

UNITED STATES DISTRICT COURT—SOUTHERN DISTRICT OF NEW YORK

BENO VARGHESE, Individually and on Behalf of
All Others Similarly Situated,

Plaintiff,

–against–

CHINA SHENGHUO PHARMACEUTICAL
HOLDINGS INC., *et al.*

Defendants.

Case No. 1:08-CV-7422 (VM)

**NOTICE OF PENDENCY AND
PROPOSED SETTLEMENT OF CLASS ACTION**

IF YOU PURCHASED OR OTHERWISE ACQUIRED THE COMMON STOCK (“STOCK”) OF CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC. (“CHINA SHENGHUO”) DURING THE PERIOD FROM AUGUST 16, 2007 THROUGH AUGUST 19, 2008, INCLUSIVE, YOU COULD GET A PAYMENT FROM A CLASS ACTION SETTLEMENT (THE “SETTLEMENT”).

Under law, a federal court has authorized this notice.

- If approved by the Court, the settlement will provide \$800,000, plus interest (the “Settlement Amount”), to pay claims of investors who purchased China Shenghuo Stock during the period from August 16, 2007 through August 19, 2008, inclusive (the “Class Period”).
- The Settlement represents an average recovery of \$0.19 per share of China Shenghuo Stock for the 4.24 million estimated shares that Lead Plaintiff alleges were “damaged” and declined in value as a result of Defendants’ alleged misconduct during the Class Period. This estimate solely reflects the average recovery per damaged share of China Shenghuo Stock. This is not an estimate of the actual recovery per share you should expect. Your actual recovery will depend on the aggregate losses of all Class Members, the date(s) you purchased and sold China Shenghuo Stock and the total number of claims filed.
- Attorneys for the Lead Plaintiff (“Class Counsel”) intend to ask the Court to award them fees of up to one-third of the Settlement Amount, and reimbursement of litigation expenses not to exceed \$50,000. Collectively, the attorneys’ fees and litigation expenses are estimated to average \$0.07 per damaged share of China Shenghuo Stock. If approved by the Court, these amounts will be paid from the Settlement Fund.
- The approximate recovery, after deduction of attorneys’ fees and expenses approved by the Court, is an average of \$0.12 per damaged share of China Shenghuo Stock. This estimate is based on the assumptions set forth in the preceding paragraph. Your actual recovery, if any, will vary depending on your purchase price and sales price and the number of Proof of Claim forms filed.
- The Settlement resolves the lawsuit concerning whether Defendants violated the federal securities laws by: (1) issuing materially false and misleading financial statements and information to investors about its sales and revenues; (2) the adequacy of China Shenghuo’s internal controls and compliance with U.S. accounting rules; and (3) whether China Shenghuo’s auditor Hansen Barnett & Maxwell, P.C., issued a materially false and misleading audit opinion concerning China Shenghuo’s financial statements. Defendants China Shenghuo; Lan International Medicine Investment Co. Limited (“LIMI”); Gui Hua Lan (“Lan”); Qiong Hua Gao (“Gao”), and Hansen Barnett & Maxwell, P.C., who are collectively the “Defendants,” deny the allegations in the lawsuit and deny any wrongdoing. The Defendants and Lead Plaintiff disagree on liability and damages. Plaintiffs believe that, if they prevailed on all their claims and the Court accepted their theory of damages that they would recover approximately \$1.35 per damaged share, before deductions for fees and expenses and assuming that the full amount of the judgment was collectable, despite uncertainty about whether a judgment could be enforced against China Shenghuo. Defendants believe that, if this matter is litigated, Plaintiffs are likely to recover nothing.
- Your legal rights will be affected whether you act or do not act. If you do not act, you may permanently forfeit your right to recover on this claim. Therefore, you should read this notice carefully.

QUESTIONS? VISIT www.strategicclaims.net/csp OR CALL 1-866-274-4004

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT

SUBMIT A CLAIM FORM NO LATER THAN MAY 17, 2011	The only way to get a payment.
EXCLUDE YOURSELF NO LATER THAN FEBRUARY 25, 2011	Get no payment. This is the only option that allows you to be part of any other lawsuit against Defendants about the legal claims in this case.
OBJECT NO LATER THAN FEBRUARY 25, 2011	Write to the Court about why you do not like the settlement.
GO TO A HEARING ON MARCH 18, 2011	Speak in Court about the fairness of the settlement.
DO NOTHING	Get no payment. Give up rights.

