



## **CHINA SELECT CAPITAL PARTNERS CORP.**

(formerly Orient Venture Capital II, Inc.) (the "Company")

### **FORM 51-102F1- MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED DECEMBER 31, 2010**

The following management discussion and analysis ("MD&A") has been prepared by management as of February 22, 2011, and should be read in conjunction with the unaudited interim financial statements and related notes of the Company for the six month period ended December 31, 2010, and the audited financial statements and related notes of the Company for the year ended June 30, 2010. The interim unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

#### **FORWARD LOOKING STATEMENTS**

This MD&A contains certain forward-looking information and statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions as at the date of this MD&A. The words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "interprets", "may", "will" and similar expressions identify forward-looking statements. The forward-looking statements reflect the current beliefs of the management of the Company, and are based on currently available information. Readers are cautioned not to place undue reliance on these statements as they are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Company to differ materially from those expressed in, or implied by, such forward-looking statements. The Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

#### **DESCRIPTION OF THE BUSINESS**

The Company was incorporated under the laws of British Columbia, Canada on September 12, 2007 and was a Capital Pool Company as defined in the TSX Venture Exchange ("Exchange") Policy 2.4. During the year ended June 30, 2010, the Company completed its qualifying transaction in accordance with the Exchange policy 2.4 by acquiring equity interests in certain entities. Effective April 8, 2010 the Company changed its name from Orient Venture Capital II, Inc. to China Select Capital Partners Corp. On April 22, 2010, the Company commenced trading on the Exchange as a Tier 2 Investment Issuer under the symbol "CH".

The Company is a Canadian-based private equity management firm focused on managing foreign investment in the private equity Renminbi ("RMB") fund industry in China. The Company invests in leading private and public companies whose businesses involve later-stage alternative energy, environmental technology or other selected sectors with strong intellectual property, exceptional management, high growth potential and an identified exit strategy either in China or North America. The Company's management team is composed of talented and experienced investment professionals combining an Asian background with Western education and extensive experience in investment banking, venture capital and venture fund management in Canada, China and the United States ("U.S").

The Company has two wholly owned subsidiaries: Orient Venture Management Ltd. ("OVML.HK") and Orient Venture Capital Management (Suzhou) Co. Ltd. ("OVML.SZ"). OVML.HK is a holding company registered in

Hong Kong, China. OVML.SZ is a wholly owned subsidiary of OVML.HK. On May 11, 2010, OVML.SZ obtained a business license from the Suzhou municipal government to operate as an onshore foreign fund management company in Suzhou, Jiangsu, China.

The Company is in the process of raising capital for a closed end private equity fund: Orient Fund. The Orient Fund will provide growth capital to businesses in Tier II and Tier III cities with strong intellectual property, exceptional management and high potential to grow from sustainable macroeconomic growth trends in China. In particular, the Orient Fund will target companies that capitalize on the (a) growth in domestic spending and consumption, (b) continued trend towards urbanization and (c) sustainable development in cleantech and renewable energy in China. The goal of the Orient Fund is to generate superior long term financial returns through interest and dividend income and capital appreciation for investors.

The Orient Fund will be managed by OVML.SZ. The Company will continue to support and sponsor the marketing and fundraising efforts and will be reimbursed for its expenses and fees incurred thus far once the fundraising has closed and OVML.SZ starts generating revenues through management and advisory services provided to the Orient Fund.

## **OVERALL PERFORMANCE**

During the six month period ended December 31, 2010, the Company incurred a net loss of \$1,271,577 (2009 - \$83,641). The significant events for the six months ended December 31, 2010 are as follows:

