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Questioning Market Leaders For Long Term Investors

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CEO/COMPANY INTERVIEW

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Finelot Plc

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Finelot Plc (FNL.L)

STEPHEN DATTELS, aged 53, Managing Director and Chief Executive Officer, is a co-Founder of Finelot. He is currently Non-Executive Chairman of International Pursuit Corporation, a public company listed on the Toronto Stock Exchange, which has been in the natural resources sector and was formerly the founder of International Gold Resources Corporation, where he developed a gold deposit in Ghana which was sold for Canadian \$135 million. In addition, Mr Dattels was one of the corporate finance directors of Barrick Gold Corporation which became North America's largest gold producer from a start up stage in the mid 1980's. Mr Dattels is a shareholder in, and has financed several Internet projects, including a profitable online video store, videoflicks.com, and an inter-active real-time astrology site called astroadvice.com.

SECTOR – RETAIL

(MAB005) TWST: Start us off with a rapid corporate profile: what is Finelot?

Mr. Dattels: Finelot started life as an art and antique auction site, however it's transforming into a Highstyle luxury portal.

TWST: What have been the corporate milestones? When was the company created, and what has motivated the change from art and antique auction site to a luxury portal?

Mr. Dattels: The Company was formed in January 1999; it became a Website in September of 1999. The concept was based on my background of financing Internet companies, my wife's involvement in the art and antique business and the explosion of the ebay phenomena. I moved to England in December of 1999. We entered into an agreement with John Bly, the Chairman of the British Antiques Dealers Association and a long-standing member of the UK Antiques Roadshow, to become Chairman of the company and put together a network of a substantial number of leading fine art and antiques dealers in the United Kingdom, which became the core of this Website.

In January 2000, the Website was fully launched with Fairmarket, a US auction platform, and all of the listings were put on 15 different portals such as Microsoft, Lycos, Excite, Altavista, etc, which gave the Website and our product significant traffic.

In April a redesigned Website was launched, the new site moved the content beyond art and antiques into contemporary design products, luxury goods, a heavy amount of contemporary art; whilst at the same time we introduced the Highstyle area. This aspect of the site is focused on luxury goods and services. Finelot is now going to become what we believe will be a leading luxury portal at the high end of the market whilst maintaining an emphasis on art and antiques.

Williams de Broë took the company public in December 2000 on the Alternative Investment Market of the London Stock Exchange. We raised GBP3.5 million and these funds were used principally to launch our magazine publication which will be published in late spring in the United States. The Finelot Highstyle Magazine, called FINE, will be published by our Magazine partner

Pure Imaging, based in Watertown, Massachusetts. In addition to Finelot Highstyle, Pure Imaging also publishes The Catalogue of Fine Art and Antiques. This magazine has the support of about 200 high-end dealers, mostly US dealers and it is proposed that these additional dealers will become members of the Finelot Family.

We expect in the next three months to have 400 of the top dealers in the world submitting content to our high-end Website.

It is also part of our strategy to have a bricks and mortar business. Our traditional businesses of Gallery ownership and magazine publication supplement our e-commerce business. These traditional businesses, drive the cash flow for the Company while the e-commerce business develops; thus we have a unique clicks and bricks strategy: Gallery, Magazine and Website. The Gallery located at 25 Bury Street in the St James's fine art and antique district in London has been completely renovated and will feature mainly contemporary art from major well-known and established US artists. The gallery premises also acts as our cataloguing centre and as far as we're aware is the first fine art and antique cyber shop in the world. Visitors are able to browse samples of artists' work in the gallery and then look at other offerings from the same artist on the Website. The Gallery is also contributing cash flow. We have a very low operating overhead, the fixed cost for running the whole operation is quite modest. By adding real businesses that can develop some meaningful cash flow we hope to get to profitability sometime in the latter part of this year, from the magazine, the gallery and the sale of merchandise.

TWST: What's the size of the market opportunity for Art and Antiques, and what do you estimate the size of the Highstyle market?

Mr. Dattels: There's an organisation called CINOA, which is the 34 country umbrella organisation of Art and Antique dealer associations. They've estimated that the fine art and antique market itself is about USD26 billion, and that doesn't include the contemporary art market. The market for Highstyle is by comparison enormous. Imagine the economies of the vacation and travel businesses, add health and well being on top of luxury shopping and fashion. This is a huge market.

TWST: If I were trying to place Finelot on the competitive spectrum, I'd think of the traditional auction houses, or newer entities such as artnet.com, with its Gallery Network and fine art auction database. Are you positioning Finelot in the same space? How do you perceive your competitors? How do you differentiate your offering?

