FortuneCity

FORTUNECITY.COM INC. - 2003 ANNUAL REPORT

FortuneCity

March 23, 2004

Dear Fellow Shareholders,

After a very difficult 2002 and first half of 2003, the radical restructuring that the Company initiated in 2001 has started to produce desired results.

During the year revenue for the web services group increased 17% and total revenue increased 10% after two consecutive years of negative revenue growth. In addition, the tight cost controls and reduction in fixed expenses, including an across the board reduction in management salaries implemented in June 2003, resulted in virtual break-even in the fourth quarter cash flow, with a cash burn from operations under ($50,000) for the entire quarter.

Ampira Media, the Company's online media sales group with offices in Hamburg and New York, remained the largest contributor of revenue for the Company. It's primary activity is the sale of the FortuneCity website properties online advertising inventory, in addition to, the provision of advertising sales representation and services to third party web publishers and web sites. During 2003, based on its 'sell-side' knowledge of the online advertising industry, Ampira Media introduced an agency-like media planning and buying service which proved successful.

In 2003 we launched paid web services under the FortuneCity brand and this quickly emerged as the most successful of our paid web service offerings; growing much more rapidly than our V3 and Ampira branded services. The growth of FortuneCity's paid services can be attributed to the strong online brand recognition of FortuneCity, and the viral access to millions of Internet users each month. As a consequence, little investment was required to promote the FortuneCity paid web services, that offer a wide range of services including shared server web hosting, domain registration, email management, search engine optimization and site building tools, during the year. At the end of 2003, FortuneCity launched a custom web design service that will provide a full solution for small businesses seeking a professional online presence.

The Company secured access to additional funding during the course of 2003 that helped to reassure our employees, customers and suppliers of our continuing viability. We ended the year with a cash balance of approximately $2.0 million which, with the potential for additional draw downs on capital previously committed to the Company plus the emerging potential for cash generation by the business, will allow us to invest in more growth during 2004. The Company plans to test market new products and services during the course of the year to further diversify its revenues, as well as, to accelerate the development of its existing brands and offerings.

The core objective of the Company in 2004 is to reach sustainable positive cash flow and profitability and to reinvest this in additional growth. FortuneCity's success in 2003 was a result of its employee's intense focus on developing its two core businesses while continuing tight control of expenses. The improved financial results of 2003 demonstrate the Company's bright potential future.

Yours truly,

Peter Macnee
President and CEO

Jeremy W. Metcalfe
Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATION

OVERVIEW

FortuneCity.com Inc. and its subsidiaries ("FortuneCity" or the "Company") are engaged in the provision of online web hosting services and interactive media sales. The Company provides a variety of online web services to small businesses and individuals primarily in North America. Customers are offered a variety of feature-rich service packages, including shared server web hosting, domain name registration, Internet marketing services and a newly introduced custom web design service. Customers are billed a recurring subscription fee on a monthly, quarterly or annual basis for the Company's services.

The Company also continues to offer its original online advertising supported 'free homepage' service. This basic web publishing service is provided free to the web publishing customer. The Company generates revenue by selling advertising campaigns on the Internet traffic generated by its customers and others viewing the FortuneCity site. The Company also offers a free domain redirect service providing personalized domain and e-mail forwarding services. Similar to the free homepage service, users have the option to upgrade to a premium subscription based service to eliminate advertising.

FortuneCity's interactive media sales agency with sales staff located in New York City and Hamburg leverages the Company's global Internet audience to generate advertising revenue. Ampira Media represents and sells the Company's own advertising inventory in addition to the inventory of third party web publishers, and also acts as an online advertising buyer for clients and traditional agencies.

FortuneCity recorded a net losses of $ (3.5) million, or $ (0.11) per share and $ (12.1) million, or $ (0.40) per share for the years ended December 31, 2003 and December 31, 2002, respectively. The net loss for the year ended December 31, 2002 included impairment of long-lived assets and restructuring costs of $ 4.4 million.

The decrease in the net loss of $4.2 million, net of 2002 impairment costs, was due to management's continued focus on reducing costs while expanding the business. Revenues from web services and media sales increased 17% and 9%, respectively, in 2003 as compared to 2002.

In February 2004 the Company entered into a lease termination agreement related to its New York offices and leased a smaller office resulting in a reduction in monthly rent payments of over $30,000 per month over the monthly rent payments incurred for the year ended December 31, 2003.

RESULTS OF OPERATIONS

Revenues

Revenues for 2003 and 2002 primarily consisted of Media Sales, which represented 81% and 82% of total revenues, respectively. The table below contains a revenue breakdown by source for the years ended December 31, 2003 and 2002:

	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002
Media Sales – FortuneCity sites	$ 2,056,951	$ 2,390,983
Media Sales – 3rd Party Sites	895,157	326,380
Web services	701,972	599,347
Total revenues………………………………………….	$ 3,654,080	$ 3,316,710

Web services revenues are derived from customers using the Company's servers to store and update their web sites. These revenues are recorded as earned over the period for which services are rendered. Revenues from the sale of top-level domains are recorded net of the domain costs and are recognized in the period they are purchased.

Media sales revenues are earned mainly from short-term contracts from clients that market to the Company's network of web sites or third party web publishers.

Costs and Expenses

The following table highlights the costs and expenses for the years ended December 31, 2003 and 2002.

	For the Year Ended December 31, 2003	% of Revenues	For the Year Ended December 31, 2002	% of Revenues
Total revenues	$ 3,654,080	100%	$ 3,316,710	100%
Costs and expenses:				
Cost of revenues…………………………..	2,495,697	68%	4,252,314	128%
Sales and marketing………………………	1,940,709	53%	2,848,203	86%
Product development……………………..	516,237	14%	1,028,128	31%
General and administrative……………….	2,186,537	60%	2,034,176	61%
Amortization of intangible assets……	-	0%	873,678	26%
Impairment and restructuring charges….	-	0%	4,431,912	134%
Equity in loss of affiliate……………….	66,119	2%	9,789	0%
Total costs and expenses…………………	$ 7,205,299	197%	$ 15,478,200	467%

The following table highlights the costs and expenses for the three-month periods ended December 31, 2003 and 2002.

