



A Message From The President, Richard B. Shields: China's Fireworks Exporters – A Time Of Change

I have visited China on average of five times a year for the past several years. One thing that is evident is that the Chinese fireworks industry is in a cycle of change.

Gone are the days of stable prices for materials, labor and transportation. All rebates from the government have also been eliminated. The US dollar now floats against the Chinese RMB which is bad for the exporter as the dollar value continues to drop almost daily. Yet the competition for the business is still fierce among the manufacturers and exporters. Profit margins are at an all time low. Yet uncertainty in the Chinese fireworks business is at an all time high!

In my opinion we can expect prices to continue to rise each season for the foreseeable future. The stronger companies with good management will prevail and many of the smaller ones will get out of the export market. Hopefully the supply to the US market will not diminish as China is very much our primary supplier of Consumer Fireworks.

On the positive side I see better and better products each season with better construction and designs. Realistically the prices in China have not kept pace with inflation or their true manufacturing costs. This scenario will not continue. Real product costs, inflation and money exchange rates will be prominent factors in determining exporter pricing. I think the competition among China factories and exporters will keep the increases to the 10-20% range. Nothing is "for sure" in the China market at this moment.

Keep in mind China fireworks products are still cheaper and better than the same items purchased in 1980's and 1990's. You would be hard pressed to find another commodity that can say that. China's economy is now global and the same increases that we are experiencing hold true for them also. Plus housing costs and basic necessities are increasing at a quicker pace than here. There is even a talk of labor shortages because the fireworks worker is rural and getting older each year. I am told the young worker is moving to the bigger cities to get the higher paying jobs.

In addition the domestic market in China continues to grow. We are told that domestic goods actually demand higher prices than export goods. If this is true expect some factories to convert to domestic production as a more profitable alternative. It is rather evident that the fireworks export market from China is in a time of transition. That fact you can be sure of.

I have talked to all of our suppliers in recent weeks. They all agree that change is inevitable!



Pictured: Richard Shields & Francis Wu, Owner of Glorious Co., in Manila after the International Fireworks Exhibition

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4th Season!

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4th Season!

LuAnn Teter
Accounts Payable
3rd Season!

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4th Season!

Charlie Phipps
Warehouse Manager
23rd Season!

Sean Alexander
Warehouse Asst. Manager
11th Season!

Jack Miller
Production Manager
21st Season!

Brenda Said
Production Assistant
12th Season!

Dear Boomer,
(A Table of Contents with a twist)

What's going on with Stacy
SEE PAGE 2!

Lori is counting cases
ON PAGE 2!

Nicole is burning it up
SEE PAGE 3!

LuAnn has your answers
ON PAGE 3!

Kurt is now on the block
SEE PAGE 3!

China updates
SEE PAGE 4!

Upcoming Industry Events

Indiana Fireworks Distributors Association IFDA
Dues are being accepted for 2008 membership. If you are interested in becoming a member, please contact IFDA/IFDA Executive Director Steve Graves @ (800) 935-7477.

International Symposium on Fireworks Society
The 11th International Symposium on Fireworks in Puerto Vallarta, Mexico is April 20-29th, 2009. Visit www.isfireworks.com

Pyrotechnics Guild International (PGI)
The PGI annual convention for 2008 will be in Gillette, Wyoming on August 9-15th, 2008. For more information, see www.pygi.org

National Fireworks Association Trade Exposition
The NFA's 2008 Expo will be held in Billings Montana Sept 3-6th, 2008. Or vacation with the NFA on an Eastern Caribbean cruise January 2009. For more info, check www.nationalfireworks.org

American Pyrotechnics Association (APA) 2008 Conference
The 60th anniversary APA convention will be held in Lake Buena Vista, Florida on September 16-20th 2008. For more information, contact the APA (301)907-8181 or online www.americanpyro.com

From the Desk of Stacey

By: Stacey Smith

Hello to all my fireworks customers and friends! It seems like the major issue facing our industry today is the topic of the ever changing price increases from China. Since this issue has already been discussed throughout the newsletter I decided to write a little about the 59th APA Convention in Dallas, TX and a personal vacation that my husband and I took to Jamaica.