INQUIRIES

Please do not contact the Court regarding this notice. All inquiries concerning this Notice, the Proof of Claim form, or any other questions by Class members should be directed to:

China Shenghuo Securities Litigation
Claims Administrator
c/o Strategic Claims Services
P.O. Box 230
600 North Jackson Street – Suite 3
Media, PA 19063
Tel: (866) 274-4004
www.strategicclaims.net/csp

COMMON QUESTIONS AND ANSWERS CONCERNING THE SETTLEMENT

1. Why Did I Get This Notice?

You or someone in your family may have acquired China Shenghuo Stock during the Class Period.

2. What Is This Lawsuit About?

The case is known as *Varghese v. China Shenghuo Pharmaceutical Holdings, Inc., et al.*, Case No. 08-CV-7422 (the “Litigation”), and the Court in charge of the case is the United States District Court for the Southern District of New York.

Defendants in this case are China Shenghuo, certain of its officers and directors and Hansen Barnett & Maxwell, P.C., China Shenghuo’s outside auditor. The Plaintiffs in the case were shareholders in China Shenghuo. They allege that the Defendants violated the federal securities laws by issuing materially false and misleading financial statements and information to investors about China Shenghuo’s sales and revenues and by failing to comply with U.S. accounting rules (and as to Defendant HB&M by issuing a false and misleading opinion about the accuracy of China Shenghuo’s financial statements). The Defendants and Lead Plaintiff disagree on liability and damages. The Defendants deny they did anything wrong. The Settlement resolves all of the claims in the Class Action.

3. Why Is This a Class Action?

In a class action, one or more persons and/or entities, called Lead Plaintiffs, sue on behalf of all persons and/or entities who have similar claims. All of these persons and/or entities are referred to collectively as a Class, and these individual persons and/or entities are known as Class Members. One court resolves all of the issues for all Class Members, except for those Class Members who exclude themselves from the Class.

4. Why Is There a Settlement?

Lead Plaintiff and Defendants do not agree regarding the merits of Lead Plaintiff’s allegations with respect to liability or the average amount of damages per share that would be recoverable if Lead Plaintiff were to prevail at trial on each claim. The issues on which the Lead Plaintiff and Defendants disagree include: (1) whether Defendants issued materially false and misleading financial statements and information to investors during the Class Period; (2) whether Defendants issued materially false and misleading statements about China Shenghuo’s internal controls and compliance with U.S. accounting rules; (3) whether the audit opinion issued in connection with China Shenghuo’s annual report was materially false and misleading; (4) whether alleged materially false

statements and omissions were made with fraudulent intent; (5) whether the statements were the cause of the Class Members' alleged damages; and (6) the amount of damages, if any, suffered by the Class Members.

This matter has not gone to trial and the Court has not decided in favor of either Lead Plaintiff or Defendants. Instead, Lead Plaintiffs and Defendants have agreed to settle the Class Action. The Lead Plaintiff and Class Counsel believe the settlement is best for all Class Members because of the risks associated with continued litigation and the nature of the defenses raised by the Defendants. Among the reasons that Plaintiffs' Counsel believes the Settlement is fair are the facts that Defendant China Shenghuo is not in a strong financial position and appears to have most of its assets located outside the United States. Because of this, even if Plaintiffs win at trial, and also prevail on any appeal, Plaintiffs might not be able to collect some, or all, of any judgment they are awarded. Moreover, while litigation of this type is usually expensive, it appears that, even if Plaintiffs' allegations are eventually found to be true, the total amount of damages to which Class members would be entitled would be relatively small. Consequently, Plaintiffs' Counsel is concerned that, if this matter is not settled, Plaintiffs' may receive little or nothing even if they win the case because most or all of any recovery might be used to pay the costs of litigation.

5. How Do I Know if I Am Part of the Class Settlement?

To be a Class Member, you must have purchased or otherwise acquired China Shenghuo Stock during the period from August 16, 2007 through August 19, 2008, inclusive, and suffered losses in your investment as a result of the decline in the value of China Shenghuo common stock which occurred on August 20, 2008, a decline which Plaintiffs' allege occurred because of the disclosure of what they believe was Defendants' misconduct.

6. Are There Exceptions to Being Included?

Yes. You are not a Class Member if you are a Defendant, a member of a Defendant's immediate family, a Defendant's legal representative, heir, predecessor, successor, assign, any entity in which any Defendant has or had a controlling interest, or any persons who have separately filed actions against one or more of the Defendants, based in whole or in part on any claim arising out of or relating to any of the alleged acts, omissions, misrepresentations, facts, events, matters, transactions, or occurrences referred to in the Litigation or otherwise alleged, asserted, or contended in the Litigation. Also, if you exclude yourself from the Class, as described below, you are not a part of the Class.

7. What Does the Settlement Provide?

a. What is the Settlement Fund?

