than 5% of ZCI's issued ordinary shares:

	Number of shares	**Percentage holding**
Copperbelt Development Foundation	55,932,533	44.3%
Sicovam S.A.	41,668,475	33.0%
Strate Ltd	24,633,459	19,5%

Auditors

KPMG was appointed as auditor of ZCI at the annual general meeting held on 22 September 2005. They have indicated their willingness to continue in office and, accordingly, a resolution for their appointment and the determination of their remuneration will be submitted to the forthcoming annual general meeting.

Annual General Meeting

The annual general meeting will be held at 11h00 on Wednesday 16 August 2006. The notice convening the meeting is set out on page 30/31 of this report.

By Order of the Board

John Mills
Company Secretary
Luxembourg
17 July 2006

Code of corporate practices and conduct

ZCI is committed to the principles of openness, integrity and accountability as advocated in the South African King II Report on Corporate Governance. The directors endorse the Code of Corporate Practices and Conduct (the "Code"), as set out in the King II Report. KCM, both while it remained an operating subsidiary of ZCI as well as thereafter, is also committed to upholding these principles.

Application

Having regard to the fact that the Company has no employees or administrative infrastructure of its own, many of the requirements of the Code are not applicable to it. Given that the Company is a minority shareholder of KCM, the Directors of ZCI are of the view that Vedanta, as KCM's controlling shareholder, will ensure that suitable procedures will be implemented and maintained to ensure that KCM complies insofar as is practical and appropriate, with the UK Combined Code on Corporate Governance, which is largely equivalent to the Code in respect of companies listed on the London Stock Exchange.

Annual financial statements

The directors are responsible for the preparation, integrity and fair presentation of the financial statements and it is the responsibility of the independent auditors to report thereon. In preparing the annual financial statements the Company has used appropriate accounting policies consistently, supported by reasonable and prudent judgement and estimates and has complied with all statutory requirements and all applicable accounting standards, including International Financial Reporting Standards.

Board of directors

As at 31 March 2006, the Company's board of directors consisted of four non-executive directors. The board retains full and effective control over the Company. To fulfil their responsibilities, the Company's board of directors has access to accurate, relevant and timely information and to the advice and services of the company secretary who is responsible to the board for ensuring the board procedures are followed. In addition, the directors are entitled to obtain independent professional advice at the Company's expense, should they deem this necessary.

The KCM board of directors met on various occasions during the period to consider issues of operational strategy, capital expenditure, major projects and other matters having a material effect on KCM. Regular presentations on key issues have been made by the Group

Management to the Board and, where applicable, to the Shareholders. Post the Vedanta transaction, the Board of KCM was reconstituted to comprise one executive director and up to nine non-executive directors, of which two are appointed by ZCI. The chairman of the KCM board is a non-executive director and the executive director is KCM's chief executive officer. The KCM board reserves to itself a range of key issues and decisions, to ensure that it retains proper direction and control of KCM. Non-executive directors are individuals of high calibre with diverse backgrounds and expertise, which ensures that their views carry significant weight in deliberations and decisions.

KCM Directors and officers

During the period the following changes to the composition of the KCM Board occurred:

On 18 May 2005, Mr. TD Kamwendo was appointed by ZCI Holdings S.A as director replacing Mr. B R Ireton who resigned on 15 March 2005. Following the resignation of Mr. P E Sydney-Smith as director on 30 August 2005, Vedanta appointed Mr. D Jhaveri to the KCM Board on same date.

Directorate

The directors of KCM as at 31 March 2006 were:

N Agarwal (Chairman)
K K Kaura (Vice Chairman)
C V Krishnan (CEO & Managing Director)
D Bandyopadhyay (Resident Director)
S Georgala
G K Chibuye
J M D Patterson
L Nkhata
T D Kamwendo
D Jhaveri

SHEQ Committee

The KCM Safety, Health, Environment and Quality ("SHEQ") Committee is responsible for developing framework policies and guidelines for safety, health, environment, social management and quality assurance and ensuring the progressive implementation of the same throughout KCM in working towards internationally accepted standards and best practices. The Committee is also responsible for addressing SHEQ risks and impacts in a systematic, comprehensive and businesslike manner and for promoting good relationships with the communities in which KCM operates.

