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13th July 2007

Sir Christopher Hogg
Financial Reporting Council
Aldwych House
71 – 91 Aldwych
London
WC2B 4HN

Dear Sir Christopher,

First of all I must apologise for waiting until the last minute before responding to your letters of the 23rd April 2007 inviting me to express views in relation to your consultation paper regarding the operation of the Combined Code. The remarks that I have included in this letter are made on behalf of ITE Group plc and Sondex plc, both of which I chair.

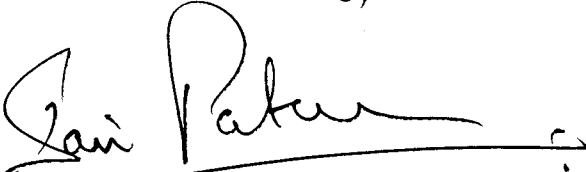
Taking the points you raise in the Consultation Paper in turn:

1. I believe that the Code has undoubtedly created an environment in which the Board can perform at a high level. I see the Code as being an aide memoir for good corporate governance and professionalism. I have used the Code at both of my companies as the foundation for a comprehensive document called "Directors' Policies and Guidelines" that was discussed and approved by the Board as a living reference and which is used in the conduct of our business, including such matters as Board evaluation.
2. I wholly agree with the flexibility of "comply or explain", particularly for smaller companies. However, in my experience it has not been an easy path to follow. The regular contact between the company and its shareholders is with the fund manager. He knows the company and its senior management reasonably well and completely understands the reason, if there is one, for the need to deviate from the Code in certain circumstances. However, the annual report (and other releases of information) tends to be analysed by the corporate governance person in the institutions' organisation and he frequently rejects the explanation part of the "comply and explain". So for "comply and explain" to work there should be a greater degree of communication within the institutions between the fund manager and the corporate governance department. The other issue around "comply and explain" rests with the so-called shareholder bodies such as PIRC, ABI and RREV. Their reports are truly a box ticking exercise and they very rarely give the company time to respond or are prepared to listen to its points of view. They need to be more commercial in their approach.

The Finance Director spends far too much time having to answer the issues raised by these bodies which, in my experience, is wholly unproductive.

3. On the whole I believe that the Code now works perfectly all right for smaller companies. I particularly applaud the change that allowed the Chairman to sit on the Remuneration Committee. As the "comply or explain" system is more often needed in smaller companies, we should see more flexibility on the part of the corporate governance departments as I noted above.
4. The cost, particularly the opportunity cost, of producing the annual report these days is significant for smaller companies. In both of the companies where I am Chairman the responsibility falls on the Finance Director as he is also the Company Secretary. The consequence of this burden is that the majority of the information contained in the corporate governance section is copied from year to year or plagiarised from somewhere else. There is neither time nor the appetite for discussion or debate about the quality of the content. Consequently, I question its value to shareholders but I am not sure how one can modify this situation easily without an increase in overhead.

I should be delighted to follow up my comments if it would be helpful.

Yours sincerely,


Iain Paterson
Chairman, ITE Group plc
Chairman, Sondex plc