China Keli Electric Company Ltd.
Management's Discussion and Analysis ("MD&A")
For the six months ended October 31, 2010

(expressed in Canadian dollars unless otherwise noted)

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of China Keli Electric Company Ltd. ("Keli" or the "Company"), prepared as of December 23, 2010, should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended October 31, 2010 and 2009 and the annual audited consolidated financial statements for the year ended April 30, 2010 including the notes therein, which are prepared in accordance with Canadian generally accepted accounting principles.

Additional information relevant to the Company, including Filing Statement dated March 26, 2010, is available for review on SEDAR at www.sedar.com and on Keli's website at www.zkl.cc.

Forward-Looking Statements and non-GAAP measures

Certain information in this MD&A is forward-looking within the meaning of certain securities laws, and is subject to important risks, uncertainties and assumptions. This forward-looking information includes, among other things, information with respect to the demand for products, the expected capacity, the demand for Keli products, the expected revenues from Keli products, the revenues of the businesses, the changes in expenses, the financing of working capital and investment needs, as well as information with respect to the Company's beliefs, plans, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "suspect", "outlook", "believe", "anticipate", "estimate", "expect", "intend", "plan", "target" and similar words and expressions are used to identify forward-looking information. The forward-looking information in this MD&A describes the Company's expectations as of the date of this MD&A and are based on certain factors and assumptions and subject to certain risks and uncertainties. Assumptions underlying our expectations regarding forward-looking statements or information contained in this MD&A include, among others, that the Company will receive sufficient orders to meet its projected output for fiscal year 2011; that the Company will receive all required manufacturing and industry approvals and certifications on a timely basis; that the Company will continue to be able to retain key personnel and attract and retain additional talent as required; that the Company's suppliers continue to be able to provide raw materials and other key components on a timely basis and on reasonable terms; that the Company is able to continue to protect its intellectual property; that the Company continues to be able to access additional capital on reasonable terms and on a timely basis; and that the Company will be able to establish and/or maintain relationships with key suppliers, customers and strategic partners. In the event that any of these assumptions prove to be incorrect, or in the event that we are impacted by any of the risks identified herein or any unforeseen risks, we may not be able to continue our business as planned, or at all.

Material factors or risks which could cause actual results or events to differ materially from a conclusion in such forward-looking information include the risk that the demand for Keli switch products is not as expected and, if required, the cost of adding such capacity is greater than expected, the risk that the deliveries of required raw materials is not made or less than expected, the demand and revenues for Keli products are not as expected, the risk that sales and revenues do not grow, the Chinese economy does not recover as expected, as well as the risks set out herein and in the Company's other filings, which are all filed with Canadian securities regulators, which are available on SEDAR at www.sedar.com.

THE FORWARD-LOOKING INFORMATION CONTAINED IN THIS MD&A PRESENTS THE EXPECTATIONS OF THE COMPANY AS OF THE DATE OF THIS MD&A AND, ACCORDINGLY, IS SUBJECT TO CHANGE AFTER SUCH DATE. READERS SHOULD NOT PLACE UNDUE IMPORTANCE ON FORWARD-LOOKING INFORMATION AND SHOULD NOT RELY UPON THIS INFORMATION AS OF ANY OTHER DATE. WHILE THE COMPANY MAY ELECT TO, THE COMPANY DO NOT UNDERTAKE TO UPDATE THIS INFORMATION AT ANY PARTICULAR TIME, EXCEPT AS REQUIRED BY APPLICABLE SECURITIES LEGISLATION.

Company Overview

The “Group” refers to Keli, formerly HSF HSF Capital Corporation (“HSF”), and its wholly owned subsidiaries, Creative Grace Limited (“Creative Grace”), Zhuhai Keli Electric Co., Ltd. (Zhuhai Keli) and Qunhui Electric Co., Ltd., collectively.

