BELL EQUIPMENT

Interim report

for the six months ended 30 June 2007

Condensed consolidated balance sheet

R'000	Reviewed at 30 June 2007	Reviewed Restated at 30 June 2006	Audited at 31 December 2006
ASSETS			
Non-current assets	**468 653**	379 284	368 315
Property, plant and equipment	**385 106**	305 945	318 140
Intangible assets	**7 375**	7 514	7 074
Investments and long-term receivables	**56 341**	62 739	20 637
Deferred taxation	**19 831**	3 086	22 464
Current assets	**1 984 955**	1 649 395	1 673 937
Inventory	**1 377 363**	1 109 914	1 219 834
Trade and other receivables	**537 211**	516 438	389 469
Current portion of long-term receivables	**55 922**	12 294	15 271
Taxation	**1 729**	1 238	1 623
Cash resources	**12 730**	9 511	47 740
Total assets	**2 453 608**	2 028 679	2 042 252
EQUITY AND LIABILITIES			
Capital and reserves	**1 114 211**	824 304	954 912
Stated capital (Note 5)	**226 229**	225 946	226 185
Non-distributable reserves	**55 941**	59 590	55 490
Retained earnings	**832 041**	538 768	673 237
Non-current liabilities	**182 670**	161 723	158 371
Interest-bearing liabilities	**1 553**	3 574	2 319
Repurchase obligations and deferred leasing income	**144 778**	142 978	133 253
Deferred warranty income	**22 389**	7 166	11 724
Long-term provisions and lease escalation	**13 950**	8 005	11 075
Current liabilities	**1 156 727**	1 042 652	928 969
Trade and other payables	**725 987**	613 509	557 330
Current portion of interest-bearing liabilities	**2 018**	2 706	2 467
Current portion of repurchase obligations and deferred leasing income	**18 881**	18 600	17 021
Current portion of deferred warranty income	**10 238**	2 345	5 291
Current portion of provisions and lease escalation	**40 111**	68 403	70 748
Taxation	**59 317**	22 431	88 741
Short-term interest-bearing debt	**300 175**	314 658	187 371
Total equity and liabilities	**2 453 608**	2 028 679	2 042 252
Number of shares in issue ('000)	**94 834**	94 763	94 817
Net asset value per share (cents)	**1 175**	870	1 007

Condensed consolidated income statement

R'000	Reviewed 6 months ended 30 June 2007	Reviewed 6 months ended 30 June 2006	Audited 12 months ended 31 December 2006
Revenue	**2 069 329**	1 534 894	3 533 177
Cost of sales	**1 615 669**	1 236 536	2 739 263
Gross profit	**453 660**	298 358	793 914
Other operating income	**33 353**	53 290	102 604
Distribution costs	**(190 058)**	(193 299)	(415 194)
Administration expenses	**(20 250)**	(17 344)	(60 307)
Other operating expenses	**(18 397)**	(15 400)	(45 963)
Profit from operating activities	**258 308**	125 605	375 054
Net finance costs (income) (Note 2)	**2 652**	(23 286)	28 017
Profit before taxation (Note 3)	**255 656**	148 891	347 037
Taxation	**73 514**	46 847	110 880
Profit for the period	**182 142**	102 044	236 157
Earnings per share (basic) (cents) (Note 4)	**192**	108	249
Earnings per share (diluted) (cents) (Note 4)	**192**	108	249
Proposed dividend per share (cents)	**–**	–	25

Condensed cash flow statement

R'000	Reviewed 6 months ended 30 June 2007	Reviewed 6 months ended 30 June 2006	Audited 12 months ended 31 December 2006
Cash operating profit before working capital changes	**253 361**	165 762	436 268
Cash invested in working capital	**(136 614)**	(100 963)	(143 931)
Cash generated from operations	**116 747**	64 799	292 337
Net finance (costs) income	**(2 652)**	23 286	(28 017)
Taxation paid	**(100 411)**	(19 060)	(36 269)
Net cash generated from operating activities	**13 684**	69 025	228 051
Dividend paid	**(23 709)**	–	–
Net cash flow applied to investing activities	**(165 615)**	(104 598)	(100 904)
Net cash flow from financing activities	**27 826**	82 558	85 354
Net cash (outflow) inflow	**(147 814)**	46 985	212 501
Net short-term interest-bearing debt at beginning of the period	**(139 631)**	(352 132)	(352 132)
Net short-term interest-bearing debt at end of the period	**(287 445)**	(305 147)	(139 631)

