Simcere Pharmaceutical Group
Form 20-F
April 25, 2012
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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
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2011**
	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 . . . . . .

For the transition period from to

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)

Yushan Wan

Acting 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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E-mail: wanyushan@simcere.com
(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 class	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)

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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.

105,740,648 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.

o Yes x No

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.

o Yes x No

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.

x Yes o No

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).

o Yes o No

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 x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 x	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.

o Item 17 o Item 18

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).

o Yes x No

(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.

o Yes o No

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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, 2009, 2010 and 2011.

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.

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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), Other Consolidated Financial 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, 2011, are derived from our consolidated financial statements and related notes thereto. Our consolidated financial statements as of December 31, 2010 and 2011 and for each of the years in the three-year period ended December 31, 2011, 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.

	Year Ended December 31,					
	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2011 $
	(in thousands, except share and ADS data)					
Selected Consolidated Statement of Income Data						
Revenue	1,368,748	1,741,143	1,857,071	2,141,098	2,040,547	324,210
Gross profit	1,127,667	1,420,261	1,536,126	1,799,311	1,712,388	272,071
Operating expenses (other than impairment loss on goodwill)	(863,805)	(1,063,282)	(1,357,518)	(1,581,393)	(1,618,840)	(257,208)
Other operating income(1)					50,000	7,944

Impairment loss on goodwill			(76,398)			
Income from operations	263,862	356,979	102,210	217,918	143,548	22,807
Foreign currency exchange gains, net	24,670	39,879	382	5,511	7,732	1,228
Other income(2)	20,526	1,104	2,971	2,286	15,036	2,389
Equity in losses of equity method affiliated companies			(56,532)	(14,716)	(12,192)	(1,937)

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	Year Ended December 31,					
	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2011 $
	(in thousands, except share and ADS data)					
Net income attributable to Simcere Pharmaceutical Group(3)	301,261	350,151	26,428	172,411	178,389	28,343
Earnings per share basic	2.56	2.80	0.23	1.59	1.63	0.26
Earnings per share diluted	2.48	2.80	0.23	1.55	1.61	0.26
Earnings per ADS basic	5.13	5.61	0.46	3.18	3.25	0.52
Earnings per ADS diluted	4.95	5.60	0.45	3.10	3.23	0.51
Basic weighted average number of shares	117,534,566	124,921,934	115,099,258	108,321,562	109,738,705	109,738,705
Diluted weighted average number of shares	121,667,507	125,005,803	116,604,919	111,357,796	110,525,257	110,525,257

(1) We reached a settlement agreement with certain former shareholders of Jiangsu Quanyi in 2011 in respect of our acquisition of a 37.5% equity interest in Jiangsu Quanyi in 2009. Pursuant to the settlement agreement, we received total cash compensation of RMB50.0 million ($7.9 million) in 2011, which was recognized as other operating income.

(2) In 2007, 2008, 2009, 2010 and 2011, other income included the incentive payment received from our depositary in connection with the establishment of the ADR program following our initial public offering and tax refund granted by local governments.

(3) Certain of our PRC operating subsidiaries were entitled to a tax holiday. The effect of the tax holiday increased our net income for 2007, 2008, 2009, 2010 and 2011 by RMB63.5 million, RMB56.4 million, RMB23.5 million, RMB29.9 million and RMB7.0 million ($1.1 million) respectively, or RMB0.54, RMB0.45, RMB0.20, RMB0.28 and RMB0.06 ($0.01) on the basic per share basis, respectively.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(in percentages)				
Other Consolidated Financial Data					
Gross margin(1)	82.4	81.6	82.7	84.0	83.9
Operating margin(1)	19.3	20.5	5.5	10.1	7.0
Net margin(1)	22.0	20.1	1.4	8.1	8.7

(1) Gross margin, operating margin and net margin represent gross profit, operating profit and net income attributable to our company divided by revenue, respectively.

	As of December 31,					
	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2011 $
	(in thousands)					
Selected Consolidated Balance Sheet Data						
Cash and cash equivalents	497,352	812,814	442,488	273,583	209,850	33,342

Held-to-maturity investment securities	470,000					
Accounts and bills receivables, net	488,374	748,997	704,321	884,738	1,276,872	202,875
Inventories	65,241	95,948	106,655	89,732	126,708	20,132
Total current assets	1,557,153	1,707,759	1,371,864	1,388,487	1,847,333	293,512
Property, plant and equipment, net	374,058	463,059	744,713	836,291	900,746	143,114
Goodwill and intangible assets, net	412,717	453,455	695,267	658,139	648,408	103,021
Total assets	2,472,208	2,778,222	3,137,902	3,218,252	3,734,117	593,291
Accounts and bills payables	23,711	25,219	152,249	49,638	80,570	12,801
Short-term borrowings and current portion of long-term borrowings	29,000	6,000	76,000	360,000	816,150	129,673
Total current liabilities	342,637	335,013	692,865	1,005,846	1,462,547	232,375
Long-term borrowings, excluding current portion	52,000	62,000	122,685	19,306		
Total shareholders equity	1,995,953	2,301,322	2,207,683	2,054,243	2,193,697	348,543

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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 as set forth in the H.10 weekly statistical release of the U.S. Federal Reserve Board, on December 30, 2011, which was RMB6.2939 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 fluctuating exchange rates and currency control on the value of our ADSs. On April 13, 2012, the exchange rate, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board, was RMB6.3022 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)			
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
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2011				
October	6.3547	6.3710	6.3825	6.3534
November	6.3765	6.3564	6.3839	6.3400
December	6.2939	6.3482	6.3733	6.2939
2012				
January	6.3080	6.3172	6.3330	6.2940
February	6.2935	6.2997	6.3120	6.2935
March	6.2975	6.3125	6.3315	6.2975
April (through April 13, 2012)	6.3022	6.3048	6.3123	6.2975

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(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;

- 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, collectively, 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 Quanyi could have a material adverse effect on our business, financial condition and results of operations and damage our reputation.

We entered into agreements on May 22, 2009, October 24, 2009 and November 24, 2009 to obtain a controlling stake in Jiangsu Yanshen Biological Technology Stock Co., Ltd., which since

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March 24, 2011 has been renamed to Jiangsu Quanyi Biological Technology Stock Co., Ltd., or Jiangsu Quanyi. After we entered into the share purchase agreements in October and November 2009 to acquire 15% of the equity interest in Jiangsu Quanyi, but prior to the full completion of the transaction, we discovered quality control problems relating to the production of Jiangsu Quanyi s human-use rabies vaccine. On December 3, 2009, the PRC State Food and Drug Administration, or 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 Quanyi, and ordered Jiangsu Quanyi to halt marketing and production of all products including its 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 Quanyi and released into the market between July and October 2008, had an insufficient amount of active compounds. It was found that prior to our acquisition of Jiangsu Quanyi, illegal activities were conducted at Jiangsu Quanyi, whereby inadequate quality control processes were in place, and there was misrepresentation and avoidance of regulatory inspections, which caused substandard vaccines to be released into the market. On April 27, 2010, the SFDA revoked two new medicine certificates held by Jiangsu Quanyi for its rabies vaccine (vero cell) and freeze-dried human rabies vaccine (vero cell). The Good Manufacturing Practice, or GMP, certificate for its manufacture of human-use rabies vaccine has also been revoked, and the GMP certificate for its manufacture of influenza vaccine expired on February 2, 2010. On May 15, 2010, Jiangsu Quanyi received a notification from the Changzhou Food and Drug Administration, which assessed a fine of RMB25.6 million, consisting of penalties and confiscable revenues from past sales of substandard human-use rabies vaccine, against Jiangsu Quanyi. The notification also stated that Jiangsu Quanyi must bear the cost of patient re-vaccinations of approximately RMB23.0 million. In addition, the People s Court of Tianning District, Changzhou imposed a fine of RMB1.6 million on Jiangsu Quanyi for its past sales of substandard human-use rabies vaccine. On January 24, 2011, the final judgment issued by the Intermediate People s Court of Changzhou imposed an additional penalty of RMB3.0 million on Jiangsu Quanyi. During the year ended December 31, 2010, RMB10.2 million of the penalty was paid. During the year ended December 31, 2011, RMB10.0 million ($1.6 million) of penalty and RMB13.5 million ($2.1 million) of cost of patient re-vaccinations were paid. As of December 31, 2011, RMB10.0 million ($1.6 million) of penalty and RMB9.5 million ($1.5 million) of cost of patient re-vaccinations remained unpaid. Subsequent to December 31, 2011, RMB10.0 million ($1.6 million) of penalty was paid.

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. In addition, employees of Jiangsu Quanyi directly involved in the production of substandard human-use rabies vaccine were prohibited from engaging in the production and marketing of pharmaceutical products for a period of ten years. The proceedings, investigations and relevant sentence as described above could disrupt our business, divert management resources, result in adverse publicity regarding Jiangsu Quanyi, 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.

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 in October and November 2009 to acquire Jiangsu Quanyi through the acquisition of the entire equity interest in ChinaVax, a Cayman Islands company that, as its sole business, held a 15.0% stake in Jiangsu Quanyi for cash consideration. As we discovered quality control problems relating to the production of Jiangsu Quanyi s human-use rabies vaccine, a portion of the consideration has not been paid as of the date of this annual report. In October 2010, the selling shareholders of ChinaVax filed a claim against us for the amount of consideration we have withheld, or RMB28.4 million, and the interest accrued on the withheld amount at the annual rate of 5.0% from February 4, 2010 to the date when the withheld consideration has been fully paid. As of

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December 31, 2011, the consideration withheld of RMB28.4 million ($4.5 million) was included in other current liabilities. In March 2012, we reached a settlement agreement with the selling shareholders and former directors of ChinaVax, and we agreed to pay RMB12.8 million ($2.0 million) of the remaining consideration payable of RMB28.4 million ($4.5 million) to the selling shareholders of ChinaVax. The reduction of the consideration payable of RMB 15.6 million ($2.5 million) was recognized as other operating income in the first quarter of 2012. In addition, subsequent to our discovery of the quality control problems relating to the production of Jiangsu Quanyi s human-use rabies vaccine, we initiated an arbitration proceeding against former shareholders of Jiangsu Quanyi to seek damages for RMB113.9 million for misrepresentation in connection with their sales of equity interests in Jiangsu Quanyi. Furthermore, Jiangsu Quanyi also initiated legal proceedings through its board of supervisors against certain former directors and their affiliates to seek damages. In June 2011, we reached a settlement agreement with the former shareholders and former directors of Jiangsu Quanyi, under which the former shareholders of Jiangsu Quanyi paid us total cash compensation of RMB50.0 million ($7.9 million) in 2011.

In August 2011, Shandong Simcere Medgenn Bio-Pharmaceutical Co., Ltd. (Shandong Simcere) filed lawsuits in Beijing against Protgen Ltd. (Protgen), a biotech company with operations in Beijing, and its major shareholder, Mr. Yongzhang Luo, claiming ownership of several patents and patent applications relating to a method of prolonging the half-life of recombinant human endostatin and seeking damages. Mr. Luo acted as the vice chairman of the board, general manager, and chief science officer of Shandong Simcere.

In December 2011, certain batches of azithromycin granules produced by Nanjing Simcere Dongyuan Pharmaceutical Co., Ltd., or Nanjing Simcere, were found to have failed to comply with applicable standards for pharmaceuticals. As a result, our income from selling such batches of azithromycin granules of RMB0.2 million was confiscated and an additional penalty of RMB0.2 million was also imposed on us. 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.

