FORTUNECITY.COM INC. - 2002 ANNUAL REPORT

March 27, 2003

Dear Fellow Shareholders,

Over the course of the last year, FortuneCity maintained focus on the development of its two core business operations, the sale and delivery of online advertising and interactive marketing services, and the sale of shared server web hosting solutions. While the Company continued to lose money throughout 2002, the past year saw further reductions in the average monthly cash loss and the continuing development of monthly paid service revenue. Although there can be no assurance of success the Company continues to work towards achieving cash flow break-even.

With sales teams based in New York and Hamburg, the online media sales group, Ampira Media, remained the largest contributor of revenue. The media group's primary activity is the sale of online advertising inventory produced by the FortuneCity group of web sites. In addition, the Company offers online advertising sales representation and services to third party web publishers and web sites. The third party advertising impressions are packaged with FortuneCity impressions extending audience reach and inventory volume that can be offered to media buyers. While the online advertising industry experienced negative growth in 2002, the Company maintained its belief that the Internet will be an important medium for advertisers and that it can capitalize on its large global audience and ample advertising inventory.

The Company successfully started the transition from its original 'free only service' to offering paid shared server web hosting solutions. In 2001, the first paid format was launched under the brand name Ampira. In 2002, the Company extended its sales distribution capabilities by enabling the sale of paid hosting solutions through its most successful brands. Today, web services including hosting, domain registration, email, search engine optimization and site building tools are sold through the Company's Ampira, FortuneCity and V3 brands.

The Company's automated billing and provisioning system, along with the existing storage and server infrastructure previously used for the free services, provides an efficient mechanism to grow the shared server hosting customer base. As FortuneCity enters 2003, the paid hosting services will expand distribution through the selection of qualified sales channel partners. The Company will leverage the partners' brand and customer relationships while developing a new recurring revenue stream for the partner. Each hosting channel partner will offer private label customized services under their own brand name.

The Company continues to manage its cash position to allow the necessary time to build broader distribution for its new paid web services and continue to develop the Company's position in the online advertising market. The core management team remains intact and fully committed to delivering positive results.

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. ("FortuneCity" or the "Company") is engaged in web hosting services and interactive media sales. The Company's services are available through the Internet to a global audience. The Company's media business consists of the FortuneCity sites as well as the revenues derived from selling advertising for partner sites. The Company's primary markets for advertising are the United States, Germany and the United Kingdom.

The Company made a number of strategic changes during the years ended December 31, 2002 and 2001 to focus its service offerings on paid-for services such as web hosting and domain registration. The Company's primary market for web hosting is the United States.

The Company's predecessor, FortuneCity.co.uk Ltd., was incorporated under the laws of England and Wales in March 1996 to develop Internet community web sites. FortuneCity.com Inc. was incorporated in the state of Delaware, U.S.A., in May 1998. The Company launched its first Internet web site in March 1997.

FortuneCity recorded net losses of \$ (12.1) million, or \$ (0.40) per share and \$ 28.3 million, or \$ (0.97) per share for the years ended December 31, 2002 and December 31, 2001, respectively. The net losses included impairment of long-lived assets and restructuring costs of \$ 4.4 million and \$ 10.5 million for the years ended December 31, 2002 and December 31, 2001, respectively.

RESULTS OF OPERATIONS

Revenues

The revenues for 2002 primarily consisted of Advertising, which represented 72% of total revenues. The table below contains a revenue breakdown by source for the years ended December 31, 2002 and 2001:

	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001
Advertising…………………………………………………	$ 2,390,983	$ 3,883,869
Web hosting services……………………………………..	599,347	486,109
Agent fees………………………………………………….	326,380	57,005
Technology fees……………………………………..	-	68,710
Total revenues………………………………………….	$ 3,316,710	$ 4,495,693

Web hosting revenues are derived from customers using the Company's servers to store and update their web sites and 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 over the contract period. The Company considers the revenues derived from the sale of domain names to be part of the web hosting services business.

Advertising revenues are earned mainly from short-term contracts from clients that market to the Company's network of sites. The agent fees were earned when the Company's sales force sold space on affiliated and partner sites such as Bravenet. The technology fees recorded in the period ended December 31, 2001 were derived from fees to license the Company's Wapalizer product.

The revenue for the year ended December 31, 2002 decreased from $ 4.5 million to $ 3.3 million, or 27%, over the similar period in 2001. The primary reason for the decrease in sales is due to the overall decline in demand for internet advertising on the Company's sites, partially offset by increase in advertising sales on affiliated sites and revenue from paid services.

Revenues for the three-month period ended December 31, 2002 increased from $ 0.8 million to $ 1.0 million, or 25%, over the similar quarter in 2001. The increase is primarily attributed to an increase in the paid services revenue.

Costs and Expenses

The following table highlights the costs and expenses for the years ended December 31, 2002 and 2001.

	For the Year Ended December 31, 2002	% of Revenues	For the Year Ended December 31, 2001	% of Revenues
Total revenues	$ 3,316,710	100%	$ 4,495,693	100%
Costs and expenses:				
Cost of revenues…………………………..	4,252,314	128%	7,027,465	156%
Sales and marketing………………………	2,848,203	86%	4,990,092	111%
Product development……………………..	1,028,128	31%	2,010,549	45%
General and administrative……………….	2,034,176	61%	4,833,485	107%
Amortization of intangible assets……	873,678	26%	3,260,985	73%
Net loss on sale of investments…………………………..	-	-	553,557	12%
Impairment and restructuring charges….	4,431,912	134%	10,545,285	235%
Equity in losses of affiliates……………….	9,789	>1%	51,229	1%
Total costs and expenses…………………	$ 15,478,200	467%	$ 33,272,647	740%

The following table highlights the costs and expenses for the three-month periods ended December 31, 2002 and 2001.

