

To Setstone Shareholders

UK Shareholders Association
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Dear Shareholder,

This note is to inform you regarding the latest news on the affairs of Setstone (at least such as is known) and what else has become apparent since we first wrote to you.

We have updated the note on our web site giving background information on Setstone and the directors of the company. For those receiving this note via email, just click on the following link to read it: www.uksa.org.uk/Setstone_Article.pdf (or ask for a printed copy if you have any difficulty). For those receiving this note via post, a printed copy is enclosed.

The loans made to SHG were due for repayment by the end of March 2006. Mr Peter Burton, Chairman of Setstone, was asked in a recent email from me whether they had been repaid, but no answer was given to that question, so I think it is a reasonable assumption that they were not repaid by the original scheduled date, as I did not expect that they would be.

However, from information received from Mr Sinbeti of SHG and from Mr Burton, it seems that negotiations on a possible reverse takeover with SHG have been revived.

Mr Burton has continued to reject any proposal for a meeting with us and seems to reject the idea that shareholders should be informed as to what is going on. But we have advised him that unless there is some resolution of the difficulties that the company has got into within a reasonable time frame, that we will be urging shareholders to take the following steps (and that of course may involve submitting the necessary resolutions to a General Meeting of the company, and if required, requisitioning an Extraordinary General Meeting):

- A – Calling upon Mr Burton to resign as Chairman.
- B – Calling for the appointment of other independent non-executive directors that the shareholders might have more confidence in to oversee the affairs of the company.

Our reasons for requesting the resignation of the Chairman are as follows:

- A – No satisfactory explanation of why a very substantial loan was made to SHG in advance of completion of the legal transaction to effect the reverse takeover has been made. This was clearly a rather unusual and exceptional thing to do, and at least unwise if there was no certainty of recovering the loan if the transaction was not concluded.

B – The directors seem unwilling to answer any questions put to them on the above matter and the nature of the security on that loan.

C – Mr Sinbeti states that Mr Burton did not meet him prior to the signature of the “heads of agreement” for the above mentioned transaction, which seems somewhat odd bearing in mind how critical this deal was to the future of the company and the interests of shareholders.

D – Mr Burton is over 76 years old which is above the age of most directors of public companies. In fact many public companies have in their Articles that directors above a certain age have to be re-elected each year which ensures that the shareholders are aware of this, but there are no such provisions in the Articles of Setstone.

Our reasons for suggesting that other new independent directors be appointed to the board are simply that the past history of events at the company does not instil confidence in the existing board and that therefore to re-establish the confidence of shareholders in the board, there should be some new “faces”.

Obviously if the merger with SHG is effected, when board changes are likely to take place, then the above may not be necessary, but hopefully we will know soon whether that transaction is to be concluded or not.

In the meantime, if you have any questions on this matter, please contact me.

Note as always I would encourage you become a member of UKSA if you have not already joined as that helps to support our many altruistic activities such as this campaign. Membership information is present on our web site at: www.uksa.org.uk/Membership.htm or call 0870-70-60-600 for an information pack and application form.

Yours sincerely

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