In addition, we may also become involved in product liability litigation as the development and commercialization of vaccine and other pharmaceutical 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 revenues, and the inability to commercialize new products. Our lack of sufficient liability, disruption or other kind of insurance may exacerbate such risks.

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

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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 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

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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, 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 revenues 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.

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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 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, 2012, 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. Our new product Iremod was under a monitoring period which is to expire on August 14, 2016 and Lowvo 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.

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

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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 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 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 revenues.

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.

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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 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 revenues 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

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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 revenues 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 substantially 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 1,106 pharmaceutical distributors in China. In each of 2009, 2010 and 2011, no single distributor accounted for, on an individual basis, 10.0% or more of our revenues, and during the same periods, sales to our five largest distributors accounted in aggregate for approximately 14.0%, 17.6% and 17.2% 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 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 distributors and third-party marketing firms that we contract with to promote our products and brand name, all 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:

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- 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.

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 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 on the

Company B. Business Overview Regulation Reimbursement Under the National Medical Insurance Program. As of March 31, 2012, 36 of our 47 principal products were included in the Essential Drug List and Reimbursement List. 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

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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 adjusts 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 the tender is successful or not. 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 revenues depend and will likely continue to depend on a limited number of product lines.

We had six products that individually contributed over RMB100.0 million ($15.9 million) to our revenues in 2011, which were Bicun, Zailin, Endu, Yingtaiqing, Sinofuan and Yidasheng. Sales of these products accounted in aggregate for 77.9% of our revenues in 2011. We expect sales of these limited products 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 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;

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- 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 the date of this annual report, 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 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

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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 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

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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.

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 but not limited to:

- we determine to devote significant amount of financial resources to the research and development of projects that we believe to have significant commercialization potential;

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- 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;

- 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, 2011, our net intangible assets including in-process research and development (IPR&D) amounted to RMB338.5 million ($53.8 million), representing 9.1% of our total assets, and goodwill amounted to RMB309.9 million ($49.2 million), representing 8.3% of our

total assets. Our intangible assets primarily consisted of customer relationships, developed technologies, product trademarks and IPR&D that we acquired in connection with our acquisition of 90.0% of the equity interest in Shandong Simcere in 2006 and 2007, a 51.0% equity interest in Jilin Boda Pharmaceutical Co., Ltd., or Jilin Boda, in 2007, an 85.7% equity interest in Nanjing Tung Chit Pharmaceutical Company Limited, or Nanjing Tung Chit, in 2007, a 70.0% equity interest in Wuhu Simcere Zhong Ren Pharmaceutical Co., Ltd., or Simcere Zhong Ren, in 2008, and 52.5% equity interest in Jiangsu Quanyi in 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. We estimated the fair value of the customer relationships, 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

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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. As of December 31, 2011, we performed goodwill impairment analysis of our two reporting units, a pharmaceutical reporting unit and a vaccine reporting unit. Based on this analysis, no impairment loss was recognized in 2011. 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 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 impairment 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, 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 8 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 April 18, 2012, New Good Management Limited owned approximately 35.7% of our outstanding share capital, and Assure Ahead Investments Limited, King View Development International Limited and Fosun Industrial Co., Ltd. owned 17.0% 11.2% and 7.6% 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.

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We rely on third parties to provide raw materials and any quality defect may have an adverse impact on our products, our business and results of operations.

We source raw materials such as capsules, as well as packaging materials, from various independent suppliers in China. 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 domestic manufacturers. Although we have internal quality control system to control the quality of purchased raw materials, we may not be able to identify all quality defects. If any quality defect of the raw materials that we purchase happens, our products, our business and results of operations will be adversely affected.

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 Labor Contract Law, which became effective on January 1, 2008. The Implementation Rules of the 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 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 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, 100,000 and 978,000 share options under our 2006 share incentive plan on November 15, 2006, March 29, 2007, May 5, 2008, December 24, 2008 and September 1, 2010, respectively. On July 31, 2008, our shareholders approved our 2008 share incentive plan under which we are authorized to issue up to 6,250,000 ordinary shares upon exercise of awards granted thereunder. As of March 31, 2012, 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 restricted shares and 40,000 restricted shares, respectively, to our officers and key employees under our 2006 share incentive plan. In 2010, we issued 870,000 restricted shares in aggregate to our officers and key employees under our 2006 share incentive plan, including 480,000 restricted shares issued on March 9, 2010 to our independent directors and president. In

2011, we issued 364,000 restricted shares to our officers and key employees under our 2006 share incentive plan.

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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.

We may be classified as a passive foreign investment company, which could result in adverse U.S. 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 December 31, 2011, 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% of its gross income is passive income or (2) 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. For this purpose, the value of our assets may be determined in large part by the market price of our ADSs, which is likely to fluctuate. If we are treated as a PFIC for any taxable year during which U.S. holders hold ADSs or ordinary shares, certain adverse U.S. federal income tax consequences could apply to such U.S. holders. See Taxation United States Federal Income Taxation Passive Foreign Investment Company.

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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.

Our independent registered public accounting firm s audit documentation related to their audit reports included in this annual report may be located in the Peoples Republic of China. The Public Company Accounting Oversight Board currently cannot inspect audit documentation located in China and, as such, you may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States) (the PCAOB), is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the applicable laws of the United States and professional standards. Our operations are principally conducted in the Peoples Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities. Accordingly, any audit documentation located in China related to our independent registered public accounting firm s reports included in our filings with the U.S. Securities and Exchange Commission is not currently inspected by the PCAOB.

Inspections conducted by the PCAOB outside of China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating audit documentation located in China and its related quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm s audit procedures or quality control procedures as compared to audits outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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 and growth of the market for pharmaceutical products in China. As a result, our revenues 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

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conditions and acts of war or terrorism. Changes in economic conditions and consumer confidence could adversely affect consumer preferences, purchasing power and spending patterns. In addition, we cannot assure you that market conditions will continue to improve in the near future or that our results will not 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.

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 on 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 28 times. The latest price reductions occurred on March 2, 2011 and September 1, 2011. The retail price ceilings of our major products Yingtaiqing, Anqi and Zailin, were adjusted downward, but will not significantly affect the actual sales price. 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

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retail prices or retail price ceilings. Government price controls, especially downward price adjustments, may have an 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 on the Company B. Business Overview Regulation.

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, our current pharmaceutical manufacturing permits for each of Simcere Pharmaceutical Co., Ltd., or Hainan Simcere, Nanjing Simcere, Shandong Simcere, Jilin Boda, and Simcere Zhong Ren, will all expire on December 31, 2015. The 20 GMP certificates for our five manufacturing facilities will expire between May, 2013 and September 2016. In, 2011, our branded generic anti-diarrheal pharmaceutical Biqi passed the EU-GMP inspection and received EU-GMP certification from the Finnish Medicines Agency. We also have two GSP certificates held by two of our distribution subsidiaries which will expire in July and November 2013, respectively.

At the time we acquired Jiangsu Quanyi , its core products included an influenza vaccine and a human-use rabies vaccine (vero cell). Jiangsu Quanyi had also received a new medicine certificate from the SFDA for its freeze-dried human rabies vaccine (vero cell) and had completed clinical trials of its purified hepatitis A inactivated vaccine (vero cell) while SFDA approval for its purified hepatitis A inactivated vaccine (vero cell) and GMP certification for the associated new manufacturing facility were pending. However, since the discovery of the substandard vaccine manufactured by Jiangsu Quanyi prior to our acquisition, the two new medicine certificates held by Jiangsu Quanyi for its rabies vaccine (vero cell) and freeze-dried human rabies vaccine (vero cell) have been revoked. The GMP certificate for its manufacture of human-use rabies vaccine has also been revoked, and the GMP certificate for its manufacture of influenza vaccine expired on February 2, 2010.

In August 2011, Jiangsu Quanyi injected certain machineries and equipment as paid-in capital into Jiangsu Vaxtec Biological Pharmaceutical R&D Co., Ltd., then renamed to Jiangsu Simcere Vaxtec Biological Pharmaceutical Co., Ltd. in June 2011, or Jiangsu Vaxtec, the wholly owned subsidiary of Jiangsu Quanyi. Jiangsu Vaxtec will take over the vaccine business from Jiangsu Quanyi and is currently in the process of applying for the GMP certification.

We intend to apply for the renewal of our permits and licenses when required by applicable laws and regulations. See Item 4. Information on the Company B. Business Overview Regulation. Any failure by us to obtain such GMP certifications 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.

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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 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.

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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 are a holding company with no material operations. We conduct our operations mainly through our PRC subsidiaries. As a holding company, we may depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries to satisfy our obligations, including our obligations to pay any dividends we may declare. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, reserve funds, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would be available to us. These restrictions could reduce the amounts that we receive from our subsidiaries, which could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, service our debts, or otherwise fund and conduct our business.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with U.S. GAAP in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In practice, our PRC subsidiaries are also required to obtain a required tax clearance with the local tax bureau and complete the corresponding foreign exchange procedures before paying any dividends. In addition, starting from January 1, 2008, dividends for the year 2008 and onward paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such PRC withholding tax rate may be lowered to 5%, although there exists uncertainty due to a PRC governmental circular regarding whether and the extent to which Hong Kong holding companies may be eligible for the benefits under this arrangement.

Furthermore, we may from time to time resort to offshore shareholder loans, rather than equity contribution, to our PRC subsidiaries to finance their operations. In such events, the market interest rates that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident under certain circumstances) withholding tax on our behalf on the interest paid under any shareholder loan. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries (as foreign-invested enterprises in China) must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

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Under the Enterprise Income Tax Law and its implementing regulations, PRC income tax at the rate of 10% is applicable to dividends payable for earnings derived since January 1, 2008 by PRC enterprises to non-resident enterprises (enterprises that do not have an establishment or place of business in China or that have such an establishment or place of business in China but for which the relevant income is not effectively connected with such establishment or place of business), subject to any lower withholding tax rate as may be contained in any income tax treaty or agreement that China has entered into with the government of the jurisdiction where such non-resident enterprises were incorporated. If we are considered as a non-resident enterprise under PRC tax law, any dividend that we receive from our PRC subsidiaries may be subject to PRC taxation at the 10% rate.

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 operations may be adversely affected by changes to or expiration of tax holidays and preferential tax policies that some of our PRC subsidiaries currently enjoy. 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.

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

The Corporate Income Tax Law of the PRC, or the CIT law, provides that a maximum income tax rate of 10% 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. 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 indirectly 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 CIT law. We have not provided for income taxes on accumulated earnings generated by our PRC subsidiaries from 2008 to 2011 because we plan to indefinitely reinvest these earnings in the PRC. If SGG is required under the CIT law to pay income tax with respect to 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.

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

The 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 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 or our non-PRC subsidiaries are treated as resident enterprises for PRC tax purposes, we and/or such subsidiaries would be subject to PRC tax on 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 could be exempt from Chinese dividend withholding tax, because such income may be exempt under the CIT law to PRC resident enterprise 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 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 ADSs or ordinary shares, or the gain you may realize from the transfer of our ADSs or ordinary shares, 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 ADSs or ordinary shares would be able to claim the benefits of income tax treaties entered into between China and other jurisdictions. If we are required under the 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 ADSs or ordinary shares, the value of your investment in our ADSs or ordinary shares may be materially and adversely affected.

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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 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

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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;
- 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.

Additional sales of our ADSs or ordinary shares, including ADSs or ordinary shares issuable upon the exercise of our outstanding stock options, in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. If our shareholders sell substantial amounts of our ADSs, including those issued upon the exercise of outstanding options, in the public market, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ordinary shares, the prevailing market price for our ADSs could be adversely affected.

