

SEN YU INTERNATIONAL HOLDINGS, INC.  
Form 10-Q  
February 14, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-12792

SEN YU INTERNATIONAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

84-0916585  
(I.R.S. Employer Identification No.)

308 Baowei Road, 6th Floor, Qianjin District,  
Jiamusi City, China  
(Address of principal executive offices,)

154002  
(Zip Code)

Registrant's telephone number (including area code): (86) 454-844-2728

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   
Non-accelerated filer   
(Do not check if a smaller reporting  
company)

Accelerated filer   
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

As of February 13, 2012, there were 26,155,511 shares of company common stock issued and outstanding.

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SEN YU INTERNATIONAL HOLDINGS, INC.  
QUARTERLY REPORT ON FORM 10-Q  
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### CAUTIONARY NOTE ON FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such forward looking statements. In some cases, you can identify forward looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “projects,” “potential,” “proposes,” “continue” or the negative of these terms or other comparable terminology. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management’s opinions only as of the date thereof. In evaluating such forward looking statements, readers should carefully review the discussion of risks and uncertainties in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K as well as in other filings with the Securities and Exchange Commission (“SEC”) including, without limitation:

- our financial position, business strategy and other plans and objectives for future operations;
- the ability of our management team to execute its plans to meet its goals;
- our ability to attract and retain management;
- our growth strategies;
- anticipated trends in our business;
- our liquidity and ability to finance our operations and acquisition and development activities;
- the impact of government regulation in China and elsewhere;
- estimates regarding future net revenues or profits;
- planned capital expenditures (including the amount and nature thereof);
- the impact of competition;
- general economic conditions, whether internationally, nationally or in the regional and local market areas in which we are doing business, that may be less favorable than expected; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our businesses, operations and pricing.

The discussion of risks and uncertainties set forth in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K, as amended, as well as in other filings with the SEC, is not necessarily a complete or exhaustive list of all risks facing the Company at any particular point in time. We operate in the People’s Republic of China (“China” or “PRC”) in a highly competitive and rapidly changing environment. Therefore, it is likely that new risks will emerge, and that the nature and elements of existing risks will change, over time. It is not possible for management to predict all such risk factors or changes therein, or to assess either the impact of all such risk factors on our business or the extent to which any individual risk factor, combination of factors, or new or altered factors, may cause results to differ materially from those contained in any forward looking statement.

Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, growth rates, and levels of activity, performance or achievements. Given the uncertainties that surround such statements, you are cautioned not to place undue reliance on such forward looking statements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward looking statements, whether as a result of new information, future events, changed circumstances or any other reason.



PART I – FINANCIAL INFORMATION  
SEN YU INTERNATIONAL HOLDINGS, INC AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Stated in US Dollars)

| Assets   | December 31,<br>2011<br>(Unaudited) | June 30, 2011<br>(Audited) |
|--|-------------------------------------|----------------------------|
| <b>Current Assets:</b>   |                                     |                            |
| Cash and equivalents   | \$ 13,973,237                       | \$ 11,440,584              |
| Inventories  | 2,411,520                           | 1,544,675                  |
| Advance to suppliers, net                                      | 82,211,267                          | 53,473,785                 |
| Prepayments and other current assets                           | 58,317                              | 72,169                     |
| Total Current Assets   | 98,654,341                          | 66,531,213                 |
| <b>Long-Term Assets:</b>                                       |                                     |                            |
| Property, plant, equipment and breeding stock, net             | 1,677,338                           | 1,816,987                  |
| Construction in progress                                       | -                                   | 213                        |
| Total Long-Term Assets   | 1,677,338                           | 1,817,200                  |
| Total Assets   | 100,331,679                         | 68,348,413                 |
| <b>Liabilities and Shareholders' Equity</b>                    |                                     |                            |
| <b>Current Liabilities:</b>                                    |                                     |                            |
| Accounts payable and accrued expenses                          | 791,233                             | 455,044                    |
| Loans payable, net   | 1,189,421                           | 1,128,517                  |
| Loans from shareholders/officers, net                          | 740,435                             | 794,354                    |
| Deferred interest income                                       | -                                   | 31,858                     |
| Performance bond   | 1,110,126                           | 1,083,016                  |
| Other current liabilities                                      | 8,137                               | 9,169                      |
| Derivative liabilities-warrants                                | 620,023                             | 3,793,314                  |
| Total Current Liabilities                                      | 4,459,375                           | 7,295,272                  |
| <b>Temporary Equity:</b>                                       |                                     |                            |
| Redeemable shares of common stock,                             |                                     |                            |
| 804,000 shares issued and outstanding, respectively            | 1,277,355                           | 1,217,055                  |
| Total Liabilities  | 5,736,730                           | 8,512,327                  |
| <b>Shareholders' Equity:</b>                                   |                                     |                            |
| Series B Convertible Preferred Stock ,\$.001 par value,        |                                     |                            |
| 10,000,000 shares authorized,1,285,805 and                     |                                     |                            |
| 1,988,429 shares issued and                                    |                                     |                            |
| outstanding, respectively                                      | 1,286                               | 1,988                      |
| Common Stock, \$.001 par value, 300,000,000 shares             |                                     |                            |
| authorized, 26,155,511 and 25,263,113 issued                   |                                     |                            |
| and outstanding, respectively                                  | 26,156                              | 25,263                     |
| Additional paid-in capital                                     | 11,598,742                          | 11,573,432                 |
| Reserve funds  | 9,394,071                           | 6,745,351                  |
| Retained earnings  | 69,742,124                          | 40,766,555                 |
| Accumulated other comprehensive income                         | 5,421,805                           | 3,393,871                  |
| Unearned compensation  | (1,961,959 )                        | (2,956,141 )               |
| Total Sen Yu International Holdings, Inc. Shareholders' Equity | 94,222,225                          | 59,550,319                 |
| Noncontrolling Interest  | 372,724                             | 285,767                    |
| Total Equity   | 94,594,949                          | 59,836,086                 |
| Total Liabilities and Equity                                   | \$ 100,331,679                      | \$ 68,348,413              |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SEN YU INTERNATIONAL HOLDINGS, INC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(Stated in US Dollars)

|  | For The Three Months Ended<br>December 31, |                     | For The Six Months Ended<br>December 31, |                     |
|--|--|---------------------|--|---------------------|
|  | 2011<br>(Unaudited)                        | 2010<br>(Unaudited) | 2011<br>(Unaudited)                      | 2010<br>(Unaudited) |
| Revenues   | \$ 52,334,532                              | \$ 29,081,466       | \$ 106,390,815                           | \$ 52,643,934       |
| Cost of Goods Sold   | 37,055,621                                 | 22,049,508          | 71,871,890                               | 40,270,654          |
| Gross Profit   | 15,278,911                                 | 7,031,958           | 34,518,925                               | 12,373,280          |
| Operating Expenses   |  |                     |  |                     |
| Selling expenses   | 1,476,387                                  | 981,379             | 2,827,174                                | 1,814,207           |
| General and administrative expenses                                    | 269,354                                    | 412,010             | 660,683                                  | 797,835             |
| Losses on disposal of fixed assets                                     | -  | 669                 | 68                                       | 49,148              |
| Bad debt expense (recoveries) for<br>advanced to suppliers             | 1,419,952                                  | (162,677 )          | 1,424,099                                | 40,285              |
| Compensation expense   | 482,163                                    | 100,000             | 1,019,682                                | 200,000             |
| Total Operating Expenses   | 3,647,856                                  | 1,331,381           | 5,931,706                                | 2,901,475           |
| Income From Operations   | 11,631,055                                 | 5,700,577           | 28,587,219                               | 9,471,805           |
| Other Income (Expense)   |  |                     |  |                     |
| Interest income (expense), net   | 910  | (68,100 )           | (5,570 )                                 | (139,134 )          |
| Other (expense) income, net  | (46,167 )                                  | 453                 | (43,693 )                                | 11                  |
| Change in fair value of warrants                                       | 1,331,797                                  | 5,571,124           | 3,173,290                                | 7,915,965           |
| Total Other Income   | 1,286,540                                  | 5,503,477           | 3,124,027                                | 7,776,842           |
| Income from Continuing Operations<br>Before Income Taxes               | 12,917,595                                 | 11,204,054          | 31,711,246                               | 17,248,647          |
| Income Tax Provision   | -  | -                   | -  | -                   |
| Net Income Before Noncontrolling<br>Interest                           | 12,917,595                                 | 11,204,054          | 31,711,246                               | 17,248,647          |
| Less: Net income (loss) attributable<br>to the noncontrolling interest | 26,451                                     | (5,472 )            | 86,957                                   | (3,416 )            |
| Net Income Attributable to Sen Yu<br>International Holdings, Inc.      | \$ 12,891,144                              | \$ 11,209,526       | \$ 31,624,289                            | \$ 17,252,063       |
| Earnings Per Share:  |  |                     |  |                     |
| - Basic  | \$ 0.50                                    | \$ 0.54             | \$ 1.23                                  | \$ 0.83             |
| - Diluted  | \$ 0.46                                    | \$ 0.44             | \$ 1.13                                  | \$ 0.67             |
| Weighted Common Shares Outstanding                                     |  |                     |  |                     |
| - Basic  | \$ 26,000,852                              | \$ 20,892,982       | \$ 25,721,430                            | \$ 20,892,982       |
| - Diluted  | \$ 28,156,445                              | \$ 25,368,517       | \$ 27,877,023                            | \$ 25,918,821       |

The accompanying notes are an integral part of these unaudited consolidated financial statements.



SEN YU INTERNATIONAL HOLDINGS, INC AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (UNAUDITED)  
 (Stated in US Dollars)

|   | For The Six Months Ended December |               |
|---|-----------------------------------|---------------|
|   | 31,                               |               |
|   | 2011                              | 2010          |
|   | (Unaudited)                       | (Unaudited)   |
| Net Income Before Noncontrolling Interest | \$ 31,711,246                     | \$ 17,248,647 |
| Other Comprehensive Income:               |                                   |               |
| Foreign Currency Translation Income       | 2,027,934                         | 1,207,745     |
| Comprehensive Income                      | \$ 33,739,180                     | \$ 18,456,392 |

The accompanying notes are an integral part of these unaudited consolidated financial statements

SEN YU INTERNATIONAL HOLDINGS, INC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(Stated in US Dollars)

|   | For The Six Months Ended December |                     |
|---|-----------------------------------|---------------------|
|   | 2011<br>(Unaudited)               | 2010<br>(Unaudited) |
| 31,   |                                   |                     |
| Cash Flows From Operating Activities:                     |                                   |                     |
| Net Income  | \$ 31,711,246                     | \$ 17,248,647       |
| Adjustments to Reconcile Net Income to Net Cash           |                                   |                     |
| Provided by Operating Activities                          |                                   |                     |
| Depreciation and amortization                             | 231,924                           | 250,927             |
| Bad debt adjustment                                       | 1,424,099                         | 40,285              |
| Consulting fees adjusted from deferred                    | 994,182                           | 200,000             |
| Stock-based compensation                                  | 25,500                            | -                   |
| Amortization of financing costs                           | -                                 | 96,600              |
| Loss on disposal of fixed assets                          | 68                                | 49,148              |
| Loss on disposal of inventories                           | 22,546                            | 7,801               |
| Provision for losses on inventories                       | -                                 | (1,245 )            |
| Change in fair value of warrants                          | (3,173,290 )                      | (7,915,965 )        |
| Accrued interest for redeemable stock                     | 60,300                            | -                   |
| Changes in operating assets and liabilities:              |                                   |                     |
| Inventories   | (830,683 )                        | (656,510 )          |
| Advanced to suppliers                                     | (28,137,004 )                     | (797,370 )          |
| Prepayments and other current assets                      | 15,277                            | (19,048 )           |
| Accounts payable and accrued expenses                     | 316,867                           | (47,788 )           |
| Deferred interest income                                  | (31,858 )                         | (21,692 )           |
| Contingent liabilities                                    | -                                 | 42,750              |
| Other current liabilities                                 | (1,231 )                          | 21,196              |
| Net Cash Provided by Operating Activities                 | 2,627,943                         | 8,497,736           |
| Cash Flows From Investing Activities:                     |                                   |                     |
| Payment for purchase of equipment                         | (49,737 )                         | (69,700 )           |
| Payment for construction in progress                      | -                                 | (69,062 )           |
| Proceeds from sale of property and equipment              | 3,017                             | 26,967              |
| Net Cash Used in Investing Activities                     | (46,720 )                         | (111,795 )          |
| Cash Flows From Financing Activities:                     |                                   |                     |
| Proceeds from discount on loans payable                   | 31,858                            | 21,692              |
| Repayments for loans from shareholders/officers           | (64,747 )                         | (19,863 )           |
| Proceeds the repayment of loans by shareholders/officers  | 9,192                             | 440,522             |
| Net Cash (Used in) Provided by Financing Activities       | (23,697 )                         | 442,351             |
| Net Increase in Cash and Equivalents                      | 2,557,526                         | 8,828,292           |
| Effect of Exchange Rate Changes on Cash                   | (24,873 )                         | 299,047             |
| Cash and Equivalents at Beginning of Period               | 11,440,584                        | 5,825,842           |
| Cash and Equivalents at End of Period                     | \$ 13,973,237                     | \$ 14,953,181       |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b> |                                   |                     |
| Interest paid   | \$ -                              | \$ 229,549          |
| Income taxes paid   | \$ -                              | \$ -                |

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND  
FINANCING ACTIVITIES:

|  |        |           |
|--|--------|-----------|
| Inventory transferred out to be breeding stock in fixed assets | \$ 395 | \$ 61,062 |
| Construction in progress transferred out to be fixed assets    | \$ 213 | \$ 83,606 |
| Offset debt by fixed assets                                    | \$ -   | \$ 6,704  |

The accompanying notes are an integral part of these unaudited consolidated financial statements

SEN YU INTERNATIONAL HOLDINGS, INC AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(Stated in US Dollars)

1. Interim Financial Statements:

The unaudited consolidated financial statements of Sen Yu International Holdings, Inc. (“Sen Yu International” or the “Company”) and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by US GAAP for annual financial statements. However, the information included in these interim financial statements reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations of the Company. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The consolidated balance sheet information as of June 30, 2011 was derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K. These interim financial statements should be read in conjunction with that report.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated.

