Simcere Pharmaceutical Group
Form 20-F/A
October 12, 2010

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

FORM 20-F/A
AMENDMENT NO. 1

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2009

OR

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

OR

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

Date of event requiring this shell company report _____

Commission file number: 001-33398
Simcere Pharmaceutical Group

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

(Translation of Registrant s name into English)
Cayman Islands

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

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

Jiangsu Province 210042
People s Republic of China
Tel: (86) 25 8556 6666 x 8818
Fax: (86) 25 8547 7666
E-mail: zhaozhigang@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 Securities	Name of Each Exchange on Which Registered
American Depositary Shares, each representing two ordinary shares, par value $0.01 per share	**New York Stock Exchange**

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

None

(Title of Class)

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

None

(Title of Class)

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

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

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

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

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

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

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

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

U.S. GAAP þ

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

Other o

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

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

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

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

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EXPLANATORY NOTE

This Amendment No. 1 to the annual report on Form 20-F of Simcere Pharmaceutical Group that was originally filed on June 30, 2010 (the 2009 Form 20-F), is being filed for the sole purpose of amending disclosure regarding Critical Accounting Policies and the Use of Estimates Impairment of Long-Lived Assets and Goodwill contained on page 66 under Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS of the 2009 Form 20-F, to clarify the disclosure with respect to the fair value calculation related to the vaccines reporting unit s goodwill impairment.

This Amendment No. 1 consists of a cover page, table of contents, this explanatory note, a revised section in Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS Critical Accounting Policies and the Use of Estimates Impairment of Long-Lived Assets and Goodwill, a signature page, and currently-dated certifications by our principal executive officer and our principal financial officer.

This Amendment No. 1 speaks as of the initial filing date of the 2009 Form 20-F, except for the amendment referenced above. Other than as described above, this Amendment No. 1 does not, and does not purport to, amend, update or restate any other information or disclosure included in the 2009 Form 20-F or reflect any events that have occurred after the initial filing date of the 2009 Form 20-F.

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Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Critical Accounting Policies and the Use of Estimates

Impairment of Long-Lived Assets and Goodwill

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

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

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

We evaluate long-lived assets, including property, plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We assess recoverability by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. We recognize an impairment charge based on the amount by which the carrying amount of the asset exceeds the fair value of the asset. We determine fair value based on either market quotes, if available, or discounted cash flows using a discount rate commensurate with the risk inherent in our current business model for the specific asset being valued. Major factors that influence our cash flow analysis are our estimates for future revenue and expenses associated with the use of the asset. No long-lived assets or asset groups held and used were tested for impairment in 2008 and 2009 and no impairment charge was recognized for the years ended December 31, 2007, 2008 and 2009.

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

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

For the year ended December 31, 2008, we determined that our group was the reporting unit for the purposes of goodwill impairment testing. We used our company s market capitalization based on the quoted market price of our ordinary shares in determining the fair value of the reporting unit. Following the acquisition of Jiangsu Yanshen in 2009, we evaluated and determined that there are two reporting units: pharmaceutical unit and vaccines unit for goodwill impairment testing. For the year ended December 31, 2009, we used a discounted cash flow analysis to determine the fair value of our reporting units.

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

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

In connection with the acquisition of Jiangsu Yanshen, a contingency existed at 2009 year end that related to the SFDA investigation of the quality issue of rabies vaccines manufactured and sold by Jiangsu Yanshen prior to our acquisition. See Item 5. Operating and Financial Review and Prospects Acquisitions . Given the resolution of such contingency subsequent to year end, there was an indication that the fair value of the reporting unit was below its carrying amount as of year end. Therefore, we performed impairment testing of goodwill of the vaccines reporting unit as of December 31, 2009.

In determining the fair value of the vaccines reporting unit, 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 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 Yanshen s operations and a period of three years which we believe will be required to rebuild the brand and regain market share. We have 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 (US$11.2 million) as of December 31, 2009 to reduce the vaccine reporting unit goodwill to its implied fair value.

As of December 31, 2008 and 2009, our goodwill balance was RMB178.2 million and RMB309.9 million ($45.4 million), respectively. Of the RMB309.9 million ($45.4 million) goodwill balance as of December 31, 2009, RMB131.7 million ($19.3 million) related to our acquisition of a 52.5% equity interest in Jiangsu Yanshen in 2009. The goodwill balance at December 31, 2009 has reflected the impairment charge of RMB76.4 million ($11.2 million) we recognized for the vaccines reporting unit in 2009.

Significant judgment was involved in determining the impact of the suspension order of Jiangsu Yanshen on the cash flows of the vaccines reporting unit, including the period of time it will take to resume production and regain market share. Assumptions used in our impairment analysis, such as forecast revenue, growth rates and cost of capital, are consistent with our current business plan and internal cash flows projection for the vaccines reporting unit. Changes in projections or estimates could significantly change the estimated fair value of the vaccines reporting unit. If we used different assumptions or estimates, the goodwill impairment charge and the operating results could be different. In particular, if Jiangsu Yanshen s operations remain suspended beyond 2010, or if Jiangsu Yanshen is unable to regain its market share in the China vaccine market within the three-year period from 2011 to 2013, or if Jiangsu Yanshen is unable to successfully obtain or renew the relevant GMP certificates for a three-year period beginning 2011, the fair value of the vaccines reporting unit would be substantially lower and there would be further impairment charge to goodwill.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Simcere Pharmaceutical Group

By: /s/ Jinsheng Ren
Name: Jinsheng Ren
Title: Chief Executive Officer

Date: October 12, 2010