Statement of changes in equity

for the six months ended 30 June 2007

R'000	Stated capital	Non-distributable reserves	Retained earnings	Total
Balance at 31 December 2005	225 946	36 921	436 392	699 259
Realisation of revaluation reserve on depreciation of buildings	–	(332)	332	–
Exchange differences on translation of foreign operations	–	22 279	–	22 279
Exchange differences on foreign reserves	–	722	–	722
Net profit for the period	–	–	102 044	102 044
Balance at 30 June 2006 – reviewed	225 946	59 590	538 768	824 304
Share options exercised	239	–	–	239
Realisation of revaluation reserve on depreciation of buildings	–	(356)	356	–
Exchange differences on translation of foreign operations	–	(3 702)	–	(3 702)
Exchange differences on foreign reserves	–	(42)	–	(42)
Net profit for the period	–	–	134 113	134 113
Balance at 31 December 2006 – audited	226 185	55 490	673 237	954 912
Share options exercised	44	–	–	44
Realisation of revaluation reserve on depreciation of buildings	–	(371)	371	–
Exchange differences on translation of foreign operations	–	731	–	731
Exchange differences on foreign reserves	–	91	–	91
Dividend paid	–	–	(23 709)	(23 709)
Net profit for the period	–	–	182 142	182 142
Balance at 30 June 2007 – reviewed	226 229	55 941	832 041	1 114 211

Abbreviated notes to interim report

1. ACCOUNTING POLICIES

The accounting policies and methods of computation are consistent with those applied in the financial statements for the year ended 31 December 2006, except for the adoption of all of the new and revised International Financial Reporting Standards and Interpretations that are effective for reporting periods commencing on 1 January 2007. These Standards and Interpretations had no impact on the interim results of the group and the disclosure requirements will be addressed in the 2007 annual financial statements.

This abridged report complies with IAS 34, the Standard on Interim Financial Reporting.

R'000	Reviewed 6 months ended 30 June 2007	Reviewed Restated 6 months ended 30 June 2006	Audited 12 months ended 31 December 2006
2. NET FINANCE COSTS (INCOME)			
Net interest paid	**8 662**	11 720	21 127
Net currency exchange (income) losses	**(6 010)**	(35 006)	6 890
Net finance costs (income)	**2 652**	(23 286)	28 017
3. PROFIT BEFORE TAXATION			
Profit before taxation is arrived at after taking into account:			
Income			
Import duty rebates	**9 061**	14 611	30 940
Net surplus (loss) on disposal of property, plant and equipment	**491**	220	(3 450)
Royalties	**6 727**	13 533	30 419
Expenditure			
Auditors' remuneration – audit and other services	**3 259**	2 541	4 377
Amortisation of intangibles	**187**	125	249
Depreciation of property, plant and equipment	**22 297**	16 608	39 910
(Decrease) increase in warranty provision	**(24 696)**	666	4 831
Operating lease charges			
– equipment and motor vehicles	**11 198**	6 838	20 047
– properties	**11 821**	8 241	18 007
Research and development expenses (excluding staff costs)	**13 007**	7 434	17 123
Staff costs	**286 450**	228 886	525 710
4. EARNINGS PER SHARE			
The calculation of earnings per share is based on profit 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 94 832 747 (June 2006: 94 763 400).			
On a diluted basis, the fully converted weighted average number of shares is 94 921 744 (June 2006: 94 850 178).			
Headline earnings per share is arrived at as follows:			
Profit for the period	**182 142**	102 044	236 157
Net (surplus) loss on disposal of property, plant and equipment	**(349)**	(156)	2 450
Headline earnings	**181 793**	101 888	238 607
Headline earnings per share	**192**	108	252
5. STATED CAPITAL			
Authorised			
100 000 000 (June 2006: 100 000 000) ordinary shares of no par value			
Issued			
94 834 400 (June 2006: 94 763 400) ordinary shares of no par value	**226 229**	225 946	226 185
6. CAPITAL EXPENDITURE COMMITMENTS			
Contracted	**12 894**	2 588	5 531
Authorised, but not contracted	**46 016**	29 904	95 309
Total capital expenditure commitments	**58 910**	32 492	100 840