In addition, we may issue additional ordinary shares or ADSs for future acquisitions. If we pay for our future acquisitions in whole or in part with additionally issued ordinary shares or ADSs, your ownership interests in our company would be diluted and this, in turn, could have a material adverse effect on the price of our ADSs.

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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 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.

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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.

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 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

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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 U.S. federal or state securities laws 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 U.S. federal or state securities laws.

Item 4. INFORMATION ON 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, Anxin, Jiebaishu and an innovative anti-cancer medication under the brand name Endu. We currently manufacture and sell 47 principal pharmaceutical products. In addition, we have obtained approvals from the SFDA to manufacture and sell over 223 other products. In 2011, we submitted an application for investigational new drug, or IND, applying for Category I new drug. As of March 31, 2012, we also had over 10 product candidates in various stages of development, including treatments for cancer and cardiovascular diseases.

Our innovative anti-cancer medication Endu has been granted an invention patent in China and an invention patent in the United States, 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 acquired the qualification to premium price and our anti- 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, and acquired the qualification to premium price. Our generic anti-stroke medication Bicun was recognized as a China Well-Known Trademark in 2011 and Simcere was also recognized as a

China Well-Known Trademark in 2011 by the State Administration for Industry and Commerce of PRC. 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 and the only dosage form

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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.

In 2011, our branded generic anti-diarrheal pharmaceutical Biqi passed the EU-GMP inspection and received EU-GMP certification from the Finnish Medicines Agency.

In Jan 2012, we officially announced the launch of sale of Iremod on the China market. Iremod, which was independently developed by us, is the first Iguratimod drug on the global market. It is an innovative new molecular formula in the category of Disease Modifying Anti-rheumatic Drugs (DMARDS), which are primarily used in the treatment of active rheumatoid arthritis.

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 and proprietary 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 with more effective market potential 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.

In July 2011, we entered into a framework agreement to establish a novel and innovative strategic partnership with Merck & Co., Inc. or Merck, which through an affiliate and known as MSD outside the United States and Canada, focused on serving China s rapidly expanding health care needs by providing significantly improved access to quality medicines in major therapeutic areas. The partnership includes the establishment of an equity joint venture that will be owned 51% by an affiliate of Merck, and 49% by us or one of our affiliates. By entering into the framework agreement, we intend to establish the basic framework of cooperation between the two companies to co-promote and/or distribute certain medicines. We also agreed with Merck to explore the possibility of establishing a second joint venture focused on the manufacturing of certain medicines.

Our Products

We currently manufacture and sell 47 principal pharmaceuticals marketed under various brands. Of these products, 41 are prescription pharmaceuticals and six 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 223 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:

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Product Category	Number of Products	Major Products	Brands
Antibacterial and Antiviral	17	Amoxicillin granules, capsules and tablets; amoxicillin with clavulanate potassium granules, tablets and injection; biapenem injection; cefaclor dry suspension; azithromycin granules;	Zailin, Anqi, Anxin, Zaike, Zaiqi
Anti-cancer	6	Recombinant human endostatin injection; nedaplatin injection; pemetrexed disodium for injection and fluorouracil implants; and palonosetron hydrochloride injection	Endu, Jiebaishu, Jiebaili, Sinofuan and Lowvo
Anti-Allergic	2	Clemastine fumarate capsules and clemastine fumarate dry suspension	Langjing
Anti-Osteoporosis	2	Alfacalcidol soft capsules	Faneng
Cardiovascular and Cerebrovascular	7	Edaravone injection; sumatriptan succinate tablets; levamlodipine besylate tablets; and rosuvastatin calcium tablets	Bicun, Yidasheng, Youshu, Xinta and Shufutan
Digestive Conditions	3	Smectite powder; and aldioxa tablets	Biqi and Odijia
Non-Steroidal Anti-Inflammatory	5	Diclofenac sodium sustained-release capsules and gelatin; Iguratimod Tablets	Yingtaiqing and Iremod
Respiratory System	3	Herbal medicine used for the treatment of cough in liquids and tablets; compound zinc gluconate	Simcere Kechuanning, Zaikang
Urinary Conditions	1	Naftopidil tablets	Zaichang
Others	1	Various herbal oral solutions	Chengyuan

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 Non-small Cell Lung Cancer, or 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 2011, revenues of Endu amounted to RMB 263.0 million ($41.8 million), which accounted for 12.9% 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.

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. See Item 3. Key Information D. Risk Factors Risks Related 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.

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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

In addition to Endu, we currently market and sell the following principal branded generic pharmaceutical products, each of which contributed over RMB100.0 million ($15.9 million) to our revenues in 2011 and in aggregate accounted for 65.0% of our revenues in 2011:

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

- Yingtaiqing (diclofenac sodium sustained-release capsules and gelatin);
- Yidasheng (edaravone injection); and
- Sinofuan (anti-tumor implants).

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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 2011, revenues of Bicun amounted to RMB654.6 million ($104.0 million), which accounted for 32.1% 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 2011, revenues of Zailin amounted to RMB191.0 million ($30.3 million), which accounted for 9.4% 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 2009. Pursuant to the master distribution agreement, we have agreed to purchase from China Pharmaceutical a certain minimum quantity of Yingtaiqing sustained-release capsules in 2010 and 2011. 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 2011, sales of Yingtaiqing amounted to RMB185.4 million ($29.5 million), which accounted for 9.1% 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 51.00% stake in Jilin Boda, the manufacturer of Yidasheng. In 2010 and 2011, we completed the acquisitions of additional 39.19% and 9.80% of equity interests in Jilin Boda, respectively. Since then, we have held approximately 99.99% of the equity interest in Jilin Boda. In 2011, revenues of Yidasheng amounted to RMB116.3 million ($18.5 million), which accounted for 5.7% 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 2011, revenues of Sinofuan amounted to RMB178.1 million ($28.3 million), which accounted for 8.7% of our revenues for the year.

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Other Branded Generic Pharmaceutical Products

In addition to Endu and our five principal products, the following branded generic pharmaceutical products in aggregate also represented a significant portion of our revenues in 2011 and in aggregate accounted for 15.4% of our revenues in 2011:

- Biqi (smectite powder);
- Anqi (amoxicillin with clavulanate potassium granules);
- Zaike (cefaclor dry suspension);
- Simcere Kechuanning (herbal medicine used for the treatment of cough in liquids and tablets);
- Jiebaishu (Nedaplatin for Injection); and
- Anxin (Biapenem for Injection).

Biqi. Biqi is the brand name for our branded generic 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. Anqi in tablet and injection form has been included in the national medical insurance catalog since 2000, and Anqi in granule form has been included in the national medical insurance catalog since 2009.

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.

Jiebaishu. Jiebaishu, the first Nelaplatin launched in China in 2003, is primarily used for the treatment of head and neck cancers, small cell lung carcinoma, non-small-cell lung carcinoma, esophageal cancer and other solid tumors.

Anxin. Anxin is the brand name of our biapenem for injection, which is for the treatment of severe infections. Anxin has been included in the national medical insurance catalog since 2010.

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, 2011, we had 1,991 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,

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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.

We have implemented marketing initiatives designed to promote awareness of our brands among potential customers. In 2008, our brand Yingtaiqing was recognized as a China Well-Known Trademark. In 2009, we further increased brand recognition of Yingtaiqing by sponsoring the Table Tennis Super League events between March and September and by entering into a cooperation agreement with the National Basketball Association, or NBA, in October. From September 2009 to September 2011, under the cooperation agreement with the NBA, we continued to promote brand awareness of Yingtaiqing through various media channels, including television and print. Through these and other brand promotion efforts, such as TV advertising channels, we have solidified and enhanced the market penetration of our Yingtaiqing brand name.

We started our brand campaign for Biqi in 2006 by placing TV commercials featuring a celebrity couple on China Central Television, or CCTV, China s largest nationwide television network. In 2010, we were the exclusive pharmaceutical sponsor of the film *Aftershock* directed by a well-known Chinese movie director. Brand awareness of Biqi has been elevated through these marketing efforts. In 2011, our branded generic anti-diarrheal pharmaceutical Biqi passed the EU-GMP inspection and received EU-GMP certification from the Finnish Medicines Agency, which demonstrated a higher quality achieved by Biqi. In 2011, we continued to place more TV advertising to enhance the brand image of Biqi.

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 1,106 pharmaceutical distributors in China. Each pharmaceutical distributor in turn may 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.

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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 2009, 2010 and 2011, no single distributor accounted for, on an individual basis, 10.0% or more of our revenues, and during the same periods, sales to our five largest distributors accounted in aggregate for approximately 14.0% , 17.6% and 17.2%, 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

We currently have five 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 2011 production capacity.

Pharmaceutical Agent Production Unit	**Delivery Form**	**2011 Capacity**
Hainan Simcere		
Penicillin family	Granules	630,000,000 packs
Penicillin family	Granules	288,000,000 pills
Cefaclor family	Granules	240,000,000 packs
Cefaclor family	Capsules	60,000,000 pills
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
Nanjing Simcere		
Penicillin family	Powder injection	6,600,000 vials
Penicillin family	Granules	40,000,000 packs
Penicillin family	Tablets	70,000,000 pills
General	Oral solution	50,000,000 bottles
	Small volume parenteral solutions	19,000,000 vials
General	Tablets	48,000,000 pills
General	Dry suspension	40,000,000 packs
General	Capsules	38,000,000 capsules
General	Granules	29,000,000 packs
General	Powder injection	2,700,000 vials

General	Sterile active pharmaceutical ingredients, or APIs	400 kgs

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	Extract liquid	21,000,000 vials
Anti-cancer Powder for Injection	Freeze-dried powder injection	1,900,000 bottles
Shandong Simcere		
Recombinant human endostatin	Injection	1,000,000 vials
Jilin Boda		
Edavarone injection	Low-dose injection	20,000,000 vials
General	Tablets	3,000,000,000 pills
General	Capsules	50,000,000 pills
General	Granules	10,000,000 packs
APIs	Moroxydine	900,000kg
APIs	Edaravone	4,000kg
Simcere Zhong Ren		
Fluorouracil implant	Implant	1,000,000 vials
Jiangsu Quanyi		
H1N1 Influenza A Vaccine (Split Virion), Inactivated	Injection	For 6,000,000 people
Influenza Vaccine (Split Virion), Inactivated	Injection	

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 domestic manufacturers.

In 2011, we purchased an aggregate of 37.0% of our total supply of raw materials and pharmaceutical products 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.

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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 on 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 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.

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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 RMB1,064.1 million ($169.1 million) as of March 31, 2012. 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

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 Dongyuan,

Shandong Simcere, Jilin Boda and Simcere Zhong Ren will all expire on December 31, 2015. 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

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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	July 8, 2011	December 31, 2015
	Bulk Drug(Montmorillonite, Iguratimod aldioxa)	September 26, 2011	September 25, 2016
	Bulk Drug (Sumatriptan Succinate, Meloxicam, Naftopidil, Edaravone and Sibutramine Hydrochloride)	November 26, 2008	November 25, 2013
	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, Hard Capsules, Granules, Dry Suspensions, Bulk drug (Palonosetron Hydrochloride)	October 11, 2010	October 10, 2015
	Powder for Injection (Penicillin)	December 28, 2010	December 27, 2015
	Tablets, Capsules, Dry Suspensions(Penicillin)	May 6, 2008	May 5, 2013
	Bulk Drug (Zanamivir), Powder	April 9, 2010	April 8, 2015
	Freeze-dried Powder Injection (Anti-Cancer Drug)	June 16, 2009	June 15, 2014
	Bulk Drug (Nedaplatin)	June 19, 2009	June 18, 2014
	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
	Bulk Drug (Edaravone, Phenytoinum Natricum, Moroxydine Hydrochloride)	May 18, 2010	May 17, 2015
	Tablets, Capsules, Granules	November 28, 2008	November 27, 2013

At the time we acquired Jiangsu Quanyi, its core products included an influenza vaccine and a human-use rabies vaccine (vero cell). Jiangsu Quanyi had also received a new medicine certificate from the SFDA for its freeze-dried human rabies vaccine (vero cell) and had completed clinical trials of its purified hepatitis A inactivated vaccine (vero cell) while SFDA approval for its 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, the two

new medicine certificates held by Jiangsu Quanyi for its rabies vaccine (vero cell) and freeze-dried human rabies vaccine (vero cell) have been revoked. The GMP certificate for its manufacture of human-use rabies vaccine has also been revoked, and the GMP certificate for its manufacture of influenza vaccine

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expired on February 2, 2010. Jiangsu Vaxtec will take over the vaccine business from Jiangsu Quanyi and is currently in the process of applying for the GMP certification.