The overall safety performance for the year 2005-06 was satisfactory. The year recorded a reduction in the number of accident incidents of about 41%. KCM continued to be legally compliant in all areas of Occupational Medicine, Audiometry and Occupational Hygiene. Further, KCM obtained the OHSAS 18001 accreditation for Safety and Occupational Health from the British Safety Council making it the first mining company in Zambia to obtain such accreditation.

Audit Committee

The KCM Audit Committee comprising solely of Non-Executive Directors and Alternate Directors is responsible, inter alia, for the review of the procedures and policies of internal control, the review of the measures taken by Management in mitigating risk, the regular review of the adjudication of tenders and award of contracts in ensuring that they comply with the intent of the Shareholders Agreement, the review of any statement on ethical standards for KCM, the review of the accounting principles, policies and practices adopted in the preparation of the statutory financial statements and the consideration of the appointment of external Auditors.

Remuneration Committee

The KCM Remuneration Committee of the Board is responsible, inter alia, for considering, reviewing and making recommendations to the Board on remuneration packages and related matters of Executive Management Team members and periodically for reviewing ongoing appropriateness and relevance of remuneration policy for all employees of KCM.

Executive Committee

The KCM Executive Management Team is empowered and responsible for implementing the strategies and policies determined by the Board, managing the business and affairs of the KCM Group, prioritising the allocation of capital, technical and human resources and establishing best management practices.

Internal control

The Internal Audit Department of KCM is empowered by the Audit Committee, as per a Board approved Internal Audit Charter, to report on and make Management aware of the effectiveness of the internal control systems applicable to both operations and finance. The control systems are designed to safeguard KCM's assets, maintain proper accounting records, ensure mitigation of operating risks and ensure the reliability of management and financial information produced by KCM.

The Headline Risk Areas of KCM are reviewed on a bi-annual basis under the Combined Code and appropriate action plans are implemented to mitigate identified high impact and high likelihood risks.

Code of conduct

The Company and KCM require that all directors and employees conduct themselves with honesty and integrity in all business practices to achieve the highest standard of ethical behaviour. In accordance with this objective, KCM has adopted a code of ethics to provide a clear guide as to the behaviour expected of directors and employees.

Significant Events at KCM

During the period, KCM decided to implement the Konkola Deep Mining Project (KDMP) at a total estimated cost of approximately US$ 400 million. All necessary clearances from the Government of the Republic of Zambia ("GRZ") including environmental clearances were obtained.

KCM also initiated the construction of a new smelter at Nchanga, which will employ direct blister technology provided by Outokumpu Technology OY Finland. The direct blister technology will have the ability to treat low energy Konkola and Nchanga concentrates on a stand-alone basis.

The KCM Directors reported that KCM experienced a ten (10) day work stoppage arising from workers agitation in July 2005, which adversely affected production.

Consolidated Income Statement

for the period 1 January 2005 to 31 March 2006
expressed in thousands of US Dollars

	Notes	1 January 2005 to 31 March 2006	Year ended 31 December 2004 (restated)
Turnover	4,5	-	440,649
Cost of sales		-	(300,638)
Gross Profit		-	140,011
Other operating expenses		-	(62,020)
Depreciation		-	(12,412)
Profit from operations		-	65,579
Other income		-	2,485
Finance income	9	2,248	30
Interest expense		-	(1,331)
General and administration expenses		(1,359)	(1,090)
Loss on sale of investment in subsidiary company		-	(3,097)
Income from associated companies	16	37,640	25,093
Exceptional item	6	-	(9,763)
Profit before taxation		38,529	77,906
Taxation	10	(76)	(85)
Profit for the period / year		38,453	77,821
Attributable to :			
Equity holders		38,453	54,311
Minority interest		-	23,510
Profit for the period / year		38,453	77,821
		per ordinary share in US cents	
Headline profit before exceptional items and amortisation and impairment of goodwill	8	30.47	50.77
Exceptional items	6	-	(7.73)
Net profit	8	30.47	43.04