	For the Three Month Period Ended December 31, 2002	% of Revenues	For the Three Month Period Ended December 31, 2001	% of Revenues
Total revenues	$ 1,011,412	100%	$ 803,904	100%
Costs and expenses:				
Cost of revenues………………………..	1,029,430	102%	1,296,059	161%
Sales and marketing……………………	599,859	59%	887,118	110%
Product development………………….	213,912	21%	374,095	47%
General and administrative……………	287,060	28%	1,033,271	129%
Amortization of intangible assets……	-		738,447	92%
Impairment and restructuring charges..	1,054,759	104%	4,637,427	577%
Gain (loss) in equity of affiliates………	(5,369)	>(1)%	43,046	5%
Total costs and expenses………………..	$ 3,179,651	314%	$ 9,009,463	1120%

Cost of Revenues

The principal expenses included as cost of revenues are Internet connection charges, the costs of serving the advertising, the depreciation of the equipment and software costs related to maintaining the network, agent fees and payroll related costs.

The cost of revenues for the year ended December 31, 2002 decreased from $ 7.0 million to $ 4.3 million, or 39%, over the similar period in 2001 and decreased as a percentage of total revenues from 156% to 128%. The decrease in cost of revenues for the year ended December 31, 2002 was primarily attributable to decreases in bandwidth costs as a result of a new data center contract, payroll, and a significant reduction in depreciation primarily related to the write-down of certain fixed assets.

For the three months ended December 31, 2002, the cost of revenues decreased from $ 1.3 million to $ 1.0 million, or 23%, over the similar period in 2001 and decreased as a percentage of total revenues from 161% to 102%. The decrease in cost of revenues was primarily attributable to a decrease in depreciation expense as a result of fixed asset write-downs partially offset by higher domain registration costs, agent fees and payroll costs.

The decrease in cost of revenues as a percentage of total revenues for the three months ended December 31, 2002 was primarily related to lower depreciation and amortization expense.

Sales and Marketing

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

The sales and marketing expenses for the year ended December 31, 2002 decreased from $ 5.0 million to $ 2.8 million, or 44%, over the similar period in 2001 and decreased as a percentage of total revenues from 111% to 86%. The decrease in sales and marketing expenses for the year 2002 was primarily attributable to a reduction in payroll costs and related expenses, as a result of reducing advertising sales operations, virtual elimination of barter transactions, lower expenditures for professional services and continued decrease in advertising and sales promotion.

The decrease in sales and marketing expenses as a percentage of total revenues was primarily attributable to the decreases in expenses referred to above.

For the three months ended December 31, 2002, the sales and marketing expenses decreased from $ 0.9 million to $ 0.6 million, or 33%, over the similar period in 2001 and as a percentage of total revenues from 110% to 59%. The decrease in sales and marketing expenses for the three-month period ending December 31, 2002 was primarily attributable to lower payroll costs as a result of reduced selling operations and a decrease in advertising and sales promotion costs and barter. The decrease in sales and marketing expenses as a percentage of total revenues was primarily the result of decreases in payroll, advertising and sales promotion and barter.

Product Development

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

The product development expenses for the year ended December 31, 2002 decreased from $ 2.0 million to $ 1.0 million, or 50%, over the similar period in 2001 and decreased as a percentage of total revenues from 45% to 31%. The decrease in product development expenses for the year 2002 and as a percentage of total revenues was primarily attributable to the elimination of technical operations in Europe, other payroll reductions in the United States and lower depreciation expense related to the write-down of certain fixed assets.

For the three months ended December 31, 2002, the product development expenses decreased from $ 0.4 million to $ 0.2 million, or 50%, over the similar period in 2001. The decrease in product development expenses for the three-month period ending December 31, 2002 was primarily attributable to a reduction in the number of employees and a decrease in depreciation and amortization expenses related to the write-down of certain fixed assets, partially offset by an increase in legal and consulting expenses. The product development expenses decreased from 47% to 21% as a percentage of revenues primarily due to lower payroll costs, reduction in depreciation expense partially offset by an increase in legal and consulting expenses.

General and Administrative

General and administrative expenses include employee salaries and related costs, rent and maintenance, bad debt, professional services and other corporate expenses.

The general and administrative expenses for the year ended December 31, 2002 decreased from $ 4.8 million to $ 2.0 million, or 58%, over the similar period in 2001 and decreased as a percentage of total revenues from 107% to 61%. The decrease in general and administrative expenses for the year 2002 was primarily attributable to reductions in: the number if employees, legal and professional services, depreciation and amortization and the write-down of certain reserves to reflect the potential exposure. The decrease in general and administrative expenses as a percentage of total revenues was primarily attributed to the cost control measures coupled with the reversal of certain liabilities that were settled for less than the full liability that had been recorded.

For the three months ended December 31, 2002, general and administrative expenses decreased from $ 1.0 million to $ 0.3 million, or 70%, over the similar period in 2001 and decreased as a percentage of total revenues from 129% to 28%. The decrease in general and administrative expenses for the quarter and the reduction of its percentage to total revenues was primarily related the reversal of certain liabilities that were settled for less than the full liability that had been recorded, reduced employees and related expenses and a decrease in legal and professional fees.

Amortization of Intangible Assets

The amortization of intangible assets relates to the goodwill associated with the Company's acquisitions.

The amortization of intangible assets for the year ended December 31, 2002 decreased from $ 3.3 million to $ 0.9 million, or 73%, over the similar period in 2001 and decreased as a percentage of total revenues from 73% to 26%. The decrease in the expense is primarily a result of the impairment charges taken in 2001 that resulted in a significant reduction in goodwill and the full impairment of all remaining goodwill in 2002.

The amortization of intangible assets for the quarter ended December 31, 2002 was zero compared with $ 0.7 million, over the similar period in 2001. The decrease in the expense for the quarter is a result of the impairment charges that were taken to eliminate all remaining goodwill.