The Company through Zhuhai Keli and Qunhui primarily operates in China. Zhuhai Keli and Qunhui are Wholly Foreign Owned Enterprise (“WFOE”) established in the People’s Republic of China (“PRC”) in September 2002 and January 2005, respectively. The Company specializes in the manufacturing of electrical components and equipments, including pre-assembled mini substations, electrical controllers, pressurized and vacuumed switchgears and circuit breakers in the manufacturing.

HSF, incorporated on July 26, 2005 under the laws of British Columbia and listed on the TSX Venture Exchange (the “Exchange”) as a Capital Pool Company, entered into an equity purchase agreement (“Agreement”) with Creative Grace, who held 100% equity interest in Zhuhai Keli and Qunhui, whereby HSF would issue a combination of shares and special warrants (being 14,454,545 common shares and 47,545,455 special warrants, in each case at a deemed price of $0.30 per security) to the shareholders of Creative Grace in exchange for 100% equity interest in Creative Grace. The acquisition (referred to as the “Reverse Take Over” or “RTO”) was completed on May 5, 2010. As a result, Creative Grace became a wholly owned subsidiary of Keli at that time.

On May 5, 2010, HSF obtained the approval of the RTO from the appropriate regulatory authorities, including approval of the transaction as a “Qualifying Transaction” involving Creative Grace by the Exchange. Upon completion of the Qualifying Transaction, HSF was renamed “China Keli Electric Company Ltd.” Keli started trading under the stock symbol “ZKL” on the Exchange on May 5, 2010.

Concurring with the Acquisition, the Company completed a brokered private placement of 17,508,673 shares at $0.30 per share, for total proceeds of $5,252,602.

Financial Highlights

- Revenues were $3,459,960 for the three months ended October 31, 2010 (“the second quarter”), an increase of 9.8% from $3,149,998 for the three months ended October 31, 2009 (“comparative quarter”). Revenue were $7,106,658 for the six months ended October 31, 2010 (“the first half of FY2011”), an increase of 4.8% from $6,780,315 for the six months ended October 31, 2009 (“comparative period”). The limited increase rate was mainly caused by the fluctuation of the foreign currency exchange rate between Canadian dollar and the Chinese Renminbi (“RMB”). Eliminating the impact of foreign currency exchange rate, the revenue of the second quarter and the first half of FY2011 increased by 12.9% and 9.8% compared with the comparative quarter and the comparative period, respectively.

- Gross profit increased by 20.8% from $1,291,037 of the comparative quarter to $1,559,200 of the second quarter. Gross profit for the first half of FY2011 was $3,204,302, an increase of 13.9% from $2,812,198 for the comparative period.

- Gross margin of the second quarter and the first half of FY2011 were 45.1%, which increased from 41.0% and 41.5% of the comparative quarter and the comparative period, respectively. The increase was mainly due to the sales of high margin switch products.

- Compensation and benefits were $298,899 in the second quarter, which increased by 172.9% from $109,529 of the comparative quarter. The increase is attributed to additional compensation to strengthen the quality and depth of the management team after listing and to enhance the R&D team. Compensation and benefits increased by 266.4% from $237,060 of the comparative period to $868,590 of the first half of FY2011. Besides the aforementioned factors, the increase of compensation and benefits for the first half of FY2011 was caused by the recognition of stock-based compensation.

- Sales and marketing expenses were $490,361 of the second quarter, an increase of 138.2% from $205,846 of the comparative quarter. Sales and marketing expenses increased by 64.0% from $456,413 of the comparative period to $748,416 of the first half of FY2011. The increase was mainly due to expanded marketing activities.

- General and administrative expenses increased by 87.7% from $161,904 of the comparative quarter to $303,903 of the second quarter. General and administrative expenses were $776,909 in the first half of FY2011, an increase of 133.6% from $332,627 of the comparative period. The increase is primarily attributed to expenditures related to the listed company, such as professional fees and investor relationship development.

- Net income was $198,381 and $260,022 for the second quarter and the first half of FY2011, respectively. Compared with $552,695 for the comparative quarter and $1,248,961 for the comparative period, the decrease was caused by the stock-based compensation expense and the listed company related expenditures.