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as at 31 March 2006
expressed in thousands of US Dollars

	Notes	31 March 2006	31 December 2004 (restated)
Non-current assets			
Long term accounts receivable	11	9,477	12,910
Investment in associated companies	16	84,502	61,282
		93,979	74,192
Current assets			
Available for sale investment	12	2,842	-
Accounts receivable	13	5,296	4,892
Cash and cash equivalents	14	4,066	3,120
		12,204	8,012
Current liabilities			
Accounts payable and accrued liabilities		(260)	(356)
Net current assets		11,944	7,656
Total assets less current liabilities		105,923	81,848
Net assets		105,923	81,848
Capital and reserves			
Capital	15	334,547	334,547
Revaluation reserve	12	42	-
Deficit on hedging reserve	16	(14,420)	-
Accumulated deficit		(214,246)	(252,699)
Shareholders' equity		105,923	81,848

Approved by the board of directors, dated 13 July 2006: T. Kamwendo, director, S. Georgala, director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the period 1 January 2005 to 31 March 2006
expressed in thousands of US Dollars

	Share capital	Contributed surplus	Revaluation reserve	Hedging reserve	Accumulated deficit	Minority interest	Total equity
Balance at 31 December 2003	**30,299**	**478,508**	**1,220**	**(2,989)**	**(481,270)**	**1,255**	**27,023**
Reversal of net loss on cashflow hedges transferred to income statement	-	-	-	2,989	-	(1,255)	1,734
Reversal of revaluation on Equity fund investment	-	-	(1,220)	-	-	-	(1,220)
Change in scope of consolidation (note 2)	-	(174,260)	-	-	150,750	23,510	-
Profit for the year	-	-	-	-	77,821	(23,510)	54,311
Balance at 31 December 2004 (restated)	**30,299**	**304,248**	**-**	**-**	**(252,699)**	**-**	**81,848**
Revaluation on available for sale investment (note 12)	-	-	42	-	-	-	42
Hedging reserve of associated company (note 16)	-	-	-	(14,420)	-	-	(14,420)
Profit for the period	-	-	-	-	38,453		38,453
Balance at 31 March 2006	**30,299**	**304,248**	**42**	**(14,420)**	**(214,246)**	**-**	**105,923**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the period 1 January 2005 to 31 March 2006
expressed in thousands of US Dollars

	Notes	1 January 2005 to 31 March 2006	Year ended 31 December 2004
Cash flow from operating activities			
Cash received from customers		-	425,201
Cash paid to suppliers and employees		(1,480)	(325,967)
Cash (absorbed) / generated by operations		(1,480)	99,234
Interest received		96	30
Interest paid		-	(1,020)
Income tax paid		(90)	(121)
Net cash (absorbed) / generated by operating activities		(1,474)	98,123
Cash flow from investing activities			
Purchase of available for sale investments		(2,800)	-
Proceeds from disposal of short term investment		-	981
Proceeds from partial disposal of investment in subsidiary, net of cash disposed of		5,220	(24,006)
Purchase of tangible fixed assets		-	(46,060)
Cash generated / (absorbed) by investing activities		2,420	(69,085)
Cash flow from financing activities			
Lease financing paid		-	(3,526)
Cash absorbed by financing activities		-	(3,526)
Net increase in cash		946	25,512
Net cash / (debt) at the beginning of the period / year		3,120	(22,392)
Net cash at the end of the period / year	14	4,066	3,120

The accompanying notes form an integral part of these consolidated financial statements.

1 Incorporation

General

Zambia Copper Investments Limited ("ZCI" or the "Company') is incorporated as an investments holding company in Bermuda. The company is exempt from Bermuda taxation.

