

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your Existing Shares, you should send this document together with the accompanying Form of Proxy immediately to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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## **Redstone plc**

*(Incorporated in England and Wales under the Companies Act 1985 with Registered Number 3336134)*

### **Proposed new Long Term Incentive Plan**

**and**

### **Notice of Extraordinary General Meeting**

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**Your attention is drawn to the letter from the Chairman of Redstone which is set out on pages 4 to 5 of this document and which recommends you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting referred to below.**

The Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Notice of an Extraordinary General Meeting of Redstone to be held at 80 Great Eastern Street, London EC2A 3RS on 21 December 2005 at 12.00 p.m. is set out at the end of this document.

The Form of Proxy for use at the Extraordinary General Meeting accompanies this document and, to be valid, must be completed, signed and returned in accordance with the instructions thereon so as to be received by post or by hand (during normal business hours) by the Company's registrars, Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, by not later than 11.00 a.m. on 19 December 2005. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting should they wish to.

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### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Forms of Proxy:	11.00 a.m. on 19 December 2005
Extraordinary General Meeting:	12.00 p.m. on 21 December 2005

## DEFINITIONS

The following definitions apply throughout this document and in the accompanying Form of Proxy unless the context otherwise requires:

“Act”	the Companies Act 1985, as amended
“Board”	the board of directors of the Company
“Directors”	the directors of the Company as at the date of this document whose names are set out on page 4 of this document
“Existing Shares”	the existing Ordinary Shares in issue at the date of this document
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company convened by the notice set out at the end of this document to be held on 21 December 2005 at 12.00 p.m. or any adjournment thereof
“Form of Proxy”	the form of proxy accompanying this document for use by Shareholders in connection with the Extraordinary General Meeting
“Group”	the Company and its subsidiary undertakings (as defined in the Act) from time to time
“Listing Rules”	the listing rules made by the UK Listing Authority for the purpose of Part IV of the Financial Services and Markets Act 2000, as amended
“London Stock Exchange”	London Stock Exchange plc
“Long Term Incentive Plan” or “LTIP”	the Redstone plc Long Term Incentive Plan proposed to be adopted by the Company further details of which are set out in Part II of this document
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Redstone” or the “Company”	Redstone plc
“Registrars”	Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
“Remuneration Committee”	the Nominations and Remuneration Committee of the Board
“Resolutions”	the resolutions to approve the adoption of the LTIP set out in the notice of EGM at the end of this document
“Shareholders”	holders of Existing Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000

## PART I

### Letter from the Chairman of Redstone plc

# Redstone plc

*(Incorporated in England and Wales under the Companies Act 1985 with Registered Number 3336134)*

Andrew Stafford-Deitsch (*Non-executive Chairman*)

Martin Balaam (*Chief Executive Officer*)

Timothy Howard Perks (*Chief Financial Officer*)

David Graharn Payne (*Non-executive Director*)

Oliver John Vaughan (*Non-executive Director*)

Ashvin Pathak (*Non-executive Director*)

Gerard Spencer (*Non-executive Director*)

Andrew Christopher Roberts (*Non-executive Alternate Director for Oliver John Vaughan*)

80 Great Eastern Street  
London EC2A 3RS

*To Shareholders*

5 December 2005

Dear Shareholder

#### **Proposed new Long Term Incentive Plan**

##### ***Introduction***

The EGM to which this document relates will be held at the offices of the Company, 80 Great Eastern Street, London EC2A 3RS on 21 December 2005 at 12.00 p.m. There is one item of business to be addressed by Shareholders, as now explained.

##### ***Long Term Incentive Plan***

On 28 April 2005, the Company completed the acquisition of Xpert Group Limited and since that date has focused on integrating the two businesses. As announced on 7 September 2005, the initial integration has now been substantially completed. During the period immediately following the acquisition, Ian Brown stepped down as Chief Executive Officer and left the Company, and Martin Balaam, the Chief Executive Officer of Xpert Group Limited was appointed in his place. Tim Perks joined the Company and was appointed to the Board on 7 September 2004.

The Board believes that to enhance the value of the business in the future it is essential that the senior management, in particular Martin Balaam and Tim Perks, are well motivated and appropriately rewarded. Whilst the Company has a number of share option schemes in place which enable selected employees to benefit from a rising share price, your Board is keen to provide an additional incentive which is also aligned as closely as possible to the interests of Shareholders. Accordingly, the Remuneration Committee has undertaken a review of the current incentive arrangements for these individuals. This new arrangement, if approved by Shareholders will operate in tandem with the current option schemes but will replace the current LTIP which has been terminated and all awards under which have been cancelled.

