Simcere Pharmaceutical Group
Form 20-F
June 30, 2010

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

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2009

OR

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

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____

Commission file number: 001-33398
Simcere Pharmaceutical Group

(Exact name of Registrant as specified in its charter)
N/A

(Translation of Registrant s name into English)
Cayman Islands

(Jurisdiction of incorporation or organization)
No. 699-18 Xuan Wu Avenue,
Xuan Wu District, Nanjing
Jiangsu Province 210042
People s Republic of China

(Address of principal executive offices)
Zhigang Zhao
Chief Financial Officer
No. 699-18 Xuan Wu Avenue,
Xuan Wu District, Nanjing
Jiangsu Province 210042

People s Republic of China
Tel: (86) 25 8556 6666 x 8818
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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Securities	Name of Each Exchange on Which Registered
American Depositary Shares, each representing two ordinary shares, par value $0.01 per share	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report. 111,238,140 ordinary shares, par value $0.01 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 o No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP þ

International Financial Reporting Standards as issued by the International Accounting Standards Board o

Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

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INTRODUCTION

Unless otherwise indicated, references in this annual report on Form 20-F to:

$ and U.S. dollars refer to the legal currency of the United States;

ADRs refer to the American depositary receipts, which, if issued, evidence our ADSs;

ADSs refer to our American depositary shares, each of which represents two ordinary shares;

China and the PRC refer to the People s Republic of China, excluding, for the purpose of this annual report on Form 20-F only, Taiwan and the special administrative regions of Hong Kong and Macau;

ordinary shares refer to our ordinary shares, par value $0.01 per share;

RMB and Renminbi refer to the legal currency of China; and

we, us, our company and our refer to Simcere Pharmaceutical Group, its predecessor entities and its consolidated subsidiaries.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2007, 2008 and 2009.

We and certain selling shareholders of our company completed the initial public offering of 15,625,000 ADSs, each representing two ordinary shares, in April 2007. On April 20, 2007, we listed our ADSs on the New York Stock Exchange under the symbol SCR.

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

Item 3. KEY INFORMATION

A. Selected Financial Data

The selected data presented below under the captions Selected Consolidated Statement of Income data (other than ADS data) and Selected Consolidated Balance Sheet Data for, and as of the end of, each of the years in the five-year period ended December 31, 2009, are derived from our consolidated financial statements and related notes thereto. Our consolidated financial statements as of December 31, 2008 and 2009 and for each of the years in the three-year period ended December 31, 2009, which have been audited by an independent registered public accounting firm, and their report thereon, is included elsewhere in this annual report on Form 20-F. You should read the selected consolidated financial data in conjunction with those financial statements and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report on Form 20-F. Our consolidated financial statements are prepared and presented in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP. Our historical results do not necessarily indicate our results expected for any future period.

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	Year Ended December 31,					
	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2009 $
	(in thousands, except share and ADS data)					
Selected Consolidated Statement of Income Data						
Revenue	737,014	950,606	1,368,748	1,741,143	1,857,071	272,062
Gross profit	565,940	760,046	1,127,667	1,420,261	1,536,126	225,043
Operating expenses (other than impairment loss on goodwill)	(415,853)	(575,295)	(863,805)	(1,063,282)	(1,357,518)	(198,877)
Impairment loss on goodwill					(76,398)	(11,192)
Income from operations	150,087	184,751	263,862	356,979	102,210	14,974
Foreign currency exchange gains, net			24,670	39,879	382	56
Other income (1)			20,526	1,104	2,971	435
Equity in losses of equity method affiliated companies					(56,532)	(8,283)
Net income attributable to Simcere Pharmaceutical Group (2)	102,745	172,258	301,261	350,151	26,428	3,871
Earnings per share basic	1.49	1.86	2.56	2.80	0.23	0.03
Earnings per share diluted	1.49	1.86	2.48	2.80	0.23	0.03
Earnings per ADS basic	2.98	3.72	5.13	5.61	0.46	0.07
Earnings per ADS diluted	2.98	3.72	4.95	5.60	0.45	0.07
Basic weighted average number of shares	69,000,000	92,695,890	117,534,566	124,921,934	115,099,258	115,099,258
Diluted weighted average number of shares	69,000,000	92,695,890	121,667,507	125,005,803	116,604,919	116,604,919

(1) In 2007, 2008 and 2009, other

income included the incentive payment received from our depositary in connection with the establishment of the ADR program following our initial public offering.

(2) Certain of our PRC operating subsidiaries were entitled to a tax holiday. The effect of the tax holiday increased our net income for 2006, 2007, 2008 and 2009 by RMB38.8 million, RMB62.9 million, RMB55.7 million and RMB23.5 million ($3.4 million) respectively, or RMB0.42, RMB0.54, RMB0.45 and RMB0.20 ($0.03) on the per share basis, respectively. Prior to 2006, none of our PRC operating subsidiaries were entitled to the tax holiday.

	Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
			(in percentages)		
Other Consolidated Financial Data					
Gross margin (1)	76.8	80.0	82.4	81.6	82.7
Operating margin (1)	20.4	19.5	19.3	20.5	5.5
Net margin (1)	13.9	18.2	22.0	20.1	1.4

(1)

Gross margin, operating margin and net margin represent gross profit, operating profit and net income attributable to our company divided by revenues, respectively.

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	As of December 31,					
	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2009 $
	(in thousands)					
Selected Consolidated Balance Sheet Data						
Cash and cash equivalents	90,060	106,027	497,352	812,814	442,488	64,825
Held-to-maturity investment securities			470,000			
Accounts and bills receivables, net	130,871	162,781	488,374	748,997	704,321	103,184
Inventories	40,293	39,483	65,241	95,948	106,655	15,625
Amounts due from related parties	85,575	434	7,503	24,365	26,289	3,851
Total current assets	391,461	411,429	1,557,153	1,707,759	1,371,864	200,979
Property, plant and equipment, net	125,365	267,054	374,058	463,059	744,713	109,101
Goodwill and intangible assets, net	29,545	263,782	412,717	453,455	695,267	101,857
Total assets	621,227	1,034,547	2,472,208	2,778,222	3,137,902	459,705
Accounts and bill payables	21,254	20,089	23,711	25,219	152,249	22,305
Short-term borrowings and current portion of long-term debts	171,000	333,000	29,000	6,000	76,000	11,134
Amounts due to related parties	78,153	1,352				
Total current liabilities	421,185	568,173	342,637	335,013	692,865	101,505
Long-term debts, excluding current portion			52,000	62,000	122,685	17,973
Total shareholders equity	199,598	442,740	1,995,953	2,301,322	2,207,683	323,428

Exchange Rate Information

This annual report on Form 20-F contains translations of certain RMB amounts into U.S. dollar amounts at specified rates. Unless otherwise stated, the translations of RMB into U.S. dollars have been made at the noon buying rate in The City of New York for cable transfers of RMB per U.S dollar as set forth in the H.10 weekly statistical release of the Federal Reserve Board, on Wednesday, December 31, 2009, which was RMB6.8259 to $1.00. We make no representation that the RMB or U.S. dollar amounts referred to in this annual report on Form 20-F could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. See Item 3. Key Information. D. Risk Factors Risks Related to Doing Business in China Fluctuations in the value of the Renminbi may have a material adverse effect on your investment for discussions of the effects of

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fluctuating exchange rates and currency control on the value of our ADSs. On June 25, 2010, the exchange rate, as set forth in the H.10 statistical release of the Federal Reserve Board, was RMB6.7911 to $1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you.

	RMB per U.S. Dollar Exchange Rate			
	Period End	Average (1)	Low	High
	(RMB per $1.00)			
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2009				
December	6.8259	6.8275	6.8299	6.8244
2010				
January	6.8268	6.8269	6.8295	6.8258
February	6.8258	6.8285	6.8330	6.8258
March	6.8258	6.8262	6.8270	6.8254
April	6.8247	6.8256	6.8275	6.8229
May	6.8305	6.8275	6.8310	6.8245
June (through June 25)	6.7911	6.8227	6.8323	6.7911

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Company

Our products and product candidates may not achieve or maintain widespread market acceptance.

Success of our products is highly dependent on the needs and preferences of healthcare practitioners and patients and market acceptance, and we may not achieve or maintain widespread market acceptance of our products or product candidates among healthcare practitioners and patients. We believe that market acceptance of our products will depend on many factors, including:

- the perceived advantages of our products over competing products and the availability and success of competing products;

the effectiveness of our sales and marketing efforts;

the safety and efficacy of our products and the prevalence and severity of adverse side effects, if any;

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our product pricing and cost effectiveness;

publicity concerning our products, product candidates or competing products;

whether or not patients routinely use our products, refill prescriptions and purchase additional products;

our ability to respond to changes in healthcare practitioner and patient preferences; and

the continued inclusion of our products in the national and provincial medical insurance catalogs or in the national essential drug list, together, the Essential Drug List and Reimbursement List.

If our products fail to achieve or maintain market acceptance, or if new products are introduced by others that are more favorably received than our products, are more cost effective or otherwise render our products obsolete, we may experience a decline in the demand for our products. If we are unable to market and sell our products successfully, our business, financial condition, results of operation and future growth would be adversely affected.

The penalties imposed on Jiangsu Yanshen could have a material adverse effect on our business, financial condition and results of operations and damage our reputation.

We entered into agreements to obtain a controlling stake in Jiangsu Yanshen Biological Technology Stock Co., Ltd., or Jiangsu Yanshen, on October 24, 2009 and November 24, 2009. After we entered into the share purchase agreements in October and November 2009 to acquire 15% equity interest in Jiangsu Yanshen, but prior to the full completion of the transaction, we discovered quality control problems relating to the production of Jiangsu Yanshen s human use rabies vaccine. On December 3, 2009, the SFDA issued a public notice announcing the initiation of a comprehensive investigation into quality issues regarding human use rabies vaccine manufactured by two companies including Jiangsu Yanshen, and ordered Jiangsu Yanshen to halt marketing and production of all products including human use rabies vaccine. In April 2010, the Changzhou Food and Drug Administration found that the four batches of human use rabies vaccine, which were manufactured by Jiangsu Yanshen and released into the market between July and October 2008, had an insufficient amount of active compound. It was found that prior to our acquisition of Jiangsu Yanshen, illegal activities were conducted at Jiangsu Yanshen, whereby inadequate quality control processes were in place, and there was misrepresentation and avoidance of regulatory inspection, which caused substandard vaccine to be released into the market. On April 27, 2010, the SFDA revoked two new medicine certificates held by Jiangsu Yanshen for rabies vaccine (vero cell) and freeze-dried human rabies vaccine (vero cell). The GMP certificate for the manufacture of human use rabies vaccine has been seized by the relevant government authorities and the GMP certificate for the manufacture of influenza vaccine expired on February 2, 2010 and has not been renewed yet. On May 15, 2010, Jiangsu Yanshen received a notification from the Changzhou Food and Drug Administration, which stated that a fine of RMB25.6 million ($3.8 million) consisting of penalties and confiscated revenues from previous sales of substandard quality human use rabies vaccine will be imposed on Jiangsu Yanshen. Jiangsu Yanshen must also bear the cost of patient re-vaccinations of approximately RMB23.0 million ($3.4 million). In addition, the Changzhou Procuratorate also issued a fine of RMB1.6 million ($0.2 million) to Jiangsu Yanshen for confiscation of revenues. As of December 31, 2009, we recognized an accrual of RMB50.3 million ($7.4 million) for these fines. While there have been no reported adverse events related to the vaccine batches in question, we cannot assure you that there will not be adverse events related to these vaccine batches in the future. The payments of the fine and re-vaccinations and any other potential liabilities could have a material adverse effect on our financial condition and results of operations. Although we have initiated legal actions against former shareholders of Jiangsu Yanshen to seek damages, such legal actions might not be successful. In addition, employees of Jiangsu Yanshen directly involved in the production of substandard quality human use rabies vaccine were prohibited from engaging in the production and marketing of pharmaceutical products for a period of ten years. Furthermore, a criminal investigation by local law enforcement authorities of the relevant personnel of Jiangsu Yanshen is currently underway. We cannot assure you that Jiangsu Yanshen itself will not be subject to administrative proceedings or criminal investigations, which could disrupt our business, divert management resources, result in adverse publicity regarding Jiangsu Yanshen, us and the products we sell, which would harm our reputation and result in our customers or potential customers deferring or

limiting their purchase of our products, which could have a material adverse effect on our financial condition and results of operations.

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As of the date of this annual report, Jiangsu Yanshen operations remain suspended and it is uncertain when it will resume vaccine production, although we do not expect Jiangsu Yanshen to resume vaccine production in 2010. Failure for Jiangsu Yanshen to timely resume its manufacture of vaccine could have a material adverse effect on our business, financial conditions and results of operations.

We may be involved in litigation, arbitration or other legal proceedings from time to time that require extensive management attention and resources and may be expensive, time-consuming and disruptive.

We entered into agreements to acquire Jiangsu Yanshen, in October and November 2009 through the acquisition of the entire equity interest in ChinaVax, a Cayman Islands company that, as its sole business, held a 15% stake in Jiangsu Yanshen for cash consideration. As we discovered quality control problems relating to the production of Jiangsu Yanshen s human use rabies vaccine, as of the date of this annual report on Form 20-F, a portion of the consideration has not been paid. We are exposed to potential claims by selling shareholders of ChinaVax for the amount of consideration we have withheld. In addition, subsequent to our discovery of the quality control problems relating to the production of Jiangsu Yanshen s human use rabies vaccine, we initiated an arbitration proceeding against former shareholders of Jiangsu Yanshen to seek damages for RMB113.9 million ($16.7 million) for misrepresentation in connection with their sales of equity interests in Jiangsu Yanshen. Furthermore, Jiangsu Yanshen also initiated legal proceedings through its board of supervisors against two of its former directors to seek damages for RMB98.0 million ($14.4 million).

In addition, we may also become involved in product liability litigation as the development and commercialization of vaccine products entail an inherent risk of harm to patients. If a product liability claim is brought against us, it may, regardless of merit or eventual outcome, result in damage to our reputation, breach of contract with our customers, decreased demand for our products, costly litigation, product recalls, loss of revenue, and the inability to commercialize some products. Our lack of sufficient liability, disruption or other kind of insurance may exacerbate such risks.

Litigation, arbitration, and other legal proceedings can be expensive, lengthy, disruptive to normal business operations and harmful to our reputation and may require extensive management attention and resources, regardless of their merit. Moreover, we cannot predict the results of such proceedings, and an unfavorable outcome of a lawsuit or proceeding could materially and adversely affect our reputation, business, financial condition, results of operations and prospects.

Our trademarks, patents and other non-patented intellectual property are valuable assets and if we are unable to protect them from infringement, our business prospects may be harmed.

As our own brand of generic products constitutes a large portion of our sales, we consider our trademarks to be valuable assets. Under PRC law, we have the exclusive right to use a trademark for products and services for which such trademark has been registered with the PRC Trademark Office of State Administration for Industry and Commerce. However, our efforts to defend our trademarks may be unsuccessful against competitors or other violating entities and we may not have adequate remedies for any breach. Our commercial success will also depend in part on our obtaining and maintaining patent and trade secret protection of our technologies, product candidates and products as well as successfully defending our patents against third-party challenges. We will only be able to protect our technologies, product candidates and products from unauthorized use by third parties to the extent that valid and enforceable patents or trade secrets cover them. In the event that our issued patents and our applications do not adequately describe, enable or otherwise provide coverage of our technologies, product candidates and products, we would not be able to exclude others from developing or commercializing these technologies, product candidates and products. Furthermore, the degree of future protection of our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage.

The patent positions of pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. The patent situation outside of China may be more complex. Changes in either the patent laws or

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in interpretations of patent laws in China or other countries may diminish the value of our intellectual property. Accordingly, we cannot predict the scope of claims that may be allowed or enforced in our patents or in third-party patents. For example:

- we might not have been the first to make the inventions covered by each of our pending patent applications and issued patents;
- we might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate our technologies without infringing our intellectual property rights;
- one or more of our pending patent applications may not result in issued patents;
- our issued patents may not provide a basis for commercially viable products, may not provide us with any competitive advantages, or may be challenged and invalidated by third parties;
- we may not develop additional proprietary technologies or product candidates that are patentable; and
- the patents of others may prevent us from developing or commercializing our product candidates.

We also rely on trade secrets to protect our technology, especially where we believe patent protection is not appropriate or obtainable. However, trade secrets are difficult to protect. While we use reasonable efforts to protect our trade secrets, our employees, our research partners employees, consultants, contractors or scientific and other advisors may unintentionally or willfully disclose our information to competitors or use our trade secrets without our authorization. In addition, confidentiality agreements, if any, executed by the foregoing persons may not be enforceable or provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. If we were to enforce a claim that a third party had illegally obtained and was using our trade secrets, our enforcement efforts would be expensive and time-consuming, and the outcome would be unpredictable. In addition, if our competitors independently develop information that is equivalent to our trade secrets, it will be more difficult for us to enforce our rights and our business could be harmed.

If we are not able to obtain and defend our patents or trade secrets, we will not be able to exclude competitors from developing or marketing competing products using the relevant technologies or processes, thereby adversely affecting our competitiveness.

The existence of a patent may not necessarily protect us from competition as our patent may be challenged, invalidated or held unenforceable. We may also be found to infringe the patents of others.

The existence of a patent may not necessarily protect us from competition, as any patent issued may be challenged, invalidated, or held unenforceable. Competitors may successfully challenge our patents, produce similar products that do not infringe our patents or produce products in countries that do not recognize our patents. The occurrence of any of these events could hurt our competitive position and decrease our revenues from product sales and/or licensing.

In addition, even if we own patents, this does not provide assurance that the manufacture, sale or use of our patented products does not infringe the patent rights of another. Because patent applications can take many years to approve and issue, there may be pending applications, known or unknown to us, that may later result in issued patents that our technologies, product candidates or products may infringe. Specifically, under the PRC Patent Law, the term of patent protection starts from the date the patent was filed, instead of the date it was issued as is the case in many jurisdictions. Therefore our priority in any PRC patents may be defeated by third-party patents issued on a later date if the applications for such patents were filed prior to our own, and the technologies underlying such patents are the same or substantially similar to ours. In such case, a third party with an earlier application may force us to pay to license its patented technology, sue us for patent infringement and/or challenge the validity of our patents. If a third party sues us for infringement, the suit will divert substantial management time and resources,

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regardless of whether we are ultimately successful. Further, we may be liable for monetary damages and/or forced to redesign, if possible, our technology to avoid the infringement.

Litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly.

We may encounter future litigation by third parties based on claims that our products or activities infringe the intellectual property rights of others or that we have misappropriated the trade secrets of others. We may also initiate lawsuits to defend the ownership or inventorship of our inventions. It is difficult, if not impossible, to predict how such disputes would be resolved. The defense and prosecution of intellectual property rights are costly and divert technical and management personnel from their normal responsibilities. We may not prevail in any of such litigation or proceedings. An adverse determination of any litigation or proceedings against us, resulting in a finding of non-infringement by others or invalidity of our patents, may result in the sale by competitors of generic substitutes of our products. In addition, a determination that we have infringed on the intellectual property rights of another may require us to do one or more of the following:

- pay monetary damages to settle the results of such adverse determination, which could adversely affect our business, financial condition and results of operations;
- cease selling, incorporating or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue or costs, or both;
- obtain a license from the holder of the infringed intellectual property right, which might be costly or might not be available on reasonable terms, or at all; or
- redesign our products to make them non-infringing, which would be costly and time-consuming and may require additional clinical trials, or may not be possible at all.

While we currently know of no actual or threatened claim of infringement that would be material to us, there can be no assurance that such a claim will not be asserted. If such a claim is asserted, there can be no assurance that the resolution of the claim would permit us to continue producing the product in question on commercially reasonable terms. In addition, there is a risk that some of our confidential information could be compromised by disclosure during intellectual property litigation. Furthermore, there could be public announcements throughout the course of intellectual property litigation or proceedings as to the results of hearings, motions or other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, there could be a substantial negative effect on the trading price of our ADSs.

Most of our products are branded generics that can be manufactured and sold by other pharmaceutical manufacturers in China once the relevant protection or monitoring periods, if any, elapse.

Most of our products are branded generic pharmaceuticals and are not protected by patents. As a result, other pharmaceutical companies may sell equivalent products at a lower price, and this might result in a commensurate loss in sales of our branded generic products. Certain of our generic products are subject to a protection or monitoring period. During such period, the PRC State Food and Drug Administration, or the SFDA, will not accept applications for new medicine certificates for the same product by other pharmaceutical companies or approve the production or import of the same product by other pharmaceutical companies. Once such protection or monitoring periods expire, other manufacturers may obtain relevant production approvals and will be entitled to sell generic pharmaceutical products with similar formulae or production methods in China. The maximum monitoring period currently granted by the SFDA is five years. The maximum protection period granted by the SFDA was eight years prior to April 1999, but was later increased to 12 years. As of March 31, 2010, our product Zaichang was under a monitoring period which is to expire on March 13, 2013 and our product Anxin was under a monitoring period which is to expire on May 3, 2012. If other pharmaceutical companies sell pharmaceutical products that are similar to our unprotected products or our protected products for which the relevant monitoring period has expired, we may face additional competition and our business and profitability may be adversely affected.

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We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Certain of our employees and consultants were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors, or at universities or other research institutions. Although no claims against us are currently pending, we may be subject to claims that these employees, consultants or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to our management. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could delay or prevent us from commercializing one or more of our product candidates.

Our future research and development projects may not be successful.

The successful development of pharmaceutical products can be affected by many factors. Products that appear to be promising at their early phases of research and development may fail to be commercialized for various reasons, including the failure to obtain the necessary regulatory approvals. In addition, the research and development cycle for new products for which we may obtain an approval certificate is long. The process of conducting basic research and various stages of tests and trials of a new product before obtaining an approval certificate and commercializing the product may require ten years or longer. Many of our product candidates are in the early stages of pre-clinical studies or clinical trials and we must conduct significant additional clinical trials before we can seek the necessary regulatory approvals to begin commercial production and sales of these products. For certain pharmaceuticals, we are required to conduct Phase IV clinical trials even after such product has obtained the necessary regulatory approvals to begin commercial production and sale, and if we fail to complete such Phase IV clinical trials within a specified period, we may be unable to renew the registration for such products. There is no assurance that our future research and development projects will be successful or completed within the anticipated time frame or budget or that we will receive the necessary approvals from relevant authorities for the production of these newly developed products, or that these newly developed products will achieve commercial success. Even if such products can be successfully commercialized, they may not achieve the level of market acceptance that we expect.

In addition, the pharmaceutical industry is characterized by rapid changes in technology, constant enhancement of industrial know-how and frequent emergence of new products. Future technological improvements and continual product developments in the pharmaceutical market may render our existing products obsolete or affect their viability and competitiveness. Therefore, our future success will largely depend on our research and development capability, including our ability to improve our existing products, diversify our product range and develop new and competitively priced products that can meet the requirements of the changing market. Should we fail to respond to these frequent technological advances by improving our existing products or developing new products in a timely manner or these products do not achieve a desirable level of market acceptance, our business and profitability will be materially and adversely affected.

We rely on certain domestic and overseas research institutions and universities for the research and development of new products and any failure of our research partners to meet our timing and quality standards or our failure to continue such collaboration or enter into such new arrangements could adversely affect our ability to develop new pharmaceuticals and our overall business prospects.

Our business strategy includes collaborating with third parties for research and development of new products. We rely on long-term cooperative relationships with a number of domestic and overseas research institutions and universities. These research institutions and universities have collaborated with us in a number of research projects and certain of our products that have obtained approval certificates were developed by us together with our research partners. At present, several research institutions and universities are working with us on various research and development projects. Any failure of our research partners to meet the required quality standards and timetables set in their research agreements with us, or our inability to enter into additional research agreements with these research partners on terms acceptable to us in the future, may have an adverse effect on our ability to develop new products and on our business prospects. In addition, the growth of our business and development of new

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products may require that we continue to seek collaborations with research institutions, universities and biotechnology companies. We cannot assure you that we will be able to enter into collaborative arrangements with research partners on terms acceptable to us. Our inability to enter into such arrangements or our failure to maintain such arrangements could limit the number of new products that we could develop and ultimately decrease our sources of future revenue.

We may not be able to obtain regulatory approval for any of the products resulting from our development efforts and failure to obtain these approvals could materially harm our business.

All new medicines must be approved by the SFDA before they can be marketed and sold in China. The SFDA requires successful completion of clinical trials and demonstrated manufacturing capability before it grants approval. Clinical trials are expensive and their results are uncertain. It often takes a number of years before a medicine can be ultimately approved by the SFDA. In addition, the SFDA and other regulatory authorities may apply new standards for safety, manufacturing, packaging, and distribution of future product candidates. Complying with such standards may be time-consuming and expensive and could result in delays in obtaining SFDA approval for our future product candidates, or possibly preclude us from obtaining SFDA approval altogether. Furthermore, our future products may not be effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude us from obtaining regulatory approval or prevent or limit commercial use. The SFDA and other regulatory authorities may not approve the products that we develop and even if we do obtain regulatory approvals, such regulatory approvals may be subject to limitations on the indicated uses for which we may market a product, which may limit the size of the market for such product.

Our marketing activities are critical to the success of our products, and if we fail to grow our marketing capabilities or maintain adequate spending on marketing activities, the market share of our products and our brand name and product reputation would be materially adversely affected.

Most of our products are branded generic pharmaceuticals and the success and lifespan of our products are dependent on our efforts in the marketing of our products. Our marketing professionals regularly visit hospitals, clinics and pharmacies to explain the therapeutic value of our pharmaceuticals and to keep healthcare professionals up to date as to any developments relating to our pharmaceuticals. We organize in-person product presentations, conferences and seminars for physicians and other healthcare professionals and participate in trade shows to generate market awareness of our existing and new prescription pharmaceuticals. We are also engaged in advertising and educational campaigns through various media channels to educate the public as to our pharmaceuticals. These various marketing activities are critical to the success of our products.

However, we cannot assure you that our current and planned spending on marketing activities will be adequate to support our future growth. Any factors adversely affecting our ability to grow our marketing capabilities or our ability to maintain adequate spending on marketing activities will have an adverse effect on the market share of our products and the brand name and reputation of our products, which may result in decreased demand for our products and negatively affect our business and results of operations.

We may not be successful in competing with other manufacturers of pharmaceuticals in the tender processes for the purchase of medicines by state-owned and state-controlled hospitals.

A substantial portion of our pharmaceutical products we sell to our distributor customers are then sold to hospitals owned and controlled by counties or higher level government authorities in China, and our vaccines are sold to various levels of Centers for Disease Control, or CDCs, which are controlled by various levels of government authorities in China as well as some vaccine distributors. These hospitals must implement collective tender processes for the purchase of medicines listed in the Essential Drug List and Reimbursement List and medicines that are consumed in large volumes and commonly prescribed for clinical uses. CDCs may also implement collective tender processes for the purchase of our vaccines. These hospitals and CDCs will establish a committee consisting of recognized pharmaceutical experts. The committee will assess the bids submitted by the pharmaceutical manufacturers, taking into consideration, among other things, the quality and price of the medicine and the service and reputation of the manufacturers. For the same type of pharmaceutical, the committee usually selects from among two to three different brands. Only pharmaceuticals that have won in the collective tender processes may be purchased by these hospitals and CDCs. The collective tender process for pharmaceuticals with

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the same chemical composition must be conducted at least annually, and pharmaceuticals that have won in the collective tender processes previously must participate and win in the collective tender processes in the following period before new purchase orders can be issued. If we are unable to win purchase contracts through the collective tender processes in which we decide to participate, we will lose market share to our competitors, and our revenue and profitability will be adversely affected.

We may not be able to successfully identify and acquire new products or businesses.

In addition to our own research and development efforts, our growth strategy also relies on our acquisitions of new product candidates, products or businesses from third parties. Any future growth through acquisitions will be dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. Even if such opportunities are present, we may not be able to successfully identify such acquisition target. Moreover, other companies, many of which may have substantially greater financial, marketing and sales resources, are competing with us for the right to acquire such product candidates, products or businesses.

If an acquisition candidate is identified, the third parties with whom we seek to cooperate may not select us as a potential partner or we may not be able to enter into arrangements on commercially reasonable terms or at all. Furthermore, the negotiation and completion of potential acquisitions could cause significant diversion of management s time and resources and potential disruption of our ongoing business. Future acquisitions may also expose us to other potential risks which may adversely affect our business, financial condition and results of operations, including risks associated with:

- failure to obtain regulatory approval for any newly acquired product candidates;
- the integration of the acquired businesses, operations, services and personnel with our existing business and operations;
- the infringement of third parties intellectual property rights or intellectual property right challenges as to the acquired pharmaceuticals;
- unforeseen or hidden liabilities;
- the diversion of resources from our existing businesses and technologies;
- our inability to generate sufficient revenue to recover costs and expenses of the acquisitions; and
- potential loss of, or harm to, relationships with employees or customers, any of which could significantly disrupt our ability to manage our business and materially and adversely affect our business, financial condition and results of operations.

We depend on distributors for a substantial portion of our revenues and failure to maintain relationships with our distributors or to otherwise expand our distribution network would materially and adversely affect our business.

We sell all of our products (except our vaccines) exclusively to pharmaceutical distributors in China and depend on distributors for a substantial portion of our revenues. We have business relationships directly or indirectly with approximately 1,700 pharmaceutical distributors in China. In 2007, 2008 and 2009, no single distributor contributed, on an individual basis, 10.0% or more of our revenues, and sales to our five largest distributors accounted in aggregate for approximately 13.8%, 11.6% and 14.0% respectively, of our revenues. In line with industry practices in China, we typically enter into written distribution agreements with our distributors for one-year terms that are generally renewed annually. As our existing distribution agreements expire, we may be unable to renew with our desired distributors on favorable terms or at all. In addition, some of our distributors may sell products that compete with our products. We compete for desired distributors with other pharmaceutical manufacturers, many of which may have higher visibility, greater name recognition and financial resources, and

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broader product selection than we do. Consequently, maintaining relationships with existing distributors and replacing distributors may be difficult and time-consuming. Any disruption of our distribution network, including our failure to renew our existing distribution agreements with our desired distributors, could negatively affect our ability to effectively sell our products and would materially and adversely affect our business, financial condition and results of operations.

We may not be able to effectively manage our employees, distribution network and third-party marketing firms, and our reputation, business, prospects and brand may be materially and adversely affected by actions taken by our distributors.

We have limited ability to manage the activities of our distributors and third-party marketing firms that we contract to promote our products and brand name, both of which are independent from us. Our distributors and third-party marketing firms could take one or more of the following actions, any of which could have a material adverse effect on our business, prospects and brand:

- sell our products outside their designated territory, possibly in violation of the exclusive distribution rights of other distributors;
- fail to adequately promote our products; or
- violate the anti-corruption laws of China, the United States or other countries.

In addition, although our company policies prohibit our employees from making improper payments to hospitals or otherwise engaging in improper activities to influence the procurement decisions of hospitals, or in the case of sales of vaccines, to CDCs, we may not be able to effectively manage our sales and marketing employees, as their compensation is primarily linked to their performance. As a result, we cannot assure you that our employees will not violate the anti-corruption laws of China, the United States or other countries. Such violations could have a material adverse effect on our reputation, business, prospects and brand.

Failure to adequately manage our employees, distribution network or third-party marketing firms, or their non-compliance with employment, distribution or marketing agreements could harm our corporate image among end users of our products and disrupt our sales, resulting in a failure to meet our sales goals. Furthermore, we could be liable for actions taken by our employees, distributors or third-party marketing firms, including any violations of applicable law in connection with the marketing or sale of our products, including China s anti-corruption laws and the Foreign Corrupt Practices Act of the United States, or the FCPA. In particular, if our employees, distributors or third-party marketing firms make any payments that are forbidden under the FCPA, we could be subject to civil and criminal penalties imposed by the U.S. government.

The PRC government has launched anti-corruption campaigns and measures from time to time. In the pharmaceutical industry, corrupt practices include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by the hospitals and medical practitioners from pharmaceutical manufacturers and distributors in connection with the prescription of certain pharmaceuticals. Our employees, affiliates, distributors or third-party marketing firms may violate these laws or otherwise engage in illegal practices with respect to their sales or marketing of our products or other activities involving our products. If our employees, affiliates, distributors or third-party marketing firms violate these laws, we could be required to pay damages or fines, which could materially and adversely affect our financial condition and results of operations. In addition, PRC laws regarding what types of payments to promote or sell our products are impermissible are not always clear. As a result, we, our employees, affiliates, our distributors or third-party marketing firms could make certain payments in connection with the promotion or sale of our products or other activities involving our products which at the time are considered by us or them to be legal but are later deemed impermissible by the PRC government. Furthermore, our brand and reputation, our sales activities or the price of our ADSs could be adversely affected if we become the target of any negative publicity as a result of actions taken by our employees, affiliates, distributors or third-party marketing firms. In addition, government-sponsored anti-corruption campaigns from time to time could have a chilling effect on our marketing efforts to new hospital customers.

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There is no assurance that our existing products will continue to be included or new products developed by us will be included in the Essential Drug List and Reimbursement List.

Eligible participants in the national basic medical insurance program in China, which consists of mostly urban residents, are entitled to reimbursement from the social medical insurance fund for up to the entire cost of medicines that are included in the Essential Drug List and Reimbursement List. See Item 4. Information of the Company B. Business Overview Regulation Reimbursement Under the National Medical Insurance Program. As of March 31, 2010, 26 of our 46 principal products that were manufactured and sold were included in the national Essential Drug List and Reimbursement List. The inclusion of a medicine in the Essential Drug List and Reimbursement List can substantially improve the sales of the medicine. The Ministry of Human Sources and Social Security in China, or the Ministry of Human Resources, together with other government authorities from time to time, selects medicines to be included in the Essential Drug List and Reimbursement List based on factors including treatment requirements, frequency of use, effectiveness and price. The Ministry of Human Resources also periodically removes medicines from such catalogs. There can be no assurance that our existing products will continue to be included in the Essential Drug List and Reimbursement List. The removal or exclusion of our products from the Essential Drug List and Reimbursement List may adversely affect our sales. In addition, there is significant uncertainty related to the coverage and reimbursement of newly approved pharmaceutical products. The commercial success of our potential products is substantially dependent on whether reimbursement is available for the ordering of our potential products by hospitals for use by their patients. Our failure to obtain inclusion of our potential products to the Essential Drug List and Reimbursement List may adversely affect the future sales of those products.

We have limited insurance coverage and may incur losses resulting from product liability claims or business interruptions.

The nature of our business exposes us to the risk of product liability claims that is inherent in the research and development, manufacturing and marketing of pharmaceutical products. Using product candidates in clinical trials also exposes us to product liability claims. These risks are greater for our products that receive regulatory approval for commercial sale. Even if a product were approved for commercial use by an appropriate governmental agency, there can be no assurance that users will not claim effects other than those intended resulted from the use of our products. While to date no material claim for personal injury resulting from allegedly defective products has been brought against us, a substantial claim or a substantial number of claims, if successful, could have a material adverse impact on our business, financial condition and results of operations. Such lawsuits may divert the attention of our management from our business strategies and may be costly to defend. In addition, we do not maintain product liability insurance or insurance covering potential liability relating to the release of hazardous materials. In the event of allegations that any of our products are harmful, we may experience reduced consumer demand for our products or our products may be recalled from the market. We may also be forced to defend lawsuits and, if unsuccessful, to pay a substantial amount in damages. In addition, business interruption insurance available in China offers limited coverage compared to that offered in many other countries. We do not have any business interruption insurance. Any business disruption or natural disaster could result in substantial costs and diversion of resources.

Our revenue depends and will likely continue to depend on a limited number of product lines.

We currently have six products that individually contribute over RMB100.0 million ($14.7 million) to our revenues in 2009, which were Bicun, Zailin, Endu, Yingtaiqing, Yidasheng and Sinofuan. Sales of these products accounted in aggregate for 76.8% of our revenues in 2009. We expect sales of these limited product lines to comprise a substantial portion of our revenues in the future. Accordingly, any factors adversely affecting the sales of any of these products will have a material adverse effect on our business, financial condition and results of operations.

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations.

We commenced operations in March 1995 and operated our business mainly as a distributor of pharmaceutical products. Since then, we have gradually built up our research, development and manufacturing capabilities and have become an integrated pharmaceutical company that develops, manufactures and sells

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pharmaceutical products. Therefore we have a limited operating history under our current business model upon which you can evaluate the viability and sustainability of our business. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by other China-based early stage companies. Some of these risks and uncertainties relate to our ability to:

- retain and acquire customers;
- diversify our revenue sources by successfully developing and selling new products;
- effectively manage our business as it expands;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business; and
- attract, retain and motivate qualified personnel.

If we are unsuccessful in addressing any of these risks and uncertainties, our business, financial condition, results of operations and future growth would be adversely affected.

We may not be able to manage our expansion of operations effectively.

We commenced business operations in March 1995, changed our business model in 2001, and have grown rapidly. We anticipate significant continued expansion of our business to address growth in demand for our products, as well as to capture new market opportunities. To manage the potential growth of our operations, we will be required to improve our operational and financial systems, procedures and controls, increase manufacturing capacity and output, and expand, train and manage our growing employee base. Furthermore, we need to maintain and expand our relationships with our customers, suppliers and other third parties. We cannot assure you that our current and planned operations, personnel, systems, internal procedures and controls will be adequate to support our future growth. In addition, the success of our growth strategy depends on a number of internal and external factors, such as the expected growth of the pharmaceutical market in China and the competition from other pharmaceutical companies. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures.

We have no control over Hong Kong Medgenn or the development and sale of Endu outside of the PRC. Our brand and reputation may be adversely affected if the development and sale of Endu outside of the PRC violate the intellectual property rights of any third parties.

Medgenn (Hong Kong) Co., Ltd., or Hong Kong Medgenn, an affiliate company in which we owned indirectly an effective 40.0% equity interest as of March 31, 2010, has the ability to engage in the development and sale of Endu in any jurisdiction outside of the PRC, including the United States, until February 10, 2015. The other 60.0% of Hong Kong Medgenn was owned by Bestspeed Investments Limited, or Bestspeed, a British Virgin Islands company. Hong Kong Medgenn s board of directors has five members, including Dr. Yongzhang Luo, Mr. Willi Chu and Mr. Linghai Zhu, all of whom were appointed by Bestspeed, and Mr. Jinsheng Ren and Mr. Xiaojin Yin, both of whom were appointed by Shandong Simcere Medgenn Bio-Pharmaceutical Co., Ltd., or Shandong Simcere, formerly known as Yantai Medgenn Co., Ltd., and are also our executive officers. Bestspeed was a shareholder of Hong Kong Medgenn prior to our acquisition of an 80.0% equity interest in Shandong Simcere in May 2006 and we are unable to ascertain the identities of the natural persons who control Bestspeed. We are not aware of whether Hong Kong Medgenn has commenced any operations to date, or whether it has obtained any regulatory approval outside of the PRC to sell Endu. Hong Kong Medgenn holds the rights to apply for patents and may grant its rights with respect to Endu in these jurisdictions to independent third parties. A cooperation agreement

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entered into on February 10, 2005 between Bestspeed and Shandong Simcere provides Bestspeed with daily operating control over Hong Kong Medgenn s business, including the development and sale of Endu in any jurisdiction outside of the PRC until February 10, 2015. If Hong Kong Medgenn violates the intellectual property rights of any third parties or otherwise suffers economic or other losses, our brand, reputation, business and results of operations could be adversely affected. In addition, the agreements with Hong Kong Medgenn will prohibit us from engaging in the development and sale of Endu outside of the PRC prior to February 10, 2015, which might hinder our ability to grow our business outside of the PRC.

Our business depends substantially on the continuing efforts of our executive officers, research personnel and other key personnel, and our business may be severely disrupted if we lose their services.

We depend on key members of our management team, research personnel and other key personnel. In particular, we depend on the services of Mr. Jinsheng Ren, our founder, the chairman of our board of directors and our chief executive officer, and Mr. Xiaojin Yin, our senior vice president of research and development. The loss of key employees could delay the advancement of our research and development activities. The implementation of our business strategy and our future success will depend in large part on our continued ability to attract and retain highly qualified scientific, technical and management personnel. We face competition for personnel from other pharmaceutical companies, universities, public and private research institutions and other organizations. The process of hiring suitably qualified personnel is often lengthy. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute our business strategy.

We do not maintain key employee insurance. If one or more of our executive officers, research personnel and other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. In addition, if any of our executive officers or key research personnel joins a competitor or forms a competing company, we may lose some of our customers. Each of our executive officers, key research personnel and marketing managers has entered into a confidentiality and non-competition agreement with us. However, if any disputes arise between our executive officers, key research personnel and marketing managers and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, the extent to which any of these agreements could be enforced in China, where some of our executive officers reside and hold some of their assets. See

Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Delays in production due to regulatory restrictions or other factors could have a material adverse impact on our business.

We manufacture substantially all of our products in our own manufacturing facilities. The manufacture of pharmaceutical products requires precise and reliable controls and regulatory authorities in China have imposed significant compliance obligations to regulate the manufacturing of pharmaceutical products. As a result, we may face delays in production due to regulatory restrictions or other factors. In addition, we have engaged independent third party manufacturers to manufacture three of our pharmaceuticals. Currently, two of our generic pharmaceuticals are still manufactured by independent third party manufacturers. Our contract manufacturers may not be able to manufacture our products without interruption, may not comply with their obligations under our various supply arrangements, and we may not have adequate remedies for any breach. Failure by our own manufacturing facility or any third party product supplier to comply with regulatory requirements could adversely affect our ability to provide products. All facilities and manufacturing techniques used for the manufacture of pharmaceutical products must be operated in conformity with Good Manufacturing Practices, or GMPs. In complying with GMP requirements, we and our product suppliers must continually spend time, money and effort in production, record-keeping and quality assurance and control to ensure that the product meets applicable specifications and other requirements for product safety, efficacy and quality. Manufacturing facilities are subject to periodic unannounced inspections by the SFDA and other regulatory authorities. In addition, adverse experiences with the use of products must be reported to the SFDA and could result in the imposition of market restrictions through labeling changes or in product removal.

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Suppliers of certain active and inactive pharmaceutical ingredients and certain packaging materials used in our products are required to obtain SFDA approval before they may supply us with such materials. The development and regulatory approval of our products are dependent upon our ability to procure these ingredients, packaging materials and finished products from SFDA-approved sources. SFDA approval of a new supplier would be required if, for example, an existing supplier breached its obligations to us, active ingredients, packaging materials or finished products were no longer available from the initially approved supplier or if a supplier had its approval from the SFDA withdrawn. The qualification of a new product supplier could potentially delay the manufacture of the product involved. Furthermore, we may not be able to obtain active ingredients, packaging materials or finished products from a new supplier on terms that are at least as favorable to us as those agreed with the initially approved supplier or at reasonable prices.

A delay in supplying, or failure to supply, products by any product supplier could result in our inability to meet the demand for our products and adversely affect our revenues, financial condition, results of operations and cash flows.

Our operating results may fluctuate considerably on a quarterly basis. These fluctuations could have an adverse effect on the price of our shares and ADSs.

Our results of operations may fluctuate significantly on a quarterly basis as a result of a number of factors, many of which are beyond our control. Although many companies may encounter this problem, it is particularly relevant to us because of our relatively small size, our limited operating history, our reliance on limited number of products and the dynamics of the Chinese pharmaceutical industry in which we operate. Factors that could cause our results of operations to fluctuate include, among others:

- the seasonal fluctuations in demand for our products, especially our antibiotics, such as Zailin and Anqi;
- timing of research and development expenses;
- regulatory events;
- new product introductions by us or our competitors;
- variations in the demand for products we may introduce;
- litigation involving patents, licenses or other intellectual property; and
- product liability lawsuits.

Any of the foregoing factors could cause us to fail to meet the expectations of securities analysts or investors, which could cause the trading price of our shares and ADSs to decline.

Our future liquidity needs are uncertain and we may need to raise additional funds in the future.

We may, from time to time, need to raise funds as part of our business operations if our expenditures exceed our expectations. This could occur for a number of reasons, including:

- we determine to devote significant amount of financial resources to the research and development of projects that we believe to have significant commercialization potential;
- we determine to acquire or license rights to additional product candidates or new technologies;
- some or all of our product candidates fail in clinical trials or pre-clinical studies or prove to be not as commercially promising as we expect and we are forced to develop or acquire additional product candidates;

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- our product candidates require more extensive clinical or pre-clinical testing or clinical trials of these product candidates take longer to complete than we currently expect; or

- we determine or are required to conduct more high-throughput screening than expected against current or additional disease targets to develop additional product candidates.

Our ability to raise additional funds in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;

- general market conditions for capital-raising activities by pharmaceutical companies; and

- economic, political and other conditions in China and elsewhere.

We cannot assure you that our revenues will be sufficient to meet our operational needs and capital requirements. If we need to obtain external financing, we cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Our future liquidity needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could result in additional dilution to our shareholders. The incurrence of additional indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations.

A significant amount of intangible assets and goodwill are recorded on our balance sheet. Future impairment of our intangible assets or goodwill could have a material adverse impact on our financial condition and results of operations.

As of December 31, 2009, our net intangible assets including in-process research and development (IPR&D) amounted to RMB385.3 million ($56.5 million), representing 12.3% of our total assets, and goodwill amounted to RMB309.9 million ($45.4 million), representing 9.9% of our total assets. Our intangible assets primarily consisted of developed technology, product trademarks and IPR&D that we acquired in connection with our acquisition of the entire equity interest in Shandong Simcere, a 51.0% equity interest in Jilin Boda Pharmaceutical Co., Ltd., or Jilin Boda, an 85.71% equity interest in Nanjing Tung Chit Pharmaceutical Company Limited, or Nanjing Tung Chit, a 70.0% equity interest in Simcere Zhong Ren Pharmaceutical Co., Ltd., or Simcere Zhong Ren, and a 52.5% equity interest in Jiangsu Yanshen, during 2006, 2007, 2008 and 2009. Developed technology represents the right to use, manufacture, market and sell the acquired products as well as their related invention patents in the PRC or the United States, as the case may be, while trademarks represent the right by the trademark registrant to use the registered trademark and to protect products from infringement. Our developed technologies, trademarks and IPR&D amounted to RMB361.6 million ($53.0 million), representing 11.5% of our total assets as of December 31, 2009. We estimated the fair value of the developed technologies, trademarks and IPR&D of the acquired products using their respective present values of projected cash flows based on assumptions with respect to the growth rate of our revenues from sales, the earnings before interest and tax margin derived from sales, the discount rate selected to measure the risks inherent in future cash flows and our assessment of the product life cycle. We also took into consideration the competitive trends that may affect these products sales, including consideration of any technical, legal, regulatory, and economic barriers to entry. See Item 5. Operating and Financial Review and Prospects A. Operating Results Critical Accounting Policies Long-Lived Assets and Goodwill. We determined the useful life of the developed technology of an acquired product by considering the remaining protection period of such product s patent in China and the expected competitive trend in the PRC market. At December 31, 2009, we performed an impairment analysis of our goodwill recognized from the acquisition of Jiangsu Yanshen. As a result of this analysis, we recorded, in fiscal year 2009, a goodwill impairment charge of RMB76.4 million ($11.2 million). See Item 5. Operating and Financial Review and Prospects Acquisitions .

