



NEWSLETTER



FIREWORKS PRICES SET TO RISE

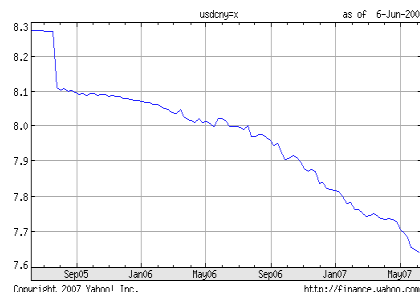
The cost of fireworks has been increasing over the years due to various reasons including domestic inflation, increase in raw material prices especially metal, currency and tax rebates.

China recently announced that it would cut tax rebates on exports from July 1st, 2007. At this time, it is still not certain whether this will apply to fireworks, but if it does, the rebate will be reduced from 13% to 5%. This will affect export prices by around 6%-8%. We will keep you informed of this important news.

Before 21st July 2005, the Chinese Renminbi (RMB) was tightly pegged to the US Dollar at US\$1 to RMB8.28. On 21st July 2005, the US Dollar peg was removed and a multicurrency peg was implemented and the RMB revalued to US\$1 to RMB8.11. This was mainly due to pressure from the US Government to lower the trade deficit between China and the USA. The RMB has since been allowed to fluctuate on the market each day. Since July 2005, the RMB has steadily continued to rise against the

US Dollar and its rate is now US\$1 to RMB7.6656 which is effectively an increase of almost 7.5% over the span of 2 years.

Unlike other foreign currencies where currency forward contracts can be entered into to reduce exposure to exchange risks, the RMB has no such facilities. Hence, there is no way of protecting against any major fluctuation of the RMB. Since 2005, goods from China have seen an increase in price from 5-10% over the past 2 years. This is not only a result of the increase in value of the RMB, but also because the Chinese economy is undergoing rapid economic modernization, with property and share market booming, along with increase in labour costs and shortage of labour in some areas. The RMB is set to continue to rise at least 4-5% towards the end of 2007.



This graph shows the increase in value of the RMB against the USD for the past 2 years.

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Photo by Ewan Cheung

BEIJING 2008 OLYMPICS AND HOW IT MAY AFFECT THE FIREWORKS INDUSTRY

As the countdown to the 2008 Olympics continues, the Chinese Government is under enormous pressure to present a modern and efficient Beijing to the world. At present, Beijing has several issues to tackle before the games begin in August 2008. That includes poor pollution and bad traffic gridlock around the city.

However, what we are most concerned is the possibility that the Central Government will ban fire-

works production and/or transportation in the months preceding and during the Olympics. We think that with such a high profile event taking place in China next year, it will not be a surprise if this should happen.

Since there is no way of knowing if and when this will happen, we can only urge customers who normally need their fireworks shipped from April to September, to plan well ahead and have all their orders placed between October—

November 2007 and shipped as soon as available and before May 2008. Unfortunately this coincides with the peak production season for New Year's Eve and peak shipping season for the US season. It will be yet another challenging year ahead!

If importers have sufficient storage available to store fireworks, we believe it is wise to import more fireworks this year in case of shortage of supply in 2008.

CHINA BANS CHLORATE USE IN FIREWORKS

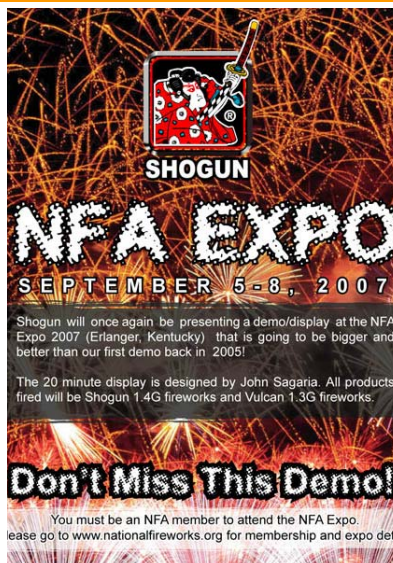
Potassium chlorate is a major chemical used in fireworks production in China. It is well known for its sensitivity when mixed with sulfur, ammonium and phosphorus. Sulfur-chlorate mixtures or the use of chlorate is banned in fireworks sold in some countries. However, countries such as the US still permits the use of chlorate in certain fireworks such as firecrackers, ground spinners and colour smokes under certain conditions.

