

To Setstone Shareholders

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Report on the Annual General Meeting of Setstone PLC held on 11/12/2006

The AGM of Setstone was held at 9.0 on a Monday morning on the 11th December (a not particularly convenient time of course and possibly chosen to discourage attendance). I attended along with three other ordinary shareholders and Mr Burton, Mr Hoskinson and Mr Hyde attended as directors. Even before the meeting commenced, Mr Hoskinson said to me that in his view I was wasting his time and that he was not willing to answer questions in the meeting – as I said to him, a deplorable attitude for a director of a public company. Fortunately he seemed to change his mind later and spoke at considerable length on the history and troubles of Setstone – he is so voluble a person that once he gets started he clearly finds it difficult to stop.

Mr Burton as Chairman opened the meeting by saying that the Company had commenced legal proceedings against SHG Golden & Silver Ltd in an attempt to recover the loans made to that company. The legal costs are being funded by the major shareholders in Setstone and clearly there is no certainty of success.

It was later revealed that the original security for the loans to SHG were over the assets of the gold mine in Kyrgyzstan but the security had later been changed to be over 30% of the shares in SHG. Also it seemed that Mr Sinbeti had acted as a personal guarantor of the loan transaction so they could pursue him personally also.

Mr Hoskinson made it clear in a long diatribe on the problems of the company that there was absolutely no possibility in reviving any deal with Mr Sinbeti of SHG and there was obviously some animosity now between the parties.

I suggested that it would surely be more sensible to wind up the Company – I thought there was little hope of the Company surviving or re-establishing itself as a viable enterprise, and at least that would enable shareholders to write off their investments as a tax loss. It seemed to be more about preserving the reputations of the directors than providing any benefit to ordinary shareholders. At that point Mr Hoskinson offered to buy my shares for £1 to establish such a loss, an offer to which I did not respond, but he did suggest that there may be other means for shareholders to dispose of their shares if they wanted to. Mr Burton said the directors had considered liquidation but rejected it (Mr Hoskinson also made negative comments about the aggravations of liquidations).

The above is a very brief summary of over 45 minutes of questions and answers from me and other shareholders, but a lot of the ground covered was not new (see our previous communications for more information).

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When it came to consider the formal resolutions, I requested a poll on all the resolutions, as I held a number of proxy votes on behalf of other shareholders who were not present at the meeting. Unfortunately the directors were not apparently ready to handle a poll and the Registrar was not present so the meeting had to be adjourned and another meeting will be called. Why they were not ready to handle a poll is surprising as the directors as shareholders could have been outvoted on a "show of hands".

This was clearly of some annoyance to the directors, but as I said to them – if they want to run a public company then they have to stick to the rules. Unfortunately they seem to want to behave as if it is a private company where the major shareholders are the only ones who count, and treat minority shareholders as if they were not worthy of consideration. Bearing in mind the negative comments on me by Mr Hoskinson in the meeting, when I was only trying to represent the interests of minority shareholders, I did not see why I should agree to waive a poll.

If you have any questions on this matter, please contact me. Shareholders will probably have to form their own view on the chances of the legal action against SHG succeeding, but I am somewhat sceptical at this time and my confidence in the directors of the Company has not been raised by the events at the AGM.

Yours sincerely

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