

cc Sir Adrian
CAD - 02131

BRIXTON ESTATE plc

DIRECTORS:

HENRY S. AXTON, F.C.A. CHAIRMAN
SIR DOUGLAS MORPETH, T.D., F.C.A. DEPUTY CHAIRMAN
DOUGLAS F. GARDNER, F.R.I.C.S. MANAGING DIRECTOR
LESLIE J. LANE, F.R.I.C.S. DEPUTY MANAGING DIRECTOR

SIR RICHARD BAKER WILBRAHAM, B1.
MARSHAL OF THE ROYAL AIR FORCE SIR MICHAEL BEETHAM, G.C.B., C.B.E., D.F.C., A.F.C.
STEVEN J. OWEN, A.C.A.

SIR JOHN CUCKNEY
TERENCE J. NAGLE, F.R.I.C.S.

Registered in England No. 202342

Registered Office:
**22 - 24, ELY PLACE,
LONDON,
EC1N 6TQ**

Your Ref:

Our Ref: **HSA/TBF/BE**

15 July 1992

The Secretary
Committee on the Financial Aspects
of Corporate Governance
P O Box 433
Moorgate Place
LONDON
EC2P 2BJ

*Ach'd (and confirmed
that Sir Adrian was
misreported - see final
time).
N*

Dear Sir

FINANCIAL ASPECTS OF CORPORATE GOVERNANCE

At the Board meeting of Brixton Estate plc on 23 June 1992 the draft report was considered. Current practice by the Company is generally in line with the Committee's proposals but a number of points arose at the meeting, details of which are set out below. The paragraph numbers are those used in the report.

Board Structures and Procedures

4.22 We are not in favour of the proposal that a brief description of the directors responsibilities for the accounts should appear in the directors report. Shareholders generally understand the responsibilities of directors and in any case these are effectively laid down by the requirements of the Companies Acts and the Stock Exchange Yellow Book. Such a statement may very well lead to misunderstandings about the relative responsibilities of directors and auditors.

- 4.23 The paragraph proposes that directors should draw up codes of ethics or statements of business practice and publish these both internally and externally. The wording of the paragraph is vague and further guidance on the type of information to be included in such documents would be helpful. In practice we feel that a statement of good intentions in the report and accounts is unlikely to be of any great value and we would prefer to rely on good management practice internally to spread the concept of sound ethics in business.

Internal Controls

- 4.26 The proposal that directors in their report should make a statement on the effectiveness of their system of internal financial control and that the auditors should report thereon appears to us to be an unnecessary complication. Where companies have properly established audit committees internal controls will be the subject of regular discussion between the members and the auditors. If the latter are not satisfied with the control arrangements they will draw the matter to the attention of the audit committee, and if no action is taken they will doubtless refer to it in their audit report.

Reporting Practice

- 4.47 The suggestion that interim reports should provide balance sheet information would be particularly difficult for property investment companies such as ourselves. In keeping with the majority of listed companies in the sector our investment portfolio is valued annually by external professional valuers. The cost of repeating this exercise at the interim stage would be prohibitive and if, for example, it

was decided as an alternative to prepare an internal valuation at the interim stage there would almost certainly be differences of opinion between the respective valuers at the two stages. This would only confuse the shareholders. Of course, it would be possible to use the year-end valuations at the interim stage, and compared to most other types of companies this might provide an acceptable degree of accuracy. However, we would suggest that the matter should be discussed with the British Property Federation prior to any final decisions being made.

Ways to increase effectiveness and value of the audit
Going Concern

- 5.23 We feel that the proposal that the directors should report that the business is a going concern with supporting assumptions or qualifications as necessary could be a highly dangerous and speculative activity, exposing the directors concerned to considerable risk of litigation. If the directors hedged their report by extensive qualifications in order to protect their own positions there is every chance that it would be assumed by creditors that the company was not a going concern, automatically bringing about the collapse of the company. The present requirements of the Companies Acts, reinforced by SSAP2, seem to be adequate for dealing with this matter.

We would draw your attention to two other points:

- (1) The continuing increase in the size and complexity of the annual report has, in our opinion, a negative effect so far as shareholders are concerned. The sheer volume of statements, notes, qualifications,

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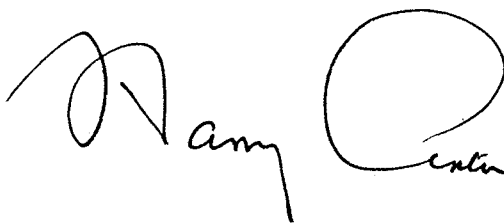
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etc required in the annual report leads shareholders and potential shareholders to ignore much of what is of real importance in the report. We would suggest that the Committee considers making proposals for simplifying the presentation of information. Obviously, abridged versions could be prepared for shareholders, but this is not the ideal solution.

- (2) It was reported in the press that the Chairman of the Committee held the view that one non-executive directorship was probably the ideal for any individual director. It might be that he was incorrectly reported. However, we would like to point out that some of the most successful non-executive directors are those who, effectively, are "professionals" in this field, and for them to have only one non-executive directorship would be totally impractical.

Perhaps these points could be addressed in your final report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'H S Axton'. The signature is stylized with a large, circular flourish on the right side.

H S AXTON
Chairman