Mr. Dattels: We have been, and we are, attempting to distinguish ourselves from our competitors by implementing a completely different strategy based on a core network of high-end fine art and antique dealers which many of our competitors don't have. That is the first point.

Secondly, we are rapidly transforming ourselves into a luxury portal and we'll also be providing modern contemporary design products.

We're going to have a travel site; we're going to be launching a health site for wealthy people in terms of alternate medical treatments and overall health and well being content. We're going to have an Equestrian thoroughbred site. In addition we will have the following sites: food and wine, jewellery, fashion, travel, leisure, homes and interiors, finance and wealth. Those are our major categories.

Artnet is basically art. It is not a luxury portal. Sotheby's, for example, has a large number of registered dealers. Their average price for their listing

is about \$1,500; our average listing is about \$3,500, on top of which Sotheby is not a luxury portal.

Ebay, where there's everything on their site from beanie babies to well-known art, is basically a low-end market. Their Great Collection area hasn't been as successful as they might have hoped, and they've recently introduced a "Premier" area, which is developing a high-end strategy. They have entered into a number of relationships with other high-end art and antiques sites.

Though you will be able to find high-end product on that site through the Premier section, we question whether the ebay name and high-end live well together. So we just want to be strictly high-end. We don't want to have a mix of low-end product with high-end product. QXL is also into everything from art to collectibles, to selling television sets.

With the exception of www.dupontregistry.com which is not heavily focused on art and antiques, these other sites don't have the core foundation of a high-end fine art and antique dealer network; so we're just totally distinguished from our competition. We think that we have a unique market niche all to ourselves.

TWST: I can understand your interest in signing up dealers. What's the dealers' interest in partnering with you?

Mr. Dattels: The reason that dealers would want to be on our site is that they would be involved with other dealers putting up products of the same quality. Most of the dealers at the high end are not prepared to have their products mixed up with lower-end goods. For that reason, they wouldn't want their product on ebay. To some extent there's a lot of different price points on Sotheby's because of the Amazon relationship. Furthermore with John Bly as chairman of Finelot and as one of the most respected and well-known

figures in the industry, an association with Finelot ensures that high-end dealers are with their peers.

TWST: In developing the luxury portal, what is your plan? Are you going to strike deals with luxury goods providers specifically? How will it work?

Mr. Dattels: What we're looking at are co-branding relationships with the major luxury goods providers. We would create co-branded pages with the luxury goods provider and then we would have listings of their product, people could buy off our site, but these companies would have prominence on our Website. They typically would be advertisers in our magazine, which will be launched in May. So what will happen is, the advertiser will go into the magazine, he'll also go into the Website, we'll put up a co-branded page. It gives us a lot of content, it gives us advertising revenue, it gives us listings, all of which will create transaction revenue.

TWST: Can you describe how you're going to set about the challenge of marketing your product over the next 12-24 months?

Mr. Dattels: In terms of the online side of the business, our products are listed on 15 different Portals, and our listings get significant viewings. We're in the top tier of fine art and antiques sites because of our Fairmarket online strategy. We are going to be seeking other partnership arrangements or affiliations with major portals to try to expand our online presence, but our major marketing tool is going to be our Finelot Highstyle magazine, FINE, and that will feature all the areas of this luxury portal that are being built out. It also means that our marketing expenditure will be a profit centre, which is exactly what the magazine will be. And the distinction between Finelot and these other companies in our space, is that we don't have to spend a lot of

money marketing, and with such a low overhead, and our off-line profit centres we intend being a survivor in an exciting area.

TWST: Reflecting on your mandate as CEO of the company, where are you spending your time? On what issues are you concentrating currently?

Mr. Dattels: Currently I'm working very hard on developing the sub-portals to transform the Website into a luxury portal. I'm overseeing the development of the magazine with our publishing partners. Also I will be concentrating on developing joint venture relationships with partners that can help move this company forward.

TWST: Could you profile the skill sets briefly of the other key people in the senior management team? You've mentioned John Bly. Who else is there that's involved at senior level?

Mr. Dattels: Firstly there's Mike Wise, my technology partner in New York, Mike and his team put together a complex Website at very low initial and ongoing costs. A Website like this would normally have cost millions of dollars using third party providers but to have these functions totally in house at a low cost is a major strength for the company on an ongoing basis.

John Smirollo president of Pure Imaging, based in Watertown, Massachusetts, is a significant contributor. He not only is bringing his high-end art and antique dealer network to Finelot but he's a very successful contract magazine publisher.