As previously explained to Shareholders, the Board's recent strategy has been to integrate the Xpert and Redstone businesses, exploiting all available synergies, and to restructure the group in order to deliver profitability and cash generation. There is no change to this strategy. However, your Board recognises that any well managed company in the communications marketplace may be targeted by a company in the same business or one that wishes to enter this market. This is particularly relevant given the long anticipated consolidation of both the telecoms and IT sectors. Accordingly, to meet this requirement, the Board proposes an LTIP which will reward Martin Balaam and Tim Perks in the event of a purchase of the Company, should that occur at some time in the future, but only if Shareholders have received a satisfactory rate of return on their investment. To ensure that Shareholders are not excessively diluted, the maximum value of the LTIP to executives is capped at 10 per cent. of the overall sale proceeds in excess of the £0.0625 per share based on the current

issued share capital of the Company (currently 733,909,263). This dilution is in addition to that sanctioned by Shareholders in respect of all other current share option schemes. The Board believes that this scheme absolutely aligns the interests of both Martin Balaam and Tim Perks and Shareholders, in growing and developing the business to maximise value over a sustained period. Resolution 1 therefore proposes that a new LTIP be adopted. Further details of the LTIP, including a summary of its principal features, are set out in Part II of this document.

### **Extraordinary General Meeting**

You will find at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held at 12:00p.m. on 21 December 2005 at which the Resolutions will be proposed to approve the adoption of the LTIP.

### **Action to be taken**

A Form of Proxy accompanies this document for use in relation to the Extraordinary General Meeting. Whether or not Shareholders intend to be present at the Extraordinary General Meeting, they are requested to complete in accordance with the instructions printed thereon, sign and return the Form of Proxy to the Company's registrars, Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by post or by hand (during normal business hours), as soon as possible but in any event by no later than 11.00 a.m. on 19 December 2005. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting, should they so wish.

### **Further Information**

Your attention is drawn to the further information set out in Part II of this document.

### **Recommendation**

The Directors believe that the LTIP is in the best interests of the Company and its Shareholders as a whole.

Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolutions to approve the adoption of the LTIP to be proposed at the Extraordinary General Meeting, as they intend to do in respect of their own beneficial shareholdings which amount to 7,794,435 Existing Shares (representing approximately 1.06 per cent. of Redstone's current issued ordinary share capital).

Yours faithfully

**Andrew Stafford-Deitsch**

*Chairman*

## PART II

### Summary of the principal provisions of the LTIP

#### Introduction

The LTIP will be constituted by its rules and the trust deed of the existing employee benefit trust (“EBT”). The trust is administered by an independent professional trustee company (“the Trustee”) and will be used to support the making of awards and the delivery of benefits under the LTIP.

#### Eligibility

Martin Balaam and Tim Perks will be the only individuals who are eligible to participate.

#### Awards

If approved, awards will be made in due course following the adoption of the LTIP by shareholders or the announcement of the Company’s interim or final results, as appropriate. To the extent they are not made prior to the announcement of a sale of the Company, awards will be made as soon as possible following the date of publication of that announcement. Each participant will participate on one occasion only. Awards will vest if and to the extent that the performance target described below is satisfied, and will only normally be capable of delivering value to participants on the occurrence of a change of control of the Company.

The LTIP will entitle the participant to an award in respect of shares in the Company. Where heads of terms in relation to the sale of the business are agreed within a period of two years from the date of the extraordinary general meeting (“EGM”), the value of the award will be calculated by reference to a percentage increase in the value of the current issued share capital (733,909,263) (the “LTIP Shares”) over and above a base price of £0.0625. No award will vest unless the bid price for the business is at least £0.10 per share. Where the bid price is between £0.10 and £0.125 per share, the value of the award will be 5 per cent. of the growth in value of the LTIP Shares over and above £0.0625. Where the bid price is £0.125 or more, the value of the award will be equal to 10 per cent. of the growth in value of the LTIP Shares over and above £0.0625. Where heads of terms in relation to a sale are agreed after a two-year period but before the fifth anniversary of the EGM, awards will vest only to the extent that the price at which the business is sold reflects a 10 per cent. per annum compound increase in the threshold prices of £0.10 and £0.125 respectively, measured from the second anniversary of the EGM. In such cases, the value of the award will be 5 per cent. or 10 per cent. respectively of the growth in value of the LTIP Shares over and above £0.0625, in accordance with the share price growth. If Awards have not vested by the fifth anniversary of the EGM they will lapse. In all cases, the award value will be limited so as not to exceed 10 per cent. of the growth in value of the LTIP Shares over and above £0.0625. In all cases the bid price will be the headline price in the formal offer document.

The Remuneration Committee will have discretion to amend the conditions if events occur which would cause the Remuneration Committee reasonably to consider that it would be a fairer measure of performance, or to ensure that they achieve their original purpose, provided that any amended conditions are no more difficult to achieve than previously imposed.

If made the award value will be divided between Martin Balaam and Tim Perks two-thirds to one third respectively and in no circumstances will Martin Balaam or Tim Perks be entitled to a larger proportion of the award.