2. Organization and Nature of Operations

Sen Yu International was founded as a Colorado corporation on June 29, 1983 and was reinstated in Colorado on March 15, 2007. The Company’s Board of Directors (“Board”) and stockholders approved a change of domicile from Colorado to Delaware on December 6, 2007. In connection with the Company’s change of domicile from Colorado to Delaware, the Company’s authorized capital was increased to 310,000,000 of which 300,000,000 are classified as common stock, par value \$0.001 per share, and 10,000,000 are classified as preferred stock, par value \$0.001 per share, issuable in series with such powers, designations, preferences and relative, participating, optional or other specific rights, and qualifications, limitations or restrictions thereof, as the Board may fix from time to time by resolution or resolutions. For at least ten years prior to August 13, 2009, the Company had not engaged in any business operations.

On August 13, 2009, Sen Yu International acquired all of the outstanding capital stock of Advanced Swine Genetics, Inc., a Nevada corporation (“Advanced Swine”). In exchange for the outstanding shares of Advanced Swine, Sen Yu International issued 4,646.05933 shares of its Series A Convertible Preferred Stock (“Preferred A Stock”) to the shareholders of Advanced Swine (the “Share Exchange”). Each share of Preferred A Stock was convertible into Four Thousand One Hundred Sixty-Six and (4,166.66) shares of common stock. In November 2009, all shares of Preferred A Stock were converted into 20,044,689 (with additional fractional shares issued in or after November 2009) shares of Sen Yu International’s common stock, representing approximately 99% of the issued and outstanding shares.

Effective on September 30, 2009, the Company filed an amendment to its certificate of incorporation to change the name of the Company from Apogee Robotics, Inc. to “China Swine Genetics, Inc.” and implementing a 1-for-24 reverse split of the Company’s common stock. On June 28, 2010, the Company changed its name to “Sen Yu International Holdings, Inc.”

Advanced Swine was incorporated under the laws of Nevada on June 29, 2007. It is an intermediate holding company without its own operations. On February 28, 2008, Advanced Swine acquired 100% of the equity interest of Heilongjiang Sen Yu Animal Husbandry Co., Ltd. (“Heilongjiang Sen Yu”). Heilongjiang Sen Yu was incorporated on September 3, 2004, under the laws of the People’s Republic of China (“PRC”). On December 20, 2007, Advanced Swine entered into the stock transfer agreement with Heilongjiang Sen Yu through which Advance Swine acquired all the equity interests of Heilongjiang Sen Yu. The share transfer was approved on February 4, 2008 by the Heilongjiang Provincial Government, and the updated business license of Heilongjiang Sen Yu with the new stockholder’s name was issued on February 28, 2008 by Jiamusi Administration for Industry and Commerce. As a result, Heilongjiang Sen Yu became a foreign wholly owned enterprise on February 28, 2008.

Heilongjiang Sen Yu was originally founded with registered capital of RMB10 million (equivalent to approximately \$1,208,211) on September 3, 2004 and increased its registered capital to RMB50 million (equivalent to approximately \$6,165,762) and RMB80 million (equivalent to approximately \$9,933,896) on January 18 and August 29, 2006, respectively.

Heilongjiang Sen Yu was in the development stage and incurred minor selling expenses and significant general and administrative expenses prior to September, 2005. In September 2005, Heilongjiang Sen Yu accepted its first sales order of commercial hogs and breeding swine, and started its business as a farmer enterprise for breeding, feeding and marketing the grandparent and parent generation breeding swine, and commercial hogs.

In March 2006, Heilongjiang Sen Yu formed a joint venture with Polar Genetics, Inc., a Canadian corporation (the "Polar Genetics") and the business license of this joint venture was issued in March 2006. The registered capital of Sino-Canadian Sen Yu Polar Swine Genetics Company Limited ("Sino-Canadian Sen Yu") is RMB16.7 million (equivalent to approximately \$2,068,368 as of March, 2006). According to the joint venture agreement, Heilongjiang Sen Yu and Polar Genetics shall contribute RMB10 million (equivalent to approximately \$1,238,543 as of March, 2006) and 628 primary genetic breeding swine worth RMB6.7 million (equivalent to approximately \$829,825 as of March, 2006), respectively, in order to own 60% and 40% of the joint venture, respectively. This joint venture was approved by the Jiamusi Administration for Industry and Commerce on March 30, 2006, and the actual capital of RMB10 million (equivalent to approximately \$1,246,028) was contributed by Heilongjiang Sen Yu on May 22, 2006. Polar Genetics contributed 628 primary genetic breeding swine worth RMB6.7 million (equivalent to approximately \$892,263) on October 12, 2007. Since China custom officers did not complete the full inspection, and released the primary genetic boars to Sino-Canadian Sen Yu until November 27, 2007, this joint venture was considered to be in development stage and did not commence principal operations until November, 27, 2007.

Sen Yu International, Advanced Swine, Heilongjiang Sen Yu, and Sino-Canadian Sen Yu, Heilongjiang Sen Yu's 60% owned joint venture are collectively referred herein as the "Company" in the accompanying consolidated financial statements.

### 3. Basis of Presentation

#### a. Fiscal Year

The Company's fiscal year ends on June 30. The accompanying consolidated financial statements of operations and cash flows include activities for the six months ended December 31, 2011 and 2010.

#### b. Principle of Consolidation

The accompanying unaudited consolidated financial statements present the financial position, results of operations and cash flows of the Company and all entities in which the Company has a controlling voting interest. These consolidated financial statements include the financial statements of Sen Yu International Holdings, Inc. and its subsidiaries, namely, Advanced Swine, Heilongjiang Sen Yu, and Sino-Canadian Sen Yu. All significant intercompany transactions and balances are eliminated in consolidation.

The accompanying unaudited consolidated financial statements are prepared in accordance with US GAAP. This basis of accounting differs from that used in the statutory accounts of some of the Company's subsidiaries, which were prepared in accordance with the accounting principles and relevant financial regulations applicable to enterprises with foreign investment in the PRC ("PRC GAAP"). Necessary adjustments were made to the subsidiaries' statutory accounts to conform to U.S. GAAP to be included in these consolidated financial statements.

#### 4. Summary of Significant Accounting Policies

##### a. Use of Estimates

The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amount reported in the unaudited consolidated financial statements and the accompany notes. Significant estimates include the estimated useful lives and fair values of the assets. Actual results could differ from those estimates.

##### b. Foreign Currency Translation

The accompanying unaudited consolidated financial statements are presented in U.S. dollars. The Company's functional currency is the Chinese Renminbi ("RMB"). In general, for consolidation purposes, the Company translates its assets and liabilities into US dollars using the applicable exchange rates prevailing at the balance sheet date, and the statement of income and cash flows are translated at average exchange rates during the reporting period. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Equity accounts are translated at historical rates. Adjustments resulting from the translation of the financial statements are recorded as accumulated other comprehensive income.

The following rates are used in translating the RMB to the U.S. dollar presentation disclosed in these consolidated financial statements for the six months ended December 31, 2011 and 2010, respectively.

|                        | For The Six Months Ended December |                 |
|------------------------|-----------------------------------|-----------------|
|                        | 31,                               |                 |
|                        | 2011                              | 2010            |
| Assets and liabilities | \$ 0.15859                        | \$ 0.15146 /RMB |
| Revenue and expenses   | \$ 0.15658                        | \$ 0.14899 /RMB |

##### c. Revenue Recognition

Revenues from products sales are recorded when both title to the goods and risk of ownership are transferred to the customer upon shipment, provided that no significant obligations remain. Net sales reflect units shipped at selling prices reduced by certain sales allowances.

##### d. Income Taxes

Sen Yu International is subject to U.S. federal income taxes, State of New York income taxes, and State of Delaware annual franchise taxes, and its U.S. subsidiary, Advanced Swine, is subject to U.S. federal income taxes and State of Nevada annual reporting. Its PRC subsidiaries were exempt from the income taxes per PRC tax laws and regulations that exempt companies engaged in the agricultural breeding of livestock. In particular, under current Chinese law, Heilongjiang Sen Yu and Sino-Canadian Sen Yu are exempt from corporate income tax in China for as long as they

engage in hog breeding business. However, the exemption is only for a three year period and the renewal is subject to review by the Jiamushi City State Tax Bureau. The tax exempt status of both Heilongjiang Sen Yu and Sino-Canadian Sen Yu expires on May 31, 2012. The Company may extend the exemption after approval by the Jiamushi City State Tax Bureau. The Company's PRC subsidiaries expect to use their retained earnings to support their PRC operations, and will not declare any dividends within the predictable future. In addition, there was no net income generated by its U.S. subsidiary, Advanced Swine, during the six months ended December 31, 2011 and 2010. Sen Yu International generated net income only from the change in fair value of warrants for the six months ended December 31, 2011 and 2010. There was no realized gain as of December 31, 2011. Therefore, for the six months ended December 31, 2011 and 2010, the Company's income taxes were \$0 and \$0 in PRC and U.S.



The Company follows ASC 740 – “Accounting for Income Taxes”, which requires recognition of deferred taxes, assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), codified in FASB ASC Topic 740, on January 1, 2007. As a result of the implementation of FIN 48, the Company made a comprehensive review of its portfolio of tax positions in accordance with recognition standards established by FIN 48, and the Company recognized no material adjustments to liabilities or stockholders equity. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest associated with unrecognized tax benefits are classified as interest expense and penalties are classified in general and administrative expenses in the statements of income. The adoption of FIN 48 did not have a material impact on the Company’s financial statements. At December 31, 2011 and June 30, 2011, the Company did not take any uncertain positions that would necessitate recording of tax related liability.

e. Stock-Based Compensation

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505-50, “Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services”. The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. Fair value is measured as the value of the common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty’s performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

f. Basic and diluted net income per share

The Company accounts for net income per common share in accordance with ASC 260, “Earnings per Share” (“EPS”). ASC 260 requires the disclosure of the potential dilution effect of exercising or converting securities or other contracts involving the issuance of common stock. Basic net income per share is determined based on the weighted average number of common shares outstanding for the period. Diluted net income per share is determined based on the assumption that all dilutive convertible shares and stock options were converted into or exercised for common stock.

g. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying value of cash equivalents approximates market value.

h. Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Per historical records, the Company had no uncollectible amounts. Therefore, the Company had not recorded any allowance for uncollectible accounts as of December 31, 2011 and June 30, 2011.

i. Inventories, Net

Inventories are stated at the lower of cost or market. Cost of raw materials is determined on a first-in, first-out basis. Finished goods are determined on a weighted average basis and are comprised of direct materials, direct labor and an appropriate proportion of overhead. The Company estimates an inventory allowance for excessive, slow moving, obsolete inventory and changes in price level as well as inventory whose carrying value is in excess of net realized value. Inventory amounts are reported net of such allowances. The raw materials generally include the feedstuffs and other raw materials, and the finished goods include the baby hogs, young hogs and commercial hogs which are ready to sell. However the components of work in progress generally include the director labor, depreciation of the facilities, manufacturing overhead expenses, and other production related fees.

j. Bad Debt Allowance

In order to acquire significant amounts of commercial hogs, the Company advanced purchase price for feedstuffs to Heilongjiang Wang Da Feedstuff Co., Ltd. ("Wang Da"). Since the advances to Wang Da were a significant part of total assets, the Company's subsidiary, Heilongjiang Sen Yu, adopts a bad debt allowance of 5% of the amount of money advanced to Wang Da commencing April 2009.

k. Plant, Property, Equipment and Breeding Stock

Depreciation of property, plant, equipment, and breeding stock is computed using the straight-line method over the estimated useful lives of assets as follows:

|                         | Years                             |
|-------------------------|-----------------------------------|
| Land improvements       | 10 years                          |
| Leasehold improvements  | Lower of term of lease or 5 years |
| Buildings               | 10 years                          |
| Machinery and equipment | 2 years to 10 years               |
| Breeding stock          | 3 years to 5 years                |

Repairs and maintenance expenditures which do not extend the useful lives of the related assets are expensed as incurred, whereas significant renewals and betterments are capitalized.

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in our statements of operations.

I. Non-Controlling Interest

Effective July 1, 2009, the Company adopted FASB ASC Topic 810, "Consolidation," which established new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case), that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance.

The net income (loss) attributed to the NCI was separately designated in the accompanying statements of operations and comprehensive income. Losses attributable to the NCI in a subsidiary may exceed the NCI's interests in the subsidiary's equity. The excess attributable to the NCI is attributed to those interests. The NCI shall continue to be attributed its share of losses even if that attribution results in a deficit NCI balance.

Cost of Sales

m.