	For the Three Month Period Ended December 31, 2003	% of Revenues	For the Three Month Period Ended December 31, 2002	% of Revenues
Total revenues	$ 1,053,403	100%	$ 1,011,412	100%
Costs and expenses:				
Cost of revenues………………………..	494,212	47%	1,029,430	102%
Sales and marketing……………………	457,565	43%	599,859	59%
Product development………………….	96,482	9%	213,912	21%
General and administrative……………	735,200	70%	287,060	28%
Impairment and restructuring charges..	-	0%	1,054,759	104%
Loss (gain) in equity of affiliate………	89,410	8%	(5,369)	> 1%
Total costs and expenses………………..	$ 1,872,869	177%	$ 3,179,651	314%

Revenue for the year ended December 31, 2003 increased 10% over the same period in 2002 to $ 3.65 million from $ 3.32 million. This was due to increases in revenue from both the media sales and web hosting businesses in 2003 of 9% and 17%, respectively.

Revenues for the three-month period ended December 31, 2003 increased to $ 1.05 million to $ 1.01 million, or 4%, over the same quarter in 2002, primarily due to an increase in the paid services revenue.

Cost of Revenues

The principal expenses included in cost of revenues are Internet connection charges, the costs of serving online advertisements, the depreciation of equipment and software used to run the Company's web sites, agent fees and payroll related costs.

The cost of revenues for the year ended December 31, 2003 decreased 42% from $ 4.3 million to $ 2.5 million, over the similar period in 2002, and decreased as a percentage of total revenues from 128% to 68%. The decrease in cost of revenues for the year ended December 31, 2003 was predominately attributable to a 70% reduction in depreciation as assets have become fully depreciated and not replaced, as well a 51% reduction in bandwidth costs and a 36% reduction in the cost of serving ads. Vendor agreements for ad serving and managed hosting and bandwidth were renewed at lower rates in 2003.

For the three months ended December 31, 2003, the cost of revenues decreased from $ 1.0 million to $ 0.5 million, or 50%, over the similar period in 2002 and decreased as a percentage of total revenues from 102% to 47%. The decrease in cost of revenues for the year ended December 31, 2003 was largely attributable to an 82% reduction in depreciation as assets have become fully depreciated, a 48% reduction in bandwidth costs and a 57% reduction in the cost of serving ads as a result of the new contracts.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related expenses of sales and marketing and customer support personnel, marketing and advertising expenses and commissions.

The sales and marketing expenses for the year ended December 31, 2003 decreased from $ 2.8 million to $ 1.9 million, or 32%, over the similar period in 2002 and decreased as a percentage of total revenues from 86% to 53%. The decrease in sales and marketing expenses for the year 2003 was primarily attributable to a 31% reduction in payroll costs and related expenses, and a 58% decrease in advertising and sales promotion.

For the three months ended December 31, 2003, the sales and marketing expenses decreased from $ 0.6 million to $ 0.5 million, or 17%, over the similar period in 2002 and as a percentage of total revenues from 59% to 43%. The decrease in sales and marketing expenses for the three-month period ending December 31, 2003 was principally attributable to 35% lower payroll and related costs as a result of reduced selling operations offset by a 303% increase in advertising and sales promotion costs related to web services which have resulted in an increase in web services revenues.

Product Development

Product development expenses include salaries and related costs associated with software development, testing and upgrading of the Company's network of web sites.

The product development expenses for the year ended December 31, 2003 decreased from $ 1.0 million to $ 0.5 million, or 50%, over the similar period in 2002 and decreased as a percentage of total revenues from 31% to 14%. The decrease in product development expenses for the year 2003 and as a percentage of total revenues was predominately attributable to a 49% reduction in payroll and related expenses and a 91% reduction in professional fees related to a contractor who was hired as an employee in the first quarter of 2003.

For the three months ended December 31, 2003, the product development expenses decreased from $ 0.2 million to $ 0.1 million, or 50%, over the similar period in 2003. The decrease in product development expenses for the three-month period ending December 31, 2003 was attributable to a reduction in the number of employees which reduced payroll and related expenses 38% and a 100% decrease in professional fees related to the contractor who was hired as an employee in the first quarter of 2003.

General and Administrative

General and administrative expenses include employee salaries and related costs, rent and maintenance, bad debt, professional services, non-cash compensation expense related to stock options and other corporate expenses.

The general and administrative expenses for the year ended December 31, 2003 increased from $ 2.0 million to $ 2.2 million, or 10%, over the similar period in 2002 and decreased as a percentage of total revenues from 61% to 60%. The increase in general and administrative expenses for the year 2003 was mainly attributable to non-cash options costs of approximately $554,000 in 2003 as there were no similar costs in 2002, offset by a 17% reduction in payroll and related expenses and a 60% reduction in legal and professional services.

For the three months ended December 31, 2003, general and administrative expenses increased from $ 0.3 million to $ 0.7 million, or 133%, over the similar period in 2002 and increased as a percentage of total revenues from 28% to 70%. The increase is principally due to the non-cash charge of approximately $554,000 related to compensation expenses for stock options offset by a 31% reduction in payroll and related costs.

Amortization of Intangible Assets

The amortization of intangible assets relates to the goodwill associated with the Company's acquisitions. All intangible assets had been fully written-off prior to December 31, 2003. The amortization of intangible assets for the year ended December 31, 2002 was $ 0.9 million.

Impairment and Restructuring Charges

In the twelve-month period ended December 31, 2002 the Company recorded a charge of $ 4.4 million related primarily to the write-off of the remaining goodwill for V3 Redirect Services B.V. and Ireg Domain and to write-off the Company's investment in channelFly plc.

Equity in loss of affiliate

The equity in loss of affiliate includes the Company's portion of the loss from Springboard Managed Hosting LLC ("Springboard").

In August 2001 the Company made a $ 200,000 investment in Springboard in return for a 12% ownership. In June 2003 Springboard received additional equity financing valuing Springboard at approximately $5,500,000 and reducing the Company's interest to 10.91%.