- On July 12, 2010 the Company repaid a promissory note of \$200,000 issued to non-related party together with accrued interest of \$9,956.
- On July 23, 2010 the Company issued a loan in the amount of US\$ 80,000 to OVML.HK for its capital contribution to OVML.SZ.
- On July 29, 2010 OVML.HK signed a share purchase agreement to purchase 1,542,858 common shares of Asia Select Acquisition III Corp., a U.S. registered blank check company with a president and director in common with the Company, for US\$3,086.
- On August 9, 2010 OVML.HK completed a capital contribution of US\$75,000 into OVML.SZ.
- On August 10, 2010 David Yoo was appointed as the chief financial officer of the Company after the resignation of Jane Yue, the former CFO, on July 27, 2010.
- In September 2010 the Company sold 410,333 shares of RX Exploration Inc for a realized gain of \$106,852.
- In November 2010 the Company sold 820,000 shares of RX Exploration Inc for a realized gain of \$178,076.
- On December 16, 2010 the Company entered into a securities purchase agreement with China Dredging Group Company Ltd. (“China Dredging”) to purchase 29,996 Class A Preferred Shares at a price of US\$5 per share for a total investment of US\$149,980. Each Class A Preferred Share is initially convertible into one ordinary share of China Dredging.

Subsequent to December 31, 2010, the Company entered into a subscription agreement with Confederation Mineral Ltd. (“Confederation”), whereby the Company purchased 178,500 units at a price of \$0.28 per unit for an aggregate investment of \$49,980. Each unit is comprised of one common share of Confederation and one share purchase warrant; each warrant entitling the Company to acquire one additional common share of Confederation at a price of \$0.45 for one year until January 17, 2012.

## **OUTLOOK**

The Company will continue with its disciplined approach of finding investments that fit its investment criteria and provide the potential for superior risk-adjusted returns. The Company will also continue to assist its investee companies in developing and executing their strategies and enhancing their value propositions. The first two quarters of fiscal 2011 evidenced improvement in economic conditions and equity markets. Improvements are expected to continue throughout fiscal 2011.

In addition, the Company will focus on successfully closing the Orient Fund in due course. The Company's objective is to be positioned as a leading fund manager in Chinese-focused private equity RMB funds.

The following are some of the recent developments affecting foreign-invested investment funds:

- Foreign-invested onshore management entities and onshore private equity investment entities can now be established in Tianjin, Suzhou, Shanghai, Beijing and other major localities on a more streamlined basis. In addition, foreign-invested investment vehicles now have access to the high-tech and new-tech industrial sectors, as well as other traditionally protected sectors, which were previously unavailable;
- As early as June 2009, the governments of the Pudong New Area in Shanghai and Suzhou announced pilot programs integrating foreign-invested private equity firms into the local investment community for the first time, which may lead to eventual conferring of national treatment to the foreign-invested private equity firms in such cities if such pilot programs are approved by China's central government;
- Various local authorities recently confirmed that foreign fund managers may establish an entity similar to a limited partnership in North America (i.e., the unincorporated cooperative joint venture (JV));
- The Ministry of Commerce ("MOFCOM") recently delegated significant powers for approving a FIVCE of less than US\$100 million of investment capital to the provincial level counterparts of MOFCOM, which effectively decentralized the process by which foreign investment vehicles receive regulatory approval; and
- The official launch of a new structure for foreign investment, the foreign-invested partnership ("FIP"), took effect on March 1, 2010 and the Chinese media have already reported on the registration of China's first FIP RMB Fund (Carlyle/Fosun);
- On December 28, 2010, the first national-level Fund-of-Funds was launched in the Suzhou Industrial Park, jointly initiated by CDB Capital, a wholly-owned subsidiary of China Development Bank (CDB) and Suzhou Ventures Group (SVG). The CDB-SVG Fund-of-Funds will total RMB60 billion and will invest in RMB-based funds.

The recent promulgation of central and local regulations that are more favorable to foreign-invested investment funds was driven by China's policy to encourage the onshore establishment of equity investment enterprises to invest in onshore companies with high-tech elements or growth potential. China Select believes that both the central and local authorities in China have incentive to continue to accommodate fund terms and structures that are customary in the western countries.