- Total assets were $23,820,353 as of October 31, 2010, an increase of 28.7% compared with $18,510,987 as of April 30, 2010. The increase mainly attributed to the concurrent financing upon the completion of the Qualifying Transaction on May 5, 2010.

- Total liabilities were $10,327,494 as of October 31, 2010. Compared to $9,906,737 as of April 30, 2010, the total liabilities increased by 4.2%, which was primarily due to the increase of short-term bank loan.

- Working capital, defined as current assets less current liabilities, increased by 100.0% from $4,640,028 as of April 30, 2010 to $9,282,263 as of October 31, 2010. The increase was mainly the concurrent financing.

Results of Operations – The Second Quarter

	Three months ended October 31,	
	2010	**2009**
Revenues	$ 3,459,960	$ 3,149,998
Cost of Sales	1,900,760	1,858,961
Gross Profit	1,559,200	1,291,037
Gross Margin Percentage	45.1%	41.0%
Sales and Marketing Expenses	490,361	205,846
Compensation and Benefits	298,899	109,529
General and Administrative Expenses	303,903	161,904
Interest Expense	85,463	76,225
Amortization Expenses	84,326	64,672
Other Expenses	10,311	12,704
Income Tax	87,556	107,462
Net Income	198,381	552,695
Total Comprehensive Income	$ 266,951	$ 540,814

Revenues

With an increase of 9.8%, revenue for the second quarter was $3,459,960, compared to $3,149,998 for the comparative quarter. The limited increase was mainly caused by the fluctuation of the foreign currency exchange rate between Canadian dollar and RMB.

The 9.8% actual increase rate is consistent with the Group's organic growth, and the leverage of the concurrent financing was offset by the delays in some Southern Power Grid projects.

Due to Guangzhou Asian Games held in from November to December 2010, the Southern Power Grid slowed or suspended the power grid projects in Guangdong Province since July 2010. As a result, the sales in Guangdong Province decreased by approximately $200,000 in the second quarter compared with the comparative quarter. In addition, Guangxi Provincial Power Grid Corporation of China Southern Power Grid also slowed the power grid projects. By November 2010, the Company had successfully won a series of competitive bidding projects offered by Guangxi Provincial Power Grid Corporation for a total contract value of approximately $2.6 million. However, Guangxi Provincial Power Grid Corporation only requested the Company to deliver limited amount of products, and the major contracts have yet to be completed. Management expects the revenues from the contracts with Guangxi Provincial Power Grid Corporation will be recognized in the coming quarters.

Gross Margin

The gross margin, as a percentage of revenue, was 45.1% for the second quarter, compared to 41.0% for the comparative quarter. The increase of the gross margin attributed to more high-margin switches sold. With the advanced design patents developed by the Group, the cost of the products became lower than the traditional switches. As power grid companies plan for the transition to the smart power grid, the demand for high technology switches is increasing.

Cost of Sales

Cost of sales was $1,900,760 or 54.9% to revenues for the second quarter, compared with $1,858,961 or 59.0% to revenues for the comparative quarter. Cost of sales includes raw materials and labor cost associated with production.

Compensation and Benefits

Compensation and benefits were $298,899 for the first quarter, increased by 172.9% compared with $109,529 for the comparative quarter. The Group recruited more talented people to strengthen the Group's management and R&D teams. As a result, compensation and benefits increased significantly from the comparative quarter.

In addition, the increase in compensation and benefits is also attributed to new directors, officers and employees recruited. Upon the completion of the RTO, the Company restructured its board to meet the requirements of the listing rules. The Company hired certain new officers, who are qualified for a Canadian listed company.

General and administrative expenses

General and administrative expenses were $303,903 for the second quarter. Compared with $161,904 for the comparative quarter, the increase was primarily due to the listed company related expenses. Upon the completion of the RTO, the Company was a newly listed reporting issuer. To assist investors to become familiar with the Group, the Company held a series of presentations, seminars and other activities to introduce the Company. In addition, the Company also engaged professionals to provide the advisory services, such as Canadian legal counsel.