The proposed Settlement calls for Defendants to create a Settlement Fund (the "Settlement Fund") in the amount of \$800,000. The Settlement will not become effective unless it is approved by the Court. Subject to the Court's approval, a portion of the Settlement Fund will be used to pay Plaintiffs' attorneys' fees and reasonable litigation expenses. A portion of the Settlement Fund will also be used to pay taxes due on interest earned by the Settlement Fund, if necessary, and any notice and claims administration expenses permitted by the Court. After these deductions from the Settlement Fund have been made, the amount remaining (the "Net Settlement Fund") will be distributed to Class Members who submit valid claims.

b. What can you expect to receive under the proposed Settlement?

Your share of the Net Settlement Fund will or may depend on: (i) the number of claims filed; (ii) the dates you purchased and sold China Shenghuo Stock; (iii) the prices of your purchases and sales; (iv) the amount of administrative costs, including the costs of notice; and (v) the amount awarded by the Court to Lead Plaintiff and Class Counsel for attorneys' fees, costs and expenses.

The compensable loss per share ("Recognized Loss") of each Authorized Claimant shall be calculated according to the following formula:

Recognized Losses are only for those common shares that were purchased during the period August 16, 2007 to August 19, 2008, inclusive. Recognized Losses will be computed as follows:

- 1. If sold on or before August 19, 2008, the Recognized Loss per share is \$0.**
- 2. If sold, from August 20, 2008 through December 8, 2008, inclusive, the Recognized Loss per share is \$.46.**
- 3. If sold on December 9, 2008, the Recognized Loss per share is \$1.01.**
- 4. If still held as of the close of trading on December 9, 2008 the Recognized Loss per share is \$1.35.**

Plaintiffs estimate that there were approximately 4.24 million shares of China Shenghuo common stock damaged during the Class Period. Lead Counsel estimates that the gross recovery per damaged share would be \$0.19. (This per damaged share calculation is on a gross basis, before subtraction from the Settlement Fund of such attorneys' fees and expenses, notice and claims processing costs and other amounts as may be allowed by the Court.)

To the extent a claimant had a trading gain or “broke even” from his, her or its overall transactions in China Shenghuo common stock during the Class Period, the value of the Recognized Loss will be zero and the claimant will not be entitled to a share of the Net Settlement Fund. To the extent that a claimant suffered a trading loss on his, her or its overall transactions in China Shenghuo common stock during the Class Period, but that trading loss was less than the Recognized Loss calculated above, then the Recognized Loss shall be limited to the amount of the claimant’s actual trading loss. A Recognized Loss that calculates to yield a negative number is treated as a Recognized Loss of zero.

The Plan of Allocation is a matter separate and apart from the proposed Settlement, and any decision by the Court concerning the Plan of Allocation shall not affect the validity or finality of the proposed Settlement. The Plan of Allocation may be modified in connection with, among other things, a ruling by the Court or an objection filed by a Class Member, without further notice to the Class.

The Claims Administrator shall determine each Authorized Claimant’s *pro rata* share of the Net Settlement Fund based upon each Authorized Claimant’s Recognized Loss. The Recognized Loss formula is not intended to be an estimate of the amount a Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the Settlement. The Recognized Loss formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants. No distribution will be made on a claim where the potential distribution amount is \$10.00 or less in cash.

The date of purchases or sale is the “contract” or “trade” date as distinguished from the “settlement” date. Therefore, you need to list all your purchases and sales of China Shenghuo common stock during the period August 16, 2007 to December 9, 2008, inclusive. Each claimant is deemed to have submitted to the jurisdiction of the Court with respect to the claimant’s claim, and the claim will be subject to investigation and discovery under the Federal Rules of Civil Procedure, provided that such investigation and discovery shall be limited to that claimant’s status as a Class Member and the validity and amount of that claimant’s claim. No discovery shall be allowed on the merits of the Action.

Payments will be final and conclusive against all Class Members. All Class Members whose claims are not approved by the Court will be barred from participating in distributions from the Net Settlement Fund, but otherwise shall be bound by all of the terms of the Settlement, including the terms of the Order and Judgment to be entered in the Action and will be barred from bringing any Settled Claim against any Released Party, including Unknown Claims (as those terms are defined in the Proof of Claim enclosed with this Notice and in the Stipulation, which is available on the Internet at www.strategicclaims.net/csp, or through the mail upon request to the Claims Administrator).

c. Are there any further limitations on the amount I may receive?

