

UK Shareholders Association

BM UKSA
London
WC1N 3XX

Phone: 0870-70-60-600
Email: uksa@uksa.org.uk
Web: www.uksa.org.uk

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Dear _____,

Thank you for responding to our letter concerning Setstone Plc. Our concerns about this company are as follows:

Setstone became a shell company after the closure of its unsuccessful dotcom business in 2002. The only real value remaining in the business was its AIM listing. It then proceeded to look for a business with which it could undertake a reverse takeover.

At an EGM in January 2004, a capital reorganisation was approved and a group of investors led by London & Globe Securities Ltd subscribed for new ordinary shares and for some convertible loan stock "in order for the Company to settle outstanding claims from creditors, meet its regulatory obligations, undertake the statutory audit for 2003, and provide sufficient working capital to enable the Company to consider potential opportunities for eventual enhancement of shareholder value". The company changed its name to Setstone at the same time and continued to talk about the search for a reverse takeover candidate. But the company was delisted in November 2004 after it exceeded the suspension time limit of six months.

During 2004 a total of 618 million shares were issued to raise £1.3 million. The Report and Accounts for the year ending October 2004, disclosed that approximately £1.6 million had been loaned to SHG Golden & Silver Ltd, an Israeli company led by a Mr Berti Sinbeti with gold mining operations in Kyrgyzstan. This was in anticipation of a merger with SHG, but the transaction had never been concluded despite "heads of agreement" having been signed in March 2004. It transpired at the AGM held on the 15th December 2005 that SHG had apparently backed out of the deal for reasons which were not totally clear, but they had certainly not repaid the loans, and the annual report noted that £750,000 of provisions against outstanding loans had been made.

In addition it was revealed that there was a loan of £100,000 made to a Mr S. Robinson which was still outstanding although it was hoped to recover this. This apparently was also a loan made, without security being taken, in anticipation of a merger with a soft pornography or "top shelf" magazine publishing company.

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Incidentally it is worth pointing out that Peter Burton, the current chairman, has been a director of the company since August 1999. Mr Hoskinson, who seems to take a leading role in affairs of the company, has been a director since May 2005 but was previously a director up until about the 7th April 2004 and claims to have rescued the company from a previous financial crisis.

Our questions which we would like the board to answer are:

1. Why were loans made in advance of concluding the agreements to merge with these companies? Surely it would have been wiser to make them subject to completion?
2. As there seems to be some doubt whether the outstanding loans will be repaid bearing in mind that provisions against these loans have already been made in the accounts, would it not be sensible to consider winding-up the company? At least investors could claim the losses incurred against tax whereas at present they may have difficulty disposing of their holdings and hence "crystallising" the loss. For example, can SHG Gold & Silver or its owners repay the loans without the mine being developed? I have been advised by one of the shareholders in Setstone that there seems to be good evidence that the mine exists and that it has potential but that it is not currently operating.
3. What security was provided by the recipients of the above mentioned loans? This information would enable shareholders to better judge whether the loans can be recovered.
4. What other prospects are there of "reviving" the company in the foreseeable future now that the AIM listing has been lost? Given the past history of this business, why should investors have confidence in the current directors to develop a profitable future for the company?

Note that we wrote to the directors on the 9th February suggesting a meeting but this suggestion was rebuffed in a letter from the Chairman.

The United Kingdom Shareholders Association (UKSA) represents the interests of private shareholders and we would like to get some answers to the above questions. If no such answers are received, or the answers give no hopes for improving the position of shareholders, then we suggest that some changes in the directors might be appropriate or additional directors be appointed to represent the interests of minority shareholders.

In the meantime you may care to write to the Chairman, Peter Burton, at the registered office address of 55 St James Street, London SW1A 1LA to express your own views. Also please let me know what you would like to have done, and also let me know if you are willing to assist in any way in respect of this matter.

If you have any questions or comments on the enclosed, please contact me via phone, email or letter. Although becoming a member of UKSA is not necessary to join in this campaign, you should bear in mind that there are considerable costs involved which are being borne by UKSA. I therefore suggest that you consider membership or perhaps make a small donation to cover the costs that will be involved.

Yours sincerely

Roger Lawson
Communications Director
Email: roger.lawson@btclick.com
Direct telephone: 020-8467-2686