Net Income

Net Income was $198,381 for the second quarter compared to a net income of $552,695 for the comparative quarter. The decrease of net income was mainly due to the increase of operating expenses as discussed above.

The basic and diluted earnings per-share were $0.003 and $0.002 for the second quarter compared to earnings per-share of $0.009 for the comparative quarter.

Total Comprehensive Income

For the second quarter, total comprehensive income was $266,951 compared to total comprehensive income of $540,814 for the comparative quarter.

The decrease of comprehensive income was mainly due to the increase of operating expenses as discussed above.

Results of Operations – The First Half of FY2011

	Six months ended October 31,			
		2010		2009
Revenues	$	7,106,658	$	6,780,315
Cost of Sales		3,902,356		3,968,117
Gross Profit		3,204,302		2,812,198
Gross Margin Percentage		45.1%		41.5%
Sales and Marketing Expenses		748,416		456,413
Compensation and Benefits		868,590		237,060
General and Administrative Expenses		776,909		332,627
Interest Expense		170,759		156,552
Amortization Expenses		144,201		120,996
Other Expenses		19,495		17,460
Income Tax		215,910		242,129
Net Income		260,022		1,248,961
Total Comprehensive Income	$	572,500	$	397,370

Revenues

With an increase of 4.8%, revenue for the first half of FY2011 was $7,106,658, compared to $6,780,315 for the comparative period. The limited increase rate was mainly caused by the fluctuation of the foreign currency exchange rate between Canadian dollar and RMB.

As the Group's substantial operations are in PRC, the functional currency of the Group is RMB. To prepare the financial information in Canadian dollars, the Group used the average exchange rates of relevant quarters to translate the financial statements from RMB to the Canadian dollar, which were $1=RMB6.5317 for the first half of FY2011 and $1=RMB6.1808 for the comparative period, respectively. The average exchange rate increased by 5.7% from in the comparative quarter to the first quarter. As a result, the nominal amount of the revenue would decrease by 5.0% due to the appreciation of Canadian dollar. This nominal decrease does not properly reflect the actual operation results. Eliminating the impact of the fluctuation of exchange rate, i.e. using the same exchange rate in both quarters, the revenue in the first quarter increased 9.8% from the comparative quarter.

The 9.8% actual increase rate is consistent with the Group's organic growth, and the leverage of the concurrent financing has not been fully reflected on the financial statements for the first half of FY2011.

On May 5, 2010, the Company completed the concurrent financing with the gross proceeds of $5,252,602. After deducting the financing and transaction costs and paying the outstanding liabilities carried by HSF, the net proceeds were $3,812,105. Due to the foreign currency restrictions and complicated foreign company capital injection processes in PRC, the financing proceeds were only actually available for the Group's PRC operations since late June 2010. Therefore, for the first two months of the first half of FY2011, the Group could not use the financing proceeds for its PRC operations. With the financing proceeds, the Company had successfully won a series of competitive bidding projects offered by Guangxi Provincial Power Grid Corporation for a total contract value of approximately $2.6 million by November 2010. However, Guangxi Provincial Power Grid Corporation only requested the Company to deliver limited amount of products, and the major contracts have yet to be completed. Management expects the revenues from the contracts with Guangxi Provincial Power Grid Corporation will be recognized in the coming quarters.

In addition, the leverage of the concurrent financing was offset by the slowed or suspended power grid projects in Guangdong Province. Due to Guangzhou Asian Games held in from November to December 2010, the Southern Power Grid slowed or suspended power grid projects in Guangdong Province since July 2010. As a result, the sales in Guangdong Province decreased by approximately $200,000 in the second quarter compared with the comparative quarter.