The Company's principal activity is the holding of a 28.4% (2004: 28.4%) interest in Konkola Copper Mines plc ('KCM'), a company incorporated in the Republic of Zambia. The Group had no direct employees during the period (2004: none).

Statement of Compliance

The consolidated financial statements of ZCI have been prepared in accordance with Intenational Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

2 Basis of preparation of consolidated financial statements

The consolidated financial statements incorporate the financial results of the majority owned subsidiary KCM up to 31 October 2004. Following the change in majority ownership of KCM as explained in note 17, the results of KCM from 1 November 2004 to date are included according to the equity accounting method for associated companies.

Due to the change in scope of consolidation, the Company's income and expenses for the year ended 31 December 2004 include consolidation of KCM income and expenses for the ten-month period 1 January to 31 October 2004. KCM income and expenses for the period 1 November to 31 December were included on an equity basis in income from associated companies. Assets and liabilities of KCM were no longer consolidated into the accounts of the Company at 31 December 2004.

On 22 September 2005, the Company changed its fiscal year end from 31 December to 31 March to be in line with KCM. These financial statements are for the fifteen month period from 1 January 2005 to 31 March 2006. Consequently, the comparative amounts for the income statement, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

The financial statements were authorised for issue by the directors on 13 July 2006.

3 Significant accounting policies

Basis of accounting

The financial statements are prepared in accordance with International Financial Reporting Standards. In 2005, the International Accounting Standards Board issued new standards and interpretations, which had no significant impact on the consolidated financial statements as at 31 March 2006. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These financial statements are presented in United States Dollars since that is the currency in which the majority of the Group's business is denominated.

The financial statements have been prepared on the historical cost basis, except for available-for-sale investments which are recorded at fair value. The principal accounting policies adopted are set out below.

Principles of consolidation

The consolidated financial statements include the financial statements of ZCI and all companies more than 50% owned by ZCI.

The interest of minority shareholders is stated at the minority's proportion of the assets and liabilities recognised. All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Associated companies

The results of associated companies are recorded on an equity accounting basis. Under the equity method, associated companies are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associated company, less any impairment to the value of the individual associated company. Losses of an associated company in excess of the Group's interest in that associated company are not recognised.

Where a Group entity transacts with an associated company, profits and losses are eliminated to the extent of the Group's interest in the relevant associated company.

Turnover

Turnover represents the amounts invoiced, excluding value added tax, in respect of metals and other products despatched to customers during the year.

Available for sale investments

Available for sale investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs. Available for sale investments are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the security is disposed of or is determined to be impaired at which time the cumulative gain or loss previously recognised in equity is included in the net profit and loss for the period.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, demand 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.

Trade receivables
Receivables are stated at their nominal value as reduced by appropriate allowances for estimate irrecoverable amounts.

Long term receivables
Long-term receivables are recognised initially at their fair value. Subsequent to initial recognition, long-term receivables are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the receivable on an effective interest basis.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Accounts payable
Accounts payable are stated at their nominal value.

Taxation
Income tax expense represents the tax currently payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Translation of foreign currencies
Transactions denominated in currencies other than United States Dollars are accounted for at the rate of exchange ruling on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than United States Dollars are accounted for at the rates of exchange ruling at the balance sheet date, or at the forward rate determined in forward exchange contracts. Gains and losses arising on translation are included in the profit and loss account for the period.

expressed in thousands of US Dollars

4 Principal activity and segmental information

Until the disposal of the controlling interest in KCM, the principal activity of the Group was the mining and production of copper and cobalt, and toll treatment of copper concentrates. The sales revenue can be analysed as follows:

	2006	2004
Copper	-	427,815
Cobalt	-	9,830
Other	-	3,004
	-	440,649

In the year ended 2004, the Group had one reportable segment, its principal activity.