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., Ireg Domain and to writeoff the Company's investment in ChannelFly plc.

Equity in loss of affiliates

The equity in loss of affiliate includes the Company's portion of the income and losses from Bravenet Web Services Inc. ("Bravenet") and Springboard Managed Hosting LLC ("Springboard").

On June 11, 2001, the Company divested its 20% interest in Bravenet for proceeds of $ 200,000, which resulted in a net loss of $ 725,356. During June 2001 Bravenet paid the Company a dividend of approximately $ 43,000.

In August 2001 the Company made a $ 200,000 investment in Springboard in return for a 12% ownership. The Company has recorded the transaction under the Equity Method of accounting and, therefore, the prorated gains and losses of this entity will be recorded in the Company's Statement of Operations.

Net Loss

The net loss for the period ended December 31, 2002 was $ (12.1) million or $ (0.40) per share diluted compared to a net loss of $ (28.3) million and $ (0.97) per share diluted for the period ended December 31, 2001. The net loss for the years ended December 31, 2002 and 2001 included impairment of long-lived assets and restructuring charges of $ 4.4 million and $ 10.5 million respectively.

Liquidity and Capital Resources

Summary of cash flows for the years ended December 31, 2002 and 2001 (in millions of dollars):

	2002	2001
Net cash used in operating activities	$ (5.3)	$ (11.9)
Net cash provided by investing activities	-	16.4
Net cash used in financing activities	(0.1)	(0.8)

As of December 31, 2002 the Company had approximately $ 3.3 million in cash, cash equivalents and short-term investments. Cash equivalents include amounts invested in money market funds, treasury bills 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.

The working capital at December 31, 2002 was $ 1.4 million and management continues to reduce its monthly burn rate, primarily by reducing expenses. There is no assurance that management will be able to either increase revenues sufficiently or to reduce expenses or obtain additional financing sufficient to meet its future cash needs.

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 2002 of $ 5.3 consisted primarily of a net loss of $ 12.1 million adjusted for non-cash impairments of $4.4 million, amortization and depreciation of $ 2.2 million and $ 0.4 million used in working capital and other activities. Cash used in operating activities in 2001 of $ 11.9 million consisted primarily of a net loss of $ 28.3 million adjusted for non-cash impairments of $ 10.5 million and amortization and depreciation of $ 7.4 and $ 2.2 million used in working capital and other activities.

Cash used in investing activities in 2002 of approximately $ 6,000 represented a single capital expenditure. 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 2003 as the Company continues to manage discretionary spending. Cash provided by investing activities in 2001 of $ 16.4 million was primarily attributable to proceeds from sales and maturities (net of purchases) of investments in marketable securities during the year of $ 16.9 million offset by capital expenditures totaling $ 0.3 million.

Cash used in financing activities in 2002 of $ 0.1 million represented payments on long-term obligations. Cash used in financing activities in 2001 of $ 0.8 million was primarily due to payments on long-term obligations of $ 0.9 million.

Employees

As of December 31, 2002 and 2001 the Company had 42 (of whom 22 were in sales and marketing and 7 were in product development) and 47 (of whom 25 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, 2002 were as follows:

	No of shares	US$ Par value	US$ Market value (FWB)
Jeremy Metcalfe 2001 Settlement (a)	10,512,000	$105,120	$ 550,829
Daniel W. Metcalfe	1,944,000	19,440	101,866
Peter Macnee	165,478	1,655	8,671
Thomas Metz	-	-	-
Joseph J. Gonzalez	-	-	-
Alexander Mashinsky	-	-	-
Treasury	363,815	$ 3,638	$ 19,064

(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.
(b) Mr. Richard Jones resigned from the Board on December 12, 2002.
(c) Mr. Michel van Moer resigned from the Board of Directors on March 18, 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 sheet of FortuneCity.com Inc. (a Delaware corporation) and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' equity and other comprehensive loss and cash flows for the year 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 financial statements referred to above present fairly, in all material respects, the financial position of FortuneCity.com Inc. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year 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 suffered recurring losses from operations, which has resulted in a significant decline in its working capital 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.

The consolidated financial statements of Fortunecity.com Inc. as of December 31, 2001 were audited by other auditors whose report dated February 22, 2002 expressed an unqualified opinion on those statements. Their report included the preceding explanatory paragraph.

New York, New York
March 5, 2003

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(in U.S. dollars)

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,010,115	$ 8,334,224
Short-term investments	316,400	316,400
Accounts receivable, net of allowance for doubtful accounts of $52,844 and $362,126, respectively	467,684	497,611
Prepaid expenses and other current assets	111,953	326,796
Total current assets	3,906,152	9,475,031
INVESTMENTS IN AFFILIATES	147,166	234,851
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of $10,565,793 and $8,322,362, respectively	2,092,720	4,295,625
GOODWILL AND OTHER INTANGIBLES, net of accumulated amortization of $0 and $5,052,909, respectively	-	5,223,331
Total assets	$ 6,146,038	$ 19,228,838
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 384,779	$ 870,842
Accrued expenses	761,826	1,428,720
Capital lease obligations	29,944	87,591
Other current liabilities	1,299,951	986,600
Total current liabilities	2,476,500	3,373,753
LONG-TERM LIABILITIES:		
Capital lease obligations	-	32,808
Deferred rent	624,245	456,090
Total liabilities	3,100,745	3,862,651
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock; $.01 par value; 80,000,000 shares authorized; 30,548,851 and 30,518,841 shares issued, respectively, 30,185,036 and 30,155,026 shares issued and outstanding, respectively	305,489	305,189
Treasury stock; 363,815 and 363,815 shares, respectively	(402,661)	(402,661)
Additional paid-in capital	119,649,915	119,649,915
Accumulated deficit	(113,543,214)	(101,446,080)
Other comprehensive loss	(2,964,236)	(2,740,176)
Total stockholders' equity	3,045,293	15,366,187
Total liabilities and stockholders' equity	$ 6,146,038	$ 19,228,838

