BELL EQUIPMENT

2006

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

Consolidated Balance Sheet

R'000	Unaudited at 30 June 2006	RESTATED at 30 June 2005	Audited at 31 December 2005
ASSETS			
Non-current assets	**379 284**	284 532	295 765
Property, plant and equipment	**313 459**	231 211	237 394
Investments and long-term receivables	**62 739**	53 321	50 885
Deferred taxation	**3 086**	–	7 486
Current assets	**1 649 395**	1 336 784	1 345 842
Inventory	**1 109 914**	940 653	928 838
Trade and other receivables	**503 436**	360 203	361 812
Current portion of long-term receivables	**12 294**	7 112	12 128
Prepayments	**13 002**	3 367	7 732
Taxation	**1 238**	19 031	2 194
Cash resources	**9 511**	6 418	33 138
TOTAL ASSETS	**2 028 679**	1 621 316	1 641 607
EQUITY AND LIABILITIES			
Capital and reserves	**824 304**	728 282	699 259
Stated capital (Note 5)	**225 946**	225 776	225 946
Non-distributable reserves	**59 590**	45 627	36 921
Retained earnings	**538 768**	456 879	436 392
Non-current liabilities	**161 723**	65 342	89 401
Interest-bearing	**3 574**	6 248	4 754
Repurchase obligations and deferred leasing income	**142 978**	43 386	69 176
Long-term provisions	**15 171**	15 476	15 471
Deferred taxation	**–**	232	–
Current liabilities	**1 042 652**	827 692	852 947
Trade and other payables	**613 509**	495 057	391 670
Current portion of interest-bearing liabilities	**2 706**	3 411	2 731
Current portion of repurchase obligations and deferred leasing income	**18 600**	8 130	8 639
Current portion of provisions	**70 748**	52 048	64 637
Taxation	**22 431**	–	–
Short-term interest-bearing debt	**314 658**	269 046	385 270
TOTAL EQUITY AND LIABILITIES	**2 028 679**	1 621 316	1 641 607
Number of shares in issue ('000)	**94 763**	94 713	94 763
Net asset value per share (cents)	**870**	769	738

Consolidated Income Statement

R'000	Unaudited 6 months ended 30 June 2006	Unaudited 6 months ended 30 June 2005	Audited 12 months ended 31 December 2005
Revenue	**1 534 894**	1 668 402	3 209 233
Cost of sales	**1 236 536**	1 418 553	2 701 658
Gross profit	**298 358**	249 849	507 575
Other operating income	**53 290**	44 987	92 615
Distribution costs	**(193 299)**	(209 279)	(441 523)
Administration expenses	**(17 344)**	(29 679)	(62 615)
Other operating expenses	**(15 400)**	(23 118)	(48 773)
Profit from operating activities	**125 605**	32 760	47 279
Net finance (income) costs (Note 2)	**(23 286)**	13 835	43 459
Profit before taxation (Note 3)	**148 891**	18 925	3 820
Taxation	**46 847**	6 291	12 017
Profit (loss) for the period	**102 044**	12 634	(8 197)
Earnings (loss) per share (basic) (cents) (Note 4)	**108**	13	(9)
Earnings (loss) per share (diluted) (cents) (Note 4)	**108**	13	(9)
Proposed dividend per share (cents)	**–**	–	–

Abbreviated Cash Flow Statement

R'000	Unaudited 6 months ended 30 June 2006	Unaudited 6 months ended 30 June 2005	Audited 12 months ended 31 December 2005
Cash operating profit before working capital changes	**165 762**	63 009	100 679
Cash (invested in) generated from working capital	**(100 963)**	76 693	(23 146)
Cash generated from operations	**64 799**	139 702	77 533
Net finance income (costs)	**23 286**	(13 835)	(43 459)
Taxation (paid) refunded	**(19 060)**	(4 070)	501
Net cash generated from operating activities	**69 025**	121 797	34 575
Invested in property, plant, equipment, investments and long-term receivables	**(104 598)**	(15 093)	(41 670)
Increase in interest-bearing liabilities, repurchase obligations and deferred leasing income	**82 558**	1 774	25 899
Proceeds from shares issued	**–**	1 362	1 532
Net cash inflow	**46 985**	109 840	20 336

