

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal years ended: *December 31, 2003, December 31, 2002 (restated),
and December 31, 2001 (restated).*

OR

- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

MEDICSIGHT, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

0-26886
(Commission File Number)

13-4148725
(I.R.S. Employer Identification No.)

46 Berkeley Square, London W1J 5AT, United Kingdom
(Address of Principal Executive Offices) (Zip Code)

011-44-207-598-4070
(Registrant's Telephone Number, Including Area Code)

Securities registered under section 12(b) of the Exchange Act: *Not applicable*

Securities registered under section 12(g) of the Exchange Act: *Common Stock, par value \$0.001 per share*

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting and non-voting common equity of Medicsight, Inc. held by non-affiliates was \$33,530,285 based on the average bid and asked prices of such common equity as of June 30, 2003.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS

Check whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of March 31, 2004 the number of shares of Common Stock, par value \$0.001 per share, of Medicsight, Inc. issued and outstanding was 29,282,431.

DOCUMENTS INCORPORATED BY REFERENCE

None.

NOTE REGARDING AMENDMENT AND RESTATEMENT

During fiscal 2003, the Company determined that the fair value of common stock issued in a previously recorded acquisition was incorrect. In addition, the Company identified certain errors in its previously issued financial statements related to impairment of intangibles, goodwill, and the vendor guarantee.

As a result, the Company has restated its previously issued financial statements for the years ended December 31, 2002 and 2001. A summary of the significant effects of the restatements is set forth below.

| | December 31, 2002 | | December 31, 2001 | |
|-----------------------------------------------------------------------|------------------------|-------------|------------------------|-------------|
| | As Previously Reported | As Restated | As Previously Reported | As Restated |
| (Dollars in thousands, except per share data) | | | | |
| Consolidated balance sheet data as of: | | | | |
| Intangible assets | \$ 13,482 | \$ — | \$ 17,976 | \$ 17,976 |
| Goodwill | 100,119 | 11,200 | 88,919 | 68,178 |
| Additional paid in capital | 182,897 | 162,156 | 166,337 | 145,596 |
| Vendor guarantee | (3,227) | (3,689) | (10,000) | (10,000) |
| Accumulated deficit | (72,174) | (153,372) | (54,459) | (54,459) |
| Stockholders' equity | 107,807 | 5,406 | 101,853 | 81,112 |
| December 31, 2002 | | | | |
| | As Previously Reported | As Restated | | |
| Consolidated statements of operations data for the year ended: | | | | |
| Impairment of intangibles | \$ — | \$ 13,482 | | |
| Impairment of vendor guarantee | 6,773 | 6,311 | | |
| Impairment of goodwill | — | 68,178 | | |
| Net loss | (17,715) | (98,913) | | |
| Net loss per share—basic and diluted | \$ (0.92) | \$ (5.13) | | |

There is no effect on the consolidated statement of operations for the year ended December 31, 2001.

December 31, 2001

Fair Value attributable to the second tranche of shares issued to Nightingale Technologies Ltd

The transaction affected is the fair value attributable to the second tranche of shares issued to Nightingale Technologies Ltd ("Nightingale") by Medicsight, PLC ("MS-PLC") on behalf of Medicsight, Inc ("Company") as part of the acquisition of HTTP Insights Ltd ("Insights") in 2000.

Upon agreement with Nightingale, the seller of Insights, and in variance of the conditions precedent set forth in the original agreement, the parties agreed on November 22, 2001 that the obligation to issue the second tranche of contingent consideration would be satisfied by the direct issuance of shares in MS-PLC to Nightingale. On November 22, 2001, MS-PLC issued 15,000,000 shares to Nightingale, and Nightingale accepted such shares in satisfaction of our obligation under the original purchase agreement. The second tranche was valued at \$21,832,000 based on the share price of the stock being issued by MS-PLC.

The Company believes that the initial fair value of the second tranche of 15 million shares at £1.00 (\$1.455) per share was incorrect.

At a MS-PLC board meeting in November 2001, the directors agreed to settle an outstanding Loan Note payable to the Company by MS-PLC of £3,659,000 (\$5,324,000), by issuing 73,868,582 shares at par (£0.05 (\$0.07)). At the request of the Company, MS-PLC issued the stock in two tranches: 58,868,582 shares to the Company and 15,000,000 shares to Nightingale. At the same time MS-PLC went on to issue a further 1 million shares (par value £0.05 (\$0.07) per share) to the Company at par for a subscription price of £50,000 (\$72,750) in cash. Subsequently the directors of MS-PLC have sought and obtained UK Legal Counsel's Opinion that concludes that the fair value of the shares issued to Nightingale in November 2001 was £0.05 (\$0.07) per share and not £1.00 (\$1.455) per share. In addition, the directors of the Company engaged an independent valuer, Intangible Business Limited, to establish a valuation for the shares issued in November 2001 based on US GAAP. This report ascribes a fair value of £0.05 (\$0.07) per share. A copy of this report is filed herewith (Exhibit 99.1). The revised fair value of the 15 million shares issued is \$1,091,000. The effect of the restatement is to reduce goodwill and additional paid in capital by approximately \$20,741,000. The restatement had no effect on the consolidated statement of operations for the year ended December 31, 2001.

As a result of the above, the Company had not filed its third quarter Form 10-Q (September 30, 2003) and the Company's listing has been moved to the OTC Pink Sheet exchange from the OTC Bulletin Board exchange as the Company is not current in its filings and hence ineligible for the OTC Bulletin Board.

December 31, 2002

Intangible Assets

The intangible asset relates to the technology (the Stochastic Perception Engine) acquired from Insights for \$22,470,000 in 2000. During 2003, the Company reviewed the value attributable to this technology and concluded that, as there had been no further development of the technology except for the Medicsight™ applications and with the sale of Insight in December 2002, the technology should have been fully impaired at December 31, 2002. Therefore, the Company has recorded an impairment charge of \$13,482,000 at December 31, 2002.

Goodwill

The Company has further evaluated the remaining goodwill of \$68,178,000 from the acquisition of Insights. As the business of Insights had been transferred to other group companies in 2001 (MS-PLC) and 2002 (Medicsight Finance Ltd) and Insights sold to an independent third party during December 2002, the Company has determined that the goodwill attributable to this acquisition should have been fully impaired at December 31, 2002. Therefore, the Company has recorded an impairment charge of \$68,178,000 for the year ended December 31, 2002.

Vendor Guarantee

The Vendor Guarantee arose from the acquisition of Core Ventures Limited ("Core") and relates to an oral agreement between the Company and Dr Nill, that the proceeds of the sale of Dr Nill's 1,195,000 shares in the Company would be remitted to the Company under the terms of the Vendor Guarantee. These shares were sold in 2003 and the Company received \$3,689,000 net of commissions. At December 31, 2001 and December 31, 2002, the fair value attributed to the Vendor Guarantee was based on the weighted average share price. The Company has reviewed the fair value at December 31, 2002 and concluded that it would more be appropriate and better understood if the fair value at December 31, 2002 reflected the funds actually received in 2003 rather than show an impairment in

Fiscal 2002 of \$6,773,000, as reported, and then having to show a reduction in the impairment in Fiscal 2003 of \$462,000. Therefore, the impairment in Fiscal 2002 has been revised from \$6,773,000 to \$6,311,000.

NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of Medicsight, Inc and its consolidated subsidiaries (the "Company") to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of revenue, gross margin, expenses, earnings or losses from operations, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the rate of market development and acceptance of medical imaging technology; the execution of restructuring plans; any statement concerning developments, performance or industry rankings relating to products or services; any statements regarding future economic conditions or performance; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the performance of contracts by suppliers, customers and partners; employee management issues; the difficulty of aligning expense levels with revenue changes; and other risks that are described herein, including but not limited to the specific risks areas discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report, and that are otherwise described from time to time in the Company's Securities and Exchange Commission reports filed after this report. The Company assumes no obligation and does not intend to update these forward-looking statements.

NOTE REGARDING NUMBER OF SHARES AND SHARE PRICES

On January 27, 2004, the Company amended its Certificate of Incorporation, increasing the number of shares the Company is authorized to issue from 25,000,000 shares to 40,000,000.

On July 31, 2003, the Company amended its Certificate of Incorporation, reducing the number of shares the Company is authorized to issue from 100,000,000 shares to 25,000,000.

On December 30, 2002 the Company effected a 1-for-3 reverse split of its Common Stock (the "Split"). Throughout this Annual Report, all references to a number of shares of the Company's Common Stock or the price of the Company's Common Stock have been adjusted proportionately in order to account for the Split.

Previously, on February 5, 2001, the Company effected a 2-for-1 forward split of its Common Stock.

PART I

ITEM 1. BUSINESS.

General

Medicsight, Inc. (formerly HTTP Technology, Inc.) and its subsidiaries are collectively referred to in this Report as the "Company". Our business objective is to conceive, develop and commercialize innovative medical applications, such as computer-aided detection ("CAD") of disease, derived from our core technology through our majority-owned subsidiary, Medicsight PLC ("MS-PLC").

We were originally incorporated as a Utah corporation in 1977. On December 19, 2000, we entered into an Agreement and Plan of Merger with our wholly owned subsidiary HTTP Technology, Inc., a Delaware corporation, and thereby effected a re-incorporation of the company from Utah to Delaware. All references in this Annual Report to "the Company", "we" or "us" refer to Medicsight, Inc., the Delaware corporation and subsidiaries, if the event occurred on or after December 19, 2000, or to HTTP Technology, Inc., the Utah corporation and subsidiaries, if the event occurred prior to December 19, 2000. On July 31, 2003, the Company reduced its authorized share capital from 100,000,000 shares to 25,000,000 shares. On January 27, 2004, the Company increased its authorized share capital from 25,000,000 shares to 40,000,000 shares.

During the year ended December 31, 2003 the Company issued 3,333,333 restricted shares of stock in a \$10,000,000 private placement underwritten by Asia IT Investments Limited ("Asia IT"). The Company has successfully undertaken a further \$10,562,000 private placement (less commissions of \$1,056,000) of restricted stock at \$3.00 per share in Fiscal 2004.

In April 2000, we acquired Radical Technology PLC now known as HTTP Software PLC ("Software") that provided us with a business dedicated to systems integration and software development. In December 2000, we acquired Nightingale Technologies Ltd, now known as HTTP Insights Ltd ("Insights"), which provided us with proprietary technology called a Stochastic Perception Engine (see "Business Strategy" and "Patents and Trademarks" below). A Stochastic Perception Engine processes and classifies unstructured data into meaningful outputs, enabling it to be viewed, interpreted or further manipulated by the user of the application. Similar technologies sit at the core of many of today's major software applications. Our Stochastic Perception Engine is comprised of four principal modules: cluster analysis, statistical modeling, classification and prediction. At that time, the technology had the ability to offer unprecedented processing speed, accuracy and comprehensiveness of results when compared to then existing data classification technologies. Initially we believed that our Stochastic Perception Engine had significant potential uses in a wide variety of fields, including medical image analysis, the design of pharmaceuticals, environmental mapping, handwriting recognition, robotics and surveillance. Following a review of the technology in Fiscal 2003 the Company has concluded that the non-medical applications are of limited use as there has been no development of the core technology in these fields in Fiscal 2002 and Fiscal 2003.

We have restructured our business to focus solely on the medical imaging applications derived from our core technology. We have concluded the process of incorporating all research, software development, and management and marketing activities related to our medical imaging initiatives into MS-PLC. In November 2001, assets were transferred from our other subsidiaries to MS-PLC, and the costs incurred on the development of the Medicsight™ system (our state-of-the-art digital disease detection software system comprising MedicColon™, MedicHeart™, and MedicLung™) were reimbursed and assigned by way of a loan note from MS-PLC to the Company of £3,659,104. This loan note was converted into 57,868,582 ordinary shares of MS-PLC issued to the Company and 15,000,000 ordinary shares of MS-PLC issued, on the Company's behalf, to the former parent of Insights in November 2001.

On October 28, 2002, the Company's name was changed from HTTP Technology, Inc. to Medicsight, Inc.

We maintain our corporate offices at 46 Berkeley Square, London, W1J 5AT, United Kingdom, telephone +44 (0) 207-598-4070, facsimile: +44 (0) 207-598-4071.

Business Strategy

We are developers of software technology for medical diagnostic applications and provide medical diagnostic services (Computer Aided Detection—"CAD" applications) in differing business models. We have four principal operating subsidiaries: Medicsight PLC ("MS-PLC"), Medicsight Asset Management Limited ("MAM"), Lifesyne UK Limited ("Lifesyne UK") and Medicsight US, Inc ("MS-US") (previously Lifesyne US). HTTP Insights Ltd and HTTP Software PLC, formerly subsidiaries of the Company, were sold to independent third parties during the fourth quarter of 2002.

MS-PLC. Our majority-owned subsidiary, MS-PLC, is currently engaged in efforts to commercialize a state-of-the-art digital expert recognition software system for digital data derived from medical imaging hardware. At December 31, 2003, the Company owned 68,677,300 ordinary shares in MS-PLC, constituting 81.51% of the outstanding shares. At December 31, 2002 the Company owned 67,127,300 shares in MS-PLC. The increase is due to MS-PLC issuing 1,550,000 shares to the Company on December 31, 2003 to settle debt of \$2,482,000 due by MS-PLC to the Company.

MS-PLC undertook a private offering outside the United States of an additional 6,131,398 ordinary shares, which was closed on December 31, 2002. As part of this offering, we acquired a further 1,258,718 shares in MS-PLC for £1,258,718 (\$ 2,014,000). On December 23, 2002, we entered into a share swap with General Nominees and Asia IT Nominees whereby the Company issued 1,866,666 shares to General Nominees (1,674,894 shares) and Asia IT Nominees (191,772 shares) in return for 7,000,000 MS-PLC shares held by General Nominees (6,280,852 shares) and Asia IT Nominees (719,148 shares), respectively.

Lifesyne. Lifesyne is a wholly owned subsidiary of MS-PLC that was established in September 2002 for the purpose of providing a branded operating entity for the United Kingdom and Ireland markets. Lifesyne operates scanning centers in the United Kingdom. As the Company has decided to focus on the delivery of software, no further development of the Lifesyne strategy is envisaged beyond the Company's current scanning requirements. We are now focusing Lifesyne on the rapid acquisition of patient scan data necessary to enable our expert software to refine its characterization capabilities.

MAM. MAM is also a wholly owned subsidiary of MS-PLC that was established in September 2002 for the purpose of acquiring fixed assets on behalf of the operating entities in the group. MAM will negotiate and acquire equipment and fund leasehold improvements and development, which, in turn, will be leased to the relevant operating entity.

MS-US. MS-US (previously Lifesyne US) is also a wholly owned subsidiary of MS-PLC, was established to co-ordinate operations in the United States of America and is based in Nashville, Tennessee.

It is now widely accepted that the most effective way to achieve early detection of the principal deadly diseases is through radiological scanning. The Medicsight™ system analyzes digital data from the new generation of multi-slice computed tomography ("MSCT") scanners and then provides information to enable the clinician to identify and characterize possible areas of abnormality. We believe that, in the future, the Medicsight™ system will be capable of reliably detecting isolated pulmonary nodules in the lung, calcification of the coronary arteries, polyps in the colon and other abnormalities indicative of disease. The potential advantage of the Medicsight™ system is that it increases precision and reliability

while also providing scalability that will be cost-effective. The system uses its technology to provide tools to radiologists for the identification of possible abnormalities. The clinician will then apply his/her experience to determine the next steps in medical diagnosis and treatment. We believe that the Medicsight™ system will:

- enable accurate and reliable scan analysis;
- provide a service that will be significantly cheaper than at present, as it reduces the burden on radiologists who in current practice account for a significant proportion of the scan cost; and
- allow significant patient volume to be achieved, because the analysis is semi automated and scanning volumes are not then constrained by the finite number of radiologists.

The step change in technology that increases the potential of the Medicsight™ system is the 16 detector CT scanner. This allows sub-millimeter cross-sectional slices to be captured with increased speed and reduced radiological dose when compared with traditional single slice machines. This can provide over 600 images of the chest instead of 30-60 for single slice scanners. The amount of detail now available, while enabling early detection of smaller nodules and areas of calcification, increases the time required for analysis by radiologists. Therefore, the automation of scan analysis is essential.

MS-PLC opened Lifesyne's flagship center in Westminster, London in 2003. Due to the Company concentrating on the development of the software products, it has concluded that its development of the Lifesyne™ Scanning Center concept will not be rolled out further. It represents one potential model, which will be available for licensees who see a commercial opportunity to package the concept together with our Medicsight™ software. We are now focusing Lifesyne on the rapid acquisition of patient scan data necessary to enable our expert software to refine its characterization capabilities. As a result, we have reappraised our capacity requirements and have decided to focus product development activity in the flagship center in Westminster, which will act more as a research institution. This means the center at Ravenscourt is currently surplus to our core requirements and the Company is seeking a partner to operate the center as a commercial CT scanning business.

Our aim is to become a leading developer of CAD software in medical imaging. The Company's strategy is based upon the following priorities:

- Focusing our resources on developing industry leading pattern recognition software in the medical imaging market.
- Targeting commercially valuable applications where the accurate identification and measurement of abnormalities will lead to improved diagnosis and treatment of life threatening diseases.
- Developing an international network of medical specialists to support product development, clinical trials and commercial delivery.
- Creating a third party distribution network in our top 7 target countries, which account for 88% of world healthcare spend.
- Identifying local partners to act as licensees in other countries who have the relevant medical and commercial experience.

Key Achievements during 2003

- European CE and United States FDA 510(k) approvals were secured for Release One versions of Lung, Heart and Colon products. These facilitate disease tracking in symptomatic patients.
- U.S. operations were established in Nashville, Tennessee.

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- Beta test sites have been set up at St Marks Hospital and London Chest Hospital, London, Vanderbilt University, United States of America and CHUV University Hospital, Switzerland.
- We have developed a comprehensive clinical trials program, which will involve 23,000 patients over a period of 4 years, at a total cost of more than £5m. Of nine clinical trials in the program, two are underway and a further two are close to securing final regulatory approval.

Medicsight Product Portfolio

Our products currently target 3 therapeutic areas, Colon, Lung and Heart. In terms of clinical practice and, therefore, market segmentation, the products can be split between diagnostic treatment and screening;

"Diagnostic or "Disease tracking" products; these are products designed for symptomatic patients to track disease progress and monitor treatment effectiveness. The primary applications in this area are Lung nodule tracking and Heart calcium scoring, though the Company believes there will be a growing requirement for polyp tracking in the colon as CT colonography becomes more established.

"Screening" products; for population screening of asymptomatic patients. There is considerable evidence that the early detection of colon, lung and heart disease leads to increased life expectancy. Computer aided detection ("CAD") CT may provide a cost effective solution in identifying these diseases early enough to significantly alter the economics of population screening programs in these areas.

Business Development planned for 2004

We have an integrated business development strategy—we aim to drive sales growth from proven products (validated by clinical trials), endorsed by International Advisory Boards, using routes to market (distribution partners), recognized and demanded by the end users (informed by our marketing efforts).

Clinical Trials

The Company is investing significantly in clinical trials designed to provide data to both train and validate our software. We expect the first of these trials to be completed shortly. Beginning in the third quarter of 2004, we hope to support publication of our trial data in a series of peer reviewed journals. Thereafter, we expect there will be a regular flow of papers to endorse our products in leading industry publications.

Distribution

The diagnostic products have immediate markets globally; the market potential for our Lung nodule tracker product has been estimated at around \$300m in the United States alone. We intend to launch this product in the United States in the second quarter of 2004, targeting leading institutions directly in order to develop key opinion leader support for a subsequent national roll out via third party channels. We have distribution routes into the hospitals involved in both the ACRIN and the ELCAP studies—the two leading lung trials in the United States—and have secured our first product sale into one of these institutions.

We commenced building relationships with third party distributors at the end of 2003. We have established strong levels of interest amongst both picture archivers ("PACS"), software companies and CT hardware manufacturers. Our aim is to have distribution coverage throughout North America and Europe by the end of 2004.

Within the Middle East and Asia, we aim to establish country or region licensees. We are in active negotiations with potential licensees, which we expect to lead to a minimum of 3 licenses being established in 2004.

Our target is to have CE approval of our first CAD products before the end of 2004 and to have met all the criteria required for FDA approval. Once approved, our intention is for these products to drop into the distribution structure created above.

Marketing

A full marketing program commences in the second quarter of 2004 to support the distribution and sale of our products, including advertising, direct mail, exhibitions and an integrated PR plan. Our aim is to have 80% awareness within our core customer base—the radiology community across our key target markets—by the end of 2004.

Milestones for 2004

- Strategic partnerships to be signed with leading hospitals in the United States, United Kingdom, Far East in the first half of 2004.
- Commercial launch of disease tracking products in United States, United Kingdom, Middle East and Far East in the second quarter of 2004.
- Commercial launch of first CAD product.
- Completion of first clinical trials.
- Establishment of International Advisory Boards comprising world experts in each therapeutic area.
- Product development partnership to be signed with leading MRI research institute.
- Distribution partnerships to be established in top 7 countries.
- License agreements to be signed covering a minimum of 3 other countries.

International Advisory Board

The Company established a Medical Board to guide the early development of the Company's software for the pre-symptomatic detection of lung cancer, bowel cancer and coronary heart disease. The Medical Board advised on and monitored product development, clinical targets and scanning operations and formed an important link with medical scientists and clinicians. Chaired by Dr. John Costello, the Medical Board comprised:

- Sir Christopher Paine
- Dr. John Karani
- Dr. Mary Roddie
- Dr. Jamshid Dehmeshki
- Mr. Paul Samuel

The Medical Board reported to MS-PLC's Board through Dr Costello. Three specialist advisory boards supported the Medical Board with responsibility for the lung, colon and heart products.

As the Company's strategy evolved, in particular, following the decision to concentrate our efforts on software development and international product distribution, we have acted to align our medical advisory mechanisms to the new circumstances. The Company has therefore set up three International

Advisory Boards ("IAB"). The IABs will recruit individuals with the relevant expertise to become members and encourage the involvement of the radiologists undertaking beta testing of our products, providing data for software development and participating in our scientific program.

Some members of the original Medical Board have accepted appointments to the new IABs. New members will include persons with relevant expertise from the United States, Germany, France, Italy, and Japan. The IABs are co-chaired by Dr. Costello, who reports back to the MS-PLC Board; however, much of the scientific advice and leadership will be provided through a co-chairman, chosen from the IAB

members.

Terms of Reference of the International Advisory Board

The IABs will meet twice a year and fulfill the following roles:

- Advise on the development and application of Medicsight CT image analysis software in the territories represented.
- Provide links to users of CT image analysis systems in their respective territories.
- Assist in investor relations on an international basis.
- Advise on, and participate in, clinical development programs for the Company's software.
- Act as advisors in relation to regulatory submissions for the Company's products.
- Advise on sources of library data (CT scans) to support training and development of the Company's software.

Objectives of the International Advisory Board

The objectives of the meetings may be varied from time-to-time, as agreed with MS-PLC, but will include the following:

- Ensure that members have a full understanding of the Medicsight technology and are enthused to participate in its development and application, both locally and internationally.
- Ensure that the clinical development program is compatible with local clinical practice.
- Ensure that the clinical development program is compatible with local regulatory guidelines.
- Obtain insight into local issues with respect to marketing of the Company's products.

We cannot assure you that the Company will be successful in commercializing the Medicsight™ system, or if such system is commercialized, that its use will be profitable to the Company. We face obstacles in commercializing our core technology and in generating operating revenues such as, but not limited to, successful development, testing of and gaining regulatory approval for the technology.

The Company does not believe that there is currently any comparable system that is competitive with the Medicsight™ system. There are computer-aided diagnostic systems that work in the field, but, in our view, such existing systems are overly dependent on human resources to carry out the analysis, as none have the capability of the Medicsight™ system.

The Company has had only a limited operating history upon which an evaluation of its prospects can be made. The Company's prospects must be considered keeping in mind the risks, expenses and difficulties frequently encountered in the establishment of a new business in an ever-changing industry. There can be no assurance that the Company will be able to achieve profitable operations.

The Company has identified a number of other specific risk areas that may affect the Company's operations and results in the future:

Technical Risks. The Medicsight™ system may not deliver the levels of accuracy and reliability needed, or the development of such accuracy and reliability may be delayed.

Market Risks. The market for the Medicsight™ system may be slower to develop or smaller than estimated or it may be more difficult to build the market than anticipated. The medical community may resist the Medicsight™ system or be slower to accept it than we expect. Revenues from the Lifesyne™ scanning centers and the licensing of the Medicsight™ system may be delayed or costs may be higher than expected which may result in the Company requiring additional funding.

Regulatory Risks. The Medicsight™ system is subject to regulatory requirements in both the United States and Europe. Approval may be delayed or result in additional costs to the development of the Medicsight™ system.

Competitive Risks. There are a number of groups and organizations, such as software companies in the medical imaging field, scanner manufacturers, screening companies and other healthcare providers, that have an interest in developing a competitive offering to the Medicsight™ system. These potential competitors may have significantly greater resources than the Company. We cannot make any assurance that they will not attempt to develop such offerings, that they will not be successful in developing such offerings or that any offerings they do develop will not have a competitive edge versus the Medicsight™ system.

Other Risks. The Company's ability to deliver the software could be hindered by such risks as the loss of key personnel, our patents being successfully challenged or our credit facilities reduced or terminated.

Recent Acquisitions/Dispositions

Software. On April 21, 2000, the Company acquired through a stock for stock tender offer approximately 76.73% of the outstanding ordinary shares of Radical Technology PLC (subsequently renamed HTP Software PLC) ("Software"). Through subsequent additional issuances of stock the Company has acquired 99.5% of Software's outstanding common stock in exchange for 850,090 shares of the Company's common stock, which was valued at \$12,748,000. The costs incurred in the acquisition of \$277,000 are included in the cost of the investment. The acquisition of Software has been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at their fair values as of the date of the acquisition. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been assigned to in process research and development, other identifiable intangibles including trademarks, workforce, covenant not to compete, software development costs and existing contracts, and the remaining amount has been recorded as excess of purchase price over net assets acquired on the accompanying balance sheet. The fair values have been based on an independent valuation. The value assigned to in-process research and development, \$181,000, was expensed in software development costs written off in Fiscal 2000. The technology and covenant not to compete were impaired in full in Fiscal 2000 as the technology acquired was not to be developed into a commercial product. The trademark, contracts and workforce were fully impaired in Fiscal 2001.

Software Purchase Price Allocation on acquisition

| | \$ | Useful Life |
|-------------------------------|---------------|-------------|
| Tangible Fixed Assets | 45,000 | 2-5yrs |
| PlanNET/RadNet Technology | 1,878,000 | 3-5 yrs |
| PlanNET/RadNet In Process R&D | 181,000 | N/A |
| Value of Trademark | 46,000 | 2-3 yrs |
| Covenant not to Compete | 38,000 | 1 yr |
| Value of Existing Contracts | 96,000 | 1-2 yrs |
| Value of Workforce | 321,000 | 3-5 yrs |
| Net current assets | 265,000 | |
| Goodwill | 10,155,000 | 5 yrs |
| | \$ 13,025,000 | |

Software generated revenue from its systems integration business together with maintenance of its in-house developed systems integration and network software products. In 2001, we decided to focus Software's resources towards working with Insights to develop the core technology of the Stochastic Perception Engine. All Software staff were employed full-time by MS-PLC. Contractual terms between Software and existing customers were fulfilled by September 30, 2002. We sold Software to an independent third party on October 28, 2002 for approximately \$1,500. At that time, Software had net assets of approximately \$4,500.

Core Ventures, Ltd. In September 2000, we acquired Core Ventures Limited ("Core"), a privately held internet venture company, from Troy Limited, a Cayman corporation ("Troy"). Under the agreement, we issued 1,200,000 shares of our Common Stock for 100% of the outstanding stock of Core. Core's principal asset was an interest of less than 1% in Red Cube AG ("Red Cube"), a voice-over-IP telecommunications provider, and warrants to purchase further shares (less than 3%) in Red Cube. The agreement provided, in part, that Dr. Alexander Nill, a principal of Troy, personally guaranteed to us that, as of December 15, 2000, the fair market value of Core's net assets would be not less than \$25,000,000, such value to be determined by our independent auditors; and Dr. Nill undertook to pay us, within 10 days following our written demand, any shortfall, in cash or securities. At the time of this transaction, Dr. Nill was one of our directors. He resigned from that position, effective February 27, 2001.

The acquisition of Core has been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at their fair values as of the date of the acquisition.

Core Purchase Price Allocation on acquisition

| | \$ |
|--------------------|---------------|
| Net current assets | 1,180,000 |
| Value of Guarantee | 19,184,000 |
| | \$ 20,364,000 |

On December 27, 2000, Dr. Nill executed a Memorandum of Understanding ("MOU") with the Company in which he admitted to substantial liability under the personal guarantee. The MOU stipulated that the net assets of Core were estimated to be \$2,540,000 and that the warrants to

purchase further Red Cube stock held by Core had no value. Dr. Nill acknowledged that he had been served with a formal demand by the Company to honor his obligations to us pursuant to the terms of the personal guarantee. The MOU provided, inter alia, that Troy was to provide a schedule of other assets having a value of not less than \$10,900,000, such market value to be determined by our independent auditors as being the fair market value as at the valuation date, which assets Dr. Nill agreed to cause Troy to deliver to us, or as we directed, within 21 days of the date of the MOU. In consideration of our forbearance to immediately sue him to enforce the personal guarantee, Dr Nill, also was to cause to be delivered to us within seven days of the date of the MOU, 616,192 shares of our Common Stock (the equivalent of 924,282 shares pre-splits) endorsed in blank. Dr Nill did not honor his obligations under the MOU and we were unable to obtain effective enforcement, by means of escrow arrangements or otherwise, of the personal guarantee.

In the fiscal quarter ended September 30, 2001, an agent, NYPPe, LLC, was assigned to dispose of shares owned by Dr. Nill in a secondary private placement. As of December 31, 2001 5,000 of those shares (the equivalent of 15,000 shares pre-reverse split) had been sold, resulting in net proceeds to the Company of \$75,000.

We do not consider that enforcement of the terms of the personal guarantee through legal action with a view to recovering against other assets is likely to provide an effective remedy for us. We reached an oral understanding with Dr Nill that the proceeds from the sale of 1,195,000 of Dr Nill's shares of our Common Stock were to be remitted to us. We reserved our other rights and remedies that may be available to us against Dr Nill. The Company received proceeds net of commission under the guarantee of \$3,689,000 from the sale of 1,195,000 shares in Fiscal 2003.

On March 6, 2002, Core entered into voluntary liquidation proceedings. In accordance with the laws governing companies organized in the British Virgin Islands, Core appointed a liquidator to assess the fair value of its assets.

Insights. On December 29, 2000, we acquired all of the issued and outstanding shares of Insights, in a stock-for-stock transaction then valued at approximately \$180 million. We received the shares of Insights on that date but, pursuant to the terms of our offer, were not required to pay any consideration for the Insights shares until certain conditions were met. The first of these conditions, that we receive a validation by the Defence Evaluation and Research Agency ("DERA"), an agency of the United Kingdom Ministry of Defence, as to the technical and commercial viability of Insights' proprietary technology, was satisfied on February 22, 2001. As such, we issued the first tranche of contingent consideration of 5,000,000 shares of our Common Stock on that date, valued at approximately \$93,000,000 based on a weighted average share price of \$18.60 per share. The acquisition of Insights has been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at their fair values as of the date of the acquisition. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been assigned to the technology, and the remaining amount has been recorded as excess of purchase price over net assets acquired on the accompanying balance sheet. The fair values have been based on an independent valuation by Empire Valuations, LLC. A copy of the report is filed herewith (Exhibit 99.2). In variance of the conditions precedent set forth in the original purchase agreement, on November 22, 2001 we agreed with the seller of Insights that the obligation to issue the second tranche of contingent consideration would be satisfied by the issuance of new shares in MS-PLC to such seller. On that date, MS-PLC issued 15,000,000 shares in MS-PLC to Nightingale, and Nightingale accepted such shares in satisfaction of our obligation under the original purchase agreement. The second tranche was valued at \$1,091,000 (as restated—see "Note Regarding Amendment and Restatement" above) based on the share price of stock being allotted by MS-PLC. Total consideration for the purchase of Insights was approximately \$94 million.

Insights Purchase Price Allocation on acquisition

| | \$ | Useful Life |
|-------------------------|---------------|-------------|
| Tangible Fixed Assets | 67,000 | 2-5yrs |
| Technology | 22,470,000 | 5 yrs |
| Value of Workforce | 180,000 | 2 yrs |
| Net current liabilities | (10,198,000) | |
| Goodwill | 81,572,000 | 5 yrs |
| | \$ 94,091,000 | |

As of the date hereof, there is no public market for the MS-PLC shares. All assets and liabilities of Insights were transferred to

Medicsight Finance Ltd ("Finance"), after which Insights was sold to an independent third party on December 6, 2002 for \$160.

Employees

As of March 31, 2004, the Company and its subsidiaries had 67 employees, all of whom are full-time employees. Our employees are not part of a union. We believe that we have an excellent relationship with our employees.

Patents and Trademarks

Protection of our proprietary technology and our rights over that technology, from copy or unchallenged use, is essential to our future success. Any challenges to, or disputes concerning, our core technology may result in great expense to us, delays in bringing products to market and disruption of our focus on our core activities. They may also result in loss of rights over our technology or the right to operate in particular markets due to adverse legal decisions against us.

The Company has filed patent applications in the United Kingdom, the United States and under the International Patent Treaty (which has approximately 70 member countries) covering the application of our core technology. However, we have not as yet been granted any patents. In addition, we are in the process of preparing to file patent applications covering our MedicColon™, MedicHeart™, and MedicLung™ products. We cannot provide assurance that any or all of these patents will be granted or that they will not be challenged, or that rights granted to us would actually provide us with advantage over our competitors. Prior art searches have taken place, and the Company believes that we will not infringe any current third party patents.

We have filed applications to register "Medicsight"™, "Lifesyne"™, MedicColon™, "MedicHeart"™, and "MedicLung"™ as trademarks in the United Kingdom, the European Community and the United States. These trademarks are essential to the corporate identity that we are seeking to create in connection with the Medicsight™ system.

Failure to register appropriate patents, copyrights or trademarks in any jurisdiction may impede our ability to create brand awareness in our products, result in expenses in pursuing or our rights with respect to our intellectual property, or result in lost revenues through delays incurred due to intellectual property disputes. Where we may be required to purchase licenses from those with prior rights in any country, we cannot assure you that we will be able to do so at a commercially acceptable cost.

Research and Development

Under United States generally accepted accounting principles, until the technology is determined to be feasible, all related research and development expenditures must be expensed rather than capitalized. Once the software is determined as feasible (commercially viable), expenditure may be capitalized. The Company concluded that capitalizing such expenditure was inappropriate, because of the difficulty in allocating costs accurately among the products and versions being developed as technical and development staff are moved from product to product and version to version on a regular basis. Therefore the Company has decided to expense all research and development costs. The Company's research and development costs are comprised of staff and consultancy costs expensed on the Medicsight™ system.

The Company's expenditures on research and development comprise of staff and consultants employed in the development of the Medicsight™ system. During the twelve months ended December 31, 2003, December 31, 2002 and December 31, 2001, we expended \$2,498,000, \$1,239,000 and \$1,266,000 respectively for research and development for the Medicsight™ system. We cannot predict the amount of additional expenditures that will be necessary prior to achieving commercialization of our products.

Major Customers

In Fiscal 2003, the Company's gross revenues from operations were derived solely from the Company's Lifesyne™ scanning operations.

During Fiscal 2002, the Company had two customers that represented 98.8% of the Company's revenues. The customers are Commonwealth Secretariat, which accounted for 67.1% of sales, and Texaco Ltd., which accounted for 31.7% of sales. These revenues were derived from providing software maintenance services through Software. Software was sold on October 28, 2002.

In Fiscal 2001 major customers of the Company were Commonwealth Secretariat, which accounted for 29.8% of sales, Eidos Interactive, which accounted for 25.8% of sales, and Texaco, which accounted for 22.7% of sales.

Governmental Regulation

The Medicsight™ system analyzes digital data from medical scanners, such as CTs, MRIs and CAT scans, and provides improved analysis to enable the clinician to identify areas of possible abnormality. The Medicsight™ system will be subject to governmental regulation in the United Kingdom, Europe and the United States. We are not currently certain of the level of regulation that will be applied to the Medicsight™ system in any specific location. The level of governmental regulation in the jurisdictions we engage, or expect to engage, in business may vary. Any such regulation could delay the commercial introduction of the Medicsight™ system and could significantly increase our costs of operations.

General

Our address is 46 Berkeley Square, London W1J 5AT, United Kingdom. Our telephone number is 011-44-207-598-4070. Our Internet address is <http://www.medicsight.com>. Information on our website is not deemed to be a part of this Annual Report.

ITEM 2. PROPERTIES.

We maintain our corporate offices at 46 Berkeley Square, London W1J 5AT, United Kingdom. The office is comprised of 9,642 square feet. We do not have a formal, written lease for these offices. Up until June 30, 2003, rent was paid quarterly in advance to a property management company, Berkeley Square Ventures Limited, which in turn collects the rent for International Cellulose Company Limited ("ICCL"), the entity that holds the lease on the property. Subsequent to June 30, 2003, rent was paid directly to ICCL. In November 2001 ICCL was acquired by STG (Holdings) PLC ("STG"), a major shareholder of the Company.

We operate two Lifesyne™ scanning centers in London, one located at Ravenscourt Hospital, part of the Hammersmith Hospitals NHS Trust ("NHS Trust"), and our flagship center in Westminster. The Company has negotiated a lease covering Ravenscourt, which is currently unsigned. The property currently occupied is adequate for the current needs of the Company.

ITEM 3. LEGAL PROCEEDINGS.