This was my first time to Dallas so I was very excited to see what this great city was all about! We stayed at the Hyatt Regency which was a beautiful hotel. We attended several meetings and seminars which always keeps us up to date on what is going on in the industry. One night we had a Welcome Reception in the Lookout Room in Reunion Tower which was amazing. The tower was huge and featured a revolving restaurant which had magnificent views of the city at night. The picture below is of myself and our graphic designer, Nicole Werner outside at the top of the tower along with the view from the tower.



We also had a fireworks show and dinner on the water and below is a picture of myself with Freddie Chen who runs the Great Grizzly office in China and also myself and 2 members of our office staff, LuAnn Teter and Nicole Werner.



We ended the convention with a fireworks show and party event at the legendary Southfork Ranch, home of the nighttime hit series "Dallas" from the 80's and here are a few pictures from that event.



Last but not least, my travels last year took me to Negril, Jamaica! This was a personal vacation for my husband and myself, but I can honestly say that we had the time of our lives at the Grand Lido Negril All Inclusive Resort! We stayed in a one bedroom luxury suite and were treated like royalty from the time we arrived until the time we left. Upon our arrival we were introduced to our personal guide who gave us a tour of the resort. Once we were taken to our room we were immediately greeted at our door with a personalized letter from the manager, a chilled bottle of Champagne and a cheese & cracker plate. We never wanted to leave!



Hope you enjoyed my photos and I look forward to talking with you all real soon!! Have a safe and successful season!!

God Bless Us All,
Stacey

WIZARD OF ID by Parker & Hart



Take a Load off your Container

By: Lori Crespo

Another season is upon us and it could prove to be a challenging one with a dramatic price increase. (See the articles on the back page for more info.)

All of us at North Central strive to ensure our customers are well taken care of! This will be my 4th season here and no two seasons are the same, that is for certain.

I am currently handling our drop shipment program, accounts receivable, other accounting tasks, and full truckload rates & scheduling among other things including maintaining our website greatgrizzly.com and editing this newsletter! I have to say I enjoy my various duties as it allows me to constantly do something different each day. Although I would have to say I like dealing with drop shipments the most.

I'd like to discuss drop ships for a minute, for anyone that may be thinking of getting a container next season: We've had inquiries from potential customers for a lower minimum order. However, to realistically expect timely delivery of a drop ship order, our brokers insist on a 30 case minimum. To keep things consistent and simple, we cannot accept anything lower than the minimum that is required from our brokers. Any items that are less than the minimum will need to be placed and pulled as a wholesale order. Please keep in mind that everything is hand-made, it is not easy to switch from one item to the next, which is why factories prefer large quantity orders.

After last fireworks season the NCI staff traveled to Dallas, TX in October for what I heard was a great convention.

I on the other hand had ankle surgery during that week and was unable to attend. Around the end of September I fell and had a level-3 sprain on my right ankle with 2 ligaments completely shredded and the 3rd ligament was 50% torn. This was the first time I have ever gone through any surgery or pain of this kind. My surgeon was kind enough to tell me that it was the worst ligament damage that he had ever seen in an ankle. I now have a beautiful scar and 2 screws inside holding it all together. My informative doctor also told me that if I were to slightly twist this ankle ever again it will break easily!

I never knew how inconvenient and mentally exhausting wearing a cast could be. It was an adjustment having people help me with everything but my friends were great. However, I am oh-so happy to be over the worst part of it and to be walking normal again, minus dangerous heels! To anyone that has gone through something similar/worse, my heart goes out to you!

I wish all of you the best year possible, in season and off.

Lori

Burnin' it up on the DVD

By: Nicole Werner

Hello there! Well, the season is already upon us. This year will be my 4th season at NCI and I can hardly believe it! The time sure has flown by!