Future events such as market acceptance of the acquire products, introduction of superior pharmaceuticals by our competitors, regulatory actions, safety concerns as to our pharmaceuticals or vaccines, and challenges to and infringement of our intellectual property rights, could have a material impact on our key assumptions in determining

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the fair value of the developed technology of the acquired products. This in turn could result in further write-downs of our intangible assets or goodwill, or a change in the useful lives of our intangible assets. Future write-downs of our intangible assets or goodwill, or change in useful lives of our intangible assets, could decrease our net income, which would have a material adverse impact on our financial condition and results of operations.

Our non-public shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders.

As of the date of this annual report on Form 20-F, we had a number of shareholders other than public shareholders holding our ordinary shares in the form of ADSs, including New Good Management Limited, a company beneficially owned by 10 individuals, including certain of our senior management, and controlled by Mr. Jinsheng Ren, our founder, chief executive officer and chairman of our board of directors; Assure Ahead Investments Limited, an investment vehicle owned and controlled by a group of financial investors; and King View Development International Limited, an investment vehicle owned and controlled by Trustbridge Partners, a private equity fund. As of May 31, 2010, New Good Management Limited owned approximately 38.7% of our outstanding share capital, and Assure Ahead Investments Limited and King View Development International Limited owned 16.5% and 10.9% of our outstanding share capital, respectively. As such, they have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs.

Our production activities involve the controlled use of potentially harmful biological materials as well as hazardous materials and chemicals.

Our production activities involve the controlled use of potentially harmful biological materials as well as hazardous materials and chemicals. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, which could exceed our resources. We are subject to national, provincial and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. We believe we are currently in compliance with these laws and regulations. However, any failure by us to control the use, storage, handling and disposal of these hazardous materials and chemicals could subject us to potentially significant monetary damages and fines or suspensions of our business operations. In addition, we do not currently carry any insurance for potential liabilities relating to the release of hazardous materials as such insurance is not currently available in China.

New labor laws in the PRC may adversely affect our results of operations.

On June 29, 2007, the PRC government promulgated a new labor law, namely, the Labor Contract Law of the PRC, or the New Labor Contract Law, which became effective on January 1, 2008. The Implementation Rules of the New Labor Contract Law was subsequently promulgated and became effective on September 18, 2008. The PRC government also promulgated the Law on Mediation and Arbitration of Labor Disputes on December 29, 2007 that came into effect on May 1, 2008. These newly enacted labor laws and regulations impose greater liabilities on employers and significantly impact the cost of an employer s decision to reduce its workforce. Further, they require certain terminations to be based upon seniority but not merit. In the event we decide to significantly change or decrease our workforce, the New Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost effective manner, thus materially and adversely affecting our financial condition and results of operations.

If we grant additional employee share options, restricted shares or other share-based compensation in the future, our net income could be adversely affected.

We adopted a share incentive plan on November 13, 2006. We issued 10,000,000, 1,045,000, 400,000 and 100,000 share options under our 2006 share incentive plan on November 15, 2006, March 29, 2007, May 5, 2008, and December 24, 2008, respectively. On July 31, 2008, our shareholders approved our 2008 share incentive plan

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under which we are authorized to issue up to 6,250,000 ordinary shares upon exercise of awards granted thereunder. As of June 22, 2010, no award was issued under our 2008 share incentive plan.

On April 15, 2009, our compensation committee approved a share option exchange program that offered our eligible employees and directors the right to exchange vested and unvested outstanding share options to purchase our ordinary shares under the 2006 Share Incentive Plan for restricted shares (which are referred to in the notes related to the consolidated financial statements included elsewhere in this annual report on Form 20-F as nonvested shares per FASB ASC, *Compensation Stock Compensation*). The exchange ratio was determined based on the fair value of replacement restricted shares so that the fair value of the replacement restricted shares to be issued upon exchange would be approximately equivalent to the fair value of the share options surrendered by an individual. In addition, these replacement restricted shares are subject to substantially the same vesting schedule as the options that were validly tendered in the exchange offer. The exchange of the share option awards for restricted shares was accounted for as a modification for awards which involves a cancellation of the original award and an issuance of a new award. The replacement restricted shares were granted on May 7, 2009. The effect of this award modification on share-based compensation expense over the remaining requisite service period was insignificant.

On October 14, 2009 and December 4, 2009, we issued 200,000 and 40,000 restricted shares to our officers and key employees under our 2006 share incentive plan, respectively.

We recognize, as an expense, the fair value of share options and other share-based compensation to employees based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. If we grant additional options, restricted shares and other equity incentives in the future, we could incur significant compensation charges and our net income could be adversely affected.

Counterfeit pharmaceuticals in China could negatively impact our revenues, brand reputation, business and results of operations.

Our products are also subject to competition from counterfeit pharmaceuticals, which are pharmaceuticals manufactured without proper licenses or approvals and are fraudulently mislabeled with respect to their content and/or manufacturer. Counterfeiters may illegally manufacture and market pharmaceuticals under our brand name or that of our competitors. Counterfeit pharmaceuticals are generally sold at lower prices than the authentic products due to their low production costs, and in some cases are very similar in appearance to the authentic products. Counterfeit pharmaceuticals may or may not have the same chemical content as their authentic counterparts. If counterfeit pharmaceuticals illegally sold under our brand name results in adverse side effects to consumers, we may be associated with any negative publicity resulting from such incidents. In addition, consumers may buy counterfeit pharmaceuticals that are in direct competition with our pharmaceuticals, which could have an adverse impact on our revenues, business and results of operations. Although the PRC government has recently been increasingly active in policing counterfeit pharmaceuticals, there is not yet an effective counterfeit pharmaceutical regulation control and enforcement system in China. The proliferation of counterfeit pharmaceuticals has grown in recent years and may continue to grow in the future. Any such increase in the sales and production of counterfeit pharmaceuticals in China, or the technological capabilities of the counterfeiters, could negatively impact our revenues, brand reputation, business and results of operations.

Inappropriate use of our trade names by other entities could negatively affect our business.

Our trade name Simcere is also used by companies which are partially owned and controlled by certain shareholders of New Good Management Limited. If any such entity or any company that is unrelated to us uses the trade name Simcere in ways that negatively affect such trade names, our reputation could suffer harm, which in turn could have a material adverse effect on our financial condition and results of operations.

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We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. holders.

We believe that we were not a passive foreign investment company , or PFIC, for U.S. federal income tax purposes for our taxable year ended on December 31, 2009, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75.0% of its gross income is passive income or (2) at least 50.0% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The market value of our assets may be determined in large part by the market price of our ADSs and ordinary shares, which is likely to fluctuate. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we receive. If we are treated as a PFIC for any taxable year during which U.S. holders hold ADSs or ordinary shares, certain adverse United States federal income tax consequences could apply to U.S. holders. See Taxation United States Federal Income Taxation Passive Foreign Investment Company.

If a poll is not demanded at our shareholder meetings, voting will be by show of hands and shares will not be proportionately represented. Shareholder resolutions may be passed without the presence of the majority of our shareholders in person or by proxy.

Voting at any of our shareholder meetings is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of the meeting or by any shareholder present in person or by proxy. If a poll is demanded, each shareholder present in person or by proxy will have one vote for each ordinary share registered in his name. If a poll is not demanded, voting will be by show of hands and each shareholder present in person or by proxy will have one vote regardless of the number of shares registered in his name. In the absence of a poll, shares will therefore not be proportionately represented. In addition, the quorum required for our shareholder meetings consists of shareholders who hold at least one-third of our ordinary shares being present at a meeting in person or by proxy. Therefore, subject to the requisite majorities, shareholder resolutions may be passed at our shareholder meetings without the presence of the majority of our shareholders in person or by proxy.

Risks Related to Our Industry

Changes in economic conditions and consumer confidence in China may influence consumer preferences and spending patterns, and accordingly, our results of operations.

Our business and revenue growth primarily depend on the size of the pharmaceutical products in China. As a result, our revenue and profitability may be negatively affected by changes in national, regional or local economic conditions and consumer confidence in China. In particular, as we focus our expansion of retail stores in metropolitan markets, where living standards and consumer purchasing power are higher than rural areas, we are especially susceptible to changes in economic conditions, consumer confidence and customer preferences of the urban Chinese population. External factors beyond our control that affect consumer confidence include unemployment rates, levels of personal disposable income, national, regional or local economic conditions and acts of war or terrorism. Changes in economic conditions and consumer confidence could adversely affect consumer preferences, purchasing power and spending patterns. For example, the recent global economic and financial market crisis has caused, among other things, lower customer spending across China. As a result, sales of our premium priced high-end anti-cancer medication Endu, which is currently excluded from national Essential Drug List and Reimbursement List, have declined and may continue to decline as patients decrease their purchases as a result of worries about economic conditions or reduced incomes. In addition, the timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected. In addition, acts of war or terrorism may cause damage to our facilities, disrupt the supply of the products and services we offer in our stores or adversely impact consumer demand. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

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We face intense competition that may prevent us from maintaining or increasing market share for our existing products and gaining market acceptance for our future products. Our competitors may develop or commercialize products before us or more successfully than us.

The pharmaceutical market in China is intensely competitive, rapidly evolving and highly fragmented. Our competitors may develop products that are superior to ours or may be more effective in marketing products that are competitive with ours. We face competition from other pharmaceutical companies, including multinational companies as well as manufacturers of traditional Chinese medicines with similar curative effects that can be used as substitutes for certain of our products.

Many of our existing and potential competitors may have greater financial, technical, manufacturing and other resources than we do. In addition, certain competitors which were established by multinational pharmaceutical companies, have more extensive research and development and technical capabilities than we do. Furthermore, China s industry reforms aimed to meet the World Trade Organization, or the WTO, requirements may foster increased competition from multinational pharmaceutical companies. Such competitors may also have greater brand name recognition, more established distribution networks, larger customer bases or more extensive knowledge of our target markets. Our competitors greater size in some cases provides them with a competitive advantage with respect to manufacturing costs because of their economies of scale and their ability to purchase raw materials at lower prices. As a result, they may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. In addition, certain of our competitors may adopt low-margin sales strategies and compete against us based on lower prices. Our failure to adapt to changing market conditions and to compete successfully with existing or new competitors may materially and adversely affect our financial condition and results of operations.

In addition, to increase sales, certain manufacturers or distributors of pharmaceuticals may engage in questionable practices in order to influence procurement decisions of our customers. As a result, as competition intensifies in the pharmaceutical industry in China, we may lose sales, customers or contracts to competitors that engage in these practices.

The retail prices of certain of our products are subject to control, including periodic downward adjustment, by PRC government authorities.

Certain of our pharmaceutical products, primarily those included in the Essential Drug List and Reimbursement List, are subject to price controls in the form of fixed retail prices or retail price ceilings. See Item 4. Information of the Company B. Business Overview Regulation Price Controls. In addition, the maximum retail prices of products that are included in the Essential Drug List and Reimbursement List are also subject to periodic downward adjustments as the PRC government authorities aim to make pharmaceuticals more affordable to the general public. However, PRC government authorities impose no control over the prices at which pharmaceutical manufacturers sell their products to their distributors. Since May 1998, the relevant PRC government authorities have ordered price reductions of various pharmaceuticals 25 times. The latest price reductions occurred in September of 2009, and affected a total of 102 different Chinese medicines and 204 different Western pharmaceuticals. The retail price ceilings of our major products Anqi and Zailin, both of which are included in the national medical insurance catalog, were adjusted downward in June 2004, and the retail price ceilings of our Faneng branded alfacalcidol soft capsules and Simcere Kechuanning branded herbal cough medicine were adjusted downward in January and March 2007, respectively. In the long term, the prices at which pharmaceutical manufacturers in China sell their products to distributors, including the prices of our products, will be affected by the relevant fixed retail prices or retail price ceilings. Government price controls, especially downward price adjustments, may have a material adverse effect on our revenues and profitability.

Pharmaceutical companies in China require a number of permits and licenses in order to carry on their business.

All pharmaceutical manufacturing and distribution companies in China are required to obtain certain permits and licenses from various PRC governmental authorities, including, in the case of manufacturing companies, a pharmaceutical manufacturing permit and, in the case of distribution companies, a pharmaceutical distribution permit. See Item 4. Information of the Company B. Business Overview Regulation.

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We have obtained permits and licenses and GMP certifications required for the manufacture of our pharmaceutical products. In addition, we have obtained permits, licenses and Good Supply Practice, or GSP, certifications for the distribution of our products. Each of these permits and licenses held by us is valid for five years and subject to periodic renewal and/or reassessment by the relevant PRC government authorities and the standards of compliance required in relation thereto may from time to time be subject to changes. For example, the current pharmaceutical manufacturing permit for each of Simcere Pharmaceutical Co., Ltd., or Hainan Simcere, Nanjing Simcere Dongyuan Pharmaceutical Co., Ltd., or Nanjing Simcere, Shandong Simcere, Jilin Boda, Nanjing Tung Chit and Simcere Zhong Ren, will all expire on December 31, 2010. In addition, Jilin Boda is currently expanding its facilities which then require it to renew its existing manufacturing permit. The 26 GMP certificates for our seven manufacturing facilities will expire between October 2010 and April 2015, and the two GSP certificates held by two of our distribution subsidiaries will expire in July 2013 and November 2013, respectively.

At the time we acquired Jiangsu Yanshen, Jiangsu Yanshen s core products included an influenza vaccine and a human use rabies vaccine (vero cell). Jiangsu Yanshen also received a new medicine certificate from the SFDA for its freeze-dried human use rabies vaccine (vero cell) and has completed clinical trials of its purified hepatitis A inactivated vaccine (vero cell), and the SFDA approval for the purified hepatitis A inactivated vaccine (vero cell) and GMP certification for the associated new manufacturing facility are pending. However, since the discovery of the substandard vaccine manufactured by Jiangsu Yanshen prior to our acquisition, the two new medicine certificates held by Jiangsu Yanshen for rabies vaccine (Vero cell) and freeze-dried human rabies vaccine (Vero cell) have been revoked. The GMP certificate for the manufacture of human use rabies vaccine has been seized by the relevant government authorities and the GMP certificate for the manufacture of influenza vaccine was expired on February 2, 2010 and has not been renewed yet. In fiscal year 2009, we recognized a goodwill impairment charge of RMB76.4 million ($11.2 million). See Item 5. Operating and Financial Review and Prospects Acquisitions .

See Item 4. Information of the Company B. Business Overview Regulation. We intend to apply for the renewal of our permits and licenses when required by applicable laws and regulations. Any failure by us to obtain such renewals may have a material adverse effect on the operation of our business, and prevent us from continuing to carry on our business. Furthermore, any changes in compliance standards, or any new laws or regulations may prohibit or render it more restrictive for us to conduct our business or may increase our compliance costs, which may adversely affect our operations or profitability.

Risks Related to Doing Business in China

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

The PRC legal system is a civil law system based on written statutes. Unlike in the common law system, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct all of our business through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Chinese pharmaceutical industry, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties

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could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position.

All of our business operations are conducted in China and all of our sales are made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including:

the degree of government involvement;

the level of development;

the growth rate;

the control of foreign exchange;

access to financing; and

the allocation of resources.

While the Chinese economy has grown significantly in the past, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over China s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. As a result, actions and policies of the PRC government could materially affect our liquidity and access to capital and our ability to operate our business.

We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We conduct all of our business through our subsidiaries established in China. We rely on dividends paid by these subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries including wholly foreign-owned enterprises, or WFOEs, and domestic companies is also required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserves reach 50.0% of its respective registered capital. As of December 31, 2009, our restricted reserves amounted to RMB165.7 million

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($24.3 million), and our accumulated profits that were unrestricted and were available for distribution amounted to RMB681.0 million ($99.7 million). Our restricted reserves are not distributable as cash dividends. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Recent PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries ability to distribute profits to us, or otherwise adversely affect us.

The PRC State Administration of Foreign Exchange, or the SAFE, issued a public notice in October 2005, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an offshore special purpose company. PRC residents that are shareholders of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. Our current beneficial owners who are PRC residents have registered with the local SAFE branch as required under the SAFE notice. The failure of these beneficial owners to timely amend their SAFE registrations pursuant to the SAFE notice or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the SAFE notice may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries ability to distribute dividends to our company or otherwise adversely affect our business. In addition, the SAFE notice also provides that PRC residents who are shareholders of offshore special purpose companies are required to apply for registration or file with the SAFE within 30 days after the occurrence of certain events with respect to such offshore purpose companies, including the increase or decrease in the registered share capital, the share transfer or exchange of stock rights, acquisition or division, long-term investment of equity or debt, guarantees provided to other parties, provided that such events do not involve direct investment of capital into PRC subsidiaries by those PRC residents through the offshore special purpose companies.

Our financial results benefit from tax concessions granted by the PRC government, the change to or expiration of which would materially change our results of operations.

Our results of operation may be adversely affected by changes to or expiration of tax holidays and preferential tax policies that some of our PRC subsidiaries currently enjoy. Effective from January 1, 2008, the statutory tax rate generally applicable to Chinese companies is 25%. As a result of tax holidays and preferential tax policies, our operations have been subject to relatively low tax liabilities. For additional details regarding these tax incentives, please see Item 5. Operating and Financial Review and Prospects Taxation and Incentives .

Tax laws in China are subject to interpretations by relevant tax authorities. The preferential tax policies may not remain in effect or may change, in which case we may be required to pay the higher income tax rate generally applicable to Chinese companies, or such other rate as is required by the laws of China.

Dividends we receive from our operating subsidiaries located in the PRC may be subject to PRC withholding tax.

On March 16, 2007, the National People s Congress passed the Corporate Income Tax Law of the PRC, or the new CIT law. The new CIT law provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the implementation rules for the new CIT law. We are a Cayman Islands holding company and State Good Group Limited, or SGG, is a British Virgin Islands intermediate holding company. Substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. Thus, dividends paid to us by our subsidiaries in China, if any, may be subject to the 10% income tax if SGG is considered as a non-resident enterprise under the new CIT law. We have not provided for income taxes on accumulated earnings generated by our PRC subsidiaries for 2008 and 2009 since we plan to indefinitely reinvest these earnings in the PRC. If SGG is required under the new CIT law to pay income tax for any dividends we receive from our subsidiaries, it will materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders.

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We may be deemed a PRC resident enterprise under the new CIT law and be subject to the PRC taxation on our worldwide income.

The new CIT law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% corporate income tax rate as to their worldwide income. Under the implementation rules for the new CIT law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) our overseas registered entities to be treated as PRC resident enterprises. If we are treated as resident enterprises for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although dividends distributed from our PRC subsidiaries to us could be exempt from Chinese dividend withholding tax, since such income is exempt under the new CIT law to PRC resident recipients.

Dividends payable by us to our foreign investors and gain on the sale of our ADSs or ordinary shares may become subject to taxes under PRC tax laws.

Under the new CIT law and the implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises , which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC resident enterprise , it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC income tax. If we are required under the new CIT law to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident enterprises , or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The change in value of the Renminbi against the U.S. dollar, Euro or other currencies is affected by, among other things, changes in China s political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As we rely on dividends paid to us by our PRC operating subsidiaries, any significant revaluation of the Renminbi may have a material adverse effect on the value of, and any dividends payable on, our ADSs in foreign currency terms. Appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive all our revenues in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages

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in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. In addition, foreign currencies received under current account items can be retained or sold to financial institutions engaged in the foreign exchange settlement or sales business by complying with relevant regulations. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Similarly, approval from the SAFE or its local branch is required if foreign currencies received in respect of capital account items is to be retained or sold to financial institutions engaged in the foreign exchange settlement or sales business. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

We face risks related to health epidemics and other outbreaks of contagious diseases, including avian flu, SARS, and swine flu.

Our business could be adversely affected by the effects of avian flu, SARS, swine flu or another epidemic or outbreak. During April and May 2009, there have been outbreaks of highly pathogenic swine flu, caused by the H1N1A virus, in certain regions of the world, including parts of Asia. In 2007 and early 2008, there were reports of outbreaks of a highly pathogenic avian flu, caused by the H5N1 virus, in certain regions of Asia and Europe. In 2005 and 2006, there were reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, any recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, would also have similar adverse effects. These outbreaks of contagious diseases, and other adverse public health developments in China, would have a material adverse effect on our business operations. These could include restrictions on our ability to travel or to ship our products within China, as well as cause temporary closure of our manufacturing facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS, swine flu or any other epidemic.

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- announcements of technological or competitive developments;
- regulatory developments in China affecting us, our customers or our competitors;
- announcements regarding patent litigation or the issuance of patents to us or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other pharmaceutical companies;
- addition or departure of our executive officers and key research personnel;

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release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and

sales or perceived sales of additional ordinary shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

Substantial future sales or perceived sales of our ADSs in the public market could cause the price of our ADSs to decline.

Future sales of our ADSs or ordinary shares in the public market or the perception that these sales could occur, may cause the market price of our ADSs to decline. As of June 22, 2010, we have issued 109,879,906 ordinary shares, including 108,508,314 ordinary shares outstanding and 1,371,592 ordinary shares issued to The Bank of New York Mellon which were held on behalf of us for future exercise of share options. All ADSs sold are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act.

In addition, Assure Ahead Investment Limited or its transferees and assignees and King View Development International Limited or its transferees and assignees will have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

Our articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders opportunity to sell their shares, including ordinary shares represented by our ADSs, at a premium.

Our second amended and restated articles of association currently in effect limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares. These preferred shares may have better voting rights than our ordinary shares, in the form of ADSs or otherwise, and could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting rights of the holders of our ordinary shares and ADSs may be diluted.

Certain actions require the approval of a supermajority of at least two-thirds of our board of directors which, among other things, would allow our non-independent directors to block a variety of actions or transactions, such as a merger, asset sale or other change of control, even if all of our independent directors unanimously voted in favor of such action, thereby further depriving our shareholders of an opportunity to sell their shares at a premium.

Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under our second amended and restated memorandum and articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, you may not receive sufficient notice of a shareholders meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the

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depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs.

Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders meeting.

You may be subject to limitations on transfers of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends if it is impractical to make them available to you.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

In addition, the depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property and you will not receive such distribution.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, you may have less protection for your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our second amended and restated memorandum and articles of association, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

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As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a U.S. public company.

You may have difficulty enforcing judgments obtained against us.

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state and it is uncertain whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or such persons predicated upon the securities laws of the United States or any state. See Enforcement of Civil Liabilities.

Item 4. INFORMATION OF THE COMPANY

A. History and Development of the Company

Our predecessor entity, Hainan Simcere Investment Group Ltd., or Simcere Investment, was a PRC company that held a group of pharmaceutical companies that develops, manufactures and markets a range of branded generic and innovative pharmaceuticals. To raise capital from investors outside of China, we established State Good Group Limited, or SGG, in the British Virgin Islands on October 12, 2005. Our operating subsidiaries were transferred to SGG in March 2006 as part of a series of corporate reorganization activities. We incorporated Simcere Pharmaceutical Group in the Cayman Islands as a listing vehicle on August 4, 2006. Simcere Pharmaceutical Group became our ultimate holding company when it issued ordinary shares to existing shareholders of SGG on September 29, 2006, in exchange for the respective ordinary shares that these shareholders held in SGG.

Subsequent to our initial public offering on April 20, 2007, we have engaged in a number of acquisitions to strengthen our product portfolio, especially as to first-to-market generic and innovative pharmaceuticals in China. See Item 5. Operating and Financial Reviews and Prospects A. Operating Results Acquisitions.

B. Business Overview

We are a leading manufacturer and supplier of branded pharmaceuticals in the fast growing China market. We focus our strategy on the development of first-to-market generic and innovative pharmaceuticals, and have introduced a first-to-market generic anti-stroke medication under the brand name Bicun, a 5-FU sustained release implant under the brand name Sinofuan, and an innovative anti-cancer medication under the brand name Endu. We currently manufacture and sell 46 principal pharmaceutical products and are the exclusive distributor of two additional pharmaceuticals that are manufactured by independent third parties but marketed under our brand names. In addition, we have obtained approvals from the SFDA to manufacture and sell over 222 other products. As of March 31, 2010, we also had 12 product candidates in various stages of development, including treatments for cancer, cerebrovascular diseases, infections, rheumatoid arthritis, nausea and vomiting associated with chemotherapy.

Our innovative anti-cancer medication Endu has been granted an invention patent in China and was the first recombinant human endostatin injection approved for sale in China. Recombinant human endostatin is a genetically engineered protein that interferes with the growth of blood vessels to a tumor, thereby starving and preventing the growth of tumor cells. Our generic anti-stroke medication Bicun was the first edaravone injection, a type of neuroprotective pharmaceutical compound, approved for sale in China. Our generic amoxicillin granule antibiotic, marketed under the brand name Zailin, was recognized as a China Well-Known Trademark in 2004 and our anti-

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inflammatory pain relievers for the treatment of rheumatoid arthritis and osteoarthritis, marketed under the brand name Yingtaiqing, was recognized as a China Well-Known Trademark in 2008. Furthermore, our medication Sinofuan, a 5-Fu sustained-released implant for the treatment of cancer which we obtained from our successful acquisition of Simcere Zhong Ren, is the first dosage form of sustained-release implant approved by the SFDA, and our generic anti-infection medication Anxin, a new product that we introduced in 2008, was the first biapenem injection, a type of carbapenem, approved for sale in China.

We commenced operations in March 1995 as a distributor of pharmaceutical products, and since then we have established an extensive distribution network in China that we now use to market, sell and distribute our own pharmaceutical products. We sell our products (except our vaccines) exclusively to regional distributors, who then sell them to local distributors, hospitals and retail pharmacies throughout China. Our marketing team leverages the reputation of our Simcere brand name and our well-known branded pharmaceuticals to cross-sell our other pharmaceuticals. We also have dedicated brand management, market research and sales support teams to further enhance the effectiveness of these marketing efforts.

We employ a market-oriented approach to research and development and focus our efforts on branded generic pharmaceuticals that have the potential for gaining widespread market acceptance or are the first generic version on the market. We concentrate our research and development efforts on the treatment of diseases with high incidence and/or mortality rates and for which there is a clear demand for more effective pharmacotherapy, such as cancer and cerebrovascular and infectious diseases. Through our research and development efforts, we have introduced to the China market a sizable portfolio of branded products with significant market potential.

Our Products

We currently manufacture and sell 46 principal pharmaceuticals marketed under various brands. Of these products, 38 are prescription pharmaceuticals and eight are over-the-counter, or OTC, pharmaceuticals. In addition, we are also the exclusive distributor of Yingtaiqing-branded generic diclofenac sodium sustained-release capsules and the Faneng-branded generic alfacalcidol soft capsules, both of which are prescription pharmaceuticals manufactured by independent third parties. Furthermore, we have obtained approvals from the SFDA to manufacture and sell over 222 other products.

The following table sets forth the major treatment areas by our current principal products, the number of products for each treatment area and the brands they are marketed under:

Product Category	Number of Products	Major Products	Brands
Antibacterial and Antiviral	16	Amoxicillin granules, capsules and tablets ; Amoxicillin with clavulanate potassium granules, tablets and injection; biapenem injection; cefaclor dry suspension; azithromycin granules; and ribavirin dispersible tablets	Zailin, Anqi, Anxin, Zaike, Zaiqi and Nanyuan
Anti-cancer	5	Recombinant human endostatin injection, nedaplatin injection, lentinan injection and fluorouracil implants	Endu, Jiebaishu, Yineng and Sinofuan
Anti-Allergic	2	Clemastine fumarate capsules and clemastine fumarate dry suspension	Langjing

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Product Category	Number of Products	Major Products	Brands
Anti-Osteoporosis	2	Alfacalcidol soft capsules	Faneng
Cardiovascular and Cerebrovascular	6	Edaravone injection; amlodipine maleate tablets; sumatriptan succinate tablets; Levamlodipine Besylate Tablets	Bicun, Yidasheng, Ningliping, Youshu and Xinta
Digestive Conditions	3	Smectite powder and aldioxa tablets	Biqi and Odijia
Non-Steroidal Anti-Inflammatory	2	Diclofenac sodium sustained-release capsules and gelatin	Yingtaiqing
Respiratory System	6	Herbal medicine used for the treatment of cough in liquids and tablets; artificial cowbezoar and chlorphenamine maleate granules compound paracetamol and amantadine hydrochloride tablets; compound zinc gluconate; pediatric paracetamol	Simcere Kechuanning, Zaikang, Boke, Aiersi and Boting
Urinary Conditions	1	Naftopidil tablets	Zaichang
Vaccines		H1N1 Influenza A Vaccine (Split Virion), Inactivated; Influenza Vaccine (Split Virion), Inactivated	
Others	3	Various herbal oral solutions	Chengyuan and Shibo

Our Innovative Pharmaceutical Endu (Recombinant Human Endostatin Injection)

Our innovative pharmaceutical Endu, or recombinant human endostatin, has been granted an invention patent in China and was the first recombinant human endostatin injection approved for manufacture and sale in China and has been approved for the treatment of NSCLC. Recombinant human endostatin is a genetically engineered protein that interferes with the growth of blood vessels to a tumor, thereby starving and preventing the growth of tumor cells. In 2009, revenues of Endu amounted to RMB124.2 million ($18.2 million) which accounted for 6.7% of our revenues for the year.

The treatment of cancer by disrupting a tumor s blood supply has been under research since the 1970s. In February 2004, the U.S. Food and Drug Administration approved Avastin, an anti-cancer drug based on this principle. Shortly before Avastin s approval, a U.S. based pharmaceutical company stopped its clinical research of a drug called endostatin, a broad spectrum antiangiogenic protein, citing high manufacturing costs. Endu is a modified version of endostatin that was developed by a team of scientists led by Dr. Yongzhang Luo and Dr. Bin Zhou, both of whom received doctorate degrees in biochemistry from the University of California at Berkeley. Endu has been engineered to contain an additional nine-amino acid sequence to enhance protein purification, solubility and stability and has been shown to improve the function of endostatin. Endu exhibits low toxicity in humans based on clinical trials conducted between 2001 and 2004 on 493 Chinese patients with NSCLC.

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These clinical trials showed that the median survival time of the Endu group was approximately five months longer than that of the control group and one year survival rates of the Endu group was 62.8% compared to 31.5% for the control group. The SFDA granted the new medicine certificate for Endu in September 2005 and the relevant approvals to manufacture and sell Endu in March 2006 to Shandong Simcere, a pharmaceutical company founded by Dr. Luo that held an invention patent in China on Endu granted on January 18, 2006.

We entered into an agreement to acquire an 80.0% equity interest in Shandong Simcere in May 2006. As a result of the acquisition, we have obtained the exclusive right to manufacture Endu and hold the invention patent in China for Endu. We also hold one invention patent in the United States covering N-terminal modified recombinant human endostatin and its production. Prior to the completion of our acquisition of Shandong Simcere, we began to market and sell Endu in July 2006 as the exclusive distributor for Shandong Simcere. Upon completion of the acquisition in September 2006, we also began to manufacture Endu in China. In June 2007, we acquired an additional 10.0% equity interest in Shandong Simcere. In January 2009, we acquired the remaining 10.0% equity interest in Shandong Simcere which is now our wholly owned subsidiary.

We have an in-house research and development team specializing in anti-cancer drugs, know-how and technologies that will enable us to engage in research and development of other indications for Endu, and an existing GMP-approved manufacturing facility for the production of Endu. As part of our ongoing efforts to monitor the efficacy and any adverse reactions to Endu, we started the Phase IV clinical trials for Endu on November 10 2006. This trial involved approximately 154 hospitals in China in which 2,725 patients were enrolled in the trials and was completed in two-and-a-half years. On March 30 2010, the final result of the trial was publicly released, which further confirmed the efficacy and safety of Endu combined with chemotherapy in the treatment of non-small-cell lung cancer at advanced stages. The Phase IV clinical trials verified the data collected from previous clinical trials of Endu, and in particular, the clinical benefit rate and the one-year survival rate. The Phase IV clinical trials found no significant difference in efficacy of Endu combined with different first-line chemotherapy regimens, and also no significant increase in adverse effects of chemotherapy when the use of Endu was combined, which indicated the safety of combining Endu with forms of chemotherapy that are beneficial to a greater number of patients.

We are also engaged in various research and development efforts to maximize the commercial potential of Endu. For example, we are also researching other potential indications for Endu as well as on expanding the scope of use for Endu outside of chemotherapy. In addition, we are working to improve the delivery method of Endu for increased ease of use.

Hong Kong Medgenn has the exclusive right to engage in the development and sale of Endu in any jurisdiction outside of the PRC, including the United States, until February 10, 2015. Hong Kong Medgenn also holds the rights to apply for patents outside of the PRC and may grant its rights with respect to Endu in these jurisdictions to independent third parties. We hold indirectly an effective 40.0% equity interest in Hong Kong Medgenn. See Item 3. Key Information D. Risk Factors Risks Related to our Company We have no control over the development and sale of Endu outside of the PRC. Our brand and reputation may be adversely affected if the development and sale of Endu outside of the PRC violates the intellectual property rights of any third parties.

Our Principal Branded Generic Pharmaceuticals

We currently market and sell the following principal branded generic pharmaceutical products, each of which contribute over RMB100.0 million ($14.7 million) to our revenues in 2009 and in aggregate accounted for 70.1% of our revenues in 2009:

Bicun (edaravone injection);

Zailin (amoxicillin capsules, dispersible tablets, granules and injection);

Yingtaiqing (diclofenac sodium sustained-release capsules and gelatin);

Yidasheng (edaravone injection); and

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Sinofuan (anti-tumor implants).

Bicun. Bicun is our prescription edaravone injection pharmaceutical for the treatment of strokes. Edaravone is a synthetic free radical scavenger and has been proved to be one of the most effective neuroprotective pharmaceuticals, as evidenced by being recommended as the only neuroprotective agent by the Japan Stroke Therapeutic Guide (2004). Edaravone protects the brain by eliminating excessive free radicals, which are highly reactive molecules occurring in the human body as a result of stroke, an excessive number of which could result in cell damage. Bicun was the first edaravone injection approved for sale in China and has been one of our major products since its introduction in China in February 2004. We obtained regulatory approval to manufacture and sell Bicun in December 2003. The monitoring period of Bicun expired in 2007 and a number of competitors have been entered into the edaravone injection market. In 2009, revenues of Bicun amounted to RMB619.3 million ($90.7 million), which accounted for 33.3% of our revenues for the year.

Zailin. Zailin is the brand name for our line of generic prescription amoxicillin antibiotics, which includes capsules, dispersible tablets, granules and injection. Zailin was recognized as a China Well-Known Trademark by the PRC Trademark Office of the State Administration for Industry and Commerce in 2004 and is one of only two antibiotic brands in China granted such recognition. Regulatory approvals to manufacture and sell Zailin granules were obtained in February 1993, Zailin capsules in October 1996, Zailin tablets in June 1998 and Zailin injection in July 2001. Amoxicillin has been included in the national medical insurance catalog since 2000. In 2009, revenues of Zailin amounted to RMB279.6 million ($41.0 million), which accounted for 15.0% of our revenues for the year.

Yingtaiqing. Yingtaiqing is the brand name for our generic diclofenac sodium in sustained-release capsules and gelatin dosage format, which is an anti-inflammatory pain reliever and analgesic drug used to treat rheumatoid arthritis and osteoarthritis. Yingtaiqing sustained-release capsules are prescription pharmaceuticals and are currently manufactured by a third-party manufacturer, the China Pharmaceutical University Pharmaceutical Company, or China Pharmaceutical, and we have entered into an exclusive distribution agreement with China Pharmaceutical to distribute and sell Yingtaiqing sustained-release capsules in China since 1996. A master distribution agreement was renewed in December 2008. Pursuant to the master distribution agreement, we have agreed to purchase from China Pharmaceutical a certain minimum quantity of Yingtaiqing sustained-release capsules in 2009. We obtained the regulatory approval to manufacture and sell Yingtaiqing gelatin, an OTC medicine, in December 2005. Yingtaiqing was recognized as a China Well-Known Trademark in 2008. Diclofenac sodium has been included in the national medical insurance catalog since 2000. In 2009, sales of Yingtaiqing amounted to RMB151.4 million ($22.2 million), which accounted for 8.2% of our revenues for the year.

Yidasheng. Yidasheng is our prescription edaravone injection pharmaceutical for the treatment of strokes. Yidasheng became our product in October 2007, when we completed the acquisition of a 51.0% stake in Jilin Boda, the manufacturer of Yidasheng. In 2009, revenues of Yidasheng amounted to RMB126.0 million ($18.5 million), which accounted for 6.8% of our revenues for the year.

Sinofuan. Sinofuan is our first-to-market sustained release implants for the treatment of cancer. In April 2008, we acquired Sinofuan by acquiring a 70% equity interest in Simcere Zhong Ren. In 2009, revenues of Sinofuan amounted to RMB126.3 million ($18.5 million) which accounted for 6.8% of our revenues for the year.

Other Branded Generic Pharmaceutical Products

In addition to Endu and our five principal products, the following branded generic pharmaceutical products in aggregate also represent a significant portion of our revenues, and accounted in aggregate for 10.0% of our revenues in 2009.

Biqi. Biqi is the brand name for our generic OTC anti-diarrhea pharmaceutical. We obtained regulatory approval to manufacture and sell Biqi in November 1999. Biqi has been included in the national medical insurance catalog since 2000.

Anqi. Anqi is the brand name of our amoxicillin and clavulanate potassium tablets, granules, and injection for the treatment of infections.

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Zaike. Zaike is the brand name for our cefaclor in dry suspension antibiotics for the treatment of infections. Regulatory approval to manufacture and sell Zaike was obtained in February 1995. Zaike has been included in the national medical insurance catalog since 2000.

Simcere Kechuanning. Simcere Kechuanning is the brand name for our OTC herbal medicine used for the treatment of coughs. It comes in oral liquid and tablet formulations. Regulatory approvals to manufacture and sell Simcere Kechuanning oral liquids were obtained in October 1995 and tablets in March 2004. Simcere Kechuanning has been included in the national medical insurance catalog since 2000.

At the time we acquired Jiangsu Yanshen, Jiangsu Yanshen s core products included an influenza vaccine and a human use rabies vaccine (vero cell). Jiangsu Yanshen also received a new medicine certificate from the SFDA for its freeze-dried human use rabies vaccine (vero cell) and had completed clinical trials of its purified hepatitis A inactivated vaccine (vero cell), and the SFDA approval for the purified hepatitis A inactivated vaccine (vero cell) and GMP certification for the associated new manufacturing facility were pending. However, as of the date of this annual report on Form 20-F, the two new medicine certificates held by Jiangsu Yanshen for rabies vaccine (Vero cell) and freeze-dried human rabies vaccine (Vero cell) have been revoked. The GMP certificate for the manufacture of human use rabies vaccine has been seized by the relevant government authorities and the GMP certificate for the manufacture of influenza vaccine was expired on February 2, 2010 and has not been renewed yet.

Marketing and Distribution

We have over a decade of marketing experience in the pharmaceutical industry in China. From our inception in March 1995 to 2001, we operated as a distributor of pharmaceuticals and have leveraged our experience to establish an extensive distribution network in China that we now use to market, sell and distribute our own pharmaceuticals. As of December 31, 2009, we had 1,563 dedicated brand management and marketing employees. Our marketing and distribution activities are primarily carried out by our subsidiaries, Jiangsu Simcere and Shanghai Simcere.

Our Marketing Strategy

We have established a fully integrated marketing strategy that includes brand management, market research and liaising with various levels of regulatory authorities and government institutions. We host in-person product presentations, conferences and seminars for physicians, other healthcare professionals and research scholars to promote and generate awareness of our pharmaceuticals, and to facilitate communication between medical and pharmaceutical professionals in China regarding our pharmaceuticals. We also have a dedicated marketing division that is in charge of our overall marketing strategy, our branding efforts and our market research efforts. To support our marketing strategy, we plan to continue expanding our own internal marketing force.

In 2008, our brand Yingtaiqing was recognized as a famous trademark of China. In 2009, we further increased brand awareness of Yingtaiqing by having it sponsor the Table Tennis Super League events between March and September and by having it enter into a cooperation agreement with the world-renowned NBA brand in October. Through these and other branding efforts, we have solidified and enhanced the market penetration of our Yingtaiqing brand.

Our marketing professionals collect feedback from healthcare professionals, pharmacies and end-users regarding our products. Our marketing professionals then work closely with our research and development department and manufacturing department in order to enhance our existing portfolio of pharmaceuticals and to identify potential new products for commercialization.

Distribution

We sell all of our products (except our vaccines) exclusively to pharmaceutical distributors in China and depend on distributors for a substantial portion of our revenues. We have business relationships directly or indirectly with approximately 1,700 pharmaceutical distributors in China. Each pharmaceutical distributor in turn may

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distribute our pharmaceuticals within a designated region either directly to hospitals owned and controlled by counties or higher level government authorities in China, clinics, pharmacies and other retail outlets or to local distributors. Many of our pharmaceuticals are widely distributed in large hospitals located in some of the most prosperous regions in China. Our vaccines are sold to various levels of CDCs, which are controlled by various levels of government authorities in China. These hospitals must implement collective tender processes for the purchase of medicines listed in the Essential Drug List and Reimbursement List and medicines that are consumed in large volumes and commonly prescribed for clinical uses. CDCs may also implement collective tender processes for the purchase of our vaccines.

We select our distributors based on their reputation, market coverage, sales experience and the size of their marketing and distribution force. We typically enter into written distribution agreements with our regional distributors for one-year terms that are generally renewed annually. These distribution agreements set out the targeted quantities and prices for our pharmaceuticals, as well as guidelines for the sale and distribution of our products, including restrictions on the territories in which the products may be sold. We believe that each of our target customer groups is important to our business and we will continue to seek opportunities for sales growth in each group.

Our distributors are widely dispersed on a geographic basis. Each distributor is limited to its respective designated distribution areas as specified in our distribution agreements. In each of 2007, 2008 and 2009, no single distributor contributed to, on an individual basis, 10.0% or more of our revenues, and sales to our five largest distributors accounted in aggregate for approximately 13.8%, 11.6% and 14.0%, respectively, of our revenues.

We have limited ability to manage the activities of our distributors, who are independent from us. Our distributors may potentially engage in actions that may violate the anti-corruption laws in China, engage in other illegal practices or exhibit and damaging behaviors with respect to their sales or marketing of our products, which could have a material adverse effect on our business, prospects and brand. For additional information, see Item 3. Key Information D. Risk Factors Risks Related to Our Company We may not be able to effectively manage our employees, distribution network and third-party marketing firms, and our reputation, business, prospects and brand may be materially and adversely affected by actions taken by our distributors.

Manufacturing, Quality Control and Supplies

Manufacturing

We currently have seven GMP-approved manufacturing facilities in China located in Jiangsu, Hainan, Shandong, Jilin and Anhui Provinces. We also own the mining right of a smectite mine, located in Sichuan Province. See Facilities. In addition, two of our generic pharmaceuticals, the Yingtaiqing-branded diclofenac sodium capsules and the Faneng-branded alfacalcidol soft capsules, are manufactured by independent third-party manufacturers.

A portion of our production lines are equipped with automated machinery and equipment and can be used to produce different kinds of pharmaceuticals in the same physical dosage form without the need to significantly modify the current production facilities and equipment. We therefore are able to adjust our production to meet market demand and our sales target in response to market demand. The following table is a summary of our 2009 production capacity:

Pharmaceutical Agent Production Unit	Delivery Form	2009 Capacity
Hainan Simcere		
Penicillin family	Granules	630,000,000 packs
Penicillin family	Capsules	288,000,000 pills
Cefaclor family	Granules	240,000,000 packs
Cefaclor family	Capsules	60,000,000 pills

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Pharmaceutical Agent Production Unit	Delivery Form	2009 Capacity
Cefaclor family	Dry suspension	240,000,000 packs
General	Tablets	200,000,000 pills
General	Granules	240,000,000 packs
General	Gelatin	6,000,000 tubes
General	Powder	160,000,000 packs
General	Capsules	60,000,000 pills
General	Soft capsules	120,000,000 pills
Nanjing Simcere		
Penicillin family	Powder injection	10,000,000 vials
Penicillin family	Granules	40,000,000 packs
Penicillin family	Tablets	70,000,000 pills
General	Oral solution	55,000,000 bottles
General	Small volume parenteral solutions	15,000,000 vials
General	Tablets	150,000,000 packs
General	Dry suspension	20,000,000 packs
General	Capsules	160,000,000 pills
General	Granules	20,000,000 packs
General	Powder injection	10,000,000 vials
General	Frozen-dry powder	3,200,000 vials
General	Sterile active pharmaceutical ingredients, or APIs	600 kg
	extract liquid	24,000,000 vials
Shandong Simcere		
Recombinant human endostatin	Injection	1,000,000 vials
Nanjing Tung Chit		
Nedaplatin injection	Frozen-dry powder injection	

		700,000 bottles
Jilin Boda		
	Low-dose injection	10,000,000 vials
Edavarone injection		
	Tablets	2,000,000,000 pills
General		
	Capsules	50,000,000 pills
General		
	Granules	10,000,000 packs
General		
	Topical solution	4,000,000 bottles
General		
	Powder injection	3,000,000 packs
General		
APIs	Phenytoinum Natricum	80,000 kg
APIs	Moroxydine	1,000,000 kg
APIs	Asparamide	100,000 kg
APIs	Ethacridine lactate	6,000 kg
APIs	Nefopam hydrochloride	6,000 kg
APIs	Edaravone	4,000 kg
Simcere Zhong Ren		
Fluorouracil implant	Implant	600,000 vials
Jiangsu Yanshen		
H1N1 Influenza A Vaccine (Split Virion), Inactivated	Injection	10,000,000 vials
	Injection	3,500,000 vials
Influenza Vaccine (Split Virion), Inactivated		

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Quality Control

Our senior management team is actively involved in setting internal quality control policies and monitoring our product quality control process. Our quality control team is responsible for the testing of our pharmaceuticals to ensure that we comply with all applicable regulations, standards and internal policies during the manufacturing process. We carry out quality control procedures in compliance with GMP standards and SFDA regulations and in accordance with our internal policies with a view towards ensuring the consistency and high quality of our products. We inspect and test packaging materials before manufacturing and test intermediate products based on various criteria, such as physical appearance (including the shape of capsules and granules), cleanliness, ingredient composition and weight. Once the products are finalized, we conduct final product testing before distributing our products to our distributors.

Raw Materials

The principal raw materials used for our medical products are the necessary active ingredients of our pharmaceuticals. We source such raw materials, as well as packaging materials, from various independent suppliers in China. In addition, we produce certain active ingredients used for the production of some of our pharmaceutical products, such as Bicun, and we also own the mining rights relating to a smectite mine that produces smectite, a raw material used for the manufacturing of Biqi. In the case of sourcing raw materials from third parties, the purchase price for the relevant raw materials is based on the prevailing market price for such materials of similar quality. Our principal packaging materials include glass ampules for injection pharmaceuticals, plastic bottles for capsule and tablet pharmaceuticals, and external packaging and printed instructions for all of our pharmaceuticals. The principal raw materials used for our vaccine products are egg embryos, which were supplied by two egg demestic embryo manufacturers.

