

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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| -----X | : | |
| | : | Case no. 1:08-CV-7422 (VM) |
| BENO VARGHESE, Individually and on Behalf of | : | |
| All Others Similarly Situated, | : | |
| | : | |
| Plaintiff, | : | |
| | : | |
| -against- | : | |
| | : | |
| CHINA SHENGHUO PHARMACEUTICAL | : | |
| HOLDINGS INC.; LAN INTERNATIONAL | : | |
| MEDICINE INVESTMENT CO. LIMITED; GUI | : | |
| HUA LAN; QIONG HUA GAO; HANSEN | : | |
| BARNETT & MAXWELL, P.C. | : | |
| | : | |
| Defendants. | : | |
| -----X | : | |

STIPULATION AND AGREEMENT OF SETTLEMENT

This Stipulation and Agreement of Settlement (the “Stipulation”) dated November 1, 2010 is submitted pursuant to Rule 23 of the Federal Rules of Civil Procedure. Subject to the approval of the Court, this Stipulation is entered into between named Lead Plaintiff William R. Bennett (“Lead Plaintiff”) and plaintiff Chia-Yiu Maa (collectively “Named Plaintiffs”), on behalf of themselves and the Class (Named Plaintiffs and the Class together are the “Plaintiffs”), China Shenghuo Pharmaceutical Holdings, Inc. (“CSP”); Lan International Medicine Investment Co. Limited (“LIMI”); Gui Hua Lan (“Lan”); Qiong Hua Gao (“Gao”) (collectively “CSP Defendants”); and Hansen Barnett & Maxwell, P.C. (“HB&M”) (CSP Defendants and HB&M together are “Defendants”), by and through their respective counsel.

WHEREAS, beginning on August 21, 2008, a class action complaint alleging violations of federal securities laws against Defendants, styled *Beno Varghese v. China Shenghuo Pharmaceutical Holdings, Inc., et al.*, Case No. 08-CV-7422 (VM), was filed in the

United States District Court for the Southern District of New York (the “First Complaint”). On September 22, 2008, another class action complaint alleging violations of federal securities laws against CSP, Gao, and Lan, styled *Yu v. China Shenghuo Pharmaceutical Holdings, Inc.*, Case No. 08-CV-8168 (VM), was filed in the United States District Court for the Southern District of New York (the “Second Complaint”).

WHEREAS, on September 26, 2008, the Court consolidated the Second Complaint with the First Complaint and directed all filings related to the consolidated action be filed on the First Complaint docket;

WHEREAS, on December 10, 2008, the Court appointed: (i) William R. Bennett as Lead Plaintiff; and (ii) the law firm of Cohen Milstein, Sellers & Toll, PLLC as Lead Counsel for Lead Plaintiff;

WHEREAS, on February 9, 2009, Named Plaintiffs filed the operative consolidated amended class action complaint in the United States District Court for the Southern District of New York, alleging: (First Claim) violation of Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder against Defendants; (Second Claim) violation of Section 20(a) of the Exchange Act against Gui, Qiong, and LIMI (the “Litigation”);

WHEREAS, Defendants deny any wrongdoing whatsoever and this Stipulation shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any Defendant with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that Defendants have asserted. The parties to this Stipulation (“Settling Parties”) recognize, however, that the Litigation has been filed by Named Plaintiffs and defended by the Defendants in good faith and with adequate basis in fact

under Federal Rule of Civil Procedure 11, that the Litigation is being voluntarily settled after advice of counsel, and that the terms of the settlement are fair, reasonable and adequate. This Stipulation shall not be construed or deemed to be a concession by Named Plaintiffs of any infirmity in the claims asserted in the Litigation.

WHEREAS, the Lead Plaintiff's Counsel has conducted an investigation relating to the claims and the underlying events and transactions alleged in the Litigation. Lead Plaintiff's Counsel has analyzed the facts and the applicable law with respect to the claims of the Named Plaintiffs against Defendants and the potential defenses thereto, which in the Named Plaintiffs' judgment have provided an adequate and satisfactory basis for the evaluation of an agreement to settle, as described herein.

WHEREAS, the Settling Parties and the HB&M's professional liability insurer, Fireman's Fund Insurance Company ("Fireman's Fund"), engaged in a mediation before retired U.S. District Court Judge Nicholas Politan on July 21, 2010, and they have conducted extensive discussions and arm's length negotiations with each other with respect to a compromise and settlement of the Litigation.