Cost of sales consists primarily of purchase price for commercial hogs from Wang Da, cost of fodder, direct labor, depreciation and manufacturing overhead, which are directly attributable to the production of breeding hogs.

n. Selling, General and Administrative Costs

Selling costs consist primarily of salaries, freight costs and advertising fees, which are incurred in the course of the sale of goods. General and administrative costs consist of salaries, entertainment expenses, consulting fees, professional expenses and other expenses, which result from organization and management of the operating activities.

o. Recent Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update (ASU) No.2011-05, "Comprehensive Income". ASU No. 2011-05 amends the guidance with ASC Topic 220, "Comprehensive Income", in this Update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income.

Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented.



The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments do not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. In both cases, the tax effect for each component must be disclosed in the notes to the financial statements or presented in the statement in which other comprehensive income is presented. The amendments do not affect how earnings per share is calculated or presented.

The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The Company will adopt these new disclosure requirements on its financial statements and notes in the years or interim periods beginning after December 15, 2011.

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, "Fair Value Measurement". ASU 2011-04 amends the guidance with ASC Topic 822, "Fair Value Measurement". The amendments in this Update change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Those that clarify the Board's intent about the application of existing fair value measurement and disclosure requirements
2. Those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

In addition, to improve consistency in application across jurisdictions some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way (for example, using the word shall rather than should to describe the requirements in U.S. GAAP). The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company will adopt these new disclosure requirements on its financial statements and notes in the years or interim periods beginning after December 15, 2011.

#### 5. Inventories

Inventories as of December 31, 2011 and June 30, 2011 consisted of the following:

|                  | December 31, 2011<br>(Unaudited) | June 30, 2011<br>(Audited) |
|------------------|----------------------------------|----------------------------|
| Raw materials    | \$ 50,178                        | \$ 37,305                  |
| Work in progress | 1,074,470                        | 1,006,071                  |
| Finished goods   | 1,286,872                        | 501,299                    |
| Total            | \$ 2,411,520                     | \$ 1,544,675               |

The raw materials generally consist of feedstuff and other raw materials. Finished goods consist of the baby hogs, young hogs and commercial hogs which are ready to sell. Work in progress consists generally of the direct labor, depreciation of the facilities, manufacturing overhead expenses, and other production related fees.



Inventory turnover for the six months ended December 31, 2011 and 2010 were as follows:

|                    | For The Six Months Ended December<br>31, |       |
|--------------------|--|-------|
|                    | 2011                                     | 2010  |
| Inventory turnover | 36.44                                    | 32.19 |

Cost of goods sold increased for the six months ended December 31, 2011 as compared to the same period in 2010 as a result of the increase in sales. Average inventories increased in the six months ended December 31, 2011 as compared to the same period in 2010. However, the increased amount of cost of goods sold was greater than the amount of increased average inventories during the current period. As a result, the inventories turnover rate, which equals the cost of goods sold divided by the average inventory, for the six months ended December 31, 2011 was higher than in the same period in 2010.

#### 6. Advanced to Suppliers, Net and Performance Bond

Heilongjiang Sen Yu has a cooperation agreement with Wang Da, a professional feeding materials provider and a collector for good quality commercial hogs, on October 11, 2007. Pursuant to the terms of the agreement, Heilongjiang Sen Yu agreed to loan money to Wang Da to support Wang Da's farmers' use of good quality feedstuffs to raise their commercial hogs, and then sell those hogs to Heilongjiang Sen Yu once they mature. Wang Da can offset the loan amount from Heilongjiang Sen Yu once it delivers the farmers' commercial hogs to Heilongjiang Sen Yu. In order to extend the Company's farmer-based production model and acquire significant amounts of commercial hogs in the near future from Wang Da, Heilongjiang Sen Yu loaned an aggregate amount of RMB 545,674,257 (equivalent to \$86,538,176) to Wang Da as of December 31, 2011. Heilongjiang Sen Yu adopted a bad debt allowance at 5% of the principal amount advanced to Wang Da for the six months ended December 31, 2011 and fiscal year ended June 30, 2011. Accordingly, the bad debt allowances were RMB27,283,713 (equivalent to \$4,326,909) and RMB18,188,637 (equivalent to \$2,814,084) as of December 31, 2011 and June 30, 2011, respectively. Including the amount of advances to suppliers by the joint venture, Sino-Canadian Sen Yu, the Company had a total net amount advances to suppliers as of December 31, 2011 and June 30, 2011 as follows:

|                                      | December 31, 2011<br>(Unaudited) | June 30, 2011<br>(Audited) |
|--------------------------------------|----------------------------------|----------------------------|
| Advanced to suppliers                | \$ 86,538,176                    | \$ 56,287,869              |
| Less: Accumulated bad debt allowance | 4,326,909                        | 2,814,084                  |
| Advanced to suppliers, net           | \$ 82,211,267                    | \$ 53,473,785              |

Heilongjiang Sen Yu entered into a supplementary agreement with Wang Da on December 12, 2008 to secure Heilongjiang Sen Yu's loan to Wang Da. Pursuant to the supplementary agreement, once Wang Da has breached the terms of the cooperation agreement, Heilongjiang Sen Yu can exercise the following rights to secure its loans to Wang Da: (1) step into Wang Da's shoes without any condition, and have all creditor's rights of Wang Da with its contracted farmers, (2) if such rights still do not satisfy the loss of Heilongjiang Sen Yu, then Heilongjiang Sen Yu will have a secured interest in all of Wang Da's assets, which include but are not limited to the building, equipment, and working capital of Wang Da.



Heilongjiang Sen Yu renewed the cooperation agreement with Wang Da effective January 1, 2009. Heilongjiang Sen Yu still finances Wang Da, with fixed profit margins set by Heilongjiang Sen Yu, and Wang Da in turn finances the farmers by providing fodder on credit obtained through its volume purchasing. Wang Da also guarantees the collection of mature hogs that meet Heilongjiang Sen Yu's quality standards. In case Wang Da breaches the terms of the cooperation agreement, Heilongjiang Sen Yu can still exercise the above rights to secure its loans to Wang Da.

In order to further enhance the cooperation between the two companies, the Company entered into an amended and restated cooperation agreement with Wang Da on April 1, 2011. The amended and restated agreement contain many of original terms, except that Wang Da agreed to pay RMB7 million (equivalent to \$1,110,126) to the Company as the performance bond, which was fully paid on April 18, 2011. Such bond will be returned to Wang Da when the agreement is terminated. The parties also agree that if Wang Da breaches this agreement during the agreement term, the Company has the right to deduct its losses from the bond. In addition, the feed cost will be increased to \$109 from \$100 beginning in April 2011, upon such amended and restated cooperation agreement. Pursuant to this amended and restated cooperation agreement with Wang Da on April 1, 2011, since the market price of raw materials relation to manufacturing feed cost continues to rise more than 6% in 2011, the Company signed a new supplementary agreement with Wang Da on July 28, 2011. The feed cost was increased to \$132 from \$111 commencing from August 1, 2011 pursuant to such supplementary agreement. Except as modified by the supplementary agreement, all of terms of the amended and restated cooperation agreement remain the same.

Pursuant to the amended and restated cooperation agreement, if Wang Da fails to satisfy its obligations, the Company can assume the rights of Wang Da under its Fodder Supply and Commercial Hog Buy-Back Agreements with the Wang Da farmers. This assumption of rights would enable the Company to take direct delivery of the full-grown hogs due to Wang Da. In the event that the sale of those hogs did not provide sufficient returns to satisfy Wang Da's obligations to the Company, it would have access to Wang Da's additional assets to meet the shortfall, including cash, account receivables, prepayments, inventory and other receivables. The Company is not responsible for Wang Da's liabilities and is under no obligation to succeed to Wang Da's business upon assumption of Wang Da's rights. The Company does not have a priority claim over the other creditors and all creditors will have equal access proportional to their claims to Wang Da's assets.

Advances to suppliers aging as of December 31, 2011 and June 30, 2011 were as follows:

|                   | December 31, 2011<br>(Unaudited) | June 30, 2011<br>(Audited) |
|-------------------|----------------------------------|----------------------------|
| Less than 90 days | \$ 56,364,515                    | \$ 23,897,702              |
| 91days-180days    | 19,852,857                       | 19,035,971                 |
| 181days-365days   | 10,320,804                       | 13,354,196                 |
| Total             | \$ 86,538,176                    | \$ 56,287,869              |

The Company's advances to suppliers with ages of less than 91 days represented approximately 65% and 42% of total advances to suppliers as of December 31, 2011 and June 30, 2011, respectively.

The turnover rate for advances to Wang Da for the six months ended December 31, 2011 and 2010 were as follows:

|                                       | For The Six Months Ended December 31, |      |
|---------------------------------------|---------------------------------------|------|
|                                       | 2011                                  | 2010 |
| Turnover rate for advances to Wang Da | 1.02                                  | 1.24 |



The purchases of commercial hogs from Wang Da increased during the six months ended December 31, 2011 as compared to the same period in 2010 as a result of the Company's increase in sales of commercial hogs. In order to acquire large numbers of commercial hogs in the coming year, the amount of average advances to Wang Da increased during the quarter ended December 31, 2011 as compared to the same period in 2010. However, the amount of increased purchases of commercial hogs was less than the amount of increased average advances during the current period. As a result, the turnover rate of advances to Wang Da for the six months ended December 31, 2011 was less than in the same period in 2010.

The components of the advances are shown in the following table as of December 31, 2011:

Advance to Wang Da: US \$82.2 mm

|                                | Advances to Wang Da in US\$ |
|--------------------------------|-----------------------------|
| Fodder provided to Farmers     | \$ 46,748,114               |
| Fodder used on Sen Yu Farms    | (183,429 )                  |
| Feed                           | 39,973,491                  |
| Sub-total                      | 86,538,176                  |
| Bad Debt Allowance for Wang Da | (4,326,909 )                |
| Total                          | \$ 82,211,267               |

| Month  | Unit Price | Piglets | Advances to Wang Da in US\$ |
|--------|------------|---------|-----------------------------|
| Jul/11 | 111        | 46,410  | \$ 5,129,774                |
| Aug/11 | 132        | 52,940  | 7,012,110                   |
| Sep/11 | 132        | 54,600  | 7,231,983                   |
| Oct/11 | 132        | 66,870  | 8,857,192                   |
| Nov/11 | 132        | 69,130  | 9,156,538                   |
| Dec/11 | 132        | 70,670  | 9,360,517                   |
| Total  |            | 360,620 | \$ 46,748,114               |

Fodder provided to Farmers: \$46,748,114

Fodder provided to farmers is determined by an estimation of fodder consumed from July to December of 2011. The Company and Wang Da inspect the farmers periodically to monitor the birth rate of piglets and hogs ready to be sold to market in order to determine the feed consumption. The fodder estimation is calculated on a 6 month basis.

Feed: \$39,973,491

“Feed” is one of the components of the Advance to Wang Da, defined as the corn, which is used to mix fodder. The corn costs constitute approximate 45% of costs of total mixed fodder. In order to stabilize the mixed fodder costs of Wang Da, the Company generally advances a “corn fund” to Wang Da between October and December each year. Based on the negotiation with Wang Da, the “corn fund” is calculated as 30% of the total annual projection of the fodder costs for the next fiscal year. The Company will offset this amount in the coming fiscal year when the Company provides fodder advances to Wang Da. A mature hog weighing 100 kg consumes 288 kg of feed with a feed cost of \$100. The life cycle is 155 days from birth to be considered mature. The feed cost increased to \$132 commencing August 2011, pursuant to the new supplementary agreement dated July 28, 2011.

Fodder used on Sen Yu Farms: \$183,429

The fodder used on Sen Yu farms is the fodder supply for the breeding hogs produced on the Company’s farms. Wang Da provides the Company with short term credit for the fodder used on the Company’s farm.

#### 7. Prepayments and Other Current Assets

As of December 31, 2011 and June 30, 2011, prepayments and other current assets consisted of the following:

|                      | December 31, 2011<br>(Unaudited) | June 30, 2011<br>(Audited) |
|----------------------|----------------------------------|----------------------------|
| Prepaid rent         | \$ 27,507                        | \$ 52,738                  |
| Advance to employees | 2,194                            | 5,676                      |
| Other receivable     | 28,616                           | 13,755                     |
| Total                | \$ 58,317                        | \$ 72,169                  |

## 8. Property, Plant, Equipment, and Breeding Stock, Net

Property, Plant, Equipment, and Breeding Stock, less accumulated depreciation, consisted of the following:

|                                | December 31, 2011<br>(Unaudited) | June 30, 2011<br>(Audited) |
|--------------------------------|----------------------------------|----------------------------|
| Buildings and improvements     | \$ 1,909,978                     | \$ 1,863,336               |
| Land improvements              | 301,338                          | 293,978                    |
| Leasehold improvements         | 125,521                          | 158,967                    |
| Machinery and equipments       | 780,160                          | 676,405                    |
| Breeding stock                 | 682,703                          | 721,393                    |
| Sub-Total                      | 3,799,700                        | 3,714,079                  |
| Less: Accumulated depreciation | 2,122,362                        | 1,897,092                  |
| Total                          | \$ 1,677,338                     | \$ 1,816,987               |

Depreciation expenses for the six months ended December 31, 2011 and 2010 were \$231,924 and \$250,927, respectively. Loss on disposal of fixed assets for the six months ended December 31, 2011 and 2010 was \$68 and \$49,148, respectively.