7. ABBREVIATED SEGMENTAL ANALYSIS

Geographical segments

The group operates in two principal geographical areas:

R'000	Revenue	Operating profit	Assets	Liabilities
June 2007				
South Africa	**945 013**	**173 382**	**1 630 107**	**881 470**
Rest of world	**1 124 316**	**84 926**	**823 501**	**457 927**
Total – reviewed	**2 069 329**	**258 308**	**2 453 608**	**1 339 397**
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 – reviewed	1 534 894	125 605	2 028 679	1 204 375
December 2006				
South Africa	1 720 506	295 573	1 458 397	758 821
Rest of world	1 812 671	79 481	583 855	328 519
Total – audited	3 533 177	375 054	2 042 252	1 087 340

R'000	Reviewed at 30 June 2007	Reviewed at 30 June 2006	Audited at 31 December 2006
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	**34 939**	106 534	41 305
In the event of repurchase, it is estimated that these units would presently realise	**(44 824)**	(119 429)	(49 262)
	(9 885)	(12 895)	(7 957)
Less: provision for residual value risk on specific machines	**–**	(6 179)	(1 991)
Net contingent liability	**–**	–	–
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	**55 502**	51 200	61 275
In the event of default, the units financed would be recovered and it is estimated that they would presently realise	**(43 708)**	(63 670)	(60 482)
	11 794	(12 470)	793
Less: provision for non-recovery	**(16 033)**	(10 832)	(14 700)
Net contingent liability	**–**	–	–
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	**11 112**	10 892	13 943
Less: provision for residual value risk	**(2 341)**	(3 539)	(3 002)
Net contingent liability	**8 771**	7 353	10 941
The provision for residual value risk is based on the assessment of the probability of return of the units.			
8.4 Certain trade receivables have been discounted with financial institutions for an amount of	**12 288**	14 037	6 266
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	**12 288**	14 037	6 266

Revenue up 35%
Earnings per share up 78%
Net asset value per share up 35%

Abbreviated notes to interim report continued

	Reviewed				Audited	
	30 June 2007		30 June 2006		31 December 2006	
	Weighted average	**Closing**	Weighted average	Closing	Weighted average	Closing
9. EXCHANGE RATES						
The following major rates of exchange were used:						
United States $: Euro	**1,33**	**1,35**	1,24	1,28	1,26	1,32
SA Rand: United States $	**7,15**	**7,02**	6,37	7,11	6,80	6,98
United States $: British £	**1,97**	**2,00**	1,80	1,84	1,85	1,97

10. COMPARATIVE INFORMATION

In accordance with IAS 1 computer software has been reclassified as intangible assets and is shown on the face of the balance sheet. Comparative information has been restated accordingly. This had no impact on the results of the group.

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 unmodified report is available for inspection at the company's registered office.

Commentary

The results for the six months ended 30 June 2007 confirm the trend of increasing profitability for the Bell Equipment Group. Strong commodity prices for mining products and the huge increase in infrastructure spend has resulted in a significant improvement in most world markets for construction and mining equipment. Never in our 55-year history have we seen the order book and the demand at this current high level. Sales revenue is up by 35% from R1,535 billion to R2,069 billion on the comparative period and gross profit is up 52% to R453,7 million. Other income is down by R20 million due to a drop in royalty income from the USA and the cessation of our participation in the MIDP programme from 9 February 2007. Royalties are down due to a substantial drop in production at John Deere's Articulated Dump Truck plant in the United States due to declining demand. Export revenues are up from R760,1 million to R1,124 billion in the current reporting period. Exports into Europe and Central Africa have increased substantially during the period under review and demand continues to be strong. Another encouraging aspect of our results is that overheads are well contained, rising only 1% on the comparative period. This is due to the continuing roll-out of our Project 100 Plus Programme and a substantial improvement in quality and consequent reduction in warranty costs which as a percentage of sales continues to drop and is now at 1,82% of turnover, below the budget of 2,29%. I would like to pay tribute to our engineering and manufacturing teams for this performance and in particular for the improved quality of all our products. Lower interest paid and currency gains continue to impact favourably as a result of lower average borrowings and improved treasury management.