WHEREAS, based upon their investigation, Lead Plaintiff's Counsel has concluded that the terms and conditions of this Stipulation are fair, reasonable and adequate to Named Plaintiffs and the Class, and in their best interests, and have agreed to settle the claims raised in the Litigation pursuant to the terms and provisions of this Stipulation, after considering: (a) the substantial benefits that the Named Plaintiffs and the members of the Class will receive from settlement of the Litigation, (b) the attendant risks of litigation, and (c) the desirability of permitting the Settlement to be consummated as provided by the terms of this Stipulation.

AND WHEREAS, the Settling Parties conditionally stipulate, for the limited purposes of this Stipulation, and for the sole purpose of creating a settlement class, that the Litigation shall be certified for class treatment under Rule 23 of the Federal Rules of Civil Procedure and that the stipulated settlement class consists of Class Members, as defined below. The Defendants' conditional stipulation as to the creation of a settlement class is contingent upon the execution by the Settling Parties and that this Stipulation is finally approved by the Court and is not terminated. If this Stipulation is for any reason not finally approved, or is otherwise terminated, the Defendants reserve the right to reassert all of their objections and defenses to certification of any class, and Plaintiffs will not offer the Defendants' conditional stipulation to certification of a class as any evidence in support of a motion to certify any class for trial purposes.

NOW THEREFORE, without any admission or concession on the part of the Named Plaintiffs of any lack of merit of the Litigation whatsoever, and without any admission or concession on the part of Defendants of any liability or wrongdoing or lack of merit in the defenses whatsoever, it is hereby STIPULATED AND AGREED, by and among the Settling Parties, through their respective attorneys, subject to approval of the Court pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, in consideration of the benefits flowing to the Settling Parties hereto from the Settlement, that any and all claims made, or that could have been made, between or among the Parties in the Litigation shall be compromised, settled, released and dismissed with prejudice and except as hereafter provided, without costs as to Plaintiffs or Defendants, subject to the approval of this Court, upon and subject to the following terms and conditions:

A. CERTAIN DEFINITIONS

As used in this Stipulation, the following terms have the meanings specified below:

1. “Attorneys’ Fees and Expenses” as to Plaintiffs means the portion of the Gross Settlement Fund approved by the Court for payment to Plaintiffs’ Counsel, including attorneys’ fees, costs, litigation expenses, fees and expenses of experts (excluding Notice and Administration Expenses).
2. “Authorized Claimant” means any Claimant (as defined below) whose claim for recovery has been allowed pursuant to the terms of the Stipulation or by order of the Court.
3. “Claimant” means any Class member who files a Proof of Claim and Release (as defined below) in such form and manner, and within such time, as set forth in this Stipulation, or as the Court shall prescribe.
4. “Claims Administrator” means the accounting and claims administration firm, Strategic Claims Services, that Lead Plaintiff’s Counsel requests be appointed by the District Court to administer the Settlement and disseminate notice to the Class.
5. “Class” and “Class Members” mean, for purposes of this Settlement, all persons or entities who purchased or otherwise acquired CSP common stock from August 16, 2007 through August 19, 2008, inclusive and who Lead Plaintiff alleges were damaged thereby. Excluded from the Class are Defendants, and the members of their immediate families and Defendants’ legal representatives, heirs, predecessors, successors and assigns and any entity in which any Defendant has or had a controlling interest, and 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 acts, omissions, misrepresentations, facts, events, matters, transactions

or occurrences referred to in the Litigation or otherwise alleged, asserted or contended in the Litigation. Also excluded from the Class are those persons who file valid and timely requests for exclusion in accordance with the Court's Order of Preliminary Approval of Settlement ("Preliminary Approval Order") concerning this Stipulation.

6. "Class Distribution Order" means the order entered by the Court, upon application of Lead Plaintiff's Counsel following the occurrence of the events identified in paragraph D.13. below, which authorizes the Claims Administrator to distribute the Net Settlement Fund to the Class.

7. "Class Period" means the period from August 16, 2007 and August 19, 2008, inclusive.

8. "Court" means the United States District Court for the Southern District of New York.

9. "CSP Defendants" China Shenghuo Pharmaceutical Holdings, Inc. ("CSP"); Lan International Medicine Investment Co. Limited ("LIMI"); Gui Hua Lan ("Lan"); Qiong Hua Gao ("Gao").

10. "Defendants" means the CSP Defendants and HB&M.

11. "HB&M's Insurer" means defendant HB&M's professional liability insurer, Fireman's Fund.

12. "Effective Date" means the date on which all of the conditions set forth below in paragraph K.1. shall have been satisfied and the Court's Order and Judgment, substantially in the form of Exhibit B hereto, becomes "Final", which shall be deemed to be when either of the following has occurred: (a) if an appeal or review is not sought by any person from the Order and Judgment, the day following the expiration of the time to appeal or petition

from the Order and Judgment; or (b) if an appeal or review is sought from the Order and Judgment, the day after such Order and Judgment is affirmed or the appeal or review is dismissed or denied and such Order and Judgment is no longer subject to further judicial review.