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.

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 and approve 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

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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. On February 10, 2010, the SFDA authorized our company to produce and sell Zanamivir, one of only two drugs approved by the World Health Organization, or WHO, to which the new H1N1 strain of influenza A has been shown to be susceptible. On July 15, 2010, Nanjing Simcere received SFDA new drug certification and registration approval to manufacture and market Palonosetron material and injections in China. Palonosetron is a second generation 5-HT3 antagonist used for the prevention and control of acute chemotherapy-induced nausea and vomiting (CINV). As of March 31, 2012, we held 51 new medicine certificates and had obtained 190 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 synthesis technology, physical and chemical nature and purity, pharmaceutical forms, selection of prescriptions, manufacturing technologies, test methods, quality indicators, stability, pharmacology, toxicology and 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.

- 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 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.

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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 trials 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

On July 13, 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 June 30, 2005, the SFDA promulgated a circular which reemphasized that rabies vaccine for human-use produced as from August 23, 2005 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.

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Pricing Policy

According to a circular of the National Development and Reform Commission, or 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

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

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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.

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.

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The PRC Tort Liability Law, or the Tort Liability Law, was promulgated on December 26, 2009 and took 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 register 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 all medicines on the Reimbursement list, and delegates to provincial or regional authorities the authority to regulate the pricing of the rest of the medicines that are not included in the reimbursement 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 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 bidding 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 all

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provinces began to implement collective tender processes through online bidding by provinces. Such online bidding process is propitious to increase the transparency and competitiveness of the tendering system. In general, this bidding procedures will take place by provinces annually.

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 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 four 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 include or remove 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 patients under the Reimbursement program can be reimbursed for certain hospitalization costs on an annual basis; and if they go to the clinic for medical treatment or purchase medicines in drugstores, they can not be reimbursed.

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. The Implementing Regulations of the PRC Patent Law was promulgated on December 30, 2009 and came into effect on February 1, 2010.

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.

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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.

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

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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.

PRC Trademark Law

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.

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

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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 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

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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.

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. Nanjing Tung Chit Pharmaceutical Company Limited, or Nanjing Tung Chit merged into Nanjing Simcere on March 21, 2011.

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- 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, sale and distribution of pharmaceutical products.

- 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 and an additional 10.0% of the equity interest in Shandong Simcere in June 2007. In January 2009, we acquired the remaining 10.0% 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, which 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 99.99% owned subsidiary that engages in the manufacturing and sale of pharmaceutical products. Prior to July 2010, we owned 51.0% of the equity interest in Jilin Boda. In 2010 and 2011, we acquired approximately 39.19% and 9.80% of the equity interests in Jilin Boda, respectively.

- Wuhu Simcere Zhong Ren Pharmaceutical Co., Ltd., or Simcere Zhong Ren, 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.

- Jiangsu Quanyi Biological Technology Stock Co., Ltd., or Jiangsu Quanyi, engages in the manufacturing and sale of vaccines. In May 2009, we acquired 37.5% equity interest of Jiangsu Quanyi. In December 2009, we acquired the 100.0% stake in ChinaVax, a Cayman Islands investment holding company which held 15.0% of the equity interest in Jiangsu Quanyi. Since then, we have held 52.5% of the equity interest in Jiangsu Quanyi.

- Jiangsu Simcere Vaxtec Bio-Pharmaceutical Co., Ltd., or Jiangsu Vaxtec, is our wholly owned subsidiary that engages in the manufacturing and sale of vaccines.

- Shanghai Simcere Pharmaceutical R&D Co., Ltd., Beijing Simcere Pharmaceutical Investment Co., Ltd., Beijing Xiangao Bio-Tech Co., Ltd., Beijing Xianjun Info-Tech Co., Ltd., Simcere of America Inc. and Oy Simcere Europe Limited are our wholly owned subsidiaries established in 2011 with no substantial business operations.

- Right Wealth Holdings Limited, Cosmo Key Limited, Nanjing Simcere Dongyuan Technology & Trade Co., Ltd. are our wholly owned subsidiaries established in 2012.

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D. Property, Plants 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 rights will expire in 2056. We have also entered into a framework agreement with Beijing Strong Science Park Development Co., Ltd. in March 2011, in order to purchase land use rights with respect to an aggregate site area of approximately 65,300 square meters in the Zhongguancun Innovation Park in Beijing, where we plan to establish a regional research and development center and offices. In June 2011, we entered into an agreement with Chenmai government in Hainan Province to purchase land use rights with respect to an aggregate site area of approximately 260,000 square meters. Deposits payments of RMB19.4 million ($3.1 million) and RMB33.0 million ($5.2 million) were made in 2011.

We have five 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. 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 to 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 rights 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 rights will expire in 2053. The facility in Liaoyuan, Jilin Province is approximately 19,827 square meters and occupies an aggregate site area of approximately 55,000 square meters. The land use rights will expire in 2056. The facility in Wuhu, Anhui Province is approximately 3,143 square meters and occupies a parcel of land with an aggregate site area of approximately 20,000 square meters. The land use rights will expire in 2052. In addition, we own the mineral exploration rights relating to a smectite mine that can produce 300,000 tons 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 4A. UNRESOLVED STAFF COMMENTS

None.

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 .

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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 47 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 1,106 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 ($15.9 million) in 2011, 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 pharmaceutical market in China is expected to grow due to factors such as robust economic growth, increased pharmaceutical expenditure, an aging population, an increase in lifestyle-related diseases, government support of the pharmaceutical industry, the relatively low research and development and clinical trial costs in China as compared to more 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 and growth 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. See Item 3. Key Information D. Risk Factors 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.

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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 staff and 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 on 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 2,127 Tier A and Tier B drugs. 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, whether it is considered to be important in meeting the basic healthcare needs of the general public, whether the price is reasonable and whether it is safe and effective. As of March 31, 2012, 36 of our 47 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 (Shufutan), have been included in the Essential Drug List and Reimbursement List.

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 adjustments by the national 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.

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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 annually in principal, and pharmaceuticals that have won in the collective tender processes previously must 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 revenues and profitability will be adversely affected.

Product Pricing and Price Controls

In October 2009, the NDRC 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 on the Company B. Business Overview Regulation Price Controls.

As of March 31, 2012, 36 of our 47 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 (Shufutan), have been included in the Essential Drug List and Reimbursement List.

Since May 1998, the relevant PRC government authorities have ordered price reductions of various pharmaceuticals 28 times. The latest price reductions occurred in September 1, 2011 and affected a total of 2047 pharmaceuticals.

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 and Iremodis are not subject to any price controls, and are priced at a premium by pharmaceutical companies.

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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 cash consideration of RMB30.1 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 100.0% of the equity interest in Master Luck Corporation Limited, which in turn holds 85.7% of the 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 14.3% equity interest for RMB6.3 million in cash. Nanjing Tung Chit merged into Nanjing Simcere Dongyuan in March 2011.

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 in cash, to enhance our offerings in the anti-drug market and create synergies with Endu, the anti-tumor drug.

In May 2009, we entered into an agreement to indirectly acquire approximately 35.0% of the equity interest of Shanghai Celgen Bio-Pharmaceutical Co., Ltd., or Shanghai Celgen, for cash consideration of RMB110.0 million. Shanghai Celgen has strong expertise in research and production of therapeutic antibodies and possesses an antibody manufacturing facility in Shanghai, for which the medicine certificate was approved by the SFDA in March 2011 and the GMP certification was granted in September 2011. Shanghai Celgen s major biogeneric drug candidate, an etanercept, has completed clinical trials and was approved by the SFDA in April 2011. We commenced the production and sale of etanercept in September 2011.

In May 2009, we entered into an agreement to acquire a 37.5% equity interest in Jiangsu Quanyi, a China-based developer and manufacturer of vaccines, for cash consideration of RMB195.5 million. 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 15.0% stake in Jiangsu Quanyi, for total consideration of RMB102.7 million. After completion of this acquisition, we hold an aggregate of 52.5% of the equity interest in Jiangsu Quanyi.

After we entered into the share purchase agreements in October and November 2009 to acquire a 15.0% equity interest in Jiangsu Quanyi, but prior to the full completion of the transaction, we discovered quality control problems relating to the production of Jiangsu Quanyi s human-use rabies vaccine (vero cell). On November 23, 2009, we urged the board of Jiangsu Quanyi to replace its general manager and head of quality assurance and demanded that Jiangsu Quanyi 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

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comprehensive investigation into quality issues regarding human-use rabies vaccine manufactured by two companies including Jiangsu Quanyi, and ordered Jiangsu Quanyi to halt marketing and production of all products including its 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 Quanyi and released into the market between July and October 2008, had an insufficient amount of active compounds. It was found that illegal activities were conducted at Jiangsu Quanyi, whereby inadequate quality control processes were in place, and there was misrepresentation and avoidance of regulatory inspections, which caused substandard vaccines to be released into the market.

On April 27, 2010, the SFDA revoked two new medicine certificates held by Jiangsu Quanyi for its rabies vaccine (vero cell) and freeze-dried human rabies vaccine (vero cell). The GMP certificate for its manufacture of human-use rabies vaccine has also been revoked, and the GMP certificate for its manufacture of influenza vaccine expired on February 2, 2010.

On May 15, 2010, Jiangsu Quanyi received a notification from the Changzhou Food and Drug Administration, which assessed a fine of RMB25.6 million , consisting of penalties and confiscable revenues from past sales of substandard human-use rabies vaccine, against Jiangsu Quanyi. The notification also stated that Jiangsu Quanyi must bear the cost of patient re-vaccinations of approximately RMB23.0 million. In addition, the People s Court of Tianning District, Changzhou imposed a fine of RMB1.6 million on Jiangsu Quanyi for its past sales of substandard human-use rabies vaccine. On January 24, 2011, the final judgment issued by the Intermediate People s Court of Changzhou imposed an additional penalty of RMB3.0 million on Jiangsu Quanyi. During the year ended December 31, 2010, RMB10.2 million of penalty was paid. During the year ended December 31, 2011, RMB10.0 million ($1.6 million) of penalty and RMB13.5 million ($2.1 million) of cost of patient re-vaccinations were paid. As of December 31, 2011, RMB10.0 million ($1.6 million) of penalty and RMB9.5 million ($1.5 million) of cost of patient re-vaccinations remained unpaid. Subsequent to December 31, 2011, RMB10.0 million ($1.6 million) of penalty was paid.

