China Dongxiang (Group) Co., Ltd.

中國動向(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3818)

PROFIT WARNING

This announcement is made by the Company pursuant to Rule 13.09(1) of the Listing Rules.

The Board wishes to inform the shareholders of the Company and potential investors that the unaudited consolidated revenue for the six month period ended 30 June 2011 (the **Period**) are expected to decline by approximately 45% as compared with the corresponding period in 2010, and the margin of profit attributable to shareholders of the Company for the Period is expected to decline to approximately 17–19% from 37% as recorded in the corresponding period in 2010.

The information contained in this announcement is only the preliminary assessment by the Company based on the unaudited consolidated management accounts of the Company for the six month period ended 30 June 2011, which is subject to review or audit by the Company's auditors.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

This announcement is made by China Dongxiang (Group) Co., Ltd. (the **Company**, together with its subsidiaries collectively referred to as the **Group**) pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **Listing Rules**).

The board of directors (the **Board**) of the Company wishes to inform the shareholders of the Company and potential investors that the unaudited consolidated revenue for the six month period ended 30 June 2011 (the **Period**) is expected to decline by approximately 45% as compared with the corresponding period in 2010, and the margin of profit attributable to shareholders of the Company for the Period is expected to decline to approximately 17–19% from 37% as recorded in the corresponding period in 2010.

Based on the analysis of the information currently available, the decline in revenue and profit attributable to the shareholders is mainly attributable to:

(i) a decrease in total sales of the Group during the Period as the sales to the distributors in China were cut back in an effort to reduce the accumulation of inventory at the distributors' end; and

(ii) an extraordinary net provision before tax of approximately RMB220 million in connection with the re-purchase of excess inventory held by the distributors as at 30 June 2011.

As disclosed in the Company's 2010 annual report, the sports goods industry in China is facing a new series of challenges, including intensifying competition and excess inventory. In light of these new challenges, the Group has been shifting its focus from wholesale to retail management by providing stronger support to its distributors with the aim of getting closer to the market pulse and improving operating efficiency and performance of the retail stores. During the Period, the Group has taken steps to address the problem of accumulation of inventory faced by the distributors by adjusting the Group's product offerings and reducing the distributors' volume of sales order. With the aim to building a stronger distributor network and after reviewing the financial position and the inventory level of its distributors in June 2011, the Group has decided to make a one-time voluntary offer to its distributors and agreed to re-purchase their slow-moving inventory at the original cost of which the Group has sold to such distributors. The distributors who have accepted this offer have agreed to enter into an agreement with the Group pursuant to which rebates and incentives policy would be revised such that rebates and incentives would only be granted if certain pre-agreed target key performance indicators for each of their retail outlets have been achieved. Further, the agreement stipulated that such distributors would be required to engage in the management of selected sub-franchised stores in top tier cities within a specified timeframe, and co-manage with the Group other sub-franchisees' point of sales in relation to their development, assortment plans and the enhancement of the IT system for data management. The purpose of the repurchase program is to strengthen the cooperation between the Group and the distributors for building a more efficient retail network, and to enable the Group to have better control over the retail channels. As a result of the repurchase program, the Company has recorded an extraordinary net provision of approximately RMB220 million for the Period.

The Company believes that the repurchase program, coupled with the "Recharge for Growth" program as described below, is critical to the Group's long term growth and development. Commencing from April 2011, the Group has, under the direction of its new senior management, launched a "Recharge for Growth" program under which key initiatives have been identified the aim to strengthening the Group's products, sales platform and distribution channels. These initiatives include: (1) Brand position enhancement; (2) Product improvement; (3) Store network optimisation and geographic expansion; (4) Retail management; (5) Sales and customer management; (6) Supply chain; (7) System and process; and (8) New business for Kappa.

As of the date of this announcement, work teams have been set up dedicated for each initiative and action plans have already been launched and implemented. New senior management members have also been appointed with the mission to strengthen the sales, retail operation, supply chain management and system and process areas.

As the reform program will take time to implement, it is expected that the Group's financial results and operating performance would remain under pressure in the near term. As a result of the reduced sales to its distributors for the purpose of controlling their inventory level, the total sales orders received by the Group as at the date of this announcement for the second half of 2011 is approximately 40% lower than that for the corresponding period of 2010. Nevertheless, the Board is of the view that the financial position of the Company remains solid with a strong net cash position. With the implementation of the clear and focused reform program, coupled with the Group's dedicated management team, the Directors believe that the Company is able to capitalise on the growth in China's retail and sport goods industry in the coming years.

The information contained in this announcement is only a preliminary estimate prepared by the management of the Company for such period and is not based on any figures or information reviewed or audited by the Company's auditors. Further details of the Group's financial information for the six month period ended 30 June 2011 will be disclosed in the unaudited interim results for the six month period ended 30 June 2011, which is expected to be released in August 2011.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Chen Yihong
Chairman

Hong Kong, 8 July 2011

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong, Mr. Qin Dazhong and Ms. Sandrine, Suzanne, Eléonore, Agar Zerbib, the non-executive director of the Company is Mr. Gao Yu, and the independent non-executive directors of the Company are Mr. Xu Yudi, Dr. Xiang Bing and Mr. Jin Zhi Guo.