On January 23, 2002, Chess Ventures LLC ("Chess") commenced a lawsuit against us in the Chancery Court of Delaware, seeking an order to compel us to remove restrictive legends from share certificates owned by Chess so that Chess could sell the shares represented by these certificates pursuant to Rule 144 under the Securities Act of 1933 ("Rule 144"). Chess also claimed money damages due to our failure to remove the legends. We filed a defense and counterclaim to this claim and subsequently instructed our transfer agent to remove the restrictive legends on all applicable certificates (including those held by Chess) should proper requests be made by the holders thereof in accordance with Rule 144. On June 4, 2002, we entered into a Settlement Agreement with Chess in which we agreed to pay a nominal sum to Chess. Neither party made any admission of liability, and each party fully released any claims it may have had against the other party. The lawsuit was subsequently dismissed.

In addition to the above, we have been served with a Notice of Sequestration in a proceeding brought in the Court of Chancery of the State of Delaware by a Turks and Caicos company against two shareholders of the Company. The Company responded to the Notice of Sequestration on January 17, 2003 and does not expect that any further action by the Company will be required.

The Company is involved with various legal actions and claims arising in the ordinary course of business. Management believes that the outcome of any such litigation and claims will not have a material effect on the Company's financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On January 27, 2004, the Company amended its Certificate of Incorporation to increase the number of shares the Company is authorized to issue from 25,000,000 shares to 40,000,000 shares. This amendment was approved by a majority of the stockholders of the Company.

On July 31, 2003, an amendment to our Certificate of Incorporation, reducing the number of shares the Company is authorized to issue from 100,000,000 shares to 25,000,000 shares was approved by a majority of the shareholders of the Company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

The shares of our Common Stock are quoted on the OTC, maintained by the National Association of Securities Dealers, Inc. The Common Stock is trading under the symbol "MSHT".

The following table sets forth the range of high and low bid information for Medicsight, Inc Common Stock for each quarter within the last two fiscal years, after giving effect to the Split.

| Period | Bid Quotations (\$) | |
|---------------|---------------------|------|
| | High | Low |
| 2004 | | |
| First Quarter | 4.60 | 3.20 |
| 2003 | | |

| | | |
|----------------|-------|------|
| First Quarter | 5.55 | 2.55 |
| Second Quarter | 3.50 | 1.75 |
| Third Quarter | 3.95 | 2.70 |
| Fourth Quarter | 3.84 | 3.10 |
| 2002 | | |
| First Quarter | 14.10 | 6.75 |
| Second Quarter | 7.50 | 2.40 |
| Third Quarter | 2.70 | 1.71 |
| Fourth Quarter | 6.60 | 1.95 |

These over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

As of March 31, 2004, there were 831 holders of record of the Company's Common Stock.

Dividends

The Company has never declared or paid cash dividends on the Common Stock. The Company currently intends to retain earnings, if any, to support its growth strategy and does not anticipate paying cash dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

Securities Authorized for Issuance Under Equity Compensation Plans

On March 20, 2003, the Company's majority-owned subsidiary, MS-PLC, approved the Medicsight PLC Share Option Plan. The Plan provides for the issuance of up to 4,000,000 shares of MS-PLC common stock. On April 30, 2003, 2,828,600 options to shares were issued under the Plan.

The term of the stock options granted expire 10 years after the grant date. The exercise price of the options and the market price of MS-PLC's common stock at the date of grant was \$1.65 (options were granted at UK Sterling £1.00 and the exchange rate on the date of grant was \$1.65:£1.00). Under provisions of APB 25, no compensation expense has been recorded.

The following table summarizes Stock Option and activity:

| | Stock Options Outstanding | | |
|-------------------------------|---------------------------|--------------------------|---------------------------------|
| | Shares | Exercise Price Per Share | Weighted Average Exercise Price |
| Balance January 1, 2003 | — | — | — |
| Granted | 2,828,600 | \$ 1.65 | \$ 1.65 |
| Returned | (452,900) | | |
| Exercised | — | — | — |
| Outstanding December 31, 2003 | 2,375,700 | \$ 1.65 | \$ 1.65 |
| Options exercisable at: | | | |
| December 31, 2003 | 1,062,600 | \$ 1.65 | \$ 1.65 |

Recent Sales of Unregistered Securities

Swap. On December 23, 2002 the Company entered into a share swap with General Nominees and Asia IT Nominees whereby the Company issued 1,866,666 shares to General Nominees (1,674,894 shares) and Asia IT Nominees (191,772 shares) in exchange for 7,000,000 MS-PLC shares held by General Nominees (6,280,852 shares) and Asia IT Nominees (719,148 shares) respectively. Such shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933.

Reg S Placements. On July 1, 2003, the Company entered into an agreement with Asia IT to underwrite a private placement to raise \$10,000,000 through the sale of shares of Common Stock at a price of \$3.00 per share pursuant to an exemption from registration under Regulation S promulgated under the Securities Act of 1933. The placement was completed in December 2003. In consideration for such underwriting, Asia IT received commission at the rate of 10% of funds raised from third parties. Asia IT received \$937,000 in commission, which included receiving 211,140 shares of Common Stock valued at \$3.00 per share.

On December 31, 2003, the Company entered into a further agreement with Asia IT to underwrite a private placement to raise \$10,562,000 through the sale of shares of Common Stock at a price of \$3.00 per share pursuant to an exemption from registration under Regulation S promulgated under the Securities Act of 1933. The placement was completed in February 2004. In consideration for such

underwriting, Asia IT received commission at the rate of 10% of funds raised from third parties. Asia IT received \$1,056,000 in commission, which included receiving 170,000 shares of Common Stock valued at \$3.00 per share.

ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data set forth below have been derived from the consolidated financial statements of the Company and the related notes thereto. The statement of operations data for the period from inception (October 18, 1999) to December 31, 1999 and four years ended December 31, 2003 and the balance sheet data as of December 31, 2003, 2002, 2001, 2000 and 1999 are derived from the consolidated financial statements of the Company which have been audited by Amper, Politziner & Mattia, P.C., independent auditors (consolidated financial statements as at December 31, 2003, 2002 and 2001) and Arthur Andersen, independent auditors (consolidated financial statements as at December 31, 2000 and 1999). The following selected financial data should be read in conjunction with the Company's consolidated financial statements and the related notes thereto and "Management's Discussion and Analysis and Results of Operations", which are included elsewhere herein.

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(all figures in \$ thousands except per share data)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|-------------------------------------------------------|----------|----------------|----------------|---------|---------|
| | | As restated | As restated | | |
| Operating revenues | \$ 276 | \$ 82 | \$ 225 | \$ 514 | \$ — |
| Loss from continuing operations | (10,096) | (98,834) | (44,563) | (7,551) | (30) |
| Loss from continuing operations per common share (\$) | (0.45) | (5.12) | (2.40) | (0.62) | (0.00) |
| Total Assets | 17,649 | 15,430 | 87,920 | 30,497 | 2,754 |
| Long term obligations | 306 | 42 | 19 | 6,030 | 50 |
| Dividends declared per common share (\$) | \$ 0.00 | \$ 0.00 | \$.00 | \$ 0.00 | \$ 0.00 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Except for historical information, the material contained in this Management's Discussion and Analysis and Results of Operations is forward-looking. The Company's actual results could differ materially from the results discussed in the forward-looking statements, which include certain risks and uncertainties. These risks and uncertainties include the rate of market development and acceptance of medical imaging technology, the unpredictability of the Company's sales cycle, the limited revenues and significant operating losses generated to date, and the possibility of significant ongoing capital requirements. The Company's main operating currency is UK sterling (£).

The Company has identified a number of specific risk areas that may affect the Company's operations and results in the future:

Technical Risks. The Medicsight™ system may not deliver the levels of accuracy and reliability needed, or the development of such accuracy and reliability may be delayed.

Market Risks. The market for the Medicsight™ system may be slower to develop or smaller than estimated, or it may be more difficult to build the market than anticipated. The medical community may resist the Medicsight™ system or be slower to accept it than we expect. Revenues from the licensing of the Medicsight™ system may be delayed or costs may be higher than expected, which may result in the Company requiring additional funding.

Regulatory Risks. The Medicsight™ system is subject to numerous regulatory requirements in both the United States and Europe covering not just approval for the use of the Medicsight™ system but also retention of personal medical records and regulations concerning the use of radiation.

Competitive Risks. There are a number of groups and organizations, such as software companies in the medical imaging field, scanner manufacturers, screening companies and other healthcare providers, that have an interest in developing a competitive offering to the Medicsight™ system. These competitors may have significantly greater resources than the Company. We cannot make any assurance that they will not attempt to develop such offerings, that they will not be successful in developing such offerings or that any offerings they do develop will not have a competitive edge versus the Medicsight™ system.

Other Risks. The Company's ability to deliver the software could be hindered by such risks as the loss of key personnel, its patents being successfully challenged or its credit facilities being reduced or terminated.

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We have restructured our business to focus more closely on the medical imaging applications derived from our original core technology. We have concluded the process of incorporating all research, software development and management and marketing activities related to our medical imaging initiatives into MS-PLC. In November 2001, assets were transferred from our other subsidiaries to MS-PLC, and the costs incurred on the development of the Medicsight™ system (our state-of-the-art digital expert recognition software system for digital data derived from medical imaging hardware) were reimbursed and assigned by way of a loan note from MS-PLC to the Company in the amount of £3,659,104. This loan note was converted into 57,868,582 ordinary shares of MS-PLC issued to the Company and 15,000,000 ordinary shares of MS-PLC issued, on the Company's behalf to the former parent of Insights in November 2001.

RESULTS OF OPERATIONS

Fiscal Year Ended December 31, 2003 vs. Fiscal Year Ended December 31, 2002

Revenues. For Fiscal 2003 the Company's gross revenues from operations were \$276,000. For Fiscal 2002, the Company's gross revenues from operations were \$82,000. The Company's revenue in Fiscal 2003 was derived from the Company's Lifesyne™ scanning operations. The Company's revenues in Fiscal 2002 were delivered principally from software maintenance. Revenues from software maintenance ceased in Fiscal 2002, as the company that provided these services was sold to an independent third party on October 28, 2002.

During Fiscal 2002 the Company had two customers that represented 98.8% of its revenues. The customers were Commonwealth Secretariat, which accounted for 67.1% of sales, and Texaco Ltd., which accounted for 31.7% of sales.

Research and Development. The Company's research and development expenses for Fiscal 2003 were \$2,498,000 as compared to \$1,239,000 for Fiscal 2002. The Company's research and development costs were comprised of staff and consultancy costs expensed on the development of the Medicsight™ system. The Company expenses all research and development costs. The Company has concluded that capitalizing such expenditure was inappropriate because of the difficulty in assigning costs accurately to the various software products and versions being developed in that technical and development staff are moved from product to product and version to version on a regular basis.

Selling, General and Administrative Expenses. The Company's selling, general and administrative expenses for Fiscal 2003 were \$10,279,000 as compared to \$10,619,000 for Fiscal 2002. Professional fees, including consulting services, were \$1,116,000 in Fiscal 2003 as compared to \$1,565,000 in Fiscal 2002. Salaries, directors' and sub-contractors' compensation was \$6,111,000 in Fiscal 2003 and \$3,988,000 in Fiscal 2002. The increase is due to increases in staff numbers and sub-contractors (including medical board members and radiologists) as the Company expands. Other charges include service charges and rates for property leasing of \$443,000 in Fiscal 2003 and \$422,000 in Fiscal 2002, and rent of \$909,000 in Fiscal 2003 and \$455,000 in Fiscal 2002. The rent increase was due to the opening of the Westminster site. In Fiscal 2003 the Company incurred costs of \$1,299,000 related to marketing and public relations and \$492,000 relating to the clinical trials, whereas no such costs were incurred in Fiscal 2002. Amortization of intangibles in Fiscal 2003 was \$nil as compared to \$4,494,000 in Fiscal 2002.

Depreciation and Amortization Expense. Effective January 1, 2002, with the adoption of SFAS No. 142, goodwill will no longer be amortized. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 5 years.

During Fiscal 2000, the Company acquired an intangible asset from Nightingale consisting of technology valued at \$22,470,000. Under SFAS No.142, this is considered an intangible asset with a definite life of 5 years. Therefore, the value of the asset is amortized on a straight-line basis over this

period. The amortization charge for Fiscal 2003 was \$nil as compared to \$4,494,000 for Fiscal 2002. During Fiscal 2003 the Company reviewed the value attributable to the technology and concluded that, as there had been no further development of the technology except for the Medicsight™ applications in Fiscal 2002 or Fiscal 2003, the technology should be impaired in full as at December 31, 2002. Therefore, the Company recorded an impairment charge of \$13,482,000 in Fiscal 2002.

Depreciation charge in Fiscal 2003 was \$1,000,000 as compared to \$165,000 in Fiscal 2002. The increase is principally due to the depreciation of the assets acquired for the Lifesyne™ centers as they became operational.

Impairment of excess of purchase price over net assets acquired. For Fiscal 2003 and Fiscal 2002, the Company had excess of purchase price over net assets acquired of \$11,200,000 and \$11,200,000, respectively. The excess of purchase price over net assets acquired in Fiscal 2002 of \$11,200,000 was due to the Company acquiring an additional 7,000,000 shares in MS-PLC. As stated above, the Company adopted SFAS No. 142 on January 1, 2002. Under this standard, goodwill will no longer be amortized over its estimated useful life, but instead will be tested for impairment on an annual basis or whenever indicators of impairment arise. The impairment in Fiscal 2002 relates to the goodwill attributable to the acquisition of Insights of \$68,178,000 (after the fair value adjustment described in the "Note Regarding Amendment and Restatement" above) in Fiscal 2000. As the business of Insights had been transferred to other group companies in 2001 (MS-PLC) and 2002 (Medicsight Finance Ltd) and Insights sold to an independent third party on December 6, 2002, the Company has concluded that the goodwill attributable to the acquisition of Insights should be impaired in full as at December 31, 2002.

Impairment Loss on Investments. For Fiscal 2003, the Company incurred an impairment loss on investments of \$95,000 relating to the impairments in the carrying value of Eurindia PLC ("Eurindia") and Strategic Intelligence PLC ("SI-PLC"). Eurindia was impaired by \$59,000 based on Eurindia's management's assessment of the value of its portfolio at \$0.72 per share. The Company fully impaired its investment in SI-PLC (\$36,000), as the Company was unable to obtain any information or representations from SI-PLC as to the fair value.

For Fiscal 2002, the Company incurred an impairment loss on investments of \$175,000 relating to the impairments in the carrying value of Eurindia and Top Tier, Inc ("Top Tier"). The management of Eurindia recently valued its investment portfolio at \$0.83 per share. As a result the Company incurred an impairment of \$145,000 on the carrying value of its investment. Based on the financial status of Top Tier, the investment was permanently impaired, and the Company recorded impairment for the entire carrying value, \$30,000, of this investment.

Impairment of Vendor Guarantee. Impairment of a vendor guarantee in the amount of \$nil and \$6,311,000 for Fiscal 2003 and Fiscal 2002, respectively, relates to an impairment of the guarantee provided by Dr. Alexander Nill as to the fair value of certain assets acquired in the Company's acquisition of Core Ventures Limited ("Core") in September 2000. The vendor guarantee represents the fair value of 1,195,000 shares of the Company's stock belonging to Dr Nill, the proceeds of the sale of which were to be remitted to the Company. Subsequently, in Fiscal 2003 the Company received proceeds (net of commission) under the guarantee of \$3,689,000 from the sale of those 1,195,000 shares. In Fiscal 2002, the fair value of the guarantee was restated to reflect the funds received under the guarantee (see "Note Regarding Amendment and Restatement" above). The fair value was originally stated at \$3,227,000, based on the weighted average price of the stock.

Net Loss and Net Loss per Share. Net loss was \$10,096,000 for Fiscal 2003 compared to a net loss of \$98,913,000 (as restated) for Fiscal 2002. Net loss per share for Fiscal 2003 was \$0.45, based on weighted average shares outstanding of 22,203,126, compared to a net loss per share of \$5.13 (as restated) for Fiscal 2002, and based on weighted average shares outstanding of 19,294,654. The

reduction in net loss for Fiscal 2003 is principally due to the impairments recorded in Fiscal 2002 on Goodwill, Intangible Assets and Vendor Guarantee of \$87,971,000.

Contractual Obligations and Commitments. As of December 31, 2003, the Company was party to capital lease obligations in the amount of \$346,000 for a scanner and \$56,000 for motor vehicles. The obligations for the scanner lease require quarterly payments of \$21,000, including interest, through March 2008. The obligations for the vehicle lease require monthly payments of \$1,700, including interest, through April 2007. The underlying equipment secures both leases.

The Company has entered into a property lease for the Lifesyne center at Westminster. The Company has negotiated a lease covering Ravenscourt, which is currently unsigned. Future minimum obligations under these arrangements are as follows:

| For the year ending December 31, | Property Leases | Total |
|----------------------------------|--------------------|----------|
| | (\$'000) | (\$'000) |
| 2004 | 463 | 463 |
| 2005 | 463 | 463 |
| 2006 | 458 | 458 |
| 2007 | 441 | 441 |
| 2008 and thereafter | 110 | 110 |

Fiscal Year Ended December 31, 2002 vs. Fiscal Year Ended December 31, 2001

Revenues. For Fiscal 2002, the Company's gross revenues from operations were \$82,000. For Fiscal 2001, the Company's gross revenues from operations were \$225,000. Revenues were reduced as Software completed its outstanding maintenance contracts during the year. The Company's revenue was primarily derived from the Company's consulting activities provided by Software.

During Fiscal 2002, the Company had two customers that represented 98.8% of its revenues. The customers are Commonwealth Secretariat, which accounted for 67.1% of sales, and Texaco Ltd., which accounted for 31.7% of sales. During Fiscal 2001, we had three customers who represented a significant portion of our revenues. The customers are Commonwealth Secretariat, which accounted for 29.8% of sales, Eidos Interactive, which accounted for 25.8% of sales and Texaco, which accounted for 22.7% of sales.

Research and Development. The Company's research and development expenses for Fiscal 2002 were \$1,239,000 as compared to \$1,266,000 Fiscal 2001. The Company's research and development costs were comprised of staff and consultancy costs expensed on the development of the Medicsight™ system.

Selling, General and Administrative Expenses. The Company's selling, general and administrative expenses for Fiscal 2002 were \$10,619,000 as compared to \$10,522,000 for Fiscal 2001. Professional fees, including consulting services, were \$1,565,000 for Fiscal 2002 as compared to \$1,466,000 in Fiscal 2001. Also included were salaries and directors' compensation of \$3,988,000 in Fiscal 2002 and \$2,788,000 in Fiscal 2001, service charges and rates for property leasing of \$422,000 in Fiscal 2002 and \$957,000 in Fiscal 2001, and rent of \$455,000 in Fiscal 2002 and \$495,000 in Fiscal 2001. The increase in salaries and directors' compensation was due to the general increase in seniority and number of staff in addition to redundancy costs. The reduction in service charges and rent is due to the Company having sold its lease on its Curzon St. offices in September 2001.

Depreciation and Amortization Expense. Effective January 1, 2002 with the adoption of SFAS No. 142, goodwill was no longer be amortized. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 5 years. The amortization charge for Fiscal 2001 was \$15,385,000.

During Fiscal 2000, the Company acquired an intangible asset from Nightingale consisting of technology valued at \$22,470,000. Under SFAS No.142, this is considered an intangible asset with a definite life of 5 years. Therefore the value of the asset is amortized on a straight-line basis over this period. The amortization charge for the Fiscal 2002 was \$4,494,000 as compared to \$4,662,000 for Fiscal 2001. The Company evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's assessment for impairment of an asset involves estimating the undiscounted cash flows expected to result from use of the asset and its eventual disposition. An impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2003 the Company reviewed the value attributable to the Technology and concluded that, as there had been no further development of the Technology except for the Medicsight™ applications in Fiscal 2002 or Fiscal 2003 that the Technology should be impaired in full as at December 31, 2002. Therefore the Company is recording an impairment charge of \$13,482,000 in Fiscal 2002.

In Fiscal 2001, the intangible assets of Software were deemed fully impaired, as Software ceased developing its in-house software. In addition, in Fiscal 2002 the "Value of Workforce" intangible of Insights was deemed fully impaired, as the employees to whom such intangible related left the employment of the Company.

Impairment of excess of purchase price over net assets acquired. For Fiscal 2002 and Fiscal 2001, the Company had excess of purchase price over net assets acquired of \$11,200,000 and \$68,178,000, respectively. The excess of purchase price over net assets acquired in Fiscal 2002 of \$11,200,000 was due to the Company acquiring an additional 7,000,000 shares in MS-PLC. The excess of purchase price over net assets acquired in Fiscal 2001 of \$68,178,000 was primarily attributable to the Company's acquisition of Insights. As stated above, the Company adopted SFAS No. 142 on January 1, 2002. Under this standard, goodwill will no longer be amortized over its estimated useful life, but instead will be tested for impairment on an annual basis or whenever indicators of impairment arise. The impairment in Fiscal 2002 relates to the goodwill attributable to the acquisition of Insights of \$68,178,000 (after the fair value adjustment described in the "Note Regarding Amendment and Restatement" above) in Fiscal 2000. As the business of Insights had been transferred to other group companies in 2001 (MS-PLC) and 2002 (Medicsight Finance Ltd) and Insights sold to an independent third party on December 6, 2002, the Company has concluded that the goodwill attributable to the acquisition of Insights should be impaired in full as at December 31, 2002.

Impairment Loss on Investments. For Fiscal 2002, the Company incurred an impairment loss on investments of \$175,000 relating to the impairments in the carrying value of Eurindia PLC ("Eurindia") and Top Tier, Inc. The management of Eurindia recently valued its investment portfolio at \$0.83 per share. As a result, the Company incurred an impairment of \$145,000 on the carrying value of its investment. Based on the financial status of Top Tier, Inc, the investment was permanently impaired, and the Company recorded impairment for the entire carrying value, \$30,000, of this investment. For Fiscal 2001, investments of \$2,412,000 were impaired, comprised primarily of an investment in Compaer AG. The Company recorded impairment for the entire carrying value of this investment.

Impairment of Vendor Guarantee. Impairment of a vendor guarantee in the amount of \$6,311,000 and \$9,109,000 for Fiscal 2002 and Fiscal 2001 respectively relates to an impairment of the guarantee provided by Dr. Alexander Nill as to the fair value of certain assets acquired under the Company's acquisition of Core Ventures Limited ("Core") in September 2000. The vendor guarantee represents the fair value of 1,195,000 shares of the Company's stock belonging to Dr Nill, the proceeds of the sale of which were to be remitted to the Company as mentioned above. We have estimated the value of the guarantee as to the value of the funds received in Fiscal 2003 (after the fair value adjustment described in the "Note Regarding Amendment and Restatement" above) of \$3,689,000.

Net Loss and Net Loss per Share. Net loss was \$98,913,000 (as restated) for Fiscal 2002 compared to a net loss of \$45,845,000 for Fiscal 2001. Net loss per share for Fiscal 2002 was \$5.13 (as restated), based on weighted average shares outstanding of 19,294,654, compared to a net loss per share of \$2.47 for Fiscal 2001, and based on weighted average shares outstanding of 18,563,404. The increase in net loss for Fiscal 2002 is principally due to the increases in the impairments of the Goodwill and Intangible Assets.

Contractual Obligations and Commitments. As of December 31, 2002, the Company had capital lease obligations of \$74,000. These obligations require monthly payments of \$3,000, including interest computed at the rate of 0.58% per month through March 2005 and are secured by the underlying equipment.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital Information as at December 31:

(\$000's)

| | 2003 | 2002 | 2001 |
|---------------------------|---------|---------|---------|
| Cash and Cash Equivalents | 845 | 1,778 | 203 |
| Current Assets | 2,144 | 2,284 | 657 |
| Current Liabilities | (6,540) | (8,977) | (5,862) |
| Working Capital (Deficit) | (4,396) | (6,693) | (5,205) |

Net Decrease in Cash and Cash Equivalents. During the year ended December 31, 2003, the Company's cash and cash equivalents decreased by \$933,000 to \$845,000. This decrease was primarily the result of cash flows received from shares issued by the Company, MS-PLC and under the vendor guarantee offset by a decrease in short term debt, the net cash used for operations and the purchase of fixed assets. The Company used net cash of \$13,149,000 in operations. The Company received net cash of \$13,798,000 in financing activities and used \$1,293,000 in investing activities.

During the year ended December 31, 2002, the Company's cash and cash equivalents increased by \$1,575,000 to \$1,778,000. This increase was primarily the result of cash flows received from shares issued by MS-PLC and an increase in short term debt offset by net cash used for operations and the purchase of fixed assets. The Company used net cash of \$5,729,000 in operations. The Company received net cash of \$7,779,000 in financing activities and used \$462,000 in investing activities.

During Fiscal 2001, the Company's cash and cash equivalents decreased by \$6,028,000. This decrease was primarily the result of net cash used in operations in the amount of \$5,948,000. The Company used net cash of \$1,540,000 in financing activities and received \$1,497,000 in investing activities during Fiscal 2001.

Net Cash Used in Operations. In Fiscal 2003 the Company had net cash used in operations of \$13,149,000. This was a significant increase and is based upon increases in staff, sub-contractors (including medical board members and radiologists) of \$2,100,000, increase in rent for the scanning centers of \$500,000 as well as costs not previously incurred such as marketing and public relations costs of \$1,300,000 and costs incurred that relate to the clinical trials of \$500,000. In addition research and development costs have increased from \$1,200,000 in Fiscal 2002 to \$2,500,000 in Fiscal 2003.

The Company used cash in operations of \$5,729,000 in Fiscal 2002, as a consequence of the Company's relatively minimal revenues and its significant operating costs. These significant costs included professional fees, salaries and director compensation, service charges and rent.

The Company used cash in operations in Fiscal 2001 of \$5,948,000. The main components of the decrease are reduction in property costs of \$666,000 and public relations costs of \$164,000.

Net Cash Used in Investing Activities. In Fiscal 2003, the Company had a net cash outflow from investing activities of \$1,293,000. The Company used the funds to purchase additional fixed assets, the majority of which related to the Lifesyne™ center at Westminster.

In Fiscal 2002, the Company had a net cash outflow from investing activities of \$462,000. The Company used the funds to purchase additional fixed assets, the majority of which was the build out costs of the first Lifesyne™ center at Ravenscourt.

In Fiscal 2001, the Company had a net cash inflow from investing activities of \$1,497,000 derived from the sale of the Company's shareholding in MDA Group PLC.

Net Cash Provided by Financing Activities. In Fiscal 2003, the Company had a net cash inflow from financing activities of \$13,798,000. The funds received in the year ended December 31, 2003, comprised \$9,063,000 (net of commissions) raised by a stock issue by the Company plus \$4,222,000 (net of commissions) received from the private offering of MS-PLC stock. In addition the Company received \$3,689,000 from the sale of 1,195,000 shares of stock under the Vendor Guarantee. The Company also repaid in full of the Nightingale loan of \$3,250,000 and drew down \$356,000 on the Company's Asia IT line of credit.

In Fiscal 2002, the Company had a net cash inflow from financing activities of \$7,779,000. The funds received in Fiscal 2002, comprised of \$6,773,000 (net of commissions) received from the private offering of MS-PLC stock. At December 31, 2002, 6,131,418 shares had been issued under this offering. In addition the Company received \$1,006,000 drawn down under the Asia IT facility.

For Fiscal 2001, the Company had a net cash outflow from financing activities of \$1,540,000. These funds were used in reducing overdraft and debt. The Company received \$75,000 under the Vendor Guarantee.

Stockholders' Equity. The Company's stockholders' equity at December 31, 2003 was \$10,489,000, including an accumulated deficit of \$(163,468,000), as compared to \$5,406,000 at December 31, 2002, including an accumulated deficit of \$(153,372,000). Additional paid-in capital was \$173,810,000 and \$162,156,000, at December 31, 2003 and December 31, 2002 respectively. The increase in stockholders' equity was a result of an increase in accumulated deficit of \$10,096,000 offset by a decrease in the vendor guarantee of \$3,689,000 and an increase in additional paid-in capital of \$11,654,000. The increase in additional paid-in capital resulted from issues of stock at a premium by both the Company and MS-PLC in Fiscal 2003.

The Company's stockholders' equity at December 31, 2002 was \$5,406,000, including an accumulated deficit of \$(153,372,000), as compared to \$81,112,000 at December 31, 2001, including an accumulated deficit of \$(54,459,000). Additional paid-in capital was \$162,156,000 and \$145,596,000, at December 31, 2002 and December 31, 2001 respectively. The decrease in stockholders' equity was a result of an increase in accumulated deficit of \$98,913,000 offset by a decrease in the vendor guarantee of \$6,311,000 and an increase in additional paid-in capital of \$16,560,000. The increased additional paid-in capital resulted from the placement of MS-PLC stock (par value approximately \$0.08 per share) at a premium of approximately \$1.42 per share and the issuance by the Company of 1,866,666 at \$6 per share, in exchange for a further 7,000,000 shares of MS-PLC from existing stockholders of MS-PLC shares.

Additional Capital. The Company will require additional capital during its fiscal year ending December 31, 2004 to implement its business strategies, including cash for (i) payment of increased operating expenses such as salaries for additional employees; (ii) expenditure

capital may be raised through additional public or private financing, as well as borrowings and other resources. Currently, the Company has two available lines of credit.

On December 15, 2000, the Company entered into an unsecured credit facility with Asia IT, which provides a \$20,000,000 line of credit. Such line of credit originally expired on December 31, 2001, but has been extended until June 30, 2005. Interest on advances under the credit facility accrues at 2% above US LIBOR. The Company can draw down on this credit facility for its financing requirements, upon approval by the Company's Board of Directors and subject to approval by Asia IT (such approval not to be unreasonably withheld). The Company is restricted from borrowing funds, directly or indirectly, other than through the credit facility with Asia IT, without the consent of Asia IT. The availability of the credit facility reduces upon the Company's sale of any of its investment assets. The amounts drawn and interest charged under this facility are repayable on demand or at the maturity of the facility.

On November 20, 2001, Asia IT entered into a £10,000,000 (\$16,000,000) credit facility with MS-PLC. Such facility terminates in November 2005 and is secured by a lien on all of the assets of MS-PLC. Interest on outstanding amounts accrues at 2% above GBP LIBOR. Pursuant to such credit facility, MS-PLC had covenanted to undertake a public offering of its ordinary shares in an amount not less than £25,000,000 not later than March 2002. MS-PLC did not complete such an offering but the facility nevertheless remains in place. The loan is convertible into ordinary shares in MS-PLC on announcement of an offer to subscribe, placing or public offering of its ordinary shares, at the same price per share as the offering price.

At December 31, 2003 and 2002 the Company had drawn down \$2,880,000 and \$2,332,000 respectively under the \$20,000,000 facility with Asia IT, and MS-PLC had no drawings under its £10,000,000 (\$16,000,000) facility with Asia IT at either date.

At December 31, 2003, the Company owned 68,677,300 ordinary shares in MS-PLC, constituting 81.51% of the outstanding shares. At December 31, 2002 the Company owned 67,127,300 shares in MS-PLC. The increase is due to MS-PLC issuing 1,550,000 shares to the Company on December 31, 2003 to settle debt of \$2,482,000 due from MS-PLC to the Company.

During Fiscal 2003 the Company issued a \$10,000,000 private placement of 3,333,333 shares underwritten by Asia IT, which generated funds of \$9,063,000 after deducting Asia IT's commission of \$937,000 (partly paid by issuing 211,000 shares of Company stock valued at \$3.00 per share). In addition Asia IT underwrote a £2,725,000 (\$4,670,000) private placement of MS-PLC shares, which generated funds of £2,453,000 (\$4,222,000) after deducting Asia IT's commission of £272,000 (\$448,000).

On December 31, 2003 the Company agreed to a further \$10,562,000 private placement of restricted stock at \$3.00 per share in Fiscal 2004. The private placement was completed in February 2004 and generated funds of \$9,506,000 after deducting Asia IT's commission.

On December 23, 2002, the Company entered into a share swap with General Nominees and Asia IT Nominees whereby the Company issued 1,866,666 shares to General Nominees (1,674,894 shares) and Asia IT Nominees (191,772 shares) in exchange for 7,000,000 MS-PLC shares held by General Nominees (6,280,852 shares) and Asia IT Nominees (719,148 shares) respectively.

During March 2002, MS-PLC allotted 6,131,398 shares for private placement at £1.00 (approximately \$1.60) per share (par value £0.05). All shares were placed, and the offering closed on December 31, 2002. Asia IT underwrote the issue. The Company increased its shareholding in MS-PLC by acquiring 1,258,718 shares under this issue for \$2,014,000. As of December 31, 2002, MS-PLC had received approximately \$5,012,000 from the proceeds of such offering with the balance of approximately \$1,761,000 being held by Asia IT on MS-PLC's behalf. These funds were remitted to the Company between January and March 2003.

To the extent that additional capital is raised through the sale of equity or equity-related securities of the Company or its subsidiaries, the issuance of such securities could result in dilution to the Company's stockholders. No assurance can be given, however, that the Company will have access to the capital markets in the future, or that financing will be available on acceptable terms to satisfy the Company's cash requirements to implement its business strategies. If we are unable to access the capital markets or obtain acceptable financing, our results of operations and financial conditions could be materially and adversely affected. We may be required to raise substantial additional funds through other means. The products derived from our proprietary software, including the Medicsight™ system, are expected to account for substantially all of our revenues from operations in the foreseeable future. Our technology has not yet been fully commercialized, and we have not begun to receive any revenues from our commercial operations associated with the software products. We cannot assure our stockholders that our technology and products will be commercialized successfully, or that if so commercialized, that revenues will be sufficient to fund our operations. If adequate funds are not available to us, we may be required to curtail operations significantly or to obtain funds through entering into arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies or products that we would not otherwise relinquish.

Contractual Obligations

The Company has the following contractual obligations:

Payments Due By Period

| Contractual Obligations (\$000's) | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|-----------------------------------|----------|---------------------|-----------|-----------|----------------------|
| Operating Lease Obligations | \$ 2,207 | \$ 488 | \$ 1,013 | \$ 649 | \$ 57 |
| Capital Lease Obligations | 402 | 96 | 189 | 117 | — |
| Total | \$ 2,609 | \$ 584 | \$ 1,202 | \$ 766 | \$ 57 |

Critical Accounting Policies.

In December 2001 and January 2002, the Securities and Exchange Commission requested that all registrants list their three to five most "critical accounting policies" in the Management's Discussion and Analyses of Financial Condition and Results of Operations. The Securities and Exchange Commission indicated a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following accounting policies fit the definition of critical accounting policies.

Revenue Recognition. We expect to earn our revenue primarily from software licenses and related services. Our revenue is recognized in accordance with Statement of Position 97-2 (SOP 97-2), as amended by Statement of Position 98-9. Currently the Company's revenues derive from its scanning services operated by Lifesyne™. Scan revenue is recognized when the service is delivered.

The recognition of revenues from software licenses and related services will require more difficult and complex judgments. The terms of the license contract, long-term (over 12 months), short-term, cancelable, non-cancelable or per scan, for example will affect the recognition of revenues from services, such as up-front fees on installation, activation and up-front license fees, on-going license fees, termination fees and maintenance fees. Where fees are received prior to any service being delivered, the fees are deferred until the related service has been delivered successfully and the revenue can then be recognized. If there are fees that relate to any "milestone", these are deferred until the "milestone" has passed, and then the revenue can then be recognized.

The Company believes that the accounting estimates related to the recognition of revenue and establishment of reserves for uncollectible amounts in the results of operations is a "critical accounting estimate" because: (1) it requires management to make assumptions about future collections, and (2) the impact of changes in actual performance versus these estimates on the accounts receivable balance reported on our consolidated balance sheets and the results reported in our consolidated statements of operations could be material. Further the Company has no history of uncollectible amounts and therefore must initially look to the estimates for the industry or particular companies that the management feels operate in a similar environment in addition to any current market indicators about general economic conditions that might impact the collectibility of accounts.

Research and Development. Costs incurred in connection with the development of software products that are intended for sale are accounted for in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Costs incurred prior to technological feasibility being established for the product are expensed as incurred. Technological feasibility is established upon completion of a detail program design or, in its absence, completion of a working model. Thereafter, all software production costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. Capitalized costs are amortized based on current and future revenue for each product with an annual minimum equal to the straight-line amortization over the remaining estimated economic life of the product. Amortization commences when the product is available for general release to customers.

The Company decided that capitalizing such expenditure was inappropriate because of the difficulty in assigning costs accurately to the various software products and versions being developed as technical and development staff are moved from product to product and version to version on a regular basis. Therefore, the Company has decided to expense all research and development costs. The Company's research and development costs are comprised of staff and consultancy costs expensed on the Medicsight™ system.

Impairment of Long-lived Assets and Long-lived Assets To Be Disposed of. The Company evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's assessment for impairment of an asset involves estimating the undiscounted cash flows expected to result from use of the asset and its eventual disposition. An impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Calculating the estimated fair value of the asset involves significant judgments and a variety of assumptions. Judgments that the Company makes concerning the intangible acquired include assessing time and cost involved for development, time to market, risks of regulatory failure or obsolescence (due to market, environmental or technological advances for example). For calculating fair value based on discounted cash flows, we forecast future operating results and future cash flows, which includes long-term forecasts of revenue growth, gross margins and capital expenditures.

Impairment of Excess of Purchase Price Over Net Assets Acquired. The Company adopted SFAS No. 142 on January 1, 2002. Under this standard, goodwill is no longer be amortized over its estimated useful life, but is tested for impairment on an annual basis and whenever indicators of impairment arise. Under the provisions of SFAS No. 142, any impairment loss identified upon adoption of this standard is

recognized as a cumulative effect of a change in accounting principle. Any impairment loss incurred subsequent to the initial adoption of SFAS No 142 is recorded as a charge to current period earnings.

In connection with the adoption of SFAS No. 142, we performed our initial impairment analysis of goodwill and indefinite-lived intangible assets as of January 1, 2002. The implementation involved the

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determination of the fair value of each reporting unit, where a reporting unit is defined as an operating segment or one level below.

We determined the fair value of each significant reporting unit based on discounted forecasts of future cash flows. Judgments and assumptions are required in the preparation of the estimated future cash flows, including long-term forecasts of revenue growth, gross margins and capital expenditures.