13. “Escrow Account” means the interest-bearing account selected by the Escrow Agent. The Escrow Account will be managed by the Escrow Agent for the benefit of Lead Plaintiff and the Class until the Effective Date of the Settlement.

14. “Escrow Agent” means the Cohen Milstein Sellers & Toll, PLLC and the Rosen Law Firm, P.A., or their duly appointed agent(s). The Escrow Agent shall perform the duties as set forth in this Stipulation.

15. “Gross Settlement Fund” means the Settlement Amount plus all interest earned thereon.

16. “HB&M” means defendant Hansen Barnett & Maxwell, P.C.

17. “Lead Plaintiff” means William R. Bennett.

18. “Lead Plaintiff’s Counsel” means Cohen Milstein Sellers & Toll, PLLC.

19. “Named Plaintiffs” means Lead Plaintiff and named plaintiff Chia-You Maa.

20. “Net Settlement Fund” means the Gross Settlement Fund, less:
(i) Attorneys’ Fees and Expenses; (ii) Notice and Administration Expenses; (iii) taxes; and
(iv) other fees and expenses authorized by the Court.

21. “Notice and Administration Account” means the portion of the Gross Settlement Fund maintained by Plaintiffs’ Counsel that may be drawn upon by Plaintiffs’ Counsel for Notice and Administration expenses without further order of the Court.

22. “Notice and Administration Expense” means all expenses incurred (whether or not paid) in connection with the preparation, printing, mailing, and publication of the Notice to the Class of the proposed settlement, and all expenses of Settlement administration; provided, however, that none of these expenses shall be deemed to include Attorneys’ Fees and Expenses. All such Notice and Administration Expenses shall be paid from the Gross Settlement Fund.

23. “Order and Judgment” means the order and judgment entered by the Court, including a Bar Order, approving the Settlement and dismissing the Litigation as against all Defendants with prejudice and without costs to any party.

24. “Person” means any individual, corporation, partnership, limited liability partnership, limited partnership, professional corporation, association, affiliate, joint stock company, trust, estate, unincorporated association, government or any political subdivision or agency thereof, any other type of legal or political entity, any legal representative, and as applicable their respective spouses, heirs, predecessors, successors, representatives, or assignees.

25. “Plaintiffs” means Named Plaintiffs and the Class.

26. “Plaintiffs’ Counsel” means Lead Plaintiff’s Counsel and the Rosen Law Firm, P.A.

27. “Plan of Allocation” means the plan for allocating the Net Settlement Fund (as set forth in the Notice of Pendency and Settlement of Class Action (the “Notice”) (Exhibit A-1 to the Order of Preliminary Approval of Settlement)). Any Plan of Allocation is not part of the Stipulation and the Released Parties shall have no liability with respect thereto.

28. “Released Parties” means the 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.

29. "Settled Claims" means any and all claims, debts, demands, liabilities, rights and causes of action of every nature and description whatsoever (including but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, whether class or individual in nature, including both known claims and Unknown Claims (as defined below), (i) that have been asserted in the Litigation by the Named Plaintiffs and/or Class Members or any of them against any of the Released Parties, including without limitation any claim arising out of or relating to any of the acts, omissions, misrepresentations, facts, events, matters, transactions or occurrences referred to in the Litigation or otherwise alleged, asserted or contended in the Litigation; or (ii) that could have been alleged, asserted or contended in any forum by the Named Plaintiffs or Class Members or any of them against any of the Released Parties which arise out of or are based directly or indirectly upon any of the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Litigation, including, without limitation, claims for fraud, negligent misrepresentation, negligence, gross negligence, breach of duty of care, breach of duty of loyalty, fraud, negligent misrepresentation,

breach of fiduciary duty, or violations of any state or federal statutes or regulations, by the Named Plaintiffs or any Class Member, on behalf of themselves, their heirs, executors, administrators, successors, and assigns against Defendants or the Released Parties or any of them. Settled Claims also include any and all claims arising out of, relating to, or in connection with the Settlement or resolution of the Litigation against or between the Released Parties (including Unknown Claims that arise out of, relate to, or are in connection with the Settlement or resolution of the Litigation against the Released Parties), except claims to enforce any of the terms of this Stipulation.