Gross Margin

The gross margin, as a percentage of revenue, was 45.1% for the first half of FY2011, compared to 41.5% for the comparative period. The increase of the gross margin attributed to more high-margin switches sold. With the advanced design patents developed by the Group, the cost of the products became lower than the traditional switches. As power grid companies are planning for the transition to the smart power grid, the demand for high technology switches is increasing.

Cost of Sales

Cost of sales was $3,902,356 or 54.9% to revenues for the first half of FY2011, compared with $3,968,117 or 58.5% to revenues for the comparative period. Cost of sales includes raw materials and labor cost associated with production.

Compensation and Benefits

Compensation and benefits were $868,590 for the first half of FY 2011, an increase of 266.4% compared with $237,060 for the comparative period. The increase was mainly caused by the stock-based compensation expenses for the share options granted in May 2010.

On May 11 and 13, 2010, the Company granted an aggregate 3,670,821 stock options to directors, officers and employees of the Company with an exercise price of $0.43. The Company accounted for the stock options granted using the fair value based method. Under the fair value based method, stock-based compensation is measured at fair value of the instrument by using the Black-Scholes option-pricing model on the grant date, and recognized over the vesting period as a charge to stock-based compensation with a corresponding increase in contributed surplus.

In accordance with the estimation, the total stock-based compensation expense for the stock options granted in May 2010 was $359,723. As the stock options were vested immediately upon the grant, the total stock-based compensation expense was recognized upon the grant, and the contributed surplus in the equity increased accordingly. The stock-based compensation did not constitute a liability and was a non-cash transaction. As the stock-based compensation was a one-off expenditure, no more stock-based compensation expense will be incurred from these stock options granted in May 2010.

In addition, the Group recruited more talented people to enhance the Group's management and R&D team. As a result, compensation and benefits increased significantly from the comparative prior period. Additionally, the increase of compensation and benefits is also attributed to the new directors, officers and employees recruited. Upon the completion of the RTO, the Company restructured its board to meet the requirements of the listing rules. The Company hired certain new officers, who are qualified for a Canadian listed company.

General and administrative expenses

General and administrative expenses were $776,909 for the first half of FY2011. Compared with $332,627 for the comparative period, the increase was primarily due to the listed company related expenses. Upon the completion of the RTO, the Company was a newly listed reporting issuer. To assist investors to become familiar with the Group, the Company held a series of presentations, seminars and other activities to introduce the Company. In addition, the Company also engaged professionals to provide the advisory services, such as Canadian legal counsel.

Net Income

Net Income was $260,022 for the first half of FY2011 compared to a net income of $1,248,961 for comparative period. The decrease of net income was mainly due to the increase of operating expenses as discussed above.

The basic and diluted earnings per-share were $0.004 and $0.003 for the first half of FY2011 compared to earnings per-share of $0.020 for the comparative period.

Total Comprehensive Income

For the first half of FY2011, total comprehensive income was $572,500 compared to total comprehensive income of $397,370 for the comparative period.

The increase in comprehensive income was due to a general 2.8% appreciation of RMB against the Canadian dollar during the first half of FY2011 resulting in an unrealized foreign exchange translation gain of $312,478. As there was a general 10.3% depreciation of RMB against the Canadian dollar during the comparative period, there was an unrealized foreign exchange translation loss of $851,591, which caused the total comprehensive loss in the comparative period.

The increase in comprehensive income was due to a general 2.2% appreciation of RMB against the Canadian dollar during the first quarter resulting in an unrealized foreign exchange translation gain of $243,908. As there was a general 10.3% depreciation of RMB against the Canadian dollar during the comparative quarter, there was an unrealized foreign exchange translation loss of $839,710, which caused the total comprehensive loss in the comparative quarter.

Summary of Quarterly Results

The following table summarizes the quarterly financial information of the Company over the past eight quarters.

