

International Mining Machinery Holdings Ltd.

Terms of reference of the Audit Committee of the Board of the Company

Adopted on 2012-3-30

DEFINITIONS

In this terms of reference, unless the context otherwise requires, the following terms have the meaning set out below:

- “Board” means the Board of Directors of the Company;
- “Committee” means the Audit Committee of the Board of the Company;
- “Company” means International Mining Machinery Holdings Ltd.;
- “Directors” means the directors of the Company, and “Director” means any one of them;
- “Independent Non-executive Directors” means Directors meeting the requirements of independence set out in the Listing Rules, and “Independent Non-executive Director” means any one of them;
- “Listing Rules” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
- “SFC” means the Securities and Futures Commission of Hong Kong;
- “senior management” means the category of persons considered as senior management under the Listing Rules.

Purpose of the Committee

The purpose of the Committee of the Board of the Company is to provide assistance to the Board in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Company and its subsidiaries, including, without limitation, assisting the Board's oversight of (a) the integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements, (c) the Company's independent auditors' qualifications and independence, (d) the performance of the Company's independent auditors and the Company's internal audit function and (e) the effectiveness of the Company's internal control and financial risks management.

Composition

1. The Committee shall be composed of non-executive Directors, and majority shall be Independent Non-executive Director. At least one of the Committee members shall have appropriate professional qualifications or accounting or related financial management expertise. The rest of the members must be financially literate or must become financially literate within a reasonable period of time after their appointment.
2. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of 1 year commencing on the date of his ceasing:
 - 2.1 to be a partner of the firm; or
 - 2.2 to have any financial interest in the firm, whichever is the later.
3. If any member of the Committee is unable to act for any reason, the chairman of the Committee may, with the agreement of the other members of the Committee, appoint any other Independent Non-executive Director who meets the requirements to act as his alternate.
4. The chairman of the Committee shall be appointed by the Board and shall be an Independent Non-executive Director. In the case of equality of votes, the chairman shall have a second or casting vote.
5. The secretary of the Committee shall be any one of the Company's joint company secretaries or such other person designated by the Committee from time to time.

Disclosure of interests

6. Each member of the Committee shall disclose to the Committee any personal financial interest in, and any potential conflict of interest arising from, any matter to be decided by the Committee. Any member with such interest(s) or potential conflict of interest shall abstain from voting on resolutions of the Committee relating to such interest(s) or potential conflict of interest and from participating in any discussion concerning such resolutions and (if so requested by the Board) shall resign from the Committee.

Proceedings

7. Oversee and monitor the compliance of the Company's accounting, auditing, financial reports, and internal control with laws and regulations through meetings, written resolutions or other measures as deemed necessary by other committees;
8. The quorum for meetings of the Committee shall be not less than any two of its members, present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other.
9. The chairman of the Committee may convene meetings as he deems necessary, but in any event meetings of the Committee are to be held no less frequently than twice every fiscal year. The Committee should meet separately on a periodic basis with (i) management, (ii) the person in charge of the Company's internal auditing department or other person responsible for the internal audit function and (iii) the Company's external auditors, in each case to discuss any matters that the Committee or any of the above persons or firms believe warrant Committee attention. The Company's external auditor may also propose to hold a meeting of the Committee if it deems necessary. The Committee shall hold on a regular basis discussion to be attended by the members of the Committee only.
10. The Chief Financial Officer and the Controller of the Company, and a representative of the external auditor of the Company shall normally attend meetings of the Committee. However, at least once a year the Committee shall meet separately with the external and internal auditors without the presence of executive Directors and the Company's management.

Authorities and Duties

11. The Committee is authorized by the Board:
 - 11.1 to investigate any activity within its terms of reference and to seek any information it requires from any employee of the Company and its group and all such employees are directed to co-operate with any request made by the Committee;
 - 11.2 where necessary, to obtain legal or other independent professional advice at the cost of the Company; and
 - 11.3 to secure the attendance of any person with relevant experience and expertise at Committee meetings as it considers appropriate.
12. The duties of the Committee are:
 - 12.1 to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal auditor;
 - 12.2 to be directly responsible for the oversight of the work of the external auditor, and the external auditor must report directly to the Committee if it or the Committee deems necessary;
 - 12.3 to review and, in its sole discretion, approve in advance the Company's external auditors' annual engagement letter, including the proposed fees contained therein, as well as all audit and, as provided in Listing Rules and regulations promulgated by SFC there under, all permitted non-audit engagements and relationships between the Company and such external auditors which approval should be made after receiving input from the Company's management, if desired;