## 9. Loans Payable, Net

Loans payable as of December 31, 2011 and June 30, 2010 consisted of the following:

| Loans payable, net, current maturities  | December 31,<br>2011<br>(Unaudited) | June 30, 2011<br>(Audited) |
|---|-------------------------------------|----------------------------|
| On December 1 and 16, 2005, the Company obtained loans in amounts of RMB2.8 million (equivalent to \$444,050 and \$433,207 as of December 31, 2011 and June 30, 2011, respectively) and RMB0.7 million (equivalent to \$111,013 and \$108,302 as of December 31, 2011 and June 30, 2011, respectively) from Jiamusi Government Financial Bureau ("JGFB") by pledging certain buildings in Huanan, which have a carrying value of approximately RMB2.6 million (equivalent to \$407,250 and \$402,263 as of December 31, 2011 and June 30, 2011, respectively). The term of the debt was originally from October 31, 2005 to 2007. Since the Company is an agricultural enterprise and its business is supported by the Chinese Government, these loans do not bear interest, and the original due date had been extended to December 31, 2011. The Company has submitted application for extending the term of the loan, which has been under review by the relevant authorities. | \$ 555,063                          | \$ 541,509                 |
| On April 20 and September 25, 2007, the subsidiary of the Company, Sino-Canadian, obtained loans in amounts of RMB1.5 million (equivalent to \$237,884 and \$232,075 as of December 31, 2011 and June 30, 2011, respectively) and RMB0.5 million (equivalent to \$79,295 and \$77,358 as of December 31, 2011 and June 30, 2011, respectively) from TangYuan Government Financial Bureau ("TGFB") by pledging certain buildings in Heijinhé, which have a carrying value of approximately RMB5.1 million (equivalent to \$762,200). The term of the debt was originally from January 1, 2007 to December 31, 2008. Since the Chinese government supports the Company's business, these loans do not bear interest and all of their due dates  | 317,179                             | 309,433                    |

had been extended to December 31, 2009. On December 16, 2009, the due dates of these loans were extended to December 31, 2011. The Company has submitted an application for extending the term of the loan, which is under review by the relevant authorities. The Company has spoken to such authorities and is confident an extension of the term will be granted prior to March 15, 2012.

On May 9, 2007, the Company obtained a loan in amount of RMB2 million (equivalent to \$317,179 and \$309,433) as of December 31, 2011 and June 30, 2011, respectively) from JGFB by pledging certain buildings in Huanan, which have a carrying value of approximately RMB1.5 million (equivalent to \$237,884). The term of the debt was originally from January 1, 2007 to December 31, 2008. This loan does not bear interest and the due date had been extended to December 31, 2009 by JGFB on June 16, 2008. On December 16, 2009, the due dates of these loans were extended to December 31, 2011. The Company has submitted application for extending the term of the loan, which has been under review by the relevant authorities. The Company has spoken to such authorities and is confident an extension of the term will be granted prior to March 15, 2012.

|  |              |              |
|--|--------------|--------------|
|  | 317,179      | 309,433      |
| Total loans payable, current maturities      | 1,189,421    | 1,160,375    |
| Less: discount on loans payable, current     | -            | 31,858       |
| Total loans payable, net, current maturities | \$ 1,189,421 | \$ 1,128,517 |

## 10. Loans from Stockholders/Officers, Net

Loans from stockholders/officers are unsecured, non-interest bearing, and have not set repayment date. At the quarter ended September 30, 2009, in order to increase the working capital of the Company, the majority stockholder, Mr. Ligang Shang, waived his right to collect the Company's debt to him in an aggregate amount of \$11,169,236. That sum was added to paid-in capital as of September 30, 2009. As a result, the total net amount of loans from the stockholders/officers was \$740,435 as of December 31, 2011.

## 11. Commitments

The Company enters into commercial hog sales contracts with its major customers to decrease its market risk in the ordinary course of business. The Company utilizes these contracts to establish adequate sales to minimize the risk of market fluctuations. The Company continually monitors its overall market position and fair value. The material terms of these contracts information are summarized as below:

| Contract # | Sales Contracts       | Client's Name              | Contract Term                                 | Sales Quantities      |
|------------|-----------------------|----------------------------|---|-----------------------|
| 1          | Commercial hogs sales | Beijing Da Hongmen         | from September 28, 2011 to September 28, 2012 | 300,000 hogs per year |
| 2          | Commercial hogs sales | Beijing Fifth Meat Factory | from August 29, 2011 to August 28, 2012       | 400,000 hogs per year |

  

|   | Sales Price                  | Hog Average Weight | Hogs Quality                                       | Penalty   |
|---|------------------------------|--------------------|--|---|
| 1 | Market price in Beijing area | From 75 to 90kg    | second or/and third generation of merchandise hogs | 1% penalty if the merchandise hogs are delivered late |
| 2 | Market price in Beijing area | From 75 to 90kg    | second or/and third generation of merchandise hogs | 1% penalty if the merchandise hogs are delivered late |

The Company leases office space and employee living space. The rental expenses under operating leases were \$103,569 and \$ 78,006 for the six months ended December 31, 2011 and 2010, respectively. Future minimum rental commitments on December 31, 2011, are as follows:

| For The Six<br>Months<br>Ending<br>December<br>31, | Amount     |
|--|------------|
| 2012   | \$ 188,922 |
| 2013   | 105,191    |
| 2014   | 2,975      |
| 2015   | 1,566      |
| 2016   | 1,566      |
| Thereafter   | 27,665     |
| Total<br>minimum<br>payments<br>required           | \$ 327,885 |

## 12. Stockholders' Equity

### a. Preferred Stock

The Board is authorized to designate the preferred stock in classes, and to determine the rights, privileges and limitations of the shares in each class. There were 10,000,000 of preferred stock authorized, par value \$0.001 per share.

#### Series B Convertible Preferred Stock

On June 11, 2010, the Company consummated an offering with certain accredited investors pursuant to a Series B Convertible Preferred Stock and Warrant Purchase Agreement ("2010 June Private Placement"). The Company raised gross proceeds of \$2,420,000 and issued to the investors an aggregate of (i) 1,152,380 shares of Series B convertible preferred stock with an initial one-to-one conversion ratio into shares of the Company's common stock ("Preferred B Stock"), (ii) Series A Warrants to purchase an aggregate of 1,008,334 shares of common stock (the "Series A Warrants"), and (iii) Series B Warrants to purchase an aggregate of 1,008,334 shares of common stock (the "Series B Warrants"). Additionally, the investors were granted an option to purchase up to \$3,000,000 of additional Preferred B Stock any time on or before December 11, 2010. In connection with the 2010 June Private Placement, the Company also issued to Global Arena Capital Corp., the Company's placement agent ("Global"), and certain individuals affiliated with Global: (i) Series C Warrants to purchase an aggregate of 70,583 shares of common stock, exercisable at \$3.00 per share for five years, (ii) Series D Warrants to purchase an aggregate of 70,583 shares of common stock, exercisable at \$4.10 per share for five years, and (iii) Series E Warrants to purchase an aggregate of 80,000 shares of common stock, exercisable at \$2.10 per share for five years. From the proceeds of the offering, the Company paid a fee of \$116,160 to the placement agent as commission. The Company also reimbursed the placement agent for its management and finance expenses totaling \$53,240. In addition, the Company incurred other direct costs of \$60,455. As a result, the Company realized net proceeds of \$2,190,145 from the offering.





The conversion price of the Series B Preferred Stock is subject to adjustment based on the Company's performance as follows: (i) in the event the Company's after-tax net income earnings per share for its fiscal year 2010 are between \$0.55 and \$0.27 per share, the then-current conversion price will decrease proportionately; by 0% if the earnings are \$0.55 per share or greater and by 50% if the earnings are \$0.27 per share, and (ii) in the event the Company's earnings are between \$0.67 and \$0.33 per share for its fiscal year 2011, the then-current conversion price will decrease proportionately; by 0% if the earnings are \$0.67 per share or greater and by 50% if the earnings are \$0.33 per share. In the event the February 2010 Convertible Notes are converted at a price per share below \$2.10, the conversion price shall immediately be adjusted to the equivalent of such lower price per share. The conversion price of Series B Preferred Stock issued in the June 2010 offering was \$1.08 per share as of December 31, 2011.

On March 16, 2011, 77,143 shares of Preferred B Stock issued in the 2010 June Private Placement were converted into 150,000 shares of common stock at a conversion price of \$1.08 per share. In addition, in August 2011, 154,286 shares of Preferred B Stock issued in the 2010 June Private Placement were converted into 300,000 shares of common stock at a conversion price of \$1.08 per share.

On February 17, 2011, 913,192 shares of Preferred B Stock were issued upon the automatic conversion of the promissory notes issued in the February 2010 offering. The initial conversion ratio for the Preferred B Stock issued on February 17, 2011 is one-to-one. For the three months ended September 30, 2011, 84,360 shares of Preferred B Stock issued in February 2011 were converted into 98,420 shares of common stock in September 2011 using an incorrect conversion ratio. The correct conversion ratio that shall have been applied to the Noteholders is one-to-one. Therefore the Company should have been issued 84,360 shares of common stock to such Note holder. As a result, 14,060 shares of common stock that were issued to such Note holder was in excess and shall be revoked. The Company has been in discussion with this Note holder to resolve this issue. Subsequently, in the six months ended December 31, 2011, 463,978 shares of Preferred B Stock issued to other previous Note holders in February 2011 were converted into 463,978 shares of common stock at the correct conversion ratio of one-to-one.

As of December 31, 2011 and June 30, 2011, there were 1,285,805 and 1,988,429 shares of Series B Stock outstanding. As of December 31, 2011, there are 364,854 shares of Series B Stock with a conversion ratio into common stock of one to one and 920,951 shares of Series B Stock are convertible into common stock at the conversion price of \$1.08.

b. Warrants

Series A Warrants and Series B Warrants

The Series A Warrants and Series B Warrants have an initial exercise price of \$3.00 and \$4.10 per share, respectively, and are each exercisable for three years from the dates of their issuance. As long as any Series A Warrant or Series B Warrant is held by a 2010 June Private Placement investor, the Company is prohibited from entering into any subsequent financing involving issuances of securities of the Company (the "Subsequent Financing"), if (i) the securities issued therein are convertible into common stock at variable conversion rates, or (ii) an investor in the Subsequent Financing is granted the right to receive additional shares based on future transactions of the Company on more favorable terms than those granted to the 2010 June Private Placement investors.

The exercise prices of the Series A Warrants and Series B Warrants are subject to adjustment based on the Company's performance as follows: (i) in the event the Company's after-tax net income earnings per share for its fiscal year 2010 are between \$0.55 and \$0.27 per share, the then-current warrant exercise prices will decrease proportionately; by 0% if the earnings are \$0.55 per share or greater and by 50% if the earnings are \$0.27 per share, and (ii) in the event the Company's earnings are between \$0.67 and \$0.33 per share for its fiscal year 2011, the then-current warrant exercise prices will decrease proportionately; by 0% if the earnings are \$0.67 per share or greater and by 50% if the earnings are \$0.33 per share. In addition, the exercise prices of the aforesaid warrants will be adjusted and reduced to the prices (if lower) of any shares or other instruments convertible into common stock issued by the Company. The Company's basic earnings were \$0.33 per share for the fiscal year ended June 30, 2010, and as a result, the Series A Warrants and Series B Warrants issued in the June 2010 Private Placement were exercisable at \$1.80 and \$2.46 per share as of June 30, 2011, respectively. Since the Company's basic earnings were \$1.64 per share for the fiscal year ended June 30, 2011, and as a result, the Series A Warrants and Series B Warrants issued in the June 2010 Private Placement were exercisable at \$1.80 and \$2.46 per share as of December 31, 2011, respectively.

On February 17, 2010, Series A Warrants to purchase an aggregate of 799,044 shares of common stock and Series B Warrants to purchase an aggregate of 799,044 shares of common stock were issued upon the conversion of the February 2010 Notes. These Series A Warrants and Series B Warrants were initially exercisable at \$3.00 and \$4.10, respectively, for three years from February 17, 2011. The Company's basic earnings were \$0.33 per share for the fiscal year ended June 30, 2010, and as a result, the Series A Warrants and Series B Warrants issued in the June 2010 Private Placement were exercisable at \$1.80 and \$2.46 per share as of June 30, 2011, respectively. Since the Company's basic earnings were \$1.64 per share for the fiscal year ended June 30, 2011, and as a result, the Series A Warrants and Series B Warrants issued in the June 2010 Private Placement were exercisable at \$1.80 and \$2.46 per share as of December 31, 2011, respectively.

As of December 31, 2011, 1,807,378 Series A Warrants and 1,807,378 Series B Warrants were outstanding, respectively.

#### Series C Warrants to Series E Warrants

In connection with the 2010 June Private Placement, the Company issued to Global, and certain individuals affiliated with Global: (i) Series C Warrants to purchase an aggregate of 70,583 shares of common stock, exercisable for five years at \$3.00 per share, (ii) Series D Warrants to purchase an aggregate of 70,583 shares of common stock, exercisable at \$4.10 per share for five years, and (iii) Series E Warrants to purchase an aggregate of 80,000 shares of common stock, exercisable at \$2.10 per share for five years. None of these warrants has been exercised as of December 31, 2011.