The Company has recorded the transaction under the Equity Method of accounting and, therefore, the prorated gains and losses of this entity are recorded in the Company's Statement of Operations after elimination of intercompany profits.

Liquidity and Capital Resources

Summary of cash flows for the years ended December 31, 2003 and 2002 (in millions of dollars):

	2003	2002
From operating activities	$ (1.8)	$ (5.3)
From investing activities	0.2	-
From financing activities	0.6	(0.1)

As of December 31, 2003 the Company had approximately $ 2.0 million in cash, cash equivalents and short-term investments. Cash equivalents include amounts invested in money market funds and certificates of deposits with maturities of three months or less. Short term investments include certificates of deposit and instruments of the U.S. Government and its agencies with maturities greater than three months and within twelve months from the balance sheet date.

The Company has incurred net losses and negative cash flows from operations since inception. The Company's ability to maintain its operations in the ordinary course of business is dependent on its ability to increase the number of subscribers to its paid web hosting services and to grow the online media sales business. However, there is no assurance that the Company will be able to achieve its growth objectives.

Management continues to reduce its monthly burn rate, primarily by reducing expenses. In January 2004 the Company met the second cash flow milestone as stipulated under the equity line of credit agreement, making available, if requested by the Company, an additional 500,000 Euros.

Cash used in operating activities primarily consists of the net loss adjusted for non-cash items such as depreciation, amortization, impairment and restructuring costs and other non-cash items, and the effect of changes in working capital and other activities. Cash used in operating activities in 2003 of $ 1.8 consisted primarily of a net loss of $ 3.5 million adjusted for amortization and depreciation of $ 0.9 million and $ 0.9 million used in working capital and other activities. Cash used in operating activities in 2002 of $ 5.3 consisted primarily of a net loss of $ 12.3 million adjusted for non-cash impairments of $4.4 million, amortization and depreciation of $ 2.2 million and $ 0.7 million used in working capital and other activities.

Cash used in investing activities in 2003 of approximately $ 150,000 represented a $158,200 reduction in restricted cash related to the security deposit on the Company's New York office offset by fixed asset purchases. Capital expenditures have generally been comprised of purchases of computer hardware, software, server equipment and furniture and fixtures, and are currently expected to remain modest in 2004 as the Company continues to manage discretionary spending. Cash used in investing activities in 2002 of approximately $ 6,000 was and represented a single capital expenditure.

Cash used in financing activities in 2003 of $ 0.6 million was due to the Company issuing common and treasury stock for cash proceeds under the Company's equity line of credit agreement. Cash used in financing activities in 2002 of $ 0.1 million was primarily due to payments on long-term obligations.

Employees

As of December 31, 2003 and 2002 the Company had 34 (of whom 20 were in sales and marketing and 8 were in product development) and 42 (of whom 22 were in sales and marketing and 7 were in product development) full-time employees, respectively. The remainder of the employees in both years were in operational support and administrative positions.

Board Member and Treasury Holdings

The share holdings of the Company's stock by board members and the Company at December 31, 2003 were as follows:

	No of shares	US$ Par value	US$ Market value (FWB)
Jeremy Metcalfe 2001 Settlement (a)	20,569,853	$205,699	$ 2,711,107
Daniel W. Metcalfe	1,944,000	19,440	256,219
Peter Macnee	165,478	1,655	21,810
Alexander Mashinsky	-	-	-

(a) Mr. Jeremy W. Metcalfe contributed ownership of his shareholdings in the Company to Jeremy Metcalfe 2001 Settlement, a Trust in which he disclaims beneficial ownership.

Note : Mr. Michel van Moer resigned from the Board of Directors on March 18, 2003, Mr. Joseph J. Gonzalez resigned from the Board of Directors on July 2, 2003, Mr. Thomas Metz resigned from the Board of Directors on November 6, 2003.

FORTUNECITY.COM INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
FortuneCity.com Inc.:

We have audited the accompanying consolidated balance sheets of FortuneCity.com Inc. (a Delaware corporation) and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity and other comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 FortuneCity.com Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations, which resulted in negative working capital at December 31, 2003 and raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

New York, New York
March 23, 2004

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(in U.S. dollars)

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,004,201	$ 3,010,115
Short-term investments - restricted	158,200	316,400
Accounts receivable, net of allowance for doubtful accounts of $125,407 and $52,844, respectively	324,195	467,684
Prepaid expenses and other current assets	77,759	111,953
Total current assets	2,564,355	3,906,152
INVESTMENTS IN AFFILIATES	81,047	147,166
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of $ 11,495,150 and $10,565,793, respectively	1,196,921	2,092,720
Total assets	$ 3,842,323	$ 6,146,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 184,175	$ 220,335
Accrued expenses	559,068	487,088
Capital lease obligations	-	29,944
Other current liabilities	1,832,225	1,739,133
Total current liabilities	2,575,468	2,476,500
DEFERRED RENT	685,256	624,245
Total liabilities	3,260,724	3,100,745
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock; $.01 par value; 80,000,000 shares authorized; and 40,242,889 and 30,548,851 shares issued, respectively and 40,242,889 and 30,185,036, shares issued and outstanding, respectively	402,429	305,489
Treasury stock; 0 and 363,815 shares, respectively	-	(402,661)
Additional paid-in capital	120,308,213	119,649,915
Accumulated deficit	(117,052,364)	(113,543,214)
Other comprehensive loss	(3,076,679)	(2,964,236)
Total stockholders' equity	581,599	3,045,293
Total liabilities and stockholders' equity	$ 3,842,323	$ 6,146,038

The accompanying notes are an integral part of these consolidated statements.