## INVESTMENT ACTIVITIES

As of December 31, 2010, the Company held an investment portfolio consisting equity interest in three publicly traded companies and three privately held companies. Subsequent to December 31, 2010, the Company acquired equity interest in Confederation Mineral Ltd. ("Confederation", TSX.V: CFM). The Company's investments are comprised of the following:

|  | December 31, 2010 |               |            |
|--|-------------------|---------------|------------|
|  | Number of Shares  | Average Costs | Fair Value |
| <b>Common shares of publicly traded companies:</b> |                   |               |            |
| Synodon Inc.                                       | 1,111,112         | \$ 250,000    | \$ 333,334 |
| RX Exploration Inc.                                | 436,335           | 159,843       | 218,168    |

|   |           |              |              |
|---|-----------|--------------|--------------|
| China Dongxiang (Group) Co. Ltd.                  | 2,676,902 | 2,000,000    | 1,164,452    |
| <b>Common shares of privately held companies:</b> |           |              |              |
| BoardSuite Corp.                                  | 400,000   | 200,000      | 200,000      |
| China Dredging Group Company Ltd.                 | 29,996    | 151,450      | 151,450      |
| Asia Select Acquisition III Corp.                 | 1,542,858 | 3,067        | 3,067        |
| <b>Share purchase warrant:</b>                    |           |              |              |
| Synodon Inc.                                      | 555,556   | -            | 78,063       |
| BoardSuite Corp.                                  | 400,000   | -            | -            |
|   |           | \$ 2,764,360 | \$ 2,148,534 |

A discussion of the activities of each investment held at December 31, 2010 is as follows:

**Synodon Inc.** (“Synodon”, TSX.V: SYD)

During fiscal 2010, the Company purchased 1,111,112 units of Synodon at a price of \$0.225 per unit for an aggregate investment of \$250,000. The Synodon units are comprised of one common share of Synodon and one half of a share purchasing warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.3375 per share for a period of two years until April 13, 2012.

Synodon is an advanced remote sensing technology company which has developed a proprietary platform technology called realSens™ (the "Technology") that has been proven to be capable of measuring small ground-level gas concentrations from an aircraft flying up to 300 metres in altitude. Additional information concerning Synodon is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Synodon’s web site at [www.synodon.com](http://www.synodon.com).

**RX Exploration Inc.** (“RX”, TSX.V: RXE)

During fiscal 2010, the Company purchased 833,334 units of RX at a price of \$0.30 per unit for an aggregate investment of \$250,000. The RX units are comprised of one common share of RX and one share purchasing warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.40 per share for a period of two years. During the six months ended December 31, 2010, the Company exercised its RX warrants and purchased 833,334 RX shares for \$333,334. The Company also sold a total of 1,230,333 RX shares for net proceeds of \$708,418 and realized a net gain of \$284,928 during the first two quarters.

RX is a junior resources exploration company engaging in mineral exploration in the state of Montana, USA and northern Ontario, Canada. Additional information concerning RX is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**China Dongxiang (Group) Co., Ltd.** (“Dongxiang”, HK: 3818)

During fiscal 2010, the Company purchased 2,676,902 shares of Dongxiang in exchange for 10,000,000 of the Company’s shares at a deemed value of \$0.20 per share pursuant to a share exchange agreement.

Dongxiang is a leading international sportswear brand enterprise based in China and is listed on the Stock Exchange of Hong Kong Limited under stock symbol “3818”. Dongxiang is primarily engaged in the design, development, marketing and wholesale of branded sportswear in China. Additional information concerning Dongxiang is available on Dongxiang’s web site at [www.dxsport.com](http://www.dxsport.com).

**Board Suite Corp.** (“BoardSuite”)

During fiscal 2010, the Company purchased 400,000 BoardSuite units at a price of \$0.50 per unit for an aggregate investment of \$200,000. Each BoardSuite unit is comprised of one common share of BoardSuite and one share purchase warrant, entitling holder to acquire one additional BoardSuite share at a price of \$1.00 for a period of two years.

BoardSuite is a privately-held company founded in 2004 to provide products and services that organize and manage a customer's corporate information and provide it to selected stakeholders – securely, quickly, effectively and inexpensively. Additional information concerning BoardSuite is available on BoardSuite's web site at [www.boardsuitecorp.com](http://www.boardsuitecorp.com).

#### **China Dredging Group Company Ltd. (“China Dredging”)**

On December 16, 2010 the Company entered into a securities purchase agreement with China Dredging to purchase 29,996 Class A Preferred Shares at a price of US\$5 per share for a total investment of US\$149,980. Each Class A Preferred Share is initially convertible into one ordinary share of China Dredging. The shares are subject to an escrow agreement dated as the closing date of the financing, whereby the shares will be released from escrow if China Dredging fail to meet either or both of the performance thresholds set forth for its fiscal 2010 (Adjusted Net Income of US\$48,142,735) and fiscal 2011 (Adjusted Net Income of US\$87,043,678).