No consideration shall be payable for the making of an award. Awards will be personal to a participant and, except on the death of a participant, may not be transferred.

#### Option Grant

When awards are made to participants, the Company will grant an option (the “Option”) to the Trustee over new ordinary shares in the Company. The Option will be over a maximum of 10 per cent. of the LTIP Shares. It will become exercisable by the Trustee immediately prior to the vesting of awards in favour of participants. The Option will be exercisable to the extent that awards vest.

The value realised by the Trustee upon the sale of the shares acquired as a result of the exercise of the Option will be held on the terms of the EBT and used to benefit the participants in respect of their awards.

### **Lapse of Awards**

A participant's award will lapse on cessation of employment. However, in circumstances where the reason for cessation of employment is death, redundancy, ill-health, disability, or in any other circumstances as the Remuneration Committee sees fit, the Remuneration Committee may in its discretion allow awards to vest or be further retained by the participant on such terms as the Remuneration Committee determines.

A participant's award will lapse no later than the fifth anniversary of the EGM.

### **Adjustments**

The number of shares comprised in the Option may be adjusted if any capitalisation issue, offer by way of rights or any sub-division, reduction, consolidation or other variation in the share capital of the Company occurs on a *pari-passu* basis.

### **Rights attaching to shares**

Upon any shares being allotted and issued to the Trustee pursuant to the exercise of the Option, the Company will apply for such shares to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange. Any new Ordinary Shares will, when issued and fully paid up, rank *pari passu* with the Existing Shares.

### **Amendments and general**

The Remuneration Committee may at any time reasonably amend the rules of the LTIP, provided the prior approval of the Company in general meeting is obtained for amendments to the material advantage of participants in respect of provisions relating to eligibility, share capital dilution, participant's entitlements and, except in respect of the performance target, the basis for determining and adjusting a participant's entitlement. The prior approval of shareholders will not be required in relation to any amendment which is of a minor administrative nature, is made to comply with the provisions of any existing or proposed legislation or to maintain favourable taxation treatment of any participating company or any participant.

No amendment may be made to the LTIP that would adversely affect the subsisting rights of a participant unless the consent of the participants to the making of such amendment is obtained.

Any benefits provided in respect of awards shall be subject to such withholdings for income tax and national insurance as are required to be made either by law or by the Remuneration Committee on such terms as it considers appropriate.

Benefits received under the LTIP will not be pensionable.

### **Documents on display**

A copy of the draft rules of the Redstone plc Long Term Incentive Plan will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB until the close of the Extraordinary General Meeting and at the offices of the Company, 80 Great Eastern Street, London EC2A 3RS on the day of the Extraordinary General Meeting from 15 minutes before the start of the Extraordinary General Meeting until the close of the Extraordinary General Meeting.

# Redstone plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 3336134)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Redstone plc (the “Company”) will be held at the offices of the Company, 80 Great Eastern Street, London EC2A 3RS on 21 December 2005 at 12.00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as Ordinary Resolutions:

### Ordinary Resolutions

#### 1. That:

- (a) the Redstone plc Long Term Incentive Plan (the “LTIP”) the principal features of which are summarised in Part II of the circular to shareholders of the Company dated 5 December 2005 (the “Circular”) and the draft rules of which have been produced to the meeting and for the purposes of identification only, initialled by the Chairman, be and is hereby approved; and
- (b) the directors be authorised to do all acts and things necessary or expedient to implement the LTIP including making such changes to the draft rules of the LTIP as the directors consider necessary or desirable to obtain any approvals or to take account of any statutory, fiscal, exchange control or securities regulations provided that overall limits contained in the LTIP continue to apply.

*Registered Office*  
80 Great Eastern Street  
London  
EC2A 3RS

By order of the Board  
Christopher van den Heuvel  
*Company Secretary*

5 December 2005

#### Notes:

1. A member entitled to attend and vote at the extraordinary general meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company. Appointment of a proxy will not preclude a member from attending and voting in person if he so wishes.
2. To be effective, a form of proxy and the authority (if any) under which it is signed or notarially certified or office copy of such authority must be deposited with the Company's registrars Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4JU by no later than 11.00 a.m. on 19 December 2005.
3. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at 5.00 p.m. on 19 December 2005 shall be entitled to attend or vote at the extraordinary general meeting.
4. In the case of joint holders, the signature of only one of the joint holders is required on the form of proxy, but the vote of the first named on the register of members will be accepted to the exclusion of the other joint holders.
5. A copy of the draft rules of the Redstone plc Long Term Incentive Plan will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Osborne Clarke, One London Wall, London, EC2Y 5EB until the close of the Extraordinary General Meeting and at the offices of the Company, 80 Great Eastern Street, London EC2A 3RS on the day of the Extraordinary General Meeting from 15 minutes before the start of the Extraordinary General Meeting until the close of the Extraordinary General Meeting.