Statement of Changes in Equity

R'000	Unaudited 6 months ended 30 June 2006	RESTATED 6 months ended 30 June 2005	Audited 12 months ended 31 December 2005
Equity at the beginning of the period	**699 259**	701 462	701 462
Changes in share capital	**–**	1 362	1 532
Issue of share capital	**–**	1 362	1 532
Changes in non-distributable reserves	**22 669**	12 480	3 774
Effect of change in tax rate on surplus on revaluation of properties	**–**	265	265
Realisation of revaluation reserve on depreciation of buildings	**(332)**	(344)	(688)
Increase in foreign currency translation reserve of foreign subsidiaries	**22 279**	12 239	2 666
Exchange differences on foreign reserves	**722**	320	1 531
Changes in retained earnings	**102 376**	12 978	(7 509)
Net profit (loss) for the period	**102 044**	12 634	(8 197)
Transfer from revaluation reserve on depreciation of buildings	**332**	344	688
Equity at the end of the period	**824 304**	728 282	699 259

Notes to Interim Report

R'000	Unaudited 6 months ended 30 June 2006	Unaudited 6 months ended 30 June 2005	Audited 12 months ended 31 December 2005
1. ACCOUNTING POLICIES			
The accounting policies of the group are in accordance with International Financial Reporting Standards and are consistent with those applied to the previous year.			
This abridged report complies with Interim Financial Reporting (IAS34).			
2. NET FINANCE (INCOME) COSTS			
Net interest paid	**11 720**	12 769	22 404
Net currency exchange (income) losses	**(35 006)**	1 066	21 055
Net finance (income) costs	**(23 286)**	13 835	43 459
3. PROFIT BEFORE TAXATION			
Profit before taxation is arrived at after taking into account:			
Income			
Import duty rebates	**14 611**	20 428	42 116
Net surplus on disposal of property, plant and equipment	**220**	3 403	2 372
Expenditure			
Auditors' remuneration – audit and other services	**2 541**	6 995	10 811
Depreciation of property, plant and equipment	**16 733**	14 869	31 566
Increase in warranty provision	**666**	1 340	16 212
Operating lease charges			
– equipment and motor vehicles	**6 838**	6 820	16 320
– properties	**8 241**	8 143	15 946
Research and development expenses	**17 779**	12 735	10 072
Staff costs	**228 886**	205 974	408 987
4. EARNINGS (LOSS) PER SHARE			
The calculation of earnings (loss) per share is based on profit (loss) after taxation and the weighted average number of ordinary shares in issue during the period. The weighted average number of shares in issue for the period under review was 94 763 400 (June 2005: 94 399 542). On a diluted basis, the fully converted weighted average number of shares is 94 850 178 (June 2005: 94 481 028).			
Headline earnings (loss) is arrived at after excluding the net surplus on disposal of property, plant and equipment as reflected in note 3:			
Headline earnings (loss) per share (basic) (cents)	**108**	11	(11)
Headline earnings (loss) per share (diluted) (cents)	**107**	11	(11)
5. STATED CAPITAL			
Authorised			
100 000 000 (June 2005: 100 000 000) ordinary shares of no par value			
Issued			
94 763 400 (June 2005: 94 712 900) ordinary shares of no par value	**225 946**	225 776	225 946

Notes to Interim Report *(continued)*

R'000	Unaudited 6 months ended 30 June 2006	Unaudited 6 months ended 30 June 2005	Audited 12 months ended 31 December 2005
6. CAPITAL EXPENDITURE COMMITMENTS			
Contracted	**2 588**	304	475
Authorised, but not contracted	**29 904**	10 405	44 591
Total capital expenditure commitments	**32 492**	10 709	45 066

7. SEGMENTAL ANALYSIS

Geographical segments

The group operates in two principal geographical areas:

R'000	Revenue	Operating profit	Assets	Liabilities
June 2006				
South Africa	774 812	91 377	1 354 336	884 710
Rest of world	760 082	34 228	674 343	319 665
Total	1 534 894	125 605	2 028 679	1 204 375
June 2005 (Restated)				
South Africa	731 021	20 833	1 089 611	639 512
Rest of world	937 381	11 927	531 705	253 522
Total	1 668 402	32 760	1 621 316	893 034

