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 months ended 30 June 2012 (the **Period**) is expected to decline by approximately 29% as compared with the corresponding period in 2011, and the margin of profit attributable to shareholders of the Company for the Period is expected to decline to approximately 10%–12% from 19% as recorded in the corresponding period in 2011.

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 months ended 30 June 2012, 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 months ended 30 June 2012 (the **Period**) is expected to decline by approximately 29% as compared with the corresponding period in 2011, and the margin of profit attributable to shareholders of the Company for the Period is expected to decline to approximately 10%–12% from 19% as recorded in the corresponding period in 2011.

As we previously highlighted in our 2011 annual report, the sportswear market in China was facing intense competition with the distributors suffered from the decline in the profitability of their stores and excessive inventory.

Last year, the Group had taken proactive steps to address the problem of accumulation of inventory faced by the distributors including an one-off voluntary offer to its distributors to repurchase their inventory amounted to approximately RMB1.45 billion (tag price).

Despite the efforts made by the Group last year, the competition within the sportswear industry in China continues to intensify throughout this year which results in higher product discounts offering in the market. On the other hand, the issue of excessive inventory at the distribution channel level in the industry remains a challenge to the distributors.

Facing these challenging circumstances, since the beginning of this year, the Group has further adjusted the Group's product offerings and reduced the distributors' volume of sales order for each product seasons in 2012. As a result, the Group is expected to have a substantial decline in revenue and profit for the first half of 2012.

Furthermore, at the date of this announcement, the trade fairs for the third and fourth quarter for this year have also been completed, the amount of the total trade orders received for these two quarters shows an mid-double-digit percentage range decline as compared with that of the corresponding period in 2011. As a result, based on the current information available to the Board, the Group anticipates that its revenue for the year ending 31 December 2012 will record a substantial decline as compared to last year.

In response to the severe market conditions, the Group has formulated a medium term strategic plan which is targeted to be completed by 2014. The key strategic initiatives are:

(1) Strengthening brand uniqueness and emphasizing brand elements;

(2) Enhancing the integration of internal resources on research and development;

(3) Improving cost management;

(4) Developing "brand + retail" model;

(5) Maintaining long term and healthy development of distribution channels, including striving for inventory clearance; and

(6) Development of new lines of business for Kappa brand.

In addition to the implementation of the above strategic initiatives, the Group will continue to streamline its operation and improve its efficiency.

As the strategic plan will take time to implement, it is expected that the Group's financial results and operating performance would inevitably remain under pressure in the near term.

Whilst the Board is of the view that the industry recovery will unlikely be materialized in near future, with the Group's dedicated management team supported by its strong internal financial resource to drive the above strategic initiatives, it believes that the Group is well-positioned to be among the first to rebound when the market recovers.

The information contained in this announcement is only a preliminary estimate prepared by the management of the Group 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 months ended 30 June 2012 will be disclosed in the unaudited interim results for the six months ended 30 June 2012, which is expected to be released in August 2012.

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, 6 July 2012

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong and Mr. Qin Dazhong, 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.