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in U.S. dollars)

	2003	2002
REVENUES	$ 3,654,080	$ 3,316,710
COST OF REVENUES	2,495,697	4,252,314
Gross profit (loss)	1,158,383	(935,604)
OPERATING EXPENSES:		
Sales and marketing	1,940,709	2,848,203
Product development	516,237	1,028,128
General and administrative	2,186,235	2,034,176
Amortization of intangible assets	-	873,678
Impairment of long-lived assets and restructuring costs	-	4,431,912
Total operating expenses	4,643,181	11,216,097
Operating loss	(3,484,798)	(12,151,701)
GAIN ON SALE OF ASSETS / LIABILITIES, NET:	25,682	-
INTEREST INCOME, net of interest expense of $1,031 and $12,417, respectively	16,085	64,356
Loss before equity in losses of affiliate	(3,443,031)	(12,087,345)
EQUITY IN LOSSES OF AFFILIATE	(66,119)	(9,789)
Net loss	$ (3,509,150)	$(12,097,134)
NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.11)	$ (0.40)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	30,958,717	30,161,951

The accompanying notes are an integral part of these consolidated statements.

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in U.S. dollars)

	Common Stock		Treasury	Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Capital	Deficit	Loss	Total
BALANCE, JANUARY 1, 2002	30,518,841	305.189	(402,661)	119,649,915	(101,446,080)	(2,740,176)	15,366,187
Currency translation loss	-	-	-	-	-	(224,060)	(224,060)
Net loss	-	-	-	-	(12,097,134)	-	(12,097,134)
Total comprehensive loss							(12,321,194)
Exercise of options	30,010	300	-	-	-	-	300
BALANCE, December 31, 2002	30,548,851	$ 305,489	$ (402,661)	$ 119,649,915	$ (113,543,214)	$ (2,964,236)	$ 3,045,293
Currency translation loss						(112,443)	(112,443)
Net loss					(3,509,150)		(3,509,150)
Total comprehensive loss							(3,621,593)
Compensation due to repricing of stock options				554,429			554,429
Issuance of Treasury Shares for sale of common stock			402,661				402,661
Issuance of Unregistered Shares for sale of common stock	9,694,038	96,940	-	103,869	-	-	200,809
BALANCE, December 31, 2003	40,242,889	$ 402,429	$ -	$ 120,308,213	$ (117,052,364)	$ (3,076,679)	$ 581,599

The accompanying notes are an integral part of these consolidated statements.

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in U.S. dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,509,150)	$(12,097,134)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	929,359	2,232,116
Amortization of intangibles and deferred compensation	-	873,678
Equity in losses of affiliates	66,119	9,789
Non cash stock option compensation charge	554,429	-
Restructuring reserve and impairment charges	-	4,431,912
Gain on sale of assets	(25,682)	-
Unrealized foreign currency gains	51,455	(187,310)
Changes in operating assets and liabilities-		
Decrease in-		
Accounts receivable	156,970	73,612
Prepaid expenses and other current assets	37,629	227,026
(Decrease) increase in-		
Accounts payable	(39,119)	(519,530)
Accrued expenses & other liabilities	8,209	(296,723)
Net cash used in operating activities	(1,769,781)	(5,252,564)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(33,558)	(6,116)
Proceeds from sale of assets	25,682	-
Purchases of short-term investments	(158,200)	-
Proceeds from maturity of short-term investments	316,400	-
Net cash provided by (used in) investing activities	150,324	(6,116)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common and treasury stock	603,471	-
Proceeds from exercise of options	-	300
Payments under long-term obligations	(29,944)	(90,455)
Net cash provided by (used in) financing activities	573,527	(90,155)
EFFECTS OF FOREIGN EXCHANGE	40,016	24,726
Decrease in cash and cash equivalents	(1,005,914)	(5,324,109)
CASH AND CASH EQUIVALENTS, beginning of year	3,010,115	8,334,224
CASH AND CASH EQUIVALENTS, end of year	$ 2,004,201	$ 3,010,115

The accompanying notes are an integral part of these consolidated statements.

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(in U.S. dollars)

	2003	2002
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 1,031	$ 12,417

The accompanying notes are an integral part of these consolidated statements.

1. ORGANIZATION AND BUSINESS

FortuneCity.com Inc. and its subsidiaries ("FortuneCity" or the "Company") are engaged in the provision of online web hosting services and interactive media sales.

The Company provides a variety of online web services to small businesses and individuals primarily in North America, marketed under the brands FortuneCity (www.fortunecity.com), V3 (www.V3.com) and Ampira (www.ampira.com). Customers are offered a variety of feature-rich service packages, including shared server web hosting, domain registration, Internet marketing services and a newly introduced custom web design service. Customers are billed a recurring subscription fee on a monthly, quarterly or annual basis for the Company's services.

The Company also continues to offer its original online advertising supported 'free homepage' service through the global online brand FortuneCity (www.fortunecity.com). This basic web publishing service is provided free to the web publishing customer, the Company generates revenue by selling advertising campaigns on the Internet traffic generated by its customers and others viewing the FortuneCity site. Users are continually marketed the Company's premium subscription based service packages. The Company also offers a free domain redirect service (www.V3.com) providing personalized domain and e-mail forwarding services. Similar to the free homepage service, users have the option to upgrade to a premium subscription based service to eliminate advertising.

FortuneCity's interactive media sales agency, " Ampira Media", with sales staff located in New York and Hamburg, Germany, leverages the Company's significant global Internet audience to generate advertising revenue. Ampira Media represents and sells the Company's own advertising inventory in addition to the inventory of third party web publishers, and also acts as an online advertising buyer for clients and traditional agencies.

In the fourth quarter of 2003 the Company re-launched HotGames (www.hotgames.com) as a multiplayer online skill game website. Players can play games of skill such as solitaire, backgammon and billiards, and compete in tournaments against other online players. FortuneCity generates revenue from online advertising on the Hotgames site, in addition to, player subscription fees.

The Company's revenues, prior to 2002, were derived primarily from the sale of Internet advertising on the Company's web site www.Fortunecity.com, which at that time only provided a free homepage service. The costs of providing such a free homepage service significantly exceeded the revenues generated from the media sales and consequently resulted in recurring losses from operations. In 2001, the Company entered the paid web services business offering enhanced shared server web hosting solutions, email services and top level Internet domain name registrations to customers on a subscription basis, and commenced selling online advertising services for other internet web site operators. At the same time, the Company began to significantly reduce its costs by making staff redundant and closing all its offices, the exception of New York and Hamburg.