R'000	Unaudited at 30 June 2006	Unaudited at 30 June 2005	Audited at 31 December 2005
8. CONTINGENT LIABILITIES			
8.1 The repurchase of units sold to customers and financial institutions has been guaranteed by the group for an amount of	**106 534**	172 405	134 900
In the event of repurchase, it is estimated that these units would presently realise	**119 429**	172 596	151 078
	(12 895)	(191)	(16 178)
Provision for residual value risk on specific machines	**(6 179)**	(6 016)	(8 127)
The provision for residual value risk is based on the assessment of the probability of return of the units.			
8.2 The group has assisted customers with the financing of equipment purchased through a financing venture with Wesbank, a division of FirstRand Bank Limited.			
In respect of a certain category of this financing provided and in the event of default by customers, the group is at risk for the full balance due to Wesbank by the customers.			
At period end the amount due by customers to Wesbank in respect of these transactions totalled	**51 200**	151 978	90 758
In the event of default, the units financed would be recovered and it is estimated that they would presently realise	**(63 670)**	(115 778)	(76 957)
	(12 470)	36 200	13 801
Less: provision for non-recovery	**(10 832)**	(20 929)	(9 795)
Net contingent liability	**–**	15 271	4 006
To the extent that customers are both in arrears with Wesbank and there is a shortfall between the estimated realisation values of units and the balance due by the customers to Wesbank, a provision for the full shortfall is made.			
8.3 The residual values of certain equipment sold to financial institutions has been guaranteed by the group.			
In the event of a residual value shortfall, the group would be exposed to an amount of	**10 892**	10 512	8 496
8.4 Certain trade receivables have been discounted with financial institutions for an amount of	**14 037**	3 498	5 943
These transactions are with recourse to the group.			
In the event of default, certain units could be recovered and it is estimated that these units would presently realise at least	**14 037**	3 498	5 943

9. EXCHANGE RATES

	30 June 2006 Weighted average	30 June 2006 Closing	30 June 2005 Weighted average	30 June 2005 Closing	31 December 2005 Weighted average	31 December 2005 Closing
The following major rates of exchange were used:						
Euro: United States $	**1,24**	**1,28**	1,28	1,21	1,24	1,18
SA Rand: United States $	**6,37**	**7,11**	6,24	6,66	6,36	6,33
British £: United States $	**1,80**	**1,84**	1,87	1,79	1,81	1,72

10. COMPARATIVE INFORMATION

Comparative information has been restated for the effects of the following prior year adjustments:

10.1 Correction recognised in respect of leases previously accounted for incorrectly on the contractual basis. Prior period figures have been appropriately restated to account for leases on the straight line basis in terms of IAS 17.

10.2 Correction recognised in respect of the income tax treatment of profits earned by a controlled foreign company of the group. Prior period figures have been appropriately restated.

The aggregate effect of the restatements is as follows:

R'000	Previously stated	Prior year adjustment – taxation	Prior year adjustment – lease escalation	Restated
For the period ended 30 June 2005				
Current portion of provisions	**51 889**	–	159	52 048
Long term provisions	**10 224**	–	5 252	15 476
Deferred taxation	**1 586**	–	(1 354)	232
Taxation asset	**25 346**	(6 315)	–	19 031
Opening retained earnings – 1 January 2005	**454 273**	(6 315)	(4 057)	443 901

11. INDEPENDENT AUDITORS' REPORT

The financial information set out in the interim report has been reviewed, but not audited, by the company's auditors, Deloitte & Touche. Their unqualified report is available for inspection at the company's registered office.

Chairman's Statement

The results for the six months ended 30 June 2006 reflect the long awaited turn around in our group. The cessation of the loss making contracts with North America, some weakening of the Rand against the US Dollar and more particularly the Euro coupled with the benefits of our Project 100 Plus Programme and the strong improvement in the world construction and mining equipment markets have allowed us to make a healthy profit for the six months under review.