China has now officially been banned use of chlorate in fireworks production in China, except for friction and smoke items where perchlorate cannot replace chlorate. For example, matchheads, smoke, party poppers, pulling snaps and toy caps. The Liuyang government has sent out an official announcement that this restriction will be strongly enforced. The effect on product cost is around 15% more expensive than chlorate. Major items affected will be firecrackers, small moon travel rockets, matchhead crackers, jumping jacks, color sparklers, and saturn missiles. All of our factories do not use chlorate so this price hike will mostly affect lower end generic fireworks.

FUTURE CONVENTIONS DATES

August 4-10, 2007. Our next convention will be the annual PGI convention in Fargo, North Dakota. We will have a trade booth and John Sagaria (2005 & 2006 PGI Winner of the Judges Grand Award for Artistic Excellence) will be using some of our Vulcan display fireworks in his show "Inspiration" on Friday night. For more details: www.pgi.org

September 5-8, 2007. We will be back at the NFA Expo, this time in Erlanger, Kentucky (near Cincinnati airport). On the night of September 7th, we will be presenting a display of Vulcan display fireworks and Shogun consumer fireworks. For more details: www.nationalfireworks.org



From **October 2-6, 2007**, the APA Convention will take place in Dallas, Texas. For more details: www.americanpyro.com

This year's International Symposium on Fireworks will take place in Montreal, Canada from **October 14-19, 2007**.

Spielwarenmesse International Toy Fair will take place once again in Nurnberg from **February 7-12, 2008**.

If you can come to any of these, we look forward to see you there!

SHIPPING PORT NEWS

Sanshui port officially reopened after Chinese New Year and began normal operations around May 2007. From the time of closure in November 2006 to May 2007, all fireworks exports were forced to divert to the only other three ports allowed to handle fireworks: Shanghai, Beihai and Nansha.

Valid CIQ export documentation continues to be a major issue as Nansha now requires that all fireworks shipped out must have CIQ export certificates. It is certain that in future, all ports will follow the same system. If so, then legally Shippers can only export fireworks with CIQ approval, which in principle includes only fireworks that can be classified as 1.3G/UN0335 and 1.4G/UN0336 according to the default UN classification table or supporting document of UN 6C test by a competent authority.

SHOGUN WEBSITE UPDATED

We have updated our Shogun website www.shogun.com.hk with full product listings and video links. Retail and wholesale locations have been added. If you would like to add your details to our website, please contact us!

Complete Display Fireworks catalog is now available for download online!

Vulcan website is under construction and should be operational in a few months.



Photo by Ewan Cheung

NEW PRODUCTS—DISPLAY FIREWORKS

On most shows nowadays, cakes are an important and vital part of the total show package. Vulcan brand cakes offer a wide range of effects and styles for any type of show. With more and more shows being choreographed to music the need for single effect short duration cakes has risen and two of the most popular types from Vulcan are our Hammer and Peacock style cakes.

The **Hammer Box Cakes** (BIF1001-100 or VIF0601-100) come in two varieties and consist of either 100 flash thunder salutes with no tails being fired straight up in unison or 100 flash thunder salutes with silver tails being fired in unison in a fan pattern. Both cakes are VERY loud as the salutes sound off at nearly the

same instant in the sky and work extremely well as show accents. When fired in groups the effect is truly awesome.

Peacock Cakes (PRF0501-540 to PRF0609-540) are a very dense fan shape pattern cake lasting 8 seconds. Fired in groups across a frontal layout these cakes form a spectacular visual display especially when enhanced with shells fired overhead. All feature color changing stars except the all whistle version for those that love noise.

Vulcan Cakes now come equipped with our exclusive E-match twist lock connector at the beginning and end of the cake so that firing cakes

manually or electrically is easy and safe. In addition, with the twist lock capability, cakes or finales can be chained together in seconds without tape or string. For spark and rain protection cakes come standard equipped with a foil top layer and bagged in heavy plastic.



Peacock style cakes in action.