In August 2011, Jiangsu Quanyi injected its certain machineries and equipments as paid-in capital into Jiangsu Vaxtec, the wholly-owned subsidiary of Jiangsu Quanyi, which would be used for the production of influenza vaccine. Jiangsu Vaxtec will take over the vaccine business of Jiangsu Qunayi and is currently in the process of applying for the GMP certification of influenza vaccine. As of the date of this annual report, Jiangsu Quanyi and Jiangsu Vaxtec s operations remained suspended.

In June 2010, we entered into a series of transactions to: (i) acquire approximately 39.19% of the equity interest in Jilin Boda through an acquisition of 80.0% equity interest in Nanjing Xiangao, an investment company which holds approximately 48.99% of the equity interest in Jilin Boda; and (ii) acquire the remaining 20.0% of the equity interest in Nanjing Xiangao through a put-and-call arrangement, which would allow us to effectively acquire approximately 9.80% of the equity interest in Jilin Boda. The additional purchase of 39.19% of the equity interests in Jilin Boda did not constitute a change in control. These series of transactions were completed on July 4, 2010 with a total purchase consideration of RMB174.2 million, consisting of cash consideration of RMB 170.2 million and RMB4.0 million, representing the difference between RMB30.4 million, the fair value of buildings, machinery and equipment transferred to the selling shareholder, and RMB 26.4 million, the consideration receivable from the selling shareholder.

In December 2011, we acquired an additional 9.80% equity interest in Jilin Boda through the acquisition of a 20% equity interest in Nanjing Xiangao for cash consideration of RMB 40.0 million ($6.4 million). As of December 31, 2011, we beneficially held a 99.99% equity interest in Jilin Boda.

Revenues

We generate revenues 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.

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Our products include antibiotics, anti-stroke medications, anti-inflammatory drugs, anti-cancer medications and other medicines. We generate a substantial portion of our revenues from sales of Bicun, Zailin, Endu, Yingtaiqing, Yidasheng and Sinofuan, which in aggregate, accounted for 76.8% , 77.7% and 77.9% of our revenues in 2009, 2010 and 2011, 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:

	Year Ended December 31,					
	2009		2010		2011	
	(in thousands of RMB)	(% of revenues)	(in thousands of RMB)	(% of revenues)	(in thousands of RMB)	(% of revenues)
Bicun	619,340	33.3	667,669	31.2	654,643	32.1
Zailin	279,631	15.0	320,833	15.0	191,006	9.4
Yingtaiqing	151,378	8.2	175,296	8.2	185,441	9.1
Sinofuan	126,297	6.8	151,829	7.1	178,146	8.7
Yidasheng	126,038	6.8	124,178	5.8	116,324	5.7
Endu	124,186	6.7	223,090	10.4	263,046	12.9

We sell substantially all of our products (except for vaccines) 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 2009, 2010 and 2011, no single distributor accounted for, on an individual basis, 10.0% or more of our revenues, and sales to our five largest distributors accounted in aggregate for approximately 14.0%, 17.6% and 17.2%, 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.

From past experiences, the losses of uncollectible accounts receivable were immaterial. In 2009, 2010 and 2011, bad debt expense amounted to RMB0.1 million, RMB0.8 million and RMB1.0 million ($0.2 million), respectively. Our allowance for doubtful accounts amounted to RMB7.5 million and RMB7.3 million ($1.2 million), as of December 31, 2010 and 2011, respectively.

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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,		
	2009	2010	2011
		(in percentages)	
Cost of materials and production	17.3	16.0	16.1
Operating expenses			
Research and development expenses	7.2	5.9	9.7
Sales, marketing and distribution expenses	53.9	55.4	55.5
General and administrative expenses	12.0	12.6	14.1
Impairment loss on goodwill	4.1		
Total operating expenses	77.2	73.9	79.3

Our cost of materials and production declined as a percentage of our revenues from 2009 to 2010 due primarily to an increase in percentage of sales derived from high-margin product. Our cost of materials and production as a percentage of our revenues was stable from 2010 to 2011. Our operating expenses declined as a percentage of our revenues from 2009 to 2010 mainly due to the decrease in R&D expense and the impairment loss in goodwill of Jiangsu Quanyi recognized in 2009. Our operating expenses increased as a percentage of our revenues from 2010 to 2011 primarily due to the increase in research and development expense as a result of increased expenditures on on-going research and development projects and an increase in the number of research and development personnel.

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

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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 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, 2012, we had over 10 product candidates in various stages of development. 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;

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- the number of patients who participate in the clinical trials;
- the number of sites included in clinical trials;
- 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. Our IPR&D projects are still in progress. Based on our impairment testing, the fair value of IPR&D as of December 31, 2011 was greater than the carrying amount. No impairment loss was recognized for the year ended December 31, 2011.

We have incurred research and development expenses of RMB133.0 million, RMB125.7 million and RMB198.7 million ($31.6 million) in 2009, 2010 and 2011, respectively, representing, 7.2%, 5.9% and 9.7 % 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, 2009 to December 31, 2011, we recognized approximately RMB31.1 million ($4.9 million) of government grants from the PRC government, which have been recorded as a reduction of our research and development expenses.

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

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innovative pharmaceuticals. 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.

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. Sales, marketing and distribution expenses increased as a percentage of our revenues from 2009 to 2011. The increase was primarily due to 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

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ordinary shares in exchange for 1,833,990 vested shares and 2,916,028 non-vested shares on May 7, 2009. The exchange of the share option awards for restricted shares was accounted for as a modification of 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.

During 2010, we issued 870,000 restricted shares in total to our officers and key employees under our 2006 share incentive plan, including 480,000 restricted shares issued on March 9, 2010 to our independent directors and president. On September 1, 2010, we granted 978,000 options to our officers and key employees with an exercise price of $4.545 per share. These options vest over a five-year period, with 20% of them vesting on September 1 of each year beginning from 2011.

In 2011, we issued 364,000 restricted shares in total to our officers and key employees under our 2006 share incentive plan. 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 RMB23.7 million, RMB31.1 million and RMB29.3 million ($4.7 million) in 2009, 2010 and 2011, respectively. Share-based compensation expenses are 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

Effective from January 1, 2008, under the Corporate Income Tax Law of the PRC (CIT law) which was passed by the National People s Congress on March 16, 2007, the PRC s statutory income tax rate is 25%.

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 grandfather certain tax holidays until they expire. The transitional tax rates are 20%, 22%, 24% and 25% for 2009, 2010, 2011 and 2012 onwards, respectively.

Further, under the CIT law and its relevant regulations, entities that qualify as Advanced and New Technology Enterprises (ANTEs) are entitled to a preferential income tax rate of 15%.

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 Taxation and the Ministry of Finance, and outline the detailed procedures and measures to identify such ANTEs.

In 2009, Nanjing Simcere was recognized by the PRC government as an ANTE under the CIT law and the related regulations, and was entitled to the preferential tax rate of 15% from 2009 to 2011. In 2008, Shandong Simcere, Jilin Boda and Simcere Zhong Ren were recognized by the PRC government as ANTEs under the CIT law and the related regulations, and were entitled to the preferential income tax rate of 15% from 2008 to 2010. In 2011, ANTE status of Shandong Simcere, Jilin Boda and Simcere Zhong Ren were renewed and entitled to the preferential tax rate of 15% from 2011 to 2013. In 2011, Hainan Simcere was recognized by the PRC government as an ANTE under the CIT law and the related regulations, and was entitled to the preferential tax rate of 15% from 2011 to 2013.

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Under the CIT law, where the transitional preferential income tax policies and the preferential policies prescribed under the 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. Nanjing Simcere and Shandong Simcere have chosen to enjoy the grandfathering treatment of the tax holiday of two-year 100% exemption followed by three-year 50% exemption until expiry in 2010 and 2011, respectively.

Our effective income tax rates were 36.9%, 5.4% and negative 30.4% in 2009, 2010 and 2011, respectively. The higher effective income tax rate in 2009 resulted primarily from the non-deductible impairment loss of goodwill and re-measurement loss of previously held equity interest in Jiangsu Quanyi in 2009. The lower effective income tax rate in 2010 resulted mainly from tax holidays and preferential tax rates enjoyed by some of our PRC subsidiaries during 2010, and for certain deferred tax assets, the effect of a higher tax rate applied for their future tax benefits. The negative effective income tax rate in 2011 resulted primarily from the reversal of a valuation allowance previously made against the deferred tax assets of Jiangsu Simcere amounting to RMB44.1 million ($7.0 million) and the impact of a non-taxable other operating income of RMB50.0 million ($7.9 million) arising from the receipt of a settlement in respect of the acquisition of Jiangsu Quanyi in 2009 from certain former shareholders of Jiangsu Quanyi. The reversal of a valuation allowance in Jiangsu Simcere was mainly attributable to the improved operating results. Jiangsu Simcere generated taxable income in 2011 and expects to generate further taxable income for it to utilize or recover its deferred tax assets.

The 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 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.

Under the 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 ADSs or ordinary shares, or the gain you may realize from the transfer of our ADSs or ordinary shares, 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 ADSs or ordinary shares would 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

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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. 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 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 as of December 31, 2011 increased by RMB392.1 million ($62.3 million) as compared to

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December 31, 2010, which was mainly due to the slow-down of payment from customers under a tight financing environment in China and more settlement of accounts receivable by our customers with bills receivable instead of cash. The following table presents the movement of allowance for doubtful accounts in 2009, 2010 and 2011:

	Year Ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 $
	(in thousands)			
Beginning allowance for doubtful accounts	6,995	6,749	7,475	1,188
Additions charged to bad debt expense	101	843	994	158
Write-off of accounts receivable	(347)	(117)	(1,180)	(188)
Ending allowance for doubtful accounts	6,749	7,475	7,289	1,158

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 2009, 2010 and 2011, 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, 2011 increased by RMB37.0 million ($5.9 million) as compared to December 31, 2010 primarily due to storage of the raw materials, packaging materials and finished goods due to the timing of the Chinese New Year in 2012.

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 2009, 2010 and 2011 were RMB2.9 million, RMB4.8 million and RMB3.2 million ($0.5 million), respectively.

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 2009, 2010 and 2011.

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Impairment of Long-Lived Assets and Goodwill

As of December 31, 2011, our intangible assets primarily consisted of customer relationships, developed technologies, product trademarks and IPR&D that we acquired in connection with our acquisition of 90.0% of the equity interest in Shandong Simcere in 2006 and 2007, 51.0% equity interest in Jilin Boda in 2007, 85.7% equity interest in Nanjing Tung Chit in 2007, 70.0% equity interest in Simcere Zhong Ren in 2008, and 52.5% equity interest in Jiangsu Quanyi in 2009, as well as the acquired technology know-how of Iremod and Rosuvastatin from third parties.

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 revenues 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 with definite lives 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 revenues and expenses associated with the use of the asset. No long-lived assets or asset groups held and used including property, plant and equipment and intangible assets with definite lives were tested for impairment in 2010 and 2011 and no impairment charge was recognized for the years ended December 31, 2009, 2010 and 2011.

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 based on the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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Our IPR&D balance as of December 31, 2011 related to our acquisition of 52.5% equity interest in Jiangsu Quanyi in 2009. Our IPR&D projects are still in progress. Based on our impairment testing, the fair value of IPR&D as of December 31, 2011 was greater than the carrying amount. No impairment loss was recognized for the year ended December 31, 2011.

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.

Following the acquisition of Jiangsu Quanyi in 2009, we evaluated and determined that there are two reporting units, a pharmaceutical reporting unit and a vaccine reporting unit, for goodwill impairment testing. For the years ended December 31, 2009, 2010 and 2011, 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 model 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.

In connection with the acquisition of Jiangsu Quanyi, 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 Quanyi 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 vaccine reporting unit as of December 31, 2009.