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, 2002 AND 2001
(in U.S. dollars)

	2002	2001
REVENUES	$ 3,316,710	$ 4,495,693
COST OF REVENUES	4,252,314	7,027,465
Gross loss	(935,604)	(2,531,772)
OPERATING EXPENSES:		
Sales and marketing	2,848,203	4,990,092
Product development	1,028,128	2,010,549
General and administrative	2,034,176	4,833,486
Amortization of intangible assets	873,678	3,260,985
Impairment of long-lived assets and restructuring costs	4,431,912	10,545,285
Total operating expenses	11,216,097	25,640,397
Operating loss	(12,151,701)	(28,172,169)
GAIN ON SALE OF SUBSIDIARIES, NET:	-	171,799
INTEREST INCOME, net	64,356	483,759
Loss before provision for income taxes and equity in losses of affiliates	(12,087,345)	(27,516,611)
EQUITY IN LOSSES OF AFFILIATE:		
Equity loss from operations	(9,789)	(51,229)
Loss on sale of investment	-	(725,356)
Net loss	$(12,097,134)	$(28,293,196)
NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.40)	$ (0.97)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	30,161,951	29,224,535

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, 2002 AND 2001
(in U.S. dollars)

	Common Stock		Treasury	Additional Paid-in	Accumulated	Deferred	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Capital	Deficit	Compensation	(Loss) Gain	Total
BALANCE, December 31, 2000	30,478,835	$ 304,789	$ (3,652,313)	$120,913,703	$ (73,152,884)	$ (76,605)	$(1,634,995)	$ 42,701,695
Currency translation loss	-	-	-	-	-	-	(1,105,181)	(1,105,181)
Net loss	-	-		-	(28,293,196)	-	-	(28,293,196)
Total comprehensive loss								(29,398,377)
	-	-	-	-	-	-	-	
Adjustment to V3 purchase price	-	-	-	(746,944)	-	-	-	(746,944)
Issuance of Treasury Stock in connection with V3	-	-	1,855,227	(740,200)	-	-	-	1,115,027
Issuance of Treasury Stock in connection with iReg	-	-	1,283,748	285,520	-	-	-	1,569,268
Issuance of Treasury Stock in connection with WSX	-	-	110,677	(66,766)	-	-	-	43,911
Exercise of options	40,006	400	-	4,602	-	-	-	5,002
Amortization of deferred compensation	-	-	-	-	-	76,605	-	76,605
BALANCE, December 31, 2001	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

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, 2002 AND 2001
(in U.S. dollars)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(12,097,134)	$(28,293,196)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	2,232,116	4,058,367
Amortization of intangibles and deferred compensation	873,678	3,337,590
Equity in losses of affiliates	9,789	51,229
Loss on disposal of assets/subsidiaries	-	(80,503)
Loss on sale of investment	-	725,356
Restructuring reserve and impairment charges	4,431,912	10,545,285
Unrealized foreign currency gains	(187,310)	-
Changes in operating assets and liabilities-		
Decrease in-		
Accounts receivable	73,612	1,737,675
Prepaid expenses and other current assets	227,026	410,453
(Decrease) increase in-		
Accounts payable	(519,530)	(1,643,537)
Accrued expenses	(705,339)	(2,757,573)
Other liabilities	408,616	23,764
Net cash used in operating activities	(5,252,564)	(11,885,090)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,116)	(318,675)
Acquisition of businesses, net of cash acquired	-	(150,000)
Purchases of short-term investments	-	(3,999,036)
Proceeds from maturity of short-term investments	-	20,926,697
Proceeds from sale of investment in affiliate	-	200,000
Investments in affiliates, net	-	(267,134)
Net cash provided by investing activities	(6,116)	16,391,852
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	300	5,002
Payments under long-term obligations	(90,455)	(851,643)
Net cash used in financing activities	(90,155)	(846,641)
EFFECTS OF FOREIGN EXCHANGE	24,726	(37,038)
Increase (decrease) in cash and cash equivalents	(5,324,109)	3,623,083
CASH AND CASH EQUIVALENTS, beginning of year	8,334,224	4,711,141
CASH AND CASH EQUIVALENTS, end of year	$ 3,010,115	$ 8,334,224

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, 2002 AND 2001
(in U.S. dollars)

	2002	2001
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 12,417	$ 66,948
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Treasury stock issued in payment of obligations	-	1,158,938
Treasury stock issued for acquisitions	-	1,569,268

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 web hosting services and interactive media sales.

The Company provides standardized shared server web hosting and internet domain services through its own brand names FortuneCity Hosting (www.fortunecity.com), Ampira Hosting (www.ampira.com) and V3 Hosting (www.V3.com) to the small and medium sized enterprise market in North America. In the latter part of 2002 the Company began offering its web hosting service as a private labeled turnkey solution to selected distribution sales channel partners such as GlobalSCAPE, Inc. (www.globalscape.com). Web hosting customers can choose from a variety of feature-rich service packages to suit their web hosting needs and are billed a fixed monthly fee. The Company continues to offer its original 'free homepage' service through the global online brand FortuneCity (www.fortunecity.com). This basic web publishing service is provided at no fee to the web publisher and is supported by various advertising opportunities.

As part of its web hosting service the Company enables users to search for and purchase top-level domain names such as .com, .net, .org, etc., and offers additional functionality and web services in conjunction with a customer's domain name. The domain redirect business "V3" (www.v3.com) provides personalized domain and e-mail forwarding services to individuals. Similar to the hosting service, users have the option to pay for the redirects or have an advertising-subsidized service.