Recent Accounting Pronouncements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities ("VIEs"). FIN No.46 is applicable immediately for VIEs created after January 31, 2003 and are effective for reporting periods ending after December 15, 2003, for VIEs created prior to February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, public companies that have interests in VIE's that are commonly referred to as special purpose entities are required to apply the provisions of FIN 46R for periods ending after December 15, 2003. A public company that does not have any interests in special purpose entities but does have a variable interest in a VIE created before February 1, 2003, must apply the provisions of FIN 46R by the end of the first interim or annual reporting period ending after March 14, 2004. The Company does not expect FIN No. 46 to have an effect on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer and that, therefore, the issuer must classify them as liabilities. Such freestanding financial instruments include mandatory redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. SFAS No. 150 is effective immediately for all financial instruments entered into or modified after May 31, 2003. For all other instruments, SFAS No. 150 is effective at the beginning of the third quarter of 2003. The Company has determined that the statement will not have a material impact on the consolidated financial position, results of operations and cash flows of the Company.

ITEM 7A QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company's exposure to market risk associated with changes in interest rates relates to its debt obligations. The Company has the following debt facilities all repayable on demand:

| Debt Holder | Facility | Draw Down | Interest rate | At December 31 |
|---------------------------------|-----------------|------------------|----------------------|-----------------------|
| Asia IT Capital Investments Ltd | \$ 20,000,000 | \$ 2,880,000 | US Libor + 2% | 3.458% |
| Asia IT Capital Investments Ltd | \$ 16,000,000 | \$ — | GBP Libor + 2% | 6.434% |

A hypothetical 100 basis point increase in interest rates would increase interest cost by approximately \$29,000 per annum assuming no further draw downs or repayments are made.

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Foreign Exchange Risk

The Company currently holds approximately \$2m in cash balances in British Pounds. A hypothetical 100 basis point adverse movement in exchange rates would reduce the balance by approximately \$20,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is included on pages F-1 to F-27 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Previous Independent Accountants

BDO Stoy Hayward. On January 2, 2002, the Company engaged BDO Stoy Hayward to act as its independent accountant to examine and report on the Company's financial statements for the year ended December 31, 2001. Prior to its engagement of BDO Stoy Hayward, the Company did not consult with BDO Stoy Hayward on items which (a) were, or should have been, subject to SAS 50 or (b) concerned a disagreement or reportable event with Arthur Andersen as described in Regulation S-B Item 304(a)(2).

On November 7, 2003 BDO Stoy Hayward resigned as the Company's independent auditors.

During the fiscal years ended December 31, 2002 and December 31, 2001 and the interim period up to November 7, 2003 there were no disagreements between the Company and BDO Stoy Hayward on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of BDO Stoy Hayward, would have caused it to make reference to the subject matter of the disagreement(s) in connection with this report.

During the interim period, the Company disclosed to the auditors that the Company believed a restatement of a previously recorded transaction may be possible. However the Company had not reached any conclusion beyond that there is no material effect on the revenues, operations and cash flows of the Company of such a restatement, nor had the Company provided additional substantial information to BDO Stoy Hayward.

The reports of BDO Stoy Hayward on the Company's financial statements for the fiscal years ended December 31, 2002 and December 31, 2001 contained no adverse opinion or disclaimer of opinion and were not modified as to uncertainty, audit scope or accounting principle. BDO Stoy Hayward provided the Company with a letter agreeing with the foregoing statements as to BDO Stoy Hayward, and a copy of such letter is filed as an exhibit to the Company's Current Report on Form 8-K, filed with the SEC on December 23, 2003.

New Independent Accountant

On November 18, 2003, the Company engaged the firm of Amper, Politziner & Mattia, P. C. as the Company's independent accountants to examine and report on the Company's financial statements for the year ended December 31, 2003. During Fiscal 2001 and Fiscal 2002 and through November 18, 2003, the Company has not consulted with Amper, Politziner & Mattia P. C. regarding any matters that would require reporting under Item 304 (a) (2) of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The following table sets forth the current officers and directors of Medicsight, Inc:

| Name | Age | Position |
|-----------------------|------------|------------------------------------------------|
| Stephen Forsyth | 53 | Chairman, Chief Executive Officer and Director |
| Paul Gothard | 36 | Chief Financial Officer and Director |
| Tim Paterson-Brown | 43 | Director |
| Professor Nadey Hakim | 46 | Director |
| Dr Allan Miller | 68 | Director |

Directors are elected in accordance with the Company's by-laws to serve until the next annual stockholders meeting and until their successors are elected in their stead. The Company does not currently pay compensation to directors for services in that capacity. Officers are elected by the Board of Directors and hold office until their successors are chosen and qualified, until their death or until they resign or have been removed from office. All corporate officers serve at the discretion of the Board of Directors. There are no family relationships between any director or executive officer and any other director or executive officer of the Company.

Stephen Forsyth was a Chairman and Chief Executive of Leisure Investments PLC, a publicly quoted company registered in England and Wales between 1976 and 1989. He subsequently assisted the Phoenix Trust Company Limited between 1990 and 1999 with its various operations and investments. In January 1999, he established The International Cotton Company, in which he has been the principal financier of a number of new technology orientated companies from their inception, including Accsys Chemicals PLC, Titan Wood Limited and Medicsight PLC. The Company changed its name to International Capital Corporation PLC in 2003. Stephen remains the Chairman of this investment holding company. Stephen is a founding Trustee of the Medicsight Foundation, a United Kingdom registered charity, which is concerned with the relief of human suffering and poverty and the promotion of health and education.

Paul Gothard has served as Chief Financial Officer and a director of the Company since November 15, 2002. He obtained a BA (Hons) degree in 1989 and subsequently became a Member of the Institute of Chartered Accountants in 1993. He initially joined the Company in July 2001 as Group Financial Controller. His responsibilities have included corporate structuring and fundraising as well as corporate management and governance. He was appointed Finance Director of STG on October 31, 2002. Prior to joining the Company Paul was the Group Financial Controller of IP Powerhouse Ltd, a company involved in constructing and leasing of space in data centers across Europe. From May 1994 to October 1998, Paul served as the Finance Director of Merriman White solicitors.

Tim Paterson-Brown qualified as a Chartered Surveyor with Strutt and Parker in 1984 following degrees at London University and Magdalene College, Cambridge. In 1987 Tim joined Leisure Investments PLC. He subsequently worked closely with Stephen Forsyth for the Phoenix Trust Company Limited between 1990 and 1999 assisting with its various operations and investments. In 1999, he joined The

International Cotton Company as a Director. The International Cotton Company has been the principal financier of a number of new technology orientated companies from their inception, including Accsys Chemicals PLC, Titan Wood Limited and Medicsight PLC. The Company changed its name to International Capital Corporation PLC in 2003. Tim is also a founding Trustee of the Medicsight Foundation, a United Kingdom registered charity, which is concerned with the relief of human suffering and poverty and the promotion of health and education.

Professor Nadey Hakim is a General and Transplant Surgeon. He is the Surgical Director of the Transplant Unit at St Mary's Hospital London and has a particular interest and expertise in kidney and

pancreas transplantation. He obtained his MD from Paris University and received his surgical training at Guy's Hospital in London. He also holds a PhD in small bowel transplantation from University College London. Professor Hakim completed a Gastrointestinal Fellowship at the Mayo Clinic and a Multi-organ Transplant Fellowship at the University of Minnesota. To date he has published over one hundred articles and has written/edited 10 textbooks in the field of surgery and transplantation.

Professor Hakim successfully started the first Pancreas Transplant Program in the Southeast of England. He represented Britain in the International team, which performed the first arm transplant and the first double arm transplant in the world. Professor Hakim was recently elected President of the International College of Surgeons based in Chicago. Prior to his election he served as First Vice President and European Federation Secretary.

Dr Allan Miller qualified in medicine at St Bartholomew's Hospital Medical School, London in 1961. In 1965 Dr Miller was admitted to the Royal College of Physicians. After spending 8 years in general practice he was appointed as a medical adviser to international pharmaceutical company, Hoffman La Roche. Dr Miller oversaw the clinical research program for both Isotretinoin and Etretinate and its successor Acitretin. Each of these products was registered worldwide and granted marketing authorization. At Hoffman La Roche Dr Miller held the positions of Head of Clinical Cardiovascular Research Worldwide, Head of Dermatological Research Worldwide and Head of all Clinical Research UK. During his time with Hoffman La Roche, over 9 separate products were successfully registered.

In 1984, Dr Miller joined a U.S. privately owned pharmaceutical group, Purdue Pharma, Mundipharma in Europe and Napp Pharma as Medical Director. Dr Miller established the clinical programs for controlled release tablets, which led to the establishment of the controlled release morphine products. This new palliative process pioneered by Dr Miller's team some 20 years ago has now used throughout the world. Dr Miller spent 14 years as Medical Director for Napp Pharmaceuticals Ltd and 4 years as European Medical Research Director of the Purdue Pharma, Mundipharma, Napp group based in Cambridge, England.

Dr Miller is also a Member of the British Medical Association and a Fellow of the Royal Society of Medicine.

Significant Employees

Significant employees of MS-PLC are:

Peter Venton OBE was appointed as a director of MS-PLC on November 22, 2001. Mr. Venton has over 30 years' experience in the computing and telecommunications industry and holds several patents in the sector. Between 1985 and 2000, Mr. Venton held various chief executive posts, including Plessey Radar, which became Siemens Plessey Electronic Systems after its takeover by Siemens in 1989. From 1993 to 1996, he was the Chief Executive of GEC-Marconi Prime Contracts. From 1997 to 2000, Mr. Venton was the Regional Managing Director of GEC PLC (BAE Systems from December 1999), the supplier of defense, telecommunications, medical and industrial products and systems. He currently serves as the Deputy Chairman of International Hospitals Group and is the Technical Audit Chairman for the Defence Evaluation and Research Agency. He was made a member of the Order of the British Empire (OBE) in the Queen's Birthday Honours in 1989 for services to UK Industry. From March 2001 to January 27, 2002 Mr. Venton was a director of the Company.

Glyn Thomas was appointed Finance Director of MS-PLC in November 2002. He has held senior financial positions with businesses in a range of sectors over the last 25 years—across manufacturing, retailing, media, publishing and financial services. After qualifying as a Chartered Accountant with Peat Marwick Mitchell, his career has included appointments as Director of Corporate Finance for Rothmans International, Director of Financial Operations for Kingfisher PLC, Chief Financial Officer

for Thomas Cook and the Director of Finance and Business Affairs at the BBC. He has combined experience of corporate functions in blue chip multinationals with leading the successful entrepreneurial growth of new business ventures in consumer finance, retail insurance and international trade. Glyn has also held a number of non-executive positions in the mining, telecoms and technology fields, with experience of setting up and chairing both audit and nomination & remuneration committees. Glyn has designed several business plans to develop new businesses for FTSE 100 companies.

Sir Christopher Paine, DM MSc FRCP FRCR, appointed as a non-executive director in February 2002, was the President of the British Medical Association until 2001. He was Medical Director of the Advisory Committee on Distinction Awards for the National Health Service until the end of 1999 and has been President of the Royal College of Radiologists and The Royal Society of Medicine.

Sir Christopher is a Medical Oncologist by specialty, having qualified in 1961. His distinguished medical career has been based in Oxfordshire having been a consultant clinical oncologist from 1970 at the Churchill Hospital in Oxford, and he also served as director of

clinical studies at the medical school. He was district general manager of the Oxford Health Authority from 1984-88. In addition he has served on the Animal Welfare Council and Imperial Cancer Research Fund.

Dr John Costello has been a Consultant Physician in general and respiratory medicine at King's College Hospital since 1977 and senior lecturer in Medicine at Guy's Kings and St Thomas's School of Medicine. Between 1982 and 1998 he was Director of the academic department of respiratory medicine. He specializes in bronchial asthma and its treatment, including collaboration with basic scientists in investigation of mechanisms.

He studied at University College, Dublin and has since held appointments at a number of hospitals including Mater Hospital, Dublin, the Royal Postgraduate Medical School, Hammersmith Hospital, the Royal Brompton Hospital, London, University of Edinburgh and as Assistant Professor of Medicine at the University of California, San Francisco.

He has been Founder President of the Respiratory Medicine Section at the Royal Society of Medicine and as a member of Council at the British Thoracic Society. He has published extensively in the peer-reviewed literature on lung disease, and in particular asthma, and has edited and written several books and chapters on the subject.

Since the early 1990's he has occupied senior management roles in the Trust, including first Medical Director and as Clinical Director of Medicine since 1996. During his period as Medical Director at Kings, it acquired Trust status and built the platform for its current 3 star status. He occupied a unique position across the Academic/Medical School and Clinical/Trust interface.

In February 2002 he was appointed as Director of Medical Science at MS-PLC, responsible for developing innovative technology for radiological population pre-emptive scanning for early detection of cancer and coronary heart disease. In this role he sees great potential for early diagnosis of diseases, which are currently an enormous burden on healthcare providers, thus preventing their long-term effects and generating a fundamental change in national attitudes to healthcare and disease prevention.

Dr Jamshid Dehmeshki was appointed Chief Technology Officer in July 2001. He was awarded his PhD while based at the Computer Science Department of Nottingham University, United Kingdom and also holds an MSc in Applied Mathematics and Computer Science. The main subject of his PhD was a stochastic model-based approach to image processing and he has written over 40 journal papers and conference proceedings. This involved recognition, classification and segmentation of textured images into different regions based on their statistical characteristics.

Jamshid went on to work as a research fellow in the Centre for Industrial and Medical Information (CIMI) for two years where he was responsible for developing the 'image processing'

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algorithms for various medical and industrial applications such as MRI, CT scan, textile, mineral, and remote sensing images. From March 1999 to July 2001, as a senior research fellow, he worked in the NMR Research Unit at the Institute of Neurology, National Hospital for Neurology and Neurosurgery, University College London. Jamshid's work included research into various medical imaging and data processing methods in NMR.

As a result of his ten years' research in image processing, he has published around 40 'first author' articles in leading medical and scientific journals and conferences. He is an honorary lecturer in medical physics at the Institute of Neurology (National Hospital for Neurology and Neurosurgery) at University College London.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the securities laws of the United States, the Company's directors, its executive officers, and any persons holding more than ten percent of the Company's common stock are required to report their initial ownership of the Company's common stock and any subsequent changes in that ownership to the Securities and Exchange Commission (the "Commission"). Specific due dates for these reports have been established and the Company is required to disclose any failure to file by these dates.

Audit Committee Financial Expert

The Company's Board of Directors has determined that the Company does not have an audit committee financial expert, as defined in Regulation S-K promulgated under the Securities and Exchange Act of 1934, serving on its audit committee. The Company will look to appoint an independent director with the necessary financial experience who will serve as the audit committee financial expert once the audit committee has been established.

Code of Ethics

The Company is in the process of adopting a code of ethics that applies to the Company's principal executive officer, principal financial officer and principal accounting officer or controller, or persons performing similar functions.

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ITEM 11. EXECUTIVE COMPENSATION.

The following table summarizes calendar 2003, 2002 and 2001 compensation for services in all capacities of the Company's executive officers.

Summary Compensation Table

| Name and Principal Position | Long-Term Compensation | | | | | | |
|------------------------------------------------|------------------------|----------------|---------------|-----------------------------------------|-----------------------------------|-------------------------|---------------------------|
| | Annual Compensation | | | Awards | Payouts | | |
| | Year | Salary (\$) | Bonus (\$) | Securities Underlying Options (#) | Restricted Stock Awards (#) | LTIP Payouts (\$) | All Other Compensation |
| Stephen Forsyth, Chairman and CEO (1) | 2003 | — | — | — | — | — | — |
| Simon Zuanic, CEO (1) | 2003 | 131,560 | — | — | — | — | 100,315 |
| Stefan Allesch-Taylor, Chairman and CEO (1) | 2003 | 116,222 | — | — | — | — | — |
| | 2002 | 113,183 | — | — | — | — | — |
| | 2001 | 120,056 | — | — | — | — | — |
| Paul Gothard, CFO (2) | 2003 | 115,115 | — | — | — | — | — |
| | 2002 | 102,619 | — | — | — | — | — |
| | 2001 | 42,841 | — | — | — | — | — |
| Jason Forsyth, CFO (2) | 2001 | 90,788 | — | — | — | — | — |

- (1) Stefan Allesch-Taylor resigned as the Company's Chief Executive Officer effective January 13, 2003 and resigned as Chairman effective December 8, 2003. Simon Zuanic was appointed Chief Executive Officer January 13, 2003 and resigned effective December 8, 2003 to work in other operations within the International Capital Corporation PLC group. Stephen Forsyth was appointed the Company's Chairman and Chief Executive Officer effective December 8, 2003.
- (2) Jason E. Forsyth resigned as the Company's Chief Financial Officer effective December 27, 2001. Paul Gothard was appointed the Company's Chief Financial Officer from November 15, 2002. Stefan Allesch-Taylor served as Chief Financial Officer in the interim period.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information regarding beneficial ownership of the Company's common stock as of March 19, 2004, and before by:

- each person known by the Company to be the beneficial owner of more than 5% of the outstanding common stock;
- each person serving as a director or executive officer of the Company; and
- all executive officers and directors of the Company as a group.

Beneficial ownership is determined in accordance with the rules of the Commission. In general, a person who has voting power and/or investment power with respect to securities is treated as a beneficial owner of those securities. For purposes of this table, shares subject to outstanding warrants and options exercisable within 60 days of the date of this Annual Report are considered as beneficially owned by the person holding such securities. To our knowledge, except as set forth in this table, we believe that the persons named in this table have sole voting and investment power with respect to the shares shown. Except as otherwise indicated, the address of each of the directors, executive officers and

5% shareholders in this table is as follows: Medicsight, Inc., 46 Berkeley Square, London, W1J 5AT, United Kingdom.

Percentage beneficially owned is based upon 29,282,431 shares of Common Stock issued and outstanding as of March 31, 2004.

| Name of Beneficial Owner | Number of Shares Beneficially Owned | Percentage of Common Equity Beneficially Owned |
|----------------------------------------------------------------------|----------------------------------------|---------------------------------------------------|
| 5% Beneficial Owners | | |
| STG Holdings PLC (1) 46 Berkeley Square London, United Kingdom | 10,673,642 | 36.5% |

| | | |
|----------------------------------------------------------------------------------------------------------|-----------|-------|
| General Mediterranean Holding SA Center Financier 29 Avenue de la Poste Neuve L-2227 Luxembourg | 3,350,000 | 11.4% |
|----------------------------------------------------------------------------------------------------------|-----------|-------|

Directors and Officers

| | | |
|-----------------------------------------------------|---|---|
| Stephen Forsyth | — | * |
| Paul Gothard | — | * |
| Tim Paterson-Brown | — | * |
| Professor Nadey Hakim | — | * |
| Dr Allan Miller | — | * |
| Total Officers and Directors as a Group (5 persons) | — | * |

(1) International Capital Corporation PLC, 15 rue de la Confederation, Geneva 1204, Switzerland, a company registered in Gibraltar, which owns 95.8% of the outstanding share capital of STG Holdings PLC. Additionally Stephen Forsyth, Paul Gothard and Tim Paterson-Brown are the Directors of STG Holdings PLC.

* Less than 1%.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Acquisition of Core Ventures Ltd—In September 2000 the Company acquired 100% of the outstanding stock of Core Ventures Limited. At the time of this transaction, Dr. Alexander Nill was a Director of the Company and principal beneficial shareholder of Core Ventures Limited. In connection with this acquisition, Dr. Nill had guaranteed the valuation of the net assets of Core Ventures Limited to be not less than \$25,000,000 as of December 15, 2000. Dr. Nill resigned as a Director of the Company effective February 27, 2001.

On December 27, 2000, Dr. Nill executed a Memorandum of Understanding ("MOU") with the Company in which he admitted to substantial liability under the personal guarantee. The MOU stipulated that the net assets of Core were estimated to be \$2,540,000 and that the warrants to purchase further Red Cube stock held by Core had no value. Dr. Nill acknowledged that he had been served with a formal demand by the Company to honor his obligations to us pursuant to the terms of the personal guarantee. The MOU provided, inter alia, that Troy was to provide a schedule of other assets having a value of not less than \$10,900,000, such market value to be determined by our independent auditors as being the fair market value as at the valuation date, which assets Dr. Nill

agreed to cause Troy to deliver to us, or as we directed, within 21 days of the date of the MOU. In consideration of our forbearance to immediately sue him to enforce the personal guarantee, Dr Nill, also was to cause to be delivered to us within seven days of the date of the MOU, 616,192 shares of our Common Stock (the equivalent of 924,282 shares pre-splits) endorsed in blank. Dr Nill did not honor his obligations under the MOU and we were unable to obtain effective enforcement, by means of escrow arrangements or otherwise, of the personal guarantee.

In the fiscal quarter ended September 30, 2001, an agent, NYPPE, LLC, was assigned to dispose of shares owned by Dr. Nill in a secondary private placement. As of December 31, 2001 5,000 of those shares (the equivalent of 15,000 shares pre-reverse split) had been sold, resulting in net proceeds to the Company of \$75,000.

We do not consider that enforcement of the terms of the personal guarantee through legal action with a view to recovering against other assets is likely to provide an effective remedy for us. We reached an oral understanding with Dr Nill that the proceeds from the sale of 1,195,000 of Dr Nill's shares of our Common Stock were to be remitted to us. We reserved our other rights and remedies that may be available to us against Dr Nill. The Company received proceeds net of commission under the guarantee of \$3,689,000 from the sale of 1,195,000 shares in Fiscal 2003.

On March 6, 2002, Core entered into voluntary liquidation proceedings. In accordance with the laws governing companies organized in the British Virgin Islands, Core appointed a liquidator to assess the fair value of its assets.

Asia IT Capital Investments Ltd—On December 29, 2000, the Company acquired all of the issued and outstanding shares of HTTP Insights Limited ("Insights"). Asia IT Capital Investments Limited was a shareholder in Insights as well as the Company at the time of the acquisition, and has provided a credit facility for up to \$20,000,000. The credit facility expired on December 31, 2001, but has been extended to June 30, 2005. All advances under the credit facility accrue interest at 2% above US LIBOR. The Company is restricted from borrowing funds, directly or indirectly, other than through the credit facility, without the consent of Asia IT.

On November 20, 2001, Asia IT entered into a £10,000,000 (\$16,000,000) credit facility with MS-PLC. Such facility ceases in November 2005 and is secured by a lien on all of the assets of MS-PLC. Interest on outstanding amounts accrues at 2% above GBP LIBOR. Pursuant to such credit facility, MS-PLC had covenanted to undertake a public offering of its ordinary shares in an amount not less than £25,000,000 not later than March 2002. MS-PLC did not complete such an offering and the facility nevertheless remains in place. The loan is convertible into ordinary shares in MS-PLC on announcement of an Offer to Subscribe, Placing or other public offering of its ordinary shares, at the same price per share as the offering price. Due to the private offering being undertaken by MS-PLC, the loan is currently convertible. In addition ASIA IT Capital Investments Limited acquired approximately 7,080,000 MS-PLC shares from the 15 million shares issued to Nightingale Technologies as part of the Insights acquisition. On December 23, 2002, the Company entered into a share swap with General Nominees and Asia IT Nominees whereby the Company issued 1,866,666 shares to General Nominees (1,674,894 shares) and Asia IT Nominees (191,772 shares) in return for 7,000,000 MS-PLC shares held by General Nominees (6,280,852 shares) and Asia IT Nominees (719,148 shares) respectively.

In addition, a director of Asia IT is a brother of Tim Paterson-Brown who was appointed to the Board on December 8, 2003 and to the Board of MS-PLC on September 5, 2003. In addition to the loan facilities made available by Asia IT to the Company and MS-PLC, Asia IT underwrote two private placements in Fiscal 2003. For the Company Asia IT underwrote a \$10,000,000 private placement, which generated funds of \$9,063,000 after deducting Asia IT's commission of \$937,000 (partly paid by issuing 211,000 shares of Company stock valued at \$3.00 per share). For MS-PLC Asia IT underwrote a

£2,725,000 (\$4,670,000) private placement, which generated funds of £2,453,000 (\$4,222,000) after deducting Asia IT's commission of £272,000 (\$448,000).

Corporate offices—The Company's corporate offices at 46 Berkeley Square are leased to International Cellulose Company Limited (ICCL), a company registered in England and Wales. STG Holdings PLC, the majority stockholder of Medicsight, acquired 100% of the issued share capital of International Cellulose Company Limited in November 2001. Up until June 30, 2003 rent on 46 Berkeley Square was managed by Berkeley Square Ventures Limited (BSV), a property management company incorporated in England and Wales. Subsequent to June 30, 2003 rent was paid direct to ICCL. The rent payable is based on the amount of space each company occupies. There are no formal leases between the tenants and ICCL. In Fiscal 2003 the Company paid \$909,000 in rent (Fiscal 2002: \$399,000, Fiscal 2001: \$285,000). The increase being due to the company requiring more space at 46 Berkeley Square as it employed more personnel.

ITEM 14. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain controls and procedures designed to ensure that information required to be disclosed in this report is recorded, processed, accumulated and communicated to our management, including our chief executive officer and our chief financial officer, to allow timely decisions regarding the required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. Within the 90 days prior to the filing date of this report, our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of the design and operation of these disclosure controls and procedures. Our chief executive officer and chief financial officer concluded, as of fifteen days prior to the filing date of this report, that these disclosure controls and procedures are effective.

Changes in Internal Controls

Subsequent to the date of the above evaluation, we made no significant changes in our internal controls or in other factors that could significantly affect these controls, nor did we take any corrective action, as the evaluation revealed no significant deficiencies or material weaknesses.

PART IV

ITEM 15. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

| | |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Audit Fees.</i> | Fees billed by our principal accountant amounted to \$240,000 in Fiscal 2003, \$147,000 in Fiscal 2002 and \$62,000 in Fiscal 2001. |
| <i>Audit Related Fees.</i> | Fees billed by our principal accountant amounted to \$nil in Fiscal 2003, \$nil in Fiscal 2002 and \$nil in Fiscal 2001. |
| <i>Tax Fees.</i> | Fees billed by our principal accountant amounted to \$58,000 in Fiscal 2003, \$7,000 in Fiscal 2002 and \$nil in Fiscal 2001. |
| <i>All Other Fees.</i> | Fees billed by our principal accountant amounted to \$9,000 in Fiscal 2003 concerning various matters, \$nil in Fiscal 2002 and \$23,000 in Fiscal 2001 for financial assistance advice under UK Company Law. |

The Company does not have an audit committee at present to pre-approve audit and non-audit fees and to take a view as to whether non-audit fees are compatible with the auditors independence.

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

Financial Statements

The financial statements of the Company for the fiscal years covered by this Annual Report are located on pages F-1 to F-27 of this Annual Report.

Exhibits

| Exhibit No. | Description |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1 | Underwriting Agreement between Internet Holdings, Inc. and Panther Capital Ltd., dated January 6, 2000(1) |
| 2.1 | Articles of Merger of Medicsight, Inc., a Utah corporation(2) |
| 2.2 | Certificate of Merger of Medicsight, Inc., a Delaware corporation(2) |
| 2.3 | Offering Document to acquire shares of Radical Technology PLC.(3) |
| 3.1 | Certificate of Incorporation of Medicsight, Inc. and amendments thereto(2) |
| 3.2 | By-Laws of Medicsight, Inc.(2) |
| 4.1 | Loan Note issued by HTTP Insights, Ltd. to Nightingale Technologies Ltd.(8) |
| 10.1 | Stock Purchase Agreement, dated as of September 7, 2000, between Troy Ventures Ltd. and Internet Holdings, Inc.(4) |
| 10.2 | Share Sale Agreement between Nightingale Technologies Limited and Medicsight, Inc.(5) |
| 10.3 | Letter Agreement between Asia IT Capital Investments, Ltd. and Medicsight, Inc.(7) |
| 10.3 | Letter Agreement between Asia IT Capital Investments, Ltd. and Medicsight PLC(8) |
| 16.1 | Letter from BDO Stoy Hayward regarding change in certifying accountant, dated November 14, 2003.(6) |
| 21.1 | Subsidiaries (filed herewith at page E-1). |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer (filed herewith at page E-2). |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer (filed herewith at page E-3). |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer (filed herewith at page E-4). |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer (filed herewith at page E-5). |
| 99.1 | Report of Intangible Business Limited as to the fair market value of the 15 million Medicsight PLC shares issued to Nightingale Technologies on behalf of Medicsight, Inc (filed herewith). |
| 99.2 | Report of Empire Valuation Consultants, Inc as to the fair market value of the Assets of Nightingale Technologies Limited (filed herewith). |

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- (1) Incorporated herein by reference to the Company's Current Report on Form 8-K filed January 31, 2000.
- (2) Incorporated herein by reference to the Company's Current Report on Form 8-K filed on January 30, 2004.
- (3) Incorporated herein by reference to the Company's Current Report on Form 8-K filed on May 23, 2000.
- (4) Incorporated herein by reference to the Company's Current Report on Form 8-K filed September 27, 2000.

- (5) Incorporated herein by reference to the Company's Current Report on Form 8-K filed March 7, 2001.
- (6) Incorporated herein by reference to the Company's Current Report on Form 8-K, filed November 14, 2003, as amended on December 23, 2003.
- (7) Incorporated herein by reference to the Company's Registration Statement on Form SB-2, filed December 26, 2001.
- (8) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB, filed April 19, 2002.

Reports on Form 8-K

On October 28, 2002, the Company filed a Current Report on Form 8-K announcing that the Company had changed its name to Medicsight, Inc.

On December 30, 2002, the Company filed a Current Report on Form 8-K announcing that the Company had affected a 1-for-3 reverse split of its Common Stock.

On August 5, 2003, the Company filed a Current Report on Form 8-K announcing an amendment to its Certificate of Incorporation reducing the number of shares the Company is authorized to issue from 100,000,000 shares to 25,000,000 shares.

On November 14, 2003, as amended on December 23, 2003, the Company filed a Current Report on Form 8-K announcing the resignation of BDO Stoy Hayward as the Company's auditors on November 7, 2003.

On November 21, 2003 the Company filed a Current Report on Form 8-K announcing that the Company engaged the firm of Amper, Politziner & Mattia, P. C. as the Company's independent accountants.

On January 13, 2004 the Company filed a Current Report on Form 8-K announcing that the Company has concluded that a restatement of a previously recorded transaction is required.

On January 30, 2004, the Company filed a Current Report on Form 8-K announcing an amendment to its Certificate of Incorporation increasing the number of shares the Company is authorized to issue from 25,000,000 shares to 40,000,000 shares.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDICSIGHT, INC.

April 8, 2004

By: /s/ STEPHEN FORSYTH

Chief Executive Officer (Principal Executive Officer)

April 8, 2004

By: /s/ PAUL GOTHARD

Chief Financial Officer (Principal Financial Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|-------------------------------------------------|----------|---------------|
| /s/ STEPHEN FORSYTH _____ Stephen Forsyth | Director | April 8, 2004 |
| /s/ PAUL GOTHARD _____ Paul Gothard | Director | April 8, 2004 |
| /s/ TIM PATERSON-BROWN | Director | April 8, 2004 |

Tim Paterson-Brown

/s/ NADEY HAKIM

Director

April 8, 2004

Nadey Hakim

/s/ ALLAN MILLER

Director

April 8, 2004

Allan Miller

MEDICSIGHT, INC. AND SUBSIDIARIES
(FORMERLY HTTP TECHNOLOGY, INC.)
CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT ACCOUNTANTS REPORT

MEDICSIGHT, INC. AND SUBSIDIARIES
(FORMERLY HTTP TECHNOLOGY, INC.)
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| Consolidated Statements of Operations for the years ended December 31, 2003, December 31, 2002 (restated) and December 31, 2001 (restated) | F-4 |
| Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Loss for the years ended December 31, 2003, December 31, 2002 (restated) and December 31, 2001 (restated) | F-5 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2003, December 31, 2002 (restated) and December 31, 2001 (restated) | F-6 |
| Notes to the Consolidated Financial Statements | F-7 to F-27 |

F-1

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Medicsight, Inc.:

We have audited the accompanying consolidated balance sheets of Medicsight, Inc. (a Delaware Corporation), formerly HTTP Technology, Inc. and Subsidiaries as of December 31, 2003, 2002, and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medicsight, Inc. and Subsidiaries as of December 31, 2003, 2002, and 2001 and the results of their operations and their cash flows for years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the consolidated financial statements for the years ended December 31, 2002 and December 31, 2001 have been

restated.

As discussed in Notes 2 and 10 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002.

/s/ Amper, Politziner & Mattia P.C.

March 12, 2004
Edison, New Jersey

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MEDICSIGHT, INC. AND SUBSIDIARIES
(FORMERLEY HTTP TECHNOLOGY, INC)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2003, DECEMBER 31, 2002 AND DECEMBER 31, 2001
(in \$ thousands)

| | 2003 | 2002 As restated Note 3 | 2001 As restated Note 3 |
|-----------------------------------------------------------------------------------------------------------------|---------------|-------------------------------|-------------------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 845 | \$ 1,778 | \$ 203 |
| Accounts receivable (net of allowance for doubtful debts of \$nil, \$nil and \$74) | 33 | 1 | 93 |
| Other receivables | 123 | 1 | 183 |
| Prepaid expenses | 539 | 222 | 118 |
| VAT Receivable | 604 | 282 | 60 |
| | <u>2,144</u> | <u>2,284</u> | <u>657</u> |
| Total current assets | 2,144 | 2,284 | 657 |
| PROPERTY AND EQUIPMENT, at cost, net of accumulated depreciation of \$1,480, \$480 and \$315 | 3,033 | 1,416 | 359 |
| INVESTMENTS, at cost | 429 | 525 | 700 |
| SECURITY DEPOSITS | 843 | 5 | 50 |
| INTANGIBLE ASSET, at cost, net of accumulated amortization of \$nil, \$8,988 and \$4,494 | — | — | 17,976 |
| EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED, net of accumulated amortization of \$nil, \$nil and \$16,645 | 11,200 | 11,200 | 68,178 |
| | <u>17,649</u> | <u>15,430</u> | <u>87,920</u> |
| Total assets | \$ 17,649 | \$ 15,430 | \$ 87,920 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 2,342 | \$ 2,468 | \$ 635 |
| Accrued expenses | 700 | 704 | 437 |
| Accrued professional expenses | 326 | 191 | 209 |
| Bank overdraft | 196 | — | — |
| Line of credit—related party | 2,880 | 2,332 | 1,325 |
| Current portion of obligations under capital leases | 96 | 32 | 6 |
| Short-term debt | — | 3,250 | 3,250 |
| | <u>6,540</u> | <u>8,977</u> | <u>5,862</u> |
| Total current liabilities | 6,540 | 8,977 | 5,862 |
| Obligations under capital leases, net of current portion | 306 | 42 | 19 |
| | <u>6,846</u> | <u>9,019</u> | <u>5,881</u> |
| Total liabilities | 6,846 | 9,019 | 5,881 |
| STOCKHOLDERS' EQUITY: | | | |
| Common stock, \$0.001 par value, 25,000,000 shares | | | |

| | | | |
|---------------------------------------------------------------------------------|------------------|------------------|------------------|
| authorized, 24,488,858, 21,154,879 and 19,288,291 shares issued and outstanding | 24 | 21 | 19 |
| Additional paid-in capital | 173,810 | 162,156 | 145,596 |
| Vendor guarantee | — | (3,689) | (10,000) |
| Currency translation adjustment | 123 | 290 | (44) |
| Accumulated deficit | (163,468) | (153,372) | (54,459) |
| TOTAL STOCKHOLDERS' EQUITY | 10,489 | 5,406 | 81,112 |
| Minority interest | 314 | 1,005 | 927 |
| Total Stockholders' equity and minority interest | 10,803 | 6,411 | 82,039 |
| Total liabilities and stockholders' equity | \$ 17,649 | \$ 15,430 | \$ 87,920 |

The accompanying notes are an integral part of these statements.

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MEDICSIGHT, INC. AND SUBSIDIARIES
(FORMERLY HTTP TECHNOLOGY, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, DECEMBER 31, 2002, AND DECEMBER 31, 2001
(in \$ thousands except per share data)

| | 2003 | 2002 As restated Note 3 | 2001 As restated Note 3 |
|------------------------------------------------------|-------------|-------------------------------|-------------------------------|
| REVENUES | \$ 276 | \$ 82 | \$ 225 |
| EXPENSES: | | | |
| Selling, general and administrative | 10,279 | 10,619 | 10,522 |
| Software development cost | — | — | 77 |
| Research and development cost | 2,498 | 1,239 | 1,266 |
| Impairment of intangibles | — | 13,482 | 387 |
| Impairment of investments | 95 | 175 | 2,412 |
| Impairment of vendor guarantee | — | 6,311 | 9,109 |
| Amortization of goodwill | — | — | 15,385 |
| Impairment of goodwill | — | 68,178 | 7,217 |
| | 12,872 | 100,004 | 46,375 |
| Operating loss | (12,596) | (99,922) | (46,150) |
| OTHER INCOME/(EXPENSE) | | | |
| Interest and other income | 12 | 3 | 191 |
| Net foreign exchange losses | (2) | (164) | — |
| | 10 | (161) | 191 |
| Net loss before minority interest | (12,586) | (100,073) | (45,959) |
| MINORITY INTEREST | 2,490 | 1,170 | 114 |
| Net loss | \$ (10,096) | \$ (98,913) | \$ (45,845) |
| PER SHARE DATA: | | | |
| Basic and diluted loss per share | (0.45) | (5.13) | (2.47) |
| Weighted average number of common shares outstanding | 22,203,126 | 19,294,654 | 18,563,404 |

The accompanying notes are an integral part of these statements.