- i) To the extent there are sufficient funds in the Net Settlement Fund, each Class Member with a Recognized Loss that satisfies the requirements approved by the Court (“Authorized Claimant”) will receive an amount equal to the Authorized Claimant’s Recognized Loss described above. If, however, as expected, the amount in the Net Settlement Fund is not sufficient to permit payment of the total Recognized Loss of each Authorized Claimant, then each Authorized Claimant shall be paid the percentage of the Net Settlement Fund that each Authorized Claimant’s Recognized Loss bears to the total of the Recognized Losses of all Authorized Claimants.
- ii) For Class members who conducted multiple transactions in China Shenghuo Stock during the Class Period, the earliest subsequent sale shall be matched first against those shares in the Claimant’s opening position on the first day of the Class Period, and then matched chronologically thereafter against each purchase made during the Class Period.
- iii) The purchase and sales prices exclude any brokerage commissions, transfer taxes or other fees.

The covering purchase of a short sale is not an eligible purchase.

8. How Can I Get a Payment?

To qualify for a payment, you must send in a form entitled “Proof of Claim and Release” form. This claim form accompanies this Notice. You may also obtain a claim form on the Internet at www.strategicclaims.net/csp. Read the instructions carefully, fill out the form, sign it in the location indicated, and mail the claim form together with all documentation requested in the form, postmarked no later than May 17, 2011, to:

China Shenghuo Securities Litigation
Claims Administrator
c/o Strategic Claims Services
P.O. Box 230
600 North Jackson Street – Suite 3
Media, PA 19063

The Claims Administrator will process your claim and determine whether you are an “Authorized Claimant.”

9. How Can I Get More Information?

You can get more information by contacting the Claims Administrator at 1-866-274-4004. A copy of the Stipulation of Settlement which has been filed with the court and related documents can be found on the Claims Administrator's web site at www.strategicclaims.net/csp. Copies of Plaintiffs' motions for final approval of the Settlement and for an award of attorneys' fees and expenses will be posted on the Claim Administrator's website promptly after they have been filed with the Court.

10. What Am I Giving Up to Get a Payment or Stay in the Class?

Unless you exclude yourself, you will remain in the Class. That means that if the Settlement is approved, you and all Class Members will release (agreeing never to sue, continue to sue, or be part of any other lawsuit) all claims against Defendants, HB&M's Insurer and any of their current, former, or future parents, subsidiaries, affiliates, partners, joint venturers, officers, directors, principals, shareholders, members, agents (acting in their capacity as agents), employees, attorneys, insurers, reinsurers, advisors, accountants, associates, and/or any other individual or entity in which any Defendant or HB&M's Insurer has a controlling interest or which is related to or affiliated with any of the Defendants or HB&M's Insurer and the current, former, and future legal representatives, heirs, successors in interest, or assigns of the Defendants and HB&M's Insurer ("Released Parties") in connection with your acquisition of China Shenghuo Stock during the Class Period, except that you do not release the Released Parties from any claim or action to enforce the Settlement. It also means that all of the Court's orders will apply to you and legally bind you. If you sign the claim form, you are agreeing to the "Release of Claims" provided for in the Settlement, which will bar you from ever filing a lawsuit against any Released Party to recover losses from the acquisition or sale of China Shenghuo Stock during the Class Period, except to enforce the Settlement. That means you will accept a share in the Net Settlement Fund as sole compensation for any losses you have suffered in the acquisition and sale of China Shenghuo Stock during the Class Period. **Even if you do not exclude yourself from the Settlement you will be considered to have agreed to the Release of Claims unless you exclude yourself from the Settlement by following the instructions in the answer to the following question.**

11. How Do I Get Out of the Settlement?

If you do not want to receive a payment from this Settlement, and you want to keep the right to sue or continue to sue Defendants on your own based on the legal claims raised in this Class Action, then you must take steps to get out of the Settlement. This is called excluding yourself from – or "opting out" of – the Settlement. To exclude yourself from the Settlement, you must mail a letter stating you want to be excluded as a Class Member from *Varghese v. China Shenghuo Pharmaceutical Holdings, Inc., et al.*, Case No. 08-CV-7422. Be sure to include your name, address, telephone number and your signature, along with an accurate list of all of your purchases and sales of China Shenghuo Stock. You must mail your exclusion request, so that it is **received** no later than February 25, 2011, to:

China Shenghuo Securities Litigation
Claims Administrator
c/o Strategic Claims Services
P.O. Box 230
600 North Jackson Street – Suite 3
Media, PA 19063

You cannot exclude yourself by telephone or by e-mail. If you properly exclude yourself, you will not receive a settlement payment, you cannot object to the Settlement and, you will not be legally bound by anything that happens in this Class Action.