In 2009, we purchased an aggregate of 37.6% of our total supply of raw materials from our five largest suppliers.

Historically, the majority of our raw materials have been readily available. We generally maintain two vendors for each major raw material in order to diversify our vendor base and help to ensure a reliable supply of raw materials at reasonable prices. To date, raw material shortages or price fluctuations have not had any material adverse effect on us. We also maintain a supplier evaluation scheme through which potential vendors are evaluated based on a number of factors including quality, timely delivery, cost and technical capability. In addition, we conduct periodic onsite reviews of our suppliers facilities.

Competition

We face direct competition from pharmaceutical manufacturers producing the same type of pharmaceuticals and indirect competition from pharmaceutical manufacturers producing products having similar medical efficacy as substitutes. Our competitors vary by product.

Our generic pharmaceuticals are not protected by patents and are thus subject to competition from other generic pharmaceuticals. However, the SFDA may at its discretion, subject to certain limitations, grant first-to-market generic pharmaceuticals the protection of a multiple-year monitoring period, or a protection period under the prior regulation, during which other pharmaceutical companies cannot apply for the registration of pharmaceuticals with the same chemical structure, dosage form and indication. See Item 4. Information of the Company B. Business Overview Regulation Approval and Registration of Pharmaceutical Products. Once the transitional protection period elapses, other manufacturers will be able to produce pharmaceuticals with the same chemical structure, dosage form and indication, and may be able to sell such products at a lower price. As a result, hospitals, clinics, pharmacies and other retail outlets may choose the lower priced products over our pharmaceuticals, resulting in a commensurate loss in sales of our products. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business Most of our products are branded generics, which can be manufactured and sold by other pharmaceutical manufacturers in China once the relevant protection or monitoring periods elapse. Furthermore, for

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our patented pharmaceuticals, the existence of a patent may not necessarily protect us from competition as our patent may be challenged, invalidated or held to be unenforceable. This is because patent applications can take many years to be approved and issued and currently pending applications may later result in issued patents that our product candidates or technologies may infringe. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business The existence of a patent may not necessarily protect us from competition as our patent may be challenged, invalidated or held unenforceable.

The pharmaceutical industry is characterized by rapid product development and technological change. Our pharmaceuticals could be rendered obsolete or made uneconomical by the development of new pharmaceuticals to treat the conditions addressed by our pharmaceuticals, technological advances affecting the cost of production, or marketing or pricing actions by one or more of our competitors. Our business, results of operations and financial condition could be materially adversely affected by any one or more of these developments. Our competitors may also be able to obtain regulatory approval for new products more quickly than we are and, therefore, may begin to market their products in advance of our products. We believe that competition among pharmaceuticals in China will continue to be based on, among other things, brand name recognition, product efficacy, safety, reliability, availability, promotional activities and price.

Many of our existing and potential competitors have substantially greater financial, technical, manufacturing or other resources than we do. Our competitors greater size in some cases provides them with a competitive advantage with respect to manufacturing costs because of their economies of scale and their ability to purchase raw materials at lower prices. Many of our competitors may also have greater brand name recognition, more established distribution networks, larger customer bases, or have more extensive knowledge of our customer groups. As a result, they may be able to devote greater resources to the research, development, promotion and sale of their products and respond more quickly to evolving industry standards and changes in market conditions than we can. In addition, certain of our competitors may adopt low-margin sales strategies and compete against us based on lower prices. Furthermore, as a result of China s admission to the WTO in 2001 and subsequent changes in PRC government laws and regulations, we may also face increasing competition from foreign manufacturers in addition to domestic manufacturers. Subsequent to the reduction of import tariffs pursuant to China s WTO obligations, the selling prices in China of imported pharmaceuticals have become more competitive. Also, some foreign pharmaceutical manufacturers have set up domestic production bases in China leading to increasing direct competition.

Environmental Matters

Our operations and facilities are subject to environmental laws and regulations stipulated by the national and the local environment protection bureaus in China. Relevant laws and regulations include provisions governing air emissions, water discharges and the management and disposal of hazardous substances and wastes. The PRC regulatory authorities require pharmaceutical companies to carry out environmental impact studies before engaging in new construction projects to ensure that their production processes meet the required environmental standards. As the PRC legal system continues to evolve, we may be required to make significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future.

Insurance

We maintain property insurance policies covering our equipment and facilities for losses due to fire, flood and a wide range of other natural disasters. Insurance coverage for our fixed assets other than land amounted to approximately RMB839.2 million ($122.9 million) as of March 31, 2010. We also maintain insurance policies covering products in transit to our customers. We do not maintain product liability insurance or insurance covering potential liability relating to the release of hazardous materials. In addition, we do not maintain business interruption insurance or key employee insurance for our executive officers as we believe it is not the normal industry practice in China to maintain such insurance. We consider our current insurance coverage to be adequate. However, uninsured damage to any of our manufacturing facilities and buildings or a significant product liability claim could have a material adverse effect on our results of operations. We also maintain directors and officers liability insurance for our directors and officers.

Regulations on Pharmaceutical Products

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Our products are subject to regulatory controls governing pharmaceutical products. As a developer, manufacturer and distributor of pharmaceuticals, we are subject to regulation and oversight by different levels of the food and drug administration in China, in particular, the SFDA. The Law of the PRC on the Administration of Pharmaceuticals, as amended on February 28, 2001, provides the basic legal framework for the administration of the production and sale of pharmaceuticals in China and covers the manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products in China. Its implementation regulations set out detailed implementation rules with respect to the administration of pharmaceuticals in China. We are also subject to other PRC laws and regulations that are applicable to manufacturers and distributors in general.

Pharmaceutical Product Manufacturing

Permits and Licenses for Pharmaceutical Manufacturers

A manufacturer of pharmaceutical products must obtain a pharmaceutical manufacturing permit from the provincial food and drug administration. This permit, once obtained, is valid for five years and is renewable upon its expiration. This permit must be renewed at least six months before its expiration date. Our current pharmaceutical manufacturing permits for each of Hainan Simcere, Nanjing Simcere, Shandong Simcere, Nanjing Tung Chit, Jilin Boda and Simcere Zhong Ren will all expire on December 31, 2010. In addition, as Jilin Boda is currently expanding its facilities which then require it to renew its existing manufacturing permit. We do not believe it will be difficult for us to renew our pharmaceutical manufacturing permit. In addition, before commencing business, a pharmaceutical manufacturer must also obtain a business license from the relevant administration for industry and commerce.

Good Manufacturing Practices

A manufacturer of pharmaceutical products and raw materials must obtain the GMP certification to produce pharmaceutical products and raw materials in China. GMP certification criteria include institution and staff qualifications, production premises and facilities, equipment, raw materials, hygiene conditions, production management, quality controls, product distributions, maintenance of sales records and manner of handling customer complaints and adverse reaction reports. A GMP certificate is valid for five years. The certificate must be renewed at least six months before its expiration date. A manufacturer is required to obtain GMP certificates to cover all of its production operations.

Generally, GMP certificates are valid for five years and we do not believe it will be difficult for us to renew any of our GMP certifications. The following table summarizes the most recent GMP certificates we received for each of our manufacturing facilities:

Certification By Facilities	Coverage	Issue Date	Expiration Date
Hainan Simcere			
	Tablets (Including Cephalosporins), Granules, Capsules, Dry Suspensions (Including Cephalosporins, Penicillin), Soft Capsules, Powders, Gelatin	August 30, 2006	August 29, 2011

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Certification By Facilities	Coverage	Issue Date	Expiration Date
	Bulk Drug (Montmorillonite, Aluminium, Dihydroxyallan-toninate, Levamlodipine Besylate, Pamidronate Disodium, Valaciclovir Hydrochloride and Benazepril Hydrochloride)	January 8, 2007	January 7, 2012
	Bulk Drug (Sumatriptan Succinate, Meloxicam, Naftopidil, Edaravone and Sibutramine Hydrochloride)	November 26, 2008	November 25, 2013
	Bulk Drug (Amlodipine Maleate, Cefprozil and Cefteram pivoxil)	November 1, 2005	October 31, 2010
	Bulk Drug (Naftopidil, amlodipine maleate)	February 2, 2009	February 1, 2014
Nanjing Simcere			
	Small Volume Parenteral Solutions	December 3, 2008	December 2, 2013
	Mixture, Oral Solution	October 27,2008	October 26, 2013
	Powder for Injection	August 6, 2008	August 5, 2013
	Sterile Bulk (Biapenem)	July 21, 2008	July 20, 2013
	Tablets, Capsules, Dry Suspensions	March 30, 2006	March 29, 2011
	Granules	May 11, 2006	May 10, 2011
	Powder for Injection (Penicillin)	April 19, 2006	April 18, 2011
	Tablets, Capsules, Dry Suspensions(Penicillin)	May 6,2008	May 5, 2013
	Bulk Drug (Zanamivir), Powder	April 9,2010	April 8, 2015
Nanjing Tung Chit			
	Frozen-Dry Powder Injection (Anti-Cancer Drug)	June 16,2009	June 15, 2014
	Bulk Drug (Nedaplatin)	June 19,2009	June 18, 2014

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Certification By Facilities	Coverage	Issue Date	Expiration Date
	Bulk Drug (Oxaliplatin)	December 28,2009	December 27, 2014
Shandong Simcere			
	Recombinant Human Endostatin Injection (Anti-cancer Drugs)	August 18, 2009	August 17, 2014
Simcere Zhong Ren			
	Anti-cancer Implants	May 18, 2009	May 17, 2014
Jilin Boda			
	Small Volume Parenteral Solutions, Edaravone Injection	February 23, 2009	February 22, 2014
	Low-Dose Injection	December 9, 2005	December 8, 2010
	Bulk Drug (Edaravone)	December 12, 2005	December 11, 2010
	Bulk Drug (Asparagine)	December 23, 2006	December 22, 2011
	Tablets, Capsules, Granules	November 28, 2008	November 27, 2013

At the time we acquired Jiangsu Yanshen, Jiangsu Yanshen s core products included an influenza vaccine and a human use rabies vaccine (vero cell). Jiangsu Yanshen also received a new medicine certificate from the SFDA for its freeze-dried human use rabies vaccine (vero cell) and had completed clinical trials of its purified hepatitis A inactivated vaccine (vero cell), and the SFDA approval for the purified hepatitis A inactivated vaccine (vero cell) and GMP certification for the associated new manufacturing facility were pending. However, as of the date of this annual report on Form 20-F, the two new medicine certificates held by Jiangsu Yanshen for rabies vaccine (Vero cell) and freeze-dried human rabies vaccine (Vero cell) have been revoked. The GMP certificate for the manufacture of human use rabies vaccine has been seized by the relevant government authorities and the GMP certificate for the manufacture of influenza vaccine was expired on February 2, 2010 and has not been renewed yet.

Approval and Registration of Pharmaceutical Products

To apply for approval of manufacturing a pharmaceutical with a national standard, the applicant must submit relevant information and samples of the pharmaceutical prepared in accordance with the relevant national standard to the provincial food and drug administration authority. According to the current Administrative Rules on Drug Registration that came into effect on October 1, 2007, provincial food and drug administration authorities will examine the completeness, standardization and authenticity of an application dossier, and organize inspection of the pilot manufactured drugs. Three consecutive production batches of pharmaceutical samples, collected by provincial food and drug administration authorities, will be examined by the designated drug laboratories. Following their respective assessment and investigation of the application, the provincial food and drug administration authority and the pharmaceutical examination laboratories will produce their respective report to the SFDA. The SFDA shall be responsible for the review of the application dossier and the reports, and then conduct a final assessment of the application to consider whether to approve the registration of the medicine. Upon successful final assessment of the application, the SFDA will issue a medicine registration approval.

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If a medicine has not previously been marketed in China, the manufacturer must first obtain a new medicine certificate as well as a medicine registration approval from the SFDA. To register new medicines, pharmaceutical manufacturers must obtain approvals from the SFDA to carry out clinical research. Applicants need to submit relevant pre-clinical study information and other relevant reports to the provincial food and drug administration for review. The provincial food and drug administration will also conduct on-site inspections to collect pharmaceutical samples and appoint specified pharmaceutical examination laboratories to examine such pharmaceutical samples. The pharmaceutical examination laboratories will then issue reports to the SFDA, which will then set up an expert team comprised of pharmaceutical professionals and other specialists to conduct a technical assessment of the proposed new medicine and decide whether clinical research should be commenced.

Following successful completion of clinical research, applicants must submit clinical research information and raw material samples to the provincial food and drug administration and the pharmaceutical examination laboratories appointed by the provincial food and drug administration to apply for approval to manufacture the new medicines. The provincial food and drug administration authority will then examine the completeness, standardization and authenticity of the submission materials and conduct an on-site inspection at the production premises of the applicants. The pharmaceutical examination laboratories appointed by the provincial food and drug administration will then examine three consecutive production batches of pharmaceutical samples collected by the provincial food and drug administration. After investigation and assessment, the provincial food and drug administration authority and the examination laboratories appointed by the provincial food and drug administration authority will produce reports to the SFDA, and the SFDA will review the submission materials and carry out a final review of the application of the subject new medicine. Upon fulfillment of the relevant requirements and approval by the SFDA, the applicants will be granted a new medicine certificate and a medicine approval document. The SFDA will then issue to the applicant the Drug Quality Registration Standards with respect to the registered pharmaceuticals which the manufacturer of such pharmaceuticals must strictly comply with.

Upon granting production approval of a new medicine, the SFDA may set a monitoring period of a maximum of five years to continue monitoring the safety of the medicine, during which the relevant pharmaceutical manufacturing company must regularly review the production technologies employed, monitor the quality, stability, curative effects and unfavorable side-effects of the new medicine, and report to the provincial level food and drug administration authority annually. During such a monitoring period, the SFDA will not accept applications for new medicine certificates for the same medicine by other pharmaceutical companies or approve the sale or import of the same medicine by other pharmaceutical companies, except that, for any other application for the same new medicine that had been approved by the SFDA to undergo clinical trials prior to the granting of a monitoring period, the SFDA may approve the application for sale or import of the new medicine if it meets the relevant requirements and will continue to monitor such new medicine. As a result, the monitoring period in connection with a new medicine can limit the competition encountered by the manufacturer of the new medicine. In May 2009, we submitted an application to the SFDA seeking approval to manufacture and sell products containing Zanamivir, one of only two World Health Organization, or WHO, approved drugs to which the new H1N1 strain of influenza A has been shown to be susceptible. In September 2009, Jiangsu Yanshen was awarded a new drug certificate and production license from the SFDA for its H1N1 vaccine. Of the eleven flu vaccine manufacturers in China, Jiangsu Yanshen is one of six currently licensed to produce the H1N1 vaccine. As of May 31, 2010, we held 47 new medicine certificates that are in effect and have obtained 270 medicine approval documents.

Pre-clinical Research and Clinical Trials

In order to apply for a new medicine certificate, a pharmaceutical company must conduct a series of pre-clinical research including research on the synthesis technology, extraction methods, physical and chemical nature and purity, pharmaceutical forms, selection of prescriptions, manufacturing technologies, examination methods, quality indicators, stability, pharmacology, toxicology and animal pharmacokinetics of pharmaceuticals. This pre-clinical research should be conducted in compliance with the relevant technological guidelines issued by the SFDA. In particular, the safety evaluation research must be conducted in compliance with the Good Laboratory Practice.

After completion of pre-clinical studies and obtaining the relevant approval from the SFDA, clinical trials are conducted in compliance with the Good Clinical Practice. Clinical trials to be conducted range from Phase I to IV,

although under certain circumstances, only Phase II and III or only Phase III clinical trials are required.

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Phase I preliminary trial of clinical pharmacology and human safety evaluation studies. The primary objective is to observe the pharmacokinetics and the tolerance level of the human body to the new medicine as a basis for ascertaining the appropriate methods of dosage.

Phase II preliminary exploration on the therapeutic efficacy. The purpose is to assess preliminarily the efficacy and safety of pharmaceutical products on patients within the target indication of the pharmaceutical products and to provide the basis for the design research and dosage tests for Phase III. The design and methodology of research in this phase generally adopts double-blind and random methods with limited sample sizes.

Phase III confirm the therapeutic efficacy. The objective is to further verify the efficacy and safety of pharmaceutical products on patients within the target indication of the pharmaceutical products, to evaluate the benefits and risks and finally to provide sufficient experimental proven evidence to support the registration application of the pharmaceutical products. In general, the trial should adopt double-blind, random methods with sufficient sample sizes.

Phase IV stage of application with research conducted by the applicants themselves after the launch of a new pharmaceutical. The objective is to observe the efficacy and adverse reaction of pharmaceutical products under extensive use, to perform an evaluation of the benefits and risks of the application among ordinary or special group of patients, and to ascertain and improve the appropriate dosage volume for application.

Continuing SFDA Regulation

A manufacturer of pharmaceutical products is subject to continuing regulation by the SFDA. If an approved medicine, its labeling or its manufacturing process is significantly modified, pre-market supplemental approval may be required. A manufacturer of pharmaceutical products is subject to periodic re-inspection and market surveillance by the SFDA to determine compliance with regulatory requirements. If the SFDA sees a reason to enforce its regulations and rules, the agency can institute a wide variety of enforcement actions such as fines and injunctions, recalls or seizure of products, imposition of operating restrictions, partial suspension or complete shutdown of production and criminal prosecution.

An approval of pharmaceutical registration issued by the SFDA will be valid for a period of five years. Within six months prior to expiration, the manufacturer may need to apply for re-registration with the provincial drug administrative authorities. Relevant authorities will review the application and renew the registration for such pharmaceutical if the relevant requirements are fulfilled. For innovative pharmaceuticals, completion of Phase IV clinical trial is required prior to the application for re-registration.

Regulations on Vaccine Products

Classification of Vaccine

According to the Regulation on the Administration of Circulation and Vaccination of Vaccines, vaccines are classified into two categories based on severity of the disease. Rules and policies regarding the manufacturing, distribution, pricing and quality control of vaccines vary from type to type. Category I vaccines refer to the vaccines provided to the citizens at the expense of the government, which includes the vaccines prescribed in the National Immunization Program and other vaccines designated by provincial government in the execution of the National Immunization Program and vaccines used for emergency or group vaccination executed by the local governments or bureaus of health. Category II vaccines refer to the vaccines to be used in the discretion of a citizen and at his or own expense. We currently do not and do not anticipate in the foreseeable future to manufacture Category I vaccines.

Quality of Vaccine Products

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On June 4, 2004, the SFDA promulgated the Administrative Regulations for Batch Certificate of Biological Products, which requires competent authority to conduct mandatory inspection and examination on each batch of vaccine products, blood products and other biological products determined by the SFDA before they may be sold in the market. Vaccine products cannot be distributed in the market before they are approved for sale by the relevant medicine inspection institute. An applicant shall apply for examination or inspection, or both examination and inspection, of each batch of vaccine products by the relevant inspection institute. For each batch of vaccine products, the applicant will provide the inspection institute with samples together with manufacturing records, internal inspection records and other quality control documents. The inspection institute will review the documents and inspect the samples and issue a batch certificate within approximately two months, if the manufacture procedures and the quality of the products are ascertained to meet the standards as approved by the SFDA. With the batch certificate, the approved batch of vaccines may be distributed in the market. Copies of batch certificates stamped by the pharmaceutical manufacturing enterprise shall be provided when selling the products.

On August 23, 2005, the SFDA reemphasized that all vaccine products, including rabies vaccine for human use and inactive encephalitis vaccine, shall be regulated under the batch certificate system. The National Institute for the Control of Pharmaceutical and Biological Products was authorized by the SFDA to conduct the inspections and issue batch certificates.

Pricing Policy

According to a circular of the NDRC, the Printing and Issuing of the Price Controlled List of Drugs promulgated on June 27, 2005 that took effect on August 1, 2005, the prices of Category I vaccines are subject to the control of the NDRC. Specifically, on July 28, 2009, the NDRC promulgated a circular on the manufacturers prices of fourteen National Immunization Program vaccines, in which the NDRC fixed the respective price ceilings of the fourteen vaccines. For those drugs not covered in the Price Control List, which are the Category II vaccines, distributors and manufacturers are entitled to set the prices. None of our current products is a Category I vaccine and we are not currently subject to price controls imposed by the NDRC. However, we cannot assure you that the NDRC will not revise its rules and include certain or all of our current products in Category I in the future.

Other National and Local Laws and Regulations

We are subject to changing regulations under many other laws administered by governmental authorities at the national, provincial and municipal levels in China. Our CDC customers are also subject to a wide variety of laws and regulations that could affect the nature and scope of their relationships with us.

For example, we need to comply with numerous national and local laws relating to matters such as safe working conditions, manufacturing practices, environmental protection and fire hazard control. We believe that we are currently in compliance with these laws and regulations. However, unanticipated changes in existing regulatory requirements or adoption of new requirements could cause us to incur significant costs to comply and therefore have a material adverse effect on our business, results of operations and financial condition.

Distribution

Pharmaceutical Distribution

A distributor of pharmaceutical products must obtain a pharmaceutical distribution permit from the relevant provincial- or designated municipal- or county-level food and drug administration. The grant of such permit is subject to an inspection of the distributor s facilities, warehouse, hygiene environment, quality control systems, personnel and equipment. The pharmaceutical distribution permit is valid for five years. In addition, a pharmaceutical distributor needs to obtain a business license from the relevant administration for industry and commerce prior to commencing its business.

Vaccine Distribution

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The eligibility of the distributors and channels of vaccines depend on the type of vaccines being distributed. As to Category I vaccines, provincial CDCs compose annual provincial vaccination programs of Category I vaccines and report to the provincial Bureau of Health and other competent authorities in charge of vaccine trading. Vaccine manufacturing enterprises and qualified vaccine wholesalers are required to enter into exclusive purchase contract with the competent provincial CDCs or other disease control and prevention organizations for the distribution of Category I vaccine. The vaccine manufacturers may only sell Category I vaccines to provincial CDCs. The provincial CDCs are accountable for distributing Category I vaccines to the municipal and local CDCs, which are obligated to distribute Category I vaccine to lower CDCs.

A pharmaceutical manufacturing enterprise may sell Category II vaccines it produces to CDCs at various levels, vaccine inoculation organizations and qualified vaccine wholesalers. Qualified vaccine wholesalers are entitled to sell vaccines to CDCs, vaccine inoculation organization and other qualified vaccine wholesalers, whereas pharmaceutical retailers are banned from engaging in vaccine trading. The pharmaceutical manufacturing enterprises are required to provide copies of batch certificate or permit issued by a competent pharmaceutical authority with its company stamp when trading vaccines. The pharmaceutical manufacturing enterprises are also required to keep the records of sales of vaccines for a minimum period of two years after the expiration date of vaccines. Penalties may be imposed on the pharmaceutical manufacturing enterprise if it fails to comply with these requirements.

Restrictions on Foreign Ownership of Pharmaceutical Wholesale and Retail Businesses in China

The Administration Rules on Foreign Investment in Commercial Domains and the Catalogue of Industries for Guiding Foreign Investment permit foreign companies to establish or invest in wholly foreign-owned companies or joint ventures that engage in wholesale or retail sales of pharmaceuticals in China. In relation to retail sales, the number and size of retail pharmacy outlets that a foreign investor may establish remain subject to certain restrictions. Pharmacy chains with more than 30 outlets and selling a variety of branded pharmaceutical products sourced from different suppliers are limited to less than 50.0% foreign ownership. However, under the Supplement Regulations for Administration Rules on Foreign Investment in Commercial Domains, a service provider from Hong Kong or Macau may provide up to 100% of the capital contributions to such pharmacy chains that it opens.

Good Supply Practices

GSP standards regulate pharmaceutical wholesale and retail distributors to ensure the quality of distribution in China. The current applicable GSP standards require pharmaceutical distributors to implement strict controls on the distribution of medicine products, including standards regarding staff qualifications, distribution premises, warehouses, inspection equipment and facilities, management and quality control. The GSP certificate is valid for five years.

Our subsidiaries, Shanghai Simcere and Jiangsu Simcere, obtained their respective most recent GSP certificates on November 21, 2008 and July 2, 2008. Both certificates are valid for five years and we do not believe it would be difficult for us to renew these certifications.

Product Liability and Consumer Protection

In addition to the new drug approval process, certain PRC laws have been promulgated to protect the rights of all consumers including consumers of pharmaceutical products. Pursuant to the PRC General Principles of the Civil Law, or the PRC Civil Law, promulgated on April 12, 1986, a defective product which causes property damage or physical injury to any person may subject the manufacturer or vendor of such product to civil liability for such damage or injury.

On February 22, 1993 the PRC Product Quality Law, or the Product Quality Law, was promulgated to supplement the PRC Civil Law aiming to protect the legitimate rights and interests of the end-users and consumers and to strengthen the supervision and control of the quality of products. The Product Quality Law was revised by the Ninth National People s Congress on July 8, 2000. Pursuant to the revised Product Quality Law, manufacturers who produce defective products may be subject to civil or criminal liability and their business licenses may be revoked.

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On October 31, 1993, the PRC Law on the Protection of the Rights and Interests of Consumers, or the Consumers Protection Law, was promulgated. It provides further protection to the legal rights and interests of consumers in connection with the purchase or use of goods and services. Pursuant to the Consumers Protection Law, a consumers association was established to handle consumer complaints and assist consumers. The Consumers Protection Law also detailed the compensation consumers and certain third parties are entitled to when property damage or physical injury is incurred.

The PRC Tort Liability Law, or the Tort Liability Law, was promulgated on December 26, 2009 and will be in effect on July 1, 2010. The Tort Liability Law provides that once a product is found defective after it is put into circulation, the product manufacturer or seller shall timely take remedial actions such as warning or products recall. If the failure to timely take sufficient remedial action results in harm or damage, the product manufacturer or seller will assume tort liability.

Price Controls

The retail prices of certain pharmaceuticals sold in China, primarily those included in the Drug List and Reimbursement List and those pharmaceuticals whose production or trading are deemed to constitute monopolies, are subject to price controls in the form of fixed prices or price ceilings. Manufacturers and distributors cannot set the actual retail price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective pharmaceutical companies, subject to notification to the provincial pricing authorities. Sales of pharmaceutical products by pharmaceutical manufacturers in China to overseas markets are not subject to any price control.

The retail prices of medicines that are subject to price controls are administered by the Price Control Office of the National Development and Reform Commission, or the NDRC, and provincial and regional price control authorities. The retail price, once set, also effectively determines the wholesale price of that medicine. From time to time, the NDRC publishes and updates a list of medicines that are subject to price controls. Fixed prices and price ceilings on medicines are determined based on profit margins that the relevant government authorities deem reasonable, the type and quality of the medicine, its production costs, the prices of substitute medicines and the extent of the manufacturer s compliance with the applicable GMP standards. The NDRC directly regulates the price of a portion of the medicines on the list, and delegates to provincial and regional price control authorities the authority to regulate the pricing of the rest of the medicines on the list. Provincial and regional price control authorities have discretion to authorize price adjustments based on the local conditions and the level of local economic development.

Only the manufacturer of a medicine may apply for an increase in the retail price of the medicine and it must either apply to the provincial price control authorities in the province where it is incorporated, if the medicine is provincially regulated, or to the NDRC, if the medicine is centrally regulated. For a provincially regulated medicine, in cases where provincial price control authorities approve an application, manufacturers must file the new approved price with the NDRC for record and thereafter the new approved price will become binding and enforceable across China.

The NDRC may grant premium pricing status to certain pharmaceuticals that are under price controls. The NDRC may set the retail prices of pharmaceuticals that have obtained premium pricing status at a level that is significantly more than comparable products. Two of our branded generic products, Zailin granules and Yingtaiqing capsules, have obtained premium pricing status from the NDRC.

Tendering System for Medicines Purchased by Healthcare Institutions

Hospitals owned and controlled by counties or higher level governments must implement collective tender processes for the purchase of medicines listed in the Essential Drug List and Reimbursement List and medicines that are consumed in large volumes and commonly prescribed for clinical uses. A committee must assess the bids submitted by the pharmaceutical manufacturers, taking into consideration, among other things, the quality and price of the medicine and the service and reputation of the manufacturers. For the same type of pharmaceutical, the committee usually selects from among two to three different brands. Any reduction in the pharmaceutical purchase price by these hospitals as a result of the competitive bidding process is intended to bring about a corresponding reduction in the retail price for the benefit of patients. At present, we understand that the extent of implementation of such tender purchase system varies among different regions in China. Recently, state-owned and state-controlled hospitals of

certain provinces began to implement collective tender processes through online bidding. Such online bidding process is expected to increase the transparency and competitiveness of the tendering system. An increasing numbers of hospitals are expected to adopt such online bidding procedures.

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Reimbursement Under the National Medical Insurance Program

Participants of National Medical Insurance Program are urban residents who are currently employed or retired. Participants of the National Medical Insurance Program and their employers are required to contribute to the payment of insurance premium on a monthly basis. Program participants are eligible for full or partial reimbursement of the cost of medicines included in the national Essential Drug List and Reimbursement List, which is divided into two tiers. Purchases of Tier A medicines are fully reimbursable, but certain Tier A medicines are only reimbursable if the medicine is used for a particular stated purpose in the Essential Drug List and Reimbursement List. Purchasers of Tier B medicines are required to make a certain percentage of co-payments, with the remaining amount being reimbursable. The percentage of reimbursement for Tier B medicines varies in different regions in the PRC. Factors that affect the inclusion of medicines in the Essential Drug List and Reimbursement List include whether the medicine is consumed in large volumes and commonly prescribed for clinical use in China and whether it is considered to be important in meeting the basic healthcare needs of the general public. The Ministry of Human Resources, together with other government authorities, has the power every two years to determine which medicines are included in the national medicine catalog, under which of the two tiers the included medicine falls, and whether an included medicine should be removed from the catalog. Provincial governments are required to include all Tier A medicines listed on the national medical insurance catalog in their provincial Essential Drug List and Reimbursement List. For Tier B medicines listed in the national medical insurance catalog, provincial governments have the discretion to adjust upwards or downwards by no more than 15% from the number of Tier B medicines listed in the national medical insurance catalog that is to be included in the provincial Essential Drug List and Reimbursement List. The total amount of reimbursement for the cost of medicines, in addition to other medical expenses, for an individual participant under the National Medical Insurance Program in a calendar year is capped to the amounts in that participant s individual account under the program. The amount in a participant s account varies, depending on the amount of contributions from the participant and his or her employer. Generally, on average, participants under the National Medical Insurance Program who are from relatively wealthier parts of China and metropolitan centers have greater amounts in their individual accounts than those from less developed provinces.

PRC Patent Law

The PRC first allowed patents for the protection of proprietary rights, as set forth in the PRC Patent Law, in 1985. Pharmaceutical inventions were not patentable under the PRC Patent Law until 1993. Patents relating to pharmaceutical inventions are effective for 20 years from the initial date the patent application was filed. An amendment to the PRC Patent Law was promulgated on December 27, 2008, with the amendment becoming effective on October 1, 2009.

Patent Prosecution

The patent prosecution system in China is different from the U.S. system in a number of ways. The patent system in China, like most countries other than the United States, adopts the principle of first to file. This means that, where more than one person files a patent application for the same invention, a patent will be granted to the person who first filed the application. The United States uses a principle of first to invent to determine the granting of patents. In China, a patent must possess novelty, inventiveness and practical application. Under the existing PRC Patent Law, novelty means that before a patent application is filed, no identical invention or utility model has been publicly disclosed in any publication in China or abroad or has been publicly used or made known to the public by any other means in China, nor has any other person filed with the patent authority an application which describes an identical invention or utility model and is published after the filing date. Under the amended PRC Patent Law, novelty means that the invention or utility model is not a prior art , and prior to the date of application, no entity or individual has filed an application with the patent authority describing the identical invention or utility model and is published after the filing date. The term prior art refers to technology known to the general public both in China and abroad prior to the date of application. Patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macau, each of which has independent patent systems. Patents in the PRC are filed at the State Intellectual Property Office, or SIPO, in Beijing.

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Patent Enforcement

When a dispute arises as a result of infringement of the patent holder s patent right, such dispute should be settled first through consultation by the respective parties. However, if such dispute cannot be settled through consultation, such patent holder or an interested party who believes the patent is being infringed may either file a civil legal suit or file an administrative complaint with a provincial or municipal office of the SIPO. A PRC court may issue a preliminary injunction upon the patent holder s or an interested party s request before instituting any legal proceedings or during the proceedings. Damages for infringement are calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined by using a reasonable multiple of the license fee under a contractual license. In addition, under the amended PRC Patent Law, if damages can not be determined by either of the method described above, the court may at its discretion, by taking into account factors such as the type the patent or the nature and gravity of the infringement, determines a compensation in the sum of no less than RMB10,000 but no more than RMB1.0 million. As in other jurisdictions, with one notable exception, the patent holder in the PRC has the burden of proving that the patent is being infringed. However, if the holder of a manufacturing process patent alleges infringement of such patent, the alleged infringing party has the burden of proving that there has been no infringement.

Compulsory License

Under current PRC Patent Law, where a person possesses the means to utilize a patented technology, but such person cannot obtain a license from the patent holder on reasonable terms and in a reasonable period of time, such person is entitled to apply to the SIPO to authorize the grant of a compulsory license three years following the grant of the patented technology. However, under the amended PRC Patent Law, if a patent holder, after 3 years from the date when patent is granted and after 4 years from the date when a patent application is filed, fails to exploit or to fully exploit the patent without any good cause, the SIPO may, upon the application of an eligible entity or individual, grant such other party a compulsory license to exploit the patent. Furthermore, under the amended PRC Patent Law, if a patent holder s act of exercising the patent right is determined as a monopolizing act, a compulsory license may be granted in order to eliminate or reduce the adverse consequences of monopoly. A compulsory license may also be granted, under the current and the amended PRC Patent Law, where a national emergency or any extraordinary state of affairs occurs or where public interest so requires. For the pharmaceutical industry, the SIPO may, under the amended PRC Patent Law, grant a compulsory license for a patented medicine to a country or region subject to provisions of the relevant international treaty to which the PRC is a party in the interest of public health. We do not believe a compulsory license has yet been granted by the SIPO.

International Patent Treaties

The PRC is also a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, Madrid Agreement on the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights, or TRIPs.

Although patent rights are national rights, there is also a large degree of international co-operation under the Patent Cooperation Treaty, or the PCT, to which China is a signatory. Under the PCT, applicants in one country can seek patent protection for an invention simultaneously in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

Trademarks

The PRC Trademark Law was promulgated in 1982 (later amended on October 27, 2001) and the PRC Trademark Implementing Regulations was promulgated on August 3, 2002. The PRC Trademark Office is responsible for the registration and administration of trademarks throughout the country. Like patents, the PRC has adopted a first-to-file principle with respect to trademarks.

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PRC law provides that the following acts constitute infringement of the exclusive right to use a registered trademark:

use of a trademark that is identical with or similar to a registered trademark in respect of the same or similar commodities without the authorization of the trademark registrant;

sale of commodities infringing upon the exclusive right to use the trademark;

counterfeiting or making, without authorization, representations of a registered trademark of another person, or sale of such representations of a registered trademark;

changing a registered trademark and selling products on which the changed registered trademark is used without the consent of the trademark registrant; and

otherwise infringing upon the exclusive right of another person to use a registered trademark.

In the PRC, a trademark owner who believes the trademark is being infringed has three options:

The trademark owner can provide his trademark registration certificate and other relevant evidence to the State or local Administration for Industry and Commerce, or AIC, which can, at its discretion, launch an investigation. The AIC may take such actions as: order the infringer to immediately cease the infringing behavior, seize and destroy any infringing products and representations of the trademark in question, close the facilities used to manufacture the infringing products or impose a fine. If the trademark owner is dissatisfied with the State AIC s decision, he may, within 15 days of receiving the AIC s decision, institute civil proceedings in court.

The trademark owner may institute civil proceedings directly in court. Civil redress for trademark infringement includes:

injunctions;

requiring the infringer to take steps to mitigate the damage (i.e. print notices in newspapers); and

damages (i.e. compensation for the economic loss and injury to reputation as a result of trademark infringement suffered by the trademark holder).

The amount of compensation is calculated according to either the gains acquired by the infringer from the infringement during the infringement, or the loss suffered by the trademark owner, including expenses incurred by the trademark holder to deter such infringement. If it is difficult to determine the gains acquired by the infringer from the infringement, or the loss suffered by the trademark owner, the court may elect to award compensation of not more than RMB500,000.

If the case is so serious as to constitute a crime, the trademark owner may lodge a complaint with the relevant public security organ and the infringer is subject to investigation for criminal responsibility in accordance with PRC law.

The PRC is a signatory to the Madrid Agreement and the Madrid Protocol. These agreements provide a mechanism whereby an international registration produces the same effects as an application for registration of the mark made in each of the countries designated by the applicant.

Foreign Exchange Regulation

Pursuant to the Foreign Currency Administration Rules promulgated in 1996 and as subsequently amended from time to time and various regulations issued by SAFE and other relevant PRC government authorities, the

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Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Foreign currencies received under current account items can be either retained or sold to financial institutions engaged in the foreign exchange settlement or sales business without prior approval from SAFE by complying with relevant regulations. Capital account items, such as direct equity investments, loans, repatriation of investments and investments in stocks and bonds, require the prior approval from SAFE or its local branch for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

Payments for transactions that take place within the PRC must be made in Renminbi. Foreign currencies received in respect of capital account items can be retained or sold to financial institutions engaged in the foreign exchange settlement or sales business only with prior approval from SAFE. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local branch.

Pursuant to the SAFE s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or SAFE Circular No. 75, issued on October 21, 2005, (i) a PRC citizen residing in the PRC, or PRC resident, shall register with the local branch of SAFE before it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing (including convertible debts financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an SPV, or engages in overseas financing after contributing assets or equity interests into an SPV, such PRC resident shall register his or her interest in the SPV and the change thereof with the local branch of SAFE; and (iii) when the SPV undergoes a material event outside of China, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. PRC residents who are shareholders of SPVs established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary s foreign exchange activities and its ability to distribute dividends to the SPV.

Our beneficial owners who are PRC residents have registered with the local branch of SAFE as required under SAFE Circular No. 75.

Dividend Distribution Regulation

The principal laws and regulations governing dividends paid by our PRC operating subsidiaries include the Company Law of the People s Republic of China (1993), amended and effective as of January 1, 2006, Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, each of our PRC subsidiaries, including WFOEs and domestic companies in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries, including WFOEs and domestic companies is required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserve reaches 50.0% of its respective registered capital. These reserves are not distributable as cash dividends.

C. Organizational Structure

The following diagram illustrates our corporate structure and the place of organization of each of our subsidiaries as of the date of this annual report on Form 20-F.

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We conduct substantially all of our operations through the following operating subsidiaries in China:

Simcere Pharmaceutical Co., Ltd., or Hainan Simcere, is our wholly owned subsidiary that engages in the manufacturing of pharmaceutical products. Hainan Simcere is currently authorized to manufacture 64 pharmaceutical products;

Nanjing Simcere Dongyuan Pharmaceutical Co., Ltd., or Nanjing Simcere, is our wholly owned subsidiary that engages in the manufacturing of pharmaceutical products. Nanjing Simcere is currently authorized to manufacture 87 pharmaceutical products;

Jiangsu Simcere Pharmaceutical Co., Ltd., or Jiangsu Simcere, and Shanghai Simcere Pharmaceutical Co., Ltd., or Shanghai Simcere, are both our wholly owned subsidiaries that engage in the marketing, sales and distribution of pharmaceutical products;

Jiangsu Simcere Pharmaceutical R&D Co., Ltd., or Simcere Research, is our wholly owned subsidiary that engages in the research and development of pharmaceutical products;

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Sichuan Zigong Yirong Industrial Co., Ltd., or Sichuan Simcere, is our wholly owned subsidiary that owns the mining right to a smectite mine in Sichuan Province and engages in the extraction of smectite, a raw material used for the manufacturing of one of our pharmaceutical products;

Hainan Qitian Pharmaceutical Co., Ltd., or Qitian Simcere, is our wholly owned subsidiary that engages in the processing and refinement of smectite;

Shandong Simcere Medgenn Bio-Pharmaceutical Co., Ltd., or Shandong Simcere, formerly known as Yantai Medgenn Co., Ltd., is our wholly owned subsidiary that engages in the manufacturing of Endu in China. We completed the acquisition of 80.0% of the equity interest of Shandong Simcere in September 2006. We have since acquired the remaining 20.0% of the equity interest in Shandong Simcere, which is now our wholly owned subsidiary. In addition, Shandong Simcere owns a 40.0% equity interest in Medgenn (Hong Kong) Co., Ltd., or Hong Kong Medgenn that was acquired for no cash consideration. Hong Kong Medgenn has the exclusive right to engage in the development and sale of Endu in any jurisdiction outside of the PRC until February 10, 2015. Hong Kong Medgenn has not conducted any operations to date;

Jilin Boda Pharmaceutical Co., Ltd., or Jilin Boda, is our 51.0% owned subsidiary that engages in the manufacturing and sale of pharmaceutical products. In June 2010, we entered into an agreement to further acquire approximately 39% of the equity interest in Jilin Boda. Upon the completion of this acquisition, we will hold approximately 90% of the equity interest in Jilin Boda.

Nanjing Tung Chit Pharmaceutical Company Limited, or Nanjing Tung Chit, engages in the manufacturing and sale of pharmaceutical products. We completed the acquisition of 85.71% of the equity interest of Nanjing Tung Chit in November 2007. We acquired the remaining 14.29% of the equity interest in Nanjing Tung Chit in April 2010. Since then, it is our wholly owned subsidiary;

Simcere Zhong Ren Pharmaceutical Co., Ltd. is our 70.0% owned subsidiary that engages in the manufacturing and sale of pharmaceutical products. We completed the acquisition of the 70.0% equity interest in Simcere Zhong Ren in April 2008; and

Jiangsu Yanshen Biological Technology Stock Co., Ltd., or Jiangsu Yanshen, engages in the manufacturing and sale of vaccines. In May 2010, we acquired 37.5% equity interest of Jiangsu Yanshen. In December 2009, we acquired the 100% stake in ChinaVax, a Cayman Islands investment holding company, that held 15% equity interest in Jiangsu Yanshen. Since then, we hold 52.5% equity interest in Jiangsu Yanshen.

D. Property, Plant and Equipment

Our headquarters and our research and development facility are located in Nanjing, Jiangsu Province, on a parcel of land with an aggregate site area of approximately 193,100 square meters. The land use right will expire in 2056. We have seven GMP-approved manufacturing facilities that are located in Nanjing in Jiangsu Province, Haikou in Hainan Province, Liaoyuan in Jilin Province, Yantai in Shandong Province, Wuhu in Anhui Province and Changzhou in Jiangsu Province. Our facilities in Nanjing are approximately 36,677 square meters in total, occupying four parcels of land with an aggregate site area of approximately 309,788 square meters. The land use rights granted with respect of the lands will expire in 2048, 2054 and 2054 and 2056. Our facility in Haikou, Hainan Province is approximately 17,000 square meters and occupies a parcel of land with an aggregate site area of approximately 40,000 square meters. The land use right will expire in 2067. The facility in Yantai, Shandong Province is approximately 3,000 square meters and occupies a parcel of land with an aggregate site area of approximately 48,000 square meters. The land use right will expire in 2053. The facility in Liaoyuan, Jilin Province is approximately 33,410 square meters and occupies an aggregate site area of approximately 67,207 square meters. The land use rights will expire in 2028 and 2056, respectively. The facility in Wuhu, Anhui Province is approximately 2,118 square meters and occupies a parcel of land with an aggregate site area of approximately 20,000 square meters. The land use right will expire in 2052. The

facility in Changzhou, Jiangsu Province is approximately 28,300 square meters and occupies a parcel of land with an aggregate site area of approximately

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15,000 square meters. The land use right will expire in 2056 and 2052, respectively. In addition, we own the mineral exploration right relating to a smectite mine that can produce 300,000 ton in total of smectite, a raw material used for the manufacturing of our diarrhea medicine Biqi. We believe that our existing facilities, together with the facilities under construction, are adequate for our current requirements.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements included elsewhere in this annual report on Form 20-F . This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information D. Risk Factors or in other parts of this annual report on Form 20-F.

A. Operating Results

Overview

We are a leading manufacturer and supplier of branded generic pharmaceuticals in the fast growing China market. We focus our strategy on the development of first-to-market generic and innovative pharmaceuticals. We currently manufacture and sell 46 principal pharmaceutical products and are the exclusive distributor of two additional pharmaceutical products that are marketed under our brand names. We market and sell our products directly or indirectly to approximately 1,100 pharmaceutical distributors who in turn sell these products to other distributors, hospitals and retail pharmacies throughout China.

We commenced operations in March 1995 and operated our business mainly as a distributor of pharmaceutical products. Since then, we have gradually built up our research and development and manufacturing capabilities and have become one of the leading pharmaceutical companies in China that develop, manufacture and sell branded generic pharmaceuticals. To date, we have introduced a series of branded products, including our first-to-market generic anti-stroke medication Bicun, as well as our innovative pharmaceutical Endu, the first recombinant human endostatin injection approved for sale in China. Revenues from Bicun, Zailin, Yingtaiqing, Endu, Yidasheng and Sinofuan, on an individual basis, exceeded RMB100.0 million ($14.7 million) in 2009, which we believe is evidence of wide market acceptance of these products in the China market.

We believe that the most significant factors that affect our financial performance and results of operations are:

- the growth of the pharmaceutical market in China;
- our ability to successfully develop, acquire and launch first-to-market branded generic and innovative pharmaceuticals;
- the extent of inclusion of our pharmaceuticals in the Essential Drug List and Reimbursement List;
- our ability to compete in the tender processes for purchase of medicines by state-owned and state-controlled Chinese hospitals; and
- product pricing and price controls.

The Growth of the Pharmaceutical Market in China

With approximately one-fifth of the world s population and a fast-growing gross domestic product, China represents a significant potential market for the pharmaceutical industry. We believe the significant expected growth of the pharmaceutical market in China is due to factors such as robust economic growth and increased pharmaceutical expenditure, aging population and increased lifestyle-related diseases, government support of the

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pharmaceutical industry, the relatively low research and development and clinical trial costs in China as compared to developed countries, as well as the increased availability of funding for medical insurance and industry consolidation in China.

Our business and revenue growth primarily depend on the size of the pharmaceutical products in China. As a result, our revenue and profitability may be negatively affected by changes in national, regional or local economic conditions and consumer confidence in China. In particular, as we focus our expansion of retail stores in metropolitan markets, where living standards and consumer purchasing power are higher than rural areas, we are especially susceptible to changes in economic conditions, consumer confidence and customer preferences of the urban Chinese population. External factors beyond our control that affect consumer confidence include unemployment rates, levels of personal disposable income, national, regional or local economic conditions and acts of war or terrorism. Changes in economic conditions and consumer confidence could adversely affect consumer preferences, purchasing power and spending patterns. For example, the recent global economic and financial market crisis has caused, among other things, lower customer spending across China. As a result, sales of our premium priced high-end anti-cancer medication Endu, which is currently excluded from national medical insurance catalog, have declined and may continue to decline as patients decrease their purchases as a result of worries about economic conditions or reduced incomes. In addition, the timing and nature of any recovery in the credit and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected.