The tax rate at 28,8% is higher than we anticipated, as we have not yet enjoyed the full benefit of the amendments to the Income Tax Act in respect of assistance to local taxpayers with research and development expenditure. Headline earnings are up from 108 cents to 192 cents and the important net asset value per share has increased by R1,68 since the beginning of the year to R11,75 per share at 30 June 2007.

Whilst there was positive cash flow of R17,7 million in the 12-month period ended 30 June 2007, working capital and in particular inventory continues to be a focus area for the group. Trade cycle days improved from 133 days at June 2006 to 120 days as at the end of June 2007, although inventories increased by R158 million in the six months. Trade receivables continue to rise as a result of increased credit granted particularly in the DRC and Europe. These increases are in line with expectations but actions are being taken to reduce this exposure over the next twelve months as a result of negotiations we are conducting with third parties to take over these credit risks. Fortunately we were able to finance R112 million of the increase in working capital from trade payables. We are currently investigating structures that will allow us to convert some of our short-term interest-bearing debt into long-term debt in order to improve the effective cost of financing our fixed assets. We hope to have this programme under way before the end of the current financial year. We are also in discussions with a number of financial institutions to increase our trade related lines of credit, which will help improve the matching of our borrowings. Gearing, whilst up to 26%, is still within our target and annualised return on net assets is a healthy 35%, up from 27% in the comparative period. A dividend of 25 cents per share was paid on 23 April 2007 but no dividend is proposed for this interim period.

We continue to be very concerned about unacceptably slow delivery by government of globally competitive supply side support measures. After being removed from the MIDP Programme despite more than complying with every objective of that programme we are now facing unnecessary delays in the roll-out of the new or replacement vehicle support programme. We are encouraged to create jobs, add value locally and improve our balance of payments but importers are dealt with preferentially, particularly concerning the exemption for branded products under the broad based black economic empowerment (BBBEE) codes. With greater mobility of capital, available facilities and global production strategies, we may need to look elsewhere in the world to develop our manufacturing capacities unless globally competitive supply side measures are made available to us as a local manufacturer. This should again not necessarily result in the loss of local jobs but rather in the net export of jobs to other locations around the globe at the cost of new local jobs, value add and their resultant impact on trade deficit.

As shareholders are aware, we have embraced the challenge of BBBEE. Our task team has made significant progress and within the next few weeks we will be in a position to produce a shortlist of potential BEE partners for certain elements of our operations. We continue to ensure that our BBBEE structure will operate in the best interests of the group and more importantly for all our previously disadvantaged South African employees who will hold 7,5% of the new vehicle to be created. It is our intention to move our South African sales operations into the BEE vehicle in which Bell Equipment Limited will own 70%. Running parallel with the shareholding option we are making very good progress on other areas of the BBBEE generic scorecard. Shareholders will be formally advised as soon as the structures and selection of partners have been finalised by the board.

Our core strategy of growing our global business profitably continues to be regularly reviewed and aggressively implemented with all priorities making good progress with the exception of working capital, which was discussed earlier. We are particularly pleased with the progress we have made with our talent management where we have an excellent competitive reward scheme that recognises the hard work that is being done by our people. We are also taking steps to counter the impact of the global skills shortages. Growth opportunities for employees have never been better and the performance management structure that we are implementing is ensuring the future success of the group.

I am pleased to report that along with customer service, quality continues to be an area of key focus resulting in reduced warranty costs. This is a clear indication of increased customer satisfaction. We are making investments in additional capacity and closely managing the inventory challenge that we are facing. We are optimistic that the results for the rest of this year will see a continuation of these benefits in our report to shareholders on the full year to December 2007.

Howard J Buttery
Group Chairman

8 August 2007

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

Company Secretary: DP Mahony
Registered Office: 13 – 19 Carbonode Cell, Alton, Richards Bay
Transfer Secretaries: Link Market Services South Africa (Pty) Ltd, PO Box 4844, Johannesburg 2000
Sponsor: Investec Corporate Finance

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

www.bellequipment.com

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