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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 year ended 31 December 2011 is expected to decline by approximately 36% as compared with that for the year ended 31 December 2010, and the margin of profit attributable to shareholders of the Company for the year ended 31 December 2011 is expected to decline to approximately 3-5% from 34.4% as recorded in the year ended 31 December 2010.

The information contained in this announcement is only the preliminary assessment made by the Company based on the unaudited consolidated management accounts of the Company for the year ended 31 December 2011, which is subject to 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.

Reference is made to the announcement (the **Announcement**) dated 8 July 2011 of China Dongxiang (Group) Co., Ltd. (the **Company**, together with its subsidiaries collectively referred to as the **Group**) in relation to the unaudited consolidated revenue for the six month period ended 30 June 2011.

This announcement is made by the Company 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**).

PRELIMINARY ESTIMATE OF THE FINAL RESULTS FOR 2011

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 year ended 31 December 2011 is expected to decline by approximately 36% as compared with that for the year ended 31 December 2010, and the margin of profit attributable to shareholders of the Company for the year ended 31 December 2011 is expected to decline to approximately 3-5% from 34.4% as recorded in the year ended 31 December 2010.

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

- (i) a decrease in total sales of the Group during the year mainly as a result of the cut back of the sales to the distributors in China in an effort to reduce the accumulation of inventory at the distributors' end as part of the reform program as described in the Announcement;
- (ii) an additional inventory provision of approximately RMB210 million in respect of the inventory held by the Group as at year end of 2011, after the completion of the inventory repurchase from the distributors as mentioned in the Announcement;
- (iii) a net decrease in other income and net finance income of approximately RMB70 million mainly due to a decrease in the amount of local government subsidy income; and
- (iv) a decrease in fair value of approximately RMB240 million in relation to the equity investment in two companies principally engaged in the operation of online platforms for apparel and accessories, and retail distribution of sportswear, respectively, in China.

The Company is in the process of finalising the audited results for the year ended 31 December 2011. The information contained in this announcement is only a preliminary estimate prepared by the management of the Company based on the unaudited consolidated management accounts which have not been audited by the auditor of the Company. Further details of the Group's financial information for the year ended 31 December 2011 will be disclosed in the announcement for the audited final results for the year ended 31 December 2011, which is expected to be released by the end of March 2012. Shareholders and potential investors of the Company are advised to read the annual results announcement carefully when it is published.

OUTLOOK FOR 2012

With excess channel inventory and the intensive industry competition, year 2012 will remain to be challenging for the sports goods industry in China. In anticipation of these challenges, the Group will continue to focus on the following key measures: (a) the Group will continue to cooperate closely with its distributors to lower the level of retail inventory through integrated planning and order control. Furthermore, the Group will provide more support to key distributors with new sales policy emphasizing on retail management and execution with an aim to enhancing store efficiency; (b) the Group will continue to enhance the style, quality and competitiveness of its products. As part of this measure, the Group has engaged new international designers to give new inspiration and to add more innovative and fashionable design elements to its products; (c) the Group is committed to improve the operational efficiency of its product value chain, to enhance the efficiency of supply chain as well as effectiveness in products research and development by leveraging on the Group's resources and connections in Japan; and (d) the Group will improve its internal operational efficiency through organizational restructuring, operational streamlining, recruitment of management personnel that better meet the needs of its current development, and the application of corporate culture that emphasizes an innovative and pragmatic principles.

Although the business environment will continue to be difficult, the financial position of the Group remains solid with a strong net cash position. The dedicated management team of the Company will continue to take all necessary actions and measures to strengthen the Group's business operations and to maintain its competitiveness going forward.

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
China Dongxiang (Group) Co., Ltd.
Chen Yihong
Chairman

Hong Kong, 23 February 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.