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MEDICSIGHT, INC. AND SUBSIDIARIES
(FORMERLY HTTP TECHNOLOGY, INC.)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2001 TO DECEMBER 31, 2003
(figures in \$ thousands)

| | Common Stock* | | Additional Paid-In Capital | Vendor Guarantee | Accumulated Comprehensive Income (Loss) | Retained Earnings (Accumulated Deficit) | Total Stockholders' Equity |
|-----------------------------------------------------------------------------------|---------------|----------|----------------------------------|---------------------|-----------------------------------------------|--------------------------------------------------|----------------------------------|
| | Shares | Amount | | | | | |
| BALANCE, JANUARY 1, 2001 | 14,250 | \$ 14 | \$ 50,943 | \$ (19,109) | \$ (19) | \$ (8,614) | \$ 23,215 |
| Issuance of shares in connection with acquisition of Radical Technology PLC | 40 | — | 601 | — | — | — | 601 |
| Issuance of shares in connection with acquisition of Nightingale Technologies Ltd | 5,000 | 5 | 92,995 | — | — | — | 93,000 |
| Equity contribution by shareholder | — | — | 1,057 | — | — | — | 1,057 |
| Impairment of vendor guarantee | — | — | — | 9,109 | — | — | 9,109 |
| COMPREHENSIVE LOSS | | | | | | | |
| Net loss for the year | — | — | — | — | — | (45,845) | (45,845) |
| Net effect of foreign currency translation adjustments | — | — | — | — | (25) | — | (25) |
| Total comprehensive loss | — | — | — | — | (25) | (45,845) | (45,870) |
| BALANCE, DECEMBER 31, 2001 | 19,290 | 19 | 145,596 | (10,000) | (44) | (54,459) | 81,112 |
| Additional paid-in capital received on stock issued by MS-PLC, net | — | — | 5,362 | — | — | — | 5,362 |
| Stock issued by Medicsight, Inc to acquire additional stock in MS-PLC | 1,865 | 2 | 11,198 | — | — | — | 11,200 |
| Impairment of vendor guarantee | — | — | — | 6,311 | — | — | 6,311 |
| COMPREHENSIVE LOSS | | | | | | | |
| Net loss for the year | — | — | — | — | — | (98,913) | (98,913) |
| Net effect of foreign currency translation adjustments | — | — | — | — | 334 | — | 334 |
| Total comprehensive loss | — | — | — | — | 334 | (98,913) | (98,579) |
| BALANCE, DECEMBER 31, 2002 | 21,155 | 21 | 162,156 | (3,689) | 290 | (153,372) | 5,406 |
| Stock issued by Medicsight, Inc, net | 3,333 | 3 | 9,060 | — | — | — | 9,063 |
| Additional paid-in capital received on stock issued by MS-PLC, net | — | — | 2,594 | — | — | — | 2,594 |
| Funds received under vendor guarantee | — | — | — | 3,689 | — | — | 3,689 |
| COMPREHENSIVE LOSS | | | | | | | |
| Net loss for the year | — | — | — | — | — | (10,096) | (10,096) |
| Net effect of foreign currency translation adjustments | — | — | — | — | (167) | — | (167) |
| Total comprehensive loss | — | — | — | — | (167) | (10,096) | (10,263) |
| BALANCE, DECEMBER 31, 2003 | 24,488 | \$ 24 | \$ 173,810 | \$ — | \$ 123 | \$ (163,468) | \$ 10,489 |

* All share issuances have been retroactively restated to give effect to 1 for 3 reverse stock split on December 30, 2002.

The accompanying notes are an integral part of these statements.

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MEDICSIGHT, INC. AND SUBSIDIARIES
(FORMERLY HTTP TECHNOLOGY, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2003,
DECEMBER 31, 2002 AND DECEMBER 31, 2001
(in \$ thousands)

| | | |
|---------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| Year ended December 31, 2003 | Year ended December 31, 2002 As restated Note 3 | Year ended December 31, 2001 As restated Note 3 |
|---------------------------------|----------------------------------------------------------|----------------------------------------------------------|

| | | | |
|-----------------------------------------------------------------------------------|---------------|-----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$ (10,096) | \$ (98,913) | \$ (45,845) |
| Adjustments to reconcile net loss to net cash used in operating activities | | | |
| Depreciation and amortization of intangibles | 631 | 4,735 | 4,867 |
| Impairment of intangibles | — | 13,482 | 387 |
| Amortization of goodwill | — | — | 15,385 |
| Impairment of goodwill | — | 68,178 | 7,217 |
| Capitalized software development costs written off | — | — | 77 |
| Provision for doubtful accounts | — | — | 3 |
| Net foreign exchange losses | — | 164 | — |
| Interest from prior years forgiven | — | 399 | — |
| Impairment of investment | 95 | 175 | 2,412 |
| Impairment of vendor guarantee | — | 6,311 | 9,109 |
| Minority interest in net losses of subsidiary | (2,490) | (1,170) | (114) |
| (Increase)/decrease in assets | | | |
| Accounts receivable | (32) | 93 | 21 |
| Other receivables | (122) | 181 | (35) |
| Prepaid expenses | (317) | (104) | 170 |
| VAT receivable | (322) | (221) | 98 |
| Unbilled services | — | — | (86) |
| Security deposits | (743) | 44 | 194 |
| Increase/(decrease) in liabilities | | | |
| Accounts payable | 42 | 1,038 | (48) |
| Accrued expenses | 70 | (103) | 268 |
| Accrued professional expenses | 135 | (18) | (28) |
| Net cash used in operating activities | (13,149) | (5,729) | (5,948) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of fixed assets | (1,293) | (464) | (163) |
| Proceeds from sale of investments | — | 2 | 1,660 |
| Net cash (used in)/provided by investing activities | (1,293) | (462) | 1,497 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Principal payments under capital lease obligations | (478) | — | (5) |
| Increase/(Decrease) in bank overdraft | 196 | — | (179) |
| Proceeds from line of credit — related party | 356 | 1,006 | 1,325 |
| Repayments of short-term debt | (3,250) | — | (2,756) |
| Proceeds from sale of common stock | 9,063 | — | — |
| Proceeds from MS-PLC sale of common stock | 4,222 | 6,773 | — |
| Proceeds from vendor guarantee | 3,689 | — | 75 |
| Net cash provided by/(used in) financing activities | 13,798 | 7,779 | (1,540) |
| Effects of exchange rates on cash and cash equivalents | (289) | (13) | (37) |
| NET CHANGE IN CASH & CASH EQUIVALENTS | (933) | 1,575 | (6,028) |
| CASH & CASH EQUIVALENTS, BEGINNING OF YEAR | 1,778 | 203 | 6,231 |
| CASH & CASH EQUIVALENTS, END OF YEAR | \$ 845 | \$ 1,778 | \$ 203 |
| SUPPLEMENTAL DISCLOSURES OF CASH PAID | | | |
| Interest | 66 | 77 | 6 |
| NON CASH FINANCING ACTIVITIES | | | |
| Issuance of shares for acquisitions | — | — | 115,399 |
| Capital lease obligations for equipment | 841 | 74 | — |

The accompanying notes are an integral part of these statements.

**MEDICSIGHT, INC. AND SUBSIDIARIES
(FORMERLY HTTP TECHNOLOGY, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Organization and basis of presentation

Medicsight, Inc. (along with its subsidiaries, the "Company") is the successor consolidated entity formed by the reverse acquisition on December 22, 1999 by Fairfax Equity Limited ("Fairfax") (now Medicsight Finance Ltd) of Internet Holdings, Inc. a publicly-held company originally incorporated in Utah in 1977, under the name, Trolley Enterprises, Inc. Fairfax, which was treated as the accounting acquirer in the transaction, was incorporated in the United Kingdom on October 18, 1999. Prior to its reverse acquisition by Fairfax, control of the former Internet Holdings, Inc., as well as the corporate name, had changed many times. All prior operations had previously been discontinued and all related claims and counterclaims were settled, the last of which settlements occurred in November 1999.

The Company is a developer of sophisticated software technology in the medical sector. The Company's business objective is to deliver the Medicsight™ system.

In April 2000, the Company acquired Radical Technology PLC (now known as HTTP Software PLC), which provided the Company with a business dedicated to systems integration and software development. In December 2000, the Company acquired Nightingale Technologies Limited (now known as HTTP Insights Ltd.), the principal technology of which is a Stochastic Perception Engine, formerly known as the Data Classification Engine.

The Company's Stochastic Perception Engine is comprised of four principal modules: cluster analysis, statistical modeling, classification and prediction. This technology offers unsurpassed processing speed, accuracy and comprehensiveness of results when compared to existing data classification or neural network based technologies.

Initially we believed that our Stochastic Perception Engine had significant potential uses in a wide variety of fields, including medical image analysis, the design of pharmaceuticals, environmental mapping, handwriting recognition, robotics and surveillance. Following a review of the Technology in Fiscal 2003 the Company has concluded that the non-medical applications are of limited use as there has been no development of the core technology in these fields in Fiscal 2002 and Fiscal 2003.

We have restructured our business to focus solely on the medical imaging applications derived from our core technology. We have concluded the process of incorporating all research, software development, and management and marketing activities related to our medical imaging initiatives into MS-PLC. In November 2001 assets were transferred from our other subsidiaries to MS-PLC and the costs incurred on the development of the Medicsight™ system (our state-of-the-art digital disease detection software system comprising MedicColon™, MedicHeart™, and MedicLung™) were reimbursed and assigned by way of a loan note from MS-PLC. The amount of the loan note to Medicsight, Inc. was £3,659,104, and this loan note was converted into 57,868,582 ordinary shares of MS-PLC issued to the Company and 15,000,000 ordinary shares of MS-PLC issued to the former parent of Insights in November 2001.

During November 2002 Insights transferred ownership of the Technology and the patent applications associated with the technology to Medicsight Finance Limited ("Finance"). Insights was sold to an independent third party on December 6, 2002 for a nominal sum of \$160.

Current contracts between Software and existing customers have been completed. Software was sold to an independent third party on October 28, 2002 for a nominal sum of approximately \$1,500. As of October 28, 2002 it had net assets of approximately \$4,500.

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On December 19, 2000, HTTP Technology, Inc. entered into an Agreement and Plan of Merger with its wholly owned subsidiary HTTP Technology, Inc., a Delaware corporation and thereby effected a re-incorporation of the Company from Utah to Delaware.

On October 28, 2002, the Company's name was changed from HTTP Technology, Inc. to Medicsight, Inc.

The Company has incurred significant operating losses since inception. As a result, the Company has generated negative cash flows from operations, and has an accumulated deficit at December 31, 2003. The Company operating in a developing industry based on new technology and its primary source of funds to date has been through the issuance of securities and borrowed funds. The Company is currently seeking additional funding are actively developing the technology in order to bring it to market. While the Company is optimistic and believes appropriate actions are being taken, there can be no assurance, however, that management's efforts will be successful or that the product it markets will be accepted by consumers.

2. Summary of significant accounting policies:

Principles of consolidation—The consolidated financial statements include the accounts of Medicsight, Inc. and its subsidiaries in which it has a controlling interest. Subsidiaries acquired are consolidated from the date of acquisition. All inter-company accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents—The Company considers investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable—Accounts receivable are customer obligations due under normal trade terms and are stated at cost less any allowance for doubtful accounts. The Company records an allowance for doubtful accounts based on specifically identified amounts that the Company believes to be uncollectible. The balance for the years ended December 31, 2003, December 31, 2002 and December 31, 2001 for provision of doubtful accounts was \$nil, \$nil and \$74,000, respectively.

Investments—Investments consist of equity ownership in various corporations. The Company records these investments at historical cost, subject to any provision for impairment. For Fiscal 2003, the Company incurred an impairment loss on investments of \$59,000 relating to the impairment in the carrying value of Eurindia PLC ("Eurindia"), based upon the management of Eurindia valuing the investment portfolio at \$0.72 per share. Additionally the Company fully impaired its investment in Strategic Intelligence PLC (\$36,000), as the Company was

unable to obtain any information on or representations from its investment as to the fair value.

For Fiscal 2002, the Company incurred an impairment loss on investments of \$175,000 relating to the impairments in the carrying value of Eurindia and Top Tier, Inc. Based upon the management of Eurindia valuing the investment portfolio at \$0.83 per share the Company incurred an impairment of \$145,000 on the carrying value of its investment. Based on the financial status of Top Tier, Inc, the investment was permanently impaired, and the Company recorded impairment for the entire carrying value \$30,000 of this investment. For Fiscal 2001, investments of \$2,412,000 were impaired. Based on the financial status of Compaer AG the investment was permanently impaired in Fiscal 2001, and the Company recorded impairment for the entire carrying value of this investment.

Property and equipment—Property and equipment are stated at cost. Depreciation is calculated on the various asset classes over their estimated useful lives, which range from two to five years. Leasehold improvements are depreciated over the term of the lease.

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Intangible assets—Intangible assets consist primarily of software development costs, trademarks, workforce and existing contracts. These intangible assets are being amortized on a straight-line basis over two to five years. The Company evaluates the periods of amortization continually to determine whether later events or circumstances warrant revised estimates of useful lives. The Company viewed the development of the Medicsight™ system and staff changes as such and so intangible assets acquired from Software and Insights (Value of Workforce) were fully impaired in Fiscal 2001. The balance of the intangibles relates to the Technology acquired from Insights for \$22,470,000. During Fiscal 2003 the Company reviewed the value attributable to the Technology and concluded that as there had been no further development of the Technology except for the Medicsight™ applications in Fiscal 2002 that the Technology should be impaired in full at December 31, 2002. Therefore the Company recorded an impairment charge of \$13,482,000 in Fiscal 2002. Accumulated amortization was \$8,988,000 at December 31, 2002 and \$4,494,000 at December 31, 2001.

Excess of Purchase Price Over Net Assets Acquired—Excess of purchase price over net assets acquired ("goodwill") represents the excess of acquisition purchase price over the fair value of the net assets acquired. To the extent possible, a portion of the excess purchase price is assigned to identifiable intangible assets. Effective January 1, 2002 with the adoption of SFAS No. 142, goodwill is no longer to be amortized. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 5 years.

For Fiscal 2003, Fiscal 2002 and Fiscal 2001, the Company had excess of purchase price over net assets acquired of \$11,200,000, \$11,200,000 and \$68,178,000 (net of amortization of \$16,645,000) respectively.

The increase in Fiscal 2002 of \$11,200,000 was due to the Company acquiring an additional 7,000,000 shares in MS-PLC by way of a share swap. The consideration for the MS-PLC stock was 1,866,666 shares in the Company's stock valued at \$6.00 per share based upon the weighted average share price of the Company's stock. The excess of purchase price over net assets acquired of \$68,178,000 was from the Company's acquisition of Insights. The goodwill attributable to the Insights acquisition comprises the first tranche of 5 million shares issued by the Company of \$67,087,000 and the second tranche of 15 million shares issued by MS-PLC on behalf of the Company of \$1,091,000, both amounts stated after amortization.

Impairment of Excess of Purchase Price Over Net Assets Acquired—The Company adopted SFAS No. 142 on January 1, 2002. Under this standard, goodwill will be tested for impairment on an annual basis or whenever indicators of impairment arise.

The Company has reviewed the goodwill attributable to the acquisition of Insights of \$68,178,000 in Fiscal 2000 after the fair value adjustment described in Note 3. As the business of Insights had been transferred to other group companies in 2001 (MS-PLC) and 2002 (Medicsight Finance Ltd) and Insights sold to an independent third party on December 6, 2002 the Company has concluded that the goodwill attributable to the acquisition of Insights should be impaired in full as at December 31, 2002. Therefore the Company is recording an impairment charge of \$68,178,000 in Fiscal 2002.

The goodwill attributable to the acquisition of Software has been fully impaired at December 31, 2001 in response to the halt on the development of its own software to concentrate on the Medicsight™ system. An impairment of \$6,906,000 was recorded. A further impairment of the goodwill acquired on the acquisition of Software of \$311,000 was recorded after comparing preliminary estimates with a valuation undertaken on behalf of the company.

Impairment of long-lived assets and long-lived assets to be disposed of—The Company evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's assessment for

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impairment of an asset involves estimating the undiscounted cash flows expected to result from use of the asset and its eventual disposition. An impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Foreign currency translation—The accounts of the Company's foreign subsidiaries are maintained using the local currency as the functional currency. For these subsidiaries, assets and liabilities are translated into U.S. dollars at year-end exchange rates, and income and expense accounts are translated at average monthly exchange rates. Net gains and losses from foreign currency translation are excluded from operating results and are accumulated as a separate component of stockholders' equity.

Gains and losses on foreign currency transactions are reflected in current operating results.

Revenue recognition—Revenue is recognized as services are performed, in accordance with the terms of the contractual arrangement, where persuasive evidence of an arrangement exists, the fee is fixed and determinable and collection is reasonably assured.

The Company's principal revenues in Fiscal 2003 relate to the Company-operated Lifesyne™ scanning centers in the United Kingdom at Ravenscourt and Westminster in London. The Company's principal revenues in Fiscal 2002 and Fiscal 2001 relate to maintenance and support services for contracts entered into by Software. These support services have now been completed and future revenues will be derived from such services as scanning, licensing of the software and franchising services.

Research and development—Costs incurred in connection with the development of software products that are intended for sale are accounted for in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Costs incurred prior to technological feasibility being established for the product are expensed as incurred. Technological feasibility is established upon completion of a detail program design or, in its absence, completion of a working model. Thereafter, all software production costs can be capitalized and subsequently reported at the lower of un-amortized cost or net realizable value. Capitalized costs are amortized based on current and future revenue for each product with an annual minimum equal to the straight-line amortization over the remaining estimated economic life of the product. Amortization commences when the product is available for general release to customers.

The Company concluded that capitalizing such expenditure on completion of a working model was inappropriate because of the difficulty in assigning costs accurately to the various software products and versions being developed as technical and development staff are moved from product to product and version to version on a regular basis. Therefore the Company has decided to expense all research and development costs. The Company's research and development costs are comprised of staff and consultancy costs expensed on the Medicsight™ system.

The Company's expenditure on research and development comprise of staff and consultants employed in the development of the Medicsight™ system. During the twelve months ended December 31, 2003, December 31, 2002 and December 31, 2001, the Company expended \$2,498,000, \$1,239,000 and \$1,266,000 respectively for research and development expenses for the Medicsight™ system. We cannot predict the amount of additional expenditures that will be necessary prior to achieving commercialization of our products.

During Fiscal 2001 software development costs of \$77,000 were written off as the projects concerned (Addserver—structure advertising software and Callanalysis -a website) were halted.

Income taxes—Deferred taxes are computed based on the tax liability or benefit in future years of the reversal of temporary differences in the recognition of income or deduction of expenses between

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financial and tax reporting purposes. The net difference, if any, between the provision for taxes and taxes currently payable is reflected in the balance sheet as deferred taxes. Deferred tax assets and/or liabilities, if any, are classified as current and non-current based on the classification of the related asset or liability for financial reporting purposes, or based on the expected reversal date for deferred taxes that are not related to an asset or liability. Valuation allowances are recorded to reduce deferred tax assets to that amount which is more likely than not to be realized.

Loss per share—Basic loss per share is calculated by dividing net income or loss attributable to the ordinary shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by dividing the net income or loss attributable to the ordinary shareholders by the sum of the weighted average number of common shares outstanding and the diluted potential ordinary shares.

Comprehensive loss—Comprehensive loss reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive loss is comprised of net (loss) and foreign currency translation adjustments.

Fair Value of Financial Instruments—Statement of Financial Accounting Standards 107, requires all entities to disclose the fair value of certain financial instruments in their financial statements. Accordingly, the Company reports that the carrying amount of cash and cash equivalents, accounts receivable, monetary prepayments, accounts payable and accrued liabilities, advances and short term debt approximates fair value due to the short maturity of these instruments.

Segment Reporting—The Company follows the provisions of Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information". The approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers.

Common Stock—The holder of each share of common stock outstanding is entitled to one vote per share.

Stock Options—The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related interpretations in accounting for its employee stock options. Under this method, compensation cost is measured as the amount by which the market price of the underlying stock exceeds the exercise price of the stock option at the date at which both the number of options granted and the exercise price are known.

In accordance with SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," the effect on net income and earnings per share if the Company had applied the fair value

recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation is as follows:

| | December 31, 2003 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Net loss—as reported | (\$10,096) |
| Add: | |
| Stock-based employee compensation expense included in reported net income, net of related tax effects | 0 |
| Deduct: | |
| Adjustment to total stock-based employee compensation expense determined under the intrinsic value method for expense determined under the fair value based method, net of related tax effects | (65) |
| Pro forma net income | (\$10,161) |
| Earnings per share: | |
| Basic, as reported | (\$0.45) |
| Basic, pro forma | (\$0.46) |
| Diluted, as reported | (\$0.45) |
| Diluted, pro forma | (\$0.46) |

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at \$.65 on the date of grant using the Black-Scholes option-pricing model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are not transferable.

The following weighted-average assumptions were used for the year ended December 31, 2003:

| | |
|-------------------------|---------|
| Risk-free interest rate | 3.5% |
| Expected volatility | 0% |
| Dividend yield | 0% |
| Expected life | 2 years |

Use of estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as revenues and expenses during the reporting period. Actual results could vary from those estimates.

Reclassifications—Certain reclassifications have been made to prior year financial statements in order to conform to the current year presentation.

Recent accounting pronouncements—

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities ("VIEs"). FIN No.46 is applicable immediately for VIEs created after January 31, 2003 and are effective for reporting periods ending after December 15, 2003, for VIEs created prior to February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, public companies that have interests in VIE's that are commonly referred to as special purpose entities are required to apply the provisions of FIN 46R for periods ending after December 15, 2003. A public company that does not have any interests in special purpose entities but does have a variable interest in a VIE created before February 1, 2003, must apply the provisions of FIN 46R by the end of the first interim or annual reporting period ending after March 14,

2004. The Company does not expect FIN No. 46 to have an effect on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer and that, therefore, the issuer must classify them as liabilities. Such freestanding financial instruments include mandatory redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. SFAS No. 150 is effective immediately for all financial instruments entered into or modified after May 31, 2003. For all other instruments, SFAS No. 150 is effective at the beginning of the third quarter of 2003. The Company has determined that the statement will not have a material impact on the consolidated financial position, results of operations and cash flows of the Company.

3. Restatement of financial statements

During fiscal 2003, the Company determined that the fair value of common stock issued in a previously recorded acquisition was incorrect. In addition, the Company identified certain errors in its previously issued financial statements related to impairment of intangibles, goodwill, and the vendor guarantee.

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As a result, the Company has restated its previously issued financial statements for the years ended December 31, 2002 and 2001. A summary of the significant effects of the restatements is set forth below.

| | December 31, 2002 | | December 31, 2001 | |
|-----------------------------------------------|------------------------|-------------|------------------------|-------------|
| | As Previously Reported | As Restated | As Previously Reported | As Restated |
| (Dollars in thousands, except per share data) | | | | |
| Consolidated balance sheet data as of: | | | | |
| Intangible assets | \$ 13,482 | \$ — | \$ 17,976 | \$ 17,976 |
| Goodwill | 100,119 | 11,200 | 88,919 | 68,178 |
| Additional paid in capital | 182,897 | 162,156 | 166,337 | 145,596 |
| Vendor guarantee | (3,227) | (3,689) | (10,000) | (10,000) |
| Accumulated deficit | (72,174) | (153,372) | (54,459) | (54,459) |
| Stockholders' equity | 107,807 | 5,406 | 101,853 | 81,112 |

| | December 31, 2002 | |
|----------------------------------------------------------------|------------------------|-------------|
| | As Previously Reported | As Restated |
| Consolidated statements of operations data for the year ended: | | |
| Impairment of intangibles | \$ — | \$ 13,482 |
| Impairment of vendor guarantee | 6,773 | 6,311 |
| Impairment of goodwill | — | 68,178 |
| Net loss | (17,715) | (98,913) |
| Net loss per share—basic and diluted | \$ (0.92) | \$ (5.13) |

There is no effect on the consolidated statement of operations for the year ended December 31, 2001.

December 31, 2001

Fair Value attributable to the second tranche of shares issued to Nightingale Technologies Ltd

The transaction affected is the fair value attributable to the second tranche of shares issued to Nightingale Technologies Ltd ("Nightingale") by Medicsight, PLC ("MS-PLC") on behalf of Medicsight, Inc ("Company") as part of the acquisition of HTTP Insights Ltd ("Insights") in 2000.

Upon agreement with Nightingale, the seller of Insights, and in variance of the conditions precedent set forth in the original agreement, the parties agreed on November 22, 2001 that the obligation to issue the second tranche of contingent consideration would be satisfied by the direct issuance of shares in MS-PLC to Nightingale. On November 22, 2001, MS-PLC issued 15,000,000 shares to Nightingale, and Nightingale accepted such shares in satisfaction of our obligation under the original purchase agreement. The second tranche was valued at \$21,832,000 based on the share price of the stock being issued by MS-PLC.

The Company believes that the initial fair value of the second tranche of 15 million shares at £1.00 (\$1.455) per share was incorrect.

At a MS-PLC board meeting in November 2001, the directors agreed to settle an outstanding Loan Note payable to the Company by MS-PLC of £3,659,000 (\$5,324,000), by issuing 73,868,582 shares at par (£0.05 (\$0.07)). At the request of the Company, MS-PLC issued the stock in two

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tranches: 58,868,582 shares to the Company and 15,000,000 shares to Nightingale. At the same time MS-PLC went on to issue a further 1 million shares (par value £0.05 (\$0.07) per share) to the Company at par for a subscription price of £50,000 (\$72,750) in cash. Subsequently the directors of MS-PLC have sought and obtained UK Legal Counsel's Opinion that concludes that the fair value of the shares issued to Nightingale in November 2001 was £0.05 (\$0.07) per share and not £1.00 (\$1.455) per share. In addition, the directors of the Company engaged an independent valuer, Intangible Business Limited, to establish a valuation for the shares issued in November 2001 based on US GAAP. This report ascribes a fair value of £0.05 (\$0.07) per share. A copy of this report is filed herewith (Exhibit 99.1). The revised fair value of the 15 million shares issued is \$1,091,000. The effect of the restatement is to reduce goodwill and additional paid in capital by approximately \$20,741,000. The restatement had no effect on the consolidated statement of operations for the year ended December 31, 2001.

As a result of the above, the Company had not filed its third quarter Form 10-Q (September 30, 2003) and the Company's listing has been moved to the OTC Pink Sheet exchange from the OTC Bulletin Board exchange as the Company is not current in its filings and hence ineligible for the OTC Bulletin Board.

December 31, 2002

Intangible Assets

The intangible asset relates to the technology (the Stochastic Perception Engine) acquired from Insights for \$22,470,000 in 2000. During 2003, the Company reviewed the value attributable to this technology and concluded that, as there had been no further development of the technology except for the Medicsight™ applications and with the sale of Insight in December 2002, the technology should have been fully impaired at December 31, 2002. Therefore, the Company has recorded an impairment charge of \$13,482,000 at December 31, 2002.

Goodwill

The Company has further evaluated the remaining goodwill of \$68,178,000 from the acquisition of Insights. As the business of Insights had been transferred to other group companies in 2001 (MS-PLC) and 2002 (Medicsight Finance Ltd) and Insights sold to an independent third party during December 2002, the Company has determined that the goodwill attributable to this acquisition should have been fully impaired at December 31, 2002. Therefore, the Company has recorded an impairment charge of \$68,178,000 for the year ended December 31, 2002.

Vendor Guarantee

The Vendor Guarantee arose from the acquisition of Core Ventures Limited ("Core") and relates to an oral agreement between the Company and Dr Nill, that the proceeds of the sale of Dr Nill's 1,195,000 shares in the Company would be remitted to the Company under the terms of the Vendor Guarantee. These shares were sold in 2003 and the Company received \$3,689,000 net of commissions. At December 31, 2001 and December 31, 2002, the fair value attributed to the Vendor Guarantee was based on the weighted average share price. The Company has reviewed the fair value at December 31, 2002 and concluded that it would more be appropriate and better understood if the fair value at December 31, 2002 reflected the funds actually received in 2003 rather than show an impairment in Fiscal 2002 of \$6,773,000, as reported, and then having to show a reduction in the impairment in Fiscal 2003 of \$462,000. Therefore, the impairment in Fiscal 2002 has been revised from \$6,773,000 to \$6,311,000.

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4. Investments

The Company accounts for its investments in non-marketable securities under the cost method of accounting as it owns less than a 20% interest in each of the companies and does not have significant influence over the entities. The Company reviews each investment continually to assess for other-than-temporary decreases in value in its investments. The Company reviews all available financial and non-financial data, in assessing the extent of any impairment.

At December 31, 2003, the Company held the following investments:

—A 6% holding in Eurindia PLC, a company that seeks to invest in small Indian IT services. During Fiscal 2003 the Company recorded an impairment of \$59,000 taking the carrying value to approximately \$429,000.

—The 1% holding in Strategic Intelligence PLC, valued at approximately \$36,000 was fully impaired in Fiscal 2003 as the Company was unable to obtain any information on or representations from its investment as to the fair value. On April 19, 2000 the Company purchased the holding in Strategic Intelligence PLC for cash of \$261,000. As of December 31, 2000, the Company viewed that the investment was permanently impaired by \$225,000 based upon a valuation undertaken by a third party, and that amount was fully impaired.

At December 31, 2002, the Company held the following investments:

—A 6% holding in Eurindia PLC, a company that seeks to invest in small Indian IT services. During Fiscal 2002 the Company recorded an impairment of \$145,000 taking the carrying value to approximately \$489,000.

—A 1% holding in Strategic Intelligence PLC, a market research company based in Singapore valued at approximately \$36,000. On April 19, 2000 the Company purchased the holding in Strategic Intelligence PLC for cash of \$261,000. As of December 31, 2000, the Company viewed that the investment was permanently impaired by \$225,000 based upon a valuation undertaken by a third party, and that amount was written off.

On April 17, 2000 the Company purchased a 5% holding in Compaer AG, a supplier of online insurance for both business-to-business and business-to-customer markets in Germany for cash of DM2.5 million (\$1,211,000). Based on information received, in the first quarter of 2001, regarding the financial status of Compaer AG, management concluded that the value of investment was permanently impaired as Compaer filed for insolvency in May 2001 and the Company has recorded an impairment write-down equivalent to the entire carrying value of this investment.

The Company sold its interest in MDA Group PLC to STG Holdings PLC on March 23, 2001.

On September 20, 2000 the Company acquired Core Ventures Limited in a stock for stock acquisition. The principal asset of Core Ventures Limited was an investment in Red Cube AG that was provisionally valued at \$1,170,000. Based on the deteriorating financial status of Red Cube AG, evidenced by non-payment of HTTP Software bills and the difficulty in obtaining information or responses from Red Cube the management concluded that the value of the investment was permanently impaired, and the Company has recorded an impairment write-down equivalent to the entire carrying value of this investment.

Based upon the deteriorating financial status the Company permanently fully impaired the value of its immaterial investment of \$30,000 in Top Tier at June 30, 2002. The investment was acquired as part of its acquisition of Core Ventures Limited on September 20, 2000.

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5. Property and equipment

Property and equipment consist of the following as of December 31:

| | 2003 \$'000 | 2002 \$'000 | 2001 \$'000 |
|--------------------------------|----------------|----------------|----------------|
| Computer hardware and software | 755 | 478 | 306 |
| Furniture and fixtures | 3,691 | 1,278 | 157 |
| Motor Vehicles | 67 | 140 | 212 |
| | 4,513 | 1,896 | 674 |
| Less: Accumulated depreciation | (1,480) | (480) | (315) |
| | 3,033 | 1,416 | 359 |

6. Line of Credit—related party

On December 15, 2000, the Company entered into an unsecured credit facility with ASIA IT Capital Investments Limited ("Asia IT"), a related party—see Note 16, which provides a \$20,000,000 line of credit. Such line of credit originally expired on December 31, 2001, but has been extended until June 30, 2005. Interest on advances under the credit facility accrues at 2% above US LIBOR. At December 31, 2003 US LIBOR was 1.458%. The Company can draw down on this credit facility for its financing requirements, upon approval by the Company's Board of Directors and subject to approval by Asia IT (such approval not to be unreasonably withheld). The Company is restricted from borrowing funds, directly or indirectly, other than through the credit facility with Asia IT, without the consent of Asia IT. The availability of the credit facility reduces upon the Company's sale of any of its investment assets.

On November 20, 2001, Asia IT entered into a £10,000,000 (\$16,000,000) credit facility with MS-PLC. Such facility ceases in November 2005 and is secured by a lien on all of the assets of MS-PLC. Interest on outstanding amounts accrues at 2% above GBP LIBOR. Pursuant to such credit facility, MS-PLC had covenanted to undertake a public offering of its ordinary shares in an amount not less than £25,000,000 not later than March 2002. MS-PLC did not complete such an offering and the facility nevertheless remains in place. The loan is convertible into ordinary shares in MS-PLC on announcement of an Offer to Subscribe, Placing or other public offering of its ordinary shares, at the same price per share as the offering price. Due to the private offering being undertaken by MS-PLC, the loan is currently convertible.

At year ended December 31, 2003, 2002 and 2001 the Company had drawn down \$2,880,000, \$2,332,000 and \$1,325,000 respectively under the \$20,000,000 facility with Asia IT, and MS-PLC had no drawings under its £10,000,000 (\$16,000,000) facility with Asia IT.

7. Short-term Debt

The Company acquired Insights in December 2000. At the time of such acquisition, Insights had outstanding \$6,006,000 of long-term debt. This debt was part of the original loan of \$10,000,000 that Insights owed to its parent company relating to the acquisition of patent applications for its Stochastic Perception Engine technology. The loan did bear interest at 2% above US LIBOR and is unsecured. All interest on the loan was forgiven prior to the principal being transferred to Finance on December 6, 2002. The interest forgiven was expensed in the three Fiscal years to December 31, 2002 as follows: \$106,000 in Fiscal 2002, \$221,000 in Fiscal 2001 and \$178,000 in Fiscal 2000. The principal of the loan does not mature until December 6, 2004 and is interest free. The Company repaid the loan in full in the year ended December 31, 2003 and the Company has no further liabilities under this agreement. As of December 31, 2002 and December 31, 2001, the balance of this loan was \$3,250,000.

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8. Capital leases

The assets under capital leases, which are included in property and equipment, are as follows:

| | 2003 \$'000 | 2002 \$'000 |
|--------------------------------|----------------|----------------|
| Furniture and fixtures | 776 | — |
| Motor Vehicles | 67 | 140 |
| | 843 | 140 |
| Less: Accumulated depreciation | (190) | (23) |
| | 653 | 117 |

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of December 31, 2003:

| Fiscal Year | \$ '000 |
|---------------------------------------------|---------|
| 2004 | 109 |
| 2005 | 109 |
| 2006 | 94 |
| 2007 | 82 |
| 2008 | 37 |
| Thereafter | — |
| Total minimum lease payments | 431 |
| Less amount representing interest | 29 |
| Present value of net minimum lease payments | 402 |
| Less current maturities | 96 |
| Long-term maturities | 306 |

9. Stockholders' equity

On December 31, 2003 the Company agreed to a \$10,562,000 private placement of restricted stock at \$3.00 per share underwritten by Asia IT to be issued in the first quarter of Fiscal 2004. The private placement was completed in February 2004 and generated funds of \$9,506,000 after deducting Asia IT's commission (partly paid by issuing 170,000 shares of Company stock valued at \$3.00 per share).

During Fiscal 2003 the Company issued a \$10m private placement of 3,333,333 shares underwritten by Asia IT, which generated funds of \$9,063,000 after deducting Asia IT's commission of \$937,000 (partly paid by issuing 211,000 shares of Company stock valued at \$3.00 per share). In addition for MS-PLC Asia IT underwrote a £2,725,000 (\$4,670,000) private placement, which generated funds of £2,453,000 (\$4,222,000) after deducting Asia IT's commission of £272,000 (\$448,000).

On December 30, 2002, the Company affected a 1-for-3 reverse split (the "Split") of its Common Stock. As such, all share and per share information in the accompanying financial statements has been restated to reflect the Split.

On December 23, 2002 the Company entered into a share swap with General Nominees and Asia IT Nominees whereby the Company issued 1,866,666 shares to General Nominees (1,674,894 shares) and Asia IT Nominees (191,772 shares) in return for 7,000,000 Medicsight shares held by General Nominees (6,280,852 shares) and Asia IT Nominees (719,148 shares) respectively.

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The Company sold its interest in MDA Group PLC to STG Holdings PLC, a major stockholder, on March 23, 2001 for the guaranteed value of \$1,660,000 representing an excess over book value of \$1,057,000. As this amount represented a guarantee by a previous shareholder this excess over book value is reflected as a contribution to stockholders' equity for the year ended December 31, 2001.

10. Acquisitions

On December 29, 2000, the Company acquired all of the issued and outstanding shares of HTTP Insights Limited ("Insights"), formerly known as Nightingale Technologies, Ltd., in a stock-for-stock transaction valued at approximately \$180 million (the "Insights Offer"). The Company received the shares of Insights on that date but, pursuant to the terms of the Insights Offer, was not required to pay any consideration for the Insights shares until certain conditions were met. The first of these conditions, that the Company receive a validation by the Defence Evaluation and Research Agency ("DERA"), an agency of the United Kingdom Ministry of Defence, as to the technical and commercial viability of Insights' proprietary technology. This condition was met on February 22, 2001, and as such we issued the first tranche of consideration of 5,000,000 shares, valued at \$93,000,000 based on a weighted average share price of \$18.60 per share. The acquisition of Insights has been accounted for using the purchase method of accounting and, accordingly, the assets acquired and liabilities assumed have been recorded at their fair values as of the date of the acquisition. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed has been assigned to the technology, and the remaining amount has been recorded as excess of purchase price over net assets acquired on the accompanying balance sheet. The fair values have been based on an independent valuation by Empire Valuations, LLC. A copy of the report is filed herewith (Exhibit 99.2).

Subsequent to September 30, 2001, upon agreement with the seller of Insights and in variance of the conditions precedent set forth in the original agreement, the parties agreed that the obligation to issue the second tranche of contingent consideration may be satisfied by the direct issuance of shares in MS-PLC to Nightingale Technologies Ltd. ("Nightingale"), the seller of Insights. On November 22, 2001, MS-PLC issued 15,000,000 shares to Nightingale, and Nightingale accepted such shares in satisfaction of our obligation under the original purchase agreement. The value attributed to the cost of the issuance of the second tranche was \$1,091,000, which was treated as excess of the purchase price over the fair value of the assets acquired (see Note 3 for further information).