The Company has funded its losses to date with the proceeds of its March 1999 initial public offering, which raised approximately $87 million. In July 2003, FortuneCity secured a funding arrangement whereby 1 million Euros would be made available to the Company subject to it achieving certain cash flow milestones and there being no adverse change in the business. The Company successfully achieved the first of two milestones in December 2003 and drew down 500,000 Euros. The Company ended 2003 with approximately $2 million in cash. The Company's negative cash flow from operations for the six months ended December 31, 2003 was $388,412.

In January 2004 the Company met the second cash flow milestone as stipulated under the July 2003 funding arrangement, making available, if requested by the Company, an additional 500,000 Euros of funding. During March 2004 the Company moved to a new and significantly less expensive office in New York, following a successful termination of its old office lease. While management believes the combination of cash on-hand, the availability of a further 500,000 Euros of funding, the lower costs associated with the new New York office, the improvement in monthly cash flow position experienced during 2003, and projected revenues from the media sales and web services for 2004 should be sufficient to sustain its operations in the near term, there is no assurance that the Company would not be faced with the prospect of raising additional financing in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements, which were prepared using accounting principles generally accepted in the United States (''U.S. GAAP''), include the accounts of FortuneCity and its wholly owned subsidiaries and are presented in U.S. dollars. All significant intercompany accounts and transactions have been eliminated.

The Company accounts for its investments in less than majority-owned entities (Note 3), using the equity method of accounting

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to the allowance for doubtful accounts, possible impairment of goodwill, tangible and intangible assets, income taxes, contingencies and allocation of revenues by type for web services. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

The Company invests its excess cash in debt instruments of the U.S. Government and its agencies and bank certificates of deposit. Securities with original maturities greater than three months and maturing within twelve months from the balance sheet date are considered short-term investments.

Fair Value of Financial Instruments

All of the Company's financial instruments are comprised of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. Their carrying amounts approximate fair value due to the short-term maturity of these instruments.

Accounts Receivable

Unbilled revenue, which is a component of accounts receivable, represents revenue earned on advertising contracts which ended on or near year-end or which had not yet ended and, therefore, had not been billed at year-end. Unbilled receivables were $368,231 and $237,155 at December 31, 2003 and 2002, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements and equipment under capital leases are amortized over the shorter of their estimated useful lives or the life of the lease. Useful lives are evaluated regularly by management in order to determine recoverability in light of current technological conditions. Expenditures for maintenance and repairs are charged to expense as incurred while expenditures for renewals and improvements are capitalized. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation or amortization, with any resulting gain or loss included in the consolidated statements of operations.

Impairment of Long-Lived Assets

The Company periodically assesses the likelihood of recovering the cost of long-lived assets based on its expectations of future profitability and undiscounted cash flows. These factors, along with management's plans with respect to the operations, are considered in assessing the recoverability of property, equipment and other long-lived assets. See Note 14.

Computation of Net Loss Per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share assumes the issuance of the net incremental shares from stock options and warrants at the later of the beginning of the year or the date of issue using the treasury stock method. Common equivalent shares are excluded from the calculation if their effect is antidilutive.

Diluted net loss per share for the years ended December 31, 2002 and 2001 does not include the effect of options and warrants to purchase shares of common stock as their inclusion would be antidilutive.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which applies the liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates. These differences are primarily due to bad debt, depreciation on fixed assets, amortization of intangible assets and deferred rent expense. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Revenue Recognition

Advertising

The Company's advertising revenues are derived principally from the sale of short-term online advertisements on the Company's network of web sites. To date, the duration of the Company's advertising commitments has ranged from one week to one year. Sponsorship advertising contracts typically have longer terms and involve more integration with the Company's network of sites, such as co-branded pages and placement of buttons that provide users with direct links to the advertiser's web site.

Advertising revenues on both online advertisement contracts are recognized ratably over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of minimum number of "impressions," or times that an advertisement appears in pages viewed by users of the Company's network of sites. To the extent minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues related to the undelivered impressions until the remaining guaranteed impression levels are achieved.

The majority of the Company's advertising revenues are derived from direct advertising sales. Advertising revenues are recorded at gross and any corresponding agency fees are reflected in cost of revenues. Agent fees for the years ended December 31, 2003 and 2002 were $146,355 and $243,037, respectively.

Revenues from barter transactions are recognized during the period in which the advertisements are displayed on the Company's network of sites. Barter transactions are accounted for in accordance with EITF 99-17 "Accounting for Advertising Barter Transactions," and are recorded at the estimated fair market value of the services provided, which is determined as a recent cash transaction for the sale of similar inventory. There were no barter transactions in 2003. For the year ended December 31, 2002, barter revenues and expenses were $25,222 and $25,222, respectively.

Deferred Revenue

Deferred revenue is primarily comprised of billings or collections in excess of recognized revenue relating to advertising contracts and annual payments related to hosting services. At December 31, 2003 and 2002, deferred revenue was $313,389 and $266,799, respectively, and was included in other current liabilities.

Web Services

Revenues from web hosting services primarily consist of recurring subscription fees billed monthly, quarterly or annually. In accordance with SEC Staff Accounting Bulletin No. 101 “Revenue Recognition in Financial Statements” (“SAB 101”) revenues from the set-up fees are deferred and recognized over the expected life of the customer relationship.

Domain registration revenues, consisting primarily of registration fees charged to customers for domain name registration services, are recorded net of fees paid to register the domains in the period in which the transaction occurs.

Redirect domain registration revenues, in accordance with SAB 101, are deferred and recognized over the contractual period, typically lasting one year.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2003 and 2002, such costs were $157,890 and $395,411, respectively.

Product Development

Product development costs are expensed as incurred. Statement of Position 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based upon the Company’s product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant.

Concentration of Credit Risk

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The Company performs periodic evaluations of the relative credit standing of these institutions. From time to time, the Company’s cash balances with any financial institution may exceed Federal Deposit Insurance Corporation limits.