Our Ability to Successfully Develop, Acquire and Launch First-to-Market Generic and Innovative Pharmaceuticals

We believe that our proven ability to build a portfolio of first-to-market branded generic and innovative pharmaceuticals is crucial for our long-term growth and profitability, as first-to-market pharmaceuticals provide the advantage of rapid market penetration and higher profit margins. Compared to other generic pharmaceuticals, which can be sold by other pharmaceutical companies at a lower price, first-to-market generic pharmaceuticals, although not protected by intellectual property rights, are often granted a monitoring period, or have been granted a protection period under prior regulations, by the SFDA during which time the SFDA will not accept applications for new medicine certificates for pharmaceuticals with the same chemical structure, dosage form and indication. Innovative pharmaceuticals, which are protected by intellectual property rights, enjoy an even longer period of exclusivity as the validity period for an invention patent is 20 years. We believe that our ability to launch first-to-market generic and innovative pharmaceuticals, the exclusive marketing period in relation to such pharmaceuticals, coupled with our capabilities in marketing, branding and distribution, will continue to allow us to develop products that gain widespread recognition quickly and contribute to the rapid increase of our revenues and profitability.

The Extent of Inclusion of Our Pharmaceuticals in the Essential Drug List and Reimbursement List

Eligible participants in the national basic medical insurance program in China, which consists of mostly urban residents, are entitled to reimbursement from the social medical insurance fund for up to the entire cost of medicines that are included in the Essential Drug List and Reimbursement List. See Item 4. Information of the Company B. Business Overview Regulation Reimbursement Under the National and Provincial Medical Insurance Programs. In August 2009, the PRC Ministry of Health established the essential drug list, which contains 205 chemical drugs and 102 traditional Chinese medicines. On November 30, 2009, China s Ministry of Human Resources and Social Security issued China s national drug reimbursement list consisting of 2,151 drugs, which, together with the essential drug list and the national and provincial medical insurance catalogs, the Essential Drug List and Reimbursement List. Factors that affect the inclusion of medicines in the Essential Drug List and Reimbursement List include whether the medicine is consumed in large volumes and commonly prescribed for clinical use in China and whether it is considered to be important in meeting the basic healthcare needs of the general public. As of March 31, 2010, 26 of our 46 principal products, including Edaravone (Bicun and Yidasheng), Nedaplatin (Jiebaishu), Diclofenac (Yingtaiqing), Amoxicillin (Zailin), Biapenem (Anxin), Amoxicillin and Clavulanate (Anqi), Levamlodipine (Xinta), Alfacalcidol (Faneng), Smectite (Biqi), Kechuanning and Rosuvastatin, were included in the national Essential Drug List and Reimbursement List, including seven of the 26 of our principal products being included in the Level I Reimbursement List.

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The inclusion of a medicine in the Essential Drug List and Reimbursement List can substantially improve the sales volume of the medicine due to the availability of third-party reimbursements. However, pharmaceuticals included in the Essential Drug List and Reimbursement List are subject to price controls in the form of fixed retail prices or retail price ceilings, and are subject to periodical price adjustments by the relevant regulatory authorities. Such price controls, especially downward price adjustments, may negatively affect the unit price of our products. See Product Pricing and Price Controls. On balance, we believe that the benefit of the inclusion of our pharmaceuticals in the Essential Drug List and Reimbursement List outweighs the cost of such inclusion.

There can be no assurance that our products currently included in the Essential Drug List and Reimbursement List will continue to be included in the catalogs. The removal or exclusion of our products from the Essential Drug List and Reimbursement List may adversely affect the sales of these products. The commercial success of our new and potential products is substantially dependent on whether and to what extent reimbursement is or will be available. Our failure to obtain inclusion of our new and potential products in the Essential Drug List and Reimbursement List may adversely affect the future sales of those products. See Item 3. Key Information D. Risk Factors Risks Related to Our Company There is no assurance that our existing products will continue to be included or new products developed by us will be included in the Essential Drug List and Reimbursement List.

Our Ability to Compete In the Tender Processes for Purchase of Medicines by State-Owned and State-Controlled Chinese Hospitals

A substantial portion of the products we sell to our distributor customers are sold to hospitals owned or controlled by counties or higher level government authorities in China. These hospitals must implement collective tender processes for the purchase of medicines listed in the Essential Drug List and Reimbursement List and consumed in large volumes and commonly prescribed for clinical uses. Factors considered by these hospitals in assessing bids include, among other things, the quality and price of the medicine and the service and reputation of the manufacturers. The collective tender process for pharmaceuticals with the same chemical composition must be conducted at least annually, and pharmaceuticals that have won in the collective tender processes previously must participate and win in the collective tender processes in the following period before new purchase orders can be issued. If we are unable to win purchase contracts through the collective tender processes in which we decide to participate, we will lose market share to our competitors, and our revenue and profitability will be adversely affected.

Product Pricing and Price Controls

In October 2009, the NRDC implemented pricing ceilings on 2,349 pharmaceutical products, including drugs or medicines which are on the Essential Drug List. Certain of our pharmaceutical products sold in China, primarily those included in the Essential Drug List and Reimbursement List, are subject to price controls in the form of fixed prices or price ceilings. Controls over and adjustments to the retail price of a pharmaceutical may have a corresponding impact on the wholesale price of that pharmaceutical. From time to time, the PRC government publishes and updates a list of medicines that are subject to price controls, either at the national level or the provincial or regional level. Fixed prices and price ceilings on medicines are determined based on profit margins that the relevant government authorities deem reasonable, the type and quality of the medicine, its production costs, the prices of substitute medicines and the extent of the manufacturer s compliance with the applicable GMP standards. See Item 4. Information of the Company B. Business Overview Regulation Price Controls.

As of March 31, 2010, 26 of our 46 principal products, including Edaravone (Bicun and Yidasheng), Nedaplatin (Jiebaishu), Diclofenac (Yingtaiqing), Amoxicillin (Zailin), Biapenem (Anxin), Amoxicillin and Clavulanate (Anqi), Levamlodipine (Xinta), Alfacalcidol (Faneng), Smectite (Biqi), Kechuanning and Rosuvastatin, were included in the national Essential Drug List and Reimbursement List, including seven of the 26 of our principal products being included in the Level I Reimbursement List.

Since May 1998, the relevant PRC government authorities have ordered price reductions of various pharmaceuticals 25 times. The latest price reductions occurred in September of 2009 and affected a total of 102 different Chinese medicines and 204 different Western pharmaceuticals. We expect the retail prices of additional pharmaceuticals to be adjusted periodically in the future.

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Two of our branded generic products, Zailin granules and Yingtaiqing capsules, have obtained premium pricing status from the NDRC, which means the respective maximum retail prices of these products are fixed by the NDRC at a level that is generally substantially higher than those of comparable products. We believe that such premium pricing status has historically contributed to our sales of Zailin and Yingtaiqing by allowing us to set higher unit prices for these products as well as by ultimately increasing their sales volume as hospitals often assign higher points in assessing bids for medicines that have obtained premium pricing status, as such premium pricing status is deemed as recognition of high quality, strong efficacy and widespread market acceptance of the pharmaceutical.

The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective pharmaceutical companies, subject to notification to the provincial pricing authorities. As we sell our products exclusively to pharmaceutical distributors in China, we price our pharmaceuticals that are not subject to price controls based on the prices of competing pharmaceuticals, if any, in the market and our gross margin. For instance, currently Endu is not subject to any price controls.

Acquisitions

In 2006 and 2007, we acquired an aggregate of 90.0% equity interest in Shandong Simcere, a PRC pharmaceutical company engaged in the research, development, manufacture and sale of an anti-cancer medication under the name Endu. In January 2009, we acquired the remaining 10.0% equity interest in Shandong Simcere for a cash consideration of RMB30.1 million ($4.4 million).

In September 2007, we entered into a definitive agreement to acquire a 51.0% equity interest in Jilin Boda for a total of RMB123.1 million in cash. The acquisition was completed in October 2007. Jilin Boda manufactures the injectable stroke management medication, Yidasheng, the only other edaravone injection currently available in China other than Bicun at that time. In November 2007, we acquired 100% equity interest in Master Luck Corporation Limited, which in turns holds an 85.71% equity interest in Nanjing Tung Chit, the manufacturer of nedaplatin injection, a chemotherapy pharmaceutical that is marketed under the brand name Jiebaishu. The total consideration for the acquisition was RMB32.9 million in cash. We believe Jiebaishu, as a leading nedaplatin product in China, further complements our current portfolio of anti-cancer pharmaceuticals that already include our innovative pharmaceutical Endu, as well as provide us with a manufacturing facility and production line for chemotherapy pharmaceuticals that is in compliance with GMP standards. In April 2010, Nanjing Tung Chit became our wholly owned subsidiary after we acquired the remaining 14.29% equity interest for RMB6.3 million ($0.1 million) in cash.

In April 2008,we acquired a 70.0% equity interest in Simcere Zhong Ren, the manufacturer of first-to-market 5-FU sustained release implants for the treatment of cancer under the brand name of Sinofuan, for a total consideration of RMB65.1 million ($9.5 million) in cash. The acquisition is expected to enhance our offerings in the anti-drug market and creates synergies with Endu, the anti-tumor drug.

In May 2009, we entered into an agreement to indirectly acquire approximately 35% of the equity interest of Shanghai Celgen Bio-Pharmaceutical Co., Ltd., or Shanghai Celgen for a total cash consideration of RMB110.0 million ($16.1 million). Shanghai Celgen has strong expertise in research and production of therapeutic antibodies and possesses an antibody manufacturing facility in Shanghai, for which GMP certification is pending. Shanghai Celgen s major biogeneric drug candidate, an etanercept, has completed clinical trials and is currently awaiting approval from the SFDA. In addition, we are entitled to unwind the acquisition and the selling shareholders are required to return the amounts paid by us if the SFDA does not approve Shanghai Celgen s major biogeneric drug candidate within 24 months from the date of agreement or if Shanghai Celgen determines that it would be unable to obtain the SFDA approval within 24 months from the date of acquisition.

In May 2009, we entered into an agreement to acquire a 37.5% equity interest in Jiangsu Yanshen, a China-based developer and manufacturer of vaccines, for cash consideration. In October and November 2009, we entered into two agreements pursuant to which we acquired the entire equity interest in ChinaVax, a Cayman Islands company that, as its sole business, held a 15% stake in Jiangsu Yanshen, for consideration. As of the date of this annual report on Form 20-F, a portion of the consideration has not been paid. After completion of this acquisition, we hold an aggregate of 52.5% equity interest in Jiangsu Yanshen.

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After we entered into the share purchase agreements in October and November 2009 to acquire 15% equity interest in Jiangsu Yanshen, but prior to the full completion of the transaction, we discovered quality control problems relating to the production of Jiangsu Yanshen s human-use rabies vaccine (vero cell). On November 23, 2009, we urged the board of Jiangsu Yanshen to replace its general manager and head of quality assurance and demanded that Jiangsu Yanshen implement a total suspension of production effective on November 30, 2009 to facilitate internal inspection and rectification of its quality control systems.

On December 3, 2009, the SFDA issued a public notice announcing the initiation of a comprehensive investigation into quality issues regarding human use rabies vaccine manufactured by two companies including Jiangsu Yanshen, and ordered Jiangsu Yanshen to halt marketing and production of all products including human use rabies vaccine. In April 2010, the Changzhou Food and Drug Administration found that the four batches of human use rabies vaccine, which were manufactured by Jiangsu Yanshen and released into the market between July and October 2008, had an insufficient amount of active compound. It was found that illegal activities were conducted at Jiangsu Yanshen, whereby inadequate quality control processes were in place, and there was misrepresentation and avoidance of regulatory inspection, which caused substandard vaccine to be released into the market.

On April 27, 2010, the SFDA revoked two new medicine certificates held by Jiangsu Yanshen for rabies vaccine (vero cell) and freeze-dried human rabies vaccine (vero cell). The GMP certificate for the manufacture of human use rabies vaccine has been seized by the relevant government authorities and the GMP certificate for the manufacture of influenza vaccine expired on February 2, 2010 and has not been renewed yet.

On May 15, 2010, Jiangsu Yanshen received an official notification from the Changzhou Food and Drug Administration of the financial penalty to be paid in relation to the production of substandard quality human use rabies vaccine. According to the decision, the Changzhou Food and Drug Administration will impose a fine of RMB25.6 million ($3.8 million) consisting of penalties and confiscated revenues from previous sales of substandard quality human use rabies vaccine. Jiangsu Yanshen must also bear the cost of patient re-vaccinations up to RMB23.0 million ($3.4 million). In addition, the Changzhou Procuratorate also issued a fine of RMB1.6 million ($0.2 million) to Jiangsu Yanshen for confiscation of revenues. As of December 31, 2009, we recognized an accrual of RMB50.3 million ($7.4 million) for these fines. We have withheld 30.0% of the consideration for our acquisition of the additional 15% stake in Jiangsu Yanshen. As of the date of this annual report, Jiangsu Yanshen operations remain suspended and it is uncertain when it will resume vaccine production. At December 31, 2009, we performed an impairment analysis of our goodwill. As a result of this analysis, we recorded, in fiscal year 2009, a goodwill impairment charge of RMB76.4 million ($11.2 million). See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies and the Use of Estimates Impairment of Long-Lived Assets and Goodwill .

In June 2010, we entered into an agreement to further acquire approximately of the equity interest in Nanjing Xiangao Investments Management Limited (PRC), who in turn holds approximately 48.99% of the equity interest in Jilin Boda, for a total cash consideration of approximately RMB116.8 million ($17.1 million) as well as contingent consideration which will be determined based on net income generated by Jilin Boda in 2010. Upon the completion of this acquisition, we will hold approximately 90% of the equity interest in Jilin Boda.

Revenues

We generate revenue mainly from the sales of our products. Our product revenues represent our revenues from the sales of our products, less value-added taxes, or VAT. Our revenue also includes other revenue, which primarily represent the refund of a portion of the VAT paid.

Our products include antibiotics, anti-stroke medications, anti-inflammatory drugs, anti-cancer medications and other medicines. We generate a substantial portion of our revenue from sales of Bicun, Zailin, Endu, Yingtaiqing, Yidasheng and Sinofuan, which in aggregate, accounted for 79.5%, 78.6% and 76.8% of our revenues in 2007, 2008 and 2009, respectively.

The following table sets out a breakdown of our revenues for these major products, and each item expressed as a percentage of our revenues, for the periods indicated:

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	Year Ended December 31,					
	2007		2008		2009	
	(in thousands of RMB)	(% of revenues)	(in thousands of RMB)	(% of revenues)	(in thousands of RMB)	(% of revenues)
Bicun	426,216	31.1	570,584	32.8	619,340	33.3
Zailin	287,333	21.0	290,215	16.7	279,631	15.0
Yingtaiqing	140,824	10.3	146,660	8.4	151,378	8.2
Sinofuan			41,400	2.4	126,297	6.8
Yidasheng	17,230	1.3	80,580	4.6	126,038	6.8
Endu	216,193	15.8	239,439	13.7	124,186	6.7

We sell our products (except for vaccines) exclusively to pharmaceutical distributors as we believe this is the most cost-effective way to reach a broad end-user base. We typically enter into written distribution agreements with our distributor customers for one-year terms that are generally renewed annually. Our sales are generally made on a purchase order basis, rather than under any long-term commitments. We compete for desired distributors with other pharmaceutical manufacturers. Any disruption of our distribution network, including failure to renew existing distribution agreements with desired distributors or establish relationships with important new distributors, could negatively affect our ability to effectively sell our products, which could materially and adversely affect our revenues and profitability. Furthermore, we have limited ability to manage the activities of our distributors as they are independent from us. Our distributors may potentially engage in actions that may violate the anti-corruption laws in China, engage in other illegal practices or exhibit and damaging behaviors with respect to their sales or marketing of our products, which could have a material adverse effect on our business, prospects and brand.

Our distributor customers are widely dispersed on both a geographic and revenues basis even though each distributor is limited to its respective designated distribution areas as specified in our distribution agreements. In 2007, 2008 and 2009, no single distributor contributed, on an individual basis, 10.0% or more of our revenues, and sales to our five largest distributors accounted in aggregate for approximately 13.8%, 11.6% and 14.0%, respectively, of our revenues.

We grant credit to a portion of our distributor customers in the normal course of business depending on the customers credit worthiness and the type of products we sell to them, although we require some customers to make payment prior to shipment. We grant different credit terms to different customers, depending on our assessment of their creditworthiness. We bill our distributor customers upon shipment for credit sales, with a typical 30 to 90 days credit term from the date of billing. Collateral or other supporting securities are not required to support such credit sales.

We allow a portion of our distributor customers to make payment by bills receivable. Bills receivable primarily represents a short-term note receivable issued by a financial institution that entitles us to receive the full face amount from the financial institution at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, we have not experienced any losses on bills receivable.

In the past, we have experienced limited amounts of uncollectible accounts receivable. In 2007, 2008 and 2009, the provision for bad debt expense amounted to RMB1.2 million, RMB1.6 million and RMB0.1 million ($0.01 million), respectively. Our allowance for doubtful accounts amounted to RMB8.1 million and RMB7.8 million ($1.1 million), as of December 31, 2008 and 2009, respectively.

Cost of Materials and Production and Operating Expenses

The following table sets forth our cost of materials and production and operating expenses as percentages of our revenues for the period indicated:

	Year Ended December 31,		
	2007	2008	2009

		(in percentages)	
Cost of materials and production	17.6	18.4	17.3

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	Year Ended December 31,		
	2007	2008	2009
	(in percentages)		
Operating expenses			
Research and development expenses	4.9	4.9	7.2
Sales, marketing and distribution expenses	46.4	45.0	53.9
General and administrative expenses	11.8	11.2	12.0
Impairment loss on goodwill			4.1
Total operating expenses	63.1	61.1	77.2

Our cost of materials and production increased from 2007 to 2008 as a result of our increased sale of Bicun, Endu, Yidasheng and Sinofuan as the cost of materials and production of Bicun and Yidasheng as a percentage of their revenues is lower compared to those of our other major products as we manufacture the raw materials used for the manufacturing of Bicun and Yidasheng instead of purchasing such raw materials from third party suppliers. In addition, cost of materials and production as a percentage of revenues is lower for Endu and Sinofuan as compared to those of our generic pharmaceuticals. However, our cost of materials and production declined as a percentage of our revenues from 2008 to 2009 due primarily to the resale of generic drugs for other pharmaceutical companies at a relatively high cost of sales as a percentage of their revenues.

Our operating expenses as a percentage of our revenues decreased from 2007 to 2008. This decrease was due primarily to decrease in sales, marketing and distribution expenses as a percentage of our revenues as a result of improved economies of scale associated with the expansion of our operations. Our operating expenses as a percentage of our revenues increased from 2008 to 2009. The increase was primarily due to the recognition of impairment loss of goodwill, increase in our sales, marketing and distribution expenses and research and development expenses as a percentage of our revenues as a result of the increased marketing expenses for promoting Bicun and Sinofuan and the increase in research and development expenses associated with the acquisition of a drug development right of an anti-tumor and the development of antibody therapeutics for tumors.

Cost of Materials and Production

Our cost of materials and production primarily consists of:

- costs of the pharmaceuticals in which we are the exclusive distributors of;
- costs of the necessary active ingredients and supporting ingredients of pharmaceuticals we manufacture and various types of packaging materials;
- salaries and benefits for personnel directly involved in production activities;
- overhead costs, including utility, maintenance of production equipment and other support expenses associated with the production of our products; and
- depreciation of property, plant and equipment used for production purposes. Depreciation of property, plant and equipment attributable to production activities is capitalized as part of inventory, and expensed as cost of materials and production when products are sold.

As we produce our pharmaceuticals in China and we source or manufacture a significant portion of our raw materials in China, we currently have, and expect to continue to have in the foreseeable future, a relatively low cost base compared to the pharmaceutical manufacturers in more developed Western countries. We expect the price of our raw materials to remain low as we are able to source raw materials within China at a low cost as the market for the supply of raw materials for pharmaceuticals is very competitive. As our business continues to expand and our economies of scale increase, we expect our bargaining power to increase, which we believe will also help in keeping our raw material costs low. Personnel costs in China have experienced a general upward trend, but as China possesses significant labor resources, we do not expect personnel costs as a percentage of revenues to increase significantly in

the near future. Overhead costs, on the other hand, have been increasing due to the increases in utility prices. However, we expect increased efficiencies in our manufacturing and production process to partially offset the increases in utility prices. We expect the depreciation of property, plant and equipment used for production purposes to increase as we continue to expand our production facilities, but we expect such increase to be

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in line with an increase in our production volume, and our depreciation cost as a percentage of our revenues to remain relatively stable.

Research and Development Expenses

We concentrate our research and development efforts on the treatment of diseases with high incidence and/or mortality rates and/or for which there is a clear demand for more effective pharmacotherapy, such as cancer and cerebrovascular and infectious diseases. We believe such research and development strategy will lead to the development of products that have a high potential for commercialization and can maximize our growth rate and profit margin.

Our research and development expenses primarily consist of costs associated with the research and development of our product candidates. To develop product candidates, we use our in-house expertise as well as collaborate with leading universities and research institutions in China. Expenses associated with our in-house research and development activities include costs of engaging in market analysis to determine the commercial viability of potential pharmaceuticals, costs of employee compensation, costs of clinical pharmaceutical supplies, other supplies and materials, and intellectual property, travel and facilities costs. As to our collaboration arrangements with research institutions in China, we are generally responsible for the provision of funding and research assistance for the joint development of new pharmaceuticals. If the pharmaceuticals are successfully developed and new medicine certificates with respect to such pharmaceuticals are obtained, we will generally hold the rights to commercializing such products and in limited circumstances, will hold the rights to commercializing such products jointly with our research partners.

We are developing a number of new pharmaceuticals through our in-house expertise and through joint research and development efforts with universities and research institutions in China. As of March 31, 2010, we had over 12 product candidates in various stages of development. Product candidates that we believe have the highest potential for commercialization include palonosetron for injection and iguratimod tablets, all of which we are currently seeking SFDA approval. See C. Research and Development Product Candidates. We plan to commence the manufacturing, marketing and sales of these products as soon as we obtain the relevant SFDA approvals.

The successful development of pharmaceutical products can be affected by many factors. Product candidates that appear to be promising at their early phases of research and development may fail to be commercialized for various reasons, including the failure to obtain the necessary regulatory approvals. In addition, the research and development cycle for innovative pharmaceuticals for which we may obtain an approval certificate is long. The process of conducting basic research and various stages of tests and trials of a new innovative pharmaceutical before obtaining an approval certificate and commercializing the product may require more than ten years. There is no assurance that our research and development projects will produce a commercially viable result. Even if such products can be successfully commercialized, they may not achieve the level of market acceptance that we expect, and our business and profitability could be materially and adversely affected. See Item 3. Key Information D. Risk Factors Our future research and development projects may not be successful. Furthermore, as the research and development cycle for innovative pharmaceuticals is long, our expenditures on current and future research and development projects are subject to many uncertainties. The cost of research and development projects may vary significantly over the life of a research and development project as a result of a variety of factors, including:

- the delay in research and development of certain projects preventing us to focus our resources on more promising product candidates;
- the intended use of a product candidate, which affects the length and timing of the research and development projects;
- the number of patients who participate in the clinical trials;
- the number of sites included in clinical trials;

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the length of time required to enroll clinical trial participants;

the duration of patient treatment and follow-up during clinical trials;

the costs of producing supplies of the product candidates needed for clinical trials; and

the requirement and timing of SFDA approvals.

As a result of the uncertainties discussed above, we are unable to determine with any significant degree of certainty the duration and the completion costs of our research and development projects or when and to what extent we will generate revenues from the commercialization and sale of any of our product candidates.

We expense research and development costs as and when incurred. These expenses include the costs of our internal research and development activities and the costs of research and development conducted by others on our behalf, such as through third-party collaboration arrangements discussed above. Research and development costs in connection with third party research and development collaboration arrangements prior to obtaining regulatory approval are expensed when the research and development activities are performed. Costs incurred to obtain developed technology and costs incurred subsequent to obtaining regulatory approval are capitalized and amortized over the shorter of the remaining license period and the patent protection period for the product.

Our IPR&D projects represent the fair value assigned to incomplete research projects that we acquire through business combinations, which at the time of acquisition, have not reached technological feasibility. For business combinations for which the acquisition date is before January 1, 2009, the fair value of such projects was expensed upon acquisition. For business combinations for which the acquisition date is on or after January 1, 2009, the fair value of a research projects is recognized as intangible asset on the consolidated balance sheet rather than expensed. The amounts capitalized are accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project, we will make a determination as to the useful life of the intangible asset and begin amortization. We test IPR&D for impairment at least annually and whenever impairment indicators are present. The impairment test consists of a comparison of the fair value of the IPR&D with its carrying amount. If the carrying amount of an IPR&D exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

We have incurred research and development expenses of RMB68.3 million, RMB86.1 million and RMB133.0 million ($19.5 million) in 2007, 2008 and 2009, respectively, representing 4.9%, 4.9% and 7.2% of our revenues, respectively. Our research and development capabilities have been recognized by various levels of the PRC government and we have received government funding in recognition of our capabilities. From January 1, 2007 to December 31, 2009, we received approximately RMB18.6 million in research grants from the PRC government.

We are committed to increase our research and development capabilities, and expect to incur higher research and development expenses as we plan to supplement our development of first-to-market generic pharmaceuticals in China with increasing efforts in the research and development of innovative pharmaceuticals. We have also received government grants for certain of our projects and such grants have been recorded as a reduction of our research and development expenses as disclosed in our consolidated financial statements.

Additionally, we have in the past sought, and may continue to seek, to acquire rights to development stage clinical products, technologies or suitable businesses that complement our expansion strategies and our existing products and products under development. To acquire these rights, we are required to utilize significant financial resources and incur increased in process research and development expense. Our research and development expenses also included depreciation of our new research facility after it was completed in January 2007.

We expect that our total research and development expenses will increase in absolute terms in the future.

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Sales, Marketing and Distribution Expenses

Sales, marketing and distribution expenses consist primarily of salaries and related expenses for personnel engaged in sales, marketing, distribution and customer support functions and costs associated with advertising and other marketing activities including expenses of engaging professional promotion and marketing companies. We host in-person product presentations, conference and seminars for physicians, other healthcare professionals and research scholars to promote and generate awareness of our pharmaceuticals. For our OTC pharmaceuticals, we also carry out consumer advertising and educational campaigns. As the pharmaceutical market in China continues to grow, we plan to further develop and strengthen our sales, marketing and distribution network in order to increase the market recognition of our products and our Simcere brand name. In 2007, 2008 and 2009, sales, marketing and distribution expenses increased primarily as a result of the additional sales and marketing activities carried out by an increased number of sales personnel and our increased product offerings.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and benefits for our administrative, finance and human resources personnel, depreciation of equipment and facilities of our administrative offices, amortization of rental facilities used for administrative purposes, bad debt expense, fees and expenses of legal, accounting and other professional services and other expenses associated with our administrative offices. We expect general and administrative expenses to increase as we recruit additional professionals and incur additional costs related to the growth of our business.

Share-Based Compensation Expenses

We adopted our 2006 share incentive plan on November 13, 2006, under which we issued awards to certain members of our directors, senior management and key employees. On March 29, 2007, we granted 1,045,000 options to our independent directors and certain employees with an exercise price equal to $6.75. These options vest over a five-year period, with 20.0% of them vesting on March 28 of each year beginning in 2008. On May 5, 2008, we granted 400,000 options to a senior executive officer with an exercise price equal to $6.755. These options vest over 4.85 year, with 20.0% of them vesting on March 8 of each year beginning in 2009. On December 24, 2008, we granted 100,000 options to a senior executive officer with an exercise price equal to $3.445. These options vest over 4.69 year, with 20.0% of them vesting on August 31 of each year beginning in 2009. All of the above options granted will also vest only if the option holder is still a director or an employee of our company at the time of the relevant vesting or unless otherwise approved by our compensation committee.

On April 15, 2009, our compensation committee approved a share option exchange program that offered our eligible directors, employees and consultants the right to exchange vested and unvested outstanding share options to purchase our ordinary shares granted under the 2006 Share Incentive Plan for our restricted shares. The exchange ratio was determined based on the fair value of replacement restricted shares so that the fair value of the replacement restricted shares to be issued upon exchange would be approximately equivalent to the fair value of the share options surrendered by an individual. In addition, these replacement restricted shares are subject to substantially the same vesting schedule as the options that are validly tendered in the exchange offer. A total of 154 directors and employees accepted the offer, and tendered options to purchase an aggregate of 9,802,400 ordinary shares in exchange for an aggregate of 4,750,018 restricted shares, which were granted on May 7, 2009. The exchange of the share option awards for restricted shares was accounted for as a modification for awards which involves a cancellation of the original award and an issuance of a new award. The effect of this award modification on share-based compensation expense over the remaining requisite service period was insignificant. On October 14, 2009 and December 4, 2009, we issued 200,000 and 40,000 restricted shares to our officers and key employees under our 2006 share incentive plan, respectively.

We account for share-based compensation expenses based on the fair value of the share options on the date of the grant and recognize the amount over the requisite service period.

We recognized share-based compensation in the amount of RMB30.8 million, RMB25.5 million and RMB23.7 million ($3.5 million) in 2007, 2008 and 2009, respectively. Share-based compensation expenses are

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allocated among each of research and development expenses, sales, marketing and distribution expenses and general and administrative expenses based on the nature of the work our employees were assigned to perform.

Taxation and Incentives

On March 16, 2007, the National People s Congress passed the new CIT law which became effective as of January 1, 2008. The new CIT law provides that all enterprises in China, including foreign-invested companies, are subject to a uniform 25% corporate income tax rate and all tax reduction or exemption as well as incentives previously solely available to foreign-invested enterprises are cancelled. However, the new CIT law and its relevant regulations provide a five-year transition period for those enterprises which were established before March 16, 2007 and were entitled to a preferential income tax rate of 15% under the then effective tax laws or regulations as well as grandfathering certain tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. In addition, manufacturing entities previously entitled to a tax holiday of two-year 100% exemption followed by three-year 50% exemption (2+3 tax holiday) under the then effective tax laws and regulations shall continue to enjoy the tax holidays until they expire.

Further, entities that qualify as Advanced and New Technology Enterprises or ANTEs under the new CIT law are entitled to a preferential income tax rate of 15%. According to the Notice on Prepayment of Corporate Income Tax issued by the State Administration of Taxation, an ANTE recognized according to previous tax regulations prior to January 1, 2008 should be subject to a corporate income tax rate of 25% before it is re-identified as an ANTE under the new CIT law.

On April 14, 2008, the Management Measures of Identifying Advanced and New Technology Enterprises and its annex, Key Fields of New and High-Tech Supported by the State, were issued jointly by the Ministry of Science and Technology, State Administration of Tax and the Ministry of Finance that outlines the detailed procedures and measures to identify such ANTEs. In December 2008, Shandong Simcere and Boda were recognized by the Chinese government as ANTEs under the new CIT law and entitled to the preferential income tax rate of 15% from 2008 to 2010. In December 2009, Nanjing Simcere was recognized by the Chinese government as ANTE under the new CIT law and entitled to the preferential tax rate of 15% from 2009 to 2011. Simcere Zhong Ren was confirmed by the tax authority that it could inherit the ANTE status from its predecessor for 2009 and 2010. Under the new CIT law, where the transitional preferential income tax policies and the preferential policies prescribed under the new CIT law and its implementation rules overlap, an enterprise shall choose to carry out the most preferential policy, but shall not enjoy multiple preferential policies. Shandong Simcere and Nanjing Simcere have chosen to enjoy the 2+3 tax holiday grandfathering treatment until its expiry in 2011 and 2010 respectively.

Hainan Simcere and Nanjing Simcere were both converted from domestic companies into foreign-invested enterprises in March 2006. In addition, Shandong Simcere and Nanjing Tung Chit are foreign-invested enterprises established in 1999 and 2001 respectively. Prior to January 1, 2008, Hainan Simcere, Shandong Simcere, Nanjing Simcere and Nanjing Tung Chit, being production-oriented foreign investment enterprises, were each entitled to a 2+3 tax holiday. In addition, Hainan Simcere and Shandong Simcere, being located in one of the Special Economic Zones and Economic and Technological Development Zones, respectively, were entitled to a reduced income tax rate of 15%. Further, Shanghai Simcere was located in KangQiao Industrial Area and was granted a reduced income tax rate of 15% for 2007 by the local taxing authority. In May 2009, Shanghai Simcere obtained approval from local tax authority and was entitled to the transitional tax rates retroactively from 2008.

Hainan Simcere, Nanjing Simcere and Nanjing Tung Chit completed their two-year full income tax exemption in 2007 while Shandong Simcere completed its two-year full income tax exemption in 2008. As a result of these preferential tax treatments and other local tax incentives, our effective income tax rates were 4.1%, 11.5% and 9.4% in 2007, 2008 and 2009 respectively.

The new CIT law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% corporate income tax rate as to their worldwide income. Under the implementation rules for the new CIT law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Although substantially

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all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) our overseas registered entities to be treated as PRC resident enterprises.

Under the new CIT law and the implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises , which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC resident enterprise , it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC income tax. It is also unclear whether, if we are considered a PRC resident enterprise , holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between China and other jurisdictions.

Critical Accounting Policies and the Use of Estimates

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of our assets and liabilities, (ii) the disclosure of our contingent assets and liabilities at the end of each reporting period and (iii) the reported amounts of revenues and expenses during each reporting period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, including the current economic environment, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Change in these estimates resulting from continuing changes in economic environment will be reflected in the consolidated financial statements in future periods. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions. Some of our accounting policies also require a higher degree of judgment than others in their application.

When reading our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

Acquisitions

On January 1, 2009, FASB ASC 805, *Business Combinations*, issued by the FASB was adopted which changes the way in which the acquisition method is to be applied in a business combination and also changes the way assets and liabilities are recognized in purchase accounting on a prospective basis. The acquisition method of accounting requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values with limited exceptions. We recognized all contractual contingencies and any noncontractual contingencies that are more-likely-than-not give rise to an asset or liability at fair value on the acquisition date. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recognized as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. If we determine the asset acquired does not meet the definition of a business under the acquisition method of accounting, the transaction will be accounted for as an acquisition of assets rather than a business combination, and therefore, no goodwill will be recognized. The fair value of intangible assets, including acquired IPR&D, is based on significant judgments made by us. Amounts allocated to acquired IPR&D are capitalized and accounted for similar to indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project, we will make a separate determination as to the then useful life of the asset and begin amortization. The valuations and useful life assumptions are based on

information available near the acquisition date and are based on expectations and

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assumptions that are deemed reasonable by us. The judgments made in determining estimated fair values assigned to assets acquired and liabilities assumed, as well as asset lives, can materially affect our results of operations.

Allowance for Doubtful Accounts

We grant credit to a portion of our customers in the normal course of business depending on the customers credit worthiness and the type of products we sell to them, although we require some customers to make payment prior to shipment. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We determine the allowance by (1) analyzing specific customer accounts that have known or potential collection issues and (2) applying historical loss rates to the aging of the remaining accounts receivable balances. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted. In the event that we believe a trade receivable will become uncollectible, we record additional provision to increase the allowance for doubtful accounts. The accounting effect of this entry is a charge to income. We believe our allowance to doubtful accounts is sufficient to reflect the recoverability of our accounts receivable. If our business grows, we expect our accounts receivable balance to increase, as could our allowance for doubtful accounts. If the financial condition of our customers deteriorates, our uncollectible accounts receivable could exceed our current or future allowances. See Revenues. Our accounts and bills receivables decreased as compared to December 31, 2008 were mainly due to the increased bills receivables factored to the financial institutions.

The following table presents the movement of allowance for doubtful accounts in 2007, 2008 and 2009:

	Year Ended December 31,			
	2007	**2008**	**2009**	**2009**
	RMB	**RMB**	**RMB**	**$**
		(in thousands)		
Beginning allowance for doubtful accounts	6,834	6,635	6,995	1,025
Additions charged to bad debt expense	1,203	1,576	101	15
Write-off of accounts receivable	(1,402)	(1,216)	(347)	(51)
Ending allowance for doubtful accounts	6,635	6,995	6,749	989

Inventories

We value our finished goods inventory at the lower of cost, which consists of the cost of direct labor and raw materials as well as allocation of variable and fixed production overheads, and market value. Variable production overheads are allocated to each unit of production based on the actual use of the production facilities and fixed production overheads are allocated to the cost of conversion based on the normal capacity of the production facilities. We determine normal capacity as being a reasonable level of production volume supported by sufficient customer demand without any abnormal equipment downtime due to shortages of materials and labor. Expenses relating to abnormal levels of idle or excess facilities, spoilage and similar costs are expensed as incurred. In 2007, 2008 and 2009, we did not incur any significant abnormal amounts of idle facility expenses or spoilage as our manufacturing facilities were operating at normal capacity. Our inventory as of December 31, 2009 increased as compared to December 31, 2008 was primarily contributed by the acquisition of Jiangsu Yanshen.

We write down the cost of inventory that we specifically identify and consider as obsolete. Finished goods inventory is considered obsolete when it has less than six months of remaining shelf life. Our raw materials and packaging materials are not subject to significant risk of obsolescence. We manage our inventory level based on our estimates of future demand within a specific time period, generally three months or less based on existing customer orders and, to a limited extent, forecasted customer orders. Given our manufacturing plan is primarily based on existing customer orders, we have recorded minimal inventory write-downs in the past. Our inventory write-downs for 2007, 2008 and 2009 were RMB3.2 million, RMB3.0 million and RMB2.9 million ($0.4 million), respectively.

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Depreciation and Amortization

Our long-lived assets include property, plant and equipment, intangible assets such as customer relationships, developed technology and product trademarks, manufacturing licenses, IPR&D and goodwill.

Except for goodwill and IPR&D, we depreciate and amortize our long-lived assets using the straight-line method over the estimated useful lives of the assets. We make estimates of the useful lives of property, plant and equipment (including the salvage values) and intangibles, in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. We estimate the useful lives at the time we acquire the assets based on our historical experience with similar assets as well as anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, we might shorten the useful lives assigned to these assets, which will result in the recognition of increased depreciation and amortization expense in future periods. There has been no change to the estimated useful lives and salvage values in 2007, 2008 and 2009.

Impairment of Long-Lived Assets and Goodwill

As of December 31, 2009, our intangible assets primarily consisted of developed technology and IPR&D that we acquired in connection with our acquisitions of 100% equity interest in Shandong Simcere, 51.0% equity interest in Jilin Boda, 85.7% equity interest in Nanjing Tung Chit, 70.0% equity interest in Simcere Zhong Ren and 52.5% equity interest in Jiangsu Yanshen during the period from 2006 to 2009.

The developed technology acquired in connection with our acquisitions represents the right to use, manufacture, market and sell patented and generic pharmaceuticals. These pharmaceuticals include the anti-cancer drug, Endu, the edaravone injection, Yidasheng, the nedaplatin injection, Jiebaishu, 5-FU sustained release implant, Sinofuan and influenza vaccine. We estimated the fair value of the developed technology based on an income approach. Under this approach, fair value of an asset is determined based on the present value of projected future net cash flows associated with the use of the asset. The most significant estimates and assumptions inherent in the income approach when we valued the developed technology include: the growth rate of our revenue from sales; the earnings before interest and tax, or EBIT, margin derived from sales; the discount rate selected to measure the risks inherent in future cash flows; and our assessment of the product life cycle. We also considered competitive trends influencing the sales, including consideration of any technical, legal, regulatory, and economic barriers to entry. Any material change in any of the key assumptions would affect the fair value of the developed technology which would have an offsetting effect on the amount of goodwill recognized from the acquisitions. Future events, such as market acceptance, introduction of superior pharmaceuticals by our competitors, regulatory actions, safety concerns as to our pharmaceuticals, and challenges to and infringement of our intellectual property rights, could result in write-downs of the carrying value of the developed technology. We estimated the economic useful life of the developed technology by taking into consideration the remaining protection period of the underlying pharmaceuticals patent rights in China and the expected competitive trend in the PRC market. We adopted a straight-line method of amortization for the developed technology as the pattern in which its economic benefits are used up cannot be reliably determined. Material changes in any of our key assumptions would affect the fair value of our developed technology.

For IPR&D, the fair value was determined using an income approach, through which fair value is estimated based on each asset s probability adjusted future net cash flows, which reflect the different stages of development of each product and the associated probability of successful completion. The net cash flows are then discounted to present value using an appropriate discount rate.

We evaluate long-lived assets, including property, plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We assess recoverability by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. We recognize an impairment charge based on the amount by which the carrying amount of the asset exceeds the fair value of the asset. We determine fair value based on either market quotes, if available, or discounted cash flows using a discount rate commensurate with the risk inherent in our current business model for the specific asset being valued. Major factors that influence our cash flow analysis are our estimates for future revenue and expenses associated with the use of the asset. No long-lived assets

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or asset groups held and used were tested for impairment in 2008 and 2009 and no impairment charge was recognized for the years ended December 31, 2007, 2008 and 2009.

We evaluate IPR&D for impairment at least annually or whenever impairment indicators are present. The impairment test consists of a comparison of the fair value of the IPR&D with its carrying amount. For impairment testing purposes, we combine IPR&D if they operate as a single asset and are essentially inseparable. If the fair value is less than the carrying amount, we recognize an impairment loss is recognized based on the amount by which the carrying amount of the asset exceeds the fair value of the asset. Our IPR&D balance as of December 31, 2009 primarily related to our acquisition of a 52.5% equity interest in Jiangsu Yanshen in 2009.

We evaluate goodwill at least annually for impairment, and more frequently if events and circumstances indicate that it might be impaired. We evaluate the recoverability of goodwill using a two-step impairment test approach at the reporting unit level at the end of each year. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. When two or more components of an operating segment have similar economic characteristics, the components shall be aggregated and deemed a single reporting unit. An operating segment shall be deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if the segment comprises only a single component.

For the year ended December 31, 2008, we determined that our group was the reporting unit for the purposes of goodwill impairment testing. We used our company s market capitalization based on the quoted market price of our ordinary shares in determining the fair value of our group.

Following the acquisition of Jiangsu Yanshen in 2009, we evaluated and determined that there are two reporting units: pharmaceutical unit and vaccines unit for goodwill impairment testing. For the year ended December 31, 2009, we used a discounted cash flow analysis to determine the fair value of our reporting units.

The first step of the impairment test involves comparing the fair value of each of our reporting units with their respective carrying amounts, including allocated goodwill. Secondly, if the carrying amount of a reporting unit exceeds its fair value, we then recognize an impairment loss for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. We determine the implied fair value of goodwill by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

The determination of fair value of the reporting units and assets and liabilities within the reporting units required us to make significant estimates and assumptions. The estimates and assumptions primarily include, but are not limited to, revenue growth rates, gross margin percentages, earning before depreciation and amortization, projected working capital needs, capital expenditures forecasts, discount rates and terminal growth rates. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. To determine fair value, we discount the expected cash flows of each reporting unit. The discount rate used represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in its reporting units operations and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of its model, we use a terminal value approach. Under this approach, we use the estimated cash flows in the final year of its models and apply a perpetuity growth assumption and discount the relative cash flows by a perpetuity discount factor to determine the terminal value. We incorporate the present value of the resulting terminal value into our estimate of fair value.

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In connection with the acquisition of Jiangsu Yanshen, a contingency existed at 2009 year end that related to the SFDA investigation of the quality issue of rabies vaccines manufactured and sold by Jiangsu Yanshen prior to our acquisition. See Item 5. Operating and Financial Review and Prospects Acquisitions . Given the resolution of such contingency subsequent to year end, there was an indication that the fair value of the reporting unit was below its carrying amount as of year end.

Therefore, we performed impairment testing of goodwill of the vaccines reporting unit as of December 31, 2009.

Based on such impairment testing, the carrying amount of the vaccine reporting unit as of December 31, 2009 was greater than the fair value of the vaccine reporting unit, and the carrying amount of the vaccine reporting unit goodwill as of December 31, 2009 exceeded the implied fair value of that goodwill. As a result, we determined that our goodwill associated with the vaccine reporting unit was impaired at December 31, 2009 and we recognized a goodwill impairment charge of RMB76.4 million (US$11.2 million) as of December 31, 2009 to reduce the vaccine reporting unit goodwill to its implied fair value.

As of December 31, 2008 and 2009, our goodwill balance was RMB178.2 million and RMB309.9 million ($45.4 million), respectively. Our goodwill balance as of December 31, 2009 primarily related to our acquisition of an 80% equity interest in Shandong Simcere in 2006 and our acquisition of a 52.5% equity interest in Jiangsu Yanshen in 2009.

Share-based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize that cost in our consolidated statements of income over the period during which an employee is required to provide service in exchange for the award.

We determined the fair value of options using the Black-Scholes option pricing model. Under this option pricing model, certain assumptions, including the risk-free interest rate, the expected term of the options, the expected dividends on the underlying ordinary shares, and the expected volatility of the price of the underlying share for the expected term of the option, are required in order to determine the fair value of the options. Additionally, our share price on the date of the option grant influences the fair value of the option. Notwithstanding that the exercise price of options approximates the estimated share price of our ordinary shares on the grant date, a higher share price would result in a higher option value.

For the years ended December 31, 2007, 2008 and 2009, 1,045,000, 500,000 and nil share options were granted under our 2006 Share Incentive Plan.

The assumptions used in determining the fair value of the share options granted on each respective date are, shown at their weighted average values, as follows:

	Year ended December 31,	
	2007	**2008**
Valuation assumptions		
Expected term (in years)	5.5	5.19-5.35
Expected volatility	40%	59%-74%
Expected dividend	0%	0%
Risk-free rate	5.11%	1.54%-3.69%

For the purpose of determining the estimated fair value of our share options granted in 2007, we believe expected volatility and estimated share price of our ordinary shares are the most sensitive assumptions since we were a privately held company at the time we granted our options. Changes in the volatility assumption and the estimated share price of our ordinary shares could significantly impact the estimated fair values of the options calculated by the Black-Scholes option pricing model. Expected volatility is estimated based upon the latest five-year average volatility of six guideline companies listed in the United States with similar business as ours, all of which had been trading for at least five years. Guideline companies were used because we did not have a trading history at the time the options were issued and prior to having sufficient share price history to calculate our own historical volatility, we believe that the average volatility of the guideline companies is a reasonable benchmark to use in estimating the expected volatility of our ordinary shares. For options granted in 2008, we used the historical volatility of our shares to estimate the

expected volatility.

