

APPENDIX A

BACKGROUND

Appendix G summarises the local Imperial view of the 555's launch in 1982/1983. Apart from targetting Chinatown only, the brand was premium-priced.

Whilst today the Oriental population has increased, no true Virginia cigarette is being offered to this market.

Overall market shares are 50% Regular Size, 40% King Size, 10% 100mm. The latter segment is growing at approximately 1% per annum.

Appendix H summarises the top 187 brands.

Key changes to market conditions are the introduction of Bill C-51 and its restrictions on promotion and display plus pack printing requirements; a change from duty and taxes to VAT at both wholesale and retail levels - details still unknown; a general decline in smoking in Canada of which British Columbia has the lowest incidence of smoking (currently at 30% of the adult population).

Imperial Tobacco Limited

Appendix I illustrates the West Region team - 10 salesmen now report to Saunders and Hoskins. Five of these salesmen are of Oriental background. An office and warehouse, including bond, constitute the Regional Distribution Centre at Vancouver.

With all sales being channelled through 10 major wholesalers, the sales force's role is to ensure product is purchased by retailers and good in-shop presence is maintained. They take orders at retail level which are passed back to the appropriate wholesaler.

The basic terms offered by Imperial are 20 days or 2½% discount and 12 days credit. In addition a 1½ Partners in Progress rebate is given annually on the total invoice value less any losses. This sum is calculated nationally and from the subsequent pool rebates are paid proportionate to share of purchase.

Distribution

In the Vancouver area there are 10 major wholesalers and 700 outlets comprising of smoke shops, supermarkets, convenience stores, small "Mama/Poppa outlets", Food/Drugstores, Gas Bars (Petrol stations).

Supermarkets account for 90% of all retail sales by carton; Drug and Food stores 10% of overall business with greatest growth in the Gas Bars.

A launch for 555's should be undertaken on 3 key locations in the Vancouver area - Downtown Vancouver including Chinatown; North and West Vancouver and Richmond. The Oriental population has segmented in the poor and the more affluent - both target smokers of 555's and will be resident in the areas noted above. An initial 500 key outlets would be targetted.

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Pack Requirements

A new design for 555's KS would be required to conform with C-51 plus a Tax Stamp tear-off strip. The pack, carton and case must have UPC coding.

Retail Promotion

C-51 has restricted activity to non-branded, non-theme at point of sale but communication of Country of Origin (ie MIE) could be allowed and may benefit 555's.

Price promotion by the retailer will still be allowed and communications of prices permitted but not branded.

The use of display units (unbranded) will be allowed and will be essential to gaining counter display space at time of launch. This space will have to be rented and is costing more year by year. Branded giveaways are not permitted.

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