Insights Purchase Price Allocation on acquisition

| | \$ | Useful Life |
|-------------------------|---------------|-------------|
| Tangible Fixed Assets | 67,000 | 2-5yrs |
| Technology | 22,470,000 | 5 yrs |
| Value of Workforce | 180,000 | 2 yrs |
| Net current liabilities | (10,198,000) | |
| Goodwill | 81,572,000 | 5 yrs |
| | \$ 94,091,000 | |

Goodwill

The Company adopted SFAS No. 142 effective January 1, 2002. Under this standard, goodwill will no longer be amortized over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The Company completed its impairment tests in the quarter to June 30, 2002 and no impairment was recorded. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 5 years.

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The changes in the carrying amount of goodwill for the years ended December 31, 2003, December 31, 2002 and December 31, 2001 are as follows:

| (all figures in \$ thousands) | Technology Segment | Software Maintenance Segment | Total |
|------------------------------------|-----------------------|------------------------------------|----------|
| Balance as of January 1, 2001 | 9,841 | 8,895 | 18,736 |
| Goodwill acquired during the year | 71,731 | 313 | 72,044 |
| Amortized during the year | (13,394) | (1,991) | (15,385) |
| Impairment losses | — | (7,217) | (7,217) |
| Balance at December 31, 2001 | 68,178 | — | 68,178 |
| Goodwill acquired during the year | 11,200 | — | 11,200 |
| Impairment losses | (68,178) | — | (68,178) |
| Balance at December 31, 2003, 2002 | 11,200 | — | 11,200 |

Adjusted results for the year to December 31, 2001 assuming the discontinuation of amortization would be as follows:

| | Total | Basic and diluted per share |
|--------------------------|-----------------|-----------------------------|
| Loss as reported | \$ (45,845,000) | \$ (2.47) |
| Amortization of goodwill | 15,385,000 | 0.83 |
| Pro forma loss | \$ (30,460,000) | \$ (1.64) |

Other Intangible Assets

The Company acquired an intangible asset from Insights consisting of Technology valued at \$22,470,000 during Fiscal 2000. Under SFAS No.142, this is considered an intangible asset with a definite life of 5 years. Therefore the value of the asset will be amortized on a straight-line basis over this period. At December 31, 2003 the Company reviewed the value attributable to the Technology and concluded that as there had been no further development of the Technology except for the Medicsight™ applications in Fiscal 2002 or Fiscal 2003 that the Technology should be impaired in full as at December 31, 2002. Therefore the Company is recording an impairment charge of \$13,482,000 in Fiscal 2002.

The carrying amount and accumulated amortization of acquired intangible assets follows:

| | Dec 31, 2001 | Dec 31, 2002 |
|------------------------------|---------------|---------------|
| Technology | \$ 22,470,000 | \$ 22,470,000 |
| Accumulated amortization | (4,494,000) | (8,988,000) |
| Impairment charge | — | 13,482,000 |
| Total intangible assets, net | \$ 17,976,000 | \$ — |

Results of operations for all acquisitions have been included in the accompanying consolidated financial statements since their respective dates of acquisition.

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11. Stock option plan

On March 20, 2003, the Company's majority-owned subsidiary, MS-PLC, approved the Medicsight PLC Share Option Plan. The Plan provided for the issuance of up to 4,000,000 shares of MS-PLC common stock. On April 30, 2003, 2,828,600 options to shares were issued by the Plan.

The term of the stock options granted expire 10 years after the grant date. The exercise price of the options and the market price of MS-PLC's common stock at the date of grant was \$1.65 (options were granted at UK Sterling £1.00 and the exchange rate on the date of grant was \$1.65:£1.00). Under provisions of APB 25, no compensation expense has been recorded.

The following table summarizes Stock Option and activity:

| | Stock Options Outstanding | | |
|-------------------------------|---------------------------|--------------------------|---------------------------------|
| | Shares | Exercise Price Per Share | Weighted Average Exercise Price |
| Balance January 1, 2003 | — | — | — |
| Granted | 2,828,600 | \$ 1.65 | \$ 1.65 |
| Returned | (452,900) | | |
| Exercised | — | — | — |
| Outstanding December 31, 2003 | 2,375,700 | \$ 1.65 | \$ 1.65 |
| Options exercisable at: | | | |
| December 31, 2003 | 1,062,600 | \$ 1.65 | \$ 1.65 |

Following is a summary of the status of stock options outstanding at December 31, 2003:

| Outstanding Options | Exercisable Options |
|---------------------|---------------------|
| Weighted | |

| Exercise Price | Number | Average Remaining Contractual Life | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
|----------------|-----------|------------------------------------|---------------------------------|-----------|---------------------------------|
| \$ 1.65 | 2,375,700 | 1 year | \$ 1.65 | 1,062,600 | \$ 1.65 |

12. Income Taxes

The income tax provision is summarized as follows for the years ended December 31, 2003, December 31, 2002 and December 31, 2001:

| | Year Ended December 31, 2003 | Year Ended December 31, 2002 | Year Ended December 31, 2001 |
|--------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | (in thousands) | | |
| Current | | | |
| Federal | \$ 0 | \$ 0 | \$ 0 |
| State and local | 0 | 0 | 0 |
| Foreign | 0 | 0 | 0 |
| Deferred | 0 | 0 | 0 |
| Total income tax provision (benefit) | 0 | 0 | 0 |

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Significant components of deferred tax assets were as follows as of December 31, 2003:

| Deferred Tax Assets | 2003 | 2002 |
|-----------------------------------------|---------------|-------------|
| | (as restated) | |
| Tax loss carry-forward | 1,287,000 | 1,145,000 |
| Property and plant depreciation methods | 35,000 | 35,000 |
| Total | 1,322,000 | 1,180,000 |
| Valuation Allowance | (1,322,000) | (1,180,000) |
| Net deferred tax asset | 0 | 0 |

The Company has net operating loss carry-forwards for United States tax purpose to offset future taxable income of \$3,677,000 expiring in years 2005 through 2017. As it is not more likely than not that the resulting deferred tax benefits will be realized, a valuation allowance has been recognized for such deferred tax assets. The utilization of net operating loss carry forwards may be significantly limited under the Internal Revenue Code as a result of ownership changes due to the Company's stock and other equity offerings.

The provision for income tax differs from the amount computed by applying the statutory federal income tax rate to income before the provision for income taxes. The sources and tax effects of the differences are as follows:

| | Year Ended December 31, 2003 | Year Ended December 31, 2002 | Year Ended December 31, 2001 |
|---------------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Income taxes at the federal statutory rates | (35%) | (35%) | (35%) |
| Change in valuation allowance | 1 | — | 2 |
| Foreign operations | 34 | 35 | 33 |
| Effective rate of income tax | 0% | 0% | 0% |

The Company has net capital losses to be carried forward of \$128,977,000 to offset against any future capital gains.

13. Operating leases

The Company has entered into a property lease for the Lifesyne center at Westminster. The Company has negotiated a lease covering Ravenscourt, which is currently unsigned. Future minimum obligations under these arrangements are as follows:

| For the year ending December 31, | Property Leases (\$'000) | Total (\$'000) |
|----------------------------------|-----------------------------|-------------------|
| 2004 | 488 | 488 |

| | | |
|---------------------|-----|-----|
| 2005 | 504 | 504 |
| 2006 | 509 | 509 |
| 2007 | 509 | 509 |
| 2008 and thereafter | 197 | 197 |

As discussed in Note 16 the Company does not have a formal lease on its offices at 46 Berkeley Square. Total rent expense for the year ended December 31, 2003 was \$909,000, for the year ended December 31, 2002 was \$455,000 and for the year ended December 31, 2001 was \$495,000.

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14. Segmental reporting

The Company's reportable segments are the provision of medical scanning services and software maintenance. All revenues were generated within the United Kingdom.

| All figures in \$ thousands | 2003 | 2003 | 2002 | 2002 | 2001 | 2001 |
|--------------------------------------|---------|----------|---------|----------|---------|----------|
| Revenues | | | | | | |
| Software maintenance | — | | 81 | | 225 | |
| Medical scanning services | 276 | | 1 | | — | |
| Total revenues | | 276 | | 82 | | 225 |
| Operating expenses | | | | | | |
| Software maintenance | — | | 160 | | 1,507 | |
| Medical scanning services | 1,320 | | 71 | | — | |
| Total operating expenses | | 1,320 | | 231 | | 1,507 |
| Loss from operations | | | | | | |
| Software maintenance | — | | (79) | | (1,282) | |
| Medical scanning services | (1,044) | | (70) | | — | |
| Total loss from operations | | (1,044) | | (149) | | (1,282) |
| Non apportionable costs | | | | | | |
| General and administrative charges | 8,959 | | 10,388 | | 9,092 | |
| Research and development cost | 2,498 | | 1,239 | | 1,266 | |
| Software development cost w/o | — | | — | | — | |
| Impairment of intangibles | — | | 13,482 | | 387 | |
| Impairment of investments | 95 | | 175 | | 2,412 | |
| Impairment of vendor guarantee | — | | 6,311 | | 9,109 | |
| Amortization of goodwill | — | | — | | 15,385 | |
| Impairment of goodwill | — | | 68,178 | | 7,217 | |
| Interest and other income | (10) | | 161 | | (191) | |
| Minority interest | (2,490) | | (1,170) | | (114) | |
| Total non-apportionable costs | | 9,052 | | 98,764 | | 44,563 |
| Net loss | | (10,096) | | (98,913) | | (45,845) |
| ASSETS | | | | | | |
| Segmental assets | | | | | | |
| Software maintenance | — | | — | | 122 | |
| Medical scanning services | 3,104 | | 1,098 | | — | |
| Total segmental assets | | 3,104 | | 1,098 | | 122 |
| Non apportionable assets | | 14,545 | | 14,332 | | 87,798 |
| Consolidated total assets | | 17,649 | | 15,430 | | 87,920 |

The Company's revenue in Fiscal 2003 was derived from the Company's Lifesyne™ scanning operations and principally from software maintenance in Fiscal 2002. During Fiscal 2002 the Company had two customers who represented 98.8% of its revenues. The customers are Commonwealth Secretariat, which accounted for 67.1% of sales, and Texaco Ltd, which accounted for 31.7% of sales. During Fiscal 2001, we had three customers who represented a significant portion of our revenues. The customers are Commonwealth Secretariat, which accounted for 29.8% of sales, Eidos Interactive, which accounted for 25.8% of sales and Texaco, which accounted for 22.7% of sales.

15. Concentrations

The Company maintains its cash and cash equivalents at major financial institutions in the United Kingdom. Cash held in foreign institutions amounted to \$845,000, \$1,778,000 and \$203,000 at December 31, 2003, 2002, and 2001, respectively. The Company periodically evaluates the relative credit standing of financial institutions considered in its cash investment strategy.

16. Related Party Transactions

In September 2000 the Company acquired 100% of the outstanding stock of Core Ventures Limited. At the time of this transaction, Dr. Alexander Nill was a Director of the Company and principal beneficial shareholder of Core Ventures Limited. In connection with this acquisition, Dr. Nill had guaranteed the valuation of the net assets of Core Ventures Limited to be not less than \$25,000,000 as of December 15, 2000. Dr. Nill resigned as a Director of the Company effective February 27, 2001.

On December 27, 2000, Dr. Nill executed a Memorandum of Understanding ("MOU") with the Company in which he admitted to substantial liability under the personal guarantee. The MOU stipulated that the net assets of Core were estimated to be \$2,540,000 and that the warrants to purchase further Red Cube stock held by Core had no value. Dr. Nill acknowledged that he had been served with a formal demand by the Company to honor his obligations to us pursuant to the terms of the personal guarantee. The MOU provided, inter alia, that Troy was to provide a schedule of other assets having a value of not less than \$10,900,000, such market value to be determined by our independent auditors as being the fair market value as at the valuation date, which assets Dr. Nill agreed to cause Troy to deliver to us, or as we directed, within 21 days of the date of the MOU. In consideration of our forbearance to immediately sue him to enforce the personal guarantee, Dr Nill, also was to cause to be delivered to us within seven days of the date of the MOU, 616,192 shares of our Common Stock (the equivalent of 924,282 shares pre-splits) endorsed in blank. Dr Nill did not honor his obligations under the MOU and we were unable to obtain effective enforcement, by means of escrow arrangements or otherwise, of the personal guarantee.

In the fiscal quarter ended September 30, 2001, an agent, NYPPE, LLC, was assigned to dispose of shares owned by Dr. Nill in a secondary private placement. As of December 31, 2001 5,000 of those shares (the equivalent of 15,000 shares pre-reverse split) had been sold, resulting in net proceeds to the Company of \$75,000.

We do not consider that enforcement of the terms of the personal guarantee through legal action with a view to recovering against other assets is likely to provide an effective remedy for us. We reached an oral understanding with Dr Nill that the proceeds from the sale of 1,195,000 of Dr Nill's shares of our Common Stock were to be remitted to us. We reserved our other rights and remedies that may be available to us against Dr Nill. The Company received proceeds net of commission under the guarantee of \$3,689,000 from the sale of 1,195,000 shares in Fiscal 2003.

On March 6, 2002, Core entered into voluntary liquidation proceedings. In accordance with the laws governing companies organized in the British Virgin Islands, Core appointed a liquidator to assess the fair value of its assets.

On December 29, 2000, the Company acquired all of the issued and outstanding shares of HTTP Insights Limited ("Insights"). ASIA IT Capital Investments Limited was a shareholder in Insights as well as the Company at the time of the acquisition, and has provided a credit facility for up to \$20,000,000. The credit facility expired on December 31, 2001, but has been extended to June 30, 2005. All advances under the credit facility accrue interest at 2% above US LIBOR. The Company is

restricted from borrowing funds, directly or indirectly, other than through the credit facility, without the consent of Asia IT.

On November 20, 2001, Asia IT entered into a £10,000,000 (\$16,000,000) credit facility with MS-PLC. Such facility ceases in November 2005 and is secured by a lien on all of the assets of MS-PLC. Interest on outstanding amounts accrues at 2% above GBP LIBOR. Pursuant to such credit facility, MS-PLC had covenanted to undertake a public offering of its ordinary shares in an amount not less than £25,000,000 not later than March 2002. MS-PLC did not complete such an offering and the facility nevertheless remains in place. The loan is convertible into ordinary shares in MS-PLC on announcement of an Offer to Subscribe, Placing or other public offering of its ordinary shares, at the same price per share as the offering price. Due to the private offering being undertaken by MS-PLC, the loan is currently convertible. In addition ASIA IT Capital Investments Limited acquired approximately 7,080,000 MS-PLC shares from the 15 million shares issued to Nightingale Technologies as part of the Insights. On December 23, 2002, the Company entered into a share swap with General Nominees and Asia IT Nominees whereby the Company issued 1,866,666 shares to General Nominees (1,674,894 shares) and Asia IT Nominees (191,772 shares) in return for 7,000,000 MS-PLC shares held by General Nominees (6,280,852 shares) and Asia IT Nominees (719,148 shares) respectively.

In addition, a director of Asia IT is the brother of Tim Paterson-Brown who was appointed to the Board of the Company on December 8, 2003 and to the Board of MS-PLC on September 5, 2003. In addition to the loan facilities made available by Asia IT to the Company and MS-PLC, Asia IT underwrote two private placements in Fiscal 2003. For the Company Asia IT underwrote a \$10,000,000 private placement of 3,333,333 shares that generated funds of \$9,063,000 after deducting Asia IT's commission of \$937,000 (partly paid by issuing 211,000 shares of Company stock valued at \$3.00 per share). For MS-PLC Asia IT underwrote a £2,725,000 (\$4,670,000) private placement that generated funds of £2,453,000 (\$4,222,000) after deducting Asia IT's commission of £272,000 (\$448,000).

The Company's corporate offices at 46 Berkeley Square are leased to International Cellulose Company Limited (ICCL), a company registered in England and Wales. STG Holdings PLC, the majority stockholder of Medicsight, acquired 100% of the issued share capital of International Cellulose Company Limited in November 2001. Up until June 30, 2003 rent on 46 Berkeley Square was managed by Berkeley Square Ventures Limited (BSV), a property management company incorporated in England and Wales. Subsequent to June 30, 2003 rent was paid direct to ICCL. The rent payable is based on the amount of space each company occupies. There are no formal leases between the tenants and ICCL. In Fiscal 2003 the Company paid \$909,000 in rent (Fiscal 2002: \$399,000, Fiscal 2001: \$285,000). The increase being due to the company requiring more space at 46 Berkeley Square as it employed more personnel.

17. Legal Proceedings

On January 23, 2002, Chess Ventures LLC ("Chess") commenced a lawsuit against us in the Chancery Court of Delaware, seeking an order to compel us to remove restrictive legends from share certificates owned by Chess so that Chess could sell the shares represented by the certificates under Rule 144 of the Securities Act ("Rule 144"). Chess also claimed money damages due to our failure to remove the legends. We filed a defense and counterclaim to this claim and subsequently instructed our transfer agent to remove the restrictive legends on all applicable certificates (including those held by Chess) should proper requests be made by the holders thereof in accordance with Rule 144. On June 4, 2002, we entered into a Settlement Agreement with Chess in which neither party made any admission of liability and each party fully released any claims it may have had against the other party. As an

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inducement for Chess to enter into the Settlement Agreement, we paid a nominal sum to Chess. The lawsuit was subsequently dismissed on a costs-only basis.

In addition to the above the Company has been served with a Notice of Sequestration following an Order of the Court of Chancery of the State of Delaware in and for New Castle County dated January 6, 2003 in which the Company has been cited as a Nominal Defendant in a proceeding brought by a Turks and Caicos company against two shareholders of the Company. The Company responded to the Notice of Sequestration on January 17, 2003 and does not expect that any further action by the Company will be required.

The Company is involved with various legal actions and claims arising in the ordinary course of business. Management believes that the outcome of any such litigation and claims will not have a material effect on the Company's financial position or results of operations.

18. Subsequent events

On December 31, 2003 the Company agreed to a further \$10,562,000 private placement of restricted stock at \$3.00 per share underwritten by Asia IT to be issued in the first quarter of Fiscal 2004. The private placement was completed in February 2004 and generated funds of \$9,506,000 after deducting Asia IT's commission which was partly paid by the issue of 170,000 shares valued at \$3.00 per share.

On January 30, 2004 the Company amended its Certificate of Incorporation increasing the number of shares the Company is authorized to issue from 25,000,000 shares to 40,000,000 shares.

19. Quarterly Financial Data (un-audited)

The tables below summarize the Company's un-audited quarterly operating results for fiscal 2003, 2002 and 2001.

THREE MONTHS ENDED (thousands except per share data)

| | March 31, 2003 | June 30, 2003 | September 30, 2003 | December 31, 2003 |
|----------------------------------|----------------|---------------|--------------------|-------------------|
| Revenues | \$ 9 | \$ 44 | \$ 88 | \$ 135 |
| Net loss | \$ (2,678) | \$ (2,446) | \$ (2,015) | \$ (2,957) |
| Basic and diluted loss per share | \$ (0.13) | \$ (0.12) | \$ (0.08) | \$ (0.12) |

THREE MONTHS ENDED (thousands except per share data)

| As reported | March 31, 2002 | June 30, 2002 | September 30, 2002 | December 31, 2002 |
|----------------------------------|----------------|---------------|--------------------|-------------------|
| Revenues | \$ 16 | \$ 21 | \$ 42 | \$ 3 |
| Net loss | \$ (2,299) | \$ (9,249) | \$ (1,847) | \$ (4,320) |
| Basic and diluted loss per share | \$ (0.12) | \$ (0.48) | \$ (0.09) | \$ (0.23) |

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THREE MONTHS ENDED (thousands except per share data)

| As restated | March 31, 2002 | June 30, 2002 | September 30, 2002 | December 31, 2002 |
|-------------|----------------|---------------|--------------------|-------------------|
|-------------|----------------|---------------|--------------------|-------------------|

| | | | | |
|----------------------------------|------------|------------|------------|-------------|
| Revenues | \$ 16 | \$ 21 | \$ 42 | \$ 3 |
| Net loss | \$ (2,299) | \$ (9,249) | \$ (1,847) | \$ (85,518) |
| Basic and diluted loss per share | \$ (0.12) | \$ (0.48) | \$ (0.09) | \$ (4.44) |

THREE MONTHS ENDED
(thousands except per share data)

| As reported | March 31, 2001 | June 30, 2001 | September 30, 2001 | December 31, 2001 |
|----------------------------------|----------------|---------------|--------------------|-------------------|
| Revenues | \$ 74 | \$ 69 | \$ 16 | \$ 66 |
| Net loss | \$ (5,846) | \$ (10,432) | \$ (10,081) | \$ (19,486) |
| Basic and diluted loss per share | \$ (0.36) | \$ (0.63) | \$ (0.54) | \$ (0.94) |

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Exhibit 21.1

SUBSIDIARIES OF MEDICSIGHT, INC.

| Name of Subsidiary | Jurisdiction of Organization |
|-------------------------------------|-------------------------------------|
| Medicsight Nominees Limited | England and Wales |
| Medicsight PLC | England and Wales |
| Lifesyne (UK) Limited | England and Wales |
| Medicsight Asset Management Limited | England and Wales |
| Medicsight International limited | Gibraltar |
| Medicsight Finance Limited | England and Wales |
| Medicsight Singapore Pte Limited | Singapore |
| HTTP Tech, Inc. | New York |
| Medical Vision Systems, Inc. | Delaware |

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[SUBSIDIARIES OF MEDICSIGHT, INC.](#)

CERTIFICATION

I, Stephen Forsyth, certify that:

1. I have reviewed this annual report on Form 10-K of Medicsight, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ STEPHEN FORSYTH

Stephen Forsyth
Chief Executive Officer

April 8, 2004

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[CERTIFICATION](#)

CERTIFICATION

I, Paul Gothard, certify that:

1. I have reviewed this annual report on Form 10-K of Medicsight, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ PAUL GOTHARD

Paul Gothard
Chief Financial Officer

April 8, 2004

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[CERTIFICATION](#)

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Exhibit 32.1

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen Forsyth, Chief Executive Officer of Medicsight, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2003, 2002 and 2001 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ STEPHEN FORSYTH

Stephen Forsyth
Chief Executive Officer

April 8, 2004

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[CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

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Exhibit 32.2

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul Gothard, Chief Financial Officer of Medicsight, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2003, 2002 and 2001 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ PAUL GOTHARD

Paul Gothard
Chief Financial Officer

April 8, 2004

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[CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

Medicsight PLC

Insights Limited

Report on value of shares in Medicsight plc

9 January 2004

Intangible Business Limited

www.intangiblebusiness.com

*Medicsight Inc
Share Valuation*

*Strictly Private and Confidential
9 January 2004*

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1 Introduction and summary

Instructions

- 1.1 We have been asked by Medicsight, Inc (“MS-Inc) to give our opinion on the value of 15,000,000 Medicsight plc (“MS-plc”) shares issued to MS-Inc in November 2001 and applied in settling an outstanding purchase consideration due to Nightingale Technologies Limited (“Nightingale”).

Instructions

- 1.2 The author of this report is Thayne Forbes, who graduated in Mathematics from the University of Oxford in 1982 and qualified as a Chartered Accountant with Binder Hamlyn in 1986. He initially specialised on audit, accounting and business advisory services to owner managed businesses, and by 1988 specialised in special advisory and investigation projects, share and business valuations and litigation support. He became a member of the Academy of Experts and the Society of Expert Witnesses in 1996.
- 1.3 In 1997 Mr Forbes transferred as a senior manager to Arthur Andersen (Business Consulting) where he continued providing litigation and valuation services, and then developed a focus on intangible asset valuations. For each of these service lines he was a member of the senior team responsible for managing the practice areas. Mr Forbes subsequently joined Brand Finance plc as a brand valuation director in early 2000. He has since passed a diploma at the Chartered Institute of Marketing, and joined the Expert Witness Institute. In early 2001 he left Brand Finance plc and co founded Intangible Business Limited (www.intangiblebusiness.com) a consultancy specialising in advising on intangible asset valuations and business development.
- 1.4 Mr Forbes’ professional work has usually been needed for a sale, dispute, management information, reorganisation or for tax purposes. For disputes he has generally acted as expert witness and adviser for High Court proceedings, County Court proceedings, arbitrations, other tribunals, expert determinations and mediations. He has also acted as the expert for expert determinations, and is on the panel for expert determination appointments by the President of the Institute of Chartered Accountants in England and Wales. He has given evidence in court as expert witness and has attended court to give support and advice to counsel. He has also attended mediations as expert witness.

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- 1.5 Mr Forbes has managed over 100 valuation assignments and 50 litigation support assignments of varying size and complexity. The following recent assignments give an indication of relevant experience.
- Valuation of the global wine and spirits brands of a FTSE100 UK listed company, for inclusion in its filing information under US GAAP supporting a successful application to list its shares on the New York Stock Exchange.
 - Valuation of intangible assets acquired by a travel company listed on NASDAQ for SEC filings under US GAAP.
 - Expert advice, to the international section of the New York branch of the US Internal Revenue Service, on the contribution of business intangibles to the value of ancillary sales for delivery services in the US, and on the commercial arrangements behind sales distribution contracts for an entertainment group.
 - Evaluation of the value of a patent for a space saving device for the apparel trade in North America.
 - Evaluation of the opportunities to a Charitable Memorial Fund (for an extremely well known deceased celebrity) for licensing glassware, fine writing instruments, personal stationery, holiday ornaments and diamond jewellery in North America.
 - Advice to the US owner of a mobile telephone operator in the UK on its intangible operating asset value for US tax purposes.
 - Advice to a Yellow Pages group on UK, US and internet brand valuations for inter group transfers prior to planned flotation.
 - Advice to the target of a hostile takeover bid on the value of five of its brands in ladies’ intimate apparel and fashion (in the UK and France) for inclusion in a day 39 defence document.
 - Strategic advice on business development, fund raising and business/share sale for a chain of ladies’ apparel shops in the UK.
 - Advice in connection with the negotiation of the purchase of a children’s clothing brand to a major UK retailer seeking to acquire the brand.

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- Advice to a Japanese sports brand owner in dispute with a licensee in the UK over the terms of the license for branded apparel in the UK.
- Advice on the value of intangible assets to a well known London retailer for use in connection with competing hostile takeover bids.
- Preparation of a model to track brand and business value in test markets for the retail fuels division of a major international oil company.
- Advice to a Norwegian client on intangible asset value for a digital broadcast equipment business acquisition in the UK.
- Advice to the buyer of a national car and van rental company in the UK on breaches of warranty on acquisition, and the resulting effect on the value of the business.

1.6 The overall credentials of Intangible Business are attached as appendix 1

Purpose of valuation work

1.7 MS-Inc requires this work to assess the value of these shares, which has already been included in its annual report which has been filed with the Securities and Exchange Commission as a form 10-K. Page 4 of this form 10-K identifies that the 15,000,000 shares were issued on 22 November 2001 and valued at \$21,832,000 based on the share price of stock being placed on behalf of MS-plc during the period March to December 2002.

1.8 In a letter dated 27 May 2003 BDO stated that in order to audit the fair value of MS-plc shares, because the shares were not quoted on a securities exchange, they took into account management representations, forecasted cashflows prepared by management, and the price third parties were willing to pay for the MS-plc shares.

The shares to be valued

1.9 The shares to be valued were issued as the second tranche of an agreement between MS-Inc and Nightingale dated 29 December 2000 for the acquisition of HTTP Insights Limited (“Insights”).

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1.10 MS-Inc prepares its accounts under US accounting standards, the relevant parts of which are summarised in section 2 below. BDO confirmed that the key standard applying to this transaction is APB 16. We have read this standard, and the main paragraph which applies is paragraph 67:

“.....

- c. *An asset acquired by issuing shares of stock of the acquiring corporation is recorded at the fair value of the asset [An asset acquired may be an entire entity which may have intangible assets, including goodwill] – that is, shares of stock issued are recorded at the fair value of the consideration received for the stock.*

The general principles must be supplemented to apply them in certain transactions. For example, the fair value of an asset received for stock issued may not be reliably determinable, or the fair value of an asset acquired in an exchange may be more reliably determinable than the fair value of a noncash asset given up. Restraints on measurement have led to the practical rule that assets acquired for other than cash, including shares of stock issued, should be stated at “cost” when they are acquired and “cost may be determined rather by the fair value of the consideration given or by the fair value of the property acquired, whichever is the more clearly evident. “Cost” in accounting often means the amount at which an entity records an asset at the date it is acquired whatever its manner of acquisition and that “cost” forms the basis for historical-cost accounting.”

1.11 APB 16 also comments on the defects of the method which requires this (the purchase method) on paragraphs 22 to 26. Paragraph 22 is particularly relevant:

22. *“However, the fair value of stock issued is not always objectively determinable. A market price may not be available for a newly issued security or securities of a closely held corporation. Even an available quoted market price may not always be a reliable indicator of fair value of consideration received because the number of shares issued is relatively large, the market for the security is thin, the stock price is volatile, or other uncertainties influence the quoted price. Further the determinable value of one security may not necessarily indicate the fair value of another similar, but not identical, security because their differences affect the value-for example the absence of registration or an agreement which restricts a holder’s ability to sell a security may significantly affect its value.”*

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- 1.12 Many of these comments apply to the MS-plc shares being valued in this report. They were newly issued shares and at November 2001 there was no market for the shares. Subsequently small parcels of shares were issued at £1 per share. These share issues were in an extremely thin market with a relatively small number of transactions for small parcels of shares at relatively low values (compared with the US and international capital markets).

Standard of value

- 1.13 The shares are to be valued on the basis of a fair value, as required by US accounting standards. Guidance on the meaning of fair value is contained in section 3 below. In the context of this report fair value is taken as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Date of valuation

- 1.14 The shares are to be valued at 22 November 2001.

Rationale for valuation methods used

- 1.15 There are a number of valuation methodologies used in practice for valuing shares, which are grouped under the income, cost and market headings. We have considered these methodologies and concluded that our valuations should be based on all of these approaches, but with most emphasis on the income approach as it is the method most closely aligned with the future economic benefits which are derived from ownership of the shares.

Information, analysis and reasoning

- 1.16 The information relied on has been a mixture of information maintained by MS-plc and market research. This has been analysed to estimate the future economic returns generated by the shares as at the point in time when the transaction occurred without recourse to hindsight. The key information used has been discussed and agreed with current Medicsight management.

Hindsight

- 1.17 Some of the information was produced after 22 November 2001. To the extent practicable we have used information which was available then. However in some instances we have used information prepared afterwards for the following reasons:

- a) It contains information which was available at 22 November 2001.

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- b) Where it is impractical or no longer possible (due to passage of time) to obtain contemporaneous information we have used more current information reasonably consistent with that we expect was available at 22 November 2001. We have been careful not to rely on information which could not have been available at 22 November 2001.

- c) It contains information which corroborates information which would have been available at 22 November 2001.

- d) It contains information about relevant events where it is better to know the information rather than not to know and to guess at it.

Assumptions and limiting conditions

- 1.18 We have also assumed that all relevant information has been made available to us for this report and that the information can be relied on without verification.

Valuation conclusion

- 1.19 We have concluded that a fair value of 15,000,000 shares in MS-plc (a 20.3% shareholding) at 22 November 2001 was £750,000 in total or £0.05 per share.

- 1.20 The underlying economic reality was that in November 2001 MS-plc was a new venture, which had not demonstrated the ability to generate significant economic value. In these circumstances a valuer should exercise caution before concluding that a minority holding of MS-plc shares had significant value.

Disclaimer

- 1.21 This report has been prepared for MS-Inc solely for the purpose described in paragraph 1.1 above. It should not be relied on for any other purpose nor should it be relied on by any other party for any purpose whatsoever.

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2 **Governing guidelines**

SEC guidelines

- 2.1 We have carried out our valuations on the basis that the US Securities and Exchange Commission will require as an overriding concept that the valuations reflect underlying economic reality. Therefore the reality underlying the shares should be consistently reflected in the share valuations.

US accounting practice

- 2.2 The key US accounting standards governing the requirement for the share and intangible asset valuations are as follows:

- Accounting Principles Board Opinion 16 - Business Combinations (APB 16)
- Accounting Principles Board Opinion 17 - Intangible Assets (APB 17)
- Statement of Financial Accounting Concepts No 5 - Recognition and Measurement in Financial Statements of Business Enterprises
- Statement of Financial Accounting Concepts No. 7 - Using Cash Flow Information and Present Value in Accounting Measurements
- Statement of Financial Accounting Standards No. 121 - Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of (FAS 121)
- Statement of Financial Accounting Standards No. 131 - Disclosures about Segments of an Enterprise and Related Information (FAS 131)
- Statement of Financial Accounting Standards No. 141 - Business Combinations (FAS 141)
- Statement of Financial Accounting Standards No. 142 - Goodwill and Other Intangible Assets (FAS 142)
- Statement of Financial Accounting Standards No. 144 - Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144).

Uniform Standards of Professional Appraisal Practice

- 2.3 The Appraisal Standards Board (part of The Appraisal Foundation, authorised by Congress as the Source of Appraisal Standards and Appraiser Qualification) has published Uniform Standards of Professional Appraisal Practice. We have followed those standards in this report.

Other guidelines

- 2.4 The Internal Revenue Service in the US has issued guidelines for the valuations of businesses and intangible assets. Although these guidelines do not directly govern this work we have followed them in this valuation report to the extent they contain relevant material.
- 2.5 We do not believe that the UK tax authorities have issued any guidelines for the valuations of businesses and intangible assets. The general requirement is for shares to be valued at market value, which is broadly the same as the standard of value as the fair value as defined in section 3 below).
- 2.6 Whilst we have followed the guidelines indicated by the US and UK tax authorities for carrying out a valuation we cannot say whether our valuation approach will be accepted by them or not. In addition the basis of valuation we have adopted may not be the appropriate one for some tax circumstances.

3 **Standard of Value**

- 3.1 It is necessary to consider the standard of value, and its meaning. Value can mean many different things to different people in

different circumstances. There should be no misunderstanding about the meaning of value in these circumstances.

US Accounting Standards

- 3.2 US accounting standards generally require the standard of value to be “fair value”. We set out below a discussion of fair value contained in pages 32 and 33 of “Valuing a Business – Fourth Edition – The Analysis and Appraisal of Closely Held Companies” by Shannon P. Pratt, Robert F. Reilly and Robert P. Schweih:

“To understand what the expression fair value means, you have to know the context of its use. For certain bookkeeping applications, fair value is defined in the relevant accounting literature. In business valuation, the term fair value is usually a legally created standard of value that applies to certain specific transactions.”

- 3.3 There is some guidance in FAS 141 (Appendix F) for the meaning of “fair value”:

“The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.”

Published guidance

- 3.4 This tends to imply that the discussion of fair market value contained in pages 28 and 29 of “Valuing a Business – Fourth Edition – The Analysis and Appraisal of Closely Held Companies” by Shannon P. Pratt, Robert F. Reilly and Robert P. Schweih is relevant to the standard of value which should be used:

“In the United States, the most widely recognized and accepted standard of value related to business valuations is fair market value. With regard to business valuations, it is the standard that applies to virtually all federal and state tax matters, such as estate taxes, gift taxes, inheritance taxes, income taxes, and ad valorem taxes. It is also the legal standard of value in many other-though not all-valuation situations.

Fair market value is defined by the ASA as “the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and both have reasonable knowledge of the relevant facts” This definition comports to that found in the Internal Revenue Code and Revenue Ruling 59-60.

In most interpretations of fair market value, the willing buyer and willing seller are hypothetical persons dealing at arm’s length, rather than any particular buyer or seller. In other words, a price would not be considered representative of fair market value if influenced by special motivations not characteristic of a typical buyer seller.

There is also general agreement that the definition implies that the parties have the ability as well as the willingness to buy or to sell. The market in this definition can be thought of as all the potential buyers and sellers of like businesses or practices.

The concept of fair market value also assumes prevalent economic and market conditions at the date of the particular valuation. You have probably heard someone say “I couldn’t get anywhere near the value of my house if I put it on the market today” or, “The value of XYZ Company stock is really much more (or less) than the price it’s selling for on the New York Stock Exchange today.” The standard of value that those people have in mind is some standard other than fair market value, since the concept of fair market value means the price at which a transaction could be expected to take place under conditions existing at the valuation date.

The terms market value and cash value are frequently used interchangeably with the term fair market value. The use of these essentially synonymous standard of value terms is often influenced by the type of asset, property, or business interest subject to valuation.

In the United States, the most widely recognized and accepted standard of value related to real estate appraisals is market value. The Appraisal Foundation defines market value as follows:

MARKET VALUE: *Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States of America is:*

The most probable price which a property should bring in a competition and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1. buyer and seller are typically motivated;*
- 2. both parties are well informed or well advised, and acting in what they consider their best interests;*
- 3. a reasonable time is allowed for exposure in the open market;*

4. *payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and*

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5. *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Substitution of another currency for United States dollars in fourth condition is appropriate in other countries or in reports addressed to clients from other countries.

Persons performing appraisal services that may be subject to litigation are cautioned to seek the exact legal definition of market value in the jurisdiction in which the services are being performed.

The most salient change in the above definition of market value compared with definitions widely accepted a few years ago is the phrase "the most probable price" in substitution for "the highest price".

Conclusion

- 3.5 In the context of this report "fair value" is taken as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

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4 Rights of the shares

General

- 4.1 The rights of the shares give rise to their value, and these rights are contained in the Articles of Association of MS-plc. We have reviewed those articles and note that there is only one class of shares, ordinary shares. The rights of the shares in MS-plc are reasonably typical and do not contain any terms which would have an unusual effect on their value.
- 4.2 The 15,000,000 MS-plc shares issued on 22 November 2001 then represented 20.3% of the issued share capital, with the remaining shares held by one shareholder. Such a shareholding, although substantial, would not have the ability to direct MS-plc strategy, direct its resources or dividend policy. In other words it suffers from all the disadvantages of being a minority interest. In addition the shares of MS-plc were not traded on any stock exchange and so they were not readily marketable.
- 4.3 Where the rights of shares have disadvantages such as being a minority interest and/or a lack of marketability then this needs to be reflected in their value. In practice this often leads to discounts for such disadvantages.

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5 General Valuation Methodologies

General

- 5.1 There are three general approaches to quantifying value, summarised as follows:
- Income (Income Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount.
 - Market (Market Based) Approach – a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets which have been sold.
 - Cost Approach – a general way of determining a value indication of an individual asset by quantifying the amount of money required to replace the future service capability of that asset.