The Company’s customers are concentrated in the United States and Germany. The Company performs ongoing credit evaluations, generally does not require collateral and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. To date, such losses have been within management’s expectations.

The Company performs credit card authorizations of its customers prior to establishing their hosting account. Credit risk is limited due to the collection of payments in advance or at the time of the transaction and the Company’s large number of diversified customers.

For the year ended December 31, 2003, two customers accounted for 37% of total revenues. For the year ended December 31, 2002, one customer accounted for 11% of total revenues.

At December 31, 2003, one customer accounted for approximately 29% of the Company's gross accounts receivable. At December 31, 2002, one customer accounted for 23% of the Company's gross accounts receivable.

401(k) Plan

The Company has a contributory 401(k) employee benefits plan covering substantially all of its employees. The Company made no contribution to the plan for the years ended December 31, 2003 and 2002.

Foreign Currency

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates as of the balance sheet date. Revenues and expenses are translated at the average of the rates prevailing during each month. Adjustments from translating foreign currency financial statements are reported in other comprehensive income (loss) as a separate component of stockholders' equity. The currency of the country of domicile is the functional currency of each of the Company's subsidiaries.

New Accounting Pronouncements

The Company adopted SFAS No. 142, "Goodwill and other Intangible Assets" ("SFAS No. 142"), as of January 1, 2002. SFAS 142 addresses financial accounting for goodwill and other intangible assets subsequent to their acquisitions and requires that a recognized intangible asset be amortized over its useful life unless that life is determined to be indefinite. SFAS 142 also requires that goodwill not be amortized but tested for impairment on an annual basis and between annual tests in certain circumstances. In connection with the adaptation of SFAS 142 the Company completed testing of its goodwill impairment and determined that goodwill impairments of $4,349,653 be recognized for the year ended December 31, 2002.

In June 2002, the FASB issued SFAS no. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), which addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" which previously governed the accounting treatment for restructuring activities. SFAS 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144. Those costs include, but are not limited to, the following: (1) termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substances, is not an ongoing benefit arrangement or an individual deferred-compensation contract, (2) costs to terminate a contract that is not a capital lease, and (3) costs to consolidate facilities or relocate employees, SFAS 146 does not apply to costs associates with the retirement of long-lived assets covered by SFAS 143. The adoption of SFAS 146 had no effect on the Consolidated Financial Statements for the year ended December 31, 2003. See Note 14 – Subsequent Events.

In January 2003 the Financial Accounting Standards Board issued FASB Interpretation 46, "Consolidation of Variable Interest Entities". The interpretation defines variable interest entities as those in which equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or entities in which equity investors lack certain essential characteristics of a controlling financial interest. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity. The primary beneficiary is required to consolidate the financial position and results of operations of the variable interest entity. In December 2003, the Financial Accounting Standards Board, issued revisions to FASB Interpretation 46, resulting in multiple effective dates based on the characteristics as well as the creation dates of the variable interest entities, however with no effective date later than the Company's first quarter of 2004. The Company does not believe that adoption of this statement will have a material effect on its consolidated financial statements.

In December 2004, the Securities and Exchange Commission issued Staff Accounting Bulleting No. 104 "Revenue Recognition" (SAB 104), which updates and summarizes the Commissions views on the application of generally accepted accounting principles to revenue recognition in financial statements. The Company believes that its revenue recognition policies conform to the requirements of SAB 104.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

3. INVESTMENTS IN AFFILIATES

Springboard Managed Hosting, LLC

In August 2001, the Company completed the acquisition of a 12% interest in Springboard Managed Hosting, LLC ("Springboard"), a company engaged in managed services and data center operations, for $200,000.

This acquisition has been accounted for under the equity method and is recorded in investments in affiliate on the consolidated balance sheets because the Company considers itself to have the ability to exercise influence over Springboard. Intercompany transactions have been eliminated (Note 11).

In June 2003, Springboard received additional equity financing diluting the Company's interest to 10.91% from 12%.

4. ACQUISITIONS & DIVESTITURES

iReg Domain

On March 22, 2001, the Company acquired the assets of iReg Domain ("iReg"), a partnership which provides domain name registration and web hosting services, for approximately $150,000 in cash and 1,159,900 shares of the Company's stock.

The Company accounted for this investment as an asset purchase and allocated approximately $1,770,000 to intangible assets in the consolidated balance sheets, which were being amortized over five years.

At October 31, 2002, it was determined that there had been a permanent impairment of 100% in the value of this intangible asset, consequently a charge of $1,269,558 was recorded.

Popex and channelfly plc

In May 2003 the Company sold its shares in Channelfly for approximately $23,000, the entire amount was recorded as a gain since the shares had been written down to $0.

On February 26, 2001, the Company sold its 90% interest in Popex.com Limited to channelfly plc (“channelfly”), a British online music company, for 666,667 shares of channelfly stock valued at approximately $390,000. The investment in channelfly was recorded under the cost method in investments in affiliates on the consolidated balance sheets.

At December 31, 2001, it was determined that there had been a permanent impairment of 80% in the value of channelfly’s shares, consequently a charge of $314,564 was recorded. At June 30, 2002, it was determined that there had been a permanent impairment of approximately 57% of the remaining value of channelfly’s shares, consequently a charge of $46,964 was recorded. At December 31, 2002, it was determined that there had been a permanent impairment of 100% of the remaining value of channelfly’s shares, consequently a charge of $35,297 was recorded.

Mingus

In July 2000, the Company acquired certain assets, including the “i.am” domain, of “Mingus,” a leading provider of personalized domain names and redirect services. The “Mingus” acquisition purchase price was $1.1 million in cash to be paid over 18 months and 500,000 shares of common stock.

In August 2001, the Company reached agreement with the prior owner of “Mingus” whereby a final payment of $265,000 was made in final settlement of the balance due of $356,216.