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Income tax uncertainties and realization of deferred tax assets

Our income tax provision, related deferred tax assets and deferred tax liabilities are recognized and measured based on actual and expected future income, PRC statutory income tax rates, PRC tax regulations and tax planning strategies. Significant judgment is required in interpreting tax regulations in the PRC, evaluating uncertain tax positions, and assessing the likelihood of realizing deferred tax assets. Actual results could differ materially from those judgments, and such actual results or any subsequent changes in judgments could materially affect our consolidated financial statements.

At December 31, 2008 and 2009, we had total gross deferred tax assets of RMB35.6 million and RMB86.7 million ($12.7 million), respectively. We record a valuation allowance to reduce our deferred tax assets if, based on the weight of available evidence, we believe expected future taxable income is more likely than not that all or some portion of the asset will not be realized by sufficient taxable income in the period necessary to utilize the benefit of the deferred tax asset. We evaluate the level of our valuation allowances quarterly, and more frequently if actual operating results differ significantly from forecasted results. At December 31, 2008 and 2009, our deferred tax asset valuation allowances were RMB24.5 million and RMB33.6 million ($4.9 million), respectively. Our valuation allowances were increased/(decreased) by RMB15.6 million, RMB1.6 million and RMB9.1 million ($1.3 million) in 2007, 2008, and 2009, respectively, for changes in estimates regarding the realization of our deferred tax assets.

We determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, it is presumed that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. In addition, a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. A recognized income tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. The tax positions are regularly reevaluated based on the results of the examination of income tax filings, statute of limitation expirations and changes in tax law that would either increase or decrease the technical merits of a position relative to the more-likely-than-not recognition threshold.

In the normal course of business, we are regularly audited by the PRC tax authorities. The settlement of any particular issue with the relevant taxing authority could have a material impact on our consolidated financial statements.

Results of Operations

The following table sets forth a summary of our consolidated statements of income for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any other future period.

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	Year Ended December 31,					
	2007		2008		2009	
	RMB	% of Total Revenues	RMB	% of Total Revenues	RMB	% of Total Revenues
	(in thousands, except percentages)					
Revenue	1,368,748	100.0	1,741,143	100.0	1,857,071	100.0
Cost of materials and production	(241,081)	(17.6)	(320,882)	(18.4)	(320,945)	17.3
Gross profit	1,127,667	82.4	1,420,261	81.6	1,536,126	82.7
Operating expenses:						
Research and development expenses	(68,295)	(4.9)	(86,089)	(4.9)	(132,981)	(7.2)
Sales, marketing and distribution expenses	(634,449)	(46.4)	(782,960)	(45.0)	(1,002,419)	(53.9)
General and administrative expenses	(161,061)	(11.8)	(194,233)	(11.2)	(222,118)	(12.0)
Impairment loss on goodwill					(76,398)	(4.1)
Total operating expenses	(863,805)	(63.1)	(1,063,282)	(61.1)	(1,433,916)	(77.2)
Income from operations	263,862	19.3	356,979	20.5	102,210	5.5
Interest income	24,361	1.8	34,302	2.0	8,861	0.5
Interest expense	(6,346)	(0.5)	(4,693)	(0.3)	(12,126)	(0.7)
Foreign currency exchange gains, net	24,670	1.8	39,879	2.3	382	0.0
Other income (1)	20,526	1.5	1,104	0.1	2,971	0.2
Equity in losses of equity method affiliated companies					(56,532)	(3.0)
Earnings before income taxes	327,073	23.9	427,571	24.6	45,766	2.5
Income tax expense	(13,527)	(1.0)	(49,285)	(2.8)	(16,897)	(0.9)
Net income	313,546	22.9	378,286	21.8	28,869	1.6
Less: net income attributable to the noncontrolling interest	(12,285)	(0.9)	(28,135)	(1.7)	(2,441)	(0.2)
Net income attributable to Simcere Pharmaceutical Group (1)(2)	301,261	22.0	350,151	20.1	26,428	1.4

(1) In 2007, 2008 and 2009, other income included the incentive payment received from our depositary in connection with the establishment of the ADR program following our initial public offering.

(2) Certain of our PRC operating subsidiaries were entitled to a tax holiday. The effect of the tax holiday increase our net income for 2006, 2007, 2008 and 2009 by RMB38.8 million, RMB62.9 million, RMB55.7 million and RMB23.5 million ($3.4 million) respectively, or RMB0.42, RMB0.54, RMB0.45 and RMB0.20 ($0.03) on the per share basis, respectively. Prior to 2006, none of our PRC operating subsidiaries were entitled to the tax holiday.

Comparison of Years Ended December 31, 2008 and December 31, 2009

Revenue. Our revenue includes product revenues and other revenue. Product revenues represent our revenues from the sales of our products, less VAT. Other revenue primarily represents refund of a portion of the VAT paid. Our revenues increased by 6.7% to RMB1,857.1 million ($272.1 million) in 2009 from RMB1741.1 million in 2008. This increase was primarily due to the increase in the sales of Bicun, Yidasheng, Sinofuan and H1N1 vaccine. Revenues from Bicun increased to RMB619.3 million ($90.7 million) in 2009, representing 33.3% of our revenues, from RMB570.6 million in 2008, or 32.8% of our revenues. Revenues from Yidasheng increased to RMB126.0 million

($18.5 million) in 2009, representing 6.8% of our revenues, from RMB80.6 million in 2008, or

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4.6% of our revenues. Revenues from Sinofuan increased to RMB126.3 million ($18.5 million) in 2009, representing 6.8% of our revenues, from RMB41.4 million ($6.1 million) in 2008, or 2.4% of our revenues. Revenues from H1N1 vaccine contributed RMB41.0 million ($6.0) to our revenues in 2009. The increase in sales of Bicun resulted from the continued expansion of our promotion network. The significant increase in sales of Yidasheng resulted from the successful marketing strategy as well as the price reduction. The significant increase in sales of Sinofuan was due to the leveraging our extensive distribution channels across China and our initial investment and efforts in its marketing and promotions.

Gross Profit and Gross Margin. Our gross profit increased by 8.2% to RMB1,536.1 million ($225.0 million) in 2009 from RMB1,420.3 million in 2008. Our gross margin increased to 82.7% in 2009 from 81.6% in 2008. The increase in gross profit and gross margin was due primarily to the increase in sales of Bicun, Yidasheng, Sinofuan and H1N1 vaccine as a percentage of our revenues, as these products have relatively high gross profits as compared to our other major products and the cessation of the resale of generic drugs for other pharmaceutical companies.

Operating Expenses. Our operating expenses increased by 34.9% to RMB1,433.9 million ($210.1 million) in 2009 from RMB1,063.3 million in 2008. Operating expenses as a percentage of our revenues increased to 77.2% in 2009 from 61.1% in 2008.

Research and Development Expenses. Our research and development expenses increased to RMB133.0 million ($19.5 million) in 2009 from RMB86.1 million in 2008. Research and development expenses as percentage of our revenues increased to 7.2% in 2009 from 4.9% in 2008. The increase was primarily due to the launch of new research and development projects and increased research and development headcount as a result of the our continued expansion of its research and development activities.

Sales, Marketing and Distribution Expenses. Our sales, marketing and distribution expenses increased by 28.0% to RMB1,002.4 million ($146.9 million) in 2009 from RMB783.0 million in 2008. The increase was mainly attributable to the increased marketing service fees paid to professional marketing companies for the promotion of our products. Sales, marketing and distribution expenses as a percentage of our revenues increased to 53.9% in 2009 from 45.0% in 2008.

General and Administrative Expenses. Our general and administrative expenses increased by 14.4% to RMB222.1 million ($32.5 million) in 2009 from RMB194.2 million in 2008. The increase was primarily related to depreciation expenses and staff costs. General and administrative expenses as a percentage of our revenues increased to 12.0% in 2009 from 11.2% in 2008.

Interest Income. Our interest income decreased to RMB8.9 million ($1.3 million) in 2009 from RMB34.3 million in 2008. This decrease was due to the decreased average balance of our held-to-maturity investment securities and cash and cash equivalents.

Interest Expense. Our interest expense increased by 158.4% to RMB12.1 million ($1.8 million) in 2009 from RMB4.7 million in 2008. This increase was primarily due to the increase in factoring discounts in respect of bills receivables sold to the financial institutions.

Foreign Currency Exchange Gains, Net. Our foreign currency exchange gains totaled RMB0.4 million ($0.06 million) in 2009 which represent unrealized gains resulting from the translation of U.S. dollar denominated intercompany loans to our PRC subsidiaries that were converted to Renminbi and realized gains resulting from the repayment of the above mentioned U.S. dollar denominated intercompany loans by our PRC subsidiaries. As these intercompany loans are not considered long-term investment in nature and given the functional currency of our company is U.S. dollars and the functional currency of our PRC subsidiaries is Renminbi, gains or losses arising from the translation of the intercompany loans from U.S. dollars to Renminbi by our PRC subsidiaries is recognized in our consolidated statements of income while gains and losses arising from the translation of our company s U.S. dollars financial statements to Renminbi for consolidation purpose is recognized in our consolidated statement of shareholders equity and comprehensive income.

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Other Income. We had other income of RMB3.0 million ($0.4 million) in 2009 compared to RMB1.1 million in 2008 which represents an incentive payment received from our depositary in connection with the establishment of the ADR program following our initial public offering and government subsidies.

Equity in Losses of Equity Method Affiliated Companies. Our equity in losses of equity method affiliated companies in 2009 mainly represents the remeasurement loss of the previously held equity interest in Jiangsu Yanshen amounting to RMB55.6 million ($8.1 million).

Income Tax Expense. Income tax expense decreased to RMB16.9 million ($2.5 million) in 2009 from RMB49.3 million in 2008. Our effective income tax rates in 2008 and 2009 were 11.5% and 36.9%, respectively. The increase in our effective income tax rate was due primarily to the non-deductible impairment loss of goodwill and non-deductible remeasurement loss of the previously held equity interest in Jiangsu Yanshen of RMB76.4 million ($11.2 million) and RMB55.6 million ($8.1 million) respectively.

Noncontrolling Interests. Noncontrolling interests decreased to RMB2.4 million ($0.4 million) in 2009 from RMB28.1 million in 2008. The decrease primarily due to the noncontrolling interests share of the goodwill impairment charge offset by the noncontrolling interests share of post acquisition profit of Jilin Boda.

Net Income Attributable to Simcere Pharmaceutical Group. As a result of the foregoing, our net income decreased by 92.5% to RMB26.4 million ($3.9 million), or RMB0.23 ($0.03) per share, in 2009 from RMB350.2 million, or RMB2.8 per share, in 2008, while net margin decreased to 1.4% in 2009 from 20.1% in 2008.

Comparison of Years Ended December 31, 2007 and December 31, 2008

Revenue. Our revenue includes product revenues and other revenue. Product revenues represent our revenues from the sales of our products, less VAT. Other revenue primarily represents refund of a portion of the VAT paid. Our revenues increased by 27.2% to RMB1,741.1 million in 2008 from RMB1,368.7 million in 2007. This increase was primarily due to the increase in the sales of Bicun, Yidasheng, Sinofuan and Endu. Revenues from Bicun increased to RMB570.6 million in 2008, representing 32.8% of our revenues, from RMB426.2 million in 2007, or 31.1% of our revenues. Revenues from Yidasheng increased to RMB80.6 million in 2008, representing 4.6% of our revenues, from RMB17.2 million in 2007, or 1.3% of our revenues. Revenues from Sinofuan increased to RMB41.4 million in 2008, representing 2.4% of our revenues. Revenues from Endu increased to RMB239.4 million in 2008, representing 13.7% of our revenues, from RMB216.2 million in 2007, or 15.8%. The significant increases in sales of Endu and Bicun were resulted from the implementation of our strategy of focusing on marking and sales of innovative pharmaceuticals such as Endu and first-to-market generic pharmaceuticals such as Bicun.

Gross Profit and Gross Margin. Our gross profit increased by 25.9% to RMB1,420.3 million in 2008 from RMB1,127.7 million in 2007. Our gross margin decreased to 81.6% in 2008 from 82.4% in 2007. This increase in gross profit was due primarily to the increase in the sales of Bicun, Yidasheng, Sinofuan and Endu as a percentage of our revenues, as these products have relatively high gross profits as compared to our other major products. The decrease of gross margin was due primarily to the resale of generic drugs for other pharmaceutical companies at a relatively lower margin in third quarter of 2008. Since we only acted as a distributor for these drugs manufactured by other pharmaceutical companies. These resale activities have been ceased since then.

Operating Expenses. Our operating expenses increased by 23.1% to RMB1,063.3 million in 2008 from 863.8 million in 2007. Operating expenses as a percentage of our revenues decreased to 61.1% in 2008 from 63.1% in 2007.

Research and Development Expenses. Our research and development expenses increased to RMB86.1 million in 2008 from RMB68.3 million in 2007. The increase was primarily due to the increased staff costs associated with the Phase IV clinical trials and research of Endu and the increased activity level of our research and development team. Research and development expenses as a percentage of our revenues remained comparable between intervening years.

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Sales, Marketing and Distribution Expenses. Our sales, marketing and distribution expenses increased by 23.4% to RMB783.0 million in 2008 from RMB634.4 million in 2007. The increase was mainly attributable to the increased marketing service fees paid to professional marketing companies for the promotion of our products. Sales, marketing and distribution expenses as a percentage of our revenues decreased to 45.0% in 2008 from 46.4% in 2007. This decrease was due primarily to improved economies of scale associated with the expansion of our operations.

General and Administrative Expenses. Our general and administrative expenses increased by 20.6% to RMB194.2 million in 2008 from RMB161.1 million in 2007. This increase was primarily related to staff costs, expense related to professional service fees associated with being a public company since April 2007. General and administrative expenses as a percentage of our revenues decreased to 11.2% in 2008 from 11.8% in 2007.

Interest Income. Our interest income increased to RMB34.3 million in 2008 from RMB24.4 million in 2007. This increase was due to the increased average balance of our cash and cash equivalents and short-term investments following the completion of our initial public offering in April 2007.

Interest Expense. Our interest expense decreased by 26.0% to RMB4.7 million in 2008 from RMB6.3 million in 2007. This decrease was due to the repayment of short-term bank loans in 2007.

Foreign Currency Exchange Gains, Net. Our foreign currency exchange gains totaled RMB39.9 million in 2008 which represent unrealized gains resulting from the translation of U.S. dollar denominated intercompany loans to our PRC subsidiaries that were converted to Renminbi and realized gains resulting from the repayment of the above mentioned U.S. dollar denominated intercompany loans by our PRC subsidiaries. As these intercompany loans are not considered long-term investment in nature and given the functional currency of our company is U.S. dollars and the functional currency of our PRC subsidiaries is Renminbi, gains or losses arising from the translation of the intercompany loans from U.S. dollars to Renminbi by our PRC subsidiaries is recognized in our consolidated statements of income while gains and losses arising from the translation of our company s U.S. dollars financial statements to Renminbi for consolidation purpose is recognized in our consolidated statement of shareholders equity and comprehensive income.

Other Income. We had other income of RMB1.1 million in 2008 compare to RMB20.5 million in 2007 which represents an incentive payment received from our depositary in connection with the establishment of the ADR program following our initial public offering.

Income Tax Expense. Income tax expense increased to RMB49.3 million in 2008 from RMB13.5 million in 2007. Our effective income tax rates in 2007 and 2008 were 4.1% and 11.5%, respectively. The increases in our income tax expense and our effective income tax rate was due primarily to the expiration of the two-year full income tax exemption portion of the 2+3 tax holidays enjoyed by three of our PRC operating subsidiaries in 2007.

Noncontrolling Interests. Noncontrolling interests increased to RMB28.1 million in 2008 from RMB12.3 million in 2007. It primarily represented the noncontrolling share of the profits of Shandong Simcere, Jilin Boda and Simcere Zhong Ren. The increase was due primarily to the acquisition of Jilin Boda in October 2007 and Simcere Zhong Ren in April 2008.

Net Income Attributable to Simcere Pharmaceutical Group. As a result of the foregoing, our net income increased by 16.2% to RMB350.2 million, or RMB2.80 per share, in 2008 from RMB301.3 million, or RMB2.56 per share, in 2007, while net margin decreased to 20.1% in 2008 from 22.0% in 2007. The effect of the 100% tax exemption enjoyed by our PRC operating subsidiaries increased our net income by RMB48.8 million, or RMB0.39 per share in 2008 and RMB62.9 million, or RMB0.54 per share in 2007.

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B. Liquidity and Capital Resources

Liquidity and Capital Resources

Following is a summary of our net cash flows for the years indicated:

	Year Ended December 31,			
	2007 RMB	2008 RMB	2009 RMB	2009 $
	(in thousands)			
Net cash provided by operating activities	150,415	147,158	456,964	66,946
Net cash (used in)/provided by investing activities	(668,910)	252,668	(457,672)	(67,049)
Net cash provided by/(used in) financing activities	911,319	(88,846)	(369,735)	(54,167)
Effect of exchange rate changes on cash and cash equivalents	(1,499)	4,482	117	17
Net increase/ (decrease) in cash and cash equivalents	391,325	315,462	(370,326)	(54,253)
Cash and cash equivalents at beginning of year	106,027	497,352	812,814	119,078
Cash and cash equivalents at end of year	497,352	812,814	442,488	64,825

As of December 31, 2008 and 2009, we had RMB812.8 million and RMB442.5 million ($64.8 million) in cash and cash equivalents, respectively. Our cash and cash equivalents primarily consist of cash on hand, cash deposited in banks and interest-bearing savings accounts. The decrease in cash and cash equivalents was primarily due to the acquisition of Jiangsu Yanshen and Shanghai Celgen and the repurchase of our ordinary shares, partially offset by the effect due to the timing of cash receipts and payments in the ordinary course of our business.

Operating Activities

Net cash provided by operating activities increased by 211.0% to RMB457.0 million ($66.9 million) in 2009 from RMB147.2 million in 2008. This increase was due primarily to the increased sale of our bills receivable with recourse to third party financial institutions and the increase in issuance of bills by our subsidiaries for inventory purchases. In order to manage our liquidity and maintain our accounts receivable turnover days at a reasonable level, we sold more bills receivable to financial institutions during 2009.

Net cash provided by operating activities decreased by 2.2% to RMB147.2 million in 2008 from RMB150.4 million in 2007. This decrease was due primarily to a slower rate of cash collections from our customers. This was because more customers chose to make payments with bills receivable instead of cash. Bills receivable are short-term notes receivable issued primarily by a financial institution that entitle us to receive the full face amount at maturity, which generally ranges from three to six months from the date of issuance. Although the increased use of bills receivable by our customers has an adverse impact on the timing of our cash inflows from operating activities, it significantly reduces our credit risk exposure. As our business continues to expand, we expect more customers to make payments with bills receivable instead of cash. The net decrease in cash provided by operating activities was also due to the decrease in other payable and accrued liabilities as a result of faster processing of sales and marketing expenses by sales agents and employees in 2008 compared to 2007.

We do not expect any significant change to the credit terms offered to our customers or the payment terms offered by our vendors that would affect the timing of customer receipts and vendor payments in the foreseeable future periods. We expect cash provided from operating activities to continue to be a major source of liquidity for us and the future trend will continue to be affected by the factors described above.

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Investing Activities

Net cash used in investing activities of RMB457.7 million ($67.0 million) during 2009, mainly for the payment of the acquisitions of the 52.5% equity interest in Jiangsu Yanshen of RMB175.1 million ($25.6 million) and an approximately 35% equity interest in Shanghai Celgen of RMB110.0 million ($16.1 million) and for the purchase of property, plant and equipment of RMB121.5 million ($17.8 million).

Net cash provided by investing activities of RMB252.7 million during 2008, mainly from the maturity of held-to-maturity investment securities investments of RMB470.0 million, partially offset by payment for the acquisition of the 70% equity interest in Simcere Zhong Ren of RMB62.4 million and for the purchases of property, plant and equipment of RMB117.5 million.

Financing Activities

Net cash used in financing activities of RMB369.7 million ($54.2 million) during 2009, primarily for the repurchase of our ordinary shares of RMB336.7 million ($49.3 million) and for the purchase of the 10% noncontrolling interest in Shandong Simcere of RMB30.1 million ($4.4 million).

Net cash used in financing activities of RMB88.8 million during 2008, primarily for the repurchase of our ordinary shares of RMB76.9 million and repayment of short-term borrowings of RMB17.0 million.

We believe that our current levels of cash and cash flows from operations and bank borrowings and loans will be sufficient to meet our anticipated cash needs and commitments, including our working capital needs, for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we ever determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

Capital expenditures

In 2007, 2008 and 2009, our capital expenditures totaled RMB98.6 million, RMB136.8 million and RMB142.0 million ($20.8 million), respectively. In past years, our capital expenditures consisted primarily of the costs of obtaining land use rights and the purchases of property, plant and equipment and our research and development facilities. We estimate that our capital expenditures in 2010 will be approximately RMB212.0 million ($31.1 million), which we will use mainly for the research and development equipment purchase and facility expansion in Jiangsu Province and Shanghai, the construction of an office building in Shanghai. We expect to use cash generated by operating activities and our cash in hand to pay for our capital expenditures in 2010.

Recently Issued Accounting Pronouncements

On January 1, 2008, we adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, included in FASB ASC 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

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On January 1, 2009, we adopted the provisions of ASC 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (codified as FASB ASC 805, Business Combinations). ASC 805 modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100% of the assets acquired, liabilities assumed, and noncontrolling interest in the acquiree at the acquisition-date fair value. In addition, ASC Topic 805 requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent acquired assets and liabilities, as well as contingent consideration, to be recognized at fair value. ASC 805 is applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009 and we accounted for the acquisition of Jiangsu Yanshen in 2009 under ASC 805.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51* (codified as FASB ASC 810, *Consolidation*). ASC 810 establishes accounting and reporting standards for the treatment of noncontrolling interests in a subsidiary. Noncontrolling interests in a subsidiary will be reported as a component of equity in the consolidated financial statements and any retained noncontrolling equity investment upon deconsolidation of a subsidiary will initially be measured at fair value. ASC 810 is effective, on a prospective basis, for fiscal years beginning on or after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. We adopted the provisions of ASC 810 on January 1, 2009. We classified earnings attributable to noncontrolling interest (previously referred to as minority interest) as part of consolidated net income and to include the accumulated amount of noncontrolling interests as part of shareholders equity. We also classified payments for acquisition of additional noncontrolling interests as financing activities in the consolidated statements of cash flows. Other than the change in presentation of noncontrolling interest, the adoption of ASC Subtopic 810 had no impact on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued Emerging Issues Task Force, or EITF, No. 07-1, Accounting for Collaborative Arrangements (codified as FASB ASC 808, Collaborative Arrangements). ASC 808 establishes reporting requirements regarding financial statement presentation and disclosure of collaborative arrangements, which includes arrangements entered into regarding development and commercialization of products. It requires certain transactions between collaborators to be recorded in the statements of income on either a gross or net basis when certain characteristics exist in the collaborative relationship. ASC 808 became effective for us on January 1, 2009. The initial adoption of ASC 808 did not have a significant impact on our financial position and results of operations.

C. Research and Development, Patents and Licenses, etc.

Our Strategy

We aim to balance our research and development efforts between the development of first-to-market generic pharmaceuticals and innovative pharmaceuticals. We perform thorough market analysis before commencing a research and development project to determine whether the pharmaceutical is commercially viable, is able to achieve widespread acceptance in the marketplace, and for new generic pharmaceuticals, whether such generic pharmaceutical will be the first generic version on the market. We focus our research and development efforts on pharmaceuticals used to treat diseases with a high incidence and/or mortality rate that, at the same time, lack effective pharmacotherapy, such as cancer, cerebrovascular diseases, strokes, rheumatoid arthritis and infectious diseases. Our vaccine research is also focused on diseases with high incidence of occurrences. We believe such research and development strategy will lead to the development of products that have a high potential for commercialization and can maximize our growth rate and profit margins. In addition, we will continue to enhance our existing portfolio of pharmaceuticals by improving their convenience (such as the reduction in the frequency of administering medicines) and/or their therapeutic benefits. Our research and development team also assists our production department in resolving technical issues and improving manufacturing processes and techniques.

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Our Capability

As of March 31, 2010, we had 292 research staff, 154 of which held master s degrees and 48 of which held Ph.D. degrees, within which ,13 staff members with Western training/working experience. Our research and development activities are primarily conducted by our operating subsidiary in China, Simcere Research, located in Nanjing, Jiangsu Province. See Item 4. Information of the Company B. Business Overview Our Products Our Innovative Pharmaceutical Endu (Recombinant Human Endostatin Injection) for more information as to our anti-cancer research and development activities. We have several technology platforms and are capable of conducting research on both chemical pharmaceuticals and biopharmaceuticals. We have also established a post-doctoral research program in December 2003 through our research facility in Nanjing, where we offer post-doctoral researchers the opportunity to conduct innovative research and development projects under the guidance of our internal and external research scientists. We believe our post-doctoral program provides us with a means to attract top academic talent to join our company. As of December 31, 2009, we had 9 post-doctoral researchers participating in this program.

Collaborative Research

Our subsidiary Jilin Boda, which we acquired in October 2007, has entered into a licensing agreement in September 2005 with Jilin Medical Research Institute for the rights to use, manufacture and sell Polaprezinc APIs and granules which are new medications for the treatment of gastric ulcer. Under the terms of the agreement, Jilin Medical Research Institute agreed to complete the application for the new medicine certificates and obtain the relevant production approvals, which we currently expect to be completed before June 30, 2010. As of March 31, 2010, Jilin Boda has paid an aggregate of RMB2.4 million of the total contractual amounts of RMB2.7 million. The remaining will be paid upon the approval of the new medicine certificates and when the production approvals are obtained. However, if such production approvals are not obtained, Jilin Boda will be entitled to the return of the already paid amount.

Our subsidiary Jilin Boda also entered into a licensing agreement for Qiyetongmai capsule, a new anti-stroke pharmaceutical, with Jilin Province TCM Engineering Research Center in June 2007. Qiyetongmai capsule is a new drug used in the therapy of stroke. Under the terms of the agreement, Jilin Province TCM Engineering Research Center is to transfer the patents and the rights to use, manufacture and sell Qiyetongmai capsules and its API. Jilin Province TCM Engineering Research Center has also agreed under the agreement to complete the application for new medicine certificate and obtain the relevant production approvals before July 1, 2010. Amount to be paid under the agreement is RMB6.5 million. As of March 31, 2010, Jilin Boda has paid an aggregate of RMB2.0 million. If Jilin Province TCM Engineering Research Centre fails to perform its obligations under the agreement, Jilin Boda will be entitled to the return of the already paid amount.

In September 2007, our subsidiary Simcere Research entered into a technology development agreement with China Pharmaceutical University to develop Endu as a long acting pharmaceutical through the PEGylation process. The PEGylated Endu will reduce the number of times in which Endu is required to be administered to once every week or two weeks. Amount to be paid under the agreement is RMB2.9 million and as of March 31, 2010, Simcere Research has paid an aggregate of RMB0.8 million. In addition, Simcere Research has agreed under the agreement to transfer to China Pharmaceutical University 0.5% of the total revenue deriving from the sales of this pharmaceutical every year for three years upon successfully obtaining new medicine certificate. The PEGylated Endu is currently undergoing pre-clinical studies.

We also entered into an agreement in January 2007 with Advenchen, a pharmaceutical research and development company in the United States as a research partner to engage in the research and development of, clinical studies for, and the commercialization of an anti-cancer pharmaceutical based on a chemical compound owned by Advenchen. Under the terms of the agreement, we agreed to provide research assistance and funding of up to RMB30.0 million of which RMB2.0 million was provided in February 2007. We provided an additional RMB1.0 million upon receiving three successful batches of anti-cancer pharmaceutical samples in July 2007. Another RMB1.0 million was paid upon the launch of the pre-clinical study in July 2008. The remaining RMB26.0 million will be further provided if additional milestones as set forth under the agreement are achieved. In addition, if any government grants are received in relation to this research and development project, we agreed to provide an amount equal to 10.0% of such grant to Advenchen to be used in research activities that are related to the anti-cancer

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pharmaceutical covered under this agreement, such as the research and development of delivery mechanisms for the anti-cancer pharmaceutical. We also have a right to terminate the agreement if Advenchen cannot successfully obtain a valid invention patent in China for the chemical compound it owns at which point we will terminate any further research and development activities under the agreement, and Advenchen will refund half of the funding already provided to it under the agreement. Pursuant to the agreement, we will be entitled to all intellectual property rights, the right to commercialize and all interests in the anti-cancer pharmaceutical in China, and will share equally with Advenchen the intellectual property rights outside of China. In addition, we will pay Advenchen 3.5% of total revenues from the sales of the anti-cancer pharmaceutical in China, deducting the costs of packing, transportation, advertising and marketing, taxation, discounts and other relevant costs, until the expiration of its patent period, provided that the anti-cancer pharmaceutical is successfully developed and commercialized. We began in 2008 pre-clinical trials of the anti-cancer pharmaceutical under the agreement, including the pharmacodynamics researches on lung cancer, animal pharmacokinetics researches and safety evaluation researches. Such pre-clinical researches were completed by the end of 2009, and we plan to apply with the SFDA for clinical testing in 2010.

On December 12, 2008, we entered into an agreement to collaborate on the co-development and production of humanized RabMAb ® antibody therapeutics for tumors with Epitomics, Inc., a provider of humanized rabbit monoclonal antibodies for therapeutic use. Under the agreement, we and Epitomics, Inc. will collaborate on pre-clinical and clinical trials, product manufacturing, and product distribution in the international markets. We will have the exclusive production and distribution rights in China. We agreed to pay a total funding of up to $5.0 million (RMB34.1 million) of which $1.0 million (RMB6.8 million) was paid to acquire the license rights of in-process R&D materials in January 2009. The remaining $4.0 million (RMB27.3 million) will be provided at various dates upon the achievement of certain milestones as set forth under the agreement. The pre-clinical researches were completed and we plan to apply with the SFDA for clinical testing at the end of 2010.

According to the agreement, we will hold the rights to commercialize the drug in China and Epitomics, Inc. will hold the rights to commercialize the drug outside China. In addition, if the anti-cancer pharmaceutical is successfully developed and commercialized, we will pay Epitomics, Inc. royalties on the net sales derived from the sales of this drug in China upon achieving certain agreed annual net sales level.

Prior to the drug entering Phase I clinical trial in the United States or Europe, we will enjoy 40% of the income derived from the sale, transfer, assignment, license and/or disposition of the drug outside China. After the drug enters Phase I clinical trial in the United States or Europe, we will enjoy 50% of the income derived from the sale, transfer, assignment, license and/or disposition of the drug outside China. However, this is subject to a condition that we are required to share 50% of the related development costs, as defined in the agreement, incurred outside China. Also, we will enjoy 50% of the profit arising from the sales of the drug outside China.

In August 2009, we established a strategic partnership with Sun Yat-Sen University Cancer Center, a cancer research institution established to research anti-cancer treatments with a specific focus on developing major innovative drugs. Through the strategic partnership, we will cooperate with Sun Yat-Sen University Cancer Center on researching and developing innovative anti-cancer drugs, as well as conducting a joint training program to develop personnel in advanced R&D.

In October 2009, we entered into an agreement with OSI Pharmaceuticals, Inc., a NASDAQ-listed pharmaceutical company specialized in discovery and development of innovative molecular targeted therapies, to develop, manufacture, and market its KDR/Kit inhibitor OSI-930 in China. Under the agreement, we agreed to provide a fixed amount of funding. A portion of which was paid to acquire the license right of technical know-how, while the remaining will be provided at various dates upon the achievement of certain milestones as set forth under the agreement. OSI-930 is an orally active inhibitor of two clinically validated targets: c-Kit and the vascular endothelial growth factor receptor-2 (VEGFR-2). OSI-930 is designed to target both cancer cell proliferation and blood vessel growth (angiogenesis) in selected tumors. In preclinical studies, OSI-930 shows broad efficacy in tumor models representative of small cell lung cancer, glioblastoma, colorectal, renal, head and neck, non-small cell lung cancer and gastric cancers.

We plan to increase our collaborations with international pharmaceutical and biotechnology companies to develop and market new pharmaceutical products in China. Specifically, we are focused on seeking strategic and commercial

partners in anti-cancer, cardiovascular and cerebrovascular field. We have engaged in active discussions

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with several biotechnology and pharmaceutical companies from the United States, Canada and France and have signed several confidentiality agreements for potential candidate projects on which we are now conducting further analysis and evaluation. We believe international collaborations will enable us to gain valuable know-how and experience, further strengthen our research and development capabilities, and expand our product portfolio and pipeline.

Product Candidates

We are developing a number of new pharmaceuticals through our in-house expertise and through joint research and development efforts with universities and research institutions in China.

As of May 31, 2010, we had 12 product candidates in various stages of development. Details of the product candidates that we believe have the highest potential for commercialization in the next two or three years are summarized below:

Product Candidate	Therapeutic Effects and Scope of Applications	Status	Patentable	Potential Monitoring Period
Iguratimod tablets	Treatment of osteoarthritis and rheumatoid arthritis	New drug application	No	5 years
Palonosetron for injection	Nausea and vomiting associated with chemotherapy	New drug application	No	4 years

Iguratimod Tablets. Iguratimod is a new disease-modifying anti-rheumatoid medication, or a DMARD, which is a category of drugs used in many autoimmune disorders to slow down disease progression and provide faster and more effective relief as compared to traditional DMARDs. We have completed clinical trials and are in the process of applying with the SFDA for new drug application.

Palonosetron for Injection. Palonosetron is used to prevent nausea and vomiting associated with chemotherapy. We have developed a new delivery system for palonosetron for which we have applied for an invention patent in China. The new delivery system allows for enhanced stability, transportability and use of palonosetron. We have completed Phases I to III clinical trials for palonosetron for injection and are in the process of applying for a new medicine certificate for palonosetron for injection. Clinical test results demonstrated that patients who were given palonosetron for injection experienced less acute chemotherapy-induced nausea and vomiting and delayed chemotherapy-induced nausea and vomiting as compared to other currently available pharmaceuticals. We are in the process of applying with the SFDA for new drug application.

Intellectual Property

We are committed to the development and protection of our intellectual property portfolio. We rely primarily on a combination of patent, trademark and trade secret protections, as well as employee and third party confidentiality agreements to safeguard our intellectual property. We own and have applied for patents to protect the technologies, inventions and improvements that we believe are significant to our business. As of May 31, 2010, we held 10 invention patents in China, two invention patents in the United States and one invention patent in Australia. We also held two utility model patents and 29 packaging design patents. In addition, we had 67 pending patent applications in China and 11 pending patent applications filed under the Patent Cooperation Treaty, which provides a unified procedure for filing patent applications to protect inventions internationally.

The validity period for our utility patents and packaging design patents are both 10 years and the validity period for our invention patents is 20 years, starting from the date the application was filed. All of these patents were issued in China. As with patent rights in most other jurisdictions, a patent holder in China enjoys the exclusive right to exclude others from using, licensing and otherwise exploiting the patent in China. However, there is no assurance that our patents will not be challenged in China, which could be costly to defend and could divert our management from their normal responsibilities. See Item 3. Key Information D. Risk Factors Risks Related to Our

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Company Litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly. In addition, if such challenge is successful, it could result in an adverse effect on our business.

We rely on trademarks to protect our branded generic pharmaceuticals, which constitute a significant portion of our sales and are not protected by patents. As of March 31, 2010, we maintained 633 trademark registrations in China, including the Chinese characters for Bicun, Zailin, Yingtaiqing, Anqi and Biqi. We have also applied for an additional 92 trademarks. Under PRC law, we have the exclusive right to use a trademark for products and services for which such trademark has been registered with the PRC Trademark Office of the State Administration for Industry and Commerce. Trademark registration is valid for ten years, starting from the day the registration is approved. If we believe that a third party has infringed upon the exclusive right of our registered trademark, we may, through appropriate administrative and civil procedures prescribed, institute proceedings to request the relevant authority for an injunction or to resolve the infringement through consultation. The relevant authority can also impose fines, confiscate or destroy the infringing products or equipment used to manufacture the infringing products.

We believe that certain of our trademarks are well-recognized in China among healthcare professionals, pharmacists and patients. For example, our brand name Zailin was recognized as a China Well-Known Trademark in 2004 and our brand name Yingtaiqing was named a China Well-Known Trademark in 2008. Under PRC law, if we believe such well-known trademark is registered by a third party as its company name, and that such registration might result in confusion to the general public, we may also apply to the relevant administrative authority for an injunction prohibiting such use and to compel the third party to cancel its registration. As our brand names are becoming more recognized in the pharmaceutical market in China, we are devoting additional resources to increasing and enforcing our trademark rights, which is critical to our overall branding strategy and reputation.

Some elements of our pharmaceutical composition, formulation, delivery as well as manufacturing methods or processes involve unpatented, proprietary technology, processes, know-how or data. With respect to such proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements in order to safeguard our interests. All of our research and development personnel have entered into confidentiality, non-competition and proprietary information agreements with us. These agreements address issues involving the protection of our intellectual property and require such employees to assign to us all of their inventions, designs and technologies that they may develop during their periods of employment with us. In addition, there is a strict segregation of duties among personnel involved in different stages of our production process. This serves to reduce the risk of any single staff member obtaining the technical know-how relating to the entire production process. We also take other precautions, such as internal document controls and network assurance procedures, including the use of a separate dedicated server for technical data.

If our trademarks are challenged, our brand name is damaged and/or our trade secrets become known by our competitors, there could be an adverse effect on our business. See Item 3. Key Information D. Risk Factors Risks Related to Our Company Our trademarks, patents and other non-patented intellectual property are valuable assets and if we are unable to protect them from infringement, our business prospects may be harmed.

D. Trend Information

Please refer to A. Operating Results Overview for a discussion of the most significant recent trends in our production, sales, costs and selling prices. In addition, please also refer to discussions included in this Item for a discussion of known trends, uncertainties, demands, commitments or events that we believe are reasonably likely to have a material effect on our net operating revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

E. Off-Balance Sheet Arrangements

We do not have any outstanding interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts. In the ordinary course of our business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial

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partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations at December 31, 2009:

	Contractual Obligations				
	Less than 1 Year RMB	1-3 Years RMB	3-5 Years RMB	More than 5 Years RMB	Total RMB
			(in thousands)		
Short-term borrowings and current portion of long-term debts	76,000				76,000
Interest payments	8,951	8,934	3,681	4,843	26,409
Payable for acquisitions	40,631				40,631
Long-term debts excluding current portion		85,085	9,400	28,200	122,685
Liabilities for uncertain tax position		21,561			21,561
Operating lease commitments	1,560	268	6	34	1,868
Research and development projects	5,038	1,000			6,038
Capital commitments	49,049				49,049
Purchase commitments	8,876	2,133			11,009
Total	190,105	118,981	13,087	33,077	355,250

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the PRC National Bureau of Statistics, the change in Consumer Price Index in China was 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively.

G. Safe Harbor

This annual report contains forward-looking statements that relate to our current expectations and views of future events. The forward-looking statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under Item 3. Key Information D. Risk Factors, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, potential, continue, is/are likely to or other similar ex have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- market acceptance of our products and product candidates;

our ability to effectively protect our intellectual property and trade secrets and not infringe on the intellectual property and trade secrets of others;

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the sufficiency of our existing and future intellectual property right protections;

our ability to obtain regulatory approval for products that we develop;

our ability to successfully develop and improve products;

changes in the healthcare industry in China, including increased availability of funding for medical insurance coverage and the inclusion of additional medicines in the Essential Drug List and Reimbursement List;

our ability to manage our expansion of operations;

environmental compliance costs and liabilities;

competition from other manufacturers of pharmaceutical products;

the expected growth for the pharmaceutical industry in China;

our ability to obtain permits and licenses to carry on our business; and

fluctuations in general economic and business conditions in China.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report on Form 20-F and the documents that we reference in this annual report and have filed as exhibits to the registration statement, of which this annual report is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of May 31, 2010.

Name	Age	Position/ Title
Jinsheng Ren	48	Chairman of the board of directors and chief executive officer
Guoqiang Lin (1)(3)	66	Independent director
Hongquan Liu (1)(2)(3)	50	Independent director
Gary Siu Kwan Sik (1)(2)	42	Independent director
John Huan Zhao	46	Director
Yehong Zhang	47	President
Jindong Zhou	48	Executive vice president
Xiaojin Yin	51	Senior vice president of research and development
Frank Zhigang Zhao	50	Chief financial officer
Quanfu Feng	45	Vice president and general manager of human resources
Qingsen Li	50	Vice president and general manager of training and development
Jialun Tian	45	Vice president of hospital sales
Xiaohua Yang	44	Vice president of hospital sales
Huaping Fu	45	Vice president of commercial sales

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Name	Age	Position/ Title
Peng Wang	51	Chief Scientific Officer
Haibo Qian	47	Secretary to the board of directors and company secretary

(1) Audit committee members.

(2) Compensation committee members.

(3) Corporate governance and nominating committee members.

Mr. Jinsheng Ren is our founder, chairman of our board of directors and our chief executive officer. Prior to founding our company in March 1995, he was a department manager at Jiangsu Pharmaceutical Industries Co., Ltd. from 1992 to 1995. From 1982 to 1992, he was the vice general manager of Qidong Gaitianli Medicines Co., Ltd. Mr. Ren graduated from the Nanjing University of Traditional Chinese Medicine in 1982 majoring in Chinese Medicine, and received a master s degree in Economics from University of Macquarie in Australia in 2003. He is currently a guest professor at the Nanjing University of Traditional Chinese Medicine and an adjunct professor of Northwest University in China.

Professor Guoqiang Lin, an organic chemist, is an independent director of our company. Prof. Lin is the chairman of our corporate governance and nominating committee and a member of our audit committee. Prof. Lin received a bachelor s degree in Chemistry from Shanghai University of Science and Technology (now Shanghai University) in 1964. He entered the postgraduate program of Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences in 1964 and graduated from it in 1968. Prof. Lin is a researcher for the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences since 1989. He has worked as a visiting scholar in Royal Institute of Sweden, Pittsburgh University of US and SmithKline Pharmaceuticals. Prof. Lin also served as the head of the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences from 1993 to 1999. In addition, he has taught as an adjunct professor at Nankai University and at Fudan University since 1990.

Mr. Hongquan Liu is an independent director of our company. Mr. Liu is the chairman of our compensation committee and a member of our audit committee and corporate governance and nominating committee. Mr. Liu has more than fifteen years of experience in business and finance. In 2000, he served as the general manager of Wuxi Pharmaceutical Company of Jiangsu CTD Import & Export Co., Ltd. From 1998 to 2000, he was the managing director of Pharmacia Corporation. From 1996 to 1998, he was the chief marketing and business officer of Pharmacia Corporation. From 1995 to 1996, he was the chief financial officer of Pharmacia Corporation. From 1992 to 1995, he was a vice general manager of Sino-Swed Pharmaceutical Corp., Ltd. Mr. Liu received a bachelor s degree from Shanxi College of Finance and Economics in 1983 and an EMBA degree from China Europe International Business School in 2000. Mr. Liu is also currently the managing director of Sino-Swed Pharmaceutical Corp., Ltd.

Mr. Gary Siu Kwan Sik is an independent director of our company. Mr. Sik is the chairman of our audit committee and a member of our compensation committee. Mr. Sik has more than fifteen years of experience in investment banking and finance. He has held senior positions with a number of major international investment banks, as well as the Hong Kong operations of the securities and investment banking division of a state-owned PRC bank, responsible for business development and regional business operations. Mr. Sik achieved his Bachelor s degree in engineering science and Master s degree in Arts from Oxford University in 1989 and 2006 respectively Mr. Sik is a member of The

Institute of Chartered Accountants in England and Wales and a fellow member of Hong Kong Institute of Certified Public Accountants. He is an independent non-executive director of China Glass Holdings Limited and Dawnrays Pharmaceutical (Holdings) Limited respectively, both companies are listed on the Stock Exchange of Hong Kong Limited. Mr. Sik is also an independent non-executive director of China Nepstar Chain Drugstore Limited, a company listed on the New York Stock Exchange.

Mr. John Huan Zhao is a director of our company. Mr. Zhao also serves as the chief executive officer of Hony Capital Limited and a senior vice president and an executive director at Legend Holdings Limited. Prior to joining Hony Capital Limited and Legend Holdings Limited in 2003, Mr. Zhao was the advisor to the chief executive officer of UTStarcom Inc. and Lenovo Group Ltd. from 2002 to 2003. From 2001 to 2002, he was a managing director of eGarden Ventures, Ltd. Prior to that, he was the chairman, president and chief executive officer of Infolio, the chairman, president and chief executive officer of Vadem Ltd. and senior manager of U.S. Robotics, Inc. and Shure Brothers, Inc. Mr. Zhao received a bachelor s degree in Physics from Nanjing University in

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1984, dual master s degrees in Electrical Engineering and Physics from Northern Illinois University in 1990, and a MBA degree from the Kellogg School of Management at Northwestern University in 1996.

Mr. Yehong Zhang is our President and has over 18 years of experience in the healthcare industry, most recently serving as a Senior Healthcare Practice Leader in McKinsey s China office focusing on systemic issues impacting the healthcare industry. Dr Zhang worked for over 12 years at Merck Sharp & Dohme in the United States, China, and other regions. During his tenure at Merck Sharp & Dohme, he held positions of responsibility in product manufacturing, supply chain operations and business development. From 2007 to 2008, he served as President of Merck in China. He was also the Greater China Country Managing Director for IMS from 2004-2007.

Mr. Jindong Zhou is our executive vice president and has worked in our company since 1996. From 2001 to 2006, Mr. Zhou was the general manager of Simcere Pharmaceuticals Co., Ltd. From 2000 to 2001, he was the deputy general manager of Jiangsu Simcere Pharmaceuticals Co., Ltd. or Jiangsu Simcere. Mr. Zhou graduated from the Nanjing University of Traditional Chinese Medicine majoring in Chinese Medicine in 1982 and received a master s degree in Economics from University of Macquarie in Australia in 2008.

Mr. Xiaojin Yin is our senior vice president of research and development. From 2003 to 2006, Mr. Yin was the general manager of Jiangsu Simcere Pharmaceutical R&D Co., Ltd. or Simcere Research. From 2000 to 2003, he was the general manager assistant of Simcere Pharmaceutical Co., Ltd. and manager of Simcere Research. From 1992 to 2000, he was the head of the medical research department of the China Pharmaceutical University in Nanjing. From 1991 to 1992, Mr. Yin was the general manager of the medicine production facility at China Pharmaceutical University. Mr. Yin received a bachelor s degree in Medical Sciences from China Pharmaceutical University in 1982 and a master s degree in Industrial Engineering from the Nanjing University of Science and Technology in 2001.

Mr. Frank Zhigang Zhao is our chief financial officer. Mr. Zhao joined our company in October 2006. From 2005 to 2006, Mr. Zhao was the chief financial officer of Sun New Media Inc. From 2003 to 2005, he was the vice president of finance at Faro Technologies, Inc. From 1996 to 2002, he was the vice president of finance at Resort Reservation Network. From 1993 to 1996, he was a senior accountant at PricewaterhouseCoopers. Mr. Zhao received a bachelor s degree in Economics from Beijing University in 1985 and a MBA degree from University of Hartford in 2003. He is a certified public accountant in the United States.