5 Geographical segments

The Group mining operations were located in Zambia. The following table provides an analysis of the Group's sales by geographical market:

	2006	2004
Sales revenues		
Asia	-	280,320
Middle East	-	118,773
Rest of Africa	-	31,726
Europe	-	9,830
	-	440,649

6 Exceptional item

	2006	2004
Write off of insurance claim	-	9,763

KCM raised a claim against its insurers for equipment loss, pit reinstatement and business interruption following the Nchanga Open Pit accident on 8 April 2001. The ultimate re-insurers are yet to accept the claim for settlement, but the matter continues to be pursued through available legal channels. The claim has remained outstanding to date and on this basis, the Directors of KCM considered it prudent to write off the balance.

expressed in thousands of US Dollars

7 Prior year adjustment : correction of error

During the period, management has discovered that the deferred sale consideration receivable from Vendanta had been recorded at the nominal value instead of being discounted to net present value. This error has been corrected retrospectively by restating the comparative statements for 31 December 2004. The effect of the change is a decrease in the long term accounts receivable of USD 2,750,000, a decrease in current accounts receivable of USD 328,000, and an increase in the loss on sale of subsidiary company of USD 3,078,000. Accordingly, the opening reserves have been decreased by USD 3,078,000.

8 Profit per share

	2006	2004 (restated)
Net profit attributable to shareholders (USD '000)	38,453	54,311
Add exceptional expenses:		
Write off of insurance claim	-	9,763
Headline profit before exceptional items	38,453	64,074
Weighted average number of shares in issue (thousands)	126,197	126,197
Headline profit per share (US cents per share)	30.47	50.77
Basic net profit per share (US cents per share)	30.47	43.04

Basic profit per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of shares in issue during the year.

Impact of correction of error

The correction of error during the year is described in detail in note 7. The correction has reduced the results reported for 2004, and therefore has also reduced amounts reported as profit per share by:

	2004
Headline profit per share (US cents per share)	(2.44)
Basic net profit per share (US cents per share)	(2.44)

expressed in thousands of US Dollars

9 Finance income

	2006	2004
Interest income on short term bank deposits	133	30
Unwinding of discount on deferred purchase consideration	2,115	-
	2,248	30

10 Taxation

	2006	2004
Current income tax	76	85
Deferred tax	-	-
Net amount	76	85
Payable in respect of the period / year	76	85
Payable in respect of previous year	-	34
Paid during period / year	(90)	(121)
Change in scope of consolidation (note 2)	-	2
Included in Accounts payable / (Accounts receivable and prepaid expenses)	(14)	-

11 Long term accounts receivable

	2006	2004 As restated
Receivable from Vedanta (after discounting to net present value)	9,477	12,910

Resulting from the Vedanta transaction (see note 17), the Company will receive consideration of USD 23,200,000 for waiver of their pre-emptive subscription rights to KCM shares. This amount is receivable over a period from 4 November 2004 to 31 December 2008. The deferred consideration is recorded at its discounted net present value.

expressed in thousands of US Dollars

12 Available for sale investment

	2006	2004
Additions during the period / year	2,800	-
Fair value net unrealised gains	42	-
	2,842	-

The Group has not designated any financial assets that are classified as held for trading as financial assets at fair value through profit and loss. The investment above represents investments in an equity mutual fund. The fair value for available for sale investments is based on dealer price quotations.

13 Accounts receivable

	2006	2004
Other debtors and prepayments	76	-
Receivable from Vedanta	5,220	4,892
	5,296	4,892

The Group has credit risk attributable to its trade receivables and other debtors. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant risk attributable to the amount receivable from Vedanta, as they are a highly capitalised company with substantial assets and earnings worldwide. Vedanta is listed on the London Stock Exchange.

14 Cash and cash equivalents

	2006	2004
Call deposits and cash at bank	4,066	3,120

expressed in thousands of US Dollars

Cash and cash equivalents include cash in current accounts and cash deposits which mature within six months. The credit risk on cash and liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

All deposits have a floating interest rate and mature within six months.