The Company had accounted for this transaction as an asset purchase and had allocated approximately $2,400,000 to intangible assets in the consolidated balance sheets, which was being amortized over five years. This allocation is net of an impairment charge of $1,070,028 taken in December 2001. At June 30, 2002, it was determined that there had been a permanent impairment of 100% in the remaining value of this intangible asset. This impairment has been charged to operations as part of the impairment of V3 Redirect services.

V3 Redirect Services B.V.

On May 4, 1999, the Company acquired V3 Redirect Services B.V. (“V3”), a world leader in the provision of personalized URLs (web addresses) for Internet sites. The V3 members, having agreed to have V3-placed advertising displayed on their sites, use free customized URLs for their web sites, enabling them to define and express their own presence on the Internet more personally.

The V3 acquisition purchase price was $2,000,000 in cash and 330,000 shares of FortuneCity’s common stock. There was also a potential additional payment of $2,000,000 in cash or the equivalent number of shares of common stock based on exceeding certain growth targets.

In August 1999, the purchase agreement was amended to allow the Company to deviate from the guidelines for the running of V3 after the closing. Under the amendment, the 330,000 shares of common stock were deemed to be earned and the growth targets required for the $2,000,000 potential additional payment were lowered. On November 29, 2000, FortuneCity agreed the required growth targets had been reached and agreed to settle the $2,000,000 liability in shares in two transactions.

The first transaction, which was 70% of the total, was priced based on the average closing price of FortuneCity's stock on November 24, 2000 and going back 30 trading days. 977,232 shares were issued from FortuneCity's treasury shares in March 2001 in settlement of the first transaction. 699,014 shares, with prices based on the average closing price of FortuneCity's stock from November 27, 2000 to April 30, 2001, were issued from the Company's treasury shares in May 2001.

The Company had accounted for this acquisition under the purchase method of accounting. In connection with this acquisition, the Company had recorded approximately $6,800,000 of goodwill which was being amortized over five years. This allocation is net of an impairment charge of $1,929,732 taken in December 2001. At June 30, 2002, it was determined that there had been a permanent impairment of 100% in the values of V3 intangible asset, consequently an impairment charge of $3,080,093 was recorded (Note 9). This impairment includes the write-off of Mingus as well as V3.

5. PROPERTY AND EQUIPMENT (see Note 14)

Property and equipment at December 31, 2003 and 2002 consist of the following:

	2003	2002
Computer equipment	$ 8,584,966	$ 8,551,408
Office equipment	491,282	491,282
Leasehold improvements	1,973,619	1,973,619
Computer software	1,642,204	1,642,204
	12,692,071	12,658,513
Less: Accumulated depreciation and amortization	(11,495,150)	(10,565,793)
	$ 1,196,921	$ 2,092,720

Depreciation and amortization expense was $929,357 and $2,232,116 for the years ended December 31, 2003 and 2002, respectively.

6. INCOME TAXES

The primary components of temporary differences which give rise to deferred taxes are as follows:

	December 31,	
	2003	2002
Deferred tax asset:		
Net operating loss carryforward	$ 41,778,000	$ 40,178,000
Other	3,674,000	3,609,000
Valuation allowance	(45,452,000)	(43,787,000)
Net	$ -	$ -

As a result of the Company's history of operating losses, management believes a valuation allowance for the entire net deferred tax asset, after considering deferred tax liabilities, is required. As of December 31, 2003 and 2002, the Company had estimated net operating loss carryforwards of approximately $104,446,000 and $100,600,000, respectively.

The net operating loss carryforwards originated in the following jurisdictions:

	December 31,	
	2003	2002
United States	$ 67,705,383	$ 63,696,066
United Kingdom	14,257,952	14,247,320
Germany	7,396,619	7,667,715
The Netherlands	11,288,363	11,159,363
Other	3,797,295	3,828,623
	$ 104,445,612	$ 100,599,087

As of December 31, 2003 U.S. loss carryforwards expire through 2023. The U.K., German and The Netherlands loss carryforwards have no expiration.

7. CAPITALIZATION

In July 2003, the Company entered into an equity line of credit agreement with a Partnership owned by the Company's major stockholder. The Partnership is obligated to purchase from the Company up to One Million Euros of the Company's common stock at a price of US .06 per share, subject to the Company meeting certain negative cash flow milestones as defined in the agreement, but does not obligate FortuneCity to draw on the equity line of credit in the event it reaches such milestones.

In return for this funding commitment the Company agreed to issue the Partnership a three year warrant to purchase up to 10 million shares of common stock at a price of USD 12 cents per share. The warrant issued in connection with the equity line of credit agreement includes certain anti-dilution provisions in the event shares are issued below the warrant exercise price of 12 cents.

The first milestone requires the Company to reduce its monthly negative cash flow to an average of $75,000 per month over four consecutive months. In November 2003, the Company achieved the first negative cash flow milestone and elected to draw down 500,000 Euros on the equity line of credit. The Company issued 363,815 shares of Treasury Stock and 9,694,038 newly issued unregistered shares for cash proceeds of $603,471. As of December 31, 2003 the new shares were in the process of being issued.

Under the equity line of credit agreement, 500,000 Euros remains available for draw down in the event, FortuneCity reduces its monthly cash-burn rate to an average of $37,500 per month over four consecutive months. The second milestone was achieved in January 2004.

Preferred Stock

Effective March 3, 1999 the Company's Board of Directors authorized 10,000,000 shares of preferred stock to be issued. As of December 31, 2003 these shares have not been issued and the Company currently has no plans to issue the shares.

8. STOCK OPTION PLAN

In May 1998, the Company adopted the 1998 Stock Option Plan, as amended (the ‘‘Plan’’), which provides for the issuance of up to 23,600,000 shares for both non-statutory and incentive stock options to employees, officers, consultants and non-employee directors. Most options shall be exercisable for a period of up to ten years from the date of grant at no less than 100% of the fair market value of the Company's common stock on the date of grant. The term of such options shall be five years from the date of grant for stockholders who own more than ten percent of the voting power of all classes of stock of the Company at the date of grant. At December 31, 2003 and 2002, 8,258,549 and 784,780 options were available for issuance, respectively.