Mr. Quanfu Feng is our vice president and general manager of human resources. Mr. Feng joined us in 1995 and has been working in a number of departments within our company, including the marketing and advertising department, the human resources department, the corporate culture department and the general manager s office. Prior to being promoted to his current position, Mr. Feng served in various positions, including as regional manager and local manager, director of the president s office assistant to the president, deputy general manager of Jiangsu Simcere, and general manager of our south China division and our Jiangsu division. Mr. Feng obtained his bachelor s degree in pedagogy from East China Normal University and a master s degree in medicine from Nanjing University of Chinese Medicine. Mr. Feng is also currently an adjunct professor at Nanjing University of Chinese Medicine.

Mr. Qingsen Li is our vice president and general manager of training and development. Prior to joining our company in 2008, Mr. Li was the General Manager of Human Resources and the General Manager of the Training Center of Taikang Life Insurance Co., Ltd., since 2004. From 1997 to 2004, he served as the Vice President and Director of Human Resources of Beijing Novartis Pharma., Ltd. From 1992 to 1996, he was the Deputy General Manager and he was the Director of Human Resources & Administration of Beijing Ciba Geigy Pharma., Ltd. from 1994 to 1996. From 1981 to 1991, he held various positions at Beijing No. 3 Pharmaceutical Factory. Mr. Li graduated from Beijing Chemical College in 1981 with a degree in pharmaceutical engineering, and then graduated with a bachelor s degree in Pharmacy from Beijing Medical University in 1989. Mr. Li received a MBA degree from China Europe International Business School in 1998.

Mr. Jialun Tian is our vice president of hospital sales. From 2000 to 2008, he held various positions at our company, including as assistant to the Chief Executive Officer. Prior to joining our company, Mr. Tian was the manager of financial department of Nanjing Kokhai Biotechnical Co., Ltd., an assistant production manager of Nanjing Luhe Pharmaceutical Factory, and the manager of financial department of Nanjing C&O Pharmaceutical

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Co., Ltd. Mr. Tian graduated from Jiangsu Radio and TV University with a degree in Accounting. He received a MBA degree from Hong Kong Baptist University in 2008.

Mr. Xiaohua Yang is our vice president of hospital sales. Since joining our company in 1993, Mr. Yang has held various roles at our group, including as sales director, general manager of Jiangsu Simcere, general manager of hospital cooperation department, assistant to the Chief Executive Officer, regional pharmaceutical sales representative, district manager and regional manager. From 1989 to 1993, he worked with the Zhenjiang Hospital of Traditional Chinese Medicine. Mr. Yang received a bachelor s degree in Chinese Pharmacology from Nanjing University of Traditional Chinese Medicine in 1989 and an MBA degree from Renmin University of China in 2003.

Mr. Huaping Fu is our vice president of commercial sales. Since joining our company in 1994, Mr. Fu has held various roles at our group, including as sales director, general manager of marketing department and assistant to the Chief Executive Officer. From 1987 to 1994, he worked with Yangzhou Chemical Engineering Design Institute and Nanjing Applied Chemistry Institute. Mr. Fu received a bachelor s degree in Applied Chemistry from Huazhong Science and Technology University in 1987, a master of science degree in Organic Chemistry from Nanjing University in 1993 and an MBA from Renmin University of China in 2003.

Dr. Peng Wang is our chief scientific officer. He has 19 years experience in pharmaceutical research and development, most recently served as the Vice President of Discovery Biology at Wuxi AppTec Co., Ltd. (formerly as Wuxi PharmaTech Co., Ltd.). Prior to WuXi AppTec, Dr. Wang was a research fellow at Schering-Plough Research Institute where he worked for 18 years. Dr. Wang received his Ph.D. degree in Biochemistry from the University of Tokyo in 1990.

Dr. Haibo Qian is the secretary to our board of directors and our company secretary. From 1993 to the present, he has held various roles at our group, including chief inspector, special assistant to the chief executive officer, market strategy department manager, and department general manager. In 2005, he was also the special assistant to the chief executive officer of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. From 1986 to 1993, he was the director at the Health Economics Department of Nanjing Medical University. He received a bachelor s degree in Law from Nanjing Normal University in 1986, graduated from Shanghai Medical University in 1993 majoring in Health Economics, received a MBA from Nanjing University in 2002 and received a Ph.D. degree in Management and Social Medicine from the China Pharmaceutical University in 2007. Dr. Qian is a certified pharmacist.

The address of our directors and executive officers is c/o Simcere Pharmaceutical Group, No. 699-18 Xuan Wu Avenue, Xuan Wu District, and Nanjing, Jiangsu Province 210042, the People s Republic of China.

B. Compensation

Compensation of Directors and Executive Officers

In 2009, the aggregate cash compensation to our executive officers, including all the directors, was RMB13.4 million ($2.0 million). For share-based compensation, see 2006 Share Incentive Plan.

2006 Share Incentive Plan

The 2006 share incentive plan was adopted by our shareholders on November 13, 2006. Our share incentive plan provides for the grant of options, share appreciation rights, and other share-based awards such as restricted shares, referred to as awards. The purpose of the plan is to aid us in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of our company by providing incentives through the granting of awards. Our board of directors believes that our company s long-term success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability, experience and qualifications, make important contributions to our business.

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Termination of Awards. Options and restricted shares shall have specified terms set forth in an award agreement. The compensation committee will determine in the relevant award agreement whether options granted under the award agreement will be exercisable following the recipient s termination of services with us. If the options are not exercised or purchased on the last day of the period of exercise, they will terminate.

Administration. Our 2006 share incentive plan is administered by the compensation committee of our board of directors. The committee is authorized to interpret the plan, to establish, amend and rescind any rules and regulations relating to the plan, and to make any other determinations that it deems necessary or desirable for the administration of the plan. The committee will determine the provisions, terms and conditions of each award, including, but not limited to, the exercise price for an option, vesting schedule of options and restricted shares, forfeiture provisions, form of payment of exercise price and other applicable terms.

Option Exercise. The term of options granted under the 2006 share incentive plan may not exceed six years from the date of grant. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, ordinary shares, consideration received by us in a cashless exercise, or any combination of the foregoing methods of payment.

Third-party Acquisition. If a third-party acquires us through the purchase of all or substantially all of our assets, a merger or other business combination, the compensation committee may decide that all outstanding awards that are unexercisable or otherwise unvested or subject to lapse restrictions will automatically be deemed exercisable or otherwise vested or no longer subject to lapse restrictions, as the case may be, as of immediately prior to such acquisition. The compensation committee may also, in its sole discretion, decide to cancel such awards for fair value, provide for the issuance of substitute awards that will substantially preserve the otherwise applicable terms of any affected awards previously granted, or provide that affected options will be exercisable for a period of at least 15 days prior to the acquisition but not thereafter.

Amendment and Termination of Plan. Our board of directors may at any time amend, alter or discontinue our 2006 share incentive plan. Amendments or alterations to our 2006 share incentive plan are subject to shareholder approval if they increase the total number of shares reserved for the purposes of the plan or change the maximum number of shares for which awards may be granted to any participant, or if shareholder approval is required by law or by stock exchange rules or regulations. Any amendment, alteration or termination of our 2006 share incentive plan must not adversely affect awards already granted without written consent of the recipient of such awards. Unless terminated earlier, our 2006 share incentive plan shall continue in effect for a term of ten years from the date of adoption.

Our board of directors and shareholders authorized the issuance of up to 12,000,000 ordinary shares upon exercise of awards granted under our 2006 share incentive plan. On November 15, 2006, we granted 10,000,000 options to our senior management and key employees with an exercise price of $4.20 per share. On March 29, 2007, we granted 1,045,000 options to our independent directors and certain of our employees with an exercise price equal to $6.75. On May 5, 2008, we granted 400,000 options to one of our officers with an exercise price equal to $6.755. On December 24, 2008, we also granted 100,000 options to one of our officers with an exercise price equal to $3.445.

On April 15, 2009, our compensation committee approved a share option exchange program that offered our eligible directors, employees and consultants the right to exchange vested and unvested outstanding share options to purchase our ordinary shares granted under the 2006 Share Incentive Plan for our restricted shares. The exchange ratio was determined based on the fair value of replacement restricted shares so that the fair value of the replacement restricted shares to be issued upon exchange would be approximately equivalent to the fair value of the share options surrendered by an individual. In addition, these replacement restricted shares are subject to substantially the same vesting schedule as the options that were validly tendered in the exchange offer. A total of 154 directors and employees accepted the offer, and tendered options to purchase an aggregate of 9,802,400 ordinary shares in exchange for an aggregate of 4,750,018 restricted shares, which were granted on May 7, 2009. The exchange of the share option awards for restricted shares was accounted for as a modification for awards which involves a cancellation of the original award and an issuance of a new award. The effect of this award modification on share-based compensation expense over the remaining requisite service period was insignificant. This exchange program is expected to provide additional incentive and retention value.

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On October 14, 2009 and December 4, 2009, we issued 200,000 and 40,000 restricted shares to our officers and key employees under our 2006 share incentive plan, respectively.

The restricted shares to our directors, officers and employees as listed below:

Name	Number of Restricted Shares Granted	Date of Grant of Restricted Shares	Date of Grant of Cancelled Option	End of Vesting Period
Jinsheng Ren	2,665,988	May 7, 2009	November 15, 2006	November 14, 2011
Frank Zhigang Zhao	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Jindong Zhou	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Xiaojin Yin	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Huaping Fu	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Jialun Tian	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Xiaohua Yang	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Quanfu Feng	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Guoqiang Lin	*(1)	May 7, 2009	March 29, 2007	March 28, 2012
Hongquan Liu	*(1)	May 7, 2009	March 29, 2007	March 28, 2012
Gary Siu Kwan Sik	*(1)	May 7, 2009	March 29, 2007	March 28, 2012
Qingsen Li	*(1)	May 7, 2009	December 24, 2008	August 31, 2013
Peng Wang	*(1)	October 14, 2009	n/a	October 14, 2014
Other employees as a group(2)	839,858	May 7, 2009	November 15, 2006	November 14, 2011
Other employees as a group(2)	12,024	May 7, 2009	March 29, 2007	March 28, 2012
Other employees as a group(2)	188,414	May 7, 2009	May 5, 2008	March 8, 2013
Other employees as a group(2)	100,000	October 14, 2009	n/a	October 14, 2014
Other employees as a group(2)	40,000	December 4, 2009	n/a	December 4, 2014

(1) Beneficially own less than 1.0% of our outstanding ordinary shares.

(2) None of these employees is our director or executive officer.

2008 Share Incentive Plan

The 2008 share incentive plan was adopted by our shareholders on July 31, 2008 . Our share incentive plan provides for the grant of options, share appreciation rights, and other share-based awards such as restricted shares, referred to as awards. The purpose of the plan is to aid us in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of our company by providing incentives through the granting of awards. Our board of directors believes that our company s long-term success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability, experience and qualifications, make important contributions to our business.

Termination of Awards. Options and restricted shares shall have specified terms set forth in an award agreement. The compensation committee will determine in the relevant award agreement whether options granted under the award agreement will be exercisable following the recipient s termination of services with us. If the options are not exercised or purchased on the last day of the period of exercise, they will terminate.

Administration. Our 2008 share incentive plan is administered by the compensation committee of our board of directors. The committee is authorized to interpret the plan, to establish, amend and rescind any rules and regulations relating to the plan, and to make any other determinations that it deems necessary or desirable for the administration of the plan. The committee will determine the provisions, terms and conditions of each award,

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including, but not limited to, the exercise price for an option, vesting schedule of options and restricted shares, forfeiture provisions, form of payment of exercise price and other applicable terms.

Option Exercise. The term of options granted under the 2008 share incentive plan may not exceed ten years from the date of grant. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, ordinary shares, consideration received by us in a cashless exercise, or any combination of the foregoing methods of payment.

Third-party Acquisition. If a third-party acquires us through the purchase of all or substantially all of our assets, a merger or other business combination, the compensation committee may decide that all outstanding awards that are unexercisable or otherwise unvested or subject to lapse restrictions will automatically be deemed exercisable or otherwise vested or no longer subject to lapse restrictions, as the case may be, as of immediately prior to such acquisition. The compensation committee may also, in its sole discretion, decide to cancel such awards for fair value, provide for the issuance of substitute awards that will substantially preserve the otherwise applicable terms of any affected awards previously granted, or provide that affected options will be exercisable for a period of at least 15 days prior to the acquisition but not thereafter.

Amendment and Termination of Plan. Our board of directors may at any time amend, alter or discontinue our 2008 share incentive plan. Amendments or alterations to our 2008 share incentive plan are subject to shareholder approval if they increase the total number of shares reserved for the purposes of the plan or change the maximum number of shares for which awards may be granted to any participant, or if shareholder approval is required by law or by stock exchange rules or regulations. Any amendment, alteration or termination of our 2008 share incentive plan must not adversely affect awards already granted without written consent of the recipient of such awards. Unless terminated earlier, our 2008 share incentive plan shall continue in effect for a term of ten years from the date of adoption.

Our board of directors and shareholders authorized the issuance of up to 6,250,000 ordinary shares upon exercise of awards granted under our 2008 share incentive plan. As of the date of this annual report on Form 20-F, no awards have been granted under our 2008 share incentive plan.

Employee Pension and Other Retirement Benefits

Pursuant to the relevant PRC regulations, we are required to make contributions for each employee at a rate of 20% of a standard salary base as determined by the local social security bureau to a defined contribution retirement scheme organized by the local social security bureau. Contributions of RMB9.7 million ($1.4 million) was paid for the year ended December 31, 2009 which was charged to expense. We have no other obligation to make payments in respect of retirement benefits of our employees.

C. Board Practices

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and re-stated from time to time. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

convening shareholders annual general meetings and reporting its work to shareholders at such meetings;

declaring dividends and distributions;

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appointing officers and determining the term of office of officers;

exercising the borrowing powers of our company and mortgaging the property of our company; and

approving the transfer of shares of our company, including the registering of such shares in our share register.

Our board of directors has established an audit committee, a compensation committee and a corporate governance and nominating committee upon completion of our initial public offering in April 2007.

Audit Committee

Our audit committee consists of Messrs. Gary Siu Kwan Sik, Guoqiang Lin and Hongquan Liu, each of whom satisfies the requirements of New York Stock Exchange Listed Company Manual, or NYSE Manual, Section 303A. Mr. Gary Siu Kwan Sik will be the chairman of our audit committee and meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. All members of the audit committee will be an independent director within the meaning of NYSE Manual Section 303A(2) and will meet the criteria for independent set forth in Section 10A(m)(3) of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

selecting our independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm;

reviewing with our independent registered public accounting firm any audit problems or difficulties and management s response;

reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;

discussing the annual audited financial statements with management and our independent registered public accounting firm;

reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant control deficiencies;

annually reviewing and reassessing the adequacy of our audit committee charter;

such other matters that are specifically delegated to our audit committee by our board of directors from time to time; and

meeting separately and periodically with management and our internal auditor and independent registered public accounting firm.

Compensation Committee

Our compensation committee consists of Messrs. Hongquan Liu and Gary Siu Kwan Sik, both of whom will be independent directors within the meaning of NYSE Manual Section 303A(2). Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

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approving and overseeing the compensation package for our executive officers;

reviewing and making recommendations to the board with respect to the compensation of our directors; and

reviewing periodically any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans and granting our executive officers awards under such plans.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Messrs. Guoqiang Lin and Hongquan Liu, both of whom will be independent directors within the meaning of NYSE Manual Section 303A(2). The corporate governance and nominating committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;

reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;

advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and

monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Terms of Directors and Executive Officers

Our executive officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office without cause by special resolution or the unanimous written resolution of all shareholders or with cause by ordinary resolution or the unanimous written resolutions of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

Employment Agreements

We have entered into employment agreements with all of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate his or her employment for cause at any time, with prior written notice, for certain acts of the employee, including but not limited to a conviction to a felony, or willful gross misconduct by the employee in connection with his employment, and in each case if such acts have resulted in material and demonstrable financial harm to us. An executive officer may, with prior written notice, terminate his or her employment at any time for any material breach of the employment agreement by us that is not remedied promptly after receiving the remedy request from the employee. Furthermore, either party may terminate the employment agreement at any time without cause upon advance written notice to the other party. Upon termination, the employee is generally entitled to a severance pay of at least one month s salary.

Each executive officer has agreed to hold, both during and subsequent to the terms of his or her agreement, in confidence and not to use, except in pursuance of his or her duties in connection with the employment, any of our confidential information, technological secrets, commercial secrets and know-how. Our executive officers have also

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agreed to disclose to us all inventions, designs and techniques resulted from work performed by them, and to assign us all right, title and interest of such inventions, designs and techniques.

Interested Transactions

A director may vote in respect of any contract or transaction in which he or she is interested, provided that the nature of the interest of any directors in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter.

Remuneration and Borrowing

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

D. Employees

We had 2,615, 2,759 and 3,974 employees as of December 31, 2007, 2008 and 2009, respectively. The following table sets forth the number of our employees for each of our areas of operation and as a percentage of our total workforce as of December 31, 2009:

	Number of Employees	**Percentage of total**
Marketing and brand management	1,563	39.3%
Manufacturing and quality control	1,474	37.1%
General and administration	644	16.2%
Research and development	292	7.4%
Total	3,974	100.0%

We are required under PRC law to make contributions to our employee benefit plans based on specified percentages of the salaries, bonuses, housing funds and certain allowances of our employees, up to a maximum amount specified by the respective local government authorities where we operate our businesses. The total amount of contributions we made to employee benefit plans in 2007, 2008 and 2009, was RMB5.1 million, RMB7.1 million and RMB10.2 ($1.5 million), respectively.

Our employees are not covered by any collective bargaining agreement. We believe that we have a good relationship with our employees.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of June 22, 2010, the latest practicable date, by:

each of our directors and executive officers; and

each person known to us to own beneficially more than 5.0% of our ordinary shares.

	Shares Beneficially Owned (1)(2)	
	Number	**%**
Directors and Executive Officers:		
Jinsheng Ren (3)	43,081,510	39.7
Guoqiang Lin	*	*

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	Shares Beneficially Owned (1)(2)	
	Number	%
Hongquan Liu	*	*
Gary Siu Kwan Sik	*	*
John Huan Zhao (4)	17,924,692	16.5
Jindong Zhou	*	*
Xiaojin Yin	*	*
Frank Zhigang Zhao	*	*
Qingsen Li	*	*
Jialun Tian	*	*
Xiaohua Yang	*	*
Huaping Fu	*	*
Peng Wang	*	*
Haibo Qian	*	*
All directors and executive officers as a group	61,006,202	56.2
Principal Shareholders:		
New Good Management Limited (5)	42,015,102	38.7
Assure Ahead Investments Limited (6)	17,924,692	16.5
King View Development International Limited (7)	11,820,000	10.9

* Upon exercise of all options granted, would beneficially own less than 1.0% of our outstanding ordinary shares.

(1) Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Exchange Act, and includes voting or investment power with respect to the securities.

(2) The number of shares outstanding in

calculating the percentages for each listed person includes, as applicable, (i) the ordinary shares underlying share options exercisable by such person, and (ii) restricted shares awarded to such person that are vested but yet to be duly registered or that can be vested, in each case within 60 days of the date of this annual report. Percentage of beneficial ownership of each listed person is based on 108,643,738 ordinary shares outstanding as of May 31, 2010 and, as applicable, (i) the ordinary shares underlying share options exercisable by such person and (ii) restricted shares awarded to such person that are vested but yet to be duly registered or that can be vested, in each case within 60 days of the date of this annual report.

(3) Includes 42,015,102

ordinary shares directly held by New Good Management Limited, a British Virgin Islands company, which is controlled by Mr. Ren, and 1,066,408 restricted shares that have vested as of the date hereof. Mr. Ren is the chairman of the board of directors and the controlling shareholder of New Good Management Limited.

(4) Represents 17,924,692 ordinary shares directly held by Assure Ahead Investments Limited. Mr. Zhao, a director of Assure Ahead Investments Limited, disclaims beneficial ownership of shares held by Assure Ahead Investments Limited except to the extent of his pecuniary interests in those shares.

(5) New Good Management Limited is a British Virgin Islands company

that is controlled by Mr. Jinsheng Ren and beneficially owned by Messrs. Jinsheng Ren, Jindong Zhou, Feifei Gao, Xiaoxia Chen, Weidong Ren, Xiaojin Yin, Haibo Qian, Suqin Peng and Yong Ren. Mr. Ren is the chairman of the board of directors and the controlling shareholder of New Good Management Limited. The address of New Good Management Limited is at the offices of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, and British Virgin Islands.

(6) Assure Ahead Investments Limited is a British Virgin Islands company that is 100.0% owned by Hony Capital II, L.P., an exempted limited partnership formed under the

laws of the Cayman Islands; Hony Capital II, L.P. s general partner is Hony Capital II GP Ltd., which is wholly owned by Legend Holdings Limited, an investment holding company incorporated in the People s Republic of China. Legend Holdings Limited is 65.0% owned by the Chinese Academy of Sciences, a national academic and research institution owned and controlled by the PRC government. The address for Assure Ahead Investments Limited is at the offices of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, and British Virgin Islands. The directors of Assure Ahead Investments Limited, Messrs. John Huan Zhao, Shunlong Wang and Yonggang

Cao have voting and investment power over the shares that this shareholder beneficially owns.

(7) King View Development International Limited is a British Virgin Islands company and a wholly owned subsidiary of Trustbridge Partners II, L.P., a limited partnership whose general partner is TB Partners GP2, L.P. The general partner of TB Partners GP2, L.P. is TB Partners GP Limited. The address of King View Development International Limited is 2701B, Azia Center, 1233 Lujiazui Ring Road, Shanghai, People s Republic of China. The investment committee of Trustbridge Partners II, L.P. has voting and investment power over the shares that this shareholder beneficially owns.

In connection with New Good Management s private sale of 11,820,000 of our ordinary shares to King View Development International Limited in May 2008, New Good Management repurchased some of its own shares from some of its shareholders other than Mr. Ren and reduced the number of its total outstanding shares. Also in May 2008, Mr. Ren transferred some of his shares in New Good Management to Suqin Peng. As a result of the

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foregoing, Mr. Ren s percentage of beneficial ownership in New Good Management increased from approximately 49.1% to approximately 51.1% in May 2008 and Mr. Ren became the controlling shareholder of New Good Management. According to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, Mr. Ren is deemed to have acquired indirect beneficial ownership of all of our ordinary shares that are directly held by New Good Management in May 2008.

As of June 22, 2010, other than the 29.7% of our ordinary shares underlying our ADSs which were held by our custodian, the Hong Kong office of The Hong Kong and Shanghai Banking Corporation Limited, on behalf of The Bank of New York Mellon, the depositary, none of our ordinary shares were held in the United States. None of our shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Item 7. MAJOR SHAREHOLDER AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to Item 6. Directors, Senior Management and Employees E. Share Ownership.

B. Related Party Transactions

Transactions with Companies in Which a Major Shareholder had Equity Interests

We purchased packaging materials from Hainan Zhicheng Color Printing Co., Ltd., formerly Sanya Zhicheng Color Printing Co., Ltd., in which certain shareholders of New Good Management Limited held equity interest prior to December 2007, amounting to RMB7.3 million in 2007. We purchased packaging and raw materials from Jiangsu Simcere Chain Drug Store Co., Ltd., or Simcere Chain Drug Store which is a subsidiary of Jiangsu Simcere China Drug Store Co., in which certain shareholders of New Good Management Limited held equity interest, amounting to RMB0.1 million and RMB0.4 million ($0.1 million) in 2008 and 2009, respectively.

We also sold pharmaceutical products to Simcere Chain Drug Store. In 2007 ,2008 and 2009, we sold pharmaceutical products to this related party amounting to RMB3.0 million, RMB6.8 million and RMB0.2 million ($0.03 million), respectively. We also sold pharmaceutical products to Jiangsu Xianyou Medical Company, in which certain shareholders of New Good Management Limited have an equity interest, amounting to nil, nil and RMB4.4 million ($0.6 million) in 2007, 2008 and 2009, respectively. We purchase the packaging materials and sell the pharmaceutical products in the normal course of business at prices determined on an arm s length basis. In addition, we sold properties located in Nanjing to Simcere Chain Drug Store for RMB18.6 million in 2007.

Transactions with a Minority Shareholder

In 2008, we provided an RMB20.0 million secured loan to the noncontrolling shareholder of Simcere Zhong Ren for its operating purpose. The loan has a one-year term with an option to extend for a maximum of two years, bears a floating interest rate and is secured by the noncontrolling shareholder s entire equity interest in Simcere Zhong Ren. On July 1, 2009, the RMB20.0 million loan matured and was renewed with a principal amount of RMB21.6 million ($3.2 million) on the same terms. The secured loan was classified as non-current as of December 31, 2008 and 2009 because we expect the loan to be renewed and extended beyond 12 months from December 31, 2009.

In 2009, we purchased pharmaceutical products from Wuhu Zhong Ren Pharmaceutical Co., Ltd., a wholly owned subsidiary of a noncontrolling shareholder of Simcere Zhong Ren, amounting to RMB2.1 million ($0.3 million). We purchased the pharmaceutical products in the normal course of business at prices determined on an arm s length basis.

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Transaction with a Company with a Director who is also a Director of our Company

In 2009, we paid professional service fee to Hony Investment Management Ltd. for corporate consultancy service amounting to RMB2.0 million ($0.3 million). We paid for professional service in the normal course of business at a fee determined on an arm s length basis.

Share Incentives

See Item 6. Directors, Senior Management and Employees B. Compensation of Directors and Executive Officers 2006 Share Incentive Plan.

Registration Rights Agreements

Set forth below is a description of the registration rights we granted to Assure Ahead Investments Limited, one of the selling shareholders, on November 20, 2006:

Demand Registration Rights. At any time commencing the earlier of November 20, 2008 or six months after our initial public offering, shares held by Assure Ahead Investments Limited or its transferees and assignees have the right to demand that we file a registration statement under the Securities Act covering the offer and sale of their securities, so long as the aggregate amount of securities to be sold under the registration statement exceeds $20.0 million. We are obligated under the registration rights agreement to use our best efforts to register our ordinary shares for resale if Assure Ahead Investments Limited makes such request. However, we are not required to provide for any payment or transfer any other consideration to Assure Ahead Investments Limited in the event of non-performance. We have the ability to delay or withdraw the filing of a registration statement for up to 90 days if we furnish to Assure Ahead Investments Limited or their transferees and assignees a certificate signed by our chief executive officer or our chairman of the board of directors stating that, board of directors determines it would be seriously detrimental to us or our shareholders for a registration statement to be filed in the near future. We are not obligated to affect such demand registrations on more than two occasions.

Form F-3 or S-3 Registration Rights. Upon our company becoming eligible for use of Form F-3 or S-3, Assure Ahead Investments Limited or their transferees and assignees have the right to request that we file a registration statement under Form F-3 or S-3, so long as the aggregate amount of securities to be sold under the registration statement exceeds $1.0 million. Such requests for registrations are not counted as demand registrations.

Piggyback Registration Rights. If we propose to file a registration statement with respect to an offering for our own account or for the account of any person that is not Assure Ahead Investments Limited or their transferees and assignees, we must offer Assure Ahead Investments Limited or their transferees and assignees the opportunity to include their securities in the registration statement. We must use our reasonable best efforts to cause the underwriters in any underwritten offering to permit any such shareholder who so requests to include their securities on the same terms and conditions as the securities of our company.

Expenses of Registration . We will pay all expenses relating to any demand or piggyback registration, whether or not such registrations become effective, except that shareholders shall bear the expense of any broker s commission or underwriter s discount or commission relating to registration and sale of their securities.

Set forth below is a description of the registration rights we granted to King View Development International Limited, one of the selling shareholders, on May 12, 2008. The registration rights were granted to cover the resale of 11,820,000 ordinary shares purchased by King View Development International Limited from New Good Management in a private sale:

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Pursuant to the registration rights agreement entered into among us, New Good Management and King View Development International Limited on May 12, 2008, we agree to file as promptly as practicable but in any event no later than thirty (30) days after the earlier of (i) June 30, 2008 and (ii) the date on which we file our annual report on Form 20-F for the fiscal year ended December 31, 2007 with the SEC, a shelf registration statement for an offering to be made on a delayed or continuous basis pursuant to Rule 415 registering the resale from time to time by holders of all of the registrable securities. New Good Management will bear all costs associated with the filing of such registration statements.

In July 2008, we filed a registration statement under Form F-3 (File No. 333-152101), as amended, for the sale of an aggregate of 10,166,454 ADSs representing 20,332,908 ordinary shares, consisting of 11,820,000 ordinary shares held by King View Development International Limited and 8,512,908 ordinary shares held by certain transferees of Assure Ahead Investments Limited.

In July 2009, we filed a registration statement under Form F-3 (File No. 333-160543), as amended, for the sale of an aggregate of 8,962,346 ADSs representing 17,924,692 ordinary shares held by Assure Ahead Investments Limited.

C. Interests of Experts and Counsel

Not applicable.

Item 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 18. Financial Statements.

Legal and Administrative Proceedings

We entered into agreements to acquire Jiangsu Yanshen, in October and November 2009 through the acquisition of the entire equity interest in ChinaVax, a Cayman Islands company that, as its sole business, held a 15% stake in Jiangsu Yanshen for cash consideration. After we entered into the share purchase agreements in October and November 2009 to acquire 15% equity interest in Jiangsu Yanshen, but prior to the full completion of the transaction , we discovered quality control problems relating to the production of Jiangsu Yanshen s human use rabies vaccine. On May 15, 2010, Jiangsu Yanshen received a notification from the Changzhou Food and Drug Administration, which stated that a fine of RMB25.6 million ($3.8 million) consisting of penalties and confiscated revenues from previous sales of substandard quality human use rabies vaccine will be imposed on Jiangsu Yanshen. Jiangsu Yanshen must also bear the cost of patient re-vaccinations of approximately RMB23.0 million ($3.4 million). In addition, the Changzhou Procuratorate also issued a fine of RMB1.6 million ($0.2 million) to Jiangsu Yanshen for confiscation of revenues. In addition, a criminal investigation by local law enforcement authorities of the relevant personnel of Jiangsu Yanshen is currently underway. We cannot assure you that Jiangsu Yanshen itself will not be subject to administrative proceedings or criminal investigations. See Item 3. Key Information D. Risk Factors Risks Related to Our Company The penalties imposed by the Changzhou Food and Drug Administration on Jiangsu Yanshen could have a material adverse effect on our business, financial condition and results of operations and damage our reputation .

In addition, as we discovered quality control problems relating to the production of Jiangsu Yanshen s human use rabies vaccine, as of the date of this annual report on Form 20-F, a portion of the consideration has not been paid. We are exposed to potential claims by selling shareholders of ChinaVax for the amount of consideration we have withheld. In addition, subsequent to our discovery of the quality control problems relating to the production of Jiangsu Yanshen s human use rabies vaccine, we initiated an arbitration proceeding against former shareholders of Jiangsu Yanshen to seek damages for RMB113.9 million ($16.7 million) for misrepresentation in connection with their sales of equity interests in Jiangsu Yanshen. Furthermore, Jiangsu Yanshen also initiated legal proceedings through its board of supervisors against two of its former directors to seek damages for RMB98.0 million ($14.4 million). In addition, we may also become involved in product liability litigation as the development and commercialization of vaccine products entail an inherent risk of harm to patients. See Item 3. Key Information D. Risk Factors Risks Related

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to Our Company We may be involved in litigation, arbitration or other legal proceedings from time to time that require extensive management attention and resources and may be expensive, time-consuming and disruptive .

We are currently not a party to any other material legal or administrative proceedings, and we are not aware of any other threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

Dividend Policy

Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

Since our incorporation, we have never declared or paid any dividends, nor do we currently have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing two of our ordinary shares, have been listed on the New York Stock Exchange since April 20, 2007 under the symbol SCR. For the period from April 20, 2007 to June 29, 2010, the trading price of our ADSs on New York Stock Exchange ranged from $4.41 to $15.88 per ADS.

The following table provides the high and low trading prices for our ADSs on the New York Stock Exchange for the period indicated.

	Sales Price	
	High	**Low**
2008	$15.88	$4.41
2009	$10.03	$4.76
Quarterly High and Low		
First Quarter 2009	$ 9.13	$4.76
Second Quarter 2009	$ 8.81	$5.05
Third Quarter 2009	$ 9.98	$6.72
Fourth Quarter 2009	$10.03	$6.77
First Quarter 2010	$ 9.94	$8.06
Monthly Highs and Lows		
December 2009	$10.03	$7.78
January 2010	$ 9.94	$8.06
February 2010	$ 9.51	$8.09

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	Sales Price	
	High	**Low**
March 2010	$9.88	$8.51
April 2010	$8.92	$7.78
May 2010	$8.48	$7.44
June 2010 (through June 29)	$8.43	$7.95

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing two of our ordinary shares, have been listed on the New York Stock Exchange since April 20, 2007 under the symbol SCR.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our second amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-141539), as amended, filed with the Commission on March 23, 2007. Our shareholders adopted our amended and restated memorandum and articles of association by unanimous resolutions on March 23, 2007.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. Information of the Company or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

Foreign Currency Exchange

Foreign currency exchange regulation in China is primarily governed by the following rules:

Foreign Currency Administration Rules (1996), as amended, or the Exchange Rules; and

Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules;

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Under the Exchange Rules, the Renminbi is convertible for current account items, including interest payments and trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the SAFE.

Under the Administration Rules, foreign-invested enterprises in China, may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the SAFE and other relevant government authorities.

E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. No Cayman Islands stamp duty will be payable unless an instrument is executed in, brought to, or produced before a court of the Cayman Islands. The Cayman Islands are not parties to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

People s Republic of China Taxation

The new CIT law provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% corporate income tax rate as to their worldwide income. Under the implementation rules for the new CIT law issued by the PRC State Council, de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise.

Under the new CIT law and the implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises , which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC resident enterprise , it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. It is also unclear whether, if we are considered a PRC resident enterprise , holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between China and other jurisdictions.

United States Federal Income Taxation

The following discussion describes certain U.S. federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the ADSs or ordinary shares subsequently received in exchange for ADSs. This summary applies only to U.S. Holders that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the Internal Revenue Code of 1986, as amended (the Code) as in effect on the date of this annual report on Form 20-F and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report on Form 20-F, as well as judicial decisions and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

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As used herein, the term U.S. Holder means a holder of an ADS or ordinary share that is for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for United States federal income tax purposes) created organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust that (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The following discussion does not represent a detailed description of the United States federal income tax consequences applicable to persons subject to special treatment under United States federal income tax laws such as:

a dealer in securities or currencies;

certain financial institutions;

insurance companies;

regulated investment companies;

real estate investment trusts;

broker dealers;

U.S. expatriates;

traders that elect to mark to market;

tax-exempt entities;

persons liable for alternative minimum tax;

persons holding an ADS or ordinary share as part of a straddle, constructive sale, hedging, conversion or integrated transaction;

persons whose functional currency is not the U.S. dollar;

persons that actually or constructively own 10.0% or more of our voting stock; or

persons holding ADSs or ordinary shares through partnerships or other pass-through entities.

If you are a partner in partnership or other entity taxable as a partnership that holds ADSs or ordinary shares, your tax treatment generally will depend on your status and the activities of the partnership. If you are a partner of a partnership holding the ADSs or ordinary shares, you should consult your own tax advisors.

The discussion below does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances nor does it addresses any United States federal tax

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laws other than United States federal income tax laws. If you are considering the purchase of the ADSs or ordinary shares, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of your acquisition, ownership and disposition of the ADSs or ordinary shares, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, you should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes. Exchanges of ordinary shares for ADSs and ADSs for ordinary shares generally will not be subject to U.S. federal income tax.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by U.S. Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, as described below. Accordingly, the analysis of the creditability of PRC taxes, if any, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by future actions that may be taken by the U.S. Treasury or parties to whom ADSs are pre-released.

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying shares that are represented by such ADSs (subject to a possible challenge of this treatment by the Internal Revenue Service, as discussed under Distributions on ADSs or Ordinary Shares). Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

In the event that we are deemed to be a PRC resident enterprise under PRC tax law, you may be subject to PRC withholding taxes on dividends payable to you with respect to the ADSs or ordinary shares. In that case, however, you may be able to obtain a reduced rate of PRC withholding taxes under the treaty between the United States and the PRC if certain requirements are met, although no assurances can be given in this regard. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid to you with respect to the ADSs or ordinary shares will be treated as income from sources outside the United States and will generally constitute passive category income. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend.

Taxation of Disposition of ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and your tax basis in the ADS or ordinary share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, in the event that we are deemed to be a PRC resident enterprise under PRC tax law, we may be eligible for the benefits of the

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income tax treaty between the United States and the PRC. Under that treaty, if any PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, the gain may be treated as PRC-source income. You are urged to consult your tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of ADSs or ordinary shares, including the availability of the foreign tax credit under your particular circumstances.

Passive Foreign Investment Company

We believe that we were not a passive foreign investment company , or PFIC, for U.S. federal income tax purposes for our taxable year ending on December 31, 2009, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard.

A non-U.S. corporation is considered to be a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income; or

- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gain from assets that produce passive income. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

We must make a separate determination each year as to whether we are a PFIC. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our income or asset composition. As a result, our PFIC status may change. In particular, because we have valued our goodwill based on the market value of our ADSs and ordinary shares, our PFIC status may be determined in large part based on the market price of our ADSs and ordinary shares which is likely to fluctuate after the offering. Accordingly, fluctuations in the market price of the ADSs and ordinary shares may result in our being a PFIC for any year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in the offering. If we are a PFIC for any year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or ordinary shares.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a mark-to-market election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares;

- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and

- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

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Alternatively, a U.S. Holder of marketable stock (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. If you make a mark-to-market election for the ADSs or ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations that are not PFICs would apply to distributions by us.

In addition, notwithstanding any election you make with regard to the ADSs or ordinary shares, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your ADSs or ordinary shares will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your ADSs or ordinary shares, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for U. S. federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

The mark-to-market election is available only for marketable stock, which is stock that is regularly traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange, including the New York Stock Exchange, or other market, as defined in applicable U.S. Treasury regulations. We expect that the ADSs will be listed and regularly traded on the New York Stock Exchange. It should also be noted that it is intended that only the ADSs, and not the ordinary shares, will be listed on the New York Stock Exchange. Consequently, if you are a holder of ADSs, but not of ordinary shares, the mark-to-market election would be available to you were we to be or become a PFIC.

Alternatively, you can sometimes avoid the rules described above by electing to treat us as a qualified electing fund under Section 1295 of the Internal Revenue Code of 1986, as amended. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service. A backup withholding tax may apply, however, backup withholding will not apply to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. You are urged to consult your tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

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Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, if any, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed this annual report on Form 20-F, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC s regional offices in New York, New York and Chicago, Illinois. You can also request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC s Public Reference Room.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

For a listing of our subsidiaries, see Item 4. Information of the Company C. Organizational Structure in this annual report.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

Our revenues, costs and expenses are currently denominated primarily in Renminbi. As a result, fluctuations in the value of Renminbi against other currencies may affect the price competitiveness of our products versus competitor products from multinational pharmaceutical companies. Although the conversion of the Renminbi is highly regulated in China, the value of the Renminbi against the value of the U.S. dollar or any other currency nonetheless may fluctuate and be affected by, among other things, changes in China s political and economic conditions. Under the currency policy in effect in China today, the Renminbi is permitted to fluctuate in value within

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a narrow band against a basket of certain foreign currencies. China is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the Renminbi could appreciate or depreciate against the U.S. dollar.

We use Renminbi as the reporting currency for our financial statements. The functional currency of our subsidiaries in China is Renminbi.

Transactions in foreign currencies are translated into the functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rate at the balance sheet date. The resulting exchange differences are recognized in our consolidated statements of income. In 2008 and 2009, our company has used a substantial portion of the proceeds from our initial public offering to provide U.S. dollar denominated intercompany loans to our PRC subsidiaries where such funds were converted into Renminbi. As these intercompany loans are not considered long-term investment in nature and given that the functional currency of our company is U.S. dollars and the functional currency of our PRC subsidiaries is Renminbi, gain arising from the translation of the intercompany loans from U.S. dollars to Renminbi by our PRC subsidiaries is recognized in our consolidated statements of income while gain or loss arising from the translation of our company s U.S. dollars financial statements to Renminbi for consolidation purpose is recognized in our consolidated statement of shareholders equity and comprehensive income. We recognized foreign currency exchange gains of RMB39.9 million in 2008 and RMB0.4 million ($0.1 million) in 2009 which represent realized and unrealized gains recognized by our PRC subsidiaries from the translation of U.S. dollar denominated intercompany loans.

Assets and liabilities of our subsidiary whose functional currency are not Renminbi, are translated into Renminbi at the exchange rates at the balance sheet date. Income and expense items are translated at the average rates of exchange prevailing during the period. The adjustment resulting from translating the financial statements of such entities is reflected as a component of accumulated other comprehensive loss within shareholders equity.

Fluctuations in exchange rates may affect our financial performance. Appreciation of Renminbi against the U.S. dollar would have an adverse effect on Renminbi amount that we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against Renminbi would have a negative effect on the U.S. dollar amount available to us. As of December 31, 2008 and 2009, a 1.0% change in the exchange rates between Renminbi and the U.S. dollar will result in a translation gain or loss of RMB1.6 million and RMB0.8 million ($0.1 million), respectively.

The fluctuation in foreign exchange may impose certain exchange rate risks on us. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents denominated in U.S. dollars as a result of our past issuances of preferred shares through a private placement and proceeds from the initial public offering in April 2007. We have not hedged exposures in foreign currencies or enter into any other derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

Interest Rate Risk

Our risk exposure from changes in interest rates relates primarily to the interest expenses associated with our short-term bank loans and borrowings, long term borrowings as well as the interest income generated by excess cash invested in demand and savings deposits. We currently do not, have not historically used, and do not expect to use in the future, any derivative financial instruments to manage our interest risk exposure. Interest-bearing investments and interest-bearing borrowings carry a degree of interest rate risk. If there were a 25 basis point increase or decrease in interest rates, the expected adverse impact on net income related to our financial instruments would be insignificant.

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Credit Risk with Financial Institutions

We are exposed to counterparty risks related to certain financial assets including cash and cash equivalents and investment securities. As of December 31, 2008 and 2009, RMB774.9 million and RMB419.7 million ($61.5 million), respectively, in cash and cash equivalents were held in uninsured accounts at financial institutions located in the PRC and cash and cash equivalents of RMB33.9 million and RMB13.9 million ($2.0 million) respectively, were held in insured accounts at major financial institutions located in the United States of America and were insured up to $0.2 million (RMB1.3 million).

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

According to our Deposit Agreement with our ADS depositary, The Bank of New York Mellon, the depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	***For:***
$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; or Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
$.02 (or less) per ADS	Any cash distribution to you
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities that are distributed by the depositary to ADS holders
$.02 (or less) per ADSs per calendar year	Depositary services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

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Persons depositing or withdrawing shares must pay:	*For:*
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement); or Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

The fees described above may be amended from time to time.

The depositary has agreed to reimburse us for expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and stock exchange application and listing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. In 2009, we received an incentive payment of RMB1.1 million ($0.2 million) from the depository relating to the ADS facility.

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None of these events occurred in any of the years ended December 31, 2007, 2008 and 2009.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See Item 10. Additional Information for a description of the rights of securities holders, which remain unchanged.

We completed our initial public offering of 31,250,000 ordinary shares, in the form of ADSs, at $14.50 per ADS on April 20, 2007, after our ordinary shares and American Depositary Receipts were registered under the Securities Act. The effective date of our registration statement on Form F-1 (File number: 333-141539) was April 20, 2007. Goldman Sachs (Asia) L.L.C. acted as the sole global coordinator and the sole bookrunner for this offering.

In 2009, we have used the net proceeds received from our initial public offering as follows:

approximately RMB107.1 million ($15.7 million) for the acquisition of approximately 35% of the equity interest in Shanghai Celgen;

approximately RMB267.4 million ($39.2 million) for the acquisition of 52.5% of the equity interest in Jiangsu Yanshen;

approximately RMB134.0 million ($19.6 million) to fund our research and development efforts; and

Approximately RMB336.7 ($49.3) for repurchase of our ordinary shares.

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Item 15. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this annual report, an evaluation has been carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-14(c) and 15d-14(c) promulgated under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statements preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the SEC, management assessed the effectiveness of the internal control over financial reporting as of December 31, 2009 using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We acquired a controlling interest in Jiangsu Yanshen Biological Technology Stock Co., Ltd (Jiangsu Yanshen) during 2009 and our management excluded from its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2009, Jiangsu Yanshen s internal control over financial reporting associated with total assets of RMB697.7 million and total revenue of RMB58.3 million included in our consolidated financial statements as of and for the year ended December 31, 2009. If adequately disclosed, companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the U.S. Securities and Exchange Commission.

Based on this assessment, management concluded that the our internal control over financial reporting was effective as of December 31, 2009 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The effectiveness of internal control over financial reporting as of December 31, 2009 has been audited by KPMG, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2009.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Simcere Pharmaceutical Group:

We have audited Simcere Pharmaceutical Group s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Simcere Pharmaceutical Group s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Simcere Pharmaceutical Group s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Simcere Pharmaceutical Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Simcere Pharmaceutical Group acquired a controlling financial interest in Jiangsu Yanshen Biological Technology Stock Co., Ltd (Jiangsu Yanshen) during 2009 and management excluded from its assessment of the effectiveness of Simcere Pharmaceutical Group s internal control over financial reporting as of December 31, 2009, Jiangsu Yanshen s internal control over financial reporting associated with total assets of RMB697.7 million and total revenue of RMB58.3 million included in the consolidated financial statements of Simcere Pharmaceutical Group and subsidiaries as of and for the year ended December 31, 2009. Our audit of internal control over financial reporting of Simcere Pharmaceutical Group also excluded an evaluation of the internal control over financial reporting of Jiangsu Yanshen.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Simcere Pharmaceutical Group and subsidiaries as of December 31, 2008 and 2009, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated June 30, 2010 expressed an unqualified opinion on those consolidated financial statements.

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/s/ KPMG
Hong Kong, China
June 30, 2010

Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Gary Siu Kwan Sik qualify as audit committee financial expert as defined in Item 16A of Form 20-F. Each of the members of the Audit Committee is an independent director as defined in the listing rules of New York Stock Exchange.

Item 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to this annual report on Form 20-F. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person s written request.

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by KPMG, our principal independent auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	Year Ended December 31,	
	2008	**2009**
Audit fees (1)	$1,929	$1,181
Audit-related fees (2)	163	146
Tax fees		
Other fees		
Total	$2,092	$1,327

(1) Audit fees represent the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements or services that are normally provided by the auditors in connection with statutory and

regulatory filings or engagements.