15 Capital

	2006	2004
Share capital		
Authorised		
130,000,000 ordinary shares of BD$0.24 each (USD 0.24 each)	31,200	31,200
50,000 deferred shares of BD$0.24 each (USD 0.24 each)	12	12
	31,212	31,212

	2006	2004
Issued		
126,197,362 ordinary shares of BD$0.24 each (USD 0.24 each)	30,287	30,287
50,000 deferred shares of BD$0.24 each (USD 0.24 each)	12	12
	30,299	30,299
Contributed surplus	304,248	304,248
Total Capital	334,547	334,547

Ordinary shares
The ordinary shares have full voting rights and rights to dividends, and will be entitled on a winding up to a distribution equal to their par value and share premium created on their issue.

Deferred shares
The deferred shares do not have any voting rights or right to participate in the profits or assets of the Company, other than the right to receive on the winding up of the Company the amount paid up, up to the amount of 24 Bermudian cents only, after all ordinary shares have received a distribution equal to their par value and any share premium which remains distributable to them.

expressed in thousands of US Dollars

16 Subsidiaries and associated companies

Details of the Company and it's subsidiaries and associated companies at 31 March 2006 are as follows:

	Place of incorporation and operation	Proportion of ownership interest (%)	Principal activity
Name of parent company			
Zambia Copper Investments Limited	Bermuda	-	Holding company
Name of subsidiary			
ZCI Holdings S.A.	Luxembourg	100 %	Holding company
ZCI Holdings Limited	Liberia	100%	Holding company
Zambia Copper Investments (Luxembourg) Limited	Luxembourg	100%	Holding company
Name of associated company			
Konkola Copper Mines Plc	Republic of Zambia	28.4 %	Mining
KCM (SmelterCo) Limited	Republic of Zambia	28.4 %	Ore processing

Summarised financial information in respect of the Group's associated companies is set out below:

	2006	2004
Total assets	772,462	447,605
Total liabilities	(342,485)	(231,822)
Net assets	447,977	215,783
Group's share of associated companies' net assets	127,225	61,282
Turnover for the period / year	842,753	108,839
Profit for the period / year	132,537	88,356
Group's share of associated companies' profit for the period / year	37,640	25,093

expressed in thousands of US Dollars

	2006	2004
Value at beginning of period / year	61,282	36,189
Share of associated companies' profit	37,640	25,093
Share of equity movements	(14,420)	-
Value at end of period / year	84,502	61,282

The Group has accounted for its share of the associated companies' deficit on hedging reserves directly in equity.

17 Restructuring

With effect from 5 November 2004, the Company entered into an agreement with Vedanta Resources Plc (Vedanta), which resulted in dilution of the Company's interest in KCM

The key terms of the Vedanta investment that the Parties agreed to were as follows:

- the subscription by Vedanta for sufficient new KCM ordinary shares for an amount of US$25 million such that Vedanta obtained a 51% interest in KCM. Accordingly, ZCI reduced its interest in KCM from 58% to 28.4% and ZCCM-IH reduced its interest in KCM from 42% to 20.6%;
- Vedanta subscribed for KCM shares, ZCI and ZCCM-IH waived their pre-emptive subscription rights. As consideration for this waiver, ZCI received a deferred consideration of US$23.2 million from Vedanta, payable over a period commencing on the completion date of the Vedanta investment and ending on 31 December 2008. The schedule of deferred payments is as follows:
- two million, three hundred and twenty thousand US dollars (US$2,320,000) on the Completion Date;
- five million, two hundred and twenty thousand US dollars (US$5,220,000) on 31 December 2005;
- five million, two hundred and twenty thousand US dollars (US$5,220,000) on 31 December 2006;
- five million, two hundred and twenty thousand US dollars (US$5,220,000) on 31 December 2007; and
- five million, two hundred and twenty thousand US dollars (US$5,220,000) on 31 December 2008;

In the event that the free cash flow (after sustaining and project capital expenditures) of KCM is negative at any time during a period of nine years after the completion date of the Vedanta investment, then Vedanta will guarantee and be responsible for providing or securing the necessary additional funding required by KCM to immediately fund to the extent of the negative cash flow up to but not exceeding a cumulative amount of US$220 million ("standby funding commitment"). Should this standby funding commitment be provided by Vedanta in the form of equity, it will be non-dilutive to existing shareholders.