China Dredging is a leading private dredging contractor domiciled in the British Virgin Islands (“BVI”) with operations in China. On October 27, 2010, China Dredging completed its merger transaction with Chardan Acquisition Corp. (CAC), a US-public-reporting shell company, also domiciled in the BVI. Following the merger, China Dredging is the surviving corporation and its management continues in place without change following the transaction. China Dredging will continue as a public reporting company in the United States but currently has no registered or trading securities and does not yet maintain a listing on any stock exchange. China Dredging is currently in the process of going IPO on the Nasdaq under the symbol of “CLFF” in the United States and filed its preliminary prospectus on December 30, 2010. Additional information concerning China Dredging is available on EDGAR at [www.sec.gov/edgar](http://www.sec.gov/edgar) and on China Dredging's web site at [www.chinadredgingco.com](http://www.chinadredgingco.com).

#### **Asia Select Acquisition III Corp. (“ASI III”)**

On July 29, 2010, OVML.HK entered into a share purchase agreement with ASI III, a Delaware corporation, to purchase 1,542,858 common shares of ASA III for US\$3,086. ASI III is a U.S. registered blank check company with a president and director in common with the Company. Additional information concerning ASI III is available on EDGAR at [www.sec.gov/edgar](http://www.sec.gov/edgar).

## **RESULTS OF OPERATIONS**

### Three month period ended December 31, 2010

For the three months ended December 31, 2010, the Company incurred a net loss of \$686,854 compared to a net loss of \$67,401 incurred in the three months ended December 31, 2009. The loss in the current period is inclusive of realized gain on sale of investments of \$178,076, interest and management fee income of \$6,052, unrealized loss on investments of \$676,044 and general operating costs of \$194,938. The loss for the 2009 comparative period consists of mainly general operating costs of \$67,410, which related primarily to identify the qualifying transactions completed in April 2010.

The Company realized a net gain of \$178,076 on sale of shares of RX Exploration Inc. Interest income was generated from short-term investments of excess cash. The net unrealized loss of \$676,044 is a result of changes in the fair value of its investments from the prior period. The largest contributor to the unrealized loss is steep depreciation of Dongxiang shares by \$419,839. The sale of RX shares also caused an adjustment of previous recorded unrealized gain of \$164,000 to realized gain.

General operating costs for the current quarter primarily relate to management of the Company's own investment portfolio and significant marketing and fundraising activities of the Orient Fund. The Company expects to recover part of the expenses once the capital target of the fund is reached. Some of the significant general operating expense items are as follows:

- Accounting and audit of \$17,275 (2009 - \$10,500) include mainly audit fees related to fiscal 2010 due to the actual fees in excess of the original accrual.
- Consulting fees of \$86,307 (2009 - \$nil) are comprised of costs of the Company's management of \$69,217 and fees of \$17,090 to other corporate consultants.
- Travel and promotion of \$29,870 (2009 - \$38,252) relate mainly to travel by the Company's management and consultants for management, marketing and investor relations activities.
- Wages and salaries of \$18,123 (2009 - \$nil) are the salary expenses for the Company's administrative personnel.

Six month period ended December 31, 2010

For the six months ended December 31, 2010, the Company incurred a net loss of \$1,271,577 compared to a net loss of \$83,641 incurred in the six months ended December 31, 2009. The loss in the current period is inclusive of realized gain on sale of investments of \$284,928, dividend income of \$33,378, interest and management fee income of \$10,113, unrealized loss on investments of \$1,176,730 and general operating costs of \$423,266. The loss for the 2009 comparative period consists of mainly general operating costs of \$83,650, which related primarily to identify the qualifying transactions completed in April 2010.

The Company realized a net gain of \$284,928 on sale of shares of RX Exploration Inc. Dividend income of \$33,378 was received from investments in Dongxiang shares. Interest income of \$3,916 was generated from short-term investments of excess cash. The net unrealized loss of \$1,176,730 is a result of changes in the fair value of its investments from prior fiscal year end. The largest contributor to the unrealized loss is steep depreciation of Dongxiang shares by \$749,717. The sale of RX shares also caused an adjustment of previous recorded unrealized gain of \$246,067 to realized gain.