The Company accounts for stock options granted to employees under APB Opinion No. 25 “Accounting for Stock Issued to Employees,” (“APB 25”) under which no compensation cost has been recognized for stock options granted, expect for shares that have been repriced. Had compensation costs for stock options been determined consistent with SFAS No. 123 “Accounting for Stock-Based Compensation,” (the fair value method) the Company's net loss and loss per share would have been the following pro forma amounts:

	2003	2002
Net loss, as reported	$ (3,509,150)	$ (12,097,134)
Net loss, fair value method	(3,952,260)	(12,786,476)
Stock based compensation cost included in the determination of net loss as reported	(554,429)	-
Stock based compensation that would have been included in the determination of net loss under the fair value method	(997,539)	(689,342)
Basic and diluted net loss per share, as reported	$ (0.11)	$ (0.40)
Basic and diluted net loss per share, fair value method	$ (0.13)	$ (0.42)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts, and additional awards in future years are anticipated.

The following summarizes the activity in options:

	Options	
	Shares	Exercise Price
Balance, December 31, 2001	3,746,700	$ 0.13-28.29
Granted	9,691,750	0.06 – 0.19
Exercised	(30,010)	0.13
Canceled	(878,540)	0.06 – 17.20
Balance, December 31, 2002	12,529,900	$ 0.06 – 0.55
Granted	7,733,600	$ 0.06
Repriced	-	0.07 – 0.47
Exercised	-	-
Canceled	(5,207,369)	0.06 – 0.55
Balance, December 31, 2003	15,056,131	$ 0.06

On June 1, 2003 the Company repriced all outstanding options to the then current market price of USD 6 cents and all shares became vested. These options originally had exercise process ranging from USD 7 cents to USD 47 cents. FASB Interpretation No. 44 " Accounting for Certain Transactions involving Stock Compensation requires that stock options that have been repriced shall be accounted for as variable from the date of the modification to the date the option is exercised, forfeited or expires unexercised. For the year ended December 31, 2003, the Company charged compensation expense in the amount of $554,429 in connection with the repricing.

At December 31, 2003 and 2002, 15,056,131 and 5,532,738 shares were exercisable, respectively.

	Weighted Average Fair Market Value	Weighted Average Exercise Price
Options granted at fair market value	$ 0.06	$ 0.06

The fair value of each option grant is estimated on the date of grant using the fair value option pricing model with the following weighted average assumptions used for grants in 2003: risk-free interest rate of approximately 3.03%; no expected dividend yield, expected lives of 5 years, volatility of 176%.

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Number Outstanding at December 31, 2003	Remaining Contractual Life	Weighted Average Exercise Price
$ 0.06	15,056,131	7.7 years	$ 0.06

9. <u>IMPAIRMENT OF LONG-LIVED ASSETS</u>

In 2002 the Company experienced a decrease in its revenue as a result of the continued decline in spending on online advertising by its customers. The Company recorded a charge related to goodwill impairment $4,431,912 in 2002, see Note 4. In 2003 there were no comparable charges.

10. COMMITMENTS AND CONTINGENCIES

Leases

In February 2004 the Company entered into an agreement with its landlord in New York to terminate its lease effective March 4, 2004 and entered into a new lease through May 2010. Additionally, the Company's German subsidiary's office lease expired in February 2004 and the subsidiary entered into a new lease through February 2007. The Company's minimum lease obligations under the new leases are as follows:

	Operating Leases
2004	$ 247,804
2005	260,396
2006	261,677
2007	217,815
2008	209,000
2009 and thereafter	296,083
Total minimum lease payments	$ 1,492,775

Rent expense for the years ended December 31, 2003 and 2002 was $567,722 and $533,385, respectively.

The Company's old and new office leases in NY include rent escalations. The deferred rent liability on the accompanying consolidated balance sheets represents the difference between the total rent payments made and the average monthly obligations over the life of the old lease, see Note 14.

Employment Agreement

The Company maintains an employment agreement with an executive officer of the Company. The employment agreement provides for incentive compensation packages and severance benefits, among other items.

Contingencies

From time to time, the Company has been party to various litigation and administrative proceedings relating to claims arising from its operations in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

11. OTHER CURRENT LIABILITIES

At December 31, 2003 and 2002, Other Current Liabilities include approximately $1.3 million and $1.2 million, respectively of liabilities relating to inactive subsidiaries. These liabilities will be paid or credited to income when these subsidiaries are dissolved.

12. RELATED PARTY TRANSACTION

Springboard provided data center services to the Company for $434,074 and $786,075, for the years ended December 31, 2003 and 2002, respectively. The payables to Springboard at December 31, 2003 and 2002 were $46,030 and $67,600, respectively. These expenses were included in the cost of revenues in the Company's Statement of Operations.

13. GENERAL AND ADMINISTRATIVE EXPENSES

Included in general and administrative expenses, as a reduction of the expense in 2003 and 2002, is the reversal of certain liabilities. The Company settled liabilities for less than the full liability that had been recorded. The total reduction of expenses for the years ended December 31, 2003 and 2002 was approximately $275,000 and $670,000, respectively.

14. SUBSEQUENT EVENTS

LEASE TERMINATION

On February 24, 2004 the Company entered into an agreement with its landlord in New York that permitted the Company to terminate the Lease before the expiration date (April 30, 2009). In consideration for the early termination of the lease FortuneCity is obligated to make certain payments and to transfer certain fixed assets to the landlord, as detailed below.

Cash considerations to be paid	$ 228,200
Carrying value of fixed assets and leasehold improvements to be transferred	1,104,108
Total consideration	$1,332,308

A loss of approximately $789,770, as detailed below, will be recorded in February 2004 related to this transaction:

Cash and asset consideration paid	$1,332,308
Real estate commissions	124,606
Deferred rent liability written off	(667,144)
Loss on termination of lease	$ 789,770

BANK LINE OF CREDIT

In February 2004 the Company opened a $200,000 line of credit with its bank, the line of credit is fully secured by a certificate of deposit.

SHAREHOLDER INFORMATION

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