30. “Settled Defendants’ Claims” means all claims, demands, rights, duties, remedies, liabilities and causes of action of every nature and description whatsoever, whether based on federal, state, local, statutory or common law or any other law, rule or regulation, including both known and Unknown Claims, that have been or could have been asserted in the Litigation by Defendants, HB&M’s Insurer, or any of them, or the successors and assigns of any of them against any of the Named Plaintiffs, Class Members or any of their attorneys, the Defendants or any of their attorneys, which arise out of or relate in any way to the institution, prosecution, or Settlement of this Litigation or the Settled Claims, including but not limited to all claims for malicious prosecution or sanctions, except claims to enforce any of the terms of this Stipulation.

31. “Settlement” means the settlement contemplated by this Stipulation.

32. “Settlement Amount” means a fund in the amount of \$800,000.

33. “Settlement Hearing” means the final hearing to be held by the Court to determine: (1) whether the proposed Settlement should be approved as fair, reasonable and adequate; (2) whether all Settled Claims should be dismissed with prejudice; (3) whether an

order approving the Settlement should be entered thereon; (4) whether the allocation of the Settlement Fund should be approved; and (5) whether the application for an award of Attorneys' Fees and Expenses should be approved.

34. "Defendants' Counsel" means the law firm Pryor Cashman LLP, counsel for the CSP Defendants, and the law firm of Lester Schwab Katz & Dwyer LLP, counsel for HB&M.

35. "Settling Parties" means the Named Plaintiffs and Defendants.

36. "Unknown Claims" means any Settled Claim which Lead Plaintiff or any member of the Class does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, which if known by him, her or it, might have affected his, her or its decision with respect to the Settlement, including, but not limited to, the decision not to object to the Settlement, and any Settled Defendants' Claims which any Defendant, HB&M's Insurer, or any of them does not know or expect to exist in his, her or its favor, which if known by him, her, or it might have affected his, her, or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims and Settled Defendants' Claims, the Parties stipulate and agree that upon the Effective Date, the Named Plaintiffs and Defendants shall expressly, and each of the members of the Class shall be deemed to have, and by operation of the Order and Judgment shall have, expressly waived any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542 which provides: "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."

B. SCOPE AND EFFECT OF SETTLEMENT

1. The obligations incurred pursuant to this Stipulation shall be in full and final disposition of the Litigation and any and all Settled Claims as against all Released Parties and any and all Settled Defendants' Claims as against the Named Plaintiffs, the Class Members, or their attorneys, and the Defendants or their attorneys.

2. Pursuant to the Order and Judgment, upon the Effective Date of this Settlement, the Class Members on behalf of themselves, their current and former heirs, executors, administrators, successors, attorneys, insurers and assigns, and any person they represent, shall, with respect to each and every Settled Claim, release and forever relinquish and discharge, and shall forever be enjoined from prosecuting, all Settled Claims. The Proof of Claim and Release to be executed by the Class Members shall be substantially in the form and content contained in Exhibit A-3 to the Preliminary Approval Order attached hereto as Exhibit A.

3. Pursuant to the Order and Judgment, upon the Effective Date of this Settlement, each of the Defendants and HB&M's professional liability insurer, Fireman's Fund Insurance Company, on behalf of themselves and the Released Parties, shall release and forever discharge each and every one of the Settled Defendants' Claims, and shall forever be enjoined from prosecuting the Settled Defendants' Claims as against any of the Named Plaintiffs, Class Members, or their attorneys, the Defendants or their attorneys, including but not limited to claims for malicious prosecution or sanctions.

C. THE SETTLEMENT CONSIDERATION

1. Subject to the terms of this Stipulation, within ten business days after the Court issues the Preliminary Approval Order, CSP shall pay the sum of Two Hundred Thousand

(\$200,000.00), and Fireman's Fund to pay the sum of Six Hundred Thousand (\$600,000.00), into the Escrow Account.

2. The Gross Settlement Fund, net of any Taxes (as defined below) on the income thereof and any Tax Expenses (as defined below), shall be used to pay the Notice and Administration Expenses as authorized by this Stipulation, and (i) Attorneys' Fees and Expenses, and (ii) other fees and expenses authorized by the Court. The balance of the Gross Settlement Fund after the above payments shall be the Net Settlement Fund which shall be distributed to the Authorized Claimants.

3. Any sums required to be held in escrow hereunder shall be held by the Cohen Milstein Sellers & Toll PLLC and Rosen Law Firm, P.A., as Escrow Agent for the benefit of the Named Plaintiffs and the Class until the Effective Date. All funds held by the Escrow Agent shall be deemed to be in custodia legis and shall remain subject to the jurisdiction of the Court until such time as the funds shall be distributed or returned pursuant to this Stipulation and/or further order of the Court. The Escrow Agent shall not disburse the Gross Settlement Fund, or any portion thereof, except as provided in this Stipulation, or upon Order of the Court.