General operating costs for the first two quarters primarily relate to management of the Company's own investment portfolio and significant marketing and fundraising activities of the Orient Fund. The Company expects to recover part of the expenses once the capital target of the fund is reached. Some of the significant general operating expense items are as follows:

- Accounting and audit of \$29,775 (2009 - \$5,500) include mainly audit fees related to fiscal 2010 due to the actual fees in excess of the original accrual.
- Consulting fees of \$166,958 (2009 - \$nil) are comprised of costs of the Company's management of \$139,285 and fees of \$27,673 to other corporate consultants.
- Office and miscellaneous of \$25,104 (2008 - \$4,841) relates to the fees paid for the general office maintenance costs.
- Rent of \$30,685 (2009 - \$3,216) is higher than the comparative period as the Company expanded its offices after completion of the qualifying transactions in April 2010.
- Travel and promotion of \$85,625 (2009 - \$45,292) relate mainly to travel by the Company's management and consultants for management, marketing and investor relations activities.
- Wages and salaries of \$34,693 (2009 - \$nil) are the salary expenses for the Company's administrative personnel.

**SUMMARY OF QUARTERLY RESULTS**

Results for the eight most recent quarters ending with the last quarter for the three months ending on December 31, 2010 are:

|  | For the Three Months Ending |             |             |
|--|-----------------------------|-------------|-------------|
|  | Fiscal 2011                 | Fiscal 2010 | Fiscal 2009 |
|  |                             |             |             |

|   | <b>Dec. 31,<br/>2010</b> | <b>Sept. 30,<br/>2010</b> | <b>Jun. 30,<br/>2010</b> | <b>Mar. 31,<br/>2010</b> | <b>Dec. 31,<br/>2009</b> | <b>Sept. 30,<br/>2009</b> | <b>Jun. 30,<br/>2009</b> | <b>Mar. 31,<br/>2009</b> |
|---|--------------------------|---------------------------|--------------------------|--------------------------|--------------------------|---------------------------|--------------------------|--------------------------|
|   | <b>(\$)</b>              | <b>(\$)</b>               | <b>(\$)</b>              | <b>(\$)</b>              | <b>(\$)</b>              | <b>(\$)</b>               | <b>(\$)</b>              | <b>(\$)</b>              |
| <b>Income Statement Data</b>  |                          |                           |                          |                          |                          |                           |                          |                          |
| Total revenues (losses)   | (491,916)                | (356,395)                 | 613,341                  | -                        | -                        | -                         | -                        | -                        |
| Income (loss) before discontinued operations and extraordinary items  | (686,854)                | (584,723)                 | 251,994                  | (105,369)                | (67,401)                 | (16,240)                  | (37,077)                 | (8,745)                  |
| Net income (loss)   | (686,854)                | (584,723)                 | 251,994                  | (105,369)                | (67,401)                 | (16,240)                  | (37,077)                 | (8,745)                  |
| <b>Income (loss) per common share outstanding – basic and diluted</b> |                          |                           |                          |                          |                          |                           |                          |                          |
| Income (loss) before discontinued operations and extraordinary items  | (0.02)                   | (0.02)                    | 0.03                     | (0.02)                   | (0.01)                   | (0.00)                    | (0.01)                   | (0.00)                   |
| Net income (loss) per share   | (0.00)                   | (0.02)                    | 0.03                     | (0.02)                   | (0.01)                   | (0.00)                    | (0.01)                   | (0.00)                   |

The financial data presented above is derived from the Company's financial statements, which are prepared in accordance with accounting principles generally accepted in Canada and in Canadian dollars.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010, the Company had a cash balance of \$1,086,996 compared to \$1,602,213 as at June 30, 2010. The Company had working capital as at December 31, 2010 of \$3,340,845 compared to working capital of \$4,612,422 as at June 30, 2010.