(2) Audit-related fees represent the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal auditors for services rendered that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit fees . Services comprising the fees disclosed under the category of Audit-related fees in 2009 involve principally limited reviews performed on our consolidated financial statements.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by KPMG, including audit services, audit-related services, tax services and other services as described above, other than those for de minimis services which are approved by the Audit Committee prior to the completion of the audit.

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

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In November 2008, our board of directors approved a share repurchase program that authorizes us to purchase up to $50.0 million of our issued and outstanding ADSs. In November 2009, our board of directors approved a new share repurchase program that authorizes us to purchase up to US$50.0 million of our issued and outstanding ADSs.

In 2008, we repurchased 3.0 million of ordinary shares in the form of ADSs for an aggregate cost of $10.0 (RMB68.0 million) of which included $0.1 million (RMB0.7 million) of handling charges. In 2009, we repurchased and cancelled an aggregate of 12.2 million ordinary shares in the form of ADSs for an aggregate cost of $43.6 million (RMB297.6 million) of which included $0.5 million (RMB3.4 million) of handling charges.

From January 1, 2010 to June 22, 2010, we further repurchased an additional 2.1 million ordinary shares in the form of ADSs for an aggregate cost of $9.1 million of which included $0.1 million of handling charge. All of the repurchased ordinary shares have been retired. The repurchases were made on the open market at prevailing market prices or in block trades and subject to restrictions relating to volume, price and timing. Any future repurchases, if any, will depend on prevailing market conditions, our liquidity requirements and other factors.

The following table sets forth certain information related to purchases made by us of our ADSs under the program:

Period	Total number of ADSs purchased	Average price paid per ADS[1]		Total number of ADSs purchased as part of publicly announced program	Approximate dollar value of ADSs that may yet be purchased under the program	
		US$	RMB[2]		US$	RMB[1]
November 10, 2008 to September 29, 2009	7,216,920	6.93	47.29	7,216,920		
November 18, 2009 to June 22, 2010	1,615,027	8.52	58.19	1,615,027	36,233	247,322

(1) The average price paid per ADS is calculated using the execution price for each repurchase excluding commissions paid to brokers.

(2) The translations of U.S. dollar amounts into Renminbi amounts have been made at the noon buying rate in effect on December 31, 2009, which was US$1.00 to

RMB6.8259.
See Introduction and Part I. Item 3. Key Information Selected Financial Data Exchange Rate Information.

Item 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Application of this Item does not apply until our annual report for the fiscal year ending December 31, 2010.

Item 16G. CORPORATE GOVERNANCE

We are a foreign private issuer (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs, each representing two ordinary shares, are listed on the New York Stock Exchange. Under Section 303A of the New York Stock Exchange Listed Company Manual, New York Stock Exchange listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the corporate governance provisions specified by the New York Stock Exchange with limited exceptions. The following summarizes some significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the New York Stock Exchange.

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The New York Stock Exchange standards for domestic companies require that non-management directors meet at regularly scheduled executive sessions without management. Our non-management directors have not met in executive sessions without management, and there is no requirement under the laws of the Cayman Islands that our non-management directors meet in executive sessions.

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PART III

Item 16. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

Item 17. FINANCIAL STATEMENTS

The following financial statements are filed as part of this Annual Report on Form 20-F, together with the reports of the independent auditors:

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Item 18. EXHIBITS

Exhibit Number	Description of Document
1.1	Second Amended and Restated Memorandum and Articles of Association of the Registrant
2.1	Registrant s Form of American Depositary Receipt
2.2	Registrant s Specimen Certificate for Ordinary Shares
2.3	Form of Deposit Agreement among the Registrant, the depositary and Owners and Beneficial Owners of the American Depositary Shares issued thereunder
2.4	Registration Rights Agreement among Simcere Pharmaceutical Group, New Good Management Limited and Assure Ahead Investments Limited, dated November 20, 2006
2.5	Share Purchase Agreement among Luo Yongzhang, Zhou Bing and State Good Group Limited, dated May 28, 2006
2.6	Share Purchase Agreement among Yantai Rongchang Pharmaceutic Co., Ltd., Beijing Scientific Town Development Co., Ltd., Yantai Ruikang Biochemical Drugs LLC and Simcere Pharmaceutical Company Limited, dated May 28, 2006
2.7	Registration Rights Agreement among Simcere Pharmaceutical Group, New Good Management Limited and King View Development International Limited, dated May 12, 2008
4.1	Form of Indemnification Agreement with the Registrant s directors
4.2	Form of Employment Agreement of senior executive officers
4.3	Form of Non-Disclosure, Non-Competition and Proprietary Information Agreement
4.4	2006 Share Incentive Plan adopted as of November 13, 2006
4.5	Cooperation Agreement on the Incorporation of Medgenn (Hong Kong) Ltd. entered into between Bestspeed Investments Limited (BVI) and Yantai Medgenn Co., Ltd., dated February 10, 2005
4.6	Implementation Rules of Supplementary Agreement on Cooperation Agreement on the Incorporation of Medgenn (Hong Kong) Ltd. entered into between Yantai Medgenn Co., Ltd. and Medgenn (Hong Kong) Co., Ltd., dated August 6, 2005
4.7	Joint Research Agreement on Anti-Tumor Drug AL6802 entered into between Jiangsu Simcere Pharmaceutical R&D Co., Ltd. and Advenchen Laboratories LLC, dated January 8, 2007
8.1*	Subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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Exhibit Number	Description of Document
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of KPMG

* Filed herewith.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Simcere Pharmaceutical Group

By: /s/ Jinsheng Ren
Name: Jinsheng Ren
Title: Chief Executive Officer

Date: June 30, 2010

SIMCERE PHARMACEUTICAL GROUP AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Simcere Pharmaceutical Group:

We have audited the accompanying consolidated balance sheets of Simcere Pharmaceutical Group and subsidiaries (the Company) as of December 31, 2008 and 2009, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Simcere Pharmaceutical Group and subsidiaries as of December 31, 2008 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2009, Simcere Pharmaceutical Group changed its method of accounting for business combinations and noncontrolling interest due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations* and FASB ASC 810, *Consolidation*.

The accompanying consolidated financial statements as of and for the year ended December 31, 2009 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 2(c) to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Simcere Pharmaceutical Group s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 30, 2010 expressed an unqualified opinion on the effectiveness of Simcere Pharmaceutical Group s internal control over financial reporting.

/s/ KPMG
Hong Kong, China
June 30, 2010

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Simcere Pharmaceutical Group and Subsidiaries
Consolidated Balance Sheets
(Amounts expressed in thousands, except share data)

	Note	December 31, 2008 RMB	2009 RMB	2009 US$
Assets				
Current assets				
Cash and cash equivalents		812,814	442,488	64,825
Pledged bank deposits		952	15,657	2,294
Accounts and bills receivables, net	3	748,997	704,321	103,184
Inventories	4, 19	95,948	106,655	15,625
Other current assets		49,048	102,743	15,051
Total current assets		**1,707,759**	**1,371,864**	**200,979**
Property, plant and equipment, net	5	478,850	758,246	111,084
Land use rights	6	114,624	146,158	21,412
Intangible assets, net	7	275,244	385,331	56,451
Goodwill	7	178,211	309,936	45,406
Investments in and advances to affiliated companies	7, 19		121,865	17,853
Other non-current assets		23,534	44,502	6,520
Total assets		**2,778,222**	**3,137,902**	**459,705**
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term debts	8, 9	6,000	76,000	11,134
Accounts and bills payables		25,219	152,249	22,305
Accrued payroll and employee benefits		28,436	50,668	7,423
Other current liabilities	11	275,358	413,948	60,643
Total current liabilities		**335,013**	**692,865**	**101,505**
Long-term debts, excluding current portion	9	62,000	122,685	17,973
Deferred tax liabilities	10(d)	59,358	93,108	13,640
Other liabilities	10(b)	20,529	21,561	3,159
Total liabilities		**476,900**	**930,219**	**136,277**
Shareholders equity				

Ordinary shares: Par value: US$0.01 Authorized: 500,000,000 shares authorized Issued and outstanding: 122,227,318 as of December 31, 2008 110,534,932 as of December 31, 2009	18	9,624	8,716	1,277
Additional paid-in capital		1,505,252	1,170,687	171,507
Accumulated other comprehensive loss		(82,130)	(43,886)	(6,429)
Retained earnings		820,279	846,707	124,043
Total equity attributable to Simcere Pharmaceutical Group		**2,253,025**	**1,982,224**	**290,398**
Noncontrolling interest		48,297	225,459	33,030
Total shareholders equity		**2,301,322**	**2,207,683**	**323,428**
Commitments and contingencies	14			
Total liabilities and shareholders equity		**2,778,222**	**3,137,902**	**459,705**

See accompanying notes to consolidated financial statements.

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Simcere Pharmaceutical Group and Subsidiaries
Consolidated Statements of Income
(Amounts expressed in thousands, except share data)

	Note	Year ended December 31, 2007 RMB	2008 RMB	2009 RMB	2009 US$
Revenue	16, 19	1,368,748	1,741,143	1,857,071	272,062
Cost of materials and production	19	(241,081)	(320,882)	(320,945)	(47,019)
Gross profit		**1,127,667**	**1,420,261**	**1,536,126**	**225,043**
Operating expenses:					
Research and development		(68,295)	(86,089)	(132,981)	(19,482)
Sales, marketing and distribution		(634,449)	(782,960)	(1,002,419)	(146,855)
General and administrative		(161,061)	(194,233)	(222,118)	(32,540)
Impairment loss on goodwill	7			(76,398)	(11,192)
Income from operations		**263,862**	**356,979**	**102,210**	**14,974**
Interest income		24,361	34,302	8,861	1,298
Interest expense	5	(6,346)	(4,693)	(12,126)	(1,776)
Foreign currency exchange gains, net	2(c)	24,670	39,879	382	56
Other income	14(d)	20,526	1,104	2,971	435
Equity in losses of equity method affiliated companies				(56,532)	(8,283)
Earnings before income taxes		**327,073**	**427,571**	**45,766**	**6,704**
Income tax expense	10	(13,527)	(49,285)	(16,897)	(2,475)
Net income		**313,546**	**378,286**	**28,869**	**4,229**
Less: net income attributable to the noncontrolling interest		(12,285)	(28,135)	(2,441)	(358)
Net income attributable to Simcere Pharmaceutical Group		**301,261**	**350,151**	**26,428**	**3,871**
Earnings per share:	15				
Basic		2.56	2.80	0.23	0.03
Diluted		2.48	2.80	0.23	0.03

See accompanying notes to consolidated financial statements.

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Simcere Pharmaceutical Group and Subsidiaries
Consolidated Statements of Shareholders Equity and Comprehensive Income
(Amounts expressed in thousands, except share data)

	Note	Number of ordinary shares	Par value RMB	Additional paid-in capital RMB	Accumulated other comprehensive loss RMB	Retained earnings RMB	Equity attributable to Simcere Pharmaceutical Group RMB	Non-controlling interests RMB	Total shareholders equity (note 13) RMB	Comprehensive income RMB
Balance as of January 1, 2007		**100,000,000**	**7,909**	**265,964**		**168,867**	**442,740**		**442,740**	
Issuance of ordinary shares in connection with public offering, net of issuance costs of RMB46,099		25,000,000	1,931	1,253,778			1,255,709		1,255,709	
Share-based compensation	17			30,764			30,764		30,764	
Issuance of ordinary shares upon exercise of share options	17	6,200		191			191		191	
Net income						301,261	301,261	8,236	309,941	301,261
Foreign currency translation adjustments, net of nil tax	2(c)				(46,849)		(46,849)		(46,849)	(46,849)
Comprehensive income										**254,412**
Acquisition of Boda	7(c)							1,538	1,538	
Acquisition of Tung Chit	7(c)							2,363	2,363	
Balance as of December 31, 2007		**125,006,200**	**9,840**	**1,550,697**	**(46,849)**	**470,128**	**1,983,816**	**12,137**	**1,995,953**	
Share-based compensation	17			25,536			25,536		25,536	

Issuance of ordinary shares upon exercise of share options	17	198,000	14	5,722			5,736		5,736	
Repurchase of ordinary shares	18	(2,976,882)	(230)	(76,703)			(76,933)		(76,933)	
Net income						350,151	350,151	28,135	378,286	350,151
Foreign currency translation adjustments, net of nil tax	2(c)				(35,281)		(35,281)		(35,281)	(35,281)
Comprehensive income										**314,870**
Acquisition of Simcere Zhong Ren	7(b)							8,025	8,025	
Balance as of December 31, 2008		**122,227,318**	**9,624**	**1,505,252**	**(82,130)**	**820,279**	**2,253,025**	**48,297**	**2,301,322**	
Share-based compensation	17			23,677			23,677		23,677	
Issuance of ordinary shares upon exercise of non-vested shares	17	467,780	32				32		32	
Repurchase of ordinary shares	18	(12,160,166)	(940)	(335,736)			(336,676)		(336,676)	
Net income						26,428	26,428	2,441	28,869	26,428
Foreign currency translation adjustments, net of nil tax	2(c)				38,244		38,244		38,244	38,244
Comprehensive income										**64,672**
Acquisition of Shandong Simcere s shares from noncontrolling interests	7(a)			(22,506)			(22,506)	(7,622)	(30,128)	
Acquisition of Jiangsu	7(a)							182,343	182,343	

Yanshen									
Balance as of December 31, 2009	**110,534,932**	**8,716**	**1,170,687**	**(43,886)**	**846,707**	**1,982,224**	**225,459**	**2,207,683**
Balance as of December 31 2009	**US$**	**1,277**	**171,507**	**(6,429)**	**124,043**	**290,398**	**33,030**	**323,428**

See accompanying notes to consolidated financial statements.

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Simcere Pharmaceutical Group and Subsidiaries
Consolidated Cash Flow Statements
(Amounts expressed in thousands)

	Note	Year ended December 31, 2007 RMB	2008 RMB	2009 RMB	2009 US$
Operating activities:					
Net income		313,546	378,286	28,869	4,229
Adjustments to reconcile net income to net cash provided by operating activities:					
Bad debt expense		1,203	1,576	101	15
Inventory write-downs		3,213	3,000	2,855	418
Depreciation of property, plant and equipment		27,770	39,791	55,405	8,117
Amortization of intangible assets		15,084	29,433	29,413	4,309
Impairment loss on goodwill	7			76,398	11,192
Equity in losses of equity method affiliated companies				56,532	8,283
Acquired in-process research and development		884			
Gain on disposal of property, plant and equipment		(2,526)	(21)	(1,289)	(189)
Deferred tax expense (benefit)		11,009	(2,770)	(21,366)	(3,131)
Share-based compensation expense		30,764	25,536	23,677	3,469
Unrealized foreign currency exchange losses (gains)		(45,350)	(39,763)	38,127	5,586
Changes in assets and liabilities, net of effects from acquisitions					
Decrease (increase) in accounts and bills receivables		(316,010)	(257,135)	87,799	12,863
Decrease (increase) in inventories		(14,304)	(32,648)	5,876	861
Decrease (increase) in other current assets		49,660	(12,755)	16,551	2,425
Decrease (increase) in amounts due from related parties		166	3,138	(324)	(47)
Increase in accounts and bills payables		1,084	1,275	99,231	14,537
Increase (decrease) in accrued payroll and employee benefits		4,946	(1,424)	13,851	2,029
Increase (decrease) in other current liabilities		70,628	11,639	(54,742)	(8,020)
Decrease in amounts due to related parties		(1,352)			
Net cash provided by operating activities		**150,415**	**147,158**	**456,964**	**66,946**

Investing activities:					
Payment for purchase of land use rights		(20,449)	(926)		
Payment for purchase of intangible assets			(2,554)		
Purchase of property, plant and equipment		(78,143)	(117,541)	(120,795)	(17,697)
Payment of deposits for purchase of property, plant and equipment and intangible assets			(15,791)	(20,533)	(3,008)
Proceeds from disposal of property, plant and equipment and land use right			1,942	4,780	700
Payment for acquisition of subsidiaries, net of cash acquired	7	(131,511)	(62,420)	(175,058)	(25,646)
Payment for acquisition of affiliated companies	7(a)			(110,000)	(16,115)
(Increase) decrease in held-to-maturity investment securities		(470,000)	470,000		
(Increase) decrease in pledged bank deposits		19,877	(42)	(14,705)	(2,154)
Advances made to an affiliated company	19			(19,761)	(2,895)
Proceeds from repayments of loans and advances due from related parties	19	212			
Proceeds from disposal of property, plant and equipment, and land use right to related parties	19	11,104			
Loans and advances made to related parties	19		(20,000)	(1,600)	(234)
Net cash (used in) provided by investing activities		**(668,910)**	**252,668**	**(457,672)**	**(67,049)**
Financing activities:					
Proceeds from issuance of ordinary shares		1,301,808			
Proceeds from exercise of share options		191	5,736		
Proceeds from exercise of non-vested shares				32	5
Payments for offering costs		(39,346)			
Payments for repurchase of ordinary shares			(76,933)	(336,676)	(49,323)
Principal repayments of bank loans and other borrowings		(314,000)	(17,000)	(2,963)	(435)
	7	(27,064)		(30,128)	(4,414)

Payments for acquisition of additional noncontrolling interests				
Distribution by a subsidiary to its noncontrolling shareholder	(10,270)	(649)		
Net cash provided by (used in) financing activities	**911,319**	**(88,846)**	**(369,735)**	**(54,167)**

See accompanying notes to consolidated financial statements.

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Simcere Pharmaceutical Group and Subsidiaries
Consolidated Cash Flow Statements
(Amounts expressed in thousands)

		Year ended December 31,			
		2007	2008	2009	2009
		RMB	RMB	RMB	US$
Effect of exchange rate changes on cash and cash equivalents		**(1,499)**	**4,482**	**117**	**17**
Net increase(decrease) in cash and cash equivalents		**391,325**	**315,462**	**(370,326)**	**(54,253)**
Cash and cash equivalents at beginning of year		**106,027**	**497,352**	**812,814**	**119,078**
Cash and cash equivalents at end of year		**497,352**	**812,814**	**442,488**	**64,825**
(a) Supplemental cash flow and non-cash information:					
Cash and cash equivalents paid during the period for:					
Income taxes		3,056	40,401	40,404	5,919
Interest, net of capitalized interest		6,418	4,693	12,126	1,776
Non-cash investing transactions:					
Payable and accruals for acquisition of property, plant and equipment and land use right		39,791	32,890	54,360	7,964
Payable for acquisition of Jiangsu Yanshen				30,801	4,511
Payable for acquisition of Boda		8,323			
(b) Analysis of net cash outflow in respect of acquisitions is as follow:					
i) Acquisition of Boda in 2007					
Cash consideration paid	7(c)	(114,738)			
Cash and cash equivalents acquired		13,003			

Net cash outflow in respect of acquisition of Boda		(101,735)			
ii) Acquisition of Tung Chit in 2007					
Cash consideration paid	7(c)	(32,927)			
Cash and cash equivalents acquired		3,151			
Net cash outflow in respect of acquisition of Tung Chit		(29,776)			
iii) Acquisition of Simcere Zhong Ren in 2008					
Cash consideration paid	7(b)		(65,090)		
Cash and cash equivalents acquired			2,670		
Net cash outflow in respect of acquisition of Simcere Zhong Ren			(62,420)		
iv) Acquisition of 52.5% equity interest in Jiangsu Yanshen in 2009					
Cash consideration paid	7(a)			(267,398)	(39,176)
Cash and cash equivalents acquired				92,340	13,530
Net cash outflow in respect of acquisition of Jiangsu Yanshen				(175,058)	(25,646)

See accompanying notes to consolidated financial statements.

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Simcere Pharmaceutical Group and Subsidiaries
Notes to Consolidated Financial Statements
(Amounts expressed in thousands, except share data)

1 Principal activities, significant concentrations and risks, and basis of presentation

(a) ***Principal activities***

Simcere Pharmaceutical Group (the Company) and its subsidiaries (the Group), are principally engaged in the research, development, manufacture and distribution of pharmaceutical products in the People s Republic of China (the PRC).

(b) ***Significant concentrations and risks***

Revenue concentrations

The Group sells its products to pharmaceutical and vaccine distributors and the PRC government. Sales to distributors account for substantially all of the Group s revenues. The Group does not have long-term distribution agreements and competes for desired distributors with other pharmaceutical and vaccine manufacturers. Consequently, maintaining relationships with existing distributors and replacing distributors may be costly, difficult and time-consuming. Any disruption of the Group s distribution network, including the failure to renew existing distribution agreements with desired distributors, could negatively affect the Group s ability to effectively sell its products and could materially and adversely affect its business, financial condition and results of operations. As of and for the years ended December 31, 2007, 2008 and 2009, no single customer contributed 10% or more of the Group s revenue or gross accounts and bills receivables.

The Group derives a substantial portion of revenue from the sales of six products, namely Bicun, Zailin, Yingtaiqing, Sinofuan, Yidasheng and Endu of which revenues were over RMB100,000 (US$14,650) individually for the year ended December 31, 2009. Aggregate sales of these products accounted for 79.5%, 78.6% and 76.8% of the Group s revenue for the years ended December 31, 2007, 2008 and 2009, respectively. As the Group expects the sales of these products to continue to comprise a substantial portion of revenues in the future, any factors adversely affecting the sales of any of these products will have a material adverse effect on the Group s business, financial condition and results of operations.

Price control by PRC government authorities

The retail prices of certain pharmaceuticals sold in China, primarily those included in the China s national drug reimbursement list, the essential drug list and the national and provincial medical insurance catalogs, issued by China s Ministry of Human Resources and Social Security and those pharmaceuticals whose production or trading are deemed to constitute monopolies, are subject to price controls in the form of fixed prices or price ceilings. Manufacturers and distributors cannot set the retail price for any given price-controlled product above the price ceilings or deviate from the fixed price imposed by the government. The prices of medicines that are not subject to price controls are determined freely, subject to notification to the provincial pricing authorities.

Certain of the Group s products are subject to such price controls and accordingly, the price of such products could not be increased at the Group s discretion above the relevant controlled price ceiling without prior governmental approval. In addition, the price of such products may also be adjusted downward by the relevant government authorities in the future. Such price control, especially downward price adjustment, may negatively affect the Group s revenue and profitability. For the years ended December 31, 2007, 2008 and 2009, 73%, 72% and 82%, respectively of the Group s revenue were from products that were subject to government pricing controls.

Concentration of suppliers

The Group sources raw materials, as well as packaging materials, from various suppliers in the PRC. Historically, the majority of the Group s raw materials have been readily available. The Group generally maintains two vendors for each major raw material in order to diversify its vendor base and help to ensure a reliable supply of raw materials at reasonable prices. For the years ended December 31, 2007, 2008 and 2009,

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Simcere Pharmaceutical Group and Subsidiaries
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the Group purchased 50.9%, 40.3% and 37.6%, respectively, of its total supply of raw materials from its five largest suppliers.

Concentrations of cash and cash equivalents held at financial institutions

The Group s cash and cash equivalents are held at financial institutions in the PRC, the Hong Kong Special Administrative Region (the HK SAR) and the United States of America (the U.S.) as follows:

	December 31, 2008			
	Denominated in United States Dollars RMB	Denominated in Hong Kong Dollars RMB	Denominated in Renminbi RMB	Total RMB
Location:				
PRC	126,057		648,824	774,881
Hong Kong	2,648	1,361		4,009
United States	33,924			33,924
Total	**162,629**	**1,361**	**648,824**	**812,814**

	December 31, 2009			
	Denominated in United States Dollars RMB	Denominated in Hong Kong Dollars RMB	Denominated in Renminbi RMB	Total RMB
Location:				
PRC	55,622		364,058	419,680
Hong Kong	7,479	1,393		8,872
United States	13,936			13,936
Total	**77,037**	**1,393**	**364,058**	**442,488**
Total US$	**11,286**	**204**	**53,335**	**64,825**

Cash and cash equivalents held at financial institutions located in the PRC were uninsured; cash and cash equivalents held at major financial institutions located in the HK SAR were fully insured; and cash and cash equivalents held at major financial institutions located in the U.S. were insured up to US$200 (RMB1,365). Management believes that these major financial institutions have high credit ratings.

(c) ***Basis of presentation***

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

2 Summary of significant accounting policies

(a) ***Consolidation***

The consolidated financial statements include the financial statements of the Company and its majority-owned subsidiaries. For consolidated subsidiaries where the Company s ownership is less than 100%, the outside shareholders interests are shown as noncontrolling interests. All significant intercompany balances and transactions have been eliminated upon consolidation.

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Simcere Pharmaceutical Group and Subsidiaries
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(b) ***Use of estimates***

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management of the Group to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include recoverability of the carrying amount of property, plant and equipment, goodwill and intangible assets (including acquired in-process research and development (IPR&D) assets in a business combination); the allocation of the purchase price for the Group s acquisitions; allowances for doubtful receivables and deferred income tax assets; depreciation and amortizable lives; realizablility of inventories; and amounts recognized for contingencies. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from those estimates.

(c) ***Foreign currency translation***

The reporting currency of the Group is the Renminbi (RMB).

The functional currency of the Company s PRC subsidiaries is the RMB. RMB is not a fully convertible currency. All foreign exchange transactions involving RMB must take place either through the People s Bank of China (PBOC) or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC, which are determined largely by supply and demand.

Transactions in foreign currencies are translated into the functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rate at the balance sheet date. The resulting exchange differences are recognized in the consolidated statements of income.

Assets and liabilities of subsidiaries, whose functional currency are not the RMB, are translated into RMB at the exchange rate at the balance sheet date. Income and expense items are translated at the average rates of exchange prevailing during the period. The adjustment resulting from translating the financial statements of such entities is reflected as a component of accumulated other comprehensive loss within shareholders equity.

For the U.S. dollar convenience translation amounts included in the accompanying financial statements, the RMB amounts were translated into U.S. dollars at the rate of US$1.00=RMB6.8259, representing the noon buying rate in New York for cable transfers of RMB per U.S. dollar as set forth in the H.10 weekly statistic release of the Federal Reserve Board, as of December 31, 2009. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at that rate or at any other rate on December 31, 2009 or on any other date.

(d) ***Cash and cash equivalents and pledged bank deposits***

Cash and cash equivalents consist of cash on hand, cash in bank accounts, interest-bearing savings accounts, money market funds, time deposits and short-term fixed income investments with original maturities of three months or less at the date of purchase. Cash that is restricted as to withdrawal for use or pledged as security is disclosed separately on the face of the balance sheet, and is not included in the cash and cash equivalents total in the consolidated statements of cash flows. The pledged bank deposits represent cash maintained at a bank as security for short-term bills payable issued by the subsidiaries of the Company to third party suppliers. These pledged bank deposits are restricted as to withdrawal or use by the subsidiaries as long as the related short-term bills payable are outstanding. Upon maturity of the bills payable which generally ranges from three to six months,

the cash is available for use by the Group.

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Simcere Pharmaceutical Group and Subsidiaries
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(e) ***Accounts receivable and bills receivable***

Accounts receivable are recognized at the invoiced amount and do not bear interest. The Group maintains an allowance for doubtful accounts for estimated losses resulting from inability of its customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts, aging data and historical write-off experience. Judgments are made with respect to the collectibility of accounts receivable based on historical experience, customer specific facts and current economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Apart from those disclosed in note 14(d), the Group does not have any off-balance-sheet credit exposure related to accounts receivable.

To reduce the Group s credit risk, the Group has required certain customers to pay for the sale of the Group s products by bills receivable. A bill receivable primarily represents a short-term note receivable issued by a financial institution that entitles the Group to receive the full face amount from the financial institution at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, the Group has not experienced any collection losses on bills receivable and therefore no allowance for doubtful accounts has been provided.

(f) ***Inventories***

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted average cost method. Costs of work-in-progress and finished goods comprise direct materials, direct labor and related manufacturing overhead based on normal operating capacity.

(g) ***Investments in and advances to affiliated companies***

Investments in entities where the Group does not have a controlling financial interest, but has the ability to exercise significant influence over the operating and financial policies of the investee, are accounted for using the equity method of accounting. Under the equity method of accounting, the Group s share of the investee s results of operations is included in the consolidated statements of income.

The Group recognizes a loss when there is a loss in value of an equity method investment which is other than a temporary decline. The process of assessing and determining whether an impairment on a particular equity investment is other than temporary requires a significant amount of judgment. To determine whether an impairment is other-than-temporary, management considers whether the Group has the ability and intent to hold the investment until recovery and whether evidence indicating the carrying value of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the decline in value, any change in value subsequent to year end, and forecasted performance of the investee. Based on management s evaluation, there was no impairment charges related to its investments in any affiliated companies for the year ended December 31, 2009.

(h) ***Long-lived assets***

Property, plant and equipment

Property, plant, and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets, using the straight-line method. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and proceeds realized thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized. The estimated useful lives of property, plant and equipment are as follows:

Building and leasehold improvements	20 - 50 years
Machinery and equipment	3 - 10 years

Motor vehicles	3 - 8 years
Furniture, fixtures and office equipment	3 - 5 years

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No depreciation expense is provided in respect of construction-in-progress.

Depreciation of property, plant and equipment attributable to manufacturing activities is capitalized as part of the cost of inventory, and expensed to cost of materials and production when the inventory is sold.

Goodwill and other intangible assets

Goodwill represents the excess of the Company s acquisition cost over the fair value of the net assets acquired. Goodwill is not amortized but instead is tested for impairment at least annually.

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the respective assets. The Group s intangible assets and their respective estimated useful lives are as follows:

Customer relationships	4 - 11 years
Developed technology	7 - 16 years
Product trademarks	6 - 10 years
Manufacturing and supply licenses	1 - 5 years

IPR&D represents the fair value assigned to incomplete research projects that the Group acquires through business combinations, which at the time of acquisition, have not reached technological feasibility. For business combinations for which the acquisition date is before January 1, 2009, the fair value of IPR&D projects was expensed upon acquisition. For business combinations for which the acquisition date that is on or after January 1, 2009, the fair value of IPR&D projects is recognized as intangible asset on the consolidated balance sheet rather than expensed. The amounts capitalized are accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of the projects. Upon successful completion of each project, the Group will make a determination as to the useful life of the intangible asset and begin amortization.

The Group tests indefinite-lived intangibles, including IPR&D, for impairment at least annually and whenever impairment indicators are present. The impairment test consists of a comparison of the fair value of the IPR&D with its carrying amount. If the carrying amount of an IPR&D exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Impairment of long-lived assets

Long-lived assets including property, plant and equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. No impairment loss of intangible assets was recognized in 2007, 2008 and 2009.

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. This determination is made at the reporting unit level and consists of two steps. The first step of the impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. Second, if the carrying amount of a reporting unit exceeds its fair

value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

For the years ended December 31, 2007 and 2008, management determined that the Group was the reporting unit for the purposes of goodwill impairment testing. The Group used its market capitalization based on the

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quoted market price of its ordinary shares in determining the fair value of the reporting unit. No impairment loss of goodwill was recognized in 2007 and 2008.

Following the acquisition of Jiangsu Yanshen Biological Technology Stock Co., Ltd (Jiangsu Yanshen) in 2009, management evaluated and determined that the Company has two reporting units: pharmaceutical business unit and vaccines business unit. The goodwill recognized in the acquisition of Jiangsu Yanshen (see note 7(a) was assigned to the vaccine reporting unit. For the year ended December 31, 2009, the Group recognized an impairment loss on goodwill of the vaccine reporting unit of RMB76,398 (US$11,192).

(i) ***Land use rights***

A land use right in the PRC represents an exclusive right to occupy, use, develop, lease, transfer a piece of land during the contractual term of the land use right. Land use rights are usually paid in one lump sum at the date the right is granted. The payment usually covers the entire duration period of the land use right. The lump sum advance payments are capitalized as land use right assets and then charged to expenses on a straight-line basis over the respective periods of the rights of 24-75 years.

(j) ***Income taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in consolidated statements of income in the period that includes the enactment date.

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48) which was codified into Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes*. Under this Interpretation, management determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, it is presumed that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. In addition, a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. A recognized income tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. The tax positions are regularly reevaluated based on the results of the examination of income tax filings, statute of limitations expirations and changes in tax law that would either increase or decrease the technical merits of a position relative to the more likely than not recognition threshold. The Group s policy is to accrue interest and penalties related to unrecognized tax benefits as a component of income tax expense.

(k) ***Revenues***

Sales of pharmaceutical products represent the invoiced value of products sold, net of value added taxes (VAT).

The Group recognizes revenue from the sale of products when the following criteria are met: 1) persuasive evidence of an arrangement exits (sales agreements and customer purchase orders are used to determine the

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existence of an arrangement); 2) delivery of the product has occurred and risks and benefits of ownership have been transferred, which is when the product is received by the customer at its or a designated location in accordance with the sales terms; 3) the sales price is fixed or determinable; and 4) collectibility is reasonably assured. The Group s sales agreements do not provide the customer the right of return, unless the products are defective in which case the Group allows for an exchange of products or return. For the periods presented, defective product returns were immaterial.

In the PRC, VAT at a general rate of 17% on invoice amount is collected on behalf of tax authorities in respect of the sales of products and is not recognized as revenue. VAT collected from customers, net of VAT paid for purchases, is recognized as a liability in the consolidated balance sheets until it is paid to the authorities.

Certain of the Group s subsidiaries operate in special economic zones of the PRC and are eligible to receive an annual refund of a portion of the VAT paid to local tax authorities. The refund is included in revenue in the consolidated statements of income, as it is akin to a government operating subsidy, and is recognized as revenue upon receipt since the refund amount is discretionary and the amount varies year to year based on the availability of government funds as determined by the tax bureau.

(l) ***Government grants***

Government grants are recognized when there is reasonable assurance that the Group will comply with the conditions attaching to them, and the grants are receivable. Grants that compensate research and development expenses are recognized as a reduction to the related research and development expenses. Grants that compensate the Group for the cost of property, plant and equipment and land use rights are recognized as a reduction of the cost of the related asset and are recognized over the useful life of the asset by way of reduced depreciation expense or lease expense.

For the years ended December 31, 2007, 2008 and 2009, RMB10,000, RMB2,697, and RMB500 (US$73), respectively, have been recognized as a reduction of research and development expenses.

(m) ***Research and development***

Research and development costs are expensed as incurred. These expenses include the costs of the Group s internal research and development activities and the costs of research and development conducted by others on behalf of the Group, such as through third-party collaboration arrangements. Research and development costs in connection with third-party collaboration arrangements prior to regulatory approval are expensed when the research and development activities are performed. Once a regulatory approval is obtained, subsequent payments are recognized as intangible assets and, unless the assets are determined to have an indefinite life, amortized over the remaining agreement terms or the expected product life cycle, whichever is shorter.

The costs of acquired technology know-how (drugs in a development stage) that are purchased from others for a particular research and development project either singly, or as part of a group of assets, and that have no alternative future uses (in other research and development projects or otherwise), are expensed as research and development costs. Management has determined that for an acquired technology know-how to have an alternative future use, it should be (a) reasonably expected that the Group will use the technology in an alternative manner for an economic benefit and (b) the Group s use of the technology is not contingent on further development subsequent to acquisition (that is, it can be used in an alternative manner at the acquisition date). None of the Group s acquired technology know-how during the periods presented was determined to have an alternative future use at the acquisition date since technological feasibility was not established and regulatory approval from the State Food and Drug Administration of China (SFDA) was not obtained. Further subsequent development, including additional clinical testing, was required to obtain the necessary regulatory approval before the products

could be launched onto the market for sale.

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(n) ***Advertising costs***

Advertising costs are expensed as incurred and included in sales, marketing and distribution expenses. Advertising costs for the years ended December 31, 2007, 2008 and 2009 amounted to RMB31,016, RMB41,816, and RMB51,914 (US$7,605), respectively.

(o) ***Shipping and handling fees and costs***

Costs incurred by the Group for shipping and handling to transport and deliver products to customers, are included in sales, marketing and distribution expenses. Shipping and handling fees and costs for the years ended December 31, 2007, 2008 and 2009 amounted to RMB11,912, RMB12,408 and RMB12,491 (US$1,830), respectively.

(p) ***Retirement and other postretirement benefits***

Contributions to defined contribution retirement plans are charged to the consolidated statements of income as and when the related employee service is provided. The Group does not have any defined benefit retirement plans.

(q) ***Share-based payment***

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes that cost on a straight-line basis over the requisite service period.

(r) ***Commitments and contingencies***

In the normal course of business, the Group is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, product and environmental liability, and tax matters. The Group records accruals for such loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Historically, the Group has experienced no product liability claims.

(s) ***Earnings per share***

Basic earnings per share is computed by dividing net income by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of ordinary shares and dilutive ordinary equivalent shares outstanding during the period. Dilutive ordinary equivalent shares consist of the ordinary shares issuable upon the exercise of outstanding share options calculated using the treasury stock method. Dilutive ordinary equivalent shares in the diluted earnings per share computation are excluded to the extent that their effect is anti-dilutive.

(t) ***Segment reporting***

For the years ended December 31, 2007, 2008 and 2009, the Group as a whole is the only operating segment. The Group s chief operating decision maker regularly receives and reviews the financial information on a consolidated group basis to make decisions about resource allocation and assess performance. All of the Group s operations and customers are located in the PRC. Consequently, no geographic information is presented.

(u) ***Fair value measurement***

On January 1, 2008, the Group adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, included in FASB ASC 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are

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recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

On January 1, 2009, the Group adopted the provisions of FASB ASC 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. For the year ended December 31, 2009, a goodwill impairment charge of RMB76,398 (US$11,192) was recognized based on the reporting unit's fair value (see note 7(a) and 21).

(v) ***Recently adopted accounting standards***

ASC 805, Business Combinations

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (codified as FASB ASC 805, *Business Combinations*). ASC 805 modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100% of the assets acquired, liabilities assumed, and noncontrolling interest in the acquiree at the acquisition-date fair value. In addition, ASC Topic 805 requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent acquired assets and liabilities, as well as contingent consideration, to be recognized at fair value. ASC 805 is applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

ASC 810, Consolidation

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51* (codified as FASB ASC 810, *Consolidation*). ASC 810 establishes accounting and reporting standards for the treatment of noncontrolling interests in a subsidiary. Noncontrolling interests in a subsidiary will be reported as a component of equity in the consolidated financial statements and any retained noncontrolling equity investment upon deconsolidation of a subsidiary will initially be measured at fair value. ASC 810 is effective, on a prospective basis, for fiscal years beginning on or after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The Group adopted the provisions of ASC 810 on January 1, 2009. The Group classified earnings attributable to noncontrolling interests (previously referred to as minority interests) as part of consolidated net income and to include the accumulated amount of noncontrolling interests as part of shareholders equity. The Group also classified payments for acquisition of additional noncontrolling interests as financing activities in the consolidated statements of cash flows.

ASC 808, Collaborative Arrangements

In December 2007, the FASB issued Emerging Issues Task Force (EITF) No. 07-1, Accounting for Collaborative Arrangements (codified as FASB ASC 808, *Collaborative Arrangements*). ASC 808 establishes reporting requirements regarding financial statement presentation and disclosure of collaborative arrangements, which includes arrangements entered into regarding development and commercialization of products. It requires certain transactions between collaborators to be recorded in the statements of income on either a gross or net basis when certain characteristics exist in the collaborative relationship. ASC 808 became effective for the Group on January 1, 2009. The initial adoption of ASC 808 did not have a significant impact on the Group s financial position and results of operations.

3 Accounts and bills receivables, net

Accounts and bills receivables, net are summarized as follows:

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	December 31,		
	2008 RMB	2009 RMB	2009 US$
Accounts receivable	316,139	303,255	44,428
Less: allowance for doubtful accounts	(6,995)	(6,749)	(989)
Accounts receivable, net	**309,144**	**296,506**	**43,439**
Bills receivable	439,853	407,815	59,745
Total accounts and bills receivables, net	**748,997**	**704,321**	**103,184**

The movements of the allowance for doubtful accounts are as follows:

	Year ended December 31,			
	2007 RMB	2008 RMB	2009 RMB	2009 US$
Beginning allowance for doubtful accounts	6,834	6,635	6,995	1,025
Additions charged to bad debt expense	1,203	1,576	101	15
Write-off of accounts receivable	(1,402)	(1,216)	(347)	(51)
Ending allowance for doubtful accounts	**6,635**	**6,995**	**6,749**	**989**

As part of its ongoing control procedures, management monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. Credit terms are normally 30 to 90 days from the date of billing. The Group does not require collateral or other security to support credit sales.

Several subsidiaries of the Company sold bills receivable with recourse to third party financial institutions. Under this arrangement, control over the transferred bills receivable is surrendered and the subsidiaries do not retain beneficial interests in the transferred bills receivables. All of the transferred bills receivables were accounted for as sales and derecognized upon transfer pursuant to the provisions of FASB ASC 860, *Transfer and Servicing*.

For the years ended December 31, 2007, 2008 and 2009, the Group received proceeds from the sale of bills receivable of RMB51,720, RMB274,183 and RMB1,038,053 (US$152,076), respectively. The Group recognized discounts of RMB521, RMB2,993 and RMB7,392 (US$1,083) in respect of bills receivable sold for the years ended December 31, 2007, 2008 and 2009, respectively, which have been included in interest expense.

4 Inventories

Inventories by major categories are summarized as follows:

	December 31,		
	2008 RMB	2009 RMB	2009 US$
Raw materials	14,537	21,801	3,194
Consumables and packaging materials	12,914	9,890	1,449

Work-in-progress	17,924	21,888	3,207
Finished goods	50,573	53,076	7,775
Total inventories	**95,948**	**106,655**	**15,625**

Inventory write-downs of RMB3,213, RMB3,000 and RMB2,855 (US$418) were recognized in cost of materials and production in the consolidated statements of income during the years ended December 31, 2007, 2008 and 2009, respectively.

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5 Property, plant and equipment, net

Property, plant and equipment, net consist of the following:

	December 31,		
	2008	2009	2009
	RMB	RMB	US$
Buildings and leasehold improvements	326,120	441,970	64,749
Machinery and equipment	165,958	307,230	45,009
Motor vehicles	38,058	40,709	5,964
Furniture, fixtures and office equipment	31,766	51,315	7,518
Construction-in-progress	64,927	147,280	21,577
	626,829	988,504	144,817
Less: accumulated depreciation and amortization	(163,770)	(243,791)	(35,716)
	463,059	744,713	109,101
Deposits for purchase of property, plant and equipment	15,791	13,533	1,983
Property, plant and equipment, net	**478,850**	**758,246**	**111,084**

The Group capitalizes interest cost as a component of the cost of construction in progress. Interest incurred consists of the following:

	Year ended December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US$
Interest cost capitalized	763	2,133	137	20
Interest cost charged to income	6,346	4,693	12,126	1,776
Total interest cost incurred	**7,109**	**6,826**	**12,263**	**1,796**

6 Land use rights

Land use rights consist of the following items:

	December 31,		
	2008	2009	2009
	RMB	RMB	US$
Land use rights:			
non-current portion	114,624	146,158	21,412
current portion	2,472	3,200	469
Total land use rights	**117,096**	**149,358**	**21,881**

As of December 31, 2009, land use rights with carrying value of RMB26,154 (US$3,832) were pledged to banks as collateral for long-term bank loans of RMB20,000 (US$2,930). No land use rights were pledged to banks as of December 31, 2008.

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7 Acquisitions, goodwill and intangible assets

(a) ***2009 acquisitions***

Acquisition of a 10% equity interest in Shandong Simcere

On January 6, 2009, the Group acquired 10% equity interest in Shandong Simcere Medgenn Bio-Pharmaceutical Co., Ltd. (Shandong Simcere) for cash consideration of RMB30,128 (US$4,414). The additional purchase of ownership interests in Shandong Simcere did not constitute a change in control. The noncontrolling interest was reduced by RMB7,622 (US$1,117) and the Group recognized RMB22,506 (US$3,297) as a reduction to additional paid-in-capital which represented the difference between the fair value of the consideration and the carrying amount of the 10% noncontrolling interest acquired as of the purchase date. As a result of the acquisition of the additional 10% equity interest, Shandong became a wholly owned subsidiary of the Group.

Acquisition of a 52.5% equity interest in Jiangsu Yanshen

The Group acquired acquire 37.5% equity interest in Jiangsu Yanshen, a China-based developer and manufacturer of human vaccines, for cash consideration of RMB195,540 (US$28,647). The 37.5% equity interest acquisition was completed on May 22, 2009 and the Group commenced accounting for its equity interest of 37.5% under the equity method on that date. The purchase consideration was paid in full in July 2009.

In October and November, 2009, the Group entered into share purchase agreements to acquire 100% equity interest in ChinaVax for aggregate cash consideration of RMB102,654 (US$15,039). ChinaVax is a Cayman Islands investment holding company which then held 15% equity interest in Jiangsu Yanshen. As of December 31, 2009, 70% of the purchase consideration relating to the acquisition of China Vax, or RMB71,858 (US$10,529), was paid.

As a result, the Group obtained 100% controlling interest in ChinaVax and therefore, combined with its previous 37.5% equity interest held in Jiangsu Yanshen, the Group holds 52.5% controlling interest in Jiangsu Yanshen.

The Group ceased using the equity method and began consolidating Jiangsu Yanshen on December 9, 2009, the date the Group obtained a 52.5% controlling interest in Jiangsu Yanshen through the acquisition of China Vax. The acquisition of Jiangsu Yanshen was accounted for by the Group as a business combination. As required under ASC 805, the Group remeasured its previously held equity interest of 37.5% in Jiangsu Yanshen which was determined to be RMB143,956 (US$21,089) and recognized a resulting loss of RMB55,587 (US$8,144) in equity in losses of equity method affiliated companies for the year ended December 31, 2009. The remeasurement of the previously held equity interest of 37.5% resulted in a loss because the fair value of the equity interest in Jiangsu Yanshen on the date of remeasurement was less than its carrying value. The decline in the fair value was due to reduced estimated future cash flows as a result of the SFDA investigation on Jiangsu Yanshen s sales of human use rabies vaccines and its subsequent resolution (see note 7(e)).

The acquisition of the 52.5% equity interest in Jiangsu Yanshen resulted in the recognition of goodwill of RMB208,123 (US$30,490) which has been allocated to the vaccines reporting unit and intangible assets of RMB139,500 (US$20,437). Goodwill and the amortization of intangible assets arising from the acquisition are not deductible for tax purposes. The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed at the date of acquisition. Contingent liabilities were recognized to the extent the amounts were probable and reasonably estimable. The final determination of fair value for certain assets

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and liabilities will be subject to the resolution of contingency which may result in adjustments to the preliminary values presented below:

	Amount RMB
Cash and cash equivalents	92,340
Other current assets	97,863
Deferred tax assets	25,463
Property, plant and equipment	203,287
Developed technology	41,200
Manufacturing licenses	5,200
In-process research and development	93,100
Land use right	34,800
Goodwill	208,123
Total assets acquired	**801,376**
Current liabilities	(264,135)
Deferred tax liabilities	(39,482)
Other long term liabilities, primarily long term loans	(68,804)
Net assets acquired	**428,955**

In connection with the acquisition of Jiangsu Yanshen, the Group recognized in-process research and development projects at their fair value of RMB93,100 (US$13,639), which at the time of the acquisition, had not reached technological feasibility. The IPR&D of RMB93,100 (US$13,639) is comprised of RMB66,300 (US$9,713) of the Hepatitis A vaccine IPR&D project and RMB26,800 (US$3,926) of the rabies vaccines IPR&D project.

