36. 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 2,2 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 2013 the return was 22,1% (2012: 25,1%). Refer to pages 12 and 13 of this report for the historical return on total shareholders' interest since 2004.

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 Bidvest Share Incentive Scheme (refer note 25). The maximum number of share options which can be issued to employees under the Bidvest Share Incentive Scheme is limited to 43 954 148 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.

With the exception of the Group's banking and insurance subsidiaries, whose capital is well within the statutory requirements, neither the company nor any of its other subsidiaries are subject to externally imposed capital requirements. The Group has principally a target debt:equity ratio of 40%, however in a trading and services business, the debt/equity ratio is a poor measure of the funding capacity of the Group. In order to ensure a more reflective measure of debt capacity is utilised, the Group has adopted an interest cover target of between five to six times. Net interest cover for the year to June 30 2013 was 10 times (2012: nine times).

37. Related parties

Identification of related parties

The Group has a related-party relationship with its subsidiaries, associates and joint ventures. Key management personnel has been defined as the executive and non-executive directors of the company. The definition of key management includes the close members of family of key management personnel and any other entity over which key management exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Group. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependents of the individual or the individual's domestic partner.

Transactions with key management personnel

Independent non-executive directors do not participate in the Group's share option, share purchase schemes or conditional share awards.

Details pertaining to executive directors' compensations are set out in the directors' report. Directors' remuneration in total is included in note 2.

The Group encourages its employees to purchase goods and services from Group companies. These transactions are generally conducted on terms no more favourable than those entered into with third parties on an arm's length basis, although in some cases nominal discounts are granted. Transactions with key management personnel are conducted on similar terms. No abnormal or non-commercial credit terms are allowed, and no impairments were recognised in relation to any transactions with key management personnel during the year, nor have they resulted in any non-performing debts at the year-end.

37. Related parties *(continued)*

Transactions with key management personnel *(continued)*

Similar policies are applied to key management personnel at subsidiary level who are not defined as key management personnel at Group level.

Certain directors of the Group are also non-executive directors of other public companies which may transact with the Group. The relevant directors do not believe they have significant influence over the financial or operational policies of those companies. Those companies are thus not regarded as related parties.

The following transactions were made on terms equivalent to those that prevail in arm's-length transactions between subsidiaries of the Group and key management personnel (as defined above) and/or organisations in which key management personnel have significant influence:

	2013 R'000	2011 R'000
Sales and services provided by the Group	1 573	1 661
Purchases	5 368	6 194
Outstanding amounts due to the Group at year-end included in respect of the share purchase scheme	31 056	52 023
Outstanding amounts due to the Group at year-end included in banking advances	700	–
Outstanding amounts due by the Group at year-end included in banking liabilities	99	7 578
Guarantees issued	–	–
Transactions with associates		
The following transactions were made on terms equivalent to those that prevail in arm's-length transactions between subsidiaries and associates of the Group:		
Sales and services provided by the Group	22 674	22 393
Purchases	52 794	143 014
Outstanding amounts due to the Group at year-end included in advances to associates	50 219	77 872
Outstanding amounts due to the Group at year-end included in trade receivables	6 329	8 018
Outstanding amounts due by the Group at year-end included in borrowings	7 853	7 853
Outstanding amounts due by the Group at year-end included in trade payables	173	27 898
Guarantees issued	166 000	56 000
Details of effective interest, investments and loans to associates are disclosed in note 17.		

38. Accounting estimates and judgements

The board of directors has considered the Group's critical accounting policies, key sources of uncertainty and areas where critical accounting judgements were required in applying the Group's accounting policies.

Critical accounting policies

The audit committee is satisfied that the critical accounting policies are appropriate to the Group.

Key sources of uncertainty

Key sources of uncertainty relate to the liabilities of the benefit funds or related assets due to the surplus apportionment in terms of the Pensions Fund Act which have yet to be finalised and approved. Details relating to the current surpluses and deficits are included in note 28.

Critical accounting judgements in applying the Group's accounting policies

Judgements made in the application of IFRS that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Property, plant and equipment

The residual values of the property, plant and equipment are reviewed annually after considering future market conditions, the remaining life of the asset and projected disposal values. The estimation of the useful lives is based on historic performance as well as expectation about future use and, therefore, requires a degree of judgement to be applied. The depreciation rates represent management's current best estimate of the useful lives of the assets. The properties held in Bidvest Properties segment are accounted for as own use assets and are thus held at cost less depreciation. Market indicators reflect that these properties could realise more than their carrying values if disposed of.