### Current quarter

During the second quarter, the cash balance decreased by \$336,504 (2009 - increase of \$106,152). Cash used in operating activities was \$266,442 (2009 - \$93,848). Cash used in investing activities during the second quarter was \$6,317 (2009 - \$nil). The Company spent \$484,784 (2009 - \$nil) in investment acquisition including exercise of the RX warrants and purchase of shares of China Dredging. Net proceeds from sale of a portion its investments in the RX shares are \$478,466. The Company had no new financings but repaid its outstanding note payable of \$63,745 during the second quarter. Cash provided by financing activities during the 2009 period was \$200,000 from issuance of a promissory note.

At present, management believes that the Company has sufficient capital resources to meet its anticipated capital requirements for fiscal 2011. If the Company identifies profitable investment opportunities, additional financings will be required for growth of the investment portfolio. The Company will continue to monitor the current economic and financial market conditions and evaluate their impact on the Company's liquidity and future prospects.

### Going Concern

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing on reasonable terms and to commence profitable operations in the future. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. At present, the Company has not yet commenced profitable operations and the value of its investment portfolio is dependent on stock selection, equity market and currency movements. The Company expects to receive revenue from management and advisory activities to be provide to the Orient Fund. In the event that additional financing is not received or operating profits are not generated, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The interim consolidated financial statements do not include any adjustments to the recoverability and classification of reduced asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

Included in due from related parties is \$3,826 (December 31, 2009 - \$2,406) advanced to related parties for services to be rendered to the Company. Amounts due from related parties also include \$32,907 (US\$33,086) (December 31, 2009 - \$35,223) of loan to a company controlled by the President of the Company. The loan bears no interest and is repayable on or before the earlier of (1) June 17, 2017 or (2) when the company controlled by the President completes a business combination.

The Company entered into the following transactions with related parties during the six month period ended December 31, 2010:

- a) Repaid the promissory note of \$200,000 outstanding as at June 30, 2010 to a member of the Company's investment committee together with accrued interest of \$9,956.
- b) Paid or accrued consulting fees of \$66,000 (2009 - \$nil) to a company controlled by the President of the Company.
- c) Paid or accrued consulting fees of \$36,000 (2009 - \$nil) to a director of the Company.
- d) Paid or accrued consulting fees of \$37,285 (2009 - \$nil) to an officer of the Company.
- e) Paid or accrued accounting fees of \$4,500 (2009 - \$1,000) to a former officer of the Company.
- f) Paid or accrued directors fees of \$3,709 (2009 - \$nil) to directors of the Company.
- g) Purchased 1,542,858 common shares of Asia Select Acquisition III Corp. (2009 - \$nil), a company with a president and director in common with the Company, for a price of US\$3,086 under a share purchase agreement.

These transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

## SUMMARY OF OUTSTANDING SHARE DATA

The Company is authorized to issue unlimited number of common shares without par value and unlimited number of non-voting, non-participating, non-cumulative preferred shares without par value issuable in series. The Company has no preferred shares issued and outstanding at June 30 and December 31 2010. The Company's issued and outstanding share capital as at the date of this report is as follows:

|                                      |            |
|--------------------------------------|------------|
| Issued and Outstanding Common shares | 28,410,000 |
| Stock options                        | 560,000    |
| Warrants                             | 7,246,500  |
| Agent's options                      | 200,000    |
|                                      | <hr/>      |
|                                      | 36,416,500 |

## CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates include determination of the fair value of investments, valuation of stock options and warrants in stock-based transactions and the estimation of future income taxes. Actual results could differ from these estimates.

## **FUTURE ACCOUNTING CHANGES**

### *International financial reporting standards ("IFRS")*

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with international financial reporting standards ("IFRS") for Canadian enterprises with public accountability ("PAEs"). The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. The use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. In September 2010 the AcSB announced an amendment which provides Canadian companies currently applying CICA Accounting Guideline 18 ("AcG-18") with the option to defer adoption of IFRS until January 1, 2012. Subsequent to December 31, 2010 the AcSB decided to further extend the mandatory IFRS changeover date to January 1, 2013 for Canadian investment companies. Under this option, the Company will adopt IFRS for the fiscal period beginning July 1, 2013 and will issue their first financial statements in accordance with IFRS, including comparative information, for the interim period ending September 30, 2013. The detail of the Company's IFRS project is summarized under **Changeover Plan to International Financial Reporting Standards**.

