



MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1100)

TERMS OF REFERENCE OF AUDIT COMMITTEE

A. CONSTITUTION

The Board of Directors resolved on 16 November 2000 to establish an Audit Committee (the “Committee”) to assist the Board in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group and in maintaining an appropriate relationship with the external auditors. Terms of Reference of the Committee are updated and amended with reference to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) from time to time.

B. MEMBERSHIP

1. The Committee members and Chairman of the Committee shall be appointed by the Board.
2. The majority of the Committee members are Independent Non-executive Directors of the Company.
3. The quorum of any Audit Committee meeting shall be two members of the Audit Committee.
4. The Chief Financial Officer and representative(s) of the external auditors shall normally attend meetings. The Committee shall invite any appropriate person, including other Board members, to attend the meeting whenever it is necessary.
5. The Company Secretary shall act as the secretary of the Committee.

C. FREQUENCY OF MEETINGS

Meetings shall be held not less than twice a year. Ad hoc meeting will also be convened whenever situation warrants. The external auditors may request a meeting if they consider that one is necessary.

* For identification purpose only

D. AUTHORITIES

1. The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any and all employees.
2. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
3. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

E. DUTIES, POWERS AND FUNCTIONS

1. Relationship with the Company's auditors
 - (i) To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;
 - (2) To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
 - (3) To develop and implement policy on engaging an external auditor to supply non-audit services. The Audit Committee shall report to the Board, identifying and making recommendations on any matters where action or improvement is needed.
2. Review of financial information of the Company
 - (i) To monitor integrity of financial statements, annual report and accounts, and half-year report of the Company, and shall review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee shall focus particularly on:
 - (a) Any changes in accounting policies and practices;
 - (b) Major judgemental areas;
 - (c) Significant adjustments resulting from audit;

- (d) The going concern assumptions and any qualifications;
 - (e) Compliance with accounting standards; and
 - (f) Compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- (ii) In regard to paragraph 2(i) above:
- (a) members of the Committee must liaise with the Company's Board of Directors, senior management including the Chief Financial Officer, and the Committee must meet, at least once a year, with the Company's external auditors; and
 - (b) The Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and it should give due consideration to any matters that have been raised by the Chief Financial Officer, Company Secretary or auditors of the Company.
3. Oversight of the Company's financial reporting system and internal control procedures
- (i) To review the Company's financial controls, internal control and risk management systems;
 - (ii) To discuss internal control system with management to ensure that management has performed its duty to have an effective internal control system;
 - (iii) To consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
 - (iv) To review the Group's financial and accounting policies and practices;
 - (v) To review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
 - (vi) To ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
 - (vii) To report to the Board on the matters set out in Code Provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules;
 - (viii) To consider other topics as defined by the Board from time to time;

- (ix) To review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; the Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and act as the key representative body for overseeing the Company's relations with the external auditor; and
- (x) To consider other topics, as defined by the Board, from time to time (e.g. consider establishing a "whistleblowing" policy for employees and those who deal with the Company, such as customers and suppliers, to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company.).

F REPORTING PROCEDURES

- 1 The Chairman of the Committee shall report to the Board the work and findings of the Committee under the following areas:
 - (i) Financial and other reporting
 - (ii) Financial controls, internal control and risk management systems
 - (iii) Other duties and responsibilities
2. The following disclosures shall be made in the Corporate Governance Report in the Annual Report:
 - (i) the role and function of the Committee;
 - (ii) the composition of the Committee (including names and identifying in particular the Chairman of the Committee);
 - (iii) the number of the committee meetings held during the year and record of individual attendance of members, on a named basis, at meetings held during the year;
 - (iv) a summary of work performed by the Committee during the year in discharging its responsibilities in its review of the half-yearly and annual results and system of internal control, and its other duties set out in the Code; and
 - (v) details of non-compliance with Rule 3.21 of the Listing Rules (if any) and an explanation of the remedial steps taken by the Company to address such non-compliance relating to establishment of the Committee.

G PUBLICATION OF THESE TERMS OF REFERENCE

A copy of these Terms of Reference will be made available to the public by posting on the respective website of the Company and Hong Kong Exchanges and Clearing Limited.

23 March 2012