FortuneCity's interactive media sales group, doing business as Ampira Media, with staff located in New York and Hamburg, Germany, leverages the Company's significant global Internet audience to generate advertising revenue. In addition to the hundreds of millions of advertising impressions created monthly by the FortuneCity network, Ampira Media represents the advertising sales for several third party websites.

The Company made a number of strategic changes during the years ended December 31, 2002 and 2001 and broadened its service offerings to include paid-for services such as domain registry and web hosting. In 2001 the Company ceased doing business in all markets except for the US, UK and Germany in order to focus on its core markets and conserve cash.

The Company's revenues, prior to 2001, have been derived primarily from the sale of Internet advertising. The Company has provided users with free Internet web hosting in exchange for the right to have advertisements placed on their web pages. The costs of providing such free web services have significantly exceeded the revenues generated from the advertising and consequently have resulted in recurring losses from operations. In 2001 the Company entered the paid services business by offering paid web hosting and Internet domain registration. The Company has funded the losses to date with cash generated principally from its initial public offering that provided net proceeds of approximately $87 million. At December 31, 2002, the Company had working capital of approximately $1.4 million and, as discussed above, management has made a number of strategic changes to the Company's operations in order to reduce its dependence on advertising revenue. While management believes the combination of cash on-hand and revenues from the advertising and paid-for services 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 near future.

The Company's predecessor, FortuneCity.co.uk Ltd., was incorporated under the laws of England and Wales in March 1998 to develop Internet community web sites. FortuneCity.com Inc. was incorporated in the state of Delaware, U.S.A., in May 1998 and, in connection with its formation, acquired all of the shares of Vortex Europe Limited, the parent company of FortuneCity.co.uk Ltd. The Company launched its first Internet community web site in March 1997.

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. Any excess of the Company's investment over the underlying book value had been amortized over five years, commencing January 1, 2002 the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets".

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 and contingencies. 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 $237,155 and $204,164 at December 31, 2002 and 2001, 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

In October 2001, the FASB issued SFAS No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS 121 and certain provisions of APB Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The company adopted SFAS No. 144 effective January 1, 2002.

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. The Company has performed a review of its long-lived assets and has determined that no further impairment of the respective carrying values has occurred as of December 31, 2002.

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 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 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 sales of short-term banner and pop-up / pop-under 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 banner and pop-up / pop-under 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, 2002 and 2001 were $243,037 and $204,728, 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. For the year ended December 31, 2002, barter revenues and expenses were $25,222 and $25,222, respectively. For the year ended December 31, 2001, barter revenues and expenses were $475,673 and $475,673, 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, 2002 and 2001, deferred revenue was $266,799 and $265,881, respectively, and was included in other current liabilities.

Paid Services

Revenues from web hosting services primarily consist of set-up fees and a monthly service fee. 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 (one year).

In 2001 the Company began generating revenue from web hosting and domain registration services. 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, 2002 and 2001, such costs were $395,411 and $994,723, 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, 2002, one customer accounted for 11% of total revenues. For the year ended December 31, 2001, no one customer accounted for greater than 10% of total revenues.

At December 31, 2002, one customer accounted for greater than 23% of the Company's gross accounts receivable. At December 31, 2001, one customer accounted for approximately 24% of the Company's gross accounts receivable.

At December 31, 2002, two vendors accounted for approximately 38% of the Company's accounts payable. At December 31, 2001 one vendor accounted for approximately 21% of the Company's accounts payable.

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, 2002 and 2001.

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. Prior to 2002 the Company amortized the excess cost over net assets acquired over its estimated useful life of 5 years using the straight-line method.

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. SFAS 146 will be applied prospectively and is effective for exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure", an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation", to provide alternative methods of transitions for an entity that voluntarily changes to the fair-value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income and earnings per share and the entity's accounting policy decisions with respect to stock-based employee compensation. Certain of the disclosure requirements are required for all companies, regardless of whether the fair value method or intrinsic value method is used to account for stock-based employee compensation arrangements. The Company continues to account for its employee incentive stock option plans using the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". The amendments to SFAS No. 123 will be effective for financial statements for fiscal years ended after December 15, 2002 and for interim periods beginning after December 15 2002. The Company has adopted the disclosure provisions of this statement in fiscal 2002.

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. The investments in affiliates on the consolidated balance sheets as of December 31, 2002 represents the investment in Springboard.

This acquisition has been accounted for under the equity method because the Company has the ability to exercise a degree of control over Springboard. Intercompany transactions have been eliminated (Note 11).

Bravenet

On July 30, 1999, the Company entered into an agreement to acquire 20% of Bravenet Web Services Inc. ("Bravenet"), a provider of customized and user-friendly web design tools, for approximately $1,000,000. Bravenet offers free web-based services such as guestbooks, web forums, hit counters, greeting cards, e-mail forms, search engines, mailing lists and site announcers. This acquisition was accounted for under the equity method and had been recorded in investments in affiliates on the consolidated balance sheets.

On June 11, 2001, the Company divested its 20% interest in Bravenet for proceeds of $200,000, which resulted in a net loss of $725,356.

During June 2001 Bravenet paid the Company a dividend of approximately $43,000.

AcmeCity.com

In August 1998, the Company entered into a joint venture ("AcmeCity" or the ''Joint Venture'') with Warner Bros. Online ("WBO"), a division of Time Warner Entertainment Company, L.P. (''Warner Bros.'') and a stockholder of the Company, providing that the Company operate the AcmeCity.com communities developed around the proprietary film, television, animation and music content of Warner Bros. The Joint Venture became operational in January 1999.