#### Series F Warrants

On February 17, 2011, the Company consummated a private placement with a non-U.S. investor in which the Company sold an aggregate of 1,383,700 shares of the Company's common stock at \$2.20 per share for total gross proceeds of \$3,044,140 (the "February 2011 Private Placement"). The investor also received a Series F Warrant exercisable for three years to purchase 1,106,960 shares of common stock at \$2.64 per share. The Series F Warrant may only be exercised in cash and the exercise price of the Series F Warrant is subject to adjustment for stock splits, stock dividends, recapitalizations and the like.

On February 17, 2011, Series F Warrants to purchase an aggregate of 877,199 shares of common stock were issued upon conversion of the February 2010 Notes.



As of December 31, 2011, 1,984,159 Series F Warrants were outstanding.

Following is a summary of the status of Series A to F warrants activity as of December 31, 2011:

|                                  | Warrants<br>Outstanding | Weighted<br>Average<br>Exercise Price | Average<br>Remaining<br>Life in years | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|-------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| Outstanding, July 1, 2011        | 5,820,081               | \$ 2.73                               | 3.90                                  | \$ 2.65                         |
| Granted                          | -                       | -                                     | -                                     | -                               |
| Forfeited                        | -                       | -                                     | -                                     | -                               |
| Exercised                        | -                       | -                                     | -                                     | -                               |
| Adjusted by investment agreement | -                       | -                                     | -                                     | -                               |
| Outstanding, December 31, 2011   | 5,820,081               | \$ 2.34                               | 1.94                                  | \$ -                            |

#### Accounting for Warrants

FASB accounting standard regarding derivatives and hedging specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position, would not be considered a derivative financial instrument. This FASB accounting standard also provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the exception.

As a result of adopting this ASC 815-40 "Accounting for Derivative Financial Instruments" standard, Series A- F warrants are treated as derivative liabilities warrants because the strike price of the warrants is denominated in US dollars, a currency other than the Company's functional currency, RMB. As a result, the warrants are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire. The fair value of the warrants was determined in the following manner:

The fair value of the warrants issued in the June 2010 Private Placement was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility 235.41%, risk free interest rate 0.24% for Series A and B warrants, and risk free interest rate 0.35% for Series C to E warrants. The fair value of those warrants was calculated at \$208,263 as derivative liabilities warrants as of December 31, 2011.

The fair value of the warrants issued in the February 2011 Private Placement was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility 235.41%, Risk free interest rate 0.24%. The fair value of this warrant was calculated at \$125,651 as derivative liabilities warrants as of December 31, 2011.

The fair value of the warrants issued upon conversion of the February 2010 Notes was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility 235.41%, Risk free interest rate 0.24%. The fair value of those warrants was calculated at \$286,109 as derivative liabilities warrants as of December 31, 2011.

The fair value of outstanding warrants was \$620,023 and \$3,793,314 as of December 31, 2011 and June 30, 2011. The fair value of the warrants was calculated using the Black-Scholes options pricing model using the following assumptions

|                         | As of December 31, 2011 | As of June 30, 2011 |
|-------------------------|-------------------------|---------------------|
| Volatility              | 235.41%                 | 267.8%              |
| Risk free interest rate | 0.24% or 0.35%          | 0.39% or 0.67%      |
| Expected term           | 1. 40-3.40 years        | 1.95-3.95 years     |

The change in fair value of warrants was recorded as other income for the six months ended December 31, 2011 and 2010.

#### c. Common Stock

After the change of domicile from Colorado to Delaware on December 6, 2007, the Company had 300,000,000 authorized shares Common Stock, par value \$0.001 per share. After recapitalization, the Company had 41,423 shares of Common Stock outstanding and issued as of June 30, 2009. In November 2009, 4,646.05933 outstanding shares of Series A Convertible Preferred Stock were converted into 20,044,689 shares of Common Stock. On January 29, 2010, the board of directors of the Company authorized, and on February 2, 2010, the Company issued, 5,000 shares of Common Stock to a consultant for services rendered for the term from January 29, 2010 to June 30, 2010. Moreover on May 3, 2010, the board of directors of the Company authorized, and the Company issued an aggregate number of 200,000 shares of Common Stock to Mr. Cong and Mr. Hau for services rendered for the period from April 16, 2010 to April 15, 2013.

In addition, the Company issued to Primary Capital LLC (“Primary”) and one individual, Mr. Ming Liu, 361,870 and 240,000 shares of restricted common stock (collectively, the “Shares”) of the Company on June 9, 2010, respectively. The Shares were issued in connection with a settlement and termination agreement (the “Settlement Agreement”) entered into by the Company and Primary dated June 4, 2011. The Settlement Agreement provides for (i) termination of certain advisory agreements between the Company and Primary including the Agreement for Financing and Additional Services entered into by the same parties on or about May 18, 2009 (the “2009 Agreement”) and (ii) issuance of the Shares and payments in an aggregate of \$160,000 plus 1% of the gross proceeds of certain future financing by the Company in order to settle a dispute between the Company and Primary related to certain payment obligations of the Company pursuant to the 2009 Agreement. The 2009 Agreement serves to amend and restate an engagement agreement dated May 28, 2008 (the “2008 Agreement”) that had been entered into by the Company and Primary in connection with the reverse merger between the Company and Advanced Swine.

The Company agreed to issue a number of shares of common stock equal to 3% of the outstanding shares of the Company to Primary Capital LLC upon the closing of the reverse merger transaction, which occurred on August 13, 2009 and 3% of the outstanding shares of the Company was issued accordingly in November 2009, after the reverse merger transaction closed. In addition, the Company agreed to issue another 3% to Primary Capital LLC at the closing of the Company’s proposed financing, which occurred in February 2010 (See February 2010 Notes Offering).

On February 17, 2011, an aggregate of 1,096,498 shares of the Company’s common stock were issued upon conversion of the February 2010 Notes.

In March 2011, the Company issued 40,931 shares of common stock to Hampton Growth for rendering investor-relation services, 25,000 shares of common stock to Chunying Chen and 250,000 shares of common stock to each of Ming Jie Huo and Song Ling Huo for consulting services they rendered. Pursuant to the amended service agreement with Hampton Growth in April 2011, the Company issued 370,000 shares of common stocks to Hampton for rendering professional investors-relation services.

#### February 2011 Offering

On February 17, 2011, the Company consummated a private placement with a non-U.S. investor called D.D Investment Co., Limited in which the Company sold an aggregate of 1,383,700 shares of the Company's common stock at \$2.20 per share for total gross proceeds of \$3,044,140. The investor also received a Series F Warrant exercisable for three years to purchase 1,106,960 shares of common stock at \$2.64 per share. The Series F Warrant may only be exercised in cash and the exercise price of the Series F Warrant is subject to adjustment for stock splits, stock dividends, recapitalizations and the like. The investor is entitled to piggy-back registration rights with respect to the 1,106,960 shares of common stock and shares underlying the Series F Warrant. No placement agent was utilized in connection with the February 2011 Private Placement.

#### May 2011 Offering

On May 27, 2011, the Company entered into a financing transaction with four non-U.S. investors. The Company sold an aggregate of 804,000 shares of common stock at \$1.50 per share for total gross proceeds of \$1,206,000 (the "May 2011 Private Placement"). Pursuant to the Subscription Agreement, at any time after 18 months and before 30 months after the closing of the May 2011 Private Placement, the investors will have a right to require the Company to repurchase the shares at a price which, subject to certain anti-dilution adjustments, equals the original purchase price plus interest accrued at 10% per annum. The Company's obligation to repurchase such shares is personally guaranteed by Mr. Zhenyu Shang, the Chairman and the Chief Executive Officer of the Company.

Under the terms of the Subscription Agreement, the common stocks issued to four non-U.S. individual investors are redeemable at the option of the holder. Due to the redeemable nature associated with the common stock issued to the four non-U.S. investors, the Company has classified the shares of common stock as temporary equity. When and if the redemption right expires or when redemption becomes improbable, the shares of common stock will be classified as shareholders' equity. The amount that would have been paid if the redemption had occurred on December 31, 2011 is \$1,277,355, including interest based on 10% per annum accrued from inception.

The Company had 26,155,511 shares of common stock outstanding and issued as of December 31, 2011.

#### d. Additional Paid-In Capital

The additional paid-in capital represents the excess of the aggregate fair value of the capital contributed over the par value of the stock issued \$11,598,742 was recorded as additional paid-in capital as of December 31, 2011.

#### e. Shares Base Compensation and Unearned Compensation

On February 2, 2010, the Company issued 5,000 shares of common stock to a consultant for services rendered during the period from January 29, 2010 to June 30, 2010. On May 3, 2010, the Company issued 100,000 shares of common stock to each of Mr. Cong and Mr. Hau for services rendered for the period from April 16, 2010 to April 15, 2013.

In order to develop a potential market of breeding and commercial hogs in west China, on March 23, 2011, the Company issued 500,000 shares of common stock to two consultants for their services rendered. The Company issued 25,000 shares of common stock to Chunying Chen for services rendered during the period from February 28, 2011 to February 28, 2012 to provide general management advice, especially in the areas of financial management, investor relation and business planning.





In addition, the Company issued 40,931 shares of common stock to Hampton Growth for rendering professional investor relations services for the six months commencing February 23, 2011. Pursuant to the amended agreement on April 22, 2011, the Company issued 370,000 of common stock to Hampton Growth for rendering professional services for the twelve months ending April 21, 2012.

The Company debited unearned compensation on the grant dates, and will recognize total compensation expenses over the period of rendering service. Unearned compensation represents the cost of services yet to be performed, and the Company reports unearned compensation in stockholders' equity in the balance sheets, as a contra-equity account.

### Basic and Diluted Earnings Per Share

13.

The following table sets forth the computation of basic and diluted net income per share:

|   | For The Three Months Ended<br>December 31, |               | For The Six Months Ended<br>December 31, |               |
|---|--|---------------|--|---------------|
|   | 2011                                       | 2010          | 2011                                     | 2010          |
|   | Unaudited                                  | Unaudited     | Unaudited                                | Unaudited     |
| <b>Basic:</b>   |  |               |  |               |
| <b>Numerator:</b>   |  |               |  |               |
| Net income for basic calculation  | \$ 12,891,144                              | \$ 11,209,526 | \$ 31,624,289                            | \$ 17,252,063 |
| <b>Denominator:</b>   |  |               |  |               |
| Weighted average common shares  | 26,000,852                                 | 20,892,982    | 25,721,430                               | 20,892,982    |
| Denominator for basic calculation   | 26,000,852                                 | 20,892,982    | 25,721,430                               | 20,892,982    |
| Net income per share — basic  | \$ 0.50                                    | \$ 0.54       | \$ 1.23                                  | \$ 0.83       |
| <b>Diluted:</b>   |  |               |  |               |
| <b>Numerator:</b>   |  |               |  |               |
| Net income for basic calculation  | 12,891,144                                 | 11,209,526    | 31,624,289                               | 17,252,063    |
| Effect of dilutive securities issued  | -  | 76,516        | -  | 153,033       |
| Net income for diluted calculation  | 12,891,144                                 | 11,286,042    | 31,624,289                               | 17,405,096    |
| <b>Denominator:</b>   |  |               |  |               |
| Denominator for basic calculation   | 26,000,852                                 | 20,892,982    | 25,721,430                               | 20,892,982    |
| Weighted average effect of dilutive securities;<br>Series B Preferred stock and warrants<br>and Series A<br>Convertible Preferred Stock | 2,155,593                                  | 4,475,535     | 2,155,593                                | 5,025,839     |
|   | 28,156,445                                 | 25,368,517    | 27,877,023                               | 25,918,821    |

Denominator for  
diluted calculation

|                                   |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|
| Net income per<br>share — diluted | \$ 0.46 | \$ 0.44 | \$ 1.13 | \$ 0.67 |
|-----------------------------------|---------|---------|---------|---------|

## 14. Concentration of Business

## a. Financial Risks

The Company provides credit in the ordinary course of business. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information. The Company advances significant funds to its major supplier, Wang Da. The Company also performs ongoing credit evaluations of its advances and maintains allowances for doubtful accounts based on factors surrounding the credit risk of its suppliers.

## b. Major Customers

The following summarizes sales to major customers (each represented 10% or more of the Company's total sales revenues):

| For The Six Months Ending<br>December 31, | Sales to<br>Major<br>Customers | Number<br>of<br>Customers | Total Sales<br>Revenue |   |
|---|--------------------------------|---------------------------|------------------------|---|
| 2011                                      | \$ 104,689,676                 | 2                         | 98.40                  | % |
| 2010                                      | \$ 52,148,322                  | 2                         | 99.06                  | % |

## c. Major Suppliers

The following summarizes purchases from major suppliers (each representing 10% or more of the Company's total purchase):

| For The Three Months Ending<br>December 31, | Purchase from<br>Major Suppliers | Number of<br>Suppliers | Percentage of<br>Total Purchases |
|---|----------------------------------|------------------------|----------------------------------|
| 2011  | \$ 72,327,244                    | 1                      | 99.96 %                          |
| 2010  | \$ 40,491,730                    | 1                      | 99.90 %                          |

## 15. Geographical Risks

Substantially all of the Company's operations are carried out in the PRC. Accordingly, the Company's business is subject to considerations and risks different from those in the United States, including changes in the political, economic, social, legal, and tax environments in PRC, as well as changes in inflation and interest rates. Changes in PRC laws and regulations concerning purchases and sales of commercial hogs and breeding swine, and feedstuffs business, could significantly affect the Company's future operating results and financial position.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of financial condition and results of operations relates to the operations and financial condition reported in the unaudited consolidated financial statements of the Company for the six months ended December 31, 2011 and 2010, and should be read in conjunction with such financial statements and related notes included in this report. Those statements in the following discussion that are not historical in nature should be considered to be forward looking statements that are inherently uncertain. Actual results and the timing of the events may differ materially from those contained in these forward looking statements due to a number of factors, including those discussed in the "Cautionary Note on Forward Looking Statements" set forth elsewhere in this Report.