This past year was great! They say 3rd times a charm and I believe it! Everything just seemed to run smoother. Maybe it just takes awhile to get used to this fun, crazy industry.

In October, our office traveled to Dallas for the APA 59th Annual Convention. This year's convention had everything from mariachi bands to mechanical bulls. Not to mention, a few of the most entertaining fireworks displays I have ever witnessed. Most notably, a fireworks showdown; Texans vs. Okies.

Currently, we are all getting prepared for fireworks season 2008! I've been keeping busy putting the New Items DVD together. I know the girls and Kurt have been keeping real busy with various projects. It's an exciting time of year at North Central!

4th of July is just around the corner. I will be here to take your orders and answer any questions you may have. If you need product or premise insurance don't hesitate to ask. I look forward to hearing from all of you!

Take Care,
Nicole

The N.K.O.T.B.

By: Kurtis Cowgill



Hello, from the new kid on the block here at North Central! The 2007 season was an awesome experience for me as I had the pleasure and privilege of meeting and serving many of the great customers that NCI has accumulated through the years. What started out as something temporary has turned into a year round position and I have to say that I am very excited for the coming season. Richard and Stacey allowed me to have the opportunity to come aboard in 2007 as an intern which gave me a chance to gain valuable skills and knowledge in the fields of customer service and marketing. I was also blessed to work with such a great group of ladies; LuAnn, Nicole, Lori, and Stacey. Each one of them helped me along to learn many of the necessities and made me feel very welcome from the start. Thanks ladies!

Of course, that is only half of what makes the season worth while. The other half is you, the customer. The system that we have in place here at NCI where you get to work with the same customer from the time that the order is placed to the time it arrives at their door is truly exciting and satisfying. I have enjoyed developing a relationship with each and every customer that I have had the pleasure of serving, and I hope that I make you feel the same way. It truly is a family atmosphere. I look forward to an awesome 2008 season, and assisting you with all of your fireworks needs in any way I can!

On a personal note, I was offered a part-time position here at NCI during my final year of college at Ball State University, which I gladly accepted. I am pursuing a degree in Entrepreneurship and am on track to graduate in April of 2008. Although this is my first year in the office at North Central, I have been around the fireworks industry for the past 5 years. In my second year of college I actually took a summer warehouse position here at NCI and it is safe to say that I developed a true passion for the industry at that point. Since then, I have had experience in operating a retail location, retail sales, and of course wholesale sales. Another great perk of being part of the NCI team is that Richard makes sure we have the resources available to assist our customers beyond just supplying them with their fireworks. A great example of this was working with the director of the IFDA, Steve Graves, as he was able to offer solutions to many of the problems that arose for our customers during the season. I still have much to learn about this dynamic industry, but again, I am here because I love it, so don't hesitate to call and let me know what I can do for you! I look forward to hearing from you!

Kurt

Changes In CHINA

Import problems are abundant. So why are we now being bombarded with increases in importing costs? The full impact of the rising costs of material and labor had not been passed on and were absorbed by the factories because of the competition. Factories couldn't fully recover the increases from export companies, now export companies are seeing their own cost increases. With the U.S. on the verge of a recession and inflation in China, it could be the end of an era of ultra-cheap goods, fireworks included.

RMB APPRECIATION TO US DOLLAR

The dollar has been getting weaker. Chinese currency has been appreciated over the past few months by over 6% to the dollar, changing the exchange rate from 8RMB per dollar to 7.16RMB per 1.00 US dollar (as of 02/26/08). Contributing exporters receive over 6% less from importers.

LABOR & MATERIALS

Factory workers are requiring higher pay for their labor in the harsh working conditions with rising competition. Which results in higher prices, rather than risking the safety and quality of fireworks which is already under strict regulations. In addition, the chemicals and manufacturing materials are also going up. Prices on titanium (everyone loves those titanium firecrackers) & aluminum in particular.