### *Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replace CICA Handbook Sections 1581, Business Combinations, and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual financial statements for its fiscal year beginning July 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

## **Comparative Figures**

Certain comparative figures have been reclassified to conform to the current period's presentation.

## **FINANCIAL INSTRUMENTS**

The Company classified its cash and cash equivalents and investments as held for trading, which are measured at fair value. Receivables and due from related parties are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, note payable to related party, and note payable are classified as other financial liabilities, which are measured at amortized cost.

## **Fair Value**

CICA Handbook Section 3862 “Financial Instruments – disclosures” establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

| Assets                    | Level 1             | Level 2           | Level 3           | Total               |
|---------------------------|---------------------|-------------------|-------------------|---------------------|
| Cash and cash equivalents | \$ 1,086,996        | \$ -              | \$ -              | \$ 1,086,996        |
| Investments               | \$ 1,715,954        | \$ 232,580        | \$ 200,000        | \$ 2,148,534        |
| <b>Total</b>              | <b>\$ 2,802,950</b> | <b>\$ 232,580</b> | <b>\$ 200,000</b> | <b>\$ 3,235,530</b> |

The following table presents the changes in fair value measurement for instruments included in Level 3 of the fair value hierarchy:

| Assets       | Fair value<br>June 30,<br>2010 | Realized /<br>unrealized<br>gain (loss)<br>included in<br>losses | Transfers<br>into<br>Level 3 | Fair value<br>December 31,<br>2010 |
|--------------|--------------------------------|--|------------------------------|------------------------------------|
| Investments  | \$ -                           | \$ -   | \$ 200,000                   | \$ 200,000                         |
| <b>Total</b> | <b>\$ -</b>                    | <b>\$ -</b>  | <b>\$ 200,000</b>            | <b>\$ 200,000</b>                  |

During the six months ended December 31, 2010 investments in certain private companies that were valued using initial exchange value as its fair value must now be valued using valuation methodologies based on unobservable data and were thus transferred to Level 3. As a result of the absence of an active market, the fair value assigned to the Company’s privately-held investments may differ from its realizable value and the differences could be material.

### **Risk management**

The Company’s financial instruments and risk exposures are summarized below.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The Company’s credit risk with respect to its cash and cash equivalents are minimal as they are held with high-credit quality financial institutions. Receivables mainly consist of harmonized sale tax due from the provincial government of British Columbia. The Company’s credit exposure to amounts due from related parties is equal to their carrying amounts. The Company manages credit risk on its investments through thoughtful planning, strict investment selection criteria and significant due diligence of investment opportunities. Management and the Board of Directors review the financial condition of investee companies regularly.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. As at December 31, 2010, the Company had a cash and cash equivalents balance of \$1,086,996 to settle current liabilities of \$3,985. All of the Company's financial liabilities are classified as current and may mature within the next fiscal period. The Company generates cash flows primarily from equity financings and from the disposition of its investments. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's investments focus on late-stage alternative energy, natural resources or environmental technology or other selected sectors with high growth potential that may be strategically positioned in the greater China market. These investments can at times be relatively illiquid, and if the Company decides to dispose of certain securities, it may not be able to do so at favourable prices at that time, or at all. The Company maintains a conservative liquidity position by having sufficient investments which are freely tradable and relatively liquid to fund its obligations as they become due.

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as market prices, foreign exchange rates and interest rates. The Company is exposed to market risk through its investments in equity securities.

As at December 31, 2010, approximately 84% of the fair value of the Company's investment was in publicly-traded companies. If security market prices were higher or lower by 5% as at December 31, 2010, the carrying value of its investments and unrealized gains (losses) on investments would be increased or decreased by approximately \$86,000.

The Company holds investments in companies which do business in different countries and accordingly, are subject to foreign exchange risk. A significant change in foreign exchange rates can have a significant impact to the profitability of these companies and in turn the Company's fair value of these investments.

The Company is exposed to interest rate risk to the extent that cash and cash equivalents maintained at the financial institutions. The interest rate risks on cash and cash equivalents are not considered significant.

The Company manages market risk by developing a diversified portfolio of investments. The Company has established an investment committee to monitor its investment portfolio on an ongoing basis and to review the status of its investments in accordance with the investment policy.