### Overview

Sen Yu International Holdings, Inc. was founded as a Colorado corporation on June 29, 1983 and was re-domiciled in the State of Delaware on December 6, 2007. In connection with the Company's change of domicile, the Company increased its authorized capital to 310,000,000 of which 300,000,000 are Common Stock, and 10,000,000 are Preferred Stock, each with a par value of \$0.001 per share, with the preferred stock issuable in series with such powers, designations, preferences and relative, participating, optional or other specific rights, and qualifications, limitations or restrictions thereof, as the Board may fix from time to time by resolution or resolutions. Prior to August 13, 2009, the Company had not engaged in any business operations.

On August 13, 2009, the Company acquired all of the outstanding capital stock of Advanced Swine Genetics Co., Ltd. ("Advanced Swine") by issuing 4,646.05933 shares of its Series A Convertible Preferred Stock to the stockholders of Advanced Swine. Each share of Series A Preferred Stock is convertible into Four Thousand One Hundred Sixty-Six and (4,166.66) shares of Common Stock. As of the date of this Annual Report, all the Series A Preferred Stock have been converted into Common Stock and the Company filed a Certificate of Elimination to eliminate the previously designated 4,800 shares of Series A Convertible Preferred Stock.

A Certificate of Amendment to the Company's Certificate of Incorporation was filed on September 9, 2009 to change the Company's name from Apogee Robotics, Inc. to "China Swine Genetics, Inc." Concurrent with the name change, a 1 for 24 reverse split was effected on September 30, 2009. Stockholders with 1 or more but fewer than 100 shares after the reverse split were issued shares to increase their holdings to 100 shares. All other fractional shares resulting from the reverse split were repurchased by the Company for \$5.28 per share. On June 28, 2010, we changed our name to "Sen Yu International Holdings, Inc."

Advanced Swine was incorporated under the laws of Nevada on June 29, 2007. It is an intermediate holding company that conducts its business through its subsidiaries in the PRC. On December 20, 2007, Advanced Swine entered into a share transfer agreement with Heilongjiang Sen Yu through which Advanced Swine acquired all the equity interests in Heilongjiang Sen Yu. Heilongjiang Sen Yu was incorporated on September 3, 2004, under the laws of PRC. Heilongjiang Sen Yu was originally founded with a registered capital of RMB10 million (equivalent to approximately \$1,208,211 on August 27, 2004 and increased its registered capital to RMB50 million (equivalent to approximately \$6,165,762) and RMB80 million (equivalent to approximately \$9,933,896) on January 18 and August 29, 2006, respectively. Heilongjiang Sen Yu was in the development stage and incurred minor selling expenses and significant general and administrative expenses until September, 2005, when it accepted its first sales order of merchandise hogs and genetic breeding swine, and started its business as a farmer enterprise for breeding, feeding, and marketing the grandparent and parent generation breeding swine, and merchandise hogs.



In March 2006, Heilongjiang Sen Yu established a joint venture named Sino-Canadian Sen Yu Polar Swine Genetics Company Limited (“Sino-Canadian Sen Yu”) with Polar Genetics Inc., a Canadian corporation (the “Polar Genetics”). This joint venture was in the development stage and did not commence principal operations until November 27, 2007.

Both Heilongjiang Sen Yu and Sino-Canadian Sen Yu engage in the business of breeding and raising hogs and piglets, then distributing them to slaughter facilities and pork distributors in the PRC. Our objective is to establish ourselves as a leading producer and distributor of breeding and commercial hogs in the PRC.

## RESULTS OF OPERATION

THREE MONTHS ENDED DECEMBER 31, 2011 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2010

|   | For The Three Months Ended December 31, |               |          |          | 2011 Vs 2010            |          |
|---|---|---------------|----------|----------|-------------------------|----------|
|   | 2011                                    | 2010          |          |          | Increase/<br>(decrease) |          |
|   | (Unaudited)                             | (Unaudited)   |          |          |                         |          |
| Revenues  | \$ 52,334,532                           | \$ 29,081,466 |          |          | 23,253,066              | 80 %     |
| Cost of Goods Sold                                      | 37,055,621                              | 22,049,508    | 70.81 %* | 75.82 %* | 15,006,113              | 68.06 %  |
| Gross Profit  | 15,278,911                              | 7,031,958     | 29.19 %  | 24.18 %  | 8,246,953               | 117 %    |
| Operating Expenses                                      |   |               |          |          |                         |          |
| Selling expenses  | 1,476,387                               | 981,379       |          |          | 495,008                 | 50 %     |
| General and administrative expenses                     | 269,354                                 | 412,010       |          |          | (142,656 )              | -35 %    |
| Losses on disposal of fixed assets                      | -                                       | 669           |          |          | (669 )                  | -100 %   |
| Bad debt expense (recoveries) for advanced to suppliers | 1,419,952                               | (162,677 )    |          |          | 1,582,629               | -973 %   |
| Compensation Expense                                    | 482,163                                 | 100,000       |          |          | 382,163                 | 382 %    |
| Total Operating Expenses                                | 3,647,856                               | 1,331,381     | 6.97 %   | 4.58 %   | 2,316,475               | 174 %    |
| Income From Operations                                  | 11,631,055                              | 5,700,577     | 22.22 %  | 19.60 %  | 5,930,478               | 104 %    |
| Other Income (Expense)                                  |   |               |          |          |                         |          |
| Interest income (expense), net                          | 910                                     | (68,100 )     |          |          | 69,010                  | -101 %   |
| Other (expense) income, net                             | (46,167 )                               | 453           |          |          | (46,620 )               | -10291 % |
| Change in fair value of warrants                        | 1,331,797                               | 5,571,124     |          |          | (4,239,327 )            | -76 %    |
| Total Other Income                                      | 1,286,540                               | 5,503,477     |          |          | (4,216,937 )            | -77 %    |
| Income from Continuing Operations Before Income Taxes   | 12,917,595                              | 11,204,054    | 24.68 %  | 38.53 %  | 1,713,541               | 15 %     |
| Income Tax Provision                                    | -                                       | -             |          |          | -                       |          |



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|   |               |         |               |         |           |        |
|---|---------------|---------|---------------|---------|-----------|--------|
| Net Income Before Noncontrolling Interest                           | 12,917,595    | 24.68 % | 11,204,054    | 38.53 % | 1,713,541 | 15 %   |
| Less: Net income (loss) attributable to the noncontrolling interest | 26,451        |         | (5,472 )      |         | 31,923    | -583 % |
| Net Income Attributable to Sen Yu International Holdings, Inc.      | \$ 12,891,144 |         | \$ 11,209,526 |         | 1,681,618 | 15 %   |

\* as percentage of the revenue

Revenues

Total revenues were \$52,334,532 for the three months ended December 31, 2011 compared to \$29,081,466 for the three months ended December 31, 2010 which represents a 80% period to period increase. The increase in revenues resulted from increased orders from our major customers, Beijing Dahongmen and Beijing Fifth Meat Factory. Hog sales increased to 213,969 heads for the quarter ended December 31, 2011 from 154,389 heads during the three months ended December 31, 2010.

The following table sets forth information regarding the sales of our principal products during the three months ended December 31, 2011 and 2010:

|            | For The Three Months Ended December 31 2011 |              |         |                        |              |         |                        |              |        |
|------------|---|--------------|---------|------------------------|--------------|---------|------------------------|--------------|--------|
|            | 2011  |              |         | 2010                   |              |         | 2011 Less 2010         |              |        |
|            | Quantities<br>(Capita)                      | Amount       | Sale %  | Quantities<br>(Capita) | Amount       | Sale %  | Quantities<br>(Capita) | Amount       | Sale % |
| Commercial |   |              |         |                        |              |         |                        |              |        |
| Hogs       | 211,168                                     | \$51,533,581 | 98.47 % | 153,325                | \$28,810,123 | 99.07 % | 57,843                 | \$22,723,458 | 79 %   |
| Others     |   |              |         |                        |              |         |                        |              |        |
| Hogs       | 2,801                                       | 800,951      | 1.53 %  | 1,064                  | 271,343      | 0.93 %  | 1,737                  | 529,608      | 195 %  |
| Total      | 213,969                                     | \$52,334,532 | 100 %   | 154,389                | \$29,081,466 | 100 %   | 59,580                 | \$23,253,066 | 80 %   |

Commercial hogs refer to the hogs we repurchase from farmers through Wang Da. Commercial hogs are transported and sold in the Beijing market. Other hogs refer to hogs raised in our own breeding facilities, including breeding swine, commercial hogs, piglets and substandard hogs which are not qualified as breeding swine. Other hogs are sold in local Heilongjiang market.

The increase in quantities sold, as reflected in the table, was primarily attributable to our policy of committing all of our available cash resources to the commercial hog market.

The following table sets forth information regarding the average price per capita of our principal products during the three months ended December 31, 2011 and 2010:

|                          | Average Unit Sales Price Per<br>Capita |           | Basic<br>Change<br>Per Capita |
|--------------------------|--|-----------|-------------------------------|
|                          | 2011                                   | 2010      |                               |
| Commercial Hogs          | \$ 244.04                              | \$ 187.90 | \$ 56.14                      |
| Others Hogs              | 285.95                                 | 255.02    | 30.93                         |
| Overall Average Products | 244.59                                 | 188.36    | 56.23                         |

The increase in average unit sales price (per capita), as reflected in the above table, was primarily attributable to the fact that the market price of hogs per kilogram increased significantly in the three months ended December 31, 2011 as compared to the same period in 2010. Therefore, the average unit sales price of others hogs increased for the three months ended December 31, 2011 as compared to the same period in 2010.

#### Cost of Goods Sold

Our cost of goods sold consists primarily of direct and indirect manufacturing costs, including production overhead costs and costs of our purchases of hogs. Cost of goods sold for the three months ended December 31, 2011 were \$37,055,621. Comparing to \$22,049,508 for the three months ended December 31, 2010, this represents an increase of 68.06% or \$15,006,113. This increase was in line with the increase in sales.

Gross margin was 29.19% for the three months ended December 31, 2011 and 24.18% for the three months ended December 31, 2010. The increase in gross margin was due to the higher unit sale prices for the quarter ended December 31, 2011 as compared to the same period in 2010.



The following table sets forth information regarding the average cost per capita of our principal products during the three months ended December 31, 2011 and 2010.

|                          | Average Cost Per Capita |           | Basic Change |
|--------------------------|-------------------------|-----------|--------------|
|                          | 2011                    | 2010      | Per Capita   |
| Commercial Hogs          | \$ 172.73               | \$ 142.23 | \$ 30.50     |
| Others Hogs              | 206.90                  | 228.17    | (21.27 )     |
| Overall Average Products | 173.18                  | \$ 142.82 | 30.36        |

The increase in average unit cost for overall average products was primarily attributable to the increased sales of commercial hogs and the higher fodder costs in the three months ended December 31, 2011 as compared to the three months ended December 31, 2010.

Costs of commercial hogs mainly consist of fodder costs and the fixed percentage of profits allocated to the farmers. The latter is calculated as 40% of profits (roughly equal to the difference between the local selling price and the fodder costs for the commercial hogs). We distributed more profits to the farmers due to the increase of the market price for the three months ended December 31, 2011, which contributed to the increased average unit cost for commercial hogs per capita for the three months ended December 31, 2011, as compared to the same period in 2010. The decrease in average unit cost price for other hogs was primarily due to the fact that there was a significant increase in the other hogs we produced in our breeding facility for the three months ended December 31, 2011 as compared to the same period of last year, as a result the fixed manufacturing costs were allocated to such other hogs for the three months ended December 31, 2011. It resulted in a reduction in unit cost for other hogs.

The Company pays an advance to Wang Da and offsets the advance every ten days by receiving collected mature commercial hogs from Wang Da farmers. Roughly 71% of the Company's cost of goods sold consists of fodder cost. A mature hog weighing 100 kg consumes approximately 288 kg of feed on average with a feed cost of \$100. Based on the unit hog feed cost of \$100 and the number of hogs being collected each day, the offset to the prepaid advance would be the sum of \$100 multiplied by the number of hogs collected. The Company settles the advances with Wang Da every 10 days to ensure that the risk control with respect to the advances extended to Wang Da is in place. The feed cost increased to \$111 from \$100 in April 2011 and again, to \$132 in August 2011.

#### Selling Expenses

Selling expenses increased from \$981,379 for the three months ended December 31, 2010 to \$1,476,387 for the three months ended December 31, 2011. The increase was mainly attributable to the increased transportation cost which resulted from increased orders from our major customers in Beijing. We utilized the services of Jiamusi Hongqi Transporting Agency Co for transportation of commercial hogs between Jiamusi and Beijing.

#### Bad debt for advanced to suppliers

The provision for bad debt expense was \$1,419,952 for the three months ended December 31, 2011, as compared to \$162,677 recoveries for the three months ended December 31, 2010, an increase of \$1,582,629 or 973% which was in line with the significant increase in the advances to Wang Da for the quarter ended December 31, 2011. We adopt a bad debt allowance of 5% of the aggregate amount of advances.