In consideration for entering into the Joint Venture agreement, as amended on February 10, 1999, the Company granted Warner Bros. an option to acquire 15% of the outstanding common stock of FortuneCity on a fully diluted basis on the date of exercise (the ''Warner Bros. Option''). The exercise price for the option shares was $0.01 per share, and the price could not exceed $100 for all of the option shares. The Warner Bros. Option was exercisable at any time from August 1998 until FortuneCity filed a registration statement with the Securities and Exchange Commission (the ''SEC''), or an international market equivalent, for an initial public offering. The estimated fair value of the Warner Bros. Option was $5,035,080, determined using the price at which the Company's common stock was sold to third parties in August 1998. The issuance of the Warner Bros. Option was accounted for as an increase in equity and an increase in investments in affiliates.

On November 6, 2000, the Company entered into a Termination Agreement with WBO which called for the dissolution of the AcmeCity joint venture concurrently with the closing of the announced merger of Time Warner Inc. and America Online, Inc. (the "AOL Closing"). On January 11, 2001, the AOL Closing occurred and the AcmeCity joint venture was terminated, the Company received 3,139,238 shares of FortuneCity common stock held by WBO as consideration for termination of the venture. The Company recorded the transaction as of December 31, 2000. At the time the venture was dissolved all assets of the venture (including the name and any goodwill associated with the venture) were distributed to WBO, and all liabilities of the venture were assumed by WBO without recourse against the Company.

The Company recorded a loss on the transaction of $558,745 which it recorded during the year ended December 31, 2000 and the 3,139,238 shares of the Company's common stock received from WBO were placed in treasury. Additionally, WBO's right to receive up to an additional 5% of the outstanding common stock of FortuneCity on a fully diluted basis just prior to the March 19, 1999 initial public offering was terminated.

The Company's 50% ownership interest in the Joint Venture was included in the consolidated financial statements of the Company using the equity method.

The Company was entitled to a license fee equal to fifteen percent (15%) of AcmeCity.com's gross revenues, as defined. For the year ended December 31, 2001, the Company recognized revenues from license fees of $68,710.

<u>thebetalab.com</u>

In June 2000, the Company entered into an agreement to become a minority partner in thebetalab.com, an Anglo-Dutch new media consultancy set up to fund, create and operate start-up businesses and joint ventures.

The Company acquired 18.5% of thebetalab.com for approximately $184,000. This acquisition has been accounted for under the cost method and had been recorded in investments in affiliates on the consolidated balance sheets. At March 31, 2001, it was determined that this investment had been 100% impaired, consequently a charge of $174,300 was recorded to write-off the remaining balance associated with the investment in thebetalab.com.

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

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. The Company can earn up to an additional 444,444 shares of channelfly stock if Popex reaches certain revenue targets in future periods. To date these targets have not been reached.

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.

Gelon

On April 18, 2000, the Company acquired the assets of Gelon.net, a leading WAP portal. Gelon.net has gained worldwide recognition for its proprietary "Wapalizer" which allows users to simulate a WAP phone and test WAP services using their regular browser.

The Company accounted for this investment as an asset purchase and allocated $34,700 to intangible assets in the consolidated balance sheets, which were being amortized over five years.

In September 2001, the Company sold its interests in Gelon.net and WAPdrive Limited, its parent and a wholly owned subsidiary of the Company, to ZEP Holding B.V. for $1.00. There were no proceeds from the sale.

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 has accounted for this transaction as an asset purchase and has 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 value of this intangible asset. This impairment has been charged to operations as part of the impairment of V3 Redirect services.

<u>V3 Redirect Services B.V.</u>

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 $3,330,190 was recorded (Note 9). This impairment includes the write-off of Mingus and V3.

<u>Notrix</u>

On November 1, 1999, the Company acquired Notrix.de, a personalized Internet address service in Germany. Notrix.de provides web site owners who have complicated e-mail addresses with a specific and personalized Internet address that is easy to remember. The Notrix purchase price was approximately $398,000 in cash. The Company had accounted for this transaction as an asset purchase and most of the proceeds were allocated to intangible assets in the consolidated balance sheets and were being amortized over five years. At December 31, 2001, it was determined that the intangible asset had been 100% impaired and a charge of $215,978 was recorded to write off the remaining goodwill associated with the Notrix acquisition.

Hotgames.com Pty Ltd

On September 16, 1999, the Company acquired Hotgames.com Pty Ltd. ("Hotgames"), a content site which delivers information on computer games to a global audience. Hotgames was launched in July 1997 as a part of Blaze International Ltd. (formerly Beam International Ltd.) ("Blaze"), one of the first computer game development and publishing companies.

The Hotgames purchase price, as amended, was $2,700,000 in cash and $1,300,000 in equivalent number of the Company's common stock payable six months after the closing of the transaction and an additional repayment of a loan on equipment of $37,414. The number of shares was calculated to be 88,098 based on the price of the Company's stock for the ten trading days ending immediately prior to the six-month anniversary of the closing date of the transaction. These shares were issued on April 27, 2000.

In accordance with the Resolution Agreement dated June 9, 2000 between the Company and Blaze, the Company issued 31,777 shares to Blaze from treasury valued at $169,781. Additionally, 288,142 shares of common stock, valued at $1,363,266 were issued to Blaze pursuant to the Sales Agreement.

The Company accounted for this transaction as an asset purchase. An impairment charge of $2,812,349 was taken in June 2000 and during the first half of 2001, it was determined that the remaining intangible asset had been 100% impaired, a charge of $1,729,429 was recorded to write-off the remaining goodwill associated with the Hotgames acquisition.

Football Exchanges International B.V.

On November 1, 1999, the Company acquired Football Exchanges International B.V. ("WSX") in an equity exchange deal. Based in Holland, WSX is a multi-language, free web site where European football (soccer) enthusiasts can prove their knowledge of the game. Once registered on the site, football fans trade shares in players, managers and clubs on a virtual stock market. Share prices rise and fall according to the supply and demand of players, managers and clubs, as well as actual performance in the real leagues.

WSX offers access to its site in a choice of English, French, German, Dutch, Italian, Portuguese and Spanish.