Vedanta has contractually undertaken not to exit KCM prior to 1 January 2008. Thereafter if it wishes to exit, Vedanta is required to provide a twelve month notice period during which time it will provide management to KCM and it will pay an exit fee equivalent to the following years budgeted capital expenditure (as adjusted for any over or under spending of capital expenditure in prior financial periods), with its standby funding commitment terminating on the exit date.

Vedanta has agreed that KCM will set aside a portion of its future annual free cash flow to create a cash reserve so that the shareholders and GRZ have assurance that as cash is accumulated in the reserve, KCM has dedicated funds available to fund its environmental and terminal benefit obligations.

An undertaking has been given by Vedanta to support a feasibility study on the extension of the Konkola ore body by no later than 31 December 2006. Vedanta will contribute US$1million towards the cost of the feasibility study.

Should the KCM board determine to proceed with further development of the Konkola ore body, Vedanta will be responsible for securing the debt finance necessary in accordance with typical market practices for similar projects. In addition, Vedanta will be required to contribute whatever equity is required by KCM to secure the debt funding. ZCI and ZCCM-IH will be able to follow their rights but should they decline to do so, the additional equity will be contributed by Vedanta on a dilutive basis.

18 Contingencies

Vedanta call option deed

Vedanta will have a call option over ZCI's shares in KCM, exercisable on either a positive development decision on the Konkola Ore Body Extension Project or the achievement by Konkola mine, a division of KCM, of 3 million tone per annum (tpa) of ore production for four consecutive quarters. The exercise price will be the prevailing fair market value of ZCI's KCM shares as agreed to between ZCI and Vedanta or, failing agreement, as determined by an independent investment bank.

ZCI / ZCCM-IH call option deed

If the KCM board determines not to proceed with the further development of the Konkola ore body, then ZCI and ZCCM-IH will have a call option over Vedanta's shares in KCM, exercisable on or after 31 December 2009 at the prevailing fair market value of such shares. However, if Vedanta can demonstrate, at any time before the exercise date of the call option, that an additional five years production for the period from 2013 to 2017, at 175 000 tpa of produced finished copper utilising the existing KCM mining licences and adjacent areas is achievable, then in those circumstances the exercise date of the call option will be deferred for a period of five years, such that it may not be exercised prior to 31 December 2014.

expressed in thousands of US Dollars

During the period, Vendanta gave notice that it was exercising it's option under the Vendanta call option deed. An exercise price was not agreed, and ZCI and Vendanta remain engaged with finalising the terms of reference to be submitted to the independent investment bank for the purposes of settling the letter of engagement and enabling the independent investment bank to progress with the valuation. The Board of Directors has determined that a reliable value can not be assigned to these call options at 31 March 2006.

19 Related party transactions

The Company has no employees and in consequence utilises the administrative services of Maitland Luxembourg SA, which is part of the Maitland Group. Steven Georgala is a director of the Maitland Group. The Maitland Group received fees of USD 499,274 (2004: USD 420,027).

The directors of the Company received fees of USD 163,890 (2004: USD 72,750) for their services. In the current period, they received no additional fees for additional work specific to the Vedanta Strategic Equity Partner transaction (2004: USD 95,300), and USD 31,146 additional expenses (2004: USD 35,910). The Company and KCM shared certain common directors; in 2005, T Kamwendo and S Georgala received fees and expenses of USD 45,072 from KCM, and in 2004 B Ireton, D Rodier, and S Georgala received fees and expenses of USD 32,225 from KCM. All directors fees payable to S Georgala are payable to the Maitland Group.