#### General and Administrative Expenses

General and administrative expenses were \$269,354 for the three months ended December 31, 2011, as compared to \$412,010 for the three months ended December 31, 2010, a decrease of \$142,656 or 35%. The decrease in general and administrative costs was primarily due to a significant decrease in travel expenses and in amortization indirect costs of financing during the three months ended December 31, 2011, as compared to the same period in 2010. As a result, the general and administrative expenses decreased for the three months ended December 31, 2011, as compared to the same period in 2010.

#### Compensation Expenses

Compensation expenses increased by approximately \$382,163 or approximately 382% from the three months ended December 31, 2010, principally due to an increase in compensation expense amortized in the three months ended December 31, 2011. We issued additional shares of our common stock to certain consultants in order to develop potential business opportunities for producing breeding and commercial hogs in West China and to obtain advice on business operations, financing, investor relations and business planning from January 2011 to June 2011. Pursuant to the requirement for accounting treatment, we will recognize total compensation expenses over the period of rendering service. Details of the terms are disclosed under Notes to Consolidated Financial Statements Note 12 (d) Unearned Compensation section. As a result, compensation expense increased significantly for the three months ended December 31, 2011.

#### Total Operating Expenses

As a result of the above, total operating expenses were \$3,647,856 for the quarter ended December 31, 2011, as compared to \$1,331,381 for the quarter ended December 31, 2010, an increase of \$2,316,475 or 174%. This increase was primarily attributable to the increase in selling expense and compensation expenses.

#### Other Income (Expense or Losses)

During the three months ended December 31, 2011, total other income net, amounted to \$1,286,540 as compared to \$5,503,477 for the three months ended December 31, 2010, a decrease of \$4,216,937. The decrease was mainly attributable to a reduction in the change of the fair value of warrants of \$4,239,327. We adopt ASC 815-40 "Accounting for Derivative Financial Instruments" accounting standard to calculate the fair value for those warrants which are treated as derivative liabilities warrants on the balance sheet. At the end of each quarter, we re-calculate the fair value of the warrants using the Black-Scholes model, and record any increase or decrease in that fair value as other income or other expense. For the quarter ended December 31, 2011 and 2010, the change in the fair value of warrants was \$1,331,797 and \$5,571,124, which were recognized as other income, respectively.

For the three months ended December 31, 2011, net interest income was \$910 as compared to \$68,100 interest expense during the three months ended December 31, 2010, an increase of \$69,010. This increase was because no interest was occurred after full conversion of the \$2,165,000 February 2010 Notes in February 2011.



### Income Taxes

Our PRC subsidiaries are exempt from income taxes per PRC tax laws and regulations that exempt companies engaged in the agricultural breeding of livestock. Sen Yu International is subject to U.S. federal income taxes, State of New York income taxes, and State of Delaware annual franchise taxes while its subsidiary in the U.S., Advanced Swine, is subject to U.S. federal income taxes and State of Nevada annual reporting. Our PRC subsidiaries expect to use their retained earnings to support our PRC operations, and will not declare any dividends within the predictable future. In addition, there was no net income generated by Advanced Swine, during the three months ended December 31, 2011 and 2010. Despite the fact that Sen Yu International generated net income due to the change in fair value of warrants in the three months ended December 31, 2011, there was non-realized gain as of December 31, 2011. Therefore, for the quarter ended December 31, 2011 and 2010, the income taxes were \$0 and \$0, respectively.

### Net Income and Other Comprehensive Income

During the three months ended December 31, 2011, Sino-Canadian Sen Yu had a net income of approximately \$66,128. In our Statements of Operations, the 40% of that income allocable to our joint venture partner was deducted from our net income. Our net income for the quarter ended December 31, 2011, after that deduction, totaled \$12,891,144.

Our business operates primarily in Chinese Renminbi ("RMB"), but we report our results in our SEC filings in U.S. dollars. The conversion of our accounts from RMB to U.S. dollars results in translation adjustments. While our net income will be added to the retained earnings on our balance sheets; the translation adjustments will be added to a line item on our balance sheet labeled "accumulated other comprehensive income," since they will be more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During the three months ended December 31, 2011, the effect of converting our financial results to U.S. dollars was to add \$1,123,566 to our accumulated other comprehensive income. During the quarter ended December 31, 2010, when the exchange rate between the RMB and the U.S. dollar was much more volatile, there was an increase of \$639,856 to our accumulated other comprehensive income.

## SIX MONTHS ENDED DECEMBER 31, 2011 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2010

|  | For The Six Months Ended December 31,<br>2011 |          | 2010          |          | 2011 Vs 2010<br>Increase/<br>(decrease) |         |   |  |
|--|---|----------|---------------|----------|---|---------|---|--|
|  | (Unaudited)                                   |          | (Unaudited)   |          |   |         |   |  |
| Revenues   | \$ 106,390,815                                |          | \$ 52,643,934 |          | 53,746,881                              | 102     | % |  |
| Cost of Goods Sold   | 71,871,890                                    | 67.55 %* | 40,270,654    | 76.50 %* | 31,601,236                              | 78.47   | % |  |
| Gross Profit   | 34,518,925                                    | 32.45 %  | 12,373,280    | 23.50 %  | 22,145,645                              | 179     | % |  |
| Operating Expenses   |   |          |               |          |   |         |   |  |
| Selling expenses   | 2,827,174                                     |          | 1,814,207     |          | 1,012,967                               | 56      | % |  |
| General and administrative expenses                            | 660,683                                       |          | 797,835       |          | (137,152 )                              | -17     | % |  |
| Losses on disposal of fixed assets                             | 68  |          | 49,148        |          | (49,080 )                               | -100    | % |  |
| Bad debt expense for advanced to suppliers                     | 1,424,099                                     |          | 40,285        |          | 1,383,814                               | 3435    | % |  |
| Compensation Expense   | 1,019,682                                     |          | 200,000       |          | 819,682                                 | 410     | % |  |
| Total Operating Expenses                                       | 5,931,706                                     | 5.58 %   | 2,901,475     | 5.51 %   | 3,030,231                               | 104     | % |  |
| Income From Operations   | 28,587,219                                    | 26.87 %  | 9,471,805     | 17.99 %  | 19,115,414                              | 202     | % |  |
| Other Income (Expense)   |   |          |               |          |   |         |   |  |
| Interest expense, net  | (5,570 )                                      |          | (139,134 )    |          | 133,564                                 | -96     | % |  |
| Other (expense) income , net                                   | (43,693 )                                     |          | 11            |          | (43,704 )                               | -397309 | % |  |
| Change in fair value of warrants                               | 3,173,290                                     |          | 7,915,965     |          | (4,742,675 )                            | -60     | % |  |
| Total Other Income   | 3,124,027                                     |          | 7,776,842     |          | (4,652,815 )                            | -60     | % |  |
| Income from Continuing Operations Before Income Taxes          | 31,711,246                                    | 29.81 %  | 17,248,647    | 32.76 %  | 14,462,599                              | 84      | % |  |
| Income Tax Provision   | -   |          | -             |          | -                                       |         |   |  |
| Net Income Before Noncontrolling Interest                      | 31,711,246                                    | 29.81 %  | 17,248,647    | 32.76 %  | 14,462,599                              | 84      | % |  |
| Less: Net income attributable to the noncontrolling interest   | 86,957  |          | (3,416 )      |          | 90,373                                  | -2646   | % |  |
| Net Income Attributable to Sen Yu International Holdings, Inc. | \$ 31,624,289                                 |          | \$ 17,252,063 |          | 14,372,226                              | 83      | % |  |

\* as percentage of the revenue



## Revenues

Total revenues were \$106,390,815 for the six months ended December 31, 2011 compared to \$52,643,934 for the six months ended December 31, 2010 which represents a 102% period to period increase. The increase in revenues resulted from increased orders from our major customers, Beijing Dahongmen and Beijing Fifth Meat Factory. Hog sales increased to 407,564 heads for the six months ended December 31, 2011 from 288,950 heads during the six months ended December 31, 2010.

The following table sets forth information regarding the sales of our principal products during the six months ended December 31, 2011 and 2010:

|            | For The Six Months Ended December 31 2011 |               |           |                        |              |           |                        |              |           |
|------------|---|---------------|-----------|------------------------|--------------|-----------|------------------------|--------------|-----------|
|            | 2011                                      |               |           | 2010                   |              |           | 2011 Less 2010         |              |           |
|            | Quantities<br>(Capita)                    | Amount        | Sale<br>% | Quantities<br>(Capita) | Amount       | Sale<br>% | Quantities<br>(Capita) | Amount       | Sale<br>% |
| Commercial |   |               |           |                        |              |           |                        |              |           |
| Hogs       | 401,914                                   | \$104,689,676 | 98.40 %   | 286,946                | \$52,148,322 | 99.06 %   | 114,968                | \$52,541,354 | 101 %     |
| Others     |   |               |           |                        |              |           |                        |              |           |
| Hogs       | 5,650                                     | 1,701,139     | 1.60 %    | 2,004                  | 495,612      | 0.94 %    | 3,646                  | 1,205,527    | 243 %     |
| Total      | 407,564                                   | \$106,390,815 | 100 %     | 288,950                | \$52,643,934 | 100 %     | 118,614                | \$53,746,881 | 102 %     |

Commercial hogs refer to the hogs we repurchase from farmers through Wang Da. Commercial hogs are transported and sold in the Beijing market. Other hogs refer to hogs raised in our own breeding facilities, including breeding swine, commercial hogs, piglets and substandard hogs which are not qualified as breeding swine. Other hogs are sold in the local Heilongjiang market.

The increase in quantities sold, as reflected in the table, was primarily attributable to our recent decision of committing all of our available cash resources to the commercial hog market.

The following table sets forth information regarding the average price per capita of our principal products during the six months ended December 31, 2011 and 2010:

|                          | Average Unit Sales Price Per Capita |           | Basic Change Per Capita |
|--------------------------|-------------------------------------|-----------|-------------------------|
|                          | 2011                                | 2010      |                         |
| Commercial Hogs          | \$ 260.48                           | \$ 181.74 | \$ 78.74                |
| Others Hogs              | 301.09                              | 247.31    | 53.78                   |
| Overall Average Products | 261.04                              | 182.19    | 78.85                   |

The increase in average unit sales price (per capita), as reflected in the above table, was primarily attributable to the fact that the market price of hogs per kilogram increased significantly in the six months ended December 31, 2011 as compared to the same period in 2010. Therefore, the average unit sales price of others hogs increased significantly for the six months ended December 31, 2011 as compared to the same period in 2010.

#### Cost of Goods Sold

Our cost of goods sold consists primarily of direct and indirect manufacturing costs, including production overhead costs and costs of our purchases of hogs. Cost of goods sold for the six months ended December 31, 2011 were \$71,871,890. In comparing to \$40,270,654 for the six months ended December 31, 2010, this represents an increase of 78.47% or \$31,601,236. This increase was in line with the increase in sales.

Gross margin was 32.45% for the six months ended December 31, 2011 and 23.5% for the six months ended December 31, 2010. The increase in gross margin was due to the higher unit sale prices for the six months ended December 31, 2011 as compared to the same period in 2010.

The following table sets forth information regarding the average cost per capita of our principal products during the six months ended December 31, 2011 and 2010.

|                          | Average Cost Per Capita |           | Basic Change Per Capita |
|--------------------------|-------------------------|-----------|-------------------------|
|                          | 2011                    | 2010      |                         |
| Commercial Hogs          | \$ 175.87               | \$ 138.90 | \$ 36.97                |
| Others Hogs              | 210.15                  | 206.81    | 3.34                    |
| Overall Average Products | 176.35                  | 139.37    | 36.98                   |

The increase in average unit cost for overall average products was primarily attributable to the fact that we sold more commercial hogs and the higher fodder costs in the six months ended December 31, 2011 as compared to the six months ended December 31, 2010.

Costs of commercial hogs mainly consist of fodder costs and the fixed percentage of profits allocated to the farmers. The latter is calculated as 40% of profits (roughly equal to the difference between the local selling price and the fodder costs for the commercial hogs). We distributed more profits to the farmers due to the increase of the market price for the six months ended December 31, 2011, which contributed to the increased average unit cost for commercial hogs per capita for the six months ended December 31, 2011, as compared to the same period in 2010. The increase in average unit cost price for other hogs was primarily due to the fact fodder costs and direct labors increased in the six months ended December 31, 2011 as compared to the same period in 2010. However, there was a significant increase in the number of other hogs we produced in our breeding facility for the six months ended December 31, 2011 as compared to the same period of last year. The fixed manufacturing costs were allocated to such other hogs for the six months ended December 31, 2011, which resulted in a reduction in unit cost for other hogs. As a result, a portion of the increased fodder costs had been offset by the increase in number of other hogs for the three months ended December 31, 2011. Therefore, the unit cost for other hogs only increased slightly for the six months ended December 31, 2011 as compared to the same period in 2010.

The Company pays an advance to Wang Da and offsets the advance every ten days by receiving collected mature commercial hogs from Wang Da farmers. Roughly 71% of the Company's cost of goods sold consists of fodder cost. A mature hog weighing 100 kg consumes approximately 288 kg of feed on average with a feed cost of \$100. Based on the unit hog feed cost of \$100 and the number of daily collected hogs, the offset to the prepaid advance would be the sum of \$100 multiplied by the number of hogs collected. The Company settles the advances with Wang Da every 10 days to ensure that the risk control with respect to the advances extended to Wang Da is in place. The feed cost increased \$132 beginning in August 2011.