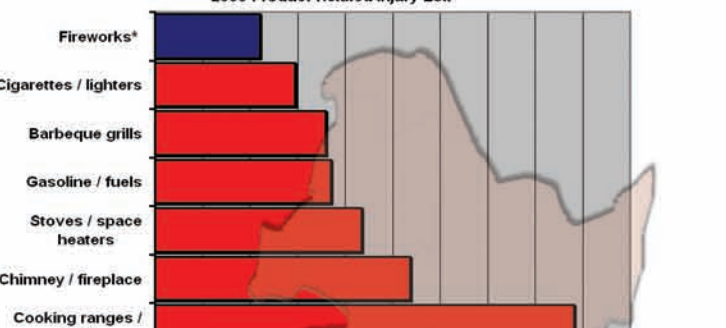
TRANSPORTATION

Ocean freight costs from China to US are increasing 15-20%. Due in part to negative attitudes in transporting 'hazardous' fireworks & raised prices. Last year freight averaged \$6500/container, this year about \$8000/container is to be typical. Inland transportation costs are increasing due to gas & diesel cost at record highs. Also there has been problems with incorrect descriptions to get illegal fireworks in under the 1.4G class making all fireworks being handled at a higher danger grade.

REDUCTION OF EXPORT REBATE

Years have past with complaints on China's growing trade surplus. Moving the Chinese government to remove incentives favoring cheap exports. The export tax rebates were eliminated on nearly 3,000 products, affecting more than just fireworks. Before July 2007 Chinese exporters received a 13% rebate. After July 2007 8% of export revenue was eliminated.

We have no choice but to accept these increases but with the export rebate reduced to 5% the China government most likely will not remove the rebate completely. However, it is still possible for other increases to continue into next year.



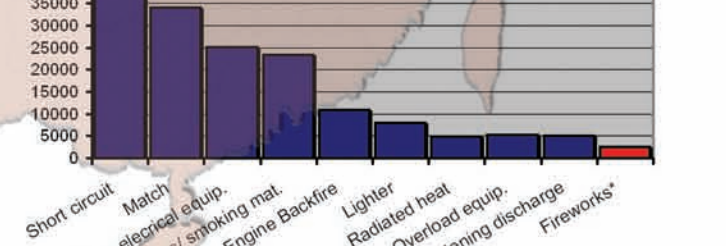
Sell Fireworks Safety

The consumption of fireworks has continued to increase over 2 and 1/2 decades. From 29 million lbs in 1976 to over 278 million lbs in 2002. That is nearly a 960% increase in consumption, all the while injuries are decreasing and will continue to decrease with your help in promoting proper use of products.

Referring to the first chart above: In 2000 the CPSC reported on product-related injuries that are heat producing. Each year approx. 70 million Americans are injured with 60% by motor vehicles, firearms, and falls. That being said, fireworks account for about 0.01% of all injuries, with a large portion due to extreme misuse of products, NOT manufacturing malfunctions.

Fireworks are aggressively regulated in a way that other Chinese-made goods are not. Safety standards by the laboratory have evolved for hazardous goods in a way that food or drug imports have lacked behind.

Along the same line, the chart below shows how many fires were fireworks related in comparison with other sources of ignition. The US Fire Administration reported in 1997 that out of 656,548 fires, only 0.3% involved fireworks. You might say that is old information, but in CPSC most recent reports... fireworks are not even mentioned on the list.



Cover Your Own... Insurance!

Drayton Insurance remains NCI's insurer for '08: Product insurance will not be billed on promo items, freight cost, or on your premise insurance policies. Product insurance covers some misuse claims or malfunctions that it may have and will only be billed as 2% of your fireworks purchases.

Premise insurance will cover a trip & fall type of claim that may happen at your establishment. For premise: the half-million policy is \$160/month while the one-million policy is \$210/month.

If you have questions regarding the rates or anything else regarding insurance policies please contact Nicole Werner. Please note that policies cannot be back dated, so call ahead!