### **CHANGEOVER PLAN TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

In February 2008, the AcSB confirmed that publicly accountable enterprises are required to adopt IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. In September 2010 the AcSB announced an amendment which provides Canadian companies currently applying CICA Accounting Guideline 18 ("AcG-18") with the option to defer adoption of IFRS until January 1, 2012. Subsequent to December 31, 2010 the AcSB decided to further extend the mandatory IFRS changeover date to January 1, 2013 for Canadian investment companies because the International Accounting Standards Board's ("IASB") investment company project has been delayed and a final standard will not likely be issued before January 1, 2012. The Company intends to take the deferral option as permitted by the AcSB and will adjust its IFRS transition plans accordingly.

The Company's IFRS project consists of three phases – scoping and planning, evaluation and design, and implementation and review. The Company has completed the scoping and planning stage which included putting together an initial project plan, education, and identification of a number of differences between Canadian GAAP and IFRS that relate to the Company. The Company is now in the evaluation and design stage.

In phase one the Company had identified some areas where there is the most potential for a significant impact to the Company's consolidated financial statements. These areas do not represent a complete list of expected changes and may be subject to change as the Company progresses through the second phase. The areas which could have a material impact are as follows.

- *First-time Adoption of International Financial Reporting Standards ("IFRS 1")*

The adoption of IFRS requires the application of IFRS 1 which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company has not yet made any final decisions on policies or elections on IFRS 1 and therefore continues this process into the fourth quarter of fiscal 2011.

- *Share-Based Payment* ("IFRS 2")

IFRS and Canadian GAAP largely converge on the accounting treatment for share based transaction with only a few differences. For stock options that vest in installments, IFRS 2 requires the Company to determine the fair value of each installment as a separate share option grant while Canadian GAAP treats the entire grant of stock options as a pool and recognize expense on a straight line basis. In addition, under IFRS the Company must make an estimate of stock options that are forfeited before they vest whereas under Canadian GAAP the Company records forfeitures as they occur. The change in this accounting policy is not expected to have a material impact on the Company's consolidated financial statements.

- *Foreign Currency* ("IAS 21")

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with IAS 21 and the entity's financial results and position should be measured using the currency of the primary economic environment in which the entity operates. Currently the functional currency of the consolidated entity is the Canadian dollar which is also the presentation currency of the Company's consolidated financial statements. The management will assess the appropriate functional currency based on existing circumstances which may have a significant impact on the Company's consolidated financial statements.

- *Income Taxes* ("IAS 12")

Fundamentals of accounting for income taxes are the same under IFRS as they are under Canadian GAAP. In certain circumstances, IFRS contains different requirements related to recognition and measurement of future (deferred) income taxes. The IASB is currently reviewing IAS based on various meetings and comments received and will consider whether to propose limited amendments. The Company does not expect any changes to its accounting policies related to income taxes that would have a material impact on its consolidated financial statements.

Upon completion of the second phase, the Company will move into the implementation phase, in which it will update its significant accounting policies, adjust its accounting systems, and design tools and processes for the preparation of IFRS information, including comparative and opening balance sheet information. In addition, the Company will evaluate its internal and disclosure control processes as a result of its conversion to IFRS. The Company will also design model IFRS financial statements including all note disclosures and disclosures required for the MD&A.

The Company will continue monitor the development of the IFRS standards. As a result of the ongoing development of the IFRS standards, the final impact of IFRS on the Company's financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards and evaluate the impact to its consolidated financial statements, between now and the conversion date to ensure all relevant changes are addressed.

## **EFFECTIVENESS OF DISCLOSURE CONTROLS**

The Chief Financial Officer and Chief Executive Officer have evaluated the effectiveness of the Company's disclosure controls as of December 31, 2010. They have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company, particularly during the period during which this report was being made.

## **ADDITIONAL INFORMATION**

Additional information concerning the Company and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company web site at [www.chinaselectcapital.com](http://www.chinaselectcapital.com).

**APPROVAL**

The Board of Directors of China Select Capital Partners Corp. has approved the contents of this management discussion and analysis. A copy of this MD&A will be provided to anyone who requests it.