20 Pension costs

KCM operates a defined contribution pension scheme for certain of its employees. The total contributions charged to the income statement in respect of the scheme operated by the KCM was as follows:

	2006	2004
Pension costs charged to operating expenses	-	2,003

21 Operating Lease Arrangements

	2006	2004
Lease payments paid under operating leases	-	311

22 Minority Interest

Until 31 October 2004, the minority interest represented 42% of the restructured capital and reserves of KCM. Since 1 November 2004, the Company no longer has a controlling interest in KCM (see note 17).

23 Subsequent events

ZCI and Vendanta remain engaged with finalising the terms of reference to be submitted to the Independent Bank for the purposes of settling the letter of engagement and enabling the Independent Bank to progress with the valuation of ZCI's holding 28.4% of KCM in accordance with the terms of the Vendanta call option deed (see note 18).

24 Holding company

There is no ultimate holding company.

Report of the auditors

To the Shareholders of
Zambia Copper Investments Limited
Clarendon House
2 Church Street
Hamilton
Bermuda

AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of Zambia Copper Investments Limited ("the Company") as of 31 March 2006, and the related consolidated statements of income, changes in equity and cash flows for the period from 1 January 2005 to 31 March 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company as of and for the year ended 31 December 2004 prior to the restatements described in Note 7 to these consolidated financial statements, were audited by another auditor whose report dated 16 August 2005 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as of 31 March 2006, and of the results of its operations and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 7 to the consolidated financial statements. During 2006, an error was discovered in the consolidated financial statements of the Company as of and for the year ended 31 December 2004. The related corresponding figures for 31 December 2004 have been restated accordingly.

Luxembourg, 17 July 2006

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

Ph. Meyer

Notice of Annual General Meeting

Notice is hereby given that the thirty-sixth annual general meeting of the shareholders of Zambia Copper Investments Limited will be held at the offices of Maitland Luxembourg SA, 6 rue Adolphe Fischer, Luxembourg, on Wednesday 16 August 2006 at 11h00 for the following business:

1. To consider the financial statements and the reports of the directors and auditors for the fifteen-month period to 31 March 2006.

3. To propose the re-election of T Kamwendo, who retires in terms of the Bye-Laws of the company, and being eligible, recommended and available has offered himself for re-election.

4. To propose the re-election of D.D. Rodier, who retires in terms of the Bye-Laws of the company, and being eligible, recommended and available has offered himself for re-election.

5. To propose the re-election of S. Georgala, who retires in terms of the Bye-Laws of the company, and being eligible, recommended and available has offered himself for re-election.

6. To propose the re-election of M Clerc, who retires in terms of the Bye-Laws of the company, and being eligible, recommended and available has offered himself for re-election.

7. To ratify and approve all actions taken by the directors of ZCI to the date of this Annual General Meeting.

8. To approve the remuneration of the directors for the period ended 31 March 2006.

9. To reappoint the auditors and to fix their remuneration.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with “own name” registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms should be forwarded to reach the company’s transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 or posted to the transfer secretaries at P O Box 61051, Marshalltown, 2107, South Africa, so as to be received by not more than 48 hours before the time fixed for the holding of the meeting at 11h00 on Wednesday 16 August 2006. Proxy forms should only be completed by members who have not dematerialised their shares or who have dematerialised their shares with “own name” registration.

On a show of hands, every member of the company present in person or represented by proxy shall have on vote only. On a poll, every member of the company shall have one vote for every share held in the company by such member.

Members who have dematerialised their shares, other than those members how have dematerialised their shares with “own name” registration should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

A form of proxy is enclosed with this annual report.

By order of the board of directors

John B. Mills
Secretary

Dated: 17 July 2006

Company details

Directors
T Kamwendo *(Chairman)*
D D Rodier
S Georgala
M Clerc

Secretary
J B Mills

Registered Office
Clarendon House
2 Church Street
Hamilton
Bermuda

Website
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Transfer Secretaries

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United Kingdom

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Paris, France

Auditors
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L-2520 Luxembourg

South African Sponsor
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FirstRand Bank Limited
Corporate Finance, 1 Merchant Place,
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