12. If I Do Not Exclude Myself, Can I Sue Defendants for the Same Thing Later?

No. Unless you exclude yourself, you give up any right to sue Defendants for the claims that this Settlement resolves. If you have a pending lawsuit, speak to your lawyer in that case immediately, since you may have to exclude yourself from this Class to continue your own lawsuit.

13. Do I Have a Lawyer in This Case?

The Court appointed the law firm of Cohen Milstein Sellers & Toll to represent you and the other Class Members. These lawyers are called Lead Plaintiff's Counsel or Class Counsel. If you want to be represented by your own lawyer, you may hire one at your own expense. Contact information for Cohen Milstein is provided in the response to question 15, below.

14. How Will the Lawyers Be Paid?

Class Counsel and counsel working under their direction have expended considerable time litigating this action on a contingent fee basis, and have paid for the expenses of the litigation themselves with the expectation that if they are successful in recovering money for the Class, they will receive attorneys' fees and be reimbursed for their litigation expenses from the Settlement Fund, as is customary in this type of litigation. Class Counsel will not receive attorneys' fees or be reimbursed for their litigation expenses except from the Settlement Fund. Therefore, Class Counsel will file a motion asking the Court at the Settlement Hearing to make an award of attorneys' fees in an amount not to exceed one-third of the Settlement amount, for reimbursement of reasonable litigation expenses not to exceed \$50,000. The Court may award less than these amounts. Any amounts awarded by the Court will come out of the Settlement Fund.

15. How Do I Tell the Court that I Do Not Like the Settlement or Any Part of It?

You can tell the Court you do not agree with the Settlement, any part of it, including the proposed Plan of Allocation or the proposed award of attorneys' fees to Class Counsel by mailing a letter stating that you object to the Settlement in *Varghese v. China Shenghuo Pharmaceutical Holdings, Inc., et al.*, Case No. 08-CV-7422. Be sure to include your name, address, telephone number, your signature, a list of your purchases and sales of China Shenghuo Stock in order to show your membership in the Class, and all of the reasons you object to the Settlement. Be sure to mail the objections to the four different places listed below, so that it is **received** no later than February 25, 2011, so the Court will consider your views:

COURT	PLAINTIFFS' COUNSEL	DEFENSE COUNSEL
Clerk of the Court United States District Court Southern District of New York 500 Pearl Street New York, New York 10007	Julie Goldsmith Reiser COHEN MILSTEIN SELLERS & TOLL 1100 New York Avenue, NW Suite 500 East Tower Washington, DC 20005 <i>Class Counsel for Plaintiffs</i>	Richard C. Schoenstein PRYOR CASHMAN LLP 7 Times Square New York, New York 10036 And Lawrence A. Steckman LESTER SCHWAB KATZ & DWYER, LLP 120 Broadway New York, New York 10271 <i>Counsel for Defendants</i>

16. What is the Difference Between Objecting and Requesting Exclusion?

Objecting is simply telling the Court you do not like something about the Settlement. You can object only if you stay in the Class. Requesting exclusion is telling the Court you do not want to be part of the Class and Settlement. If you exclude yourself, you cannot object to the Settlement because it no longer concerns you.

17. When and Where Will the Court Decide Whether to Approve the Settlement?

The Court will hold a Settlement Hearing on March 18, 2011, at 11:00 a.m., at the United States District Court for the Southern District of New York, 500 Pearl Street, New York, New York 10007.

At this hearing, the Court will consider whether the Settlement is fair, reasonable, and adequate and whether to approve the Settlement. If there are objections, the Court will consider them, and the Court will listen to people who have asked to speak at the hearing. The Court may also decide how much to pay Class Counsel for attorneys' fees and expenses. The Court may adjourn or postpone the date of the hearing without further notice to the Class.

18. Do I Have to Come to the Hearing?

No. Class Counsel will answer any questions the Court may have. However, you are welcome to attend at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you mail your written objection on time, the Court will consider it. If, however, you, or an attorney you hire, intend to appear at the Settlement Approval Hearing you must indicate that you will do so in the letter containing your objections or in a separate letter which must be sent to the same persons by the same deadline.

19. What Happens if I Do Nothing at All?

If you do nothing, you will not receive a payment from the Settlement. However, unless you exclude yourself, you will not be able to start a lawsuit, continue with a lawsuit, or be part of any other lawsuit against Defendants about the claims made in this case ever again if the Settlement is Approved.

DATED: NOVEMBER 16, 2010.

BY ORDER OF THE UNITED STATES
DISTRICT COURT FOR THE
SOUTHERN DISTRICT OF NEW YORK

QUESTIONS? VISIT www.strategicclaims.net/csp OR CALL 1-866-274-4004