NEW PRODUCTS — CONSUMER FIREWORKS

Coming in 2008, we will of course be offering a brand new lineup of great consumer firework products. Our graphic designers are now hard at work putting the finishing touches on all the labels and getting the 2008 catalog supplement ready for delivery so we thought we would give everyone a sneak preview of a few of the items in the works.

We have a terrific lineup of our big **500 gram cakes** with names like Undeclared, Rabble-Rouser, Up-geous, Redneck Rowdy, and Torn Sky. The breaks and brilliant colors just keep getting bigger and better along with cool new effects like Criss Cross Breaks and Firecracker Combo Cakes. And for those that need the smaller, lower price 200 gram cakes, we have worked hard to develop them with the same great

breaks and colors as the bigger longer duration 500 gram items.

Our **fountain** lineup includes names like Plenty of Snort, Tailgate Party, Feel the Heat and Crazy Idea. Plenty of effects all the way around with combinations of crackle, horsetail sprays, spring flower, and loads of multicolor micro stars.

For the **reloadable shell** enthusiasts we have an exclusive new design and packaging concept that we will present called Commercial Grade Single and Multi-break Cylinder Shells. These feature monster breaks and are styled to look exactly like professional 1.3g display shells but in miniature and fully compliant with 1.4g labeling. They will be packaged two ways, as single break only and as two and three break "salami" shells.



Lastly we have not forgotten the younger firework crowd and have developed several new **novelty** items again only from Shogun. Look for Cat and Mouse Game, and our completely unique item Roll-O-Rounds with a rolling travel action that is completely new and exciting.

We hope you enjoy this sneak preview for 2008. Look for these items and many more to be available right after the 4th July and remember order early!

VOYAGE — MEXICO & INDIA

John Werner and Joe Wan's visit to Mexico. March 2007. to outdo the rest.

In Mexico each year in a small town called Tultepec just north of Mexico City is a unique celebration of fireworks like no other in the world. Lasting roughly 5 days, the Mexican firework makers show off some of the most incredible and beautiful fireworks imaginable. Each day being something different, the festival starts off by parading huge firework bulls called Toritos (photo below left) through the streets. All are wonderfully made and covered with a variety of fireworks with each designer trying

Later that night in the town square the Bulls are set afire releasing huge amounts of "drivers" with a gold or silver tails that go shooting off in all directions into and around the crowd. This is NOT for the faint of heart and really has to be experienced to believe what takes place. The young men take delight in trying to dodge and outrun the volley of erratically flying projectiles.

YOU CAN WATCH THE VIDEO AT BLOG.SHOGUN.COM.HK !



Shown here, the crazy American "gringo" John Werner tries climbing one of the towers after the show to see what the view is like from the top.

Shogun bunting is STILL available!! 9 rolls for US\$20 plus shipping. Need to order before the 24th June.

Please email jawerner@dol.net.



VOYAGE — SIVAKASI, INDIA

Ewan Cheung's visit to Sivakasi, India. June 2007.

Continuing on his own "10,000 Places to Visit Before You Die", Ewan traveled to India recently to tour the fireworks production centre of Sivakasi in south India. Sivakasi is a small town with population of 500,000 people on a big flat plain. Sivakasi produces 95% of fireworks for the local Indian market and export very little, mainly sparklers to South Africa.

Officially there are 600—700 firework factories in Sivakasi. There are about 60,000 people working in the fireworks industry in the town. The main fireworks produced are aluminum firecrackers (1-3/4" x 5/8") braided with 36-10,000 pieces, 3" rockets with firecracker report, rope crackers, 8mm thick sparklers with copper wire, single and multiple floral shells (2"-3" caliber), ground spinners and cone fountains.

Government control over fireworks production is strict. No chlorate is

allowed in workshops. Most buildings are for 4 persons and no big buildings are allowed in production areas. The distance separating each building is about 15 metres. No machine pressing is allowed.



Sivakasi is also called "Small Japan" and famous in 3 industries—printing, matches and fireworks.



allowed in fireworks. No chairs or



Sivakasi has the potential to be a bigger producer and exporter of fireworks to the worldwide market.

MORE PHOTOS AND COMMENTRY AT BLOG.SHOGUN.COM.HK !