WSX was purchased for $48,682 in cash and 100,000 shares of the Company's common stock. Under the purchase agreement, WSX would earn up to 300,000 additional shares in 100,000 share increments each for reaching predetermined numbers of banner impressions per month, within the first 24 months after acquisition.

The Company accounted for this transaction as an asset purchase and most of the proceeds were allocated to intangible assets in the consolidated balance sheets. At June 30, 2000, it was determined that this intangible asset had been 100% impaired, a charge of $851,671 was recorded to write-off the remaining goodwill associated with the WSX acquisition.

On June 18, 2001 the Company sold WSX to the original creators of the site for an immaterial amount which resulted in a net loss of $215,229.

Citeweb

On November 16, 1999, the Company purchased Citeweb, one of France's oldest and best known content community sites. Citeweb was launched in 1995 and is a free web space provider similar to FortuneCity in style and content.

Citeweb was purchased for approximately $2,000,000 in cash in an initial payment and an additional $365,000 in earnout payments upon attaining a predetermined number of average monthly page views. The Company had accounted for this transaction as an asset purchase with proceeds allocated to intangible assets in the consolidated balance sheets which were being amortized over five years. In March 2001, it was determined that this intangible asset had been 100% impaired, a charge of $1,328,712 was recorded to write-off the remaining goodwill associated with the Citeweb acquisition.

Freepage

On August 1, 1999, the Company acquired Freepage.de, a major German Internet service site. The purchase price was approximately $1,100,000 in cash, a compulsory service contract for approximately $550,000 and approximately $2,194,000 in shares at the average market value of ordinary shares of FortuneCity using the ten trading days prior to January 7, 2000. On February 14, 2000, the Company issued 232,670 shares of common stock.

The Company accounted for this transaction as an asset purchase and allocated $3,193,184 to intangible assets in the consolidated balance sheets. An impairment charge of $616,398 was taken in June 2000. At March 31 2001, it was determined that the intangible asset had been 100% impaired, a charge of $1,779,860 was recorded to write-off the remaining goodwill associated with the Freepage acquisition.

Internet-Club Ltd.

On January 15, 1999, FortuneCity acquired certain assets of Internet-Club Ltd. for approximately $130,000 to be paid in monthly installments over 3 years. The assets acquired include URLs, a small community web site and hardware and software used to operate the site. The Company accounted for this transaction as an asset purchase and has allocated $122,099 to intangible assets in the consolidated balance sheets which were being amortized over five years. At June 30, 2000, it was determined that this intangible asset had been 100% impaired, a charge of $86,486 was recorded to write-off the remaining goodwill associated with the Internet-Club acquisition. At December 31, 2000, the remaining liability was approximately $59,000.

In July 2001 the Company reached a settlement with the prior owners of Internet-Club Ltd. whereby a final payment of $29,900 was made in settlement of the remaining liability of approximately $59,000.

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2002 and 2001 consist of the following:

	2002	2001
Computer equipment	$ 8,551,408	$ 8,510,882
Office equipment	491,282	491,282
Leasehold improvements	1,973,619	1,973,619
Computer software	1,642,204	1,642,204
	12,658,513	12,617,987
Less: Accumulated depreciation and amortization	(10,565,793)	(8,322,362)
	$ 2,092,720	$ 4,295,625

Depreciation and amortization expense was $2,232,116 and $4,058,367 for the years ended December 31, 2002 and 2001, respectively. During 2001, the Company disposed of fixed assets with a net book value of $1,505,653, related to the restructuring (Note 9).

6. INCOME TAXES

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

	December 31,	
	2002	2001
Deferred tax asset:		
Net operating loss carryforward	$ 40,178,000	$ 37,609,000
Other	3,609,000	632,000
Valuation allowance	(43,787,000)	(38,241,000)
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, 2002 and 2001, the Company had estimated net operating loss carryforwards of $100,599,087 and $94,022,502, respectively.

The net operating loss carryforwards originated in the following jurisdictions:

	December 31,	
	2002	2001
United States	$ 63,696,066	$ 61,280,149
United Kingdom	14,247,320	13,692,547
Germany	7,667,715	7,602,938
V3	11,159,363	7,524,953
Other	3,828,623	3,921,914
	$ 100,599,087	$ 94,022,501

As of December 31, 2002 U.S. loss carryforwards expire through 2022. The U.K. and German loss carryforwards have no expiration.

7. CAPITALIZATION

Preferred Stock

On March 3, 1999 the Company's Board of Directors authorized 10,000,000 shares of preferred stock to be issued. As of December 31, 2002, these shares have not been issued and the Company currently has no plans to issue the shares.

Treasury Stock

On January 11, 2001, the AOL Closing occurred and the AcmeCity.com joint venture was terminated. The Company received 3,139,238 shares valued at $2,600,042 of its common stock from WBO which were placed in treasury (Note 3).

Pursuant to an agreement with the former owners of V3 dated November 29, 2000, 977,232 and 699,014 shares of common stock, at an average cost of $1.11, were issued from treasury to the former owners of V3 in March 2001 and May 2001, respectively (Note 4).

Pursuant to an agreement with iReg Domain dated March 22, 2001, 1,069,900 and 90,000 shares of common stock, at an average cost of $1.11, were issued from treasury to iReg in April and July 2001, respectively (Note 4).

Pursuant to an agreement with the former owners of WSX dated June 2001, 100,000 shares of common stock, at an average cost of $1.11, were issued from treasury to the former owners of WSX in June 2001 (Note 4).

When treasury shares are reissued, any excess of the average acquisition cost of the shares over the proceeds from reissuance is charged to additional paid-in capital. The remaining repurchased shares are held in treasury. For the years ended December 31, 2002 and 2001, these charges were $0 and $1,496,446, respectively.

