

38. Nature and extent of risks arising from financial instruments (continued)

38.5 Fair values

The carrying amounts of all financial assets and liabilities approximate their fair values, with the exception of borrowings which have been accounted for at amortised cost. The fair value of borrowings, together with the carrying amounts shown in the statement of financial position, classified by class (being geographical location), are as follows:

	2017		2016	
	Carrying amount R'000	Fair value R'000	Carrying amount R'000	Fair value R'000
Borrowings (refer note 29)				
Southern Africa	10 645 950	10 641 708	8 729 298	8 712 155
Loans secured by mortgage bonds over fixed property	27 202	27 251	3 765	3 765
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	31 114	31 445	44 663	45 272
Unsecured loans	8 503 602	8 498 980	6 661 410	6 643 658
Floor plan creditors secured by pledge of inventories	860 276	860 276	976 356	976 356
Bank overdrafts	1 223 756	1 223 756	1 043 104	1 043 104
United Kingdom	70 491	70 491	252 818	252 818
Loans secured by mortgage bonds over fixed property	3 442	3 442	4 697	4 697
Loans secured by lien over certain property, plant and equipment in terms of financial leases and suspensive sale agreements	44 672	44 672	85 524	85 524
Bank overdrafts	22 377	22 377	162 597	162 597
	10 716 441	10 712 199	8 982 116	8 964 973
Unrecognised gain	4 242		17 143	

The methods used to estimate the fair values of financial instruments are discussed in note 42.

The interest rates used to discount cash flows, in order to determine fair values, are based on market-related rates at 30 June 2017 plus an adequate constant credit spread, and range from 1,0% to 10,5% (2016: 1,0% to 10,5%).

39. Capital management

The board of directors' policy is to maintain a strong capital base so as to maintain investor, supplier and market confidence, while also being able to sustain future development of the businesses. The board of directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding minority interests and the level of distributions to ordinary shareholders. The Group's objective is to maintain a distribution cover of approximately two and a quarter times headline earnings for the foreseeable future. The methods of distribution include dividends, return of share premium, capitalisation issues as well as share buy-backs in lieu of distributions. The level of cover of distributions takes into account prevailing market conditions, future cash requirements of the businesses, Group liquidity requirements, as well as capital adequacy ratios.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of gearing and the advantages and security afforded by a sound equity position. The Group's target is to achieve a return on shareholders' interest of between 20% and 25%. In 2017 the return from continuing operations was 23,8% (2016: 12,6%). The return has been impacted by the significant net capital items in the year. If these capital items are excluded the return would be 18,6% (2016: 19,2%).

In the early days of the Group, acquisition activity was generally funded via the raising of equity capital. However, over the past five years, far more favourable credit markets have enabled the use of debt as a far more effective tool of capital. The current credit markets have been extremely volatile, increasing the cost of debt in the weighted average cost of capital for the Group thereby enabling a potential return to tapping the equity markets to fund future growth.

From time to time the Group purchases its own shares on the market, the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the BIS, CSP or the SARs Plan (refer note 27). The maximum number of shares which can be allocated under the SARs Plan and the CSP is limited to 16 750 000 shares. The Group does not have a defined share buy-back plan. These shares are currently held as treasury shares.

There were no changes in the Group's approach to capital management during the year.