Income Approach

- 5.2 The income approach is based on anticipated future returns discounted back at some appropriate discount rate to a present value. For shares and businesses there are a variety of income based approaches. In economic terms the value of an asset is equal to the

present value of the future returns which it is projected to generate.

Market Approach

- 5.3 The market based approach is based on identifying comparable transactions in the market and analysing key components or measures which drive or measure value. These can then be adjusted for any differences in circumstances and can be applied to arrive at a valuation based on market transactions.
- 5.4 There are also some aspects of the market approach that can be utilised in the income approach. Data obtained in the markets might be used, for example, in arriving at sales forecasts, royalty rates and discount rates.

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Cost based approach

- 5.5 There are two aspects to cost:
- historic cost; and
 - replacement cost.
- 5.6 Historic cost is not generally relevant as a share valuation methodology. It can however give some background or context to value, and might give information on a past market transaction (ie cost might represent the historic exchange value of an asset in the market).
- 5.7 Replacement cost can be more directly relevant. Building a comparable asset can be a relevant consideration for a buyer. A buyer can always consider building an asset as an alternative to buying it.

Appropriate methodology

- 5.8 In these circumstances, we have considered all approaches, however in our opinion the income method gives the best basis for valuing these shares. It incorporates elements from the market based and cost based approaches and is therefore a rounded methodology. Given that this is a minority interest it should be primarily on a dividend yield basis as this method is directly aligned with the economic rights of the shares and how they could and would be exploited for value by an investor. Other income based approaches, discounted cash flow, multiples of sales and profits and relief from royalty will also be used as cross checks.
- 5.9 We also regard market transactions of some relevance, and have looked for properly comparable transactions as a means of quantifying the value of the shares. Such information is difficult to obtain because it is not generally made available by the parties to the transaction for a variety of reasons.
- 5.10 In our view historic cost is of background relevance. What has been paid to develop an asset should be influential to a buyer, although in these circumstances obtaining this information is not practicable or cost effective. We consider replacement cost to be more relevant, as a buyer can look to the cost of building equivalent investments rather than buying them.

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6 Income approach methodologies used

Methodologies used

- 6.1 We consider the following income based methodologies to be the most relevant in these circumstances:
- Gross dividend yield;
 - Discounted cash flow;
 - Multiples of annual profits or sales; and
 - Relief from royalty.

Gross dividend yield

- 6.2 The gross dividend yield method is based on forecast future gross dividends which the shareholder would anticipate for the shareholding. These are then discounted to a present value using a required rate of return or gross dividend yield.

Discounted cash flow

- 6.3 The discounted cash flow method is based on forecast free cash flows for MS-plc as a whole. These are then discounted to a present value using a required rate of return or discount rate. This value can then be attributed to the shareholding after adjusting for further relevant factors such as for the disadvantages of a minority interest and lack of marketability.
- 6.4 Two specific areas of the discounted cash flow method, the discount rate and the terminal value calculation are explained in appendices 2 and 3 respectively.

Multiples of annual profits or sales

- 6.5 The multiples method estimates the future maintainable annual profits or sales and applies a multiple in order to arrive at a value. It has the advantage that some comparison is possible both internally and externally with other valuations or transactions. The main disadvantages lie with the method being too simplistic and the usual inability to obtain sufficiently meaningful information for comparison.

Relief from royalty

- 6.6 As the value of the company lies predominantly in its intellectual property then the value of shares can be estimated by valuing the intellectual property itself. Valuing the intellectual property would be primarily on the relief from royalty method, which

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estimates the future royalties which the owner is relieved from paying by virtue of owning the intellectual property. The costs associated with owning the intellectual property are also estimated together with tax on the net profits. The net returns are then discounted to a value using a discount rate which reflects both the time value of money and the risk associated with the cash flows.

- 6.7 The relief from royalty method has the advantage that it is the method most closely aligned with licensing, which is a usual form of practical exploitation of pure intellectual property. This allows for practical sense checks and comparisons, and minimises confusion with other issues impacting on business returns together with the intellectual property. It has become the most mainstream method for valuing intellectual property in practice.
- 6.8 Once the intellectual property has been valued, it can then be combined with the value of the other assets and liabilities in the company to give a value of the company itself. This value can then be attributed to the shareholding after adjusting for further relevant factors such as for the disadvantages of a minority interest and lack of marketability.

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7 Market approach methodologies used

Information

- 7.1 For these shares there are severe limitations on the availability of directly relevant market information. We have however looked for market information which is as comparable as possible to the shares being valued.

Basis of comparison

- 7.2 The best available measures for using market data for this valuation are:
- Transactions in MS-plc shares
 - Transactions in MS-Inc shares
 - Listed company share prices
 - Unlisted company transactions
- 7.3 Comparisons are often carried out by using ratios or multiples such as:
- By reference to a multiple of sales - sales times multiple equals value
 - By reference to a multiple of Earnings Before Interest and Tax (EBIT) - EBIT times multiple equals value
 - By reference to a multiple of Earnings Before Interest and Tax Depreciation and Amortization (EBITDA) - EBITDA times multiple equals value

- By reference to a price earnings ratio – earnings per share times P/E ratio equals value per share.

8 Cost approach methodologies used

Use of cost approach

8.1 The two potential ways of estimating costs in these circumstances are:

- The historic cost of establishing the shares.
- The anticipated cost of replacing the shares, or building new comparable shares.

8.2 The rationale for this is that a potential buyer of the shares may look to these either as a consideration or as an alternative when making such an investment. Both of these are not particularly realistic considerations in these circumstances.

8.3 Also the values in the balance sheet of a company are generally at cost, and this may have some relevance to share value. However the cost of an asset may not be its value and a minority shareholder has no access to or control over the use of assets owned by the company so it has limited application.

8.4 So whilst we have referred to certain cost aspects, it is not particularly relevant to this valuation.

9 Chronology of events

9.1 In this section we summarise a chronology of relevant events.

29 December 2000 Share Sale Agreement between Nightingale and MS-Inc

9.2 Consideration stated as 30 million (15 million before 2 for 1 share split) MS-Inc shares. No reference was made to value, only to the quantities of shares to be issued in consideration.

9.3 Consideration payable as follows:

- 15m once DERA validation report satisfactory
- 15m upon first trial in medical imaging or DERA report on commercial viability of same

Incorporation of MS-plc

9.4 MS-plc was incorporated in August 2001.

9 November 2001 minutes of MS-plc

9.5 Board resolves to acquire part of Insights business for £3,659,104, financed by the assumption of a matching indebtedness due to MS-Inc.

9.6 Board resolves to increase its authorised share capital and sub divide its shares into 5p shares.

Minutes of MS-Inc 22 November 2001

9.7 Board approves the sale of part of Insights business by Insights to MS-plc, with MS-plc assuming liability due by Insights to MS-Inc, (being £3.65m and equivalent to the valuation placed on the assets acquired) as consideration for the business acquired.

9.8 Board agrees novation of £3.65m debt from Insights to MS-plc.

9.9 Board approves resolutions by MS-plc to increase its authorised share capital and sub divide shares into 5p shares.

9.10 Board notes MS-plc will repay the £3,659,104 loan by issuing 72,868,582 new 5p shares (resulting in a small share premium of £15,674.90) and resolves to request MS-plc to issue 15,000,000 of these in the name of Nightingale Technologies Limited in order to satisfy MS-Inc's final obligation under the 29 December 2000 agreement (as renegotiated in November 2001).

9.11 MS-Inc resolves to apply for further 1m shares in MS-plc at 5p each – subscribing £50,000 in cash.

22 November 2001 letter from MS-Inc to Nightingale

9.12 Records the countersigned agreement of Nightingale to accept a variation to the 29 December 2000 agreement, substituting 15m MS-plc shares in lieu of 15m Inc shares.

Minutes of MS-plc dated 22 November 2001

9.13 Capitalisation of £3.65m debt due to MS-Inc by issue of 57,868,582 shares and, at specific request of MS-Inc., 15m in the name of Nightingale.

9.14 MS-Inc subscription of £50,000 cash for 1m fully paid 5p shares

9.15 Allotment and issue of 73,868,582 shares credited as fully paid at a price of 5p each.

15 February 2002 Underwriting Agreement between Asia IT Capital and MS-plc

9.16 Underwriting Agreement for allotment of shares to subscribers for £1 each, closing date 31 December 2002 – to be accepted within 21 days (i.e. 8 March 2002).

Share issues

9.17 Issues of shares in MS-plc are summarised below:

| Date | Number | Nominal value | Amount paid | | |
|--------------------|-------------------|---------------|-------------|-------------------|---------------|
| | | | per share | total | |
| 09/08/01 | 20 | 0.05 | 0.05 | 1 | |
| 22/11/01 | 57,868,582 | 0.05 | 0.05 | 2,893,429 | 78.3% |
| 22/11/01 | 1,000,000 | 0.05 | 0.05 | 50,000 | 1.4% |
| 22/11/01 | 15,000,000 | 0.05 | 0.05 | 750,000 | 20.3% |
| Total | 73,868,602 | | | 3,693,430 | 100.0% |
| 14/08/02 -15/02/03 | 7,126,418 | 0.05 | 1.00 | 7,126,418(1) | |
| Total | 80,995,020 | | | 14,513,277 | |

(1) In small parcels of shares of up to 250,000 shares

10 Valuations of shares in MS-plc

10.1 We have carried out several alternative valuations of shares in MS-plc on an income basis, which we use for comparison and cross checking.

10.2 We calculated a value on a gross dividend yield basis, which anticipates the future gross dividends attributable to the shares. This is the method most closely aligned with the rights of the shares, and is summarised as follows:

| | |
|-------------------------------------------|----------------|
| Required dividend yield | 10.00% |
| Tax rate for grossing up dividends | 10.0% |
| Dividend cover | 4.0% |
| New product probability of success | 10.0% |
| Dividend growth rate 2005 to 2007 | 238.81% |
| Dividend growth rate after 2007 | 4.0% |

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Revenue £m | 0.000 | 6.080 | 20.060 | 37.210 | 47.530 | 52.120 |
| Operating costs | 0.000 | (1.730) | (4.440) | (6.620) | (7.010) | (7.140) |
| Gross profit | 0.000 | 4.350 | 15.620 | 30.590 | 40.520 | 44.980 |

| | | | | | | | |
|-------------------------------------------|-------|----------------|----------------|--------------|---------------|---------------|---------------|
| Discount to more realistic levels | 50.0% | 0.000 | (2.175) | (7.810) | (15.295) | (20.260) | (22.490) |
| Adjusted gross profit | | 0.000 | 2.175 | 7.810 | 15.295 | 20.260 | 22.490 |
| Overheads | | (2.000) | (4.210) | (4.670) | (4.890) | (5.070) | (5.190) |
| EBITDA | | (2.000) | (2.035) | 3.140 | 10.405 | 15.190 | 17.300 |
| Amortisation and depreciation | | (0.500) | (1.000) | (1.210) | (1.610) | (1.940) | (2.000) |
| EBIT | | (2.500) | (3.035) | 1.930 | 8.795 | 13.250 | 15.300 |
| Interest receivable/(payable) | | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Profit before taxation | | (2.500) | (3.035) | 1.930 | 8.795 | 13.250 | 15.300 |
| Taxation | | | | 0.000 | (1.557) | (3.975) | (4.590) |
| Profit after taxation £m | | (2.500) | (3.035) | 1.930 | 7.238 | 9.275 | 10.710 |
| Retained profits/(losses) brought forward | | (2.700) | (5.200) | (8.235) | (6.305) | 0.933 | 10.208 |
| Retained profits/(losses) carried forward | | (5.200) | (8.235) | (6.305) | 0.933 | 10.208 | 20.918 |
| Dividend cover | | | | | 4.0 | 4.0 | 4.0 |
| Net dividend | | | | | 0.233 | 2.319 | 2.678 |
| Shares in issue (m) | | 80.995 | 80.995 | 80.995 | 80.995 | 80.995 | 80.995 |
| Net dividend per share | | 0.000 | 0.000 | 0.000 | 0.003 | 0.029 | 0.033 |
| Gross dividend per share £ | | 0.000 | 0.000 | 0.000 | 0.003 | 0.032 | 0.037 |
| Discount Factor | | 1.100 | 1.210 | 1.331 | 1.464 | 1.611 | 1.772 |
| Present value per share £ | | 0.000 | 0.000 | 0.000 | 0.002 | 0.020 | 0.021 |

| | | VALUE CALCULATION | | £ |
|-------------------------------------|-----|---------------------------------------------|--|--------------|
| Value as % of 2007 profit after tax | 3.0 | Value per share to 2007 | | 0.04 |
| Value as multiple of 2007 sales | 1.2 | Value per share after 2007 | | 0.36 |
| | | Total value per share | | 0.40 |
| | | New product probability of success | | 10% |
| | | Probability weighted value per share | | 0.040 |

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10.3 We have also estimated a value of the company's business, and attributed it to the underlying shares. Although this is not directly in accordance with the share rights it gives some useful insight and comparison, summarised as follows:

| | |
|------------------------------------------------|---------------|
| Discount rate | 10.53% |
| New product probability of success | 10.0% |
| Free cash flow growth rate 2005 to 2007 | 29.22% |
| Profit growth rate after 2007 | 4.0% |

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------------|----------------|----------------|----------------|---------------|---------------|---------------|
| Revenue £m | 0.000 | 6.080 | 20.060 | 37.210 | 47.530 | 52.120 |
| Operating costs | 0.000 | (1.730) | (4.440) | (6.620) | (7.010) | (7.140) |
| Gross profit | 0.000 | 4.350 | 15.620 | 30.590 | 40.520 | 44.980 |
| Discount to more realistic levels | 50.0% | 0.000 | (2.175) | (7.810) | (15.295) | (20.260) |
| Adjusted gross profit | 0.000 | 2.175 | 7.810 | 15.295 | 20.260 | 22.490 |
| Overheads | (2.000) | (4.210) | (4.670) | (4.890) | (5.070) | (5.190) |
| EBITDA | (2.000) | (2.035) | 3.140 | 10.405 | 15.190 | 17.300 |
| Capital expenditure | (0.500) | (1.910) | (1.830) | (1.500) | (1.500) | (1.500) |
| Working capital movement | | (0.544) | (1.409) | (2.415) | (2.650) | (2.973) |
| Operating cash flow | (2.500) | (4.489) | (0.099) | 6.490 | 11.040 | 12.828 |
| Interest receivable/(payable) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | (2.500) | (4.489) | (0.099) | 6.490 | 11.040 | 12.828 |
| Taxation | | | 0.000 | (1.557) | (3.975) | (4.590) |
| Free cash flow | (2.500) | (4.489) | (0.099) | 4.933 | 7.065 | 8.238 |
| Discount Factor | 1.105 | 1.222 | 1.350 | 1.493 | 1.650 | 1.824 |
| Present value £m | (2.262) | (3.674) | (0.073) | 3.305 | 4.282 | 4.517 |

| | | VALUE CALCULATION | | £m |
|----------------------------------|-----|------------------------------------|--|----------------|
| Value as multiple of 2007 EBITDA | 4.5 | Value of business to 2007 | | 6.1 |
| Value as multiple of 2007 sales | 3.0 | Value of business after 2007 | | 71.9 |
| | | Total value of business | | 78.0 |
| | | New product probability of success | | 10.0% |
| | | Probability weighted value | | 7.8 |
| | | Percentage shareholding | | 20.3% |
| | | Discount for marketability etc | | 50.0% |
| | | Value of shareholding | | 0.8 |
| | | Number of shares | | 15,000,000 |
| | | Value per share | | £ 0.053 |

10.4 We have also calculated a share value based on valuing the company's assets, which is principally intellectual property. Again, although this is not directly in accordance with the share rights it also gives some useful insight and comparison, summarised as follows:

| | | | | | | | |
|----------------------------------------|----------|----------------|--|--|--|--|--|
| Discount Rate | | 10.53% | | | | | |
| Tax Rate | | 30.00% | | | | | |
| Royalty per scan | £ | 50 | | | | | |
| Profit growth rate 2005 to 2007 | | 154.04% | | | | | |
| Profit growth rate after 2007 | | 4.00% | | | | | |

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-------------------------------------|----------------|----------------|----------------|---------------|---------------|---------------|
| Total scans per year | 0.000 | 11,832 | 41,904 | 77,712 | 99,264 | 108,864 |
| Discounted to more realistic levels | 50.0% | 0.000 | (5,916) | (20,952) | (38,856) | (54,432) |
| Revised total scans per year | 0 | 5,916 | 20,952 | 38,856 | 49,632 | 54,432 |
| Royalty per scan £ | 50 | 50 | 50 | 50 | 50 | 50 |
| Royalties £m | 0.000 | 0.296 | 1.048 | 1.943 | 2.482 | 2.722 |
| Overheads | (1.800) | (1.800) | (1.800) | (1.800) | (1.800) | (1.800) |
| Operating Profit | (1.800) | (1.504) | (0.752) | 0.143 | 0.682 | 0.922 |
| Taxation | 0.540 | 0.451 | 0.226 | (0.043) | (0.204) | (0.276) |
| Profit after tax | (1.260) | (1.053) | (0.527) | 0.100 | 0.477 | 0.645 |
| Discount Factor | 1.105 | 1.222 | 1.350 | 1.493 | 1.650 | 1.824 |
| Present Value £m | (1.140) | (0.862) | (0.390) | 0.067 | 0.289 | 0.354 |

| | | VALUE CALCULATION | £m |
|--------------------------------------------|-----|------------------------------------|----------------|
| Value as multiple of 2007 royalties | 1.5 | Value of IP to 2007 | (1.682) |
| Value as multiple of 2007 profit after tax | 6.1 | Value of IP after 2007 | 5.630 |
| | | Total value of IP | 3.949 |
| | | New product probability of success | 10.0% |
| | | Probability weighted value | 0.395 |
| | | Percentage shareholding | 20.3% |
| | | Discount for marketability etc | 50.0% |
| | | Value of shareholding | 0.040 |
| | | Number of shares | 15,000,000 |
| | | Value per share | £ 0.003 |

MS-plc forecasts

10.5 Our valuation calculations are based on forecasts prepared by MS-plc. It is apparent that these are highly optimistic, not least as no income was developed to the end of 2002 and in 2003 about £500,000 was forecast for that year. Therefore these forecasts of substantial income need to be treated with caution for a valuation.

Market Methodology

10.6 The shares were issued by MS-plc at 5p per share on 22 November 2001 and used for this transaction immediately afterwards.

10.7 MS-plc shares were issued to repay debt of amounting to 5p a share on 22 November 2001.

10.8 MS-plc converted to a plc on the audited balance sheet with £3.7m total share capital at (5p a share) on 22 November 2001.

10.9 Subsequent transactions in MS-plc shares were at £1 per share. However the following points should be noted:

- The transactions were some time after the valuation date of November 2001.
- The transactions were only small parcels, of shares, much less than 15m.
- The transactions were required for a level of finance which actually took some 10 months to raise.
- Of the finance required, £4.9m was raised in total, which was only 80% of target.
- The investments were relatively small amounts, for small parcels of shares.

- Many investors committed on basis that their investment was eligible for EIS (20% against Income Tax plus up to 40% relief from rolling Capital Gains).

10.10 MS-Inc's OTC trading prices may be taken to imply a value for MS-plc shares. However:

- Insights retained the rights for uses other than medical but MS-plc did not (MS-plc only had the rights for medical use).
- The value of MS-plc in 2003 does not support £1 a share, and there has been value improvement since November 2001 (eg the work of the team of software engineers engaged since November 2001).

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- The share price was driven by market perceptions rather than reality.

10.11 We have obtained data on share prices for listed and unlisted companies around November 2001. MS-plc's main competitors at the time were GE, Phillips, Siemens and Toshiba, but this was an insignificant part of their business and not possible to analyse separately. We have researched some comparable public information. Although it is not particularly comparable it is comparable as anything which can be practicably obtained from published information. The data is consistent with our principal valuation methods and is summarised:

- BDO Stoy Hayward/Acquisitions Monthly Private Company Index showing a private company index P/E ratio of 12.6 for Q3 2001 against the four month average FT Non-Financials P/E ratio of 21.1.
- FTSE-Actuaries Indices showing a P/E ratio of 42.9 and Net Yield of .9% for Software and Computer Services October – December 2001.

Cost Methodology

10.12 At 22 November 2001 the balance sheet of MS-plc had net assets of £3,693,429 after including book values of £3.5m for intangibles.

Overall assessment

10.13 By November 2001 MS-plc had not generated any revenue, and little real prospect of substantial sales within the short to medium term. Indeed it has only generated modest amounts of sales by 2003. Based on historic performance shareholders had no prospects of dividends or realisations from a share sale. This gives an expectation that shares would only have a nominal value unless there is strong evidence about how value would be derived. We have not seen any such evidence.

10.14 The four different income approaches are all consistent with this, as is the cost approach. The only approach which indicates the possibility of a higher value are some market transactions. There are however good reasons to discount them in this instance. It is therefore reasonable to conclude that a fair value of shares in MS-plc at November 2001 was their nominal value of 5p per share.

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11 Shares in Insights

Objective

11.1 To summarise all relevant valuation approaches for 1,000 shares in Insights (50%) at November 2001.

Income Methodology

11.2 No business plans were ever developed for Insights, there was just a market study. Valuation calculations based on distinct income forecasts for Insights are therefore not possible.

11.3 In the event Insights generated no income other than through the sale of its rights.

Market Methodology

11.4 The first part of the same transaction was valued at US\$93,000,000 for 50%. With regard to this:

- By November 2001 the perceived value of the intellectual property had decreased
- It needed to be combined with MS-plc intellectual property which had yet to be developed

- The condition for the second tranche was not then satisfied, and there was no clear timetable or resources needed to achieve it
- The condition would perhaps only be fulfilled after clinical trials were finished, and the results evaluated it as fit for purpose. These trials had still not yet started even by end 2003
- The negotiating position of Nightingale was weak on the second tranche
- The perception then by Nightingale, Medicsight Inc and MS-plc was of a token value at 5p per share

11.5 The assets were subsequently sold, £3.6m for the medical use intellectual property to MS-plc and £1.5m for the remaining intellectual property to Medicsight Finance Limited, plus the transfer of loan from Nightingale of \$3.25m (also included was a

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rent deposit and a patent). No work was carried out on any other application of this intellectual property. Then Insights was sold for the nominal sum of £100.

Cost Methodology

11.6 At 31 December 2001 the balance sheet of Insights had net liabilities of £4,031,092, after including book values of £1.7m for intangible assets.

Overall assessment

11.7 By November 2001 Insights had not generated any profits, and had only generated modest amounts of sales. Based on historic performance shareholders had no prospects of dividends or realisations from a share sale. This gives an expectation that shares would only have a nominal value unless there strong evidence about how value would be derived. We have not seen any such evidence.

11.8 Taking all the factors together, and considering the reasons for certain inconsistencies it is reasonable to conclude that a fair value for 15,000,000 shares in MS-plc at November 2001 was £750,000 or 5p per share.

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12 Signed certification

12.1 I certify to the best of our knowledge and belief:

- the statements of fact contained in this report are true and correct;
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, unbiased professional analyses, opinions, and conclusions;
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved;
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
- my engagement in this assignment was not contingent upon developing or reporting predetermined results;
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
- my analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the *Uniform Standards of Professional Appraisal Practice*; and
- significant professional assistance to the person signing this report was only provided by representatives of Intangible Business Limited.

Signed _____

Thayne Forbes

Our people

Key people

Senior Consultants

- Stuart Whitwell
- Thayne Forbes
- Charles Langford
- Tracey McCulloch
- Elise Neils (USA)

Senior Associates

- Edmond Huysser (Holland)
- Sheila Searle (USA)
- Malcolm Davis (Japan)
- Patrick Gillon (Spain)
- Philippa Kelham
- David Kelham
- Sam Dias (UK - econometrician)
- Peter Gibson (Italy)
- Rick Gilewicz (Latin America)
- Keith Lucas
- Robert Needham (CIS and Baltics)

Thayne Forbes

- Thayne read Mathematics at Oxford University before qualifying as a Chartered Accountant with Binder Hamlyn in London in 1986. He has since passed the Intensive Diploma at the Chartered Institute of Marketing Exams to gain dual Chartered status. He is also a member of The Academy of Experts, The Society of Expert Witnesses, and The Institute of Expert Witnesses.
- Thayne worked for Arthur Andersen for six years, and then at Brand Finance for a year, prior to becoming a founder shareholder director of Intangible Business Limited. Whilst at Arthur Andersen, Thayne was one of the key intellectual property specialists in the UK practice, for example he was the UK representative on the global steering committee responsible for developing international training and best practice in valuations.
- Thayne's strategy and valuation work has covered brands, other intangible assets, businesses and shares. He has carried out over 100

such advisory projects over the last 15 years. These have been required across a wide range of industry sectors both in the UK and international markets for a variety of business reasons, such as brand strategy, sale or purchase and business re-organisation.

- Thayne has managed and worked on a wide variety of brand strategy/valuation projects including postal services, watches, pharmaceuticals, media, banking, fashion, petroleum and lubricants, facial and toilet tissue, ingredient brands, celebrities and many others
-

Stuart Whitwell

- Stuart graduated from Plymouth University in Business Studies and trained in sales operations in Unilever's MacFisheries subsidiary before qualifying as a Chartered Management Accountant with Reed International in 1985. He has also undertaken the final examinations of the Chartered Institute of Marketing in order to achieve dual Chartered status. He is also a member of the Marketing Society
 - He worked for Brown and Root (2 years), Sea-Land (2 years), and Hiram Walker International (for 10 years) in Europe and Asia Pacific having specialised in brand market business development projects in Europe and Asia. He held various senior positions in Finance, Business Development and General Management during this period holding the position of Regional Director of Finance and Business Development for Asia Pacific, and was responsible for many successful acquisitions, joint ventures and new brand/market developments
 - For two years Stuart ran his own consulting company in Hong Kong undertaking market and business development projects for Brown-Forman, Pernod Ricard and Jose Estevez S.A. in China and the Philippines. During this period Stuart successfully launched three new to market brands and implemented successfully a new independent sales and marketing distribution company.
 - Stuart has managed and worked on a wide range of brand strategy/valuation projects including clients in media, telecoms, petroleum and lubricants, utilities, logistics, electronics, retail, banking, postal services, building products, logistics, ingredient brands, celebrities, fashion, beverages, facial and toilet tissue and furniture retailing.
-

Elise Neils

- Elise is based in the US and specialises in providing valuation services to businesses, governmental entities, attorneys, and accountants. Over the past fourteen years, Elise has supervised and participated in hundreds of complex valuation assignments involving intangible assets, businesses, brand names, software, real estate, sports franchises and hard assets.
 - Elise has a Juris Doctor from Marquette University Law School and a Bachelor of Business Administration in Finance from the University of Wisconsin - Milwaukee. She has successfully passed the American Society of Appraisers Business Valuation Advancement Examination and is a licensed member of the State Bar of Wisconsin; a Member of the National Association of Securities Dealers Board of Arbitrators; and a member of the Alumni Board of Directors of the National Sports Law Institute.
 - Most recently Elise testified at an SEC hearing on auditor independence at Pace University in New York City and spoke to sports and entertainment lawyers on the Valuation of Stadium Naming Rights.
 - Elise has worked on many Intangible Business assignments most notably in wines and spirits, quick service restaurants and ingredient brands
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Tracey McCulloch

- Tracey studied Business Marketing at the Queensland University of Technology in Australia. She spent four years working in a variety of marketing and communications roles before pursuing her ambition in 1994 to travel and work in the UK marketing industry. She started life in London with leading UK design and brand consultancy Tutsells Lambie-Nairn. Whilst working there, she discovered her passion for brands, and after a year, joined the Leo Burnett Brand Consultancy unit. She spent over two years with LBBC working with global clients on brand architecture, brand positioning, internal brand management and strategy projects.
 - In 1998, she embarked on the 'brand valuation path', joining Brand Finance where she worked for over three years on many successful, brand valuation and strategy projects for global clients.
 - Tracey joined Intangible Business in September 2001, keen to pursue her interest in the exciting field of brand valuation and strategy, and has since worked on projects for brands such as The Woolmark, Allied Domecq Spirits & Wines, Princess Diana of Wales Memorial Fund and The Glasshouse Fashion chain.
-

Charles Langford

- Charles' background is entirely within the field of Brand Valuation having worked on projects across most business sectors which have allowed him to appreciate all the different methodologies and approaches to brand valuation and respective application
- Charles specialist expertise is the ability to develop bespoke brand valuation models that reflect the defined understanding and linkage between relative consumer equity and market performance and the ability of a business to convert this to financial performance through operational efficiency
- Charles has worked on a range of brand valuation projects with Intangible Business including wines and spirits, quick service restaurants, fabrics, fashion and ingredient brands

[GRAPHIC]

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Registered in England and Wales, Company Number: 4193941



Appendix 2

Discount Rate

- 1.1 A discount rate is an annually compounded rate by which each increment of expected economic income is discounted back to its present value. A discount rate reflects both time value of money and risk, and therefore represents the cost of capital.
- 1.2 For purposes of this report, the terms 'discount rate', 'cost of capital', and 'weighted average cost of capital' ("WACC") are used interchangeably.
- 1.3 According to Dr. Alfred Rappaport in his 1998 edition of *Creating Shareholder Value*,
- "The appropriate rate for discounting the company's cash flow stream is the weighted average costs of debt and equity capital...It is important to emphasize that the relative weights attached to debt and equity, respectively, are neither predicated on dollars the firm has raised in the past, nor do they constitute the relative proportions of dollars the firm plans to raise in the current year. Instead, the relevant weights should be based on the proportions of debt and equity that the firm targets for its capital structure over the long-term planning period."*
- 1.4 The discount rate was computed as a WACC rate based on the following formula:

$$WACC = (k_e * W_e) + (k_p * W_p) + (k_d[1-t] * W_d) +/- y$$

Where:

WACC = Weighted Average Cost of Capital

k_e = Cost of common equity capital

W_e = Percentage of common equity in the capital structure, at market value

k_p = Cost of preferred equity

W_p = Percentage of preferred equity in the capital structure,

at market value

- k_d = Cost debt (pre-tax)
- t = Tax rate
- W_d = Percentage of debt in the capital structure, at market value
- y = Specific risk factor adjustment

1.5 In summary, the WACC rate has several attributes, including:

- It is market driven i.e., it is the expected rate of return that the market requires to commit capital to the investment in the shares.
- It is forward-looking, based on expected returns.
- The base against which cost of capital is measured is market value, not book value.
- It is measured in nominal terms, including expected inflation.

Cost of Equity

1.6 In developing the cost of equity, we used the 'build up model' based on the CAPM:

- E = $R_f + \beta(\text{ERP})$
- E = Cost of Equity
- R_f = Risk-free Rate
- β = Beta
- ERP = Equity risk premium

Risk Free Rate

1.7 The CAPM implicitly assumes the presence of a single riskless asset, that is, an asset perceived by all investors as having no risk. The risk free rate is the return available as of the valuation date on a security that the market generally regards as being free of the risk of default. A common choice for the nominal riskless rate is the yield on a government security. While interest rate changes cause government obligations to fluctuate in price, investors face essentially no default risk as to either coupon payment or return of principal.

1.8 The risk-free rate reflects the following components:

- A real return for lending out the funds over the investment period, thus forgoing consumption for which the funds otherwise could be used.
- The expected rate of inflation over the term of the risk-free investment.
- The risk that the principal's market value will rise or fall during the period to maturity as a function of changes in the general level of interest rates.

1.9 In our analysis, we utilized the CSFB Equity-Gilt Study, 15 year gilt index for the risk free rate.

Beta

1.10 Beta is a measure of an asset's sensitivity to the market, otherwise known as systematic risk. The systematic risk of a security is estimated by regressing the security's excess returns against the market portfolio's excess returns. The slope of the regression equation is the beta. Beta is a function of the relationship between the return on an individual security and return on the market as measured by a broad market index.

Equity Risk Premium

1.11 The equity risk premium ('ERP') represents the additional return an investor expects to compensate for the additional risk associated with investing in equities as opposed to investing in a riskless asset. The ERP is reflective of what an investor thinks the risk premium is going forward. Unfortunately, the expected ERP is unobservable in the market and therefore must be estimated through the use of historical data. The historical equity risk premium is calculated by subtracting the long-term average of the income return on the riskless asset from the long-term average stock market return as measure over the same period as that of the riskless asset. This assumes that what has happened in the past is representative of what might be expected in the future.

Cost of Debt

1.12 The other capital used to estimate a discount rate is debt, the cost of which is typically based on interest rates

Tax rates

- 1.13 The discount rate is based on the cash flows after tax, and should therefore be adjusted for tax to match the cash flows. Typically there is no adjustment to the cost of equity but there is an adjustment to the cost of debt.

Weighting of Equity and Debt

- 1.14 The discount rate should reflect an appropriate capital structure of equity and debt and so the cost of equity and the cost of debt should be weighted to give a WACC.

Appendix 3

Terminal value methodology

- 1.1 For purposes of this report, the terms 'terminal value', 'continuing value', and 'perpetuity value' are used interchangeably. The terminal value is an estimate of the present value of the future cash flows from the explicit forecast period.
- 1.2 Estimating the terminal value or continuing value parameters is an integral part of the forecasting process. The continuing value parameters should reflect a coherent forecast for the long-term economic situation of the industry. Specifically, the continuing value parameters are based on the expected hypothetical steady state condition for the shares. This has been applied by assuming a steady percentage increase after 2007 and using Gordon's growth model to calculate a present value for this.

Appendix 4

Required Dividend Yield

| | |
|--------------------------------|---------------|
| Net Yield of listed companies | 0.90% |
| Required premium | 9.10% |
| Required Dividend Yield | 10.00% |

Weighting

Weighted average cost of capital

| Cost of equity | | | |
|-----------------------------------------|--------|--------|---------------|
| Risk free rate | | 4.71% | |
| Equity risk premium | 6.00% | | |
| Beta | 1.25 | | |
| | | 7.50% | |
| Cost of equity | | 12.21% | 80.00% |
| | | | 9.77% |
| Cost of debt | | | |
| Mean LIBID/LIBOR | | 3.97% | |
| Premium for corporate borrowing | | 1.50% | |
| Borrowing rate | | 5.47% | |
| Corporate tax | 30.00% | -1.64% | |
| Cost of debt | | 3.83% | 20.00% |
| | | | 0.77% |
| Weighted average cost of capital | | | 10.53% |

Sources

Net Yield listed companies LBS Risk Measurement Service - index for Software and Computer Services Sector

Risk free rate Bank of England ten year government securities month end November 2001

Beta LBS Risk Measurement Service - index for Software and Computer Services Sector

Equity risk premium taken between Ibbotson 9% and CFSB 3.5%

Bank of England LIBID/LIBOR end of month rates November 2001

Premium for Corporate borrowing based on normal business practice 2nd tier rates

EMPIRE

VALUATION CONSULTANTS, INC.

PRIVATE & CONFIDENTIAL

December 21, 2001

Mr. Stefan Allesch-Taylor
Chairman and Chief Executive Officer
HTTP Technology, Inc.
46 Berkeley Square
London, UK W1X 5DB

Dear Mr. Allesch-Taylor:

Empire Valuation Consultants, Inc. ("Empire"), an independent consulting firm specializing in going concern valuations, was retained by HTTP Technology, Inc. ("HTTP") to express an opinion as to the fair market value of the assets ("Assets") of Nightingale Technologies, Ltd. ("Nightingale" or the "Company"), which were acquired by HTTP as of December 29, 2000 (the "Valuation Date"). It is our understanding that this valuation will be used in meeting financial reporting requirements.

Methodology

Nightingale has been valued on a going concern basis. Since the Company is closely-held, and thus without a public market for its ownership interests, this appraisal was conducted according to guidelines established by the Internal Revenue Service ("IRS"), and in conformity with appraisal practices promulgated by the American Society of Appraisers in the Principles of Appraisal Practice and Code of Ethics, and the Uniform Standards of Professional Appraisal Practice ("USPAP"), together with such standards as were deemed relevant to this engagement.

As noted, this report has been prepared in conformance with USPAP; Standards 9 and 10 apply directly to the preparation of valuation reports of business interests. In general, these requirements are binding. However, flexibility with regard to the extent of certain information contained within the written appraisal report (Standards Rule 10-2) is permitted. Therefore, this letter report's contents have been limited to discussion of those elements deemed critical to the formation of this opinion.

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Fair market value as defined here is the price at which ownership interests would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of all relevant facts.

Sources of Information

In valuing the Assets, the following sources of information were considered which relate specifically to Nightingale:

- Interviews, discussions, and electronic mail correspondence with the following people regarding Nightingale's and HTTP's history, operations, finances, and outlook as of the Valuation Date:
 - Dr. Jamshid Dehmeshki, Chief Technology Officer;
 - Mr. Paul Gothard, HTTP's Controller; and
 - Yourself, HTTP's Chief Executive Officer;
- Audited financial statements of Nightingale from inception (July 12, 2000) to December 28, 2000;
- Copy of filled out valuation data request for Nightingale prepared by Jason Forsyth;
- Five-year financial statement projections and notes for Nightingale, as of the Valuation Date;
- Memorandum and Articles of Incorporation of Nightingale, dated July 12, 2000;
- HTTP Form 8-K, dated March 7, 2001 containing the Nightingale purchase agreement;

- Description of Nightingale’s Stochastic Perception Engine (“SPE”);
- SPE Market Attractiveness Study, dated December 2000 and developed by Z/ten Limited;
- Nightingale patent application for the SPE, dated September 22, 2000;
- Assignment of Patent Application to Nightingale from Nightingale (Nuie) Ltd., dated October 5, 2000;

- \$10 million unsecured loan note from Nightingale to Nightingale (Nuie) Ltd. for purchase of SPE in-process patent;
- HTTP’s World Wide Web (“web”) site (www.http-tech.com);
- Employment agreements between Dr. Sabbir Ahmed Rahman and Nightingale; and
- Additional information supplied by HTTP and Nightingale.