12.4 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

12.5 to develop and implement policy on the engagement of an external auditor to supply non-audit services. The Committee shall report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

12.6 to review and discuss with the external auditors their annual audit plan, including the timing and scope of audit activities, and monitor such plan's progress and results during the year;

12.7 to resolve any and all disagreements between the Company's external auditors and management regarding financial reporting;

12.8 to review with management, the Company's external auditors, and, if appropriate, the person in charge of the Company's internal audit department, financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Committee shall focus on:-

12.8.1 all critical accounting policies and practices including any changes;

12.8.2 major judgmental areas;

12.8.3 significant adjustments resulting from audit;

12.8.4 all alternative treatments of financial information that have been discussed by the external auditors and management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors;

12.8.5 all other material written communications between the external auditors and management, such as any management letter and any schedule of unadjusted differences;

12.8.6 the going concern assumptions and any qualifications;

12.8.7 compliance with accounting standards; and

12.8.8 compliance with the Listing Rules, and other legal or regulatory requirements in relation to financial reporting;

12.9 In regard to 12.8 above:-

12.9.1 members of the Committee must liaise with the Board, the Company's senior management and the person appointed as the Company's qualified accountant and the Committee must meet, at least twice a year, with the Company's external auditor; and

12.9.2 the Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;

12.10 to review on a regular basis the Company's financial controls, internal control and risk management policies and procedures, and other material financial matters, and at least once a year review the report by the Company's management on the risk evaluation as to the Company, its process levels, and fraud;

12.11 to discuss with the management the system of internal control, to ensure that management has discharged its duty to have an effective internal control system and to evaluate the management's performance generally;

12.12 to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

12.13 to guide and oversee the work of internal auditing department; approve the dismissal, appointment and compensation of the officer in charge of internal audit, ensure the adequacy of the Company's resources for internal control and the proper status of internal control; approve the annual working plans of internal audit, ensure the coordination between the work of internal and external auditors; inquire regularly about the implementation status of working plans of internal audit and the major findings and recommendations of the audit; evaluate the performance of the internal audit department and oversee and monitor the effectiveness of the internal audit function;

12.14 to review the Company and its group's financial and accounting policies and practices and to supervise the status of the Company's financial operations and core businesses;

12.15 to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

12.16 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

12.17 to report to the Board on the matters set out in Appendix 14 to the Listing Rules (Corporate Governance Code);

12.18 to review arrangements by which employees of the Company and its group may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

12.19 to review major connected transactions which are not audited by the Independent Board Committee as required by the Listing Rules;

12.20 to review with the Chief Executive Officer, Chief Financial Officer and external auditors, periodically, the following:

12.20.1 all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and,

12.20.2 any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting;

12.21 to act as the key representative body for overseeing the Company's relation with the external auditor; and

12.22 to consider other topics, as defined by the Board.

Miscellaneous

13 The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

14 The Committee shall secure independent expert advice to the extent the Committee determines it to be appropriate, including retaining, with or without Board approval, independent counsel, accountants, consultants or others, to assist the Committee in fulfilling its duties and responsibilities, the cost of such independent expert advisors to be borne by the Company.

15 The Committee shall perform such additional activities, and consider such other matters, within the scope of its responsibilities, as the Committee or the Board deems necessary or appropriate.

16 The Committee shall provide such information to the Board as is necessary to assist the Board in reporting to the shareholders each year on audit issues in accordance with the Listing Rules or other regulatory requirements applicable to the Company.

17 The Committee shall make available of the Chairman of the Committee, failing this his duly appointed delegate at least one of its members to attend the Company's annual general meeting to answer shareholders' questions about audit issues.

18 Minutes of meetings of the Committee shall be kept by the secretary to the meetings of the Committee and such minutes shall be open for inspection at any reasonable time on reasonable notice by any Director. The secretary to any meeting of the Committee shall circulate the minutes of the meeting of the Committee for which he or she has acted as secretary in both draft and final form to all members of the Committee within a reasonable time after such meeting is held.

19 The Committee shall regularly report back to the Board on all of their decisions or recommendations.

20 The Committee shall be adequately resourced at the Company level to act, and shall authorize the corresponding departments and persons at the Company level to handle the daily businesses of the Committee.

Evaluation of the Committee

21 The Committee shall, on an annual basis, be subject to the performance evaluation by the Board of Directors.

Investigation and Studies; Outside Advisers

22 The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities, and may retain, at the Company's expense, such independent counsel or other consultants or advisers as it deems necessary.

* * *

Nothing contained in these Terms of Reference is intended to create, or should be construed as creating, any responsibility or liability of the members of the Committee, except to the extent otherwise provided under applicable laws.