In determining the fair value of the vaccines reporting unit as of December 31, 2009, we used the income approach valuation technique (discounted cash flows) which required estimates of projected revenues, operating expenses, working capital needs, capital expenditures over a multi-year

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period, as well as applying weighted average cost of capital to be used as the discount rate. In discounting the cash flow estimates, we used a discount rate of 16%. We assumed a four-year period of reduced cash flows from sales due to the one-year suspension of Jiangsu Quanyi s operations and a period of three years which we believed would be required to rebuild the brand and regain market share. We also assumed that we will be able to successfully renew and obtain our GMP certificates for a three-year period beginning 2011 and the relevant government authorities will allow us to resume production and sales and marketing activities in 2011. Based on the 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 as of December 31, 2009 to reduce the vaccine reporting unit goodwill to its implied fair value. In determining the fair value of the vaccine reporting unit as of December 31, 2010, we used a discount rate of 17% in discounting the cash flow estimates. We assumed that Jiangsu Quanyi and Jiangsu Vaxtec would be able to successfully renew and obtain a GMP certificate for the influenza vaccine and resume production, sales and marketing activities in the second half of 2011. We also assumed reduced cash flows from sales for the period from the second half of 2011 to 2013, the period which we believe will be required to rebuild the brand and regain market share. Based on impairment testing, the fair value of the vaccine reporting unit as of December 31, 2010 was greater than the carrying amount of the vaccine reporting unit. We were unable to obtain the GMP certificate for the influenza vaccine as planned as a result of recent changes to the GMP standards and its implementation rules, which impose additional requirements on the GMP review process, including requiring additional analysis on risk controls. In addition, we upgraded our production lines for influenza vaccine to further improve our manufacturing processes and techniques.

In determining the fair value of the vaccine reporting unit as of December 31, 2011, we used a discount rate of 18.5% in discounting the cash flow estimates. We assumed that Jiangsu Vaxtec would be able to successfully renew and obtain a GMP certificate for its influenza vaccine and resume production, sales and marketing activities in the second half of 2012. We also assumed reduced cash flows from sales for the period from the second half of 2012 to 2014, the period which we believe will be required to rebuild the brand and regain market share. Based on impairment testing, the fair value of the vaccine reporting unit as of December 31, 2011 was greater than the carrying amount of the vaccine reporting unit.

As of December 31, 2010 and 2011, our goodwill balance was RMB309.9 million ($49.2 million), including RMB131.7 million of goodwill related to our acquisition of a 52.5% equity interest in Jiangsu Quanyi in 2009, which also reflected the impairment charge of RMB76.4 million we recognized for the vaccines reporting unit in 2009. We determined that no impairment loss was required to be recognized for our pharmaceutical and vaccine reporting units for the year ended December 31, 2010 and 2011.

Significant judgment was involved in determining the impact of the suspension order of Jiangsu Quanyi on the cash flows of the vaccine reporting unit, including the period of time Jiangsu Vaxtec will take to resume production and regain market share. Assumptions used in our impairment analysis, such as forecast revenues, growth rates and cost of capital, are consistent with our current business plan and internal cash flows projection for the vaccine reporting unit. Changes in projections or estimates could significantly change the estimated fair value of the vaccine reporting unit. If we used different assumptions or estimates, the goodwill impairment charge and the operating results could be different. In particular, if Jiangsu Vaxtec is unable to successfully renew and obtain the GMP certificate for its influenza vaccine and recommence operation, or if Jiangsu Vaxtec is unable to regain its market share in the China vaccine market within the period from the second half of 2012 to 2014, the fair value of the vaccine reporting unit would be substantially lower and there would be further impairment charge to goodwill.

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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.

For the years ended December 31, 2009, 2010 and 2011, nil, 978,000 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 during the year ended December 31, 2010 are shown at their weighted average values as follows:

	Year Ended December 31, 2010
Valuation assumptions	
Expected term (in years)	4.5
Expected volatility	64.73%
Expected dividend	0%
Risk-free rate	0.75%-1.41%

Since the share options granted prior to year 2009 were exchanged to non-vested shares in May 2009, we are not able to rely on historical exercise data to estimate the expected term of the share options granted in 2010. Accordingly, the expected term is based on the simplified method by averaging the vesting term and contractual term. We used the historical volatility of our shares to estimate the expected volatility. The risk-free rate is based on the yield of the United States Treasury bond rate.

Income tax uncertainties and realization of deferred tax assets

Our income tax provision and related deferred tax assets are recognized and measured based on actual and expected future income, PRC and United States statutory income tax rates, PRC and United States 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.

As of December 31, 2010 and 2011, we had total gross deferred tax assets of RMB118.0 million and RMB 134.0 million ($21.3 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. As of December 31, 2010 and 2011, our valuation allowances for deferred tax asset were RMB44.4 million and RMB2.3 million ($0.4 million), respectively. Our valuation allowances decreased by RMB42.1 million ($6.7 million) in 2011, which was primarily attributable to the reversal of a valuation allowance provided against the deferred tax assets of Jiangsu Simcere of RMB44.1 million ($7.0 million). Jiangsu Simcere generated taxable income in 2011 and expects to generate further taxable income for it to utilize or recover its deferred tax assets.

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We determine whether it is more-likely-than-not that a tax position will be sustained upon examination, 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.

	Year Ended December 31,					
	2009		2010		2011	
	RMB	% of Total Revenues	RMB	% of Total Revenues	RMB	% of Total Revenues
	(in thousands, except percentages)					
Revenue	1,857,071	100.0	2,141,098	100.0	2,040,547	100.0
Cost of materials and production	(320,945)	(17.3)	(341,787)	(16.0)	(328,159)	(16.1)
Gross profit	1,536,126	82.7	1,799,311	84.0	1,712,388	83.9
Operating expenses:						
Research and development	(132,981)	(7.2)	(125,737)	(5.9)	(198,722)	(9.7)
Sales, marketing and distribution	(1,002,419)	(53.9)	(1,186,144)	(55.4)	(1,131,974)	(55.5)
General and administrative	(222,118)	(12.0)	(269,512)	(12.6)	(288,144)	(14.1)
Impairment loss on goodwill	(76,398)	(4.1)				
Total operating expenses	(1,433,916)	(77.2)	(1,581,393)	(73.9)	(1,618,840)	(79.3)
Other operating income					50,000	2.4
Income from operations	102,210	5.5	217,918	10.1	143,548	7.0
Interest income	8,861	0.5	4,214	0.2	4,676	0.2
Interest expense	(12,126)	(0.7)	(19,920)	(0.9)	(42,342)	(2.0)
Foreign currency exchange gains, net	382	0.0	5,511	0.3	7,732	0.4
Other income	2,971	0.2	2,286	0.1	15,036	0.7
Equity in losses of equity method affiliated companies	(56,532)	(3.0)	(14,716)	(0.7)	(12,192)	(0.6)

Earnings before income taxes	45,766	2.5	195,293	9.1	116,458	5.7
Income tax expense (benefit)	(16,897)	(0.9)	(10,640)	(0.5)	35,371	1.7
Net income	28,869	1.6	184,653	8.6	151,829	7.4
Less: net (income)loss attributable to the noncontrolling interest	(2,441)	(0.2)	(12,242)	(0.5)	26,560	1.3
Net income attributable to Simcere Pharmaceutical Group(1)	26,428	1.4	172,411	8.1	178,389	8.7

(1) Certain of our PRC operating subsidiaries were entitled to a tax holiday. The effect of the tax holiday increased our net income for 2009, 2010 and 2011 by RMB23.5 million, RMB29.9 million and RMB7.0 million ($1.1 million), respectively, or RMB0.20, RMB0.28 and RMB0.06 ($0.01) on the basic per share basis, respectively.

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Comparison of Years Ended December 31, 2010 and December 31, 2011

Revenues. Our revenues represent the invoiced value of products sold, net of VAT. Our revenues decreased by 4.7% to RMB2,040.5 million ($324.2 million) in 2011 from RMB2,141.1 million in 2010. This decrease was primarily due to decreases in the sales of Zailin and Bicun, partially offset by the increases in the sales of Endu, Sinofuan, Anxin and Jiebaishu. Revenues from sales of Zailin decreased to RMB191.0 million ($30.3 million) in 2011, representing 9.4% of our revenues, from RMB320.8 million in 2010, or 15.0% of our revenues. The significant decrease in revenues from sales of Zailin resulted primarily from government policies of controlling pharmaceutical prices. Revenues from Bicun decreased to RMB654.6 million ($104.0 million) in 2011, representing 32.1% of our revenues, from RMB667.7 million in 2010, or 31.2% of our revenues. The decrease in sales of Bicun resulted from changes to the tender process in certain provinces and reorganization of our sales force in some regional markets.

Gross Profit and Gross Margin. Our gross profit decreased by 4.8% to RMB1,712.4 million ($272.1 million) in 2011 from RMB1,799.3 million in 2010. Our gross margin slightly decreased to 83.9% in 2011 from 84.0% in 2010.

Operating Expenses. Our operating expenses increased by 2.4% to RMB1,618.8 million ($257.2 million) in 2011 from RMB1,581.4 million in 2010. Operating expenses as a percentage of our revenues increased to 79.3% in 2011 from 73.9% in 2010.

- *Research and Development Expenses*. Our research and development expenses increased to RMB198.7 million ($31.6 million) in 2011 from RMB125.7 million in 2010. Research and development expenses as percentage of our revenues increased to 9.7% in 2011 from 5.9% in 2010. The increase in research and development expenses was primarily due to increased expenditures on on-going research and development projects and an increase in research and development personnel.

- *Sales, Marketing and Distribution Expenses*. Our sales, marketing and distribution expenses decreased by 4.6% to RMB1,132.0 million ($179.9 million) in 2011 from RMB1,186.1 million in 2010. Sales, marketing and distribution expenses as a percentage of our revenues remained stable at 55.5% in 2011 compared to 55.4% in 2010.

- *General and Administrative Expenses*. Our general and administrative expenses increased by 6.9% to RMB288.1 million ($45.8 million) in 2011 from RMB269.5 million in 2010. The increase was primarily related to the increase of staff costs as well as legal fees for the establishment of an equity joint venture with an affiliate of Merck. General and administrative expenses as a percentage of our revenues increased to 14.1% in 2011 from 12.6% in 2010.

Other operating income. We reached a settlement agreement with the former shareholders

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and former directors of Jiangsu Quanyi in 2011 in respect of our acquisition of a 37.5% equity interest in Jiangsu Quanyi in 2009. Pursuant to the settlement agreement, we received total cash compensation of RMB50.0 million ($7.9 million) in 2011, which was recognized as other operating income.

Interest Income. Our interest income slightly increased to RMB4.7 million ($0.7 million) in 2011 from RMB4.2 million in 2010.

Interest Expense. Our interest expense increased by 112.6% to RMB42.3 million ($6.7 million) in 2011 from RMB19.9 million in 2010. This increase was primarily due to increased cost of bank financing and balances of loans.

Foreign Currency Exchange Gains, Net. Our foreign currency exchange gains totaled RMB7.7 million ($1.2 million) in 2011, representing 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 loans. As these intercompany loans are not considered long-term investment in nature and given the functional currency of our holding 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. Our other income included the incentive payment received from our depositary in connection with the establishment of the ADR program following our initial public offering and tax refunds granted by local governments. The increase in other income to RMB15.0 million ($2.4 million) in 2011 from RMB2.3 million in 2010 was mainly contributed by the tax refunds granted by local governments.

Equity in Losses of Equity Method Affiliated Companies. Our equity in losses of equity method affiliated companies in 2011 represented the loss of our 35.0% equity interest in Shanghai Celgent amounting to RMB12.2 million ($1.9 million), compared to RMB14.7 million in 2010.

