

To Setstone Shareholders

**UK Shareholders Association**  
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Dear Shareholder,

You should have recently received a letter from Setstone advising of the forthcoming AGM on the 11<sup>th</sup> December, and enclosing a proxy voting form. It also advises you that the Annual Report & Accounts for 2005 are available from the company, or from their web site at [www.setstone.com](http://www.setstone.com). Below are our comments on the latest Report.

As we previously advised you, it is clear that the loans to SHG Golden & Silver Ltd were not repaid as scheduled and that the Company is having difficulty in recovering them. Although the Company's Report states "the directors expect a full recovery of the £700,160 debt carried forward in the Balance Sheet", the Auditor's Report contained therein says that SHG has "disputed the recoverability of this debt" and that "Setstone Plc has not proved security for this debt". In their opinion the Company is unlikely to receive any payment and they suggest a full provision should therefore be made for that amount. But the directors have made no such provision in the accounts. For this reason we suggest you should vote against adoption of the 2005 accounts.

Clearly if the auditors views are accepted then the Company is obviously technically insolvent (even without that amount it has a deficit of £164,903 on the balance sheet) and liquidation should be considered. This might be in the interests of some shareholders because the losses on your investments in this company would then become claimable as a tax loss.

Note that we have still not received any 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 that was contemplated. 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.

Neither do the directors seem willing to answer any questions put to them on the above matter and the nature of the security on that loan. In our view the above issues reflect badly on the directors and particularly on the Chairman of the company and we therefore ask you to vote against the re-election of Peter Burton as Chairman.

We therefore urge you to:

A – Attend the Annual General Meeting (AGM) to ask the directors to account for their actions in the last few years, and to vote as suggested above.

**UKSA—The independent voice of the private shareholder**

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B – If you cannot attend the AGM in person, then we suggest you return the proxy voting form that Setstone have supplied with the votes marked against the first and third resolutions.

Note that I plan to attend the AGM in person as a Setstone shareholder and if you wish me to act as your proxy rather than appointing the Company Chairman, then I would be glad to do so. In that case please send the completed and signed proxy form to me at the following address: UKSA, PO Box 62, Chislehurst, BR7 5YB; and I would forward it to the Company.

Note that UKSA would like to see other new independent directors appointed to the board as the past history of events at the company does not instil confidence in the existing board. We also believe that the directors should consider whether the Company should be wound up as there seems little prospect of it re-establishing itself as a viable trading company. In the meantime expenses continued to be incurred to no purpose (£165,223 in the last year).

If you have any questions on this matter, please contact me.

Yours sincerely

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