The estimated useful lives of the identifiable intangible assets acquired in the acquisition are 7.1 years for developed technology and 0.5 years for manufacturing licenses. At the date of acquisition, the intangible assets acquired have a weighted-average useful life of 6.4 years and the developed technology acquired have a weighted-average useful life of 7.1 years.

The acquisition broadens the Group s product portfolio. The goodwill recognized as part of the acquisition of Jiangsu Yanshen consists primarily of the opportunity to enter into the vaccines market in the PRC and the expected synergies and other benefits that will result from combining the sales and distribution network.

Unaudited proforma financial information

The following unaudited pro forma financial information represents the results of operations of the Group as if the acquisition of Jiangsu Yanshen had occurred as of the beginning of 2008 and 2009. The unaudited pro forma financial information is not necessarily indicative of what the Company s consolidated results of operations actually would have been had it completed the acquisition at the beginning of 2008 and 2009. In addition, the unaudited pro forma financial information does not attempt to project the future results of operations of the combined entity.

	Year ended December 31,	
	2008	2009
	RMB	RMB
	(unaudited)	(unaudited)
Revenue	1,861,526	2,013,505
Income (loss) from operations	241,862	102,687
Net income attributable to Simcere Pharmaceutical Group	300,775	18,951
Earnings per share attributable to Simcere Pharmaceutical Group		
Basic	2.41	0.16
Diluted	2.41	0.16

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Acquisition of an approximately 35% equity interest in Shanghai Celgen

On August 21, 2009, the Group acquired approximately 35% equity stake in Shanghai Celgen Bio-Pharmaceutical Co., Ltd. (Shanghai Celgen) for cash consideration of RMB110,000 (US$16,115) through the 100% acquisition of Pearl Ocean. Pearl Ocean holds approximately 47% of the equity interest of Kanda Biotech Holdings Ltd. (Kanda Biotech), which in turn holds 75% of the equity of Shanghai Celgen. Pearl Ocean and Kanda Biotech are holding companies with no substantive operations. The Group accounts for its investment in Shanghai Celgen using the equity method of accounting.

Under the terms of the share purchase agreement, the Group has the option (the put option) to sell 100% equity interest in Pearl Ocean to the original selling shareholders for the same consideration paid by the Group plus accrued interest if i) Shanghai Celgen s major biogeneric drug candidate is not approved by the SFDA within 24 months from the date of agreement; or ii) anytime within 24 months from the date of agreement when Shanghai Celgen determines that it would be unable to obtain the SFDA approval for the biogeneric drug candidate.

The purchase consideration was allocated between the equity investment and the put option based on a relative fair value model at inception. Management determined the fair value of the put option based on Black-Scholes model and allocated RMB2,950 (US$432) of the purchase consideration to the put option at inception. The put option is classified as other non-current asset and is amortized over its estimated economic useful life of 2 years.

The excess of cost over the Group s share of net assets of the equity method investees was RMB35,595 (US$5,215) as of December 31, 2009. In accordance with ASC 350, the investment is analyzed for impairment in accordance with FASB ASC 323, *Investments Equity Method and Joint Ventures*.

(b) ***2008 acquisition***

Acquisition of a 70% equity interest in Simcere Zhong Ren

On May 5, 2008, the Group completed the acquisition of 70% of the outstanding equity interest in Wuhu Simcere Zhong Ren Pharmaceutical Co., Ltd. (Simcere Zhong Ren), a PRC company based in Wuhu, for cash consideration of RMB65,090. Simcere Zhong Ren is a PRC-based drug manufacturer that specializes in the production of a 5-FU sustained release anti-tumor implant, Sinofuan. Sinofuan is the sustained release anti-tumor implant approved by the SFDA. The acquisition furthers the Group s growth strategy, enhances the offerings in the anti-tumor drug market and creates synergies with Endu, the Group s anti-tumor drug. In particular, it can achieve economies of scales through increased utilization of the Group s existing distribution channels. The acquisition of Simcere Zhong Ren was accounted for as a business combination and the purchase price was allocated to the assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The financial results of Simcere Zhong Ren have been consolidated and included in the Company s consolidated financial statements from May 1, 2008 onwards.

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The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed at the date of acquisition:

	Amount RMB
Cash and cash equivalents	1,869
Other current assets	5,808
Deferred tax assets	2,415
Property, plant and equipment	6,985
Developed technology	45,542
Manufacturing license	763
Other non-current assets, primarily land use right	154
Goodwill	16,715
Total assets acquired	**80,251**
Current liabilities	(5,783)
Deferred tax liabilities	(9,378)
Net assets acquired	**65,090**

The estimated useful lives of the identifiable intangible assets acquired in the acquisition of Simcere Zhong Ren are 12 years for developed technology, and 1.1 years for manufacturing license. The intangible assets acquired have a weighted-average useful life of 11.8 years from the date of acquisition. Goodwill and the amortization of these intangibles assets are not deductible for tax purposes.

(c) ***2007 acquisitions***

Acquisition of an additional 10% equity interest in Shandong Simcere

On June 13, 2007, upon receiving relevant regulatory approval, the Group completed its acquisition of an additional 10% equity interest in Shandong Simcere for RMB27,064. Following the acquisition, the Group held 90% equity interest in Shandong Simcere. The Group accounted for this transaction as a step acquisition using the purchase method of accounting.

The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed at the date of acquisition:

	Amount RMB
Cash and cash equivalents	590
Other current assets	2,011
Property, plant and equipment	1,830
Developed technology	17,358
Manufacturing license	104
Customer relationship	1,254
Other non-current assets, primarily land use right	1,569
Goodwill	10,576

Total assets acquired	**35,292**
Current liabilities	(4,527)
Deferred tax liabilities	(3,701)
Net assets acquired	**27,064**

The estimated useful lives of the identifiable intangible assets acquired in the acquisition of the additional 10% interest in Shandong Simcere are 5.6 years for customer relationship, 15 years for developed technology, and 3.8 years for manufacturing license. The intangible assets acquired have a weighted-average useful life of 14.3 years from the date of acquisition. Goodwill and the amortization of these intangible assets are not deductible for tax purposes.

Acquisition of 51% equity interest of Boda

On October 18, 2007, the Group completed its acquisition of 51% of the outstanding equity interest in Jilin Province Boda Pharmaceutical Co., Ltd. (Boda), a PRC based company that manufactures and sells

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pharmaceutical products in the PRC, for RMB123,061. Boda is the manufacturer of injectable stroke management medication, Yidasheng, the edaravone injection. Yidasheng is the only other edaravone injection currently available in the PRC other than Bicun, the Group s product at the acquisition date. The acquisition of Boda is expected to help the Group capture the majority share of the edaravone injection market in the PRC and to create synergies with Bicun and the Group s other existing products. RMB114,738 of the consideration was paid in 2007 with the remaining balance paid in 2008. The acquisition of Boda was accounted for as a business combination and the purchase price was allocated to the assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The financial results of Boda have been consolidated and included in the Company s consolidated financial statements from October 1, 2007 onwards.

The acquisition of the 51% equity interest in Boda resulted in the recognition of goodwill of RMB46,105 and intangible assets of RMB76,031. Goodwill and the amortization of these intangible assets are not deductible for tax purposes. The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed at the date of acquisition:

	Amount RMB
Cash and cash equivalents	6,632
Other current assets	17,937
Property, plant and equipment	27,349
Developed technology	59,981
Manufacturing license	719
Customer relationship	15,331
Other non-current assets, primarily land use right	7,711
Goodwill	46,105
Total assets acquired	**181,765**
Current liabilities	(37,540)
Deferred tax liabilities	(21,164)
Net assets acquired	**123,061**

The estimated useful lives of the identifiable intangible assets acquired in the acquisition of Boda are 5 years for customer relationship, 12 years for developed technology, and 2.7 years for manufacturing license. The intangible assets acquired have a weighted-average useful life of 10.5 years from the date of acquisition.

Unaudited proforma financial information

The following unaudited pro forma financial information represents the results of operations of the Group as if the acquisition of Boda had occurred as of the beginning of 2007. The unaudited pro forma financial information is not necessarily indicative of what the Company s consolidated results of operations actually would have been had it completed the acquisition at the beginning of 2007. In addition, the unaudited pro forma financial information does not attempt to project the future results of operations of the combined entity.

	Year ended

	December 31, 2007 RMB (unaudited)
Revenue	1,414,439
Income from operations	272,833
Net income	299,054
Earnings per share	
Basic	2.54
Diluted	2.46

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Acquisition of an 85.71% equity interest in Tung Chit

On November 21, 2007, the Group acquired 100% of the outstanding ordinary shares of Master Luck Corporation (Master Luck), an investment holding company which owns 85.71% of the outstanding equity interest in Nanjing Tung Chit Pharmaceutical Co., Ltd. (Tung Chit), a PRC company based in Nanjing that manufactures and sells pharmaceutical products in the PRC, for cash consideration of RMB32,927. Tung Chit is the manufacturer of nedaplatin injection, a chemotherapy pharmaceutical that is marketed under the brand name Jiebaishu. This acquisition further complements the Group s current portfolio of products and is expected to create synergies with the Group s existing antineoplastic pharmaceuticals. The acquisition of Tung Chit was accounted for by the Group under the purchase method.

The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed:

	Amount RMB
Cash and cash equivalents	2,701
Other current assets	4,122
Property, plant and equipment	14,119
Developed technology	5,691
Manufacturing license	1,363
Customer relationship	1,089
Other non-current assets, primarily land use right	10,369
Goodwill	8,230
Total assets acquired	**47,684**
Current liabilities	(12,798)
Deferred tax liabilities	(1,959)
Net assets acquired	**32,927**

The estimated useful lives of the identifiable intangible assets acquired in the acquisition of Tung Chit are 4 years for customer relationship, 10 years for developed technology, and 2 years for manufacturing license. Goodwill and the amortization of these intangibles assets are not deductible for tax purposes.

(d) ***Intangible assets***

The Group s intangible assets related to the Group s acquisitions consisted of the following:

		December 31, 2008		
	Amortization period	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
	Years	RMB	RMB	RMB
Customer relationships	4-11	37,418	(12,900)	24,518
Developed technologies	10-16	284,995	(38,174)	246,821
Product trademarks	6-10	4,303	(2,077)	2,226
Manufacturing and supply licenses	1-5	4,344	(2,665)	1,679

Total intangible assets	**331,060**	**(55,816)**	**275,244**

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		December 31, 2009		
	Amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	Years	RMB	RMB	RMB
Customer relationships	4-11	37,418	(18,323)	19,095
Developed technologies	7-16	323,640	(56,933)	266,707
Product trademarks	6-10	4,303	(2,547)	1,756
Manufacturing and supply licenses	1-5	9,544	(4,871)	4,673
In-process research and development		93,100		93,100
Total intangible assets		**468,005**	**(82,674)**	**385,331**
Total US$		**68,563**	**(12,112)**	**56,451**

Amortization expense for intangible assets for the years ended December 31, 2007, 2008 and 2009, was RMB15,084, RMB29,433 and RMB29,413 (US$4,309), respectively. Amortization expense of customer relationships is recognized in sales, marketing and distribution expenses and amortization expense for developed technology, product trademarks and manufacturing and supply licenses is recognized in cost of materials and production. As of December 31, 2009, the estimated amortization expense for the years ended December 31 is as follows:

	RMB
2010	37,128
2011	32,410
2012	30,988
2013	27,937
2014	26,746

(e) ***Goodwill***

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2009 are as follows:

	Year ended December 31,		
	2008 RMB	2009 RMB	2009 US$
Balance at the beginning of the year	161,496	178,211	26,108
Acquisition of Simcere Zhong Ren	16,715		
Acquisition of Jiangsu Yanshen		208,123	30,490
Impairment loss		(76,398)	(11,192)
Balance at the end of year	**178,211**	**309,936**	**45,406**

During the course of the Group s acquisition of the additional 15% equity interest in Jiangsu Yanshen from China Vax in October and November 2009, the SFDA issued a public notice announcing four batches of human use rabies vaccines manufactured by Jiangsu Yanshen between July and October 2008 were found to have quality

problems based on preliminary investigation by the SFDA. The SFDA announced the initiation of a comprehensive investigation into the quality controls on the production of human use rabies vaccines and ordered Jiangsu Yanshen to halt marketing and production of all products, including human use rabies vaccines.

In May 2010, upon the completion of the SFDA investigation, Jiangsu Yanshen was fined RMB25,638 (US$3,756) for sale of substandard human use rabies vaccines; Jiangsu Yanshen was required to bear the cost

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of patient re-vaccinations of approximately RMB23,034 (US$3,375); Jiangsu Yanshen had its GMP license for the production of human use rabies vaccines revoked and; certain of Jiangsu Yanshen s employees were prohibited to engage in the production and marketing of pharmaceutical products for a period of ten years. Such employees are also subject to a criminal investigation. The criminal investigation is still ongoing at the date of this report. It is uncertain whether Jiangsu Yanshen itself will be subject to any criminal investigations or whether Jiangsu Yanshen will be subject to additional charges or penalties as a result.

As of December 31, 2009, the Group had recognized an accrual of RMB50,300 (US$7,369) for the matter described in this note. Management does not expect any further claims and charges, individually or in aggregate, will have a material adverse impact on the financial position, results of operations, or cash flows of the Group. This matter is subject to inherent uncertainties and management s view of it may change in the future.

Management determined that the contingency that existed as of December 31, 2009, which is the SFDA investigation that was based on events and facts and circumstances that existed at the acquisition date, and the resolution of the contingency subsequent to December 31, 2009, provides an indication that the fair value of the reporting unit is below its carrying amount as of December 31, 2009.

Therefore, management performed impairment testing of goodwill of the vaccines reporting unit as of December 31, 2009.

Based on such impairment testing, the carrying amount of the vaccine reporting unit as of December 31, 2009 was greater than the fair value of the vaccine reporting unit as determined using the present value of expected future flows, and the carrying amount of the vaccine reporting unit goodwill as of December 31, 2009 exceeded the implied fair value of that goodwill. As a result, the Group recognized a goodwill impairment charge of RMB76,398 (US$11,192) as of December 31, 2009 to reduce the vaccine reporting unit goodwill to its implied fair value.

There was no impairment loss in the pharmaceutical reporting unit goodwill as of December 31, 2009.

8 Short-term borrowings

Short-term borrowings and current portion of long-term debts consist of the following:

		December 31,	
	2008	**2009**	**2009**
	RMB	**RMB**	**US$**
Unsecured government loan	3,000	3,000	439
Unsecured bank loans		65,000	9,523
Current portion of long-term government loan	3,000	8,000	1,172
Total	**6,000**	**76,000**	**11,134**

Short-term unsecured bank loans bear fixed interest rates ranging from 4.37% to 5.50% per annum. The weighted average effective interest rates on short-term borrowings outstanding as of December 31, 2008 and 2009 were nil and 4.76% per annum, respectively.

As of December 31, 2008 and 2009, the Group had unutilized banking facilities of RMB50,000 and RMB800,000 (US$117,201), respectively.

9 Long-term debts

Long-term debts consist of the following:

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	December 31,		
	2008 RMB	2009 RMB	2009 US$
Unsecured bank loans, interest at floating rate equal to RMB benchmark lending rate of financial institutions multiplied by 105%, payable in semiannual installments from 2011 to 2012		48,685	7,132
Secured bank loans, interest at floating rate equal to RMB benchmark lending rate of financial institutions multiplied by 105%, payable in semiannual installments from 2011 to 2012		20,000	2,930
Unsecured government loan, interest at floating rate, payable in annual installments from 2010 to 2020	52,000	52,000	7,618
Secured government loan, interest at fixed rate of 5.40%, payable in annual installments from 2010 to 2011	13,000	10,000	1,465
Total long-term debts	**65,000**	**130,685**	**19,145**
Less: current portion (note 8)	(3,000)	(8,000)	(1,172)
Long-term debts, excluding current portion	**62,000**	**122,685**	**17,973**

As of December 31, 2008 and 2009, long term debts include an unsecured government loan obtained from a local district government to finance the construction of a new production plant in a city in Jilin Province, and a secured government loan from a local district government for working capital needs.

The weighted-average effective interest rates on long-term loans outstanding as of December 31, 2008 and 2009 were 6.90% and 5.85% per annum, respectively. None of the short-term and long-term loans contain any financial covenants or subjective acceleration clauses.

The aggregate maturities of long-term debts for each of the five years subsequent to December 31, 2009 are as follows:

	December 31, 2009 RMB
2010	8,000
2011	61,700
2012	23,385
2013	4,700
2014	4,700
Thereafter	28,200
Total	**130,685**

10 Income tax

Cayman Islands and British Virgin Islands

Under the current laws of the Cayman Islands and British Virgins Islands, the Company and State Good Group Limited (SGG) are not subject to tax on their income or capital gains. In addition, upon any payment or dividend paid by these companies, no Cayman Islands or British Virgins Islands withholding tax is imposed.

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People s Republic of China

The Company s subsidiaries incorporated in the PRC file separate income tax returns.

Prior to January 1, 2008, the PRC s statutory income tax rate was 33%, consisting of 30% state tax and 3% local tax. Under the then effective tax laws and regulations, subsidiaries that were production-oriented foreign investment enterprises were entitled to a tax holiday of a two-year 100% exemption followed by a three-year 50% exemption commencing from the first profit-making year after offsetting accumulated tax losses (2+3 tax holiday), and certain subsidiaries located in Special Economic Zones or Economic and Technological Development Zones were subject to preferential lower tax rate of 15%.

On March 16, 2007, the National People s Congress passed the Corporate Income Tax Law of the PRC (CIT law), which unified the income tax rate to 25% for all enterprises. The CIT law was effective as of January 1, 2008. The CIT law and its relevant regulations provide a five-year transition period for those enterprises which were established before March 16, 2007 and which were entitled to a preferential income tax rate of 15% under the then effective tax laws and regulations, and also provides a grandfather of certain tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. In addition, manufacturing entities that were previously entitled to the 2+3 tax holidays under the then effective tax laws and regulations shall continue to enjoy the tax holidays until they expire. Further, entities that qualify as Advanced and New Technology Enterprises (ANTEs) under the CIT law are entitled to a preferential ANTE income tax rate of 15%.

The Company s major PRC subsidiaries are subject to the following tax rates:

Jiangsu Simcere Pharmaceutical Co., Ltd. (Jiangsu Simcere) and Jiangsu Simcere Pharmaceutical R&D Co., Ltd. (Simcere Research) are subject to income tax at 33% in 2007, and at 25% from 2008 onwards.

Simcere Pharmaceutical Co., Ltd. (Hainan Simcere) is subject to income tax at 0%, 9%, 10%, 11%, 24% and 25% for 2007, 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Shandong Simcere is subject to income tax at 0%, 0%, 10%, 11%, 12% and 25% for 2007, 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Nanjing Simcere Dongyuan Pharmaceutical Co., Ltd. (Nanjing Simcere) and Tung Chit are subject to income tax at 0% for 2007, 12.5% from 2008 to 2010 and 25% from 2011 onwards.

Shanghai Simcere Pharmaceutical Co., Ltd. (Shanghai Simcere) is subject to income tax at 15%, 18%, 20%, 22%, 24% and 25% for 2007, 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Boda is subject to income tax rate at 33% for 2007, 15% for 2008 to 2010 and 25% from 2011 onwards.

Simcere Zhong Ren is subject to income tax at 33% for 2007, 25% for 2008, 15% for 2009 to 2010 and 25% from 2011 onwards.

Jiangsu Yanshen is subject to income tax at 15% for 2009 and 2010 and 25% from 2011 onwards.

The CIT law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its non-PRC-resident corporate investor for

earnings generated beginning on January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. As of December 31, 2009, the Group has not recognized a deferred tax liability of RMB56,101 (US$8,219) for undistributed earnings of RMB561,007 (US$82,188) generated by the PRC subsidiaries for 2008 and 2009 since the Group plans to indefinitely reinvest these earnings in the PRC.

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The components of earnings (losses) before income taxes and noncontrolling interests are as follows:

	Year ended December 31,			
	2007 RMB	2008 RMB	2009 RMB	2009 US$
Cayman Islands	(409)	(30,377)	(49,348)	(7,230)
British Virgin Islands	(7,795)	(1,080)	(6,865)	(1,005)
PRC	335,277	459,028	101,979	14,939
Total	**327,073**	**427,571**	**45,766**	**6,704**

(a) ***Income taxes***

Income tax expense (benefit) consists of the following:

	Year ended December 31,			
	2007 RMB	2008 RMB	2009 RMB	2009 US$
PRC				
Current	2,518	52,055	38,263	5,606
Deferred	11,009	(2,770)	(21,366)	(3,131)
Total income tax expense	**13,527**	**49,285**	**16,897**	**2,475**

(b) ***Income tax contingencies***

The following table summarizes the movement of unrecognized tax benefits:

	2007 RMB	2008 RMB	2009 RMB
Balance at January 1	14,195	19,928	19,928
Increase related to current year tax positions	5,733		
Balance at December 31	19,928	19,928	19,928
Balance at December 31 US$			2,921

The balance of total unrecognized tax benefits as of each year end, if recognized, would affect the Group s effective income tax rate. For the years ended December 31, 2007, 2008 and 2009, the Group accrued interest of Nil, RMB601 and RMB1,032 (US$151) respectively, related to unrecognized tax benefits. As of December 31, 2007, 2008 and 2009, the Group recognized cumulative interest related to unrecognized tax benefit of Nil, RMB601 and RMB1,633 (US$239) respectively. Management does not expect that the total amount of unrecognized tax benefits as of December 31, 2009 will significantly change over the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB100 (US$15). In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute

of limitation in the case of tax evasion. The PRC tax returns for the Company s PRC subsidiaries are open to examination by the PRC state and local authorities for the tax years beginning in 2004.

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(c) ***Reconciliation of expected income tax to actual income tax expense***

The actual income tax expense reported in the consolidated statements of income differs from the amounts computed by applying the PRC statutory income tax rate to earnings before income taxes as a result of the following:

		Year ended December 31,			
	Note	**2007**	**2008**	**2009**	**2009**
		RMB	**RMB**	**RMB**	**US$**
PRC statutory tax rate		33%	25%	25%	25%
Computed expected income tax expense		107,935	106,893	11,441	1,676
Non-deductible expense					
Research and development		2,871	1,509		
Remeasurement loss of previously held equity interest in Jiangsu Yanshen				13,878	2,033
Impairment on goodwill				13,643	1,999
Deemed income for free samples			640	5,046	739
Non-taxable income		(1,735)	(252)	(4,741)	(695)
Tax rate differential		(70,782)	(23,980)	(20,653)	(3,026)
Effect of tax holiday	(a)	(63,539)	(56,407)	(23,500)	(3,442)
Non-PRC entities not subject to income tax		2,707	7,864	13,072	1,915
Change in valuation allowance		15,619	13,111	9,148	1,340
Tax rebate		(4,888)			
Tax credit for purchase of domestic equipment		(2,124)	(4,255)		
Other		4,846	5,311	3,995	585
Change in enacted tax rates or tax status		22,617	(1,149)	(4,432)	(649)
Actual income tax expense		**13,527**	**49,285**	**16,897**	**2,475**

Notes:

(a) The effect of tax holiday increased the Group s net income by RMB62,916, RMB55,675 and RMB23,500 (US$3,442) for the years ended

December 31, 2007, 2008 and 2009, respectively. Consequently, the effect of the tax holiday also increased the Group s basic and diluted earnings per share for such periods as follows:

	Year ended December 31,			
	2007 RMB	**2008 RMB**	**2009 RMB**	**2009 US$**
Increase in earnings per share:				
Basic	0.54	0.45	0.20	0.03
Diluted	0.52	0.45	0.20	0.03

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(d) ***Deferred taxes***

The tax effects of the Group s temporary differences that give rise to significant portions of the deferred tax asset and liabilities are as follows:

	December 31,		
	2008	**2009**	**2009**
	RMB	**RMB**	**US$**
Deferred tax assets:			
Property, plant and equipment	4,356	5,366	786
Intangible assets	2,797	2,147	315
Accounts receivable	2,168	14,474	2,120
Inventories	467	4,927	722
Tax loss carryforwards	4,646	18,427	2,700
Accruals	21,122	40,136	5,880
Others	65	1,232	180
Total gross deferred tax assets	35,621	86,709	12,703
Valuation allowance	(24,481)	(33,629)	(4,927)
Net deferred tax assets	11,140	53,080	7,776
Deferred tax liabilities			
Intangible assets	(65,403)	(94,479)	(13,841)
Property, plant and equipment	(534)	(6,050)	(886)
	(65,937)	(100,529)	(14,727)
Net deferred tax liabilities	**(54,797)**	**(47,449)**	**(6,951)**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax loss carryforwards are utilized. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryforward periods), projected future taxable income, and tax planning strategies in making this assessment.

The increase (decrease) in the valuation allowance during the years ended December 31, 2008 and 2009 were (RMB1,604) and RMB9,148 (US$1,340), respectively. As of December 31, 2008, full valuation allowances were provided against the deferred tax assets of Jiangsu Simcere and Simcere Research, which were at cumulative loss positions. The decrease in valuation allowance in 2008 was primarily due to an increase in valuation allowance for the additional deferred tax assets in Jiangsu Simcere, which was offset by a reduction of valuation allowance in Simcere Research, of which RMB14,715 was utilized by the significant earnings in 2008 arising from the intercompany sale transactions that had been eliminated upon consolidation and such tax benefit is recognized in consolidation as the transferred intellectual properties are amortized. The increase in valuation allowance in 2009 was mainly due to the increase in the deferred tax assets of Jiangsu Simcere.

The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Tax loss carryforwards of the Group s PRC subsidiaries amounted to RMB79,500 (US$11,647) as of December 31, 2009, of which RMB89, RMB4,057, RMB19,534 ,RMB14,318 and RMB41,502 will expire if unused by December 31, 2010, 2011, 2012, 2013 and 2014, respectively.

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11 Other current liabilities

Other current liabilities consist of the following:

	December 31,		
	2008	2009	2009
	RMB	RMB	US$
Accrued traveling and conference expenses	90,760	82,059	12,022
Accrued construction costs and payable for acquisition of property, plant and equipment and land use right	32,890	54,360	7,964
VAT payable	36,562	50,640	7,419
Provision for rabies vaccine re-inoculation cost and penalty (note 7(a))		50,300	7,369
Government grants (note (a))	12,753	41,969	6,148
Payable for acquisitions (note (b))	9,830	40,631	5,952
Security deposits from employees and agents (note (c))	21,714	23,345	3,420
Customer receipts in advance	11,239	4,965	727
Accrued research and development expenses	6,929	4,003	586
Accrued legal and professional fees	1,555	2,916	427
Other accrued liabilities (note (d))	27,611	34,918	5,116
Income taxes payable (note 10)	23,290	23,842	3,493
Deferred tax liabilities (note 10(d))	225		
Total other current liabilities	**275,358**	**413,948**	**60,643**

Notes:

(a) The amounts represent the deferred portion of the conditional and refundable government grants received but not recognized since the conditions are subject to future events.

(b) As of December 31, 2008 and 2009, the outstanding balance includes

RMB9,830 unpaid consideration related to the acquisition of 80% of Shandong Simcere which was to be paid upon completion of the trial period of certain quality control procedures in relation to Endu, which are procedural in nature. The amount was paid in May 2010. The outstanding balance as of December 31, 2009 also includes the unpaid consideration payable of RMB30,801 (US$4,511) for the acquisition of the additional 15% equity interest in Jiangsu Yanshen .

(c) The amounts represent refundable cash security deposits received from certain employees and from third party marketing agents.

(d)

Other accrued liabilities relate to accruals for purchase of technology know-how, selling expenses, utilities expenses and other miscellaneous expenses.

12 Statutory reserves

Under PRC rules and regulations, the Company s PRC operating subsidiaries are required to provide for certain statutory reserves as follows:

Statutory surplus reserve

According to the respective Articles of Association, the Company s PRC operating subsidiaries are required to transfer 10% of the net profit, as determined in accordance with PRC GAAP, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the respective companies. The transfer to this reserve must be made before distribution of dividends to shareholders can be made.

The statutory surplus reserve can be used to make good previous years losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by

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increasing the par value of the shares currently held by the shareholders, provided that the balance after such issue is not less than 25% of the registered capital.

For the years ended December 31, 2007, 2008 and 2009, the Company s subsidiaries made appropriation to these statutory reserve funds of RMB45,450, RMB38,614 and RMB31,809 (US$4,660), respectively. The accumulated balance of the statutory reserve funds maintained at the Company s PRC operating subsidiaries as of December 31, 2008 and 2009 were RMB133,931 and RMB165,740 (US$24,281), respectively.

13 Pension and other postretirement benefits

Pursuant to the relevant PRC regulations, the Group is required to make contributions for each employee at a rate of 20% on a standard salary base as determined by the local Social Security Bureau to a defined contribution retirement scheme organized by the local Social Security Bureau in respect of the retirement benefits for the Group s employees in the PRC. Contributions of RMB5,149, RMB7,062 and RMB10,181 (US$1,492) for the years ended December 31, 2007, 2008 and 2009, respectively, were charged to expense. The Group has no other obligation to make payments in respect of retirement benefits of the employees.

14 Commitments and contingencies

(a) ***Operating lease commitments***

The Group leases certain laboratories, offices and warehouses under various operating lease arrangements. The rental expense under the operating leases was approximately RMB1,812, RMB3,304 and RMB2,909 (US$426) for the years ended December 31, 2007, 2008 and 2009, respectively. In the normal course of business, leases that expire are renewed or replaced by leases on other properties. As of December 31, 2009, the Group s future minimum rental payment under non-cancellable operating leases was as follows:

	December 31, 2009 RMB
2010	1,560
2011	265
2012	3
2013	3
2014	3
Thereafter	34
Total	**1,868**

(b) ***Commitments***

As of December 31, 2009, the Group s capital commitments for construction projects and purchase of machinery and equipment were RMB49,049 (US$7,186).

As of December 31, 2009, the Group had commitments for advertising and research and development projects of RMB17,047 (US$2,498) of which RMB13,914 and RMB3,133 are payable in 2010 and 2011, respectively.

(c) ***Depositary receipt facility***

During the years ended December 31, 2007, 2008 and 2009, the Company received an incentive payment of RMB20,526, RMB1,104 and RMB1,092 (US$160) respectively, which is recognized as other non-operating income in the consolidated statements of income, from a bank in order to provide that bank with the exclusive right to manage the Company s American Depositary Receipt (ADR) program. Under the terms of the depositary

receipt facility with the bank, the Company has a contingent obligation to compensate the bank in

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the event the Company terminates the ADR program or the number of ADRs outstanding declines by more than 50%.

(d) ***Sales of bills receivable commitments***

As of December 31, 2008 and 2009, outstanding bills receivable discounted with third party financial institutions that have not matured for which the Group has a recourse obligation amounted to RMB103,965 and RMB384,358 (US$56,309), respectively. The Group has not historically experienced credit losses with respect to bills receivables sold with recourse. No recourse liability was recognized as of December 31, 2008 and 2009 as the estimated fair value of the recourse obligation was immaterial.

15 Earnings per share

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

	Year ended December 31,			
	2007	**2008**	**2009**	**2009**
	RMB	**RMB**	**RMB**	**US$**
Numerator for basic and diluted earnings per share:				
Net income attributable to Simcere Pharmaceutical Group	301,261	350,151	26,428	3,871
Denominator:				
Basic weighted average number of ordinary shares outstanding	117,534,566	124,921,934	115,099,258	115,099,258
Effect of dilutive options and non-vested shares	4,132,941	83,869	1,505,661	1,505,661
Diluted weighted average number of ordinary shares outstanding	121,667,507	125,005,803	116,604,919	116,604,919
Basic earnings per share	2.56	2.80	0.23	0.03
Diluted earnings per share	2.48	2.80	0.23	0.03

The computation of diluted earnings per share for the years ended December 31, 2007, 2008 and 2009 did not assume conversion of nil, 630,000 share options and nil, respectively because the exercise prices of the share options were greater than or equal to the average price of the ordinary shares during the year, and therefore their inclusion would have been anti-dilutive.

16 Revenue

Revenue by product category and other revenue are summarized as follows:

	Year ended December 31,			
	2007	**2008**	**2009**	**2009**
	RMB	**RMB**	**RMB**	**US$**
Anti-stroke medication	443,446	651,164	745,469	109,212
Antibiotics	390,107	395,721	389,478	57,059

Anti-cancer	217,867	322,862	302,710	44,347
Anti-inflammatory drugs	168,497	147,765	151,396	22,180
Other medicines	143,097	219,320	254,632	37,303
Total product revenue	1,363,014	1,736,832	1,843,685	270,101
Other revenue	5,734	4,311	13,386	1,961
Total revenue	**1,368,748**	**1,741,143**	**1,857,071**	**272,062**

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17 Share-based compensation

(a) ***2006 Share Incentive Plan***

On November 13, 2006, the shareholders of the Company adopted the 2006 Share Incentive Plan (the 2006 Share Incentive Plan) which provides for the granting of options, share appreciation rights, and other share-based awards such as non-vested shares to the directors and employees of the Group. The board of directors and shareholders of the Company has authorized the issuance of up to 12,000,000 ordinary shares upon exercise of awards granted under the 2006 Share Incentive Plan.

Share options

The following is a summary of share options granted during the years ended December 31, 2007 and 2008 under the 2006 Share Incentive Plan. No share options were granted during the year ended December 31, 2009.

	Year ended December 31,	
	2007	**2008**
Total number of share options granted	1,045,000	500,000
Weighted average exercise price per share (US$/share)	US$ 6.750	US$ 6.093
Weighted average vesting period (in years)	5.00	4.82
Weighted average contractual life (in years)	6.00	5.82

Management has determined, based on the Black-Scholes option pricing model, that the weighted average grant-date fair value per option was approximately RMB22.25 (US$3.05), and RMB23.27 (US$3.41) or an aggregate of RMB23,251 and RMB11,637 for the years ended December 31, 2007 and 2008.

The assumptions used in determining the fair value of the share options granted on each respective date are, shown at their weighted average values, as follows:

	Year ended December 31,	
	2007	**2008**
Valuation assumptions		
Expected term (in years)	5.5	5.19-5.35
Expected volatility	40%	59%-74%
Expected dividend	0%	0%
Risk-free rate	5.11%	1.54%-3.69%

For options granted prior to 2008, the expected volatility was estimated based upon the average volatility of several comparable U.S. listed companies in the pharmaceutical industry. Since the Company did not have a trading history at the time the options were issued, management estimated the potential volatility of its ordinary share price by referring to the average volatility of these comparable companies because management believes that the average volatility of such companies was a reasonable benchmark to use in estimating the expected volatility of the Company s ordinary shares. For the 2008 options, the historical volatility of the Company s shares was used to estimate the volatility of the Company s shares.

Because the Company s share options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation model may not provide an accurate measure of the fair value of the Company s employee stock options. Although the fair value of share options is

determined in accordance with ASC 718, *Compensation- Stock Compensation* using the Black-Scholes option pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

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A summary of stock option activity is as follows:

	Number of options	Weighted average exercise price US$	Weighted average remaining contractual term Years	Aggregate intrinsic value US$
Balance as of January 1, 2007	10,000,000	4.20		
Granted	1,045,000	6.75		
Exercised	(6,200)	4.20		
Forfeited	(41,000)	4.20		
Balance as of December 31, 2007	10,997,800	4.44		
Granted	500,000	6.09		
Exercised	(198,000)	4.20		
Forfeited	(1,361,800)	5.91		
Balance as of December 31, 2008	9,938,000	4.33		
Forfeited	(135,600)	4.22		
Cancelled	(9,802,400)	4.33		
Balance as of December 31, 2009				
Exercisable as of December 31, 2009				

The total fair value of share options vested during the years ended December 31, 2007, 2008 and 2009 was RMB103,394, RMB50,524 and RMB1,993 (US$292), respectively. The total intrinsic values of options exercised during the years ended December 31, 2007, 2008 and 2009 were RMB102, RMB3,331 and nil, respectively.

Non-vested shares

On April 15, 2009, the Compensation Committee of the Company approved a share option exchange program that offered the directors, employees and consultants the right to exchange vested and unvested outstanding share options to purchase ordinary shares of the Company under the 2006 Share Incentive Plan for the Company s non-vested shares. Non-vested shares are subject to restrictions on their sale or transfer by the holder. Under the share option exchange program, the replacement non-vested shares vest on the same term as the original grants made under 2006 Share Incentive Plan.

A total of 154 directors and employees accepted the offer and tendered an aggregate of 9,802,400 options in exchange for 1,833,990 vested shares and 2,916,028 non-vested shares on May 7, 2009, the modification date. The exchange ratio is determined based on the fair value of replacement non-vested shares divided by the fair value of the share options surrendered. The exchange of the share option awards for non-vested shares was

accounted for as a modification for awards which involves a cancellation of the original award and an issuance of a new award. The effect of this award modification on share-based compensation expense over the remaining requisite service period was not significant. All non-vested shares were granted in the year ended December 31, 2009 under the 2006 Share Incentive Plan.

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A summary of non-vested shares activity is as follows:

	Number of non-vested shares	Weighted average grant-date fair value US$
Balance as of January 1, 2009		
Replacement awards granted on May 7, 2009	2,916,028	3.38
Granted	240,000	3.91
Vested	(885,656)	3.38
Forfeited	(213,542)	3.38
Balance as of December 31, 2009	2,056,830	3.44

The total fair value of non-vested shares vested during the year ended December 31, 2009 was RMB22,493 (US$3,295).

As of December 31, 2009, there was RMB49,321 (US$7,226) of total unrecognized compensation cost related to non-vested shares that is expected to be recognized on a straight-line basis over a weighted average period of 2.23 years.

Share-based compensation cost is included in the following captions:

	Year ended December 31,			
	2007 RMB	2008 RMB	2009 RMB	2009 US$
Research and development expenses	1,733	1,512	1,772	260
Sales, marketing and distribution expenses	2,871	2,665	2,058	301
General and administrative expenses	26,160	21,359	19,847	2,908
Total share-based compensation	**30,764**	**25,536**	**23,677**	**3,469**

(b) ***2008 Share Incentive Plan***

On July 31, 2008, the Company adopted a new Share Incentive Plan (the 2008 Share Incentive Plan) that allows the board of directors to grant options, share appreciation rights and other share-based awards such as non-vested shares to directors, employees and consultants of the Group to purchase up to an aggregate of 6,250,000 ordinary shares upon exercise of awards granted under the 2008 Share Incentive Plan. No share-based awards were granted under the 2008 Share Incentive Plan in the years ended December 31, 2008 and 2009.

18 Share repurchases

On November 4, 2008, the board of directors of the Company approved a share repurchase program that allows the Company to purchase up to US$50,000 of its issued and outstanding ADSs. On November 18, 2009, the board of directors of the Company approved a new share repurchase program that allows the Company to purchase up to US$50,000 of its issued and outstanding ADSs.

In 2008, the Company repurchased and cancelled 1.5 million ADSs at an average per share price of US$3.31 (RMB22.59) for a total cost of US$9,961 (RMB67,959), including US$105 (RMB716) of handling charges. In 2009, the Company repurchased and cancelled an aggregate of 6.1 million ADSs at an average per share price of US$3.54 (RMB24.19) for a total cost of US$43,594 (RMB297,567), including US$497 (RMB3,392) handling charges.

19 Related party transactions

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For the years presented, the principal related party transactions and amounts due from and due to related parties are summarized as follows:

	Year ended December 31			
	2007 RMB	**2008 RMB**	**2009 RMB**	**2009 US$**
Purchase of packaging and raw materials from related parties (note (a))	7,335	109	364	53
Purchase of products from a related party (note (b))			2,108	309
Sales of products to related parties (note (c))	2,966	6,775	4,596	673
Sales of property, plant and equipment and land use right to a related party (note (d))	18,551			
Professional fee paid to a related party (note (e))			2,000	293
Interest income from loan due to a related party (note (f))		1,108	1,192	175
Interest income from advances to an affiliated company (note (g))			908	133

	December 31,		
	2008 RMB	**2009 RMB**	**2009 US$**
Due from related parties:			
Current portion	4,365	3,989	584
Non-current portion	20,000	22,300	3,267
Due from related parties (note (f))	24,365	26,289	3,851
Advances to an affiliated company (note (g))		19,762	2,895

Notes:

(a) The Company purchased packaging and raw materials from companies in which a major shareholder of the Company has an equity interest. Management believes that the materials

purchased by the Company were in the normal course of business at prices determined on an arm s length basis.

(b) The Company purchased pharmaceutical products from a company in which a noncontrolling shareholder of a subsidiary has an equity interest. Management believes that the purchase was conducted in the normal course of business at prices determined on an arm s length basis.

(c) The Company sold pharmaceutical products to the companies in which a major shareholder has an equity interest. Management believes that the sales were conducted in the normal course of business at prices determined on an arm s length basis.

(d) The Company sold property, plant and equipment and land use right to a company in which a major shareholder has an equity interest. Management believes that the sale price was negotiated on an arm s length basis.

(e) The Company paid professional service fee to an entity for corporate consultancy service. The Group and this entity have common directors. Management believes that the professional service fee was negotiated on an arm s length basis.

(f) The non-current portion of amounts due from related parties represented a RMB20,000 secured loan as of December 31, 2008. This loan together with the accumulated interest of

RMB1,600 (US$234) was renewed on July 1, 2009. The secured loan was provided to a noncontrolling shareholder of a subsidiary. The loan has a one-year term with an option to extend for two years, bears a floating interest rate equal to RMB benchmark lending rates of financial institutions multiplied by 110% and is secured by noncontrolling shareholder s entire equity interest in the subsidiary. The secured loan was classified as non-current as of December 31, 2008 and 2009 because management expects the loan to be renewed and extended beyond 12 months from the balance sheet date.

The remaining balance of the non-current portion of amount due from related

parties as of December 31, 2009 represented the accrued loan interest. The accrued interest was classified as non-current as of December 31, 2009 due to the same basis as the secured loan mentioned above. The accrued loan interest as of December 31, 2008 was included in the current portion of amount due from related parties.

The current portion of amounts due from related parties related to transactions described in note (b) and note (c) above as of December 31, 2008 and 2009 were RMB3,257 and RMB2,873 (US$420), respectively. These amounts were interest-free, unsecured and repayable

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on demand. The current portion as of December 31, 2009 also included an advance payment of RMB1,116 (US$164) to a related party and the amount is interest-free, unsecured and repayable on demand.

(g) The amounts included a RMB19,500 (US$2,857) loan made by the Company to its affiliated company and the related accrued interest of RMB261 (US$38). The loan has a one-year term, bears a fixed interest rate at 5.31% per annum and is guaranteed by a shareholder of the affiliated company.

20 Collaborative arrangements

As discussed in note 2(v), on January 1, 2009, new guidance issued by the FASB was adopted which defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. The Group reviewed its third party arrangements to determine if any arrangement is within the scope this new guidance. The Group s significant collaborative arrangement is discussed below:

On December 12, 2008, the Group entered into an agreement to collaborate on the co-development and production of humanized antibody therapeutics for tumors with Epitomics, Inc., a provider of humanized rabbit monoclonal antibodies for therapeutic use. Under the agreement, the Group and Epitomics, Inc. will collaborate on pre-clinical and clinical trials, product manufacturing, and product distribution in the international markets. The Group will have the exclusive production and distribution rights in China. The Group agreed to pay a total funding of up to US$5,000 (RMB34,130) of which US$1,000 (RMB6,826) was paid in 2009 to acquire the license rights of in-process R&D materials in China. The remaining US$4,000 (RMB27,304) will be paid at various dates upon the achievement of certain milestones as set forth under the agreement.

The Group holds the exclusive rights to commercialize the drug in China and Epitomics, Inc. will hold the rights to commercialize the drug outside China. In addition, if the anti-cancer pharmaceutical is successfully developed and commercialized, the Group will pay Epitomics, Inc. royalties on the net sales derived from the sales of this drug in China upon achieving certain agreed annual net sales level.

Prior to the drug entering Phase I clinical trial in the United States or Europe, the Group receives 40% of the income derived from the sale, transfer, assignment, license and/or disposition of the drug outside China. After the drug enters Phase I clinical trial in the United States or Europe, the Group receives 50% of the income derived from the sale, transfer, assignment, license and/or disposition of the drug outside China. However, this is subject to a condition that the Group is required to share 50% of the related development costs, as defined in the agreement, incurred outside China. Also, the Group will enjoy 50% of the profit arising from the sales of the drug outside China.

As at December 31, 2009, the subject pharmaceutical was still undergoing development and has not reached the stage of commercialization in China or outside of China, and therefore no revenue or profits have been generated from this project. There was also no significant related development costs incurred outside of China during 2009.

21 Fair value measurements

(a) ***Fair value of financial instruments***

Management used the following methods and assumptions to estimate the fair value of financial instruments as December 31, 2008 and 2009:

Short-term financial instruments (cash equivalents, pledged bank deposits, trade accounts receivable, bills receivable and other receivables, amounts due from related parties, short-term borrowings, trade accounts payable, amounts due to related parties, and other payables and accrued liabilities) their carrying amounts approximated their respective fair values because of the short maturity period.

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Long-term loans and long-term loan receivable their fair values are based on the amount of future cash flows associated with these instruments discounted at the borrowing and lending rates currently available for similar instruments of comparable terms. Their carrying values of the long-term loans and long-term receivable approximated their fair values as all these instruments carry variable interest rates which approximated rates currently offered by the Group s financial institutions for similar instruments of comparable maturities.

Reporting unit (for goodwill impairment) the fair value of the reporting unit is determined by estimating the expected present value of future cash flows without reference to observable market transactions as the fair value of an entity that has comparable operations and economic characteristic is not observable and the relevant multiples of a comparable entity are not known.

(b) ***Fair value hierarchy***

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are generally unobservable and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The reporting unit for which goodwill was allocated to was measured at fair value on a nonrecurring basis and was classified in Level 3 of the valuation hierarchy. Goodwill with a carrying amount of RMB386,334 (US$56,598) was written down to its implied fair value of RMB309,936 (US$45,406), resulting in an impairment charge of RMB76,398 (US$11,192), which was included in earnings for the year ended December 31, 2009.

22 Subsequent events

(a) ***Acquisition of approximately 39% of the equity interest in Boda***

In June 2010, the Group entered into a definitive share purchase agreement to acquire approximately 39% of the equity interest of Boda, an existing 51% owned subsidiary through an acquisition of 80% equity interest in Xiangao Investment Company Ltd. (Xiangao Investment), an investment holding company which holds approximately 49% of the equity interest of Boda. The purchase consideration consists of RMB116.8 million (US$17.1 million) in cash as well as a contingent consideration which will be determined based on net income generated by Boda in 2010. Upon the completion of this acquisition, the Group will hold approximately 90% controlling interest in Boda.