Income Tax Expense (Benefit). Our effective income tax rates in 2010 and 2011 were 5.4% and negative 30.4%, respectively. The lower effective income tax rate in 2010 resulted mainly from tax holidays and preferential tax rates enjoyed by some of our PRC subsidiaries during 2010 and, for certain deferred tax assets, the effect of a higher tax rate applied for their future tax benefits. The negative effective income tax rate in 2011 resulted primarily from the reversal of a valuation allowance previously made against the deferred tax assets of Jiangsu Simcere amounting to RMB44.1 million ($7.0 million), and the impact of a non-taxable other operating income received of RMB50.0 million ($7.9 million) arising from the receipt of settlement payment in respect of the acquisition of Jiangsu Quanyi in 2009. The reversal of a valuation allowance of Jiangsu Simcere was mainly attributable to its improved operating results. Jiangsu Simcere generated taxable income in 2011 and expects to generate further taxable income for it to utilize or recover its deferred tax assets.

Net (Income) Loss Attributable to the Redeemable Noncontrolling Interest and Noncontrolling Interest. Net loss attributable to the noncontrolling interests of RMB26.6 million ($4.2 million) in 2011 primarily represented our share of the noncontrolling interests in the operating loss in Jiangsu Quanyi and Jiangsu Vaxtec, which was partially offset by our share of operating profits in Jilin Boda and Simcere Zhong Ren.

Net Income Attributable to Simcere Pharmaceutical Group. As a result of the foregoing, our net income increased by 3.5% to RMB178.4 million ($28.3 million), in 2011 from RMB172.4 million in 2010, while net margin increased to 8.7% in 2011 from 8.1% in 2010.

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Comparison of Years Ended December 31, 2009 and December 31, 2010

Revenues. Our revenues represent the invoiced value of products sold, net of VAT. Our revenues increased by 15.3% to RMB2,141.1 million in 2010 from RMB1,857.1 million in 2009. This increase was primarily due to increases in the sales of Endu, Bicun, Biqi, Zailin, Sinofuan and Yingtaiqing. Revenues from sales of Endu increased to RMB223.1 million in 2010, representing 10.4% of our revenues, from RMB124.2 million in 2009, or 6.7% of our revenues. The significant increase in revenues from sales of Endu resulted from our successful marketing strategy as well as the price increase. The Phase IV clinical trials of Endu were successfully completed in 2010, which also contributed to the increase in sales of Endu. Revenues from Bicun increased to RMB667.7 million in 2010, representing 31.2% of our revenues, from RMB619.3 million in 2009, or 33.3% of our revenues. The increase in sales of Bicun resulted from the continued expansion of our promotion network. Revenues from Biqi increased to RMB95.9 million in 2010, representing 4.5% of our revenues, from RMB49.2 million in 2009, or 2.7% of our revenues. The increase in sales of Biqi was due to greater efforts in promotion activities through television, newspaper and magazine channels. Revenues from Zailin increased to RMB320.8 million in 2010, representing 15.0% of our revenues, from RMB279.6 million in 2009, or 15.0% of our revenues. The increase in sales of Zailin was primarily due to our continued expansion into new markets. Revenues from Sinofuan increased to RMB151.8 million in 2010, representing 7.1% of our revenues, from RMB126.3 million in 2009, or 6.8% of our revenues. Revenues from Yingtaiqing increased to RMB 175.3 million in 2010, representing 8.2% of our revenues, from RMB 151.3 million in 2009, or 8.2% of our revenues.

Gross Profit and Gross Margin. Our gross profit increased by 17.1% to RMB1,799.3 million in 2010 from RMB1,536.1 million in 2009. Our gross margin increased to 84.0% in 2010 from 82.7% in 2009. The increase in gross profit and gross margin was primarily due to the increase in sales of Endu and Sinofuan as a percentage of our revenues, as these products have relatively high gross profit margins as compared to our other major products.

Operating Expenses. Our operating expenses increased by 10.3% to RMB1,581.4 million in 2010 from RMB1,433.9 million in 2009. Operating expenses as a percentage of our revenues decreased to 73.9% in 2010 from 77.2% in 2009.

- *Research and Development Expenses*. Our research and development expenses decreased to RMB125.7 million in 2010 from RMB133.0 million in 2009. Research and development expenses as percentage of our revenues decreased to 5.9% in 2010 from 7.2% in 2009. The decrease in research and development expenses was primarily due to increases in government research and innovation subsidies recognized from RMB0.5 million in 2009 to RMB 5.7 million in 2010 and significant initial payments for technology know-how acquired from pharmaceutical companies and universities in 2009.

- *Sales, Marketing and Distribution Expenses*. Our sales, marketing and distribution expenses increased by 18.3% to RMB1,186.1 million in 2010 from RMB1,002.4 million in 2009. The increase was mainly attributable to the expansion of our sales team together with higher promotion and advertisement costs. Sales, marketing and distribution expenses as a percentage of our revenues increased to 55.4% in 2010 from 53.9% in 2009.

- *General and Administrative Expenses*. Our general and administrative expenses increased by 21.3% to RMB269.5 million in 2010 from RMB222.1 million in 2009. The increase was primarily related to depreciation expenses and staff costs. General and administrative expenses as a percentage of our revenues increased to 12.6% in 2010 from 12.0% in 2009.

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Interest Income. Our interest income decreased to RMB4.2 million in 2010 from RMB8.9 million in 2009. This decrease was due to the decreased average balance of our cash and cash equivalents.

Interest Expense. Our interest expense increased by 64.3% to RMB19.9 million in 2010 from RMB12.1 million in 2009. This increase was primarily due to the increase in factoring discounts in respect of bills receivables sold to the financial institutions and additional loans borrowed in 2010.

Foreign Currency Exchange Gains, Net. Our foreign currency exchange gains totaled RMB5.5 million in 2010 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 RMB2.3 million in 2010 compared to RMB3.0 million in 2009 which mainly represents an incentive payment received from our depositary in connection with the establishment of the ADR program following our initial public offering.

Equity in Losses of Equity Method Affiliated Companies. Our equity in losses of equity method affiliated companies in 2010 represented the loss of the 35.0% equity interest in Shanghai Celgent amounting to RMB14.7 million. Our equity in losses of equity method affiliated companies in 2009 mainly represented the remeasurement loss of the previously held equity interest in Jiangsu Quanyi amounting to RMB55.6 million.

Income Tax Expense. Income tax expense decreased to RMB10.6 million in 2010 from RMB16.9 million in 2009. Our effective income tax rates in 2009 and 2010 were 36.9% and 5.4%, respectively. The higher effective income tax rate in 2009 resulted primarily from the non-deductible impairment loss of goodwill and re-measurement loss of previously held equity interest in Jiangsu Quanyi in 2009. The lower effective income tax rate in 2010 resulted mainly from tax holidays and preferential tax rates enjoyed by some of our PRC subsidiaries during 2010, and for certain deferred tax assets, the effect of a higher tax rate applied for their future tax benefits.

Net Income Attributable to the Redeemable Noncontrolling Interest and the Noncontrolling Interest. Net income attributable to the noncontrolling interests increased to RMB12.2 million in 2010 from RMB2.4 million in 2009. Net income attributable to the noncontrolling interests were lower in 2009 because the noncontrolling interests shares of profits of Jilin Boda and Simcere Zhong Ren in 2009 were offset by the noncontrolling interests share of the goodwill impairment charge of Jiangsu Quanyi.

Net Income Attributable to Simcere Pharmaceutical Group. As a result of the foregoing, our net income increased by 552.4% to RMB172.4 million, in 2010 from RMB26.4 million, in 2009, while net margin increased to 8.1% in 2010 from 1.4% in 2009.

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 -0.7% , 3.3% and 5.4% in 2009, 2010 and 2011, respectively.

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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,			
	2009 RMB	2010 RMB	2011 RMB	2011 $
	(in thousands)			
Net cash provided by (used in) operating activities	418,314	132,260	(176,893)	(28,106)
Net cash used in investing activities	(457,672)	(202,205)	(228,181)	(36,254)
Net cash provided by (used in) financing activities	(330,851)	(97,738)	342,948	54,489
Effect of exchange rate changes on cash and cash equivalents	(117)	(1,222)	(1,607)	(255)
Net decrease in cash and cash equivalents	(370,326)	(168,905)	(63,733)	(10,126)
Cash and cash equivalents at beginning of year	812,814	442,488	273,583	43,468
Cash and cash equivalents at end of year	442,488	273,583	209,850	33,342

As of December 31, 2010 and 2011, we had RMB273.6 million and RMB209.9 million ($33.3 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 combined effects of the acquisition of additional equity interest in Jilin Boda, the repurchase of our ordinary shares, the purchase of property, plant and equipment, the payments of deposits for the purchase of land use rights and the timing of cash receipts and payments in the ordinary course of our business.

Operating Activities

Cash flows from operating activities changed from net inflow in 2010 to net outflows in 2011, which was primarily due to the slow-down of payment from customers under the tight financing environment in China and more settlement of accounts receivable by our customers with bills receivable instead of cash in 2011. Bills receivable are short-term notes receivable issued 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 accounts receivable to be settled with bills receivable. 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 have a material impact on timing of customer receipts and vendor payments in foreseeable future periods.

Investing Activities

Net cash used in investing activities was RMB228.2 million ($36.3 million) during 2011, mainly for the purchase of property, plant and equipment and intangible assets, and payments of deposits for the purchase of property, plant and equipment, intangible assets and land use rights of RMB216.6 million ($34.4 million)

Net cash used in investing activities was RMB202.2 million during 2010, mainly for the purchase of property, plant and equipment of RMB188.8 million.

Financing Activities

Net cash provided by financing activities was RMB 342.9 million ($54.5 million) during 2011, primarily due to proceeds from bank borrowings of RMB 436.8 million ($69.4 million) partially offset by our payment for the acquisition of 39.19% and 9.80% equity interest in Jinlin Boda for cash

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consideration of RMB52.8 million ($8.4 million) and repurchase of our ordinary shares of RMB32.0 million ($5.1 million).

Net cash used in financing activities was RMB97.7 million during 2010, primarily for the repurchase and retirement of our ordinary shares of RMB127.5 million and the acquisition of the 39.19% interest in Jilin Boda of RMB144.0 million and the 14.3% interest in Nanjing Tung Chit of RMB6.3 million, which was partially offset by the net proceeds from loan borrowing and repayment of RMB180.0 million.

We believe that our current levels of cash and cash flows from 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 2009, 2010 and 2011, our capital expenditures totaled RMB141.3 million and RMB188.8 million and RMB216.6 million ($34.4 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. Our capital expenditures in 2012 will be used mainly for the relocation of our manufacturing facility in Nanjing, establishment of our research and development center in Beijing and payments for the purchase of land use rights. We expect to use cash generated by financing activities and our cash in hand to pay for our capital expenditures in 2012.

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, cardiovascular and cerebrovascular diseases, 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 manufacturing division in resolving technical issues and improving manufacturing processes and techniques.

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Our Capability

As of March 31, 2012, we had 328 research staff members, 174 of whom held master s degrees and 49 of whom held Ph.D. degrees, including 24 staff members with overseas training and/or work experience. Our research and development activities are primarily conducted by our operating subsidiaries in China, Simcere Research, located in Nanjing, Jiangsu Province, and Shanghai Simcere Pharmaceutical R&D Co., Ltd., located in Shanghai. See Item 4. Information on 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, 2011, we had 12 post-doctoral researchers participating in this program.