Sources of data on the industry include statistical processing, speech recognition and medical imaging competitor’s (Autonomy, Plc., SPSS, Inc., Nuance Communications, Inc., Dues Technology, Inc. and R2 Technology, Inc.) annual reports, press releases, web pages and analyst reports. Economic data were gathered from *Pricewaterhouse Coopers UK Economic Outlook and HM Treasury’s Forecasts for the UK Economy*, among other sources. Data regarding expected rates of return came from Ibbotson Associates.

Business Profile – Nightingale Technology

Nightingale developed software that utilized its in-process patented SPE algorithm. As of the Valuation Date, the Company was building a technology demonstrator, a software package that demonstrates the capabilities of the SPE, and the SPE was in the process of verification and validation by the Defense Evaluation and Research Agency (“DERA”). Once the SPE technology demonstrator was completed and the SPE was validated by DERA, HTTP planned on developing software that would allow the SPE to be used in four application areas: medical imaging, statistical processing, speech recognition and defense. The Company had no sales and an operating loss of about £751,222 (\$1.05 million) for the period from inception (July 12, 2000) to December 28, 2000.

The Company’s headquarters are located London, UK where most of its staff is employed.

A. History/Overview

The Company was formed in July 2000 to hold the SPE patent rights developed by Nightingale (Nuie) Ltd. and Dr. Rahman. On October 5, 2000, Nightingale purchase the SPE patent and commercial rights for loan note of \$10 million to Nightingale (Nuie) Ltd. In addition, after the purchase of the SPE patent, Nightingale continued development on the SPE software demonstration package. On December 29, 2000, HTTP offered to purchase the stock of Nightingale for 30

million HTTP shares. The payment of the shares was contingent upon two events. First, once Nightingale received DERA validation, 7.5 million shares (15 million shares post 2:1 HTTP stock split) would be issued and second, once the SPE is used in a medical imaging prototype to provide scanning analysis, the 7.5 million (15 million shares post 2:1 HTTP stock split) additional shares will be provided.

B. Technology – Stochastic Perception Engine

As of the Valuation Date, Nightingale had developed the mathematics of the SPE, had an in-process patent for the SPE and was in the process of developing a technology demonstrator and having the SPE validated by DERA. The SPE is a toolbox of algorithms used to analyze data.

The SPE consists of five components: cluster analysis, feature or variable selection, density estimation, data classification and value prediction. Cluster analysis is the process of identifying structure in data when the structure is unknown. The SPE uses the single-link method to perform cluster analysis. The single-link method allows the SPE to perform cluster analysis in a fast and efficient (lower memory and processing requirements) manner. Variable estimation is the process of determining the variable and the weight the variables will have in the classification process. The SPE has the feature to allow the user to define the variables and weights. Density estimation is the process of estimating a population distribution from sample data. The SPE utilizes the Gaussian, Putty and Morph modeling methods for density estimation. Data classification is the process of identifying data classes and assigning samples to each data class. The goal is to minimize the error is classifying the samples. The SPE uses the Gaussian, Putty and Morph methods for sample classification and selects the method the fewest errors to perform data classification of new samples and value prediction. Value prediction is the process of predicting the class a new sample of data will be included in. As of the Valuation Date, the value prediction component had not been implemented into the SPE.

As of the Valuation Date, Nightingale had identified the initial application of the SPE to the medical imaging, statistical analysis, speech recognition and defense fields.

C. Identifiable Intangible Assets

A major source of potential revenue for Nightingale is its SPE algorithm ("Technology"). As of the Valuation Date, no revenue had been obtained from the Technology. The Company was in the process of developing a technology

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demonstrator that utilized the Technology and receiving validation of the Technology from DERA.

Additional intangibles acquired by HTTP include: (1) assembled workforce ("Workforce") and (2) covenant not to compete ("CNC"). These intangible assets provide a supporting role in the development of the software resulting from the Technology described above.

D. Customers & Competition

The Company's potential customers for its Technology include medical imaging firms, any organization that uses statistical analysis, speech recognition software firms and defense organizations.

The SPE competes against other statistical processing algorithms, such as neural networks and partitioning methods, used in products for potential customers described above.

The first market HTTP and Nightingale want to enter with the SPE is the medical imaging market. In this market, the SPE would be used to help radiologists to determine if an area is cancerous. The SPE would determine likely cancerous areas the radiologist may have missed and highlight them for further study by the radiologist. With the development of the prototype medical imaging system using the SPE, Nightingale plans on entering the cancer screening software market. Two firms have developed software and systems to perform cancer screening for breast cancer and lung cancer. These firms are as follows:

- *CADx Medical Systems* ("CADx") is a breast cancer screening software and systems developer. CADx, with software development from Qualia Computing Inc., developed a breast cancer screening system called Second Look. As of the Valuation Date, Second Look had completed clinical trials in 11 US locations and had applied for FDA pre-marketing approval for sales in the US and was available for sale outside the US. CADx had two joint development projects with mammography equipment manufacturers. CADx was a private company located in Montreal, Canada.
- *Deus Technology* ("Deus") is a lung cancer screening software and system developer. Deus has developed the first lung cancer screening product, RapidScreen RS-2000. RapidScreen RS-2000 utilized neural networks and fuzzy logic to identify likely cancerous locations. As of the Valuation Date, Deus was in the process of applying for FDA marketing approval for RapidScreen RS-

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2000. Deus had no revenue because it not sold any products as of the Valuation Date. Deus is located in Rockville, Maryland.

- *R2 Technologies* ("R2") is a breast cancer screening software and system developer. R2 developed the first FDA approved breast cancer screening product, ImageChecker M1000. As of the Valuation Date, 150 ImageChecker systems were installed on a world-wide basis. R2 was also developing software/systems for screening of other cancers. R2 is a private company and has raised over \$60 million in venture financing since inception in 1993. R2 is located in Los Altos, California.

Another market HTTP and Nightingale want to enter with the SPE is the statistical software market. The applications of statistical software include analytical software tools (such as data mining and data analysis) and knowledge management tools, structuring and searching of unstructured data. Firms who develop software for these applications include:

- *Autonomy, Plc* ("Autonomy") is UK based knowledge management software developer. Autonomy's software is a platform that enables a broad range of operations to be performed on unstructured data. Autonomy is located in Cambridge, UK. For the year ended December 2000, Autonomy had an operating income of \$12.1 million on sales of \$65.4 million.
- *SSPS, Inc.* ("SPSS") is a statistical analysis software developer located in Chicago, Illinois. SPSS developed three software products for use in the CRM, general data mining and data analysis and market research markets. For the year ended December 2000, SPSS had an operating profit of \$11.5 million on sales of \$140.8 million.
- *Xanays* ("Xanlays"), a subsidiary of Global Graphics SA, is a developer of an information management software. Xanays' two main products, Watson and Power Case, provide database analysis and visualization capabilities to assist in investigations. For the year ended December 2000, Xanays had an operating loss of Euro 1.7 million on sales of Euro 2.3 million.

Other developers include privately held: Minitab and Inxight Software.

The third market HTTP and Nightingale want to enter with the SPE is the speech recognition software market. Firms who develop software for the speech recognition include:

- *Nuance Communications, Inc* (“*Nuance*”) is US based speech recognition software developer. Nuance’s voice interface software platform allows the information and services of enterprise and telecommunications networks and the Internet to be accessible from any telephone. Nuance is located in Menlo Park, California. For the year ended December 2000, Nuance had an operating loss of \$23.1 million on sales of \$51.8 million.
- *Speechworks International, Inc.* (“*Speechworks*”) is a speech recognition software developer. Speechwork’s products provide over the telephone automated speech recognition solutions for a divers client base including airlines, stock brokers, delivery services and drug distributors. Speechworks is located in Boston, Massachusetts. Speechworks had an operating loss of \$28.7 million on revenues of \$30 million for the year ended December 2000.
- *Vocalis, Plc.* (“*Vocalis*”) is a UK based developer of speech recognition software. Vocalis had an operating loss of £4.1 million on revenues of £2.0 million for the year ended March 31, 2001.

Other developers include: divisions of large corporations, such as IBM, ITT Industries, Management, Lucent Technologies and Phillips Electronics and privately held firms, such as Locus Dialogue and Veritel.

Management also wants to enter the defense software market. The potential uses for the SPE in the defense software market include cooperative target recognition.

Management believes that Nightingale’s algorithms are well-positioned versus its competition, due to the strength of the SPE versus other processing algorithms on performance characteristics such as speed and memory capacity.

E. Employees & Management

Nightingale employed 9 individuals at the Valuation Date, who can be categorized according to their functions as follows:

Table I
Nightingale Employees by Classification

| Classification | Number of Employees |
|-----------------------|----------------------------|
| Executive | 2 |
| Programmer | 5 |
| Admin | 2 |
| Total | 9 |

The Company’s management as of the Valuation Date was as follows:

Table II
Nightingale Management Team

| Name | Position |
|---------------|--------------------------|
| Tony Somers | CEO |
| Sabbir Rahman | Chief Scientific Officer |

F. Ownership

As of the Valuation Date, Nightingale was owned by the shareholder of Nightingale (Niue) Ltd. The shareholders of Nightingale (Niue) Ltd; include several wealthy individuals residing in the United Arab Emirates.

HTTP & the Acquisition of Nightingale

Because this valuation of the Assets is related to HTTP’s acquisition of the Company, it was also necessary to review HTTP as a company together with the details of its Nightingale acquisition.

A. HTTP - Overview

HTTP was a developer of software. HTTP provided software development and programming services to many UK organizations through

its HTTP software unit. The HTTP Insights unit was formed to develop software utilizing the SPE. As of the Valuation Date, HTTP had a market capitalization for its equity of about \$561 million. As of March 21, 2001, HTTP had 46 full-time employees.

As of the Valuation Date, HTTP's corporate goal was to commercialize the SPE. HTTP Software was to be increasingly focused on the development of software utilizing the SPE as well as providing on-going support to existing programming services clients. HTTP had generated \$514,000 in revenue in 2000.

HTTP faced competition from other statistical software developers such as R2 Technology, Dues Technology, CADx Medical Systems, SPSS and Xanalis and other programming services firms such as Axon Plc., Diagonal Plc., and Microgen Plc.

B. Acquisition of Nightingale

On the Valuation Date, HTTP acquired the Assets of Nightingale. According to HTTP's management, the acquisition of Nightingale will provide HTTP with a core technology, the SPE, to further develop applications of this technology in medical imaging, statistical processing, speech recognition and defense software. Nightingale will receive HTTP's access to funds, strategy expertise and software development staff.

On December 29, 2000, HTTP (the "Company") offered to acquire all of the issued and outstanding shares of Nightingale in a stock-for-stock transaction. HTTP offered two tranches of 7.5 million shares (15 million shares post 2:1 HTTP stock split) of HTTP stock once specific milestones had been achieved. The first 7.5 million shares would be provided if the Company received a validation by DERA as the technical and commercial viability of the SPE. This condition was satisfied as of February 21, 2001. As of the Valuation Date, management's probability of achieving this milestone was very high, close to 100%. The second 7.5 million shares are payable upon use of the SPE in a medical imaging product or a DERA validation of the medical imaging application. As of this report date, this milestone has not been achieved.

HTTP acquired all of Nightingale's common stock in exchange for two contingent tranches of HTTP stock. Based upon management's estimated probabilities and HTTP's weighted average stock price as of February 21, 2001 of \$12.40, the total

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purchase price for the Company was estimated to be \$93.0 million. HTTP also assumed about \$10.1 million dollars of liabilities, so the total purchase price was estimated to be \$103.1 million. Management's projections for the financial performance of Nightingale are shown in Exhibits A-D.

C. Classification of Nightingale's Identifiable Assets

The total purchase price of Nightingale was \$103.1 million. Therefore, on the Valuation Date, the difference between the book value and fair market value of the Company's net assets was about \$94.0 million. As such it was necessary to identify the components that made up that difference. The value of each of the Assets was estimated, as described below. The sum of these values was then subtracted from Nightingale's total purchase price to arrive at a value for its "goodwill."

After an in-depth review of Nightingale and discussions with HTTP's management, the following intangible Assets were identified as of the Valuation Date:

- Technology (SPE Algorithm)
- Workforce in Place
- Covenant Not to Compete
- Goodwill

The values for each of the three intangible Assets, exclusive of goodwill, was estimated utilizing one of the valuation techniques described later in the report. This was necessary in order to ensure a proper and accurate allocation analysis. Goodwill was estimated as the excess of the purchase price over the estimated value of the identified tangible and intangible Assets.

Economic, Industry & Company Outlook

In the appraisal of any Company, the general economic factors prevailing at the valuation date, as well as those foreseen then, must be considered. Assimilation of these facts and forecasts provides insight into the economic climate in which investors are dealing. Although individual factors may or may not have a direct impact upon a particular industry, the overall economy and its outlook have a strong influence on how investors perceive specific investment opportunities.

A. General Economic Outlook

In its *UK Economic Outlook*, dated February 2001, PwC stated that the overall economic growth of the United Kingdom ("UK") economy was slowing in the third

quarter of 2000. The primary driver of growth continued to be household spending as corporate investment spending rates declined in response to perceptions of inadequate returns on investment and uncertainty regarding demand. Nevertheless, the 2.8% annual rate of gross domestic product (“GDP”) growth recorded in the third quarter of 2000 was higher than with the overall 1999 growth rate of 2.2% but in line combined the first and second quarter annual growth rate of 2.8%. Independent forecasts compiled by HM Treasury for December 2000 forecast GDP growth to be 3.0% for 2000 and then decline to 2.6% for 2001.

The inflation rate measured by the retail price index was expected to increase to 3.0% for 2000, based upon independent forecast compiled by HM Treasury, from a 2.3% rate in 1999. Based upon these same forecasts, inflation was expected to decline in a 2.4% rate in 2001.

Despite the sharp rise in interest rates that occurred from August 1999 to February 2000, a 1% increase in the short-term lending rate, short-term rates are expected to fall by 25 to 50 basis point over the next 12 months. The three-month Treasury bill rate was forecast to fall to 5.0% from 6.0% currently.

In summary, the consensus compiled by HM Treasury was forecasting real, inflation-adjusted GDP to rise at a rate of 3.0% for all of 2000. Longer-term projections continued to call for between 2.5% and 3.0% in real year-over-year GDP growth.

B. Industry Outlook

Nightingale plans to compete in four markets: medical imaging, statistical modeling/analysis, speech recognition and defense software. The medical imaging market is a nascent market with a very large growth potential. The statistical processing technologies available for automated cancer screening tools have just recently been developed. Most of the competitors in this market have developed joint ventures with medical equipment manufacturers to provide the manufacturers with the capability of computer aided detection of cancer. The use of CAD for breast cancer detection has proven valuable to date and applications to other types of cancer detection are now being developed.

The statistical modeling market includes the consumer analysis tools, data mining tools and statistical modeling packages. The consumer analysis and data mining market size was estimated to be a \$1.0 billion market by IDC, as of December 1999. Based upon Z/yen limited, the estimated size of the statistical software market was estimated to be \$400 to \$500 million market in 2000. These markets

are expected to grow rapidly due to the increased amount of consumer data and the business need to analyze the data to assist in marketing decisions.

The speech recognition market includes software used to develop the voice interface between people and computers and networks. Based upon Z/yen limited, the estimated size of the speech recognition software market was estimated to be \$2 to \$3 billion market in 2000. This market is also expected to grow rapidly as the popularity and ease of use associated with voice interface technology increases.

C. Company Outlook

The outlook for Nightingale was speculative at the Valuation Date. As of the Valuation Date, the SPE had potential application in large and growing markets. However, since the technology demonstrator had not been completed, the DERA validation had been not received and well financed competitors were present in each of Nightingale’s target markets, the outlook for Nightingale was speculative.

Allocation of Nightingale’s Purchase Price

The purpose of this section is to incorporate the information considered and/or presented previously into a quantitative representation, thus assigning a value to the Assets under review. The valuation methodology reflects the analysts expectation of how free and open capital markets would assign value to the Assets.

A. General Valuation Approaches

There are a number of generally accepted approaches in use for valuing intangible assets, none of which is necessarily superior to the others. It is more a question as to which of the approaches or combination of approaches is best suited to the business, industry and economic circumstances of the particular assets being appraised at the specific valuation date. The following discussion summarizes three market approaches as they generally apply.

Cost Approach: This approach is based on historic costs and/or investment costs incurred in the construction and creation of an intangible or intellectual asset. However, it is important to distinguish that cost does not necessarily represent value. Costs may not be directly related to the value of intellectual property because the method ignores the income producing capability of the asset created. However, if management incurs costs in developing or purchasing assets, it normally expects these assets to recover their cost from future cash flows. Thus, the cost approach can sometimes be used to benchmark an asset’s market value.

Market Approach: The first objective of the market approach is to identify specific, arm’s length transactions having two key criteria: (1) assets which were the same as or similar to that of the asset under analysis; and (2) public information which was sufficient to form an

opinion of value. Thereafter, the implied market multiples from these transactions can be used to form a conclusion of market value.

Income Approach: Theoretically, the value of an intellectual asset equates to the present value of its expected future benefits. Application of this approach requires an identifiable income stream attributable to the asset, an expected economic remaining life of that income stream, and a required rate of return (i.e., discount rate) commensurate with the risk associated with its realization.

B. Selection of Valuation Approaches

The Market Approach was dismissed for all of the intangible Assets because, while a search was conducted, no public transactions of similar Assets were identified.

For the Company's assumed tangible assets, the Cost Approach provided the only basis for their estimated values at the Valuation Date. First, the value of the Company's net current assets was assumed to be the minimum value that had been stipulated in the purchase agreement. Secondly, per management, the total market value of the Company's net fixed assets was estimated to equal its aggregate book value.

To facilitate valuation approach selection, most of the intangible Assets were then separated into two groups. The first group contained the Assets that were revenue generating. This Asset included: Technology (SPE Algorithm). Since this Asset generates the bulk of the Company's sales, the Income Approach was used to estimate its value. The second group contained the Asset that was used in support of the revenue generating Asset. This Assets included: Workforce. Since this Assets supported the generation of Nightingale's sales, the Company had not generated profits, was only one year old, and no comparable Assets could be identified, the Cost Approach was used to estimate its value.

Finally, for the remaining intangible Asset, i.e., Nightingale's CNC, the Income Approach was used.

C. Selection of Discount Rates for the Intangibles

The cash flows attributable to the intangible Assets represent monies available to the investors in those Assets. In determining a discount rate for the intangible Assets,

many risk factors were considered both at the Company and specific asset levels, some of which included:

- Nightingale's planned medical imaging, statistical processing and speech recognition products would not gain market acceptance or gain acceptance at a much slower rate than forecast;
- That, while demand for the Company's products is uncertain, the potential interest in Nightingale's software products could be great, given the rapidly growing medical imaging software industry;
- That Nightingale's software products will not attain their projected levels of cash flow or that substitutes for the products will be introduced by competitors in the future; and
- That the expected useful lives for the intangible Assets are comparatively short.

Because the aggregate market value of Nightingale was known from the purchase price and its total future cash flows streams have been projected, it was possible to arrive at its weighted average cost of capital ("WACC") discount rate implied through mathematical calculations. Exhibit E provides the details. Based on Nightingale's projected cash flow streams and its market value of invested capital ("MVIC," or the market value of Nightingale's debt and equity) of \$93.0 million, the WACC required to equate the value of the projected cash flows equal to the purchase price, commonly referred to as the investment's internal rate of return, was 27%. Assuming an all equity financed firm, which is the case of most firms of a similar nature, the Company's equity rate of return would, therefore, be 27%.

The implied WACC, derived above, incorporates the various levels of risk for all of the Assets identified above. The riskiness of the Assets range from the lower levels risk associated with tangible assets, to the levels applicable to intangibles, then to the higher levels risk associated with Goodwill. Goodwill represents the value associated with yet to-be-developed products and services. The risk level of the Assets vary due to factors such as salability, the length of Asset's life, the Asset's ability to be differentiated, the current stage of completeness, etc. Since Goodwill is more risky than the other Assets, Goodwill is generally viewed as requiring a higher rate of return than a company's implied WACC, assuming its has some developed or purchased assets in place.

In order to estimate the discount rate applicable to each Asset, the required rates of return for various asset classes were considered. These rates start from rates of return on assets like cash, and extend to bond borrowing rates (including junk bonds), to public equity rates, and to speculative investments (venture capital rates). This spectrum provides insights in to relative returns required for a given risk level.

Table III
Asset Class Discount Rate Benchmarks

| Asset | Rate of Return |
|-------|----------------|
| Cash | 5.7% |

| | |
|-----------------|--------|
| AAA Bond | 7.2% |
| BBB Bond | 8.0% |
| S&P 500 | 13.3% |
| Small Stocks | 18.4% |
| Venture Capital | 25-70% |

In addition, Company specific benchmark rates were developed. These rates are shown below and developed in detail in Exhibit F. (Note: the CAPM method of estimating a discount rate for Nightingale was considered but since no betas for similar firms were available, the method was not used.)

Table IV
Company Specific Discount Rate Benchmarks

| Method | Rate of Return |
|-----------------|----------------|
| Build-up | 25% |
| Size Premium | 21% |
| Venture Capital | 30-60% |
| Transaction IRR | 27% |

Generally, a company's identifiable intangible assets are less risky in their individual earnings stream potentials, than the non-identifiable, future products or revenue streams (i.e. Goodwill). As a result, identifiable assets require either the same or a lower rate of return than the entire company. Therefore, for the Company's identifiable intangible assets, it was concluded that the discount rate should be lower (i.e., 25% - 27%). This conclusion was made because goodwill comprises the

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majority of the purchase price and goodwill should have a higher discount rate than the firm as a whole. Moreover, 25% - 28% falls with the range of the WACC and the venture capital discount rates that would be expected on investments in firms whose development stage was similar to that of Nightingale at the Valuation Date. Summary of the discount rates chosen for each of the Asset is shown in the table below:

Table V
Nightingale Intangible Asset Discount Rates

| Asset | Discount Rate |
|----------------------------|---------------|
| Technology (SPE Algorithm) | 22% |
| Covenant Not to Compete | 27% |

The specific discount rates were chosen based upon a qualitative assessment of the riskiness of each Asset and the discount rate benchmarks derived above. Since the Technology was deemed to have a lower risk than the Goodwill, a lower discount rate of 22% was chosen. Finally, the discount rate for the Covenant was estimated as the same as the Company as a whole, 27%.

In valuing assets using the Income Approach two inputs, a capital charge and an amortization benefit need to be taken into consideration. These two items are discussed below, prior to the analysis of the Assets themselves.

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D. Selection of Capital Charges

As a part of estimating the cash flow for the Technology, in which the Income Approach was used, a capital charge was determined. This charge represents a rent (as a % of each Asset's sales or flat charge per year) for other Assets utilized in the development of the specific intangible's projected revenue stream. These charges were determined, based on each asset's value at the Valuation Date and its expected after-tax rate of return or rent factor for the assets that do not wear-out (working capital). For assets that do wear-out (fixed assets, workforce and CNC), the charge is based upon a payment that includes both a return on and return of the assets original value. The following are the after-tax rent factors and capital charges (as a % of sales) determined for the Company.

Table VI
Nightingale Capital Charges

| Asset | After-tax Rent Factor | After-tax Capital Charge as a % of Sales |
|--------------------|-----------------------|------------------------------------------|
| Net Current Assets | 3.7% | 2.07% |
| Net Fixed Assets | 6.1% | 0.36% |
| Workforce | \$ 49,900/yr | |
| CNC | \$ 149,000/yr | |

Note: the specific charges utilized in each case is dependent upon which Assets were used in combination with the asset being valued to generate the resulting revenue stream.

E. Amortization Tax Benefit

Since the values of Nightingale's intangible assets are amortizable for federal income tax purposes, a purchaser of these assets would be willing to pay for this benefit. Therefore, an amortization tax benefit was added to the value of each intangible asset. This benefit was estimated as the tax savings associated with purchasing this asset. The tax savings (amortization factor) attributable to the amortization of the fair market value of an asset over its remaining life was calculated from the following formula:

$$AF = \frac{L}{L - (PV \times t)}$$

where: AF = Amortization Factor
L = Tax Life (15 years)
V = Present Value Annuity Factor
t = Tax Rate = 40%

The value of the benefit for each asset was estimated as the value the most likely buyer of the Asset could obtain from purchase of the Asset. In this case, the most likely buyer of the Assets was a smaller firm who could utilize the tax benefit (i.e. was profitable). This firm would have a required rate of return lower than Nightingale's (27%). Therefore, a required rate of return of 20% was used to determine the Amortization Factor for the Assets. The resulting Amortization Factor for all the Assets was 15.9%. See Exhibit G for calculation details.

F. Value of Nightingale's Net Current Assets & Net Fixed Assets

To determine the value of the Company's net current assets and net fixed assets, the Cost Approach was used, which requires that the assets and liabilities in question be restated to their market values.

As of the Valuation Date, the book value of the Company's current assets less its current liabilities was \$527,000, rounded, excluding \$10.7 million in debt assumed by HTTP. As of the Valuation Date, the book value of its net fixed assets was \$66,000, rounded. It was concluded, after discussions with Nightingale's management, that the minimum contractual value for the net current assets and the book values for Nightingale's net fixed assets are reasonable proxies for their market values. Therefore, the fair market values of the Company's net current assets and net fixed assets were concluded to be \$527,000, rounded, and \$66,000, rounded respectively, as of the Valuation Date. Exhibit H is a restated balance

sheet for Nightingale at the Valuation Date and provides the fair market value estimates of its tangible and intangible assets.

G. Value of Technology (SPE Algorithm)

As described above, one of Nightingale's most valuable intangible Assets is the SPE Algorithm Technology. This technology was an outgrowth of the work of Dr. Rahman had performed on the development of more efficient processing algorithms. The technology, described in more detail above, allows for more efficient data mining, data analysis and processing of large data sets.

As of the Valuation Date, a set of algorithms, the SPE, had been developed and a patent application had been filed for their protection. Subsequent to the acquisition, a technology demonstrator, a software package, was developed to demonstrate the usefulness of the SPE. As of the Valuation Date, no SPE IPR&D existed because the SPE had alternative uses in planned applications including medical imaging, statistical processing and speech recognition. In addition, the consideration of HTTP stock was not be paid until technical feasibility, DERA validation, was achieved.

Since the SPE Technology is the most important revenue generating Assets for Nightingale, we estimated their value using the Income Approach. The specific valuation steps were as follows:

- The SPE technology will generate revenue for Nightingale in two ways. First, Nightingale will collect royalty fees for the use of the SPE in other firm's software packages. Second, Nightingale will receive licensing, implementation and maintenance revenue from the software it develops using the SPE algorithms. Management provided a forecast of royalty, licensing and maintenance revenues to 2006;
- Next, the revenue applicable factor, which represents the portion of future revenue applicable to the Technology was estimated. This factor was based upon the relative expenditure to develop the algorithm (\$10 million) to the expected future expenditure to implement applications of the algorithm plus the initial \$10 million dollars to develop the algorithm. A 10% per year technology obsolescence factor was applied to the initial \$10 million expenditure to account for the modification of the algorithms.

- Operating expenses include: royalties, sales and marketing, and general and administrative expenses. Management projected these expenses at 33% of

revenues. Management estimates 100% of these costs are attributable to maintaining the Technology. The resulting operating margin was 67%.

- Taxes then subtracted from operating income. Taxes are based upon a 40% tax rate.
- Next, a capital charge of 2.5% of sales plus \$199,100/year are subtracted from the after-tax income to estimate the after-tax cash flow. This capital charge includes charges for other Assets used to generate the SPE Technology income. These Assets include: working capital, fixed assets, Workforce and CNC.
- The resulting after-tax cash flow was discounted by the discount rate estimated for the SPE Technology of 22%.
- Since the algorithm will be used in products after 2005 a terminal value was estimated as the 2005 net cash flow times decreased by the LT growth rate based upon Nightingale's 3% LT growth rate less the terminal technology obsolescence factor of 12.5%, divided by WACC of 22% less -10% LT growth rate.
- The resulting cash flows were added together to arrive at a net present value of \$19,837,000, rounded. This cash flow includes the cash flows attributable the SPE Technology.

Finally, the amortization tax benefit factor, attributable to a buyer being able to write the asset up and amortize it over 15 years was applied to the net present value resulting in a value of \$22,470,000, rounded for the SPE Technology. See Exhibit I for detailed calculations.

The expected average life of the SPE Technology, based upon the time when a majority of the cash flows will be realized is five years.

H. Value of Nightingale's Workforce

Nightingale's Workforce is composed of 9 individuals. As mentioned above, we used the Cost Approach (based on calculating a replacement cost) to determine the value of the Company's Workforce. For each class of employee, we estimated the cost to identify, recruit, hire, and train employees of similar quality.

Recruitment costs for all employees and management were concluded to be 25% of annual compensation. Given that it is not Nightingale's management's policy to pay for relocation costs and that its headquarters are near a major metropolitan city, relocation costs for a replacement Workforce were estimated to be zero. The other cost looked at was training costs. These costs include direct costs to train and indirect costs of training, such as lost productivity during the training process. These costs were concluded to equal 1/3 of total, first year compensation for all employees.

Based on the above assumptions and the current compensation paid to the Company's employees, the estimated pre-tax cost for replacing Nightingale's work force was \$263,000. Taxes were then subtracted from pre-tax cost to recreate the Workforce. Taxes are based upon a 40% tax rate. Resulting in an after-tax cost to re-create the Workforce of \$158,000.

Finally, the amortization tax benefit factor, attributable to a buyer being able to write the asset up and amortize it over 15 years was applied to the net present value resulting in a value of \$180,000 for the Workforce. See Exhibit J for calculation details.

I. Value of Nightingale's Covenant Not to Compete

As described above, one of Nightingale's intangible Assets is its covenant not to compete. The CNC is an agreement between HTTP and the employees of Nightingale which precludes Nightingale employees leaving HTTP and from competing with Nightingale. The duration of the CNC is two years from the date of departure from HTTP. The CNC covers the key employee, Dr. Rahman, of Nightingale.

In addition to the CNC, the key employee of Nightingale entered into three-year employment contracts with HTTP. The employment contract pays the employee a \$100,000 salary and 10% profit participation in the sale or use of the SPE. Since there are no penalties for leaving HTTP if Dr. Rahman received a better offer from another party, the period of competition without the non-compete was assumed to be zero years.

We estimated the CNC's value using the Income Approach. The estimate value of the CNC is the sum of the present value of the cash flows that would be lost if the CNC was not in place. Specifically, the value of the CNC is difference between the projected cash flows if employees start competing as soon as possible, before the CNC expires, (zero years because of no penalty for leaving other than lost salary and profit participation) and the projected cash flows if the employees

start competing after the CNC expires (two years).

The specific valuation steps were as follows:

- Expected revenue loss was based on the difference between the revenues where the employee starts competing with HTTP one year from the Valuation Date (the start-up time for a new company) and where the employees start competing with HTTP in three years from the Valuation Date (one year after the non-compete expires). The lost revenue stream has been reviewed by Management.
- The estimated lost cash flow was estimated as the lost revenue times the cash flow margins ranging from 8% of 11%. The cash flow margin is derived from the management provided forecast.
- The resulting after-tax cash flow was discounted by the discount rate implied from the transaction price of 27%.
- The resulting cash flows were added together to arrive at a net present value of \$861,000, rounded.
- The net present value was multiplied times the probability of competition of 50% to arrive at value of the CNC of \$431,000, rounded.

Finally, the amortization tax benefit factor, attributable to a buyer being able to write the asset up and amortize it over 15 years was applied to the net present value resulting in a value of \$500,000, rounded, for the CNC. See Exhibit K for detailed calculations.

The expected average life of the CNC, based upon the duration of the CNC, is two years.

J. Value of Nightingale's Goodwill

The Goodwill value associated with the Nightingale acquisition contains time-to-market benefits, synergies, and strategic positioning value. Buy purchasing Nightingale, HTTP has saved time and resources in the development of a statistical algorithms on which powerful computer processing software can be built. In addition, HTTP has strengthened its position in the statistical software development marketplace. Synergies may also be realized through use of HTTP's software development workforce in developing application for the SPE. Goodwill is

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calculated as the residual value after subtracting the identifiable asset values from the basis. The resulting residual value is \$79,981,358.

Management's expected life for Goodwill is five years. Nightingale is expected to generate revenues from its existing technology and yet to-be-developed software over the next five years. Some of the revenue is applicable to the existing technology but most of it is applicable to to-be developed products and services.

The reasonableness of this life was tested by examining the lives attributed to the goodwill of statistical software developers acquired over the past two years. Based upon the financial filings of firms such as Autonomy, Nuance Communications and SPSS the lives attribute to goodwill for statistical software development firms ranged from eighteen months to ten years. Therefore, the five-year life attributed to Goodwill is not unreasonable.

See Exhibit L for a summary of all of the projected cash flows and capital charges, for Nightingale. The exhibit also provides a reconciliation of the discount rates.

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Valuation Conclusion

Given the appraisal procedures and facts outlined above, it is our opinion that the concluded values, percentages of Company value, weighted average useful lives and discount rates for Nightingale's Assets at the Valuation Date are as follows:

Table VII
Nightingale Purchase Price Allocation Summary of Value

| Asset | Value (\$000s) | % Nightingale Value | Useful Life (Yrs) | Discount Rate |
|-----------------------------|-----------------------|----------------------------|--------------------------|----------------------|
| Current Assets (incl. Debt) | (10,198) | -11.0% | | 3.6% |
| Net Fixed Assets | 66 | 0.1% | 5.0 | 6.0% |
| Technology (SPE Algorithm) | 22,470 | 24.2% | 5.0 | 22.0% |
| Workforce | 180 | 0.2% | 3.0 | |
| Covenant Not to Compete | 500 | 0.5% | 2.0 | 27.0% |

| | | | | |
|--------------|---------------|---------------|-----|--------------|
| Goodwill | 79,981 | 86.0% | 5.0 | 27.1% |
| Total | 93,000 | 100.0% | | 27.0% |

Respectfully submitted,

Empire Valuation Consultants, Inc.

/s/ Keith D. Smith
 Keith D. Smith, CFA
 Senior Valuation Associate

/s/ Scott A. Nammacher
 Scott A. Nammacher, ASA, CFA
 Managing Director

Addendum 1-1

STATEMENT OF LIMITING CONDITIONS

Confidentiality/Advertising: This report and supporting documentation are confidential. Neither all nor any part of the contents of this appraisal shall be copied or disclosed to any party or conveyed to the public orally or in writing through advertising, public relations, news, sales, or in any other manner without the prior written consent and approval of both Empire Valuation Consultants, Inc. and its client.

Litigation Support: Depositions, expert testimony, attendance in court, and all preparations/support for same, arising from this appraisal shall not be required unless arrangements for such services have been previously made.

Management: The opinion of value expressed herein assumes the continuation of prudent management policies over whatever period of time is deemed reasonable and necessary to maintain the character and integrity of the appraised business entity as a going concern.

Information and Data: Information supplied by others that was considered in this valuation is from sources believed to be reliable, and no further responsibility is assumed for its accuracy. Information used was limited to that available on or before the Valuation Date, or which could be reasonably ascertained as of that date. We reserve the right to make such adjustments to the valuation herein reported as may be required by consideration of additional or more reliable data that may become available subsequent to the issuance of this report.

Purpose: All opinions of market value are presented as Empire Valuation Consultants, Inc.'s considered opinion based on the facts and data obtained during the course of the appraisal investigation. We assume no responsibility for changes in market conditions which might require a change in appraised value. The value conclusion derived in this appraisal was for the specific purpose and date set forth in this appraisal and may not be used for any other purpose.

Fee: The fee established for the formulation and reporting of these conclusions is not contingent upon the value or other opinions presented.

Interest: Neither the appraiser nor any officer or employee of Empire Valuation Consultants, Inc. has any interest in the property appraised.

Unexpected Conditions: We assume that there are no hidden or unexpected conditions of the assets valued that would adversely affect value.

Addendum 1-2

Non Appraisal Expertise: No opinion is intended for matters which require legal or specialized expertise, investigation or knowledge, beyond that customarily employed by appraisers.

Hazardous Substances: Hazardous substances, if present within the facilities of a business, can introduce an actual or potential liability that will adversely affect the marketability and value of the business or its underlying assets. In the development of our opinion of value, no consideration has been given to such liability or its impact on value unless otherwise indicated in the report.

Addendum 2

CERTIFICATION OF APPRAISERS

We the appraisers certify that, to the best of our knowledge and belief:

1. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
2. All statements of fact contained in this report are true and correct.
3. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analysis, opinions, and conclusions.
4. The professional fee paid to Empire for the preparation of this report is not contingent upon the opinion of value stated herein.
5. Neither Empire nor any of its employees has, to the best of our knowledge, a present or intended financial interest in either the entity being valued or in any affiliates that may exist.
6. No one provided significant professional assistance to the persons signing this report, unless specifically stated herein.

The American Society of Appraisers has a mandatory recertification program for all of its Accredited Senior Appraisers. The senior member, designated by the "ASA," signing below is in compliance with that program.

/s/ Keith D. Smith
Keith D. Smith, CFA
Senior Valuation Associate

/s/ Scott A. Nammacher
Scott A. Nammacher, ASA, CFA
Managing Director

December 21, 2001

Addendum 3-1

EMPIRE VALUATION CONSULTANTS, INC.

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Valuation Services

Empire Valuation Consultants, Inc. provides valuations to business owners, attorneys, accountants, commercial bankers, investment bankers, trust departments, insurance agents, and financial planners, among others. **Empire's** consultants have prepared or managed the preparation of over 7,500 appraisals for the following reasons:

- Buy/Sell Agreements
- Gifting Programs
- Estate Taxes
- Mergers & Acquisitions
- Blocks of Publicly Traded Securities
- Employee Stock Ownership Plans (ESOPs)
- Redemptions
- Recapitalizations
- Going Private Transactions
- Stock Option Plans
- Dissenting Shareholder Suits
- Fairness Opinions
- Intellectual Property
- Purchase Price Allocation

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Empire can assist you with research and litigation support and its professionals are available to provide expert testimony in matters involving questions of valuation.

- **Financial Advisory & Due Diligence Services**

Empire also serves as independent third party financial advisors in mergers & acquisitions, recapitalizations and ESOPs, solvency opinions, etc. Empire also offers a unique service, *The Insider View*™, which provides buyers with full analyses of the businesses they are acquiring.