	October 31, 2010 Q2	July 31, 2010 Q1	April 30, 2010 Q4	January 31, 2010 Q3	October 31, 2009 Q2	July 31, 2009 Q1	April 30, 2009 Q4
Revenues	$ 3,459,960	$ 3,646,698	$ 2,673,728	$ 2,559,660	$ 3,149,998	$ 3,630,317	$ 2,202,946
Cost of Sales	1,900,760	2,001,596	1,531,472	1,618,767	1,858,961	2,109,156	1,175,311
Gross Profit	1,559,200	1,645,102	1,142,256	940,893	1,291,037	1,521,161	1,027,635
Gross Margin Percentage	45.1%	45.1%	42.7%	36.8%	41.0%	41.9%	46.6%
Total Expenses	1,262,952	1,445,923	595,352	561,730	618,176	685,472	608,884
Net Income	198,381	61,641	429,239	313,146	552,695	696,266	357,968
Earnings per share - Basic	0.003	0.001	0.007	0.005	0.009	0.011	0.006
Earnings per share - Diluted	0.002	0.001	0.007	0.005	0.009	0.011	0.006
Total Assets	$ 23,820,353	$ 22,846,108	$ 18,510,987	$ 18,652,007	$ 17,593,770	$ 17,557,354	$ 19,060,050

Selected Financial Information

	October 31, 2010	April 30, 2010
Cash and cash equivalents	$ 2,076,323	$ 678,682
Accounts receivable	6,275,316	4,498,109
Inventories	8,888,239	7,699,630
Total current assets	19,609,757	14,546,765
Total assets	23,820,353	18,510,987
Total liabilities	10,327,494	9,906,737
Working capital	9,282,263	4,640,028
Shareholder's equity	$ 13,492,859	$ 8,604,250

The above table summarizes the financial condition of the Company as at October 31, 2010 and as at April 30, 2010, the Company's most recently completed fiscal year end. Major changes in the financial condition of the Company between July 31 and April 30, 2010 include the following items.

Cash and cash equivalents

The increase of cash and cash equivalents from $678,682 as at April 30, 2010 to $2,076,323 as at October 31, 2010 is a result of the completion of the concurrent financing in May 2010, with a gross proceeds of $5,252,602.

Accounts Receivable

Accounts receivable was $6,275,316 as at October 31, 2010, an increase of 39.5%, compared with $4,498,109 as at April 30, 2010. The increase was mainly due to the longer credit terms. The Group developed the cooperation with certain key customers, such as the subsidiaries of provincial power grid companies. For those key customers, they normally settle the payment for sales in the later part of the calendar year, or with the completion of the whole grid construction project. Due to the pattern of the payment, the Group granted longer credit terms to key customers than to small and medium customers. As the key customers all have very good credit ratings, there is no risk for cash collectability. Management has assessed the risk of collectability and provided a doubtful debt provision. The balance of doubtful debt provision was $179,219 and $203,550 as at October 31 and April 30, 2010, respectively.

Inventory

Inventory was $8,888,239 as at October 31, 2010, with an increase of 9.8%, compared with $7,699,630 as at April 30, 2010. As the Group has won the series of contracts with Guangxi Provincial Power Grid Corporation during the first half of FY2011, the Group was building up the raw materials and started to produce the switches. As a result, the balance of inventory increased.

As at October 31, 2010, included in inventory, there was approximately $4,757,256 (April 30, 2010: $5,187,000 million) of raw materials stored at various offsite locations, which are held in the custody of third parties on behalf of the Group. Although the offsite locations are not under the direct control of the Group, the raw materials were in good condition and the Group has experienced no losses of material from these offsite locations. The Group stored the raw materials for the purpose of strategic storage and controlling the cost of the raw material. The raw materials mainly comprise steel and copper. Those raw materials will not become obsolete and will be useable for Keli's products. To optimize working capital and cash flow, management plans to use the offsite stored raw materials and lower the amount of the raw materials stored in offsite locations.

Liquidity and Capital Resources

As at October 31, 2010, the Group had $2,076,323 cash and cash equivalents, compared to $678,682 as at April 30, 2010. The increase in cash and cash equivalents is mainly due to the completion of the concurrent financing in May 2010, with a gross proceeds of $5,252,602.