Collaborative Research

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 for which Endu is required to be administered to once every week or two weeks. The amount to be paid under the agreement is RMB2.9 million and as of January 31, 2012, Simcere Research has paid an aggregate of RMB 1.3 million ($0.2 million). In addition, Simcere Research has agreed under the agreement to transfer to China Pharmaceutical University 0.5% of the total revenues derived from the sales of this pharmaceutical every year for three years upon successfully obtaining new medicine certificate. The pre-clinical trials of PEGylated Endu were completed and we applied with the SFDA for clinical testing in July 2011.

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. In 2011, we paid RMB 6.0 million ($1.0 million) upon receiving the IND approval from SFDA. The remaining RMB20.0 million will be further provided if additional milestones as set forth under the agreement are achieved. 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 research on lung cancer, animal pharmacokinetics research and safety evaluation research, and completed the pre-clinical studies by the end of 2009. We have applied with the SFDA for clinical testing in 2010 and obtained the IND approval from SFDA in 2011.

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

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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 of which $1.0 million was paid to acquire the license rights of in-process R&D materials in January 2009. The remaining $4.0 million will be provided at various dates upon the achievement of certain milestones as set forth under the agreement. The pre-clinical studies were completed and we have applied 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 applied with the SFDA for clinical testing in 2010.

In November 2010, we formed a strategic partnership with Bristol-Myers Squibb, or BMS, to co-develop BMS-817378, a pre-clinical small molecule MET/VEGFR-2 inhibitor. Under the agreement, we will receive exclusive rights to develop and commercialize BMS-817378 in China while BMS will retain exclusive rights in all other markets. The parties will together determine the strategic development plan, which will initially be implemented by us. This arrangement represents a creative approach to accelerate the development process from preclinical oncology compound to clinical proof-of-concept by leveraging the complementary strengths of a premier Chinese pharmaceutical company and a global pharmaceutical company. We successfully completed preclinical studies and submitted IND application in October 2011. Our IND application is under the review by the Center for Drug Evaluation.

In May 2011, we entered into a strategic research and development collaboration agreement with Nanjing Medical University to develop SIM11057, a stroke management medication with novel mechanism and target.

In October, 2011, we signed a strategic cooperation agreement with Suzhou NeuPharman Co., Ltd, or NewPharma, to develop and produce novel drugs. NeuPharma will provide anti-cancer lead

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compounds, while we will contribute the further research and development. We agreed to provide a fixed amount of funding at various dates upon the achievement of certain milestones as set forth under the agreement.

In December 2011, we expanded the existing drug development partnership with BMS to focus on the co-development of BMS s cardiovascular disease candidate, BMS-795311, a preclinical-stage small molecule inhibitor of the cholesteryl ester transfer protein. Under the terms of the co-development agreement, we are expected to receive an exclusive license to develop and market the drug in China while BMS will retain exclusive rights in all other markets.

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 March 31, 2012, we had over 10 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
Bendamusting Hydrochloride for Injection	Treatment of chronic lymphocytic leukemias (CLL), Indolent B cell non-Hodgkin s lymphoma (NHL)	Phase III Clinical Study	No	4 years

Bendamusting Hydrochloride for Injection.Bendamustine Hydrochloride, an alkylating agent that also has characteristics of antimetabolites, is a nitrogen mustard class of anticancer drugs used for the treatment of chronic lymphocytic leukemias, Indolent B cell non-Hodgkin s lymphoma and other diseases. We are conducting Phase III clinical study for this product candidate, and the study is expected to be completed by the end of 2012. We plan to subsequently submit the New Drug Application to SFDA in 2013.

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 the date of Mar. 31, 2012, we hold 32 patents in China, three patents in the United States, one patent in Australia and one patent in Europe. We also hold one utility model patents and 34 design patents. In addition, we have 104 pending patent applications in China and 13 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 model patents and design patents are both 10 years and the validity period for our 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 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 and

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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, 2012, we maintained 741 trademark registrations in China, including the Chinese characters for Bicun, Zailin, Yingtaiqing, Anqi and Biqi. We have also applied for an additional 26 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.

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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 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, 2011:

	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	816,150				816,150
Interest payments	29,248				29,248
Payable for acquisitions	41,810				41,810
Liabilities for uncertain tax position		23,625			23,625
Payable for intangible assets acquisition(1)		8,000			8,000
Operating lease commitments	2,504	864	46	9	3,423
Advertising and research and development projects	7,674				7,674
Capital commitments	13,679				13,679
Total	911,065	32,489	46	9	943,609

(1) The payment term is subject to the annual sales of Iremod in the coming years. The years of contractual obligation are estimated based on management s sales forecast.

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 expressions. We have based these forward-looking statements lar 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 the date of this annual report.

Name	Age	Position/Title
Jinsheng Ren	51	Chairman of the board of directors and chief executive officer
Guoqiang Lin(1)(3)	69	Independent director
Hongquan Liu(1)(2)(3)	53	Independent director
Gary Siu Kwan Sik(1)(2)	45	Independent director
John Huan Zhao	49	Director
Yehong Zhang	49	President
Hong Zhao	49	Executive vice president
Jindong Zhou	50	Executive vice president
Xiaojin Yin	53	Senior vice president of research and development
Yushan Wan	42	Acting chief financial officer
Quanfu Feng	47	Vice president of marketing
Jialun Tian	47	Vice president of hospital sales
Zhengliang Shi	48	Vice president of hospital sales
Peng Wang	53	Chief scientific officer
Jie Liu D Elia	38	Vice president
Haibo Qian	49	Secretary to the board of directors and company secretary

(1) Audit committee members.

(2) Compensation committee members.

(3) Corporate governance and nominating committee members.

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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 U.S. and SmithKline Pharmaceuticals.

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 sales and marketing director 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 twenty 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 executive director of C Y Foundation Group Limited and an independent non-executive director of China Glass Holdings Limited a company, both of which 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.

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Mr. John Huan Zhao is a director of our company. Mr. Zhao also serves as the chief executive officer of Hony Capital Limited and an Executive 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 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. Hong Zhao is our executive vice president and has nearly 20 years of experience in the healthcare industry in China. He started as a pharmaceutical sales representative and took on positions of increasing responsibilities in sales & marketing with Xian Janssen and Novartis China. He most recently held the position of Senior Vice President of Novartis Greater China and General Manager of Novartis Shanghai. Mr. Zhao received an EMBA degree from China Europe International Business School (CEIBS), and a bachelor s degree in Medicine from Nanjing Medical University. He is also a visiting professor at the Nanjing Medical University.

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. Yushan Wan is our acting chief financial officer. Mr. Wan joined our company in 2000 and has been serving as our corporate controller since 2007. He was appointed as our acting chief financial officer in January 2011. Mr. Wan has a bachelor s degree in biochemistry and a master s degree in accounting from Nanjing University and is a Chinese Certified Public Accountant.

Mr. Quanfu Feng is our vice president of marketing. 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

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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. 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 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. Zhengliang Shi is our vice president of hospital sales. Mr. Shi received a college diploma in pharmaceutical specialty from China Pharmaceutical University in 2002, and an MBA degree from the Business School of Nanjing Normal University in 2003. He worked for the equipment section of the Nanjing Pharmaceutical Factory from September 1985 to April 1993, and acted as the director of the pharmaceutical section of the Jiangsu Provincial Pharmaceutical Industry Corporation from May 1993 to February 1995. In March, 1995, he joined Simcere Pharmaceutical Group, assuming the posts of sales manager of Shanghai District, sales manager of Shanghai and Jiangsu, regional manager and sales director of Jiangsu, Shanghai, Hunan, Hubei, Guangdong and Guangxi, deputy general manager of the hospital department and general manager of the Fujian-Jiangxi Branch successively.

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. Jie Liu D Elia is the President of Simcere of America, and the Corporate Vice President of International Business Development at Simcere Pharmaceutical Group. She is based in Seattle, Washington and Princeton, New Jersey. Dr. D Elia has over twelve years of experience in the pharmaceutical industry. She joined Simcere from Allozyne, Inc., a Seattle-based biotech company in 2009, where she served as its Vice President of Business Development and Licensing. Prior to Allozyne, Dr. D Elia spent two years in Shanghai and served as the Head of Business Development and Strategic Planning at AstraZeneca China, where she directed the licensing initiatives and the planning efforts for AstraZeneca s late-stage products in the China market. Previously, Dr. D Elia worked as a Consultant at the New York office of the Boston Consulting Group, advising Fortune 500 companies on strategy and operational issues. Dr. D Elia holds an MBA from Columbia Business School and a Ph.D. in Pharmaceutical Sciences from the University of Texas at Austin.

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.

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B. Compensation

Compensation of Directors and Executive Officers

In 2011, the aggregate cash compensation to our executive officers, including all the directors, was RMB16.6 million ($2.6 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.

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

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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 September 1, 2010, we granted 978,000 options to our officers and key employees with an exercise price of $4.545 per share. 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 1,833,990 vested shares and 2,916,028 non-vested shares, which were granted on May 7, 2009. The exchange of the share option awards for restricted shares was accounted for as a modification of 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.

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.

During 2010, we issued 870,000 restricted shares in total to our officers and key employees under our 2006 share incentive plan, including 480,000 restricted shares issued on March 9, 2010 to our independent directors and president.

During 2011, we issued 364,000 restricted shares to our officers and key employees under our 2006 share incentive plan.

The restricted shares to our directors, officers and employees are 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	2,665,998	May 7, 2009	November 15, 2006	November 14, 2011
Yehong Zhang	*(1)	March 9, 2010	n/a	March 9, 2013
Yushan Wan	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Hong Zhao	*(1)	February 12, 2011	n/a	February 11, 2014
Jindong Zhou	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Xiaojin Yin	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Jialun Tian	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Quanfu Feng	*(1)	May 7, 2009	November 15, 2006	November 14, 2011
Zhengliang Shi	*(1)	May 7, 2009	November 15, 2006	November 14, 2011

Guoqiang Lin	*(1)	May 7, 2009	March 29, 2007	March 28, 2012
		March 9, 2010	n/a	March 8, 2012
Hongquan Liu	*(1)	May 7, 2009	March 29, 2007	March 28, 2012
		March 9, 2010	n/a	March 8, 2012
Gary Siu Kwan Sik	*(1)	May 7, 2009	March 29, 2007	March 28, 2012
		March 9, 2010	n/a	March 8, 2012
Peng Wang	*(1)	October 14, 2009	n/a	October 13, 2014

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Jie Liu D Elia	*(1)	October 14, 2009	n/a	October 13, 2014
Other employees as a group(2)	1,392,426	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)	63,372	May 7, 2009	December 24, 2008	August 31, 2013
Other employees as a group(2)	40,000	October 14, 2009	n/a	October 13, 2014
Other employees as a group(2)	40,000	December 4, 2009	n/a	December 3, 2014
Other employees as a group(2)	10,000	January 10, 2010	n/a	January 9, 2015
Other employees as a group(2)	40,000	February 26, 2010	n/a	February 25, 2015
Other employees as a group(2)	100,000	April 16, 2010	n/a	April 15, 2015
Other employees as a group(2)	40,000	July 1, 2010	n/a	June 30, 2015
Other employees as a group(2)	40,000	July 26, 2010	n/a	July 25, 2015
Other employees as a group(2)	20,000	August 16, 2010	n/a	August 15, 2015
Other employees as a group(2)	40,000	September 1, 2010	n/a	August 31, 2015
Other employees as a group(2)	40,000	October 1, 2010	n/a	September 30, 2015
Other employees as a group(2)	20,000	October 18, 2010	n/a	October 17, 2015
Other employees as a group(2)	30,000			