The other major contributors would be our contemporary art personnel in Florida, who are signing up some big name artists like Romero Britto, Ronnie Cutrone, and Kenny Scharf. In terms of other management at the company, we have a strong board of Directors, excellent financial control and a fabulous team of young people who are involved in evaluating and cataloguing

product for inclusion on the site. There's just a great team in place.

TWST: Let's turn to the business model and enumerate more systematically the principal revenue streams: what will they be?

Mr. Dattels: Our principal revenue stream at the outset will be our magazine. It's being launched in late spring. It will be quarterly, initially with a circulation of 150,000. Our financial cash flow model indicates that we will break-even in our second issue and be profitable by the third issue. By our eighth issue on an annual basis we should be generating excess of \$1 million in cash flow a year to the company.

The magazine, in addition to generating revenue from advertising, will also produce significant revenue selling merchandise — prints, jewellery, contemporary pottery, glassware and other high-quality products — and depending on our sale-through rate, we could generate a further \$1 million a year in merchandising once this market is developed. That's a totally novel concept, but based upon research we expect this forecast to be reached.

The next significant revenue base would be our gallery. Assuming our estimates are reached we would look at establishing Galleries in New York and subsequently in San Francisco.

The next revenue source would be online sales, that would give us good commission revenue, but in truth this area has been slower to develop than expected, although sales are increasing. Internet advertising which has obviously seen a substantial fall off would be our last category.

TWST: Any large capital expenditure in the pipeline or over the next 12-24 months that investors should follow?

Mr. Dattels: The magazine set up costs at \$1.5 million was our major expenditure. There are

other expenditures that have been made, but that would be the major one.

TWST: It is maybe too early in the corporate history to discuss acquisitions. What is your general approach to that issue?

Mr. Dattels: Obviously the industry is going to go through a massive amount of consolidation, and we are looking at four or five potential targets at present. It's very difficult to merge somebody else's Website and business model into yours, but there are one or two that may possibly prove of interest in leapfrogging the company forward. We are seriously interested in acquiring an auction house, which is part of our bricks and mortar strategy to go along with our Website. I think the main thing that we'd like to do is increase the number of affiliations we have with people or companies that are interested in the areas that we are involved in and try and move the company forward without relying totally on internal growth.

TWST: What sort of reaction have you encountered from the financial community? What's the business sentiment like vis-à-vis your projected business model?

Mr. Dattels: We were one of the few successful IPOs that went to the market in the fall of 2000. I think that is testament to the market's perception of Finelot. The placing was successful despite the horrendous state of the market.

We're actually trading at or around our 35p issue price. I think our model is strong enough because it's based on traditional businesses combined with an exciting e-commerce strategy. But our institutional backers have confidence that we can make it. We think by the latter part of this year, that we will be profitable on a monthly basis.

TWST: Can you summarise the strategic priorities for the company over the next 12-24 months?

Mr. Dattels: The strategic priorities would be, number one, build our dealer network upward to 1,000 dealers by year-end, and get our product inventory up close to \$100 million. We are also looking to complete the build-out of a luxury portal, which would be in the following areas: art and antiques, jewellery, fashion, travel and leisure, homes and interiors, finance and wealth, and health and living, which obviously will involve a complete reworking of our Website. The third would be to have a successful launch of our high-style magazine, FINE, and ensure that the merchandising strategy for the magazine is successful. The next priority would be to ensure that we get a major contribution from the gallery; and lastly, that we build sufficient traffic to increase the number of transactions on the Web and ultimately get some amount of advertising for the Website.

TWST: And longer term, what is your three-year vision for the company?

Mr. Dattels: In three years I'd like to see Finelot become the world's leading luxury portal. I would like to see it as a multimedia company with galleries established in North America and England. I'd like to see the publication become a monthly issue if possible, with a much higher level of circulation and this concept of merchandising high-end product for a magazine being a success. I'd like to see the company become completely multimedia by also doing some television programming, which can be achieved through the associations with John Bly and some of his colleagues from the UK Antiques Roadshow. And potentially, we might look at acquiring some auction houses as well.

TWST: Why would an investor buy the stock today? What are the key points beyond what you said?

Mr. Dattels: The stock today has got a market capitalisation based on issued shares of approximately GBP 8.7 million. If we're able to achieve profitability, be a major participant in this market space as a luxury portal and establish Finelot as a major brand, I think this would be very hard for anybody to duplicate, the company could be worth a very significant multiple of its cash flow, and we could be looking at a market valuation which would be significantly higher than GBP8 million.

TWST: Thank you.

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