The contractual obligations of the Company as at October 31, 2010, were composed of short term bank loans, accounts payable and accrued expenses and other liabilities in the amount of $10,327,494. The Group is not fully funded to meet its future financial obligations. Additional funds will have to be generated through new sales and/or additional financing. Working capital, defined as current assets less current liabilities, was $9,282,263.

Transactions With Related Parties

The related party transaction mainly comprised the shareholder loans to Zhuhai Keli without interest. As at October 31, 2010, Zhuhai Kei had fully repaid the shareholder loans. In addition, Zhuhai is licensed to use those patents registered under the name of Mr. Cheong Lou Meng, CEO of the Company, for no cost during the validity period of the patents.

Critical Accounting Estimates

The Company prepares its consolidated financial statements in accordance with Canadian GAAP which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making decisions regarding the carrying value of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions.

The Company has identified the following as critical accounting estimates, which are defined as those that are reflective of significant judgments and uncertainties, are the most pervasive and important to the presentation of its financial condition and results of operations and could potentially result in materially different results under different assumptions and conditions.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Customer prepayments are recorded as advances from customers. Revenue is not recognized until criteria for revenue recognition have all been met, including shipment of goods.

Inventory

Inventories are valued at the lower of cost and net realizable value. Cost includes cost of materials computed using the weighted average method and, in the case of work in progress and finished goods, direct labor and an appropriate proportion of production overhead. Net realizable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions. In establishing the appropriate provision for inventory obsolescence, management estimates the likelihood that inventory carrying values will be affected by changes in market demand, technology and design, which would make inventory on hand obsolete. Write-downs of inventory to net realizable value are reversed if the value subsequently recovers.

Property Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is provided over the estimated useful life of the assets, commencing when the asset is put into use. The assets' useful lives and residual values are estimated and evaluated each reporting period. The carrying values are regularly reviewed for recoverability or whenever events or circumstances indicate that these amounts exceed their fair values. If the undiscounted amount of the future cash flows is less than the carrying amount of the assets, impairment is recognized for the difference between the carrying amount of the assets and its estimated fair value based on the discounted net future cash flow or quoted market prices. As at October 31, 2010, there has been no impairment loss recognized.

Stock-based compensation

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Income Taxes

The group follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Recent Accounting Pronouncements and Developments

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 would be the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The changeover date for the Company of May 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ending April 30, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. During the second quarter ended October 31, 2010 the Company continued its detailed assessment for how each IFRS standard is expected to impact its financial statements. The Company believes that the areas of accounting that will likely be impacted based on existing IFRS include, but may not be limited to, property, plant and equipment, stock-based compensation and potential adjustments to opening retained earnings resulting from the initial adoption of IFRS under the provisions of IFRS 1 "First-Time Adoption of IFRS". In addition, the Company anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the financial reporting impact of the transition to IFRS and level of disclosure that will be required in its financial statements. As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including the implication of changes to accounting policies and processes; information technology; internal controls; contractual arrangements; and employee training. The Company has also met with its external advisors to discuss its IFRS conversion framework and to obtain input on its project work plan. The following table summarizes the expected timing of activities related to the Company's transition to IFRS:

Initial analysis of key areas for which changes to accounting policies may be required.	In progress now.
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.	In progress now.
Assessment of IFRS 1 - first-time adoption of international financial reporting standards.	By March 31, 2011
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives.	By May 15, 2011
Resolution of the accounting policy change implications on information technology, internal controls and contractual agreements.	By May 15, 2011
Management and employee education and training.	Throughout the transition process
Quantification of the financial statement impact of changes in accounting policies and completion of Company's opening balance sheet under IFRS.	By May 15, 2011

In January 2009, the Canadian Institute of Chartered Accountants (the “CICA”) issued new recommendations for Business Combinations (CICA Handbook Section 1582), Consolidated financial statements (CICA Handbook Section 1601), and Non-controlling Interests (CICA Handbook Section 1602). Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders’ equity and net income will be allocated between the controlling and non-controlling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011 but concurrent early adoption of all three sections is permitted. These new sections will impact the Company’s financial statements if the Company enters into business acquisitions in the future.