Revenue is down by 8% from R1 668 million to R1 535 million on the comparative period largely due to the drop in sales of completed Articulated Dump Trucks (ADTs) to North America, despite which the gross profit is up from R249,8 million to R298,4 million. There has been a decrease in import duty rebates due to our new business model whereby royalties are earned on ADTs manufactured by John Deere Construction and Forestry Company in the US, which has caused our other operating income to increase by 18,5%. Export revenues are down from R937,4 million to R760,1 million as compared with the same period last year due to the drop in volume of units to North America mentioned above. Another encouraging aspect of the results is the drop in overheads of R36 million due almost exclusively to our Project 100 Plus Programme. The reduced amount of interest paid, together with the currency exchange gain of R35 million, resulted in our profit before taxation being higher than the profit from operating activities.

The effective taxation rate at 31,5% remains disappointingly high, as we have not yet had the promulgation of the Minister of Finance's amendments to the Income Tax Act in order to assist manufacturers and exporters with research and development expenditure. Headline earnings are sharply up from 11 cents to 108 cents and net asset value per share has also increased by R1,32 since the beginning of the year to R8,70 per share.

Another pleasing aspect of these results is the positive cash flow of R47 million that was generated in the six months, despite net capital expenditure of R22 million. Unfortunately working capital continues to be a problem for the group, in particular the R181,1 million increase in inventory which caused trade cycle days to rise from 82 days to 99 days as at the end of June. Trade receivables peaked on 30 June 2006 as a result of large shipments in the last week of the month, the proceeds of which were only received during July. The increase in inventory was largely financed by an increase in trade payables but this is an area that management continues to work at reducing on a daily basis. The cost reduction benefits from the Project 100 Plus Programme, which was implemented in the later part of 2005, which have come on stream in this period are extremely pleasing and the savings in overheads and product costs from this initiative are expected to continue to flow through to the bottom line in the next twelve to eighteen months as the programme continues to be rolled out. Obviously the weakening Rand affects our offshore operating costs when reporting in Rand but we do expect increased savings in our overall manufacturing costs as a consequence.

As shareholders are aware the reciprocal manufacturing distribution and royalty agreements signed with John Deere in 2005 have now been operational for over twelve months and we are particularly excited by benefits that we have been able to achieve in cost reductions for our Front-End Loaders (FELs) and Tractor Loader Backhoes (TLBs). We have become a significant supplier of TLBs in Southern Africa and we expect a substantial increase in the market share of these units that we are manufacturing for the local and export markets over the next eighteen months. Our range of FELs that we import in a knockdown form from John Deere has increased to a nine-model range and we are enjoying improved margins from this world-class product. Localisation of some components is being pursued for both of these products.

Quality continues to be a high level focus with continuous refinement and improvements to our product development programme where we are spending more up front during the design and engineering stage of products before releasing them to the market. Our Southern African Distribution operation continues to be a key contributor and what is encouraging is the increased contribution we have been able to make on lower revenue from our activities outside of South Africa. Our results in Europe are pleasing with good progress being made in a number of countries.

I am pleased to report that the entire Bell team is extremely excited by the progress that has been made in the last six months and we look forward to ensuring that our targets set for working capital management, cost reduction, efficiency and quality improvements continue to be realised for the rest of the year and are sustainable into the future. We are optimistic that when compared with the prior year our efforts will see a continuation of these benefits and results to report to our stakeholders in December 2006.

Howard J Buttery
Group Chairman

4 August 2006

Bell Equipment Ltd

(Incorporated in the Republic of South Africa) (Share code: BEL ISIN: ZAE000028304)
Registration number 1968/013656/06 ("Bell")

Directors: HJ Buttery (Group Chairman), GW Bell (Group Chief Executive), DL Smythe, KJ van Haght, GP Harris, BW Schaffter*†, JW Kloet*, RL Bridges*, DJJ Vlok*, PJC Horne*, TO Tsukudu*, MA Mun-Gavin*
Alternate Directors: PA Bell, PC Bell, MA Campbell, DM Gage*†
(*Non-executive directors) (†USA)

Company Secretary: DP Mahony **Sponsor:** Investec Bank Limited
Registered Office: 13 – 19 Carbonode Cell, Alton, Richards Bay
Transfer Secretaries: Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg

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