4. The Escrow Agent shall invest any funds in excess of \$150,000 in short term United States Agency or Treasury Securities (or a mutual fund invested solely in such instruments), and shall collect and reinvest all interest accrued thereon. Any funds held in escrow in an amount of less than \$150,000 may be held in a bank account insured to the extent possible by the FDIC. Interest earned on the money deposited into the Escrow Account will be part of the Gross Settlement Fund.

5. The Notice and Administration Expenses shall be paid from the Gross Settlement Fund. In order to pay Notice and Administration Expenses, \$50,000 shall be

allocated from the Gross Settlement Fund and constitute the Notice and Administration Account upon the entry of the Preliminary Approval Order. The Notice and Administration Account may be drawn upon by Lead Plaintiff's Counsel for Notice and Administration Expenses without further Court approval. The Notice and Administration Account shall be administered solely by the Cohen Milstein Sellers & Toll and Rosen Law Firm, P.A., as Escrow Agent. Any taxes or other expenses incurred in connection with the Notice and Administration Account shall be paid from the Notice and Administration Account or from the remainder of the Gross Settlement Fund. Neither Defendants nor HB&M's Insurer will have any obligation for payment of taxes or other expenses associated with the Notice and Administration Account. Notice and Administration Expenses in excess of \$50,000 shall not be paid out of the Gross Settlement Fund until after the Effective Date. In no event shall Defendants or HB&M's Insurer be responsible to pay more than the Settlement Amount.

6. Defendants' Counsel shall have access to all records of the Escrow Account, and upon request made to the Escrow Agent, shall receive copies of all records of disbursements, deposits and statements of accounts.

7. After the Effective Date, Defendants and HB&M's Insurer shall have no interest in the Gross Settlement Fund or in the Net Settlement Fund and no funds will be returned to Defendants or HB&M's insurer except if the settlement does not become Final. Neither Defendants nor HB&M's Insurer shall be liable for the loss of any portion of the Settlement Fund nor have any liability, obligation, or responsibility for the payment of claims, taxes, legal fees or any other expenses payable from the Gross Settlement Fund.

D. ADMINISTRATION AND CALCULATION OF CLAIMS, FINAL AWARDS AND DISTRIBUTION OF NET SETTLEMENT FUND

1. The Claims Administrator shall administer and calculate the claims that shall be allowed and oversee distribution of the Net Settlement Fund, under the supervision of Plaintiffs' Counsel, and subject to appeal to, and jurisdiction of, the Court. Neither Defendants nor HB&M's Insurer shall have any liability, obligation, or responsibility for the administration of the Gross Settlement Fund or Net Settlement Fund or the distribution of the Net Settlement Fund.

2. Except as otherwise provided below, on and after the Effective Date, the Gross Settlement Fund shall be applied as follows:

a. To the extent not paid from the Notice and Administration Account, to pay without prior order of the Court, the expenses incurred in connection with providing notice to Class Members, administering and distributing the Net Settlement Fund to Class Members, processing Proofs of Claim, processing requests for exclusion, escrow fees and costs, and any applicable taxes;

b. In addition to the Attorneys' Fees and Expenses paid pursuant to paragraph H.2. herein, to pay any additional Attorneys' Fees and Expenses as may be awarded to Plaintiffs' Counsel by the Court pursuant to paragraph H.1. herein; and

c. Subject to the approval and further order(s) of the Court, the Net Settlement Fund shall be allocated to Authorized Claimants as set forth in paragraph F. below.

3. Each Class Member wishing to participate in the Settlement shall be required to submit a Proof of Claim and Release (in substantially the form set forth in Exhibit A-3 hereto, which *inter alia* releases all Settled Claims against all Released Parties), signed under penalty of perjury by the beneficial owner(s) of the securities which are the subject of the Proof

of Claim and Release or by someone with documented authority to sign for the beneficial owners as specified in the instructions accompanying the Proof of Claim and Release.

4. All Proofs of Claim must be postmarked or received within the time prescribed in the Preliminary Approval Order unless otherwise ordered by the Court. Any Class Member who fails to submit a properly completed Proof of Claim within such period as shall be authorized by the Court shall be forever barred from receiving any payments pursuant to this Stipulation or from the Net Settlement Fund (unless, by Order of the Court, a later submitted Proof of Claim by such Class Member is approved), but will in all other respects be subject to the provisions of this Stipulation and Order and Judgment, including, without limitation, the release of the Settled Claims and dismissal of the Litigation. Provided that if it is received before the motion for the Class Distribution Order is filed, a Proof of Claim shall be deemed to have been submitted when posted, if received with a legible postmark indicated on the envelope and if mailed by first-class mail and addressed in accordance with the instructions thereon. In all other cases, the Proof of Claim shall be deemed to have been submitted when actually received by the Claims Administrator.