In April 2009, the CICA issued amendments to Handbook Section 3855, Financial Instruments – Recognition and Measurement, regarding the application of the effective interest method to previously impaired financial assets and embedded prepayment options. The amendments are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The Company is in the process of evaluating the new standards but does not expect that the amendments will have a significant impact on the consolidated financial statements.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as defined by applicable securities regulations in Canada as at October 31, 2010 that have, or are reasonably likely to have, a current or future material effect on the Company’s results of operations or its financial condition.

Financial Instruments

During 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to require enhanced disclosures about the relative reliability of the data that an entity uses to measure the fair values of its financial instruments. The additional disclosures come into effect for fiscal years ending after April 30, 2010 and include requirements to classify financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used in estimating fair values. The three levels of the fair value hierarchy are identified as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
Level 3 – Inputs that are not based on observable market data.

The Company initially measures all its financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

i) Held-for-trading financial assets are measured at fair value at the balance sheet date with any gain or loss recognized immediately in net income. Interest and dividends earned from held-for-trading assets are included in income for the period.

ii) Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses are recognized in net income for the period.

iii) Other financial instruments are measured at amortized cost using the effective interest method.

iv) Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception (except for transaction costs related to financial instruments related to held-for-trading instruments which are expensed as incurred), and are recognized over the term of the assets or liabilities using the effective interest rate method. Any gains or losses are recognized in net income for the period.

The following is a summary of the accounting model the Corporation has elected to apply to each of its significant categories of financial instruments outstanding as at October 31, 2010:

Cash and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Short term debt	Other financial liabilities

The CICA Handbook Section 3865, Hedges, establishes standards for the application of hedge accounting. The Company currently does not have any hedges or other derivative financial instruments and therefore this standard has no impact on these consolidated financial statements.

Pursuant to CICA Handbook Section 3855, the Company uses the effective interest method of amortization for any transaction cost or fee for financing and presents the amortization as accreted interest expense.

As the Company's financial instruments consist of cash and cash equivalents, other receivables, accounts payable, accrued liabilities, and short-term loans, it is management's opinion that the Company is not exposed to significant interest rate, foreign currency or credit risks arising from these financial instruments and that the fair values of these financial instruments approximate their carrying values. For other receivables and accounts payable this is because of their short-term maturity and for short-term loans, the interest rate is at market rates.

Share Capital

The Company is authorized to issue an unlimited number of common shares. As at December 23, 2010, there were 90,415,223 common shares issued and outstanding.

During the first half of FY2011, 8,846,700 stock options had been granted to directors, officer and employees of the Company in addition to 569,733 that were outstanding prior to the Qualifying Transaction and 316,000 stock options were exercised at $0.10 per share. In December 2010, 148,228 stock options were exercised both at $0.10 per share. Accordingly, as at October 31, 2010, there were 9,026,700 stock options outstanding and 3,850,821 stock options exercisable. As at December 23, 2010, there were 8,878,472 stock options outstanding and 3,702,593 stock options exercisable.

As at December 23, 2010, the number of common shares outstanding on a fully-diluted basis was 99,367,428.

Subsequent Events

No significant events noted subsequent to October 31, 2010.

Risks and Uncertainties

For the Company's risk factors, see the risks identified in the forward-looking information section above, and refer to the risk factors section of the Company's Filing Statement dated March 26, 2010 and the Company's press releases, all filed with the Canadian securities regulators, which are available on SEDAR at www.sedar.com

Commitments

The Group did not have any significant operating, capital and other commitments, long-term obligations, or guarantees as of October 31, 2010.

Board Approval

The Board of Directors of the Company has approved this MD&A.

"Lou Meng Cheong"
Chief Executive Officer