Deferred Compensation

In 1998, the Company granted restricted stock to one officer and stock options to employees and recorded a $580,995 charge to equity for deferred compensation relating to the fair market value of the securities on the date of grant. The Company amortized $0 and $76,605 of this charge in 2002 and 2001, respectively, to general and administrative expenses. Deferred compensation was amortized over the vesting period of the restricted shares and the individual options, generally three years.

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 13,600,000 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, 2002 and 2001, 12,815,220 and 3,746,900 options had been granted under the Plan, respectively. A December 31, 2002 and 2001, 784,780 and 2,797,990 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," under which no compensation cost has been recognized for stock options granted. 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:

	2002	2001
Net loss, as reported	$(12,097,134)	$ (28,293,196)
Net loss, fair value method	(12,786,476)	(29,092,482)
Stock based compensation cost included in the determination of net loss as reported	-	-
Stock based compensation that would have been included in the determination of net loss under the fair value method	(689,342)	(799,286)
Basic and diluted net loss per share, as reported	(0.40)	(0.97)
Basic and diluted net loss per share, fair value method	(0.42)	(1.00)

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, 2000	5,308,150	$ 0.13-28.29
Granted	3,494,117	0.19-0.69
Exercised	(70,016)	0.13
Canceled	(4,985,551)	0.13-28.29
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	(817,540)	0.06 – 17.20
Balance, December 31, 2002	12,529,900	$ 0.06 – 0.55

At December 31, 2002 and 2001, 5,532,738 and 1,865,172 shares were exercisable, respectively.

	Weighted Average Fair Market Value	Weighted Average Exercise Price
Options granted at a discount	$ 0.78	$ 0.13
Options granted at fair market value	$ 0.16	$ 0.17

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 2002: risk-free interest rate of approximately 2.76% to 5.65%; no expected dividend yield, expected lives of 3-7 years, volatility of 0% to 79.22%.

The following table summarizes information about stock options outstanding at December 31, 2002:

Range of Exercise Prices	Number Outstanding at December 31, 2002	Remaining Contractual Life	Weighted Average Exercise Price
$ 0.06 – 0.55	12,529,900	8.7 years	$ 0.17

9. IMPAIRMENT OF LONG-LIVED ASSETS AND RESTRUCTURING COSTS

Restructuring Costs

The Company records restructuring reserves in the period management approves the plan of termination in accordance with the conclusions of Emerging Issues Task Force Issue ("EITF") No. 94-03 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)".

The Company has been experiencing a decrease in its revenue as a result of the continued decline in spending on on-line advertising by its customers. Despite the unpredictability of the current business environment, the company remains focused on its strategy to become cash flow positive by focusing on sustainable cost and expense reduction, among other things. To achieve that goal, the Company initiated restructuring actions in fiscal 2002 and 2001 to enable it to reduce costs and expenses further in order to lower the amount of revenue needed to reach the Company's cash flow break even point. As a result, the Company recorded charges of $4,431,912 and $10,545,285 in 2002 and 2001, respectively for business related restructuring and related expenses. The components of the charges included impairment of goodwill and fixed assets, costs for severance and to cover legal and accounting costs for closing most of the European operations.

For the years ended December 31, 2002 and 2001, the Company recorded the following charges, respectively:

	Years Ended December 31,	
	2002	2001
Impairment of long-lived assets (a)	$ 4,431,912	$ 8,476,672
Severance costs (b)	-	248,343
Reserve for rent forfeitures (b)	-	115,803
Write-off of fixed assets (b)	-	1,505,653
Miscellaneous costs (b)	-	198,814
	$ 4,431,912	$10,545,285

(a) During the years ended December 31, 2002 and 2001, in conjunction with its restructuring, the Company performed a review of its long-lived assets, resulting in the impairment charges (Notes 3 and 4).

(b) During 2001, the Company recorded various charges relating to severance payments and the closing of certain offices, as well as a significant impairment on certain fixed assets. The business units affected by the 2001 restructuring are FortuneCity.com, FortuneCity.co.uk, Hotgames, Citeweb, France, Italy, Spain and V3.

10. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its facilities and certain computer and office equipment under noncancelable leases for varying periods through April 2009. The following are the minimum lease obligations under these leases at December 31, 2002:

	Capital Leases	Operating Leases
2003	$ 30,905	$ 444,176
2004	-	592,024
2005	-	587,600
2006	-	617,733
2007	-	632,800
2008 and thereafter	-	843,733
Total minimum lease payments	30,905	$ 3,718,066
Less- Interest costs	(961)	
Total present value of minimum lease payments	29,944	
Current portion	29,944	
Capital lease obligation, net of current portion	$ -	

Rent expense for the years ended December 31, 2002 and 2001 was $ 533,385 and $586,944, respectively.

The Company's office lease in NY includes 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 lease.

Employment Agreements

The Company maintains employment agreements with two executive officers of the Company. The employment agreements provide 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. RELATED PARTY TRANSACTION

Revenues from related parties for the year ended December 31, 2001 amounted to $68,710.

Springboard provided data center services to the Company for $786,075 and $10,000, for the years ended December 31, 2002 and 2001, respectively. The payables to Springboard at December 31, 2002 and 2001 were $67,600 and $0, respectively. These expenses were included in the cost of revenues in the Company's Statement of Operations.

12. GENERAL AND ADMINISTRATIVE EXPENSES

Included in general and administrative expenses, as a reduction of the expense in 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 year ended December 31, 2002 was approximately $670,000.

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SHAREHOLDER INFORMATION

FortuneCity.com Inc.
500 Seventh Avenue, 15th Floor
New York, NY 10018

Peter Macnee, President and CEO, peter@fortunecity.com

Joseph Gonzalez, Senior Vice President and Chief Financial Officer, joe@fortunecity.com

For investor matters contact:

FortuneCity.com Inc.
Investor Relations
Email: investor-relations@fortunecity.com