5. Each Proof of Claim shall be submitted to the Claims Administrator who shall determine, under the supervision of Plaintiffs' Counsel, in accordance with this Stipulation and any applicable orders of the Court, the extent, if any, to which each claim shall be allowed, subject to appeal to the Court. Prior to disbursement of the Net Settlement Fund, Defendants will receive a list of Proofs of Claim received by the Claims Administrator indicating which Proofs of Claim have been allowed by the Claims Administrator.

6. Plaintiffs' Counsel shall have the right, but not the obligation, to waive what they deem to be formal or technical defects in any Proofs of Claim filed in the interest of achieving substantial justice.

7. Proofs of Claim that do not meet the filing requirements may be rejected. Prior to rejection of a Proof of Claim, the Claims Administrator shall communicate with the Claimant in order to remedy curable deficiencies in the Proof of Claim submitted. The Claims Administrator, under the supervision of Plaintiffs' Counsel, shall notify in a timely fashion and in writing, all Claimants whose Proofs of Claim they propose to reject in whole or in part, setting forth the reasons thereof, and shall indicate in such notice that the Claimant whose claims are to be rejected has the right to review by the Court if the Claimant so desires and complies with the requirement of subparagraph (8) below.

8. If any Claimant whose claim has been rejected in whole or in part desires to contest such rejection, the Claimant must, within twenty days after the date of mailing of the notice required by subparagraph (7) above, serve upon the Claims Administrator a notice and statement of reasons indicating the Claimant's ground for contesting the rejection along with any supporting documentation, and requesting a review thereof by the Court. If a dispute concerning a claim cannot be otherwise resolved, Plaintiffs' Counsel shall thereafter present the request for review to the Court.

9. The administrative determination of the Claims Administrator accepting and rejecting claims shall be presented to the Court, on notice to Defendants' Counsel, for approval by the Court in the Class Distribution Order.

10. Each Claimant shall be 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 the Claimant's claim. No discovery shall be allowed on the merits of the Litigation or Settlement in connection with processing of the Proofs of Claim.

11. Payment pursuant to this Stipulation shall be deemed final and conclusive against all Class Members. All Class Members whose claims are not approved by the Court shall be barred from participating in distributions from the Net Settlement Fund, but are otherwise bound by all of the terms of the Order and Judgment to be entered in the Litigation and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Settled Claims.

12. All proceedings with respect to the administration, processing and determination of claims described by this paragraph of this Stipulation and the determination of all controversies relating thereto, including disputed questions of law and fact with respect to the validity of claims, shall be subject to the jurisdiction of the Court.

13. The Net Settlement Fund shall be distributed to Authorized Claimants by the Claims Administrator upon application to the Court by Plaintiffs' Counsel for a Class Distribution Order only after the Effective Date and after: (i) all claims have been processed, and all Claimants whose claims have been rejected or disallowed, in whole or in part, have been notified and provided the opportunity to be heard concerning such rejection or disallowance; (ii) all objections with respect to all rejected or disallowed claims have been resolved by the Court, and all appeals therefrom have been resolved or the time therefor has expired; and (iii) all matters with respect to Attorneys' Fees and Expenses, costs and disbursements have been

resolved by the Court, and all appeals therefrom have been resolved or the time therefor has expired; and (iv) all costs of administration have been paid.

14. If any funds remain in the Net Settlement Fund by reason of uncashed checks or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distribution checks, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such funds shall be contributed to non-sectarian, not-for-profit, 501(c)(3) organization(s) designated by Lead Plaintiff's counsel.

E. TAX TREATMENT

1. The Parties agree to treat the Gross Settlement Fund as being at all times a qualified settlement fund within the meaning of Treasury Regulation § 1.468B-1 and Section 468B of the Internal Revenue Code, as amended, for the taxable years of the Gross Settlement Fund, beginning with the date it is created. In addition, the Escrow Agent and, as required, the Defendants, shall jointly and timely make such elections as are necessary or advisable to carry out the provisions of this paragraph, including the "relation-back election" (as defined in Treas. Reg. § 1.468B-1(j)(2)) back to the earliest permitted date. Such elections shall be made in compliance with the procedures and requirements contained in such regulations. It shall be the responsibility of Lead Plaintiff's Counsel to timely and properly prepare, and deliver the necessary documentation for signature by all necessary parties, and thereafter to cause the appropriate filing to occur.