#### Selling Expenses

Selling expenses increased from \$1,814,207 for the six months ended December 31, 2010 to \$2,827,174 for the six months ended December 31, 2011. The increase was mainly attributable to the increased transportation cost which resulted from increased orders from our major customers in Beijing. We utilized the services of Jiamusi Hongqi Transporting Agency Co for transportation of commercial hogs between Jiamusi and Beijing.

#### Bad debt for advanced to suppliers

The provision for bad debt expense was \$1,424,099 for the six months ended December 31, 2011, as compared to \$40,285 for the six months ended December 31, 2010, an increase of \$1,383,814 or 3435% which was in line with the significant increase in the advances to Wang Da for the six months ended December 31, 2011. We adopt a bad debt allowance of 5% of the aggregate amount of advances.

#### General and Administrative Expenses

General and administrative expenses were \$660,683 for the six months ended December 31, 2011, as compared to \$797,835 for the six months ended December 31, 2010, a decrease of \$137,152 or 17%. The decrease in general and administrative cost was primarily due to the decrease in amortization of indirect costs of financing for the six months ended December 31, 2011. Despite the fact that the investor relations related charges, professional fees and management salaries were increased for the six months ended December 31, 2011, as compared to the same period in 2010, this increase was offset by the decrease in amortization of indirect costs for the six months ended December 31, 2011. As a result, general and administrative cost decreased during the six months ended December 31, 2011, as compared to the same period in 2010.

#### Compensation Expenses

Compensation expenses increased by approximately \$819,682 or approximately 410% from the six months ended December 31, 2010, principally due to an increase in compensation expense amortized in the six months ended December 31, 2011. We issued additional shares of our common stock to certain consultants in order to develop potential business opportunities for producing breeding and commercial hogs in west China and to obtain advice on business operations, financing, investor relations and business planning from January 2011 to June 2011. Pursuant to the requirement for accounting treatment, we will recognize total compensation expenses over the period of rendering service. Details of the terms are disclosed under Notes to Consolidated Financial Statements Note (d) Unearned Compensation section. As a result, compensation expense increased significantly for the six months ended December 31, 2011.

#### Total Operating Expenses

As a result of the above, total operating expenses were \$5,931,706 for the six months ended December 31, 2011, as compared to \$2,901,475 for the six months ended December 31, 2010, an increase of \$3,030,231 or 104%. This increase was primarily attributable to the increase in selling expense and compensation expenses.

#### Other Income (Expense or Losses)

During the six months ended December 31, 2011, total other income net, amounted to \$3,124,027 as compared to \$7,776,842 for the six months ended December 31, 2010, a decrease of \$4,652,815. The decrease was mainly attributable to a reduction in the change of the fair value of warrants of \$4,742,675. We adopt ASC 815-40 "Accounting for Derivative Financial Instruments" accounting standard to calculate the fair value for those warrants which are treated as derivative liabilities warrants on the balance sheet. At the end of each quarter, we re-calculate the fair value of the warrants using the Black-Scholes model, and record any increase or decrease in that fair value as other income or other expense. For the six months ended December 31, 2011 and 2010, the change in the fair value of warrants was \$3,173,290 and 7,915,965, which were recognized as other income, respectively.

For the six months ended December 31, 2011, net interest expense was \$5,570 as compared to \$139,134 during the six months ended December 31, 2010, a decrease of \$133,564. This decrease was because no interest was accrued after

full conversion of the \$2,165,000 February 2010 Notes in February 2011.

## Income Taxes

Our PRC subsidiaries are exempt from income taxes per PRC tax laws and regulations that exempt companies engaged in the agricultural breeding of livestock. Sen Yu International is subject to U.S. federal income taxes, State of New York income taxes, and State of Delaware annual franchise taxes while its subsidiary in the U.S., Advanced Swine, is subject to U.S. federal income taxes and State of Nevada annual fees and reporting. Our PRC subsidiaries expect to use their retained earnings to support our PRC operations, and will not declare any dividends within the predictable future. In addition, there was no net income generated by Advanced Swine, during the six months ended December 31, 2011 and 2010. Despite the fact that Sen Yu International generated net income due to the change in fair value of warrants in the six months ended December 31, 2011, there was non-realized gain as of December 31, 2011. Therefore, for the six months ended December 31, 2011 and 2010, the income taxes were \$0 and \$0, respectively.

## Net Income and Other Comprehensive Income

During the six months ended December 31, 2011, Sino-Canadian Sen Yu had a net income of approximately \$217,392. In our Statements of Operations, the 40% of that income allocable to our joint venture partner was deducted from our net income. Our net income for the six months ended December 31, 2011, after that deduction, totaled \$31,624,289.

Our business operates primarily in Chinese Renminbi (“RMB”), but we report our results in our SEC filings in U.S. dollars. The conversion of our accounts from RMB to U.S. dollars results in translation adjustments. While our net income will be added to the retained earnings on our balance sheets; the translation adjustments will be added to a line item on our balance sheet labeled “accumulated other comprehensive income,” since they will be more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During the six months ended December 31, 2011, the effect of converting our financial results to U.S. dollars was to add \$2,027,934 to our accumulated other comprehensive income. During the six months ended December 31, 2010, when the exchange rate between the RMB and the U.S. dollar was much more volatile, there was an increase of \$1,207,745 to our accumulated other comprehensive income.

## Liquidity and Capital Resources

After our founders made the initial contribution of our registered capital, the growth of our business has been funded, primarily, by the revenues from our business operations, sales of our securities, loans from the local financial bureau in China and loans from our stockholders. Our working capital on December 31, 2011 totaled \$94,194,966, an increase of \$34,959,025 from our \$59,235,941 in working capital as of June 30, 2011. The increase was cash and cash equivalents and advances to suppliers for the six months ended December 31, 2011. In general, since we expect to produce more commercial hogs in the next few years, we expect to advance more money to our suppliers, especially Wang Da, to provide Wang Da’s contracted farmers with fodder to raise more commercial hogs. As a result, our working capital will tend to fluctuate in proportion to our net income.

The following is a summary of cash provided by or used in each of the indicated types of activities during the six months ended December 31, 2011 and 2010.

|                             | For The Six Months Ended December 31, |              |
|-----------------------------|---------------------------------------|--------------|
|                             | 2011                                  | 2010         |
|                             | (Unaudited)                           | (Unaudited)  |
| Cash (Used in) provided by: |                                       |              |
| Operating Activities        | \$ 2,627,943                          | \$ 8,497,736 |
| Investing Activities        | (46,720 )                             | (111,795 )   |
| Financing Activities        | (23,697 )                             | 442,351      |

#### Net Cash Provided by Operating Activities

Cash provided by operating activities was \$2,627,943 for the six months ended December 31, 2011 as compared to \$8,497,736 used in for the six months ended December 31, 2010. The decrease in cash provided by operating activities for the six months ended December 31, 2011 was a result of an increase of advances to suppliers.

#### Net Cash Used in Investments Activities

Cash Used in Investment activities for the six months ended December 31, 2011 was \$46,720 as compared to \$111,795 for six months ended December 31, 2010. This change was primarily attributable to the decrease in the payment for the purchase of equipment and construction in progress during six months ended December 31, 2011.

#### Net Cash (Used in) Provided By Financing Activities

We currently have \$1,189,421 in loans payable to non-affiliates, including \$872,242 due to Jiamusi Financial Bureau and \$317,179 due to Tang Yuan Financial Bureau. All of the loans are interest-free and payable on December 31, 2011. The payment date for each of these loans has been extended in the past, as these agencies have made the loans for the purpose of supporting our operations. The Company has submitted application for extending the term of the loan, which has been under review by relevant authorities.

On February 22, 2010, we consummated an offering of 10% Secured Convertible Notes (the "Notes") in the principal amount of \$2,165,000. The Notes were sold at par to twelve investors. The maturity date of the Notes is February 22, 2011. Interest on the Notes at 10% per annum is payable quarterly. Payment of interest and principal is secured by a pledge of our shares owned by Ligang Shang, our majority stockholder.

All of such Notes were automatically converted, for no additional consideration, into an aggregate of 1,096,498 shares of the Company's common stock, 913,192 shares of Series B Preferred Stock, Series A Warrants to purchase an aggregate of 799,044 shares of common stock, Series B Warrants to purchase an aggregate of 799,044 shares of common stock and Series F Warrants to purchase an aggregate of 877,199 shares of common stock, immediately following the closing of the private placement of \$3,044,140 of Common Stock on February 17, 2011, which together with the private placement of \$2.42 million of the Company's Series B Preferred Stock in June 2010, constituted a "Qualified Financing" requiring conversion of the Notes.

On June 11, 2010, we consummated a transaction with certain accredited investors, pursuant to a Series B Convertible Preferred Stock and Warrant Purchase Agreement. We raised gross proceeds of \$2,420,000 and issued to the investors an aggregate of (i) 1,152,380 shares of newly created Series B Convertible Preferred Stock, par value \$0.001 per share, with an initial one-to-one conversion ratio into shares of our common stock, whereas the adjusted conversion price of the Series B preferred stock is \$1.08 based on the basic earnings per share of \$0.33 for the fiscal year ending June 30, 2010, (ii) Series A Warrants to purchase an aggregate of 1,008,334 shares of Common Stock (the "Series A Warrants"), and (iii) Series B Warrants to purchase an aggregate of 1,008,334 shares of Common Stock (the "Series B Warrants"). In connection with the 2010 June Private Placement, we also issued to Global Arena Capital Corp. ("Global"), our placement agent, and certain individuals affiliated with Global: (i) Series C Warrants to purchase an aggregate of 70,583 shares of Common Stock, exercisable at \$3.00 per share for five years, (ii) Series D Warrants to purchase an aggregate of 70,583 shares of Common Stock, exercisable at \$4.10 per share for five years, and (iii) Series E Warrants to purchase an aggregate of 80,000 shares of Common Stock, exercisable at \$2.10 per share for five years. From the proceeds of the offering, we paid a commission of \$116,160 to Global. We also reimbursed Global for its management and finance expenses totaling \$53,240. In addition, we incurred other direct costs in total amount of \$60,455. As a result, we realized net proceeds of \$2,190,145 from this offering.

On February 17, 2011, we completed a private placement with a non-U.S. investor, where the Company sold an aggregate of 1,383,700 shares of Common Stock, at \$2.20 per share for total gross proceeds of \$3,044,140. The investor also received Series F warrants, exercisable for three years to purchase 1,106,960 shares of Common Stock at \$2.64 per share. The warrants may only be exercised in cash and the exercise price of the warrants is subject to adjustment for stock splits, stock dividends, recapitalizations and the like.

On May 27, 2011, the Company entered into a financing transaction with four non-U.S. individual investors. The Company sold an aggregate of 804,000 shares of Common Stock at \$1.50 per share for total gross proceeds of \$1,206,000.

We believe that we have sufficient funds to operate our existing business for the next twelve months. In addition to funds available from operations and loans from stockholders, we may need external sources of capital for expansion of our facilities and to increase the roster of our franchisee farmers, in order to reach our goal of producing one million commercial hogs in 2013. There can be no assurance that we will be able to obtain such additional financing on acceptable terms to us, or at all.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.



#### Critical Accounting Policies

We prepared this unaudited consolidated financial statements for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual financial statements. However, the information included in these interim financial statements reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations of the Company. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The consolidated balance sheet information as of June 30, 2011 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K. These interim financial statements should be read in conjunction with that report.

While our significant accounting policies are more fully described in Note 4 to our unaudited consolidated financial statements, we believe that those accounting policies are the most critical to aid you in fully understanding and evaluating "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In preparation of our financial statements, we are required to formulate working policies regarding valuation of our assets and liabilities and to develop estimates of those values. In our preparation of the financial statements for the six months ended December 31, 2011, there was one estimate made which was (a) subject to a high degree of uncertainty, and (b) material to our results.

We made no material changes to our critical accounting policies in connection with the preparation of our financial statements for the six months ended December 31, 2011.

### Impact of Accounting Pronouncements

There were certain recent accounting pronouncements that may have a material effect on our financial position or results of operations. All of them are described under the caption "Recent Accounting Pronouncements" in Note 4, item "o" to the Consolidated Financial Statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

### Item 4(T). Controls and Procedures

#### Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures designed for the purpose of ensuring that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Interim Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2011. The Company's management will endeavor to hire more qualified personnel to direct the designing and implementation of the Company's disclosure controls and procedures.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting subject to the above corrective actions with regard to significant deficiencies or material weaknesses that occurred during the quarterly ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. We are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit

Number Description of Exhibit

|          |   |
|----------|---|
| 31.1*    | Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended. |
| 31.2*    | Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended. |
| 32.1*    | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).               |
| 32.2*    | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).               |
| 101.ins* | XBRL Instance Document.   |
| 101.sch* | XBRL Taxonomy Extension Schema Document.  |
| 101.cal* | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.def* | XBRL Taxonomy Extension Definition Linkbase Document.   |

101.lab\* XBRL Taxonomy Extension Label Linkbase Document.

101.pre\* XBRL Taxonomy Extension Presentation Linkbase Document.

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\* Filed herewith

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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|-------------------|---|
| February 14, 2012 | Sen Yu International Holdings, Inc.<br>By: /s/ Zhenyu Shang<br>Zhenyu Shang<br>Chief Executive Officer<br>(Principal Executive Officer) |
| February 14, 2012 | By: /s/ Tongyu Zhang<br>Tongyu Zhang<br>Interim Chief Financial Officer<br>(Principal Accounting Officer)                               |