- **ESOP Feasibility Studies & Preliminary Valuations**

Empire is available to work with our client's team of financial advisors or participate in independent feasibility studies and preliminary valuation reviews in connection with ESOP formation planning.

Addendum 3-2

KEITH D. SMITH, CFA

Academic Degrees

M.B.A. University of California, Los Angeles, Finance, 1997

B.S. Union College, Electrical Engineering, 1986

Employment

Senior Valuation Associate, Empire Valuation Consultants, Inc., Rochester, New York, 2000 - Present

Manager, Valuation Services, PricewaterhouseCoopers LLP, Los Angeles, California, 1997 - 2000

Senior Technical Analyst, Management, Consulting & Research, Los Angeles, California, 1992 - 1997

Captain, United States Air Force, Los Angeles Air Force Base, 1986 - 1992

Experience

Mr. Smith is a Chartered Financial Analyst ("CFA") charterholder. He has four years of experience in financial consulting and business valuations. He has valued the equity, debt, derivatives, liabilities and NOLs of publicly and privately held businesses for acquisitions, divestitures, estate and gift tax reporting, liquidation, financial reporting, and general corporate planning purposes. In addition, he has valued intangible assets including technology, in-process research and development, trademark/tradenames, customer and subscription lists, on-line audiences, covenants not to compete, inventory, workforce and co-marketing agreements/alliances. He has a significant amount of experience in valuing technology, telecommunications, Internet and finance companies and early stage businesses. Mr. Smith has also assisted in developed business plans by developing a financial model of the business utilizing management provided and publicly available industry data.

Addendum 3-3

SCOTT A. NAMMACHER, ASA, CFA

Academic Degrees

M.B.A. New York University Graduate School of Business, Finance, 1985

B.S. University of Minnesota, Business, 1977

Employment

Principal and Managing Director, Empire Valuation Consultants, Inc., New York, New York, 1992-Present

Manager, Financial Valuations, Arthur Andersen & Co., New York, 1990-1991

V.P., Marigold Capital Development, Investment Banking Div. of Marigold Enterprises, Greenwich, Connecticut, 1989-1990

Manager - Domestic Finance, PepsiCo, Inc. Purchase, New York, 1985-1989

Experience

Mr. Nammacher is an Accredited Senior Appraiser (ASA) of the American Society of Appraisers and is a Chartered Financial Analyst (CFA). He has over 14 years of experience in financial consulting and business valuations. He has valued the equity, debt, warrants, NOLs, etc. of publicly and privately held businesses for acquisitions, divestitures, stock repurchases, estate and gift tax reporting, buy/sell agreements, recapitalizations, and general corporate planning purposes. Mr. Nammacher has also developed business plans and financing packages, and has been involved in completed transactions totaling almost \$1.1 billion. In addition, he played key roles in the successful launch of a new business publication.

Mr. Nammacher has testified as an expert witness in U.S. Tax Court and U.S. Bankruptcy Court, and other jurisdictions, acted as a valuation consultant to the Superior Court of New Jersey, and published a book and several articles on "junk bonds." He also received the prestigious "Graham & Dodd Scroll Award" from the *Financial Analysts Journal* for outstanding financial writing relating to a cover story he co-authored. He has also published an article on the various approaches to determining the tax basis of real property in the U.S.

Addendum 4

VENTURE CAPITAL FIRMS – STAGES & RATES OF RETURN

Start-ups are generally financed by venture capitalists (i.e., professionally managed funds whose full-time activity is the investment of relatively large pools of capital in a portfolio of primarily early stage enterprises) and by speculative (i.e., high-risk-accepting) private investors. The thresholds of minimum expected rate of return on start-up candidates for investment are high.

| Stage of Start-up | Approximate Range of Required Return |
|-------------------|-----------------------------------------|
| Initial Start-up | 50% to 75% |
| First Stage | 40% to 60% |
| Second Stage | 35% to 50% |
| Third Stage | 30% to 50% |
| Fourth Stage | 30% to 40% |

Standard Definitions of Start-up Stages

"Initial Startup" companies, usually less than a year old, are involved in early product development and testing.

"First stage" companies are performing market studies, testing prototypes, and perhaps manufacturing limited amounts of product.

"Second stage" is usually considered to be when financing for initial expansion is provided. A viable product exists and a market for it has been established. Profits, if any, are not yet meaningful.

"Third stage" should be experiencing a rapid ramp up in sales. Profit margins should be acceptable but internally generated cash is probably insufficient to meet expansion requirements.

"Fourth stage" companies should be profitable and growing rapidly. Although capital may still be needed to fuel growth, much of the risk associated with early stage companies has been eliminated. Cash out may be only a year or two away.

Nightingale Technologies
Exhibit Summary

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Exhibit A-1

Nightingale Technologies Comparative Income Statements

| £/\$ 1.453 | History Dec-00 | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|------------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Revenue | — | 759,500 | 37,267,758 | 146,191,638 | 283,783,947 | 431,249,901 |
| Cost of Sales | — | (225,225) | (6,534,239) | (27,829,743) | (62,936,301) | (120,309,242) |
| Gross Profit | — | 534,275 | 30,733,518 | 118,361,896 | 220,847,646 | 310,940,659 |
| Sales & Marketing | — | (455,700) | (8,195,776) | (32,857,057) | (74,209,771) | (100,731,594) |
| General & Administration | (609,876) | (6,790,000) | (5,699,750) | (6,237,213) | (7,142,794) | (8,184,214) |
| Royalties to Others | — | — | (1,563,207) | (7,796,977) | (13,538,212) | (19,345,065) |
| Amortization & Depreciation | (481,504) | (125,477) | (413,530) | (1,760,234) | (4,811,657) | (9,701,317) |
| Total operating expenses | (1,091,380) | (7,371,177) | (15,872,263) | (48,651,481) | (99,702,434) | (137,962,189) |
| Operating income (loss) | (1,091,380) | (6,836,902) | 14,861,256 | 69,710,415 | 121,145,212 | 172,978,470 |
| Interest expense* | (173,123) | — | — | — | — | — |
| Interest income | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Other income (expenses) | (173,123) | — | — | — | — | — |
| Pretax income (loss) | (1,264,504) | (6,836,902) | 14,861,256 | 69,710,415 | 121,145,212 | 172,978,470 |
| Income tax expense (benefit) | — | — | (3,209,741) | (27,884,166) | (48,458,085) | (69,191,388) |
| Net income (loss) | (1,264,504) | (6,836,902) | 11,651,514 | 41,826,249 | 72,687,127 | 103,787,082 |

*No projected interest expense, because projections are to determine cash flows available to debt and equity holders

Exhibit A-2

Nightingale Technologies Common Sized Income Statements

| | History Dec-00 | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|-----------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Revenue | N/A | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of Sales | N/A | -29.7% | -17.5% | -19.0% | -22.2% | -27.9% |
| Gross Profit | N/A | 70.3% | 82.5% | 81.0% | 77.8% | 72.1% |
| Sales & Marketing | N/A | -60.0% | -22.0% | -22.5% | -26.2% | -23.4% |
| General & Administration | N/A | -894.0% | -15.3% | -4.3% | -2.5% | -1.9% |
| Royalties to Others | N/A | 0.0% | -4.2% | -5.3% | -4.8% | -4.5% |
| Amortization & Depreciation | N/A | -16.5% | -1.1% | -1.2% | -1.7% | -2.2% |
| Total operating expenses | N/A | -970.5% | -42.6% | -33.3% | -35.1% | -32.0% |
| Operating income (loss) | N/A | -900.2% | 39.9% | 47.7% | 42.7% | 40.1% |

| | | | | | | |
|------------------------------|-----|---------|-------|-------|-------|-------|
| Interest expense* | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Interest income | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other income (expenses) | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Pretax income (loss) | N/A | -900.2% | 39.9% | 47.7% | 42.7% | 40.1% |
| Income tax expense (benefit) | N/A | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% |
| Net income (loss) | N/A | -900.2% | 31.3% | 28.6% | 25.6% | 24.1% |

*No projected interest expense, because projections are to determine cash flows available to debt and equity holders

Exhibit A-3

Nightingale Technologies Income Statements - Trend Anay

| | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Revenue | N/A | 4806.9% | 292.3% | 94.1% | 52.0% |
| Cost of Sales | N/A | 2801.2% | 325.9% | 126.1% | 91.2% |
| Gross Profit | N/A | 5652.4% | 285.1% | 86.6% | 40.8% |
| Sales & Marketing | N/A | -1698.5% | -300.9% | -125.9% | -35.7% |
| General & Administration | -1013.3% | 16.1% | -9.4% | -14.5% | -14.6% |
| Royalties to Others | N/A | N/A | -398.8% | -73.6% | -42.9% |
| Amortization & Depreciation | 73.9% | -229.6% | -325.7% | -173.4% | -101.6% |
| Total operating expenses | -575.4% | -115.3% | -206.5% | -104.9% | -38.4% |
| Operating income (loss) | -526.4% | 317.4% | 369.1% | 73.8% | 42.8% |
| Interest expense* | 100.0% | N/A | N/A | N/A | N/A |
| Interest income | N/A | N/A | N/A | N/A | N/A |
| Other | N/A | N/A | N/A | N/A | N/A |
| Other income (expenses) | 100.0% | N/A | N/A | N/A | N/A |
| Pretax income (loss) | -440.7% | 317.4% | 369.1% | 73.8% | 42.8% |
| Income tax expense (benefit) | N/A | N/A | -768.7% | -73.8% | -42.8% |
| Net income (loss) | -440.7% | 270.4% | 259.0% | 73.8% | 42.8% |

*No projected interest expense, because projections are to determine cash flows available to debt and equity holders

Exhibit B-1

Nightingale Technologies Comparative Balance Sheets

| £/\$ 1.453 | History Dec-00 | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|--------------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Cash | 709,373 | 38,529,802 | 41,596,528 | 57,517,988 | 92,966,372 | 147,833,787 |
| Prepayments | 86,163 | 89,500 | 75,238 | 86,148 | 98,695 | 113,125 |
| Accounts Receivable | 36,126 | 253,167 | 5,754,518 | 16,977,613 | 28,626,090 | 42,294,641 |
| Total current assets | 831,662 | 38,872,469 | 47,426,283 | 74,581,749 | 121,691,158 | 190,241,552 |
| Furniture and Office Equipment | 32,428 | — | — | — | — | — |
| Motor Vehicles | 40,677 | — | — | — | — | — |
| Total | 73,105 | 605,432 | 877,788 | 1,150,145 | 1,313,357 | 1,540,839 |
| Accumulated Depreciation | (6,947) | (123,009) | (307,904) | (554,686) | (722,175) | (991,085) |
| Total net fixed assets | 66,158 | 482,423 | 569,884 | 595,458 | 591,182 | 549,754 |

| | | | | | | |
|----------------------------------------------------|------------|--------------|-------------|-------------|-------------|-------------|
| Other Assets | 9,165,165 | 230,238,512 | 232,432,282 | 240,421,286 | 254,334,304 | 272,988,756 |
| TOTAL ASSETS | 10,062,985 | 269,593,405 | 280,428,449 | 315,598,494 | 376,616,644 | 463,780,061 |
| Accounts Payable | 110,986 | 596,667 | 501,583 | 574,321 | 657,969 | 754,164 |
| Short-term Debt | 5,837,295 | 5,837,295 | 5,837,295 | 5,837,295 | 5,837,295 | 5,837,295 |
| Accrued Expenses | 12,924 | 89,500 | 75,238 | 86,148 | 98,695 | 113,125 |
| Accruals & Deferred Income | 180,388 | — | — | — | — | — |
| Total Current Liabilities | 6,141,594 | 6,523,462 | 6,414,116 | 6,497,764 | 6,593,960 | 6,704,584 |
| Long-term Debt | 4,887,584 | 4,887,584 | 4,887,584 | 4,887,584 | 4,887,584 | 4,887,584 |
| Total long-term liabilities | 4,887,584 | 4,887,584 | 4,887,584 | 4,887,584 | 4,887,584 | 4,887,584 |
| Share Capital | 2,906 | 278,840,904 | 278,840,904 | 278,840,904 | 278,840,904 | 278,840,904 |
| Retained Earnings (Accum. Deficit) | (969,099) | (20,658,545) | (9,714,154) | 25,372,242 | 86,294,197 | 173,346,990 |
| Total Shareholders Equity | (966,193) | 258,182,359 | 269,126,750 | 304,213,146 | 365,135,100 | 452,187,894 |
| TOTAL LIABILITIES & SHAREHOLDERS EQUITY | 10,062,985 | 269,593,405 | 280,428,450 | 315,598,494 | 376,616,644 | 463,780,062 |

Exhibit B-2

Nightingale Technologies Common Sized Balance Sheets

| | History Dec-00 | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|----------------------------------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Cash | 7.05 % | 14.29 % | 14.83 % | 18.23 % | 24.68 % | 31.88 % |
| Prepayments | 0.86 % | 0.03 % | 0.03 % | 0.03 % | 0.03 % | 0.02 % |
| Accounts Receivable | 0.36 % | 0.09 % | 2.05 % | 5.38 % | 7.60 % | 9.12 % |
| Total current assets | 8.26 % | 14.42 % | 16.91 % | 23.63 % | 32.31 % | 41.02 % |
| Furniture and Office Equipment | 0.32 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % |
| Motor Vehicles | 0.40 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % |
| Total | 0.73 % | 0.22 % | 0.31 % | 0.36 % | 0.35 % | 0.33 % |
| Accumulated Depreciation | -0.07 % | -0.05 % | -0.11 % | -0.18 % | -0.19 % | -0.21 % |
| Total net fixed assets | 0.66 % | 0.18 % | 0.20 % | 0.19 % | 0.16 % | 0.12 % |
| Other Assets | 91.08 % | 85.40 % | 82.88 % | 76.18 % | 67.53 % | 58.86 % |
| TOTAL ASSETS | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % |
| Accounts Payable | 1.10 % | 0.22 % | 0.18 % | 0.18 % | 0.17 % | 0.16 % |
| Short-term Debt | 58.01 % | 2.17 % | 2.08 % | 1.85 % | 1.55 % | 1.26 % |
| Accrued Expenses | 0.13 % | 0.03 % | 0.03 % | 0.03 % | 0.03 % | 0.02 % |
| Accruals & Deferred Income | 1.79 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % |
| Total Current Liabilities | 61.03 % | 2.42 % | 2.29 % | 2.06 % | 1.75 % | 1.45 % |
| Long-term Debt | 48.57 % | 1.81 % | 1.74 % | 1.55 % | 1.30 % | 1.05 % |
| Total long-term liabilities | 48.57 % | 1.81 % | 1.74 % | 1.55 % | 1.30 % | 1.05 % |
| Share Capital | 0.03 % | 103.43 % | 99.43 % | 88.35 % | 74.04 % | 60.12 % |
| Retained Earnings (Accum. Deficit) | -9.63 % | -7.66 % | -3.46 % | 8.04 % | 22.91 % | 37.38 % |
| Total Shareholders Equity | -9.60 % | 95.77 % | 95.97 % | 96.39 % | 96.95 % | 97.50 % |
| TOTAL LIABILITIES & SHAREHOLDERS EQUITY | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % | 100.00 % |

Exhibit B-3

Nightingale Technologies Balance Sheet Items as % of Sales

| | History Dec-00 | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|----------------------------------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Cash | N/A | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Prepayments | N/A | 11.78 | 0.20% | 0.06% | 0.03% | 0.03% |
| Accounts Receivable | N/A | 33.33% | 15.44% | 11.61% | 10.09% | 9.81% |
| Total current assets | N/A | 5118.17% | 127.26% | 51.02% | 42.88% | 44.11% |
| Furniture and Office Equipment | N/A | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Motor Vehicles | N/A | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total | N/A | 79.71% | 2.36% | 0.79% | 0.46% | 0.36% |
| Accumulated Depreciation | N/A | -16.20% | -0.83% | -0.38% | -0.25% | -0.23% |
| Total net fixed assets | N/A | 63.52% | 63.52% | 63.52% | 63.52% | 63.52% |
| Other Assets | N/A | 30314.48% | 623.68% | 164.46% | 89.62% | 63.30% |
| TOTAL ASSETS | N/A | 35496.17% | 752.47% | 215.88% | 132.71% | 107.54% |
| Accounts Payable | N/A | 78.56% | 1.35% | 0.39% | 0.23% | 0.17% |
| Short-term Debt | N/A | 768.57% | 15.66% | 3.99% | 2.06% | 1.35% |
| Accrued Expenses | N/A | 11.78% | 0.20% | 0.06% | 0.03% | 0.03% |
| Accruals & Deferred Income | N/A | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total Current Liabilities | N/A | 858.92% | 17.21% | 4.44% | 2.32% | 1.55% |
| Long-term Debt | N/A | 643.53% | 13.11% | 3.34% | 1.72% | 1.13% |
| Total long-term liabilities | N/A | 643.53% | 13.11% | 3.34% | 1.72% | 1.13% |
| Share Capital | N/A | 36713.75% | 748.21% | 190.74% | 98.26% | 64.66% |
| Retained Earnings (Accum. Deficit) | N/A | -2720.02% | -26.07% | 17.36% | 30.41% | 40.20% |
| Total Shareholders Equity | N/A | 33993.73% | 722.14% | 208.09% | 128.67% | 104.86% |
| TOTAL LIABILITIES & SHAREHOLDERS EQUITY | N/A | 35496.17% | 752.47% | 215.88% | 132.71% | 107.54% |

Exhibit C

Nightingale Technologies Comparative Cash Flow Statements

| £/\$ 1.453 | History Dec-00 | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|-------------------------------------------------------------------------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net Income (loss) | (1,264,504) | (6,836,902) | 11,651,514 | 41,826,249 | 72,687,127 | 103,787,082 |
| Adjustments to reconcile net income (loss) to net cash provided from operating activities | | | | | | |
| Depreciation | 481,504 | 125,477 | 413,530 | 1,760,234 | 4,811,657 | 9,701,317 |
| (Incr.)/decr. in Prepayments | — | (3,337) | 14,263 | (10,911) | (12,547) | (14,429) |
| (Incr.)/decr. in Accounts Receivable | (122,274) | (217,041) | (5,501,351) | (11,223,095) | (11,648,477) | (13,668,551) |
| (Decr.)/incr. in Accounts Payable | 124,784 | 485,681 | (95,083) | 72,737 | 83,648 | 96,195 |
| (Decr.)/incr. in Short-term Debt | — | — | — | — | — | — |
| (Decr.)/incr. in Accrued Expenses | — | 76,576 | (14,263) | 10,911 | 12,547 | 14,429 |
| (Decr.)/incr. in Accruals & Deferred Income | — | (180,388) | — | — | — | — |
| Net Cash Provided By (Used) In Operating Activities | (780,491) | (6,549,935) | 6,468,609 | 32,436,126 | 65,933,956 | 99,916,043 |
| Capital expenditures, net proceeds on disposals | (32,428) | (272,356) | (272,356) | (272,356) | (274,442) | (283,097) |
| Capitalized R & D Expenses | — | (49,368) | (128,993) | (394,548) | (776,732) | (1,122,131) |
| Net Cash Provided By (Used) In Investing Activities | (32,428) | (321,724) | (401,349) | (666,904) | (1,051,174) | (1,405,228) |

| | | | | | | |
|----------------------------------------------------------------|------------|------------|-------------|--------------|--------------|--------------|
| Issuance of Share Capital | — | — | — | — | — | — |
| Long-term Debt | — | — | — | — | — | — |
| Additional Paid-in Capital/(Shareholder Distributions) | — | 6,871,659 | (3,000,535) | (15,847,761) | (29,434,397) | (43,643,401) |
| Net Cash Provided By (Used) In Financing Activities | — | 6,871,659 | (3,000,535) | (15,847,761) | (29,434,397) | (43,643,401) |
| NET INCREASE (DECREASE) IN CASH | (812,919) | — | 3,066,725 | 15,921,460 | 35,448,385 | 54,867,414 |
| Beginning Cash | 39,342,721 | 38,529,802 | 38,529,802 | 41,596,528 | 57,517,988 | 92,966,372 |
| Ending Cash | 38,529,802 | 38,529,802 | 41,596,528 | 57,517,988 | 92,966,372 | 147,833,787 |

Exhibit D

Nightingale Technologies Comparative Financial Ratios

| | History Dec-00 | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 |
|------------------------------------------|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Liquidity & Efficiency Ratios | | | | | | |
| Current Ratio | 0.14 | 5.96 | 7.39 | 11.48 | 18.45 | 28.37 |
| Quick Ratio | 0.12 | 5.95 | 7.38 | 11.46 | 18.44 | 28.36 |
| Days' Receivable | N/A | 121.67 | 56.36 | 42.39 | 36.82 | 35.80 |
| Days' Payable | N/A | 966.96 | 28.02 | 7.53 | 3.82 | 2.29 |
| Working Capital | (5,309,932) | 32,349,007 | 41,012,167 | 68,083,985 | 115,097,198 | 183,536,968 |
| Sales/Working Capital | N/A | 0.02 | 0.91 | 2.15 | 2.47 | 2.35 |
| Working Capital as % Sales | N/A | 4259.25% | 110.05% | 46.57% | 40.56% | 42.56% |
| Coverage Ratios | | | | | | |
| EBIT/Interest | N/A | N/A | N/A | N/A | N/A | N/A |
| EBITA/Current Portion LTD | N/A | N/A | N/A | N/A | N/A | N/A |
| Leverage Ratios | | | | | | |
| Net Fixed Assets/Net Worth | (0.07) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Liabilities (Debt)/Net Worth | (11.42) | 0.04 | 0.04 | 0.04 | 0.03 | 0.03 |
| Profitability Ratios | | | | | | |
| % Profit Before Taxes/Total Assets | N/A | -2.5% | 5.3% | 22.1% | 32.2% | 37.3% |
| % Profit Before Taxes/Tangible Net W | N/A | -2.6% | 5.5% | 22.9% | 33.2% | 38.3% |
| Other Ratios | | | | | | |
| Sales/Net Fixed Assets | N/A | 1.57 | 65.40 | 245.51 | 480.03 | 784.44 |
| Sales/Total Assets | N/A | 0.00 | 0.13 | 0.46 | 0.75 | 0.93 |
| % Depreciation & Amortization/Sales | N/A | 16.5% | 1.1% | 1.2% | 1.7% | 2.2% |

Exhibit E

Nightingale Technologies Discounted Cash Flow Value As of December 29, 2000

WACC Rate: 27.0%
LT Growth Rate: 3.0%

| Fiscal Year Dec-01 | Fiscal Year Dec-02 | Fiscal Year Dec-03 | Fiscal Year Dec-04 | Fiscal Year Dec-05 | Horizon (1) |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------|
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------|

| | | | | | | |
|--------------------------------------------------|-------------|-----------|------------|-------------------|------------|-------------|
| Project cash flow (see Exhibit L for details) | (6,871,659) | 3,000,535 | 15,847,761 | 29,434,397 | 43,643,401 | 187,607,350 |
| Times: discount factor | 0.894 | 0.704 | 0.555 | 0.437 | 0.344 | 0.303 |
| Discounted cash flow | (6,142,037) | 2,112,414 | 8,787,750 | 12,855,660 | 15,013,685 | 56,871,831 |
| Sum of Discounted Cash Flows: | | | | 89,499,303 | | |
| Times: Tax Amortization Benefit | | | | 1,159 | | |
| Market Value of Invested Capital | | | | 103,724,879 | | |
| Less: Net Debt Outstanding | | | | (10,724,879) | | |
| Add: Cash Outstanding | | | | — | | |
| | | | | 93,000,000 | | |
| Times: Premium for Control | | | | — | @ 0.0% | |
| | | | | 93,000,000 | | |
| Equity Value of Nightingale Technologies: | | | | 93,000,000 | | |

(1) Gordon Growth Model : $V = E^* / (r - g)$

Exhibit F

**HTTP TECHNOLOGIES
NIGHTINGALE WACC CALCULATION
AS OF DECEMBER 29, 2000
SUMMARY**

The weight Average Cost of Capital is calculated as:

$$WACC = R_d (1 - t) D\% + (R_e * E\%)$$

Where:

- R_d = Cost of interest bearing debt capital
- t = Marginal tax rate
- D% = Percentage of debt included in capital structure
- R_e = Cost of equity capital
- E% = Percentage of equity included in capital structure

The cost of equity capital was estimated using the methods described on pages two, three, and four of this exhibit. The WACC is estimated as a weighted average of the two methods. The weights are based upon the applicability of each method to the entity being valued:

| Method | Indicated WACC |
|------------------------------------|----------------|
| Size Premium Approach (see page 2) | 20.74% |
| Build-up Approach (see page 4) | 24.98% |

**HTTP TECHNOLOGIES
NIGHTINGALE WACC CALCULATION
AS OF DECEMBER 29, 2000
SIZE PREMIUM APPROACH**

The size premium approach is based upon the premium over the risk free rate portfolios of certain sizes have historically returned. PricewaterhouseCoopers, in conjunction with the University of Chicago's Center for Research in Securities Prices, studied the effect of market size on equity risk premiums within 25 portfolios grouped by size. Recognizing that market capitalization may be an imperfect measure of the size of a company, eight alternative measures of size are used in conducting historical rate of return research.

The unadjusted (for industry risk) equity risk premium would be as follows:

| | | |
|----------------------------------|---|--------|
| Equity Risk Premium (unadjusted) | = | 15.15% |
|----------------------------------|---|--------|

This adjusted equity risk premium is estimated by applying the ratio of the relative betas of the industry and the size portfolios used to estimate the equity risk premium

$$\begin{aligned} \text{Re} &= \text{Rf} + \text{ERP} \\ \text{Where:} \quad \text{Rf} &= 5.59\% \\ \text{Re} &= 5.59\% + 15.15\% \\ \text{Re} &= \mathbf{20.74\%} \end{aligned}$$

Calculation of WARR

$$\begin{aligned} \text{WACC} &= (\text{D}\% \times \text{Rd}(1-t) + (\text{E}\% \times \text{Re}) \\ \text{Where:} \quad \text{D}\% &= 0.0\% \quad \text{See Page 2} \\ \text{E}\% &= 100.0\% \quad \text{See Page 2} \\ \text{Rd} &= 15.00\% \quad \text{See Page 2} \\ t &= 40.00\% \quad \text{See Page 2} \\ \text{WACC} &= (0.00\% \times 9.00\%) + (100.00\% \times 20.74\%) \\ \text{WACC} &= \mathbf{20.74\%} \end{aligned}$$

**HTTP TECHNOLOGIES
NIGHTINGALE WACC CALCULATION
AS OF DECEMBER 29, 2000
SIZE PREMIUM APPROACH DETAIL**

| Measures of Size | Values (in \$ millions) | Indicated Premium |
|-----------------------|----------------------------|----------------------|
| MV of Equity | | N/A |
| BV of Equity | | N/A |
| 5-Year Net Income | | N/A |
| MVIC | | N/A |
| Total Assets | 10 | 14.6% |
| 5-Year EBITDA Average | | N/A |
| Sales | 1 | 15.7% |
| # of Employees | | N/A |
| Average | | 15.2% |

**HTTP TECHNOLOGIES
NIGHTINGALE WACC CALCULATION
AS OF DECEMBER 29, 2000
BUILD-UP SUMMARY**

| | |
|---------------------------|-----------------------------------------|
| Risk-free Rate (20 years) | 5.59% |
| Equity Risk Premium | 7.00% |
| Small Stock Premium | 5.40% Mico-cap premium |
| Industry Premium | 4.99% Ibbotsons Industry Premium (2001) |

| | |
|---------------------------------|--------------|
| Co Specific Risk | 2.00% |
| Build-up Equity Rate of Return | 24.98% |
| Debt Rate of Return (After-tax) | 9.00% |
| Debt/Total Capital | 0.0% |
| WACC | 25.0% |

4

Exhibit G

Nightingale Technologies
Amortization Tax Benefit Calculation
As of March 15, 2001

| | | |
|--------------------|----------|-------|
| Assumptions | WACC | 20.0% |
| | Tax rate | 40.0% |
| | Tax life | 15.0 |

Cash Flow Factor Calculations

| Period | Beginning Disc. Factor | End Disc. Factor | Mid Year Disc. Factor |
|--------------|---------------------------|---------------------|--------------------------|
| 0.0000 | 1.0000 | 1.0000 | 1.0000 |
| 1.0000 | 1.0000 | 0.8333 | 0.9167 |
| 2.0000 | 0.8333 | 0.6944 | 0.7639 |
| 3.0000 | 0.6944 | 0.5787 | 0.6366 |
| 4.0000 | 0.5787 | 0.4823 | 0.5305 |
| 5.0000 | 0.4823 | 0.4019 | 0.4421 |
| 6.0000 | 0.4019 | 0.3349 | 0.3684 |
| 7.0000 | 0.3349 | 0.2791 | 0.3070 |
| 8.0000 | 0.2791 | 0.2326 | 0.2558 |
| 9.0000 | 0.2326 | 0.1938 | 0.2132 |
| 10.0000 | 0.1938 | 0.1615 | 0.1777 |
| 11.0000 | 0.1615 | 0.1346 | 0.1480 |
| 12.0000 | 0.1346 | 0.1122 | 0.1234 |
| 13.0000 | 0.1122 | 0.0935 | 0.1028 |
| 14.0000 | 0.0935 | 0.0779 | 0.0857 |
| 15.0000 | 0.0779 | 0.0649 | 0.0714 |
| PVAF: | 5.1430 | | |

Cash Flow Factor: 1.1589

Exhibit H-1

Nightingale Technologies
Summary of Values
As of December 29, 2000

| Item | Value | % Company Equity Value | Useful Life | Discount Rate | Rate Rent Factor | Valuation Approach |
|---------------------------------|-----------------|---------------------------|----------------|------------------|---------------------|-----------------------|
| Current assets, net liabilities | \$ 527,363 | 0.6% | — | — | 3.60% | Market |
| Net fixed assets | \$ 66,158 | 0.1% | 5.0 | — | 6.00% | Market |
| Debt assumed* | \$ (10,724,879) | -11.5% | — | — | — | — |
| Net tangible assets | \$ (10,131,358) | -10.9% | — | — | — | — |
| Technology | \$ 22,470,000 | 24.2% | 5.0 | 22.0% | — | Income |
| Workforce in place | \$ 180,000 | 0.2% | 3.0 | — | 12.00% | Cost |
| Covenant Not to Compete | \$ 500,000 | 0.5% | 2.0 | 27.0% | — | Income |
| Goodwill | \$ 79,981,358 | 86.0% | 5.0 | 27.1% | — | Remainder |

| | | | | | | | |
|----------------------|----|------------|--------|---|-------|---|--------|
| Company equity value | \$ | 93,000,000 | 100.0% | — | 27.0% | — | Income |
|----------------------|----|------------|--------|---|-------|---|--------|

* Debt includes both short-term and long-term debt

Exhibit H-2

Nightingale Technologies
Asset Value Summary & Restated Balance Sheet
As of December 29, 2000

| | Book Value as of 12/29/00 | Adjustments to Market, as of 12/29/2000 | Market Value as of 3/30/01 |
|----------------------------------------------------|------------------------------|-----------------------------------------------|-------------------------------|
| Cash | 709,373 | — | 709,373 |
| Prepayments | 86,163 | — | 86,163 |
| Accounts Receivable | 36,126 | — | 36,126 |
| Total current assets | 831,662 | — | 831,662 |
| Total net fixed assets | 66,158 | — | 66,158 |
| Workforce in place | — | 180,000 | 180,000 |
| Technology | 9,165,165 | 13,304,835 | 22,470,000 |
| Covenant Not to Compete | — | 500,000 | 500,000 |
| Goodwill | — | 79,981,358 | 79,981,358 |
| Intangible assets | 9,165,165 | 93,966,193 | 103,131,358 |
| TOTAL ASSETS | 10,062,985 | 93,966,193 | 104,029,178 |
| Accounts Payable | 110,986 | — | 110,986 |
| Short-term Debt | 5,837,295 | — | 5,837,295 |
| Accrued Expenses | 12,924 | — | 12,924 |
| Accruals & Deferred Income | 180,388 | — | 180,388 |
| Total Current Liabilities | 6,141,594 | — | 6,141,594 |
| Long-term Debt | 4,887,584 | — | 4,887,584 |
| Total long-term liabilities | 4,887,584 | — | 4,887,584 |
| Total Shareholders Equity | (966,193) | 93,966,193 | 93,000,000 |
| TOTAL LIABILITIES & SHAREHOLDERS EQUITY | 10,062,985 | 93,966,193 | 104,029,178 |

Exhibit I

Nightingale Technologies
Value of Technology
As of December 29, 2000

Assumptions

| Year | Pre-2001 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------------|-------------------|---------------|-------------------------|---------------|----------------|----------------|
| Investment (\$M) | \$ 10,000,000 | \$ 225,225 | \$ 6,534,239 | \$ 27,829,743 | \$ 62,936,301 | \$ 120,309,242 |
| Cum Investment (\$M) | \$ 10,000,000 | \$ 10,225,225 | \$ 16,759,464 | \$ 44,589,207 | \$ 107,525,508 | \$ 227,834,750 |
| Remaining Investment (\$M) | \$ 10,000,000 | \$ 9,000,000 | \$ 8,100,000 | \$ 7,290,000 | \$ 6,561,000 | \$ 5,904,900 |
| Revenue Applicable Factor | 100.0% | 88.0% | 48.3% | 16.3% | 6.1% | 2.6% |
| Operating Costs: | Sales & Marketing | 23.0% | WACC: | 22.0% | | |
| Based on '03 costs | General & Admin | 5.0% | Terminal Growth | -10.0% | | |
| | Royalties | 5.0% | Investment Obsolescence | 10.0% | | |
| | Total | 33.0% | | | | |

| Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 | Horizon (1) |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------|
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------|

Discount rate

27%

| | Year 1 | | Year 2 | | Year 3 | | Thereafter | |
|------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|--|
| Impact of Competition (% of Revs) | 2.5% | | 4.0% | | 5.0% | | 5.0% | |
| Duration of Non-compete | 2 years | | | | | | | |
| | Projected Fiscal Year Dec-01 | Projected Fiscal Year Dec-02 | Projected Fiscal Year Dec-03 | Projected Fiscal Year Dec-04 | Projected Fiscal Year Dec-05 | Projected Fiscal Year Dec-05 | Projected Fiscal Year Jan-06 | |
| Revenue | \$ 759,500 | \$ 37,267,758 | \$ 146,191,638 | \$ 283,783,947 | \$ 431,249,901 | \$ 431,249,901 | \$ 444,187,398 | |
| Revenues Lost w/o Non-Compete | \$ — | \$ 931,694 | \$ 5,847,666 | \$ 14,189,197 | \$ 21,562,495 | \$ 21,562,495 | \$ 22,209,370 | |
| Revenues Lost w Non-Compete | \$ — | \$ — | \$ — | \$ 7,094,599 | \$ 17,249,996 | \$ 17,249,996 | \$ 22,209,370 | |
| Net Sales Lost | \$ — | \$ 931,694 | \$ 5,847,666 | \$ 7,094,599 | \$ 4,312,499 | \$ 4,312,499 | \$ — | |
| Free Cash Flow Margin | -905% | 8% | 11% | 10% | 10% | 10% | 10% | |
| Net Free Cash Flow Lost | \$ — | \$ 74,536 | \$ 643,243 | \$ 709,460 | \$ 431,250 | \$ 431,250 | \$ — | |
| Partial Period | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | |
| Mid-Point of Cash Flow | 0.5000 | 1.5000 | 2.5000 | 3.5000 | 4.5000 | 4.5000 | 5.5000 | |
| Discount Factor | 0.8875 | 0.6990 | 0.5506 | 0.4337 | 0.3416 | 0.3416 | 0.2690 | |
| Discounted Cash Flow | \$ 0 | \$ 52,102 | \$ 354,159 | \$ 307,667 | \$ 147,303 | \$ 147,303 | \$ 0 | |
| Sum of Cash Flows | \$ 861,232 | | | | | | | |
| Proabability of Competition | | 50% | | | | | | |
| Value of Non-compete | \$ 430,616 | | | | | | | |
| Times: Tax Authorization Benefit | | 1,159 | | | | | | |
| Value of Non-compete w Tax Benefit | \$ 499,061 | | | | | | | |

Value of Covenant Not to Compete: \$ 50,000

Exhibit L

Nightingale Technologies
Cash Flow Summary & Reconciliation of Values

| | Fiscal Year Dec-01 | Fiscal Year Dec-02 | Fiscal Year Dec-03 | Fiscal Year Dec-04 | Fiscal Year Dec-05 | Horizon Value |
|-----------------------------------------------|--------------------|--------------------|--------------------|----------------------|--------------------|---------------|
| CFs attributable to company | (6,871,659) | 3,000,535 | 15,847,761 | 29,434,397 | 43,643,401 | 44,952,703 |
| <i>Less charges/cash flows for:</i> | | | | | | |
| Current assets, net liabilities | 18,985 | 18,985 | 18,985 | 18,985 | 18,985 | |
| Net fixed assets | 16,457 | 63,138 | 104,881 | 142,397 | 171,140 | |
| Workforce in place | 49,934 | 49,934 | 49,934 | 49,934 | 49,934 | |
| Technology | 53,413 | 6,604,361 | 8,828,907 | 6,341,508 | 4,022,661 | 3,620,395 |
| Covenant Not to Compete | — | 74,536 | 643,243 | 709,460 | 431,250 | |
| Residual/goodwill cash flows | (7,010,448) | (3,810,418) | 6,201,811 | 22,172,114 | 38,949,431 | 171,640,772 |
| GW CFs, Discounted @ 27.08% | (6,431,394) | (2,770,206) | 3,431,073 | 9,652,479 | 13,342,994 | 51,787,194 |
| Sum of discounted goodwill cash flows | | | | 69,012,139 | | |
| Times: Tax Amortization Benefit | | | | 1,159 | | |
| | | | | 79,981,358 | | |
| Times: Control Premium | | | | — | @ 0.0% | |
| | | | | 79,981,358 | | |
| Sum of Discounted Goodwill Cash Flows: | | | | \$ 79,981,358 | | |