2. For purposes of Section 468B of the Internal Revenue Code, as amended, and the regulations promulgated thereunder, the "administrator" shall be Lead Plaintiff's Counsel. Lead Plaintiff's Counsel shall timely and properly file all tax returns necessary or advisable with respect to the Gross Settlement Fund, and make all required tax payments,

including deposits of estimated tax payments in accordance with Treas. Reg. § 1.468B-2(k).

Such returns (as well as the election described in paragraph E.1. hereof) shall be consistent with this paragraph and reflect that all taxes (including any interest or penalties) on the income earned by the Gross Settlement Fund shall be paid out of the Gross Settlement Fund as provided in paragraph E.3. hereof.

3. All (i) taxes (including any interest or penalties) arising with respect to the income earned by the Gross Settlement Fund,; and (ii) expenses and costs incurred in connection with the operation and implementation of this paragraph (including without limitation, expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to filing (or failing to file) the returns described in this paragraph) (“Tax Expenses”), shall be paid out of the Gross Settlement Fund; in all events the Released Parties shall have no liability for Taxes or the Tax Expenses. Further, applicable Fees, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the Settlement and shall be timely paid by the Escrow Agent out of the Gross Settlement Fund without prior order from the Court. The Escrow Agent shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution to members of the Class any funds necessary to pay such amounts including the establishment of adequate reserves for any Fees, Taxes and Tax Expenses (as well as any amounts that may be required to be withheld under Treas. Reg. § 1468B-2(1)(2)); the Released Parties are not responsible and shall have no liability therefor. The Settling Parties hereto agree to cooperate with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this paragraph.

F. ALLOCATION OF NET SETTLEMENT FUND

1. The Plan of Allocation is based upon Lead Plaintiff's Counsel's assessment of the merits and the relative strengths and weaknesses, including recoverable damages, of the claims of the members of the Class.
2. Defendants do not and shall not take any position as to the proposed Plan of Allocation.
3. The Released Parties shall have no responsibility for and no obligations or liabilities of any kind whatsoever in connection with the determination, administration, calculation or payment of claims to members of the Class.
4. The Defendants and HB&M's Insurer shall have no involvement in the solicitation of, or review of Proofs of Claim, or involvement in the administration process itself, which will be conducted by the Claims Administrator in accordance with this Stipulation and the Order and Judgment to be entered by the Court.
5. No Authorized Claimant shall have any claim against Plaintiffs' Counsel, Defendants, Defendants' Counsel, HB&M's Insurer or the Claims Administrator based on, or in any way relating to the distributions from the Net Settlement Fund that have been made substantially in accordance with this Stipulation and any applicable orders of the Court.
6. Any change in the allocation of the Net Settlement Fund ordered by the Court shall not affect the validity or finality of this Settlement.

G. OBLIGATIONS OF AND LIMITATIONS OF LIABILITY OF ESCROW AGENT

The Escrow Agent shall not be responsible for the payment of any sums due to Authorized Claimants or other Persons except to the extent of maintaining account of and appropriately paying sums as required by this Stipulation, but only to the limited extent that such

sums have been delivered into the Escrow Account or Notice and Administration Account as required by this Stipulation. The assumption of duties as Escrow Agent shall not preclude Plaintiffs' Counsel from continuing to represent, as the case may be, Named Plaintiffs or Class Members.

H. LEAD PLAINTIFF'S COUNSEL'S REQUEST FOR AN AWARD OF ATTORNEYS' FEES AND EXPENSES

1. Lead Plaintiff's Counsel intends to submit an application to the Court, on notice to Defendants' Counsel, for the payment of Plaintiffs' Counsel's Attorneys' Fees and Expenses, including (i) an award of attorneys' fees up to one-third of the Settlement Amount; and (ii) reimbursement of litigation costs and expenses, plus interest, including fees and expenses of experts, incurred in connection with the prosecution of the Litigation. All such amounts shall be paid from the Gross Settlement Fund. Lead Plaintiff's Counsel reserve the right to make additional application or applications for payment from the Gross Settlement Fund for fees and expenses incurred after the Settlement Hearing. Defendants take no position, and will not oppose any application concerning Lead Plaintiff's Counsel's request or award of attorneys' fees and reimbursement of expenses. In no event shall Defendants or HB&M's Insurer be responsible to pay more than their respective shares of the Settlement Amount as set forth in paragraph C.1.

2. Such Attorneys' Fees and Expenses as are awarded by the Court shall be paid from the Gross Settlement Fund to Plaintiffs' Counsel within two (2) business days of the date the District Court enters an order awarding such fees and expenses. In the event that the Effective Date does not occur, or the Order and Judgment is reversed or modified in any way that affects the award of attorney fees and expenses, or the Settlement Stipulation is terminated for any other reason, then Lead Counsel and each Plaintiffs' counsel law firm receiving fees or

expenses under this provision shall, within ten (10) business days from receiving notice from Defendants' Counsel or from a court of appropriate jurisdiction, refund to the Settlement Fund or to Defendants as appropriate, either the full amount of the fees and expenses previously received by it pursuant to these provisions or an amount consistent with any modification of the Order and Judgment with respect to the fee and expense award. Lead Counsel and any other Plaintiffs' counsel's law firm that receives fees and expenses, on behalf of itself and each partner and/or shareholder of it, agrees that the law firm and its partners and/or shareholders are subject to jurisdiction of the District Court for the purpose of enforcing the provisions of this paragraph, and each shall be jointly and severally liable for repayment of all attorneys' fees and expenses awarded by the District Court. Furthermore, without limitation, Lead Counsel and any other Plaintiffs' Counsel's law firm that receives fees and expenses, and each such firm's partners and/or shareholders, agree that the District Court may, upon application of the Defendants, summarily issue orders, including, without limitation, judgments and attachment orders and may make appropriate findings of or sanctions for contempt against that firm or any of its partners and/or shareholders should such law firm fail timely to repay fees and expenses pursuant to this paragraph.

3. It is agreed that the procedure for, and the allowance or disallowance by the Court, of any applications by Lead Plaintiff's Counsel for Attorneys' Fees and Expenses, including fees for experts and consultants to be paid out of the Gross Settlement Fund, and any order or proceeding relating thereto, shall not operate to terminate or cancel this Stipulation or affect its finality, and shall have no effect on the terms of this Stipulation or on the enforceability of this Settlement.

I. THE PRELIMINARY APPROVAL ORDER

Promptly after execution of this Stipulation, Lead Plaintiff's Counsel and Defendants' Counsel shall submit the Stipulation together with its exhibits to the Court and shall jointly apply for entry of a Preliminary Approval Order in connection with settlement proceedings substantially in the form annexed hereto as Exhibit A, providing for, among other things, preliminary approval of the Settlement and notice to the Class of the Settlement Hearing. The Preliminary Approval Order (Exhibit A hereto) to be submitted to the Court shall contain exhibits substantially in the form set forth in (i) the Notice of Pendency and Settlement of Class Action (the "Notice") (Exhibit A-1 to the Preliminary Approval Order); (ii) the Summary Notice of Pendency and Settlement of Class Action ("Summary Notice") (Exhibit A-2 to the Preliminary Approval Order); and (iii) the Proof of Claim and Release (Exhibit A-3 to the Preliminary Approval Order).

Defendants and HB&M's Insurer are not liable or responsible for the method of, or representations made in, the Notice or Summary Notice.

J. ORDER AND JUDGMENT TO BE ENTERED BY THE COURT APPROVING THE SETTLEMENT

The Settling Parties shall seek to have the Court enter an Order and Judgment substantially in the form of Exhibit B hereto.

K. CONDITIONS OF SETTLEMENT

1. The Effective Date of the Settlement shall be conditioned upon the occurrence of ALL of the following events:

a. The Court shall enter the Preliminary Approval Order in all material respects, as required by paragraph I. above;

b. The Defendants have not exercised within the required time period their right to terminate the Settlement as permitted by paragraph L.3 below;

c. The Court shall enter the Judgment in all material respects, as required by paragraph J. above;

d. The Court's Judgment, substantially in the form of Exhibit B, shall have become "Final," as defined in paragraph A.12.; and

e. CSP shall have paid \$200,000.0 and HB&M's Insurer shall have paid \$600,000.00, as set forth in paragraph C. above.

2. Upon occurrence of ALL of the events referenced in paragraph K.1. above, Lead Plaintiff shall have, and each and all of the members of the Class, shall hereby be deemed to have, and by operation of the Order and Judgment shall have, fully, finally, and forever, released, settled and discharged, in accordance with the terms of paragraph B. above, the Released Parties from and with respect to the Settled Claims, whether or not such members of the Class execute and deliver a Proof of Claim.

3. Upon occurrence of ALL of the events referenced in paragraph K.1. above, the obligation of the Escrow Agent to return funds from the Gross Settlement Fund to Defendants and/or HB&M's Insurer pursuant to paragraph L.5. or any other provision hereof shall be absolutely and forever extinguished.

L. RIGHTS OF TERMINATION AND EFFECTS THEREOF

1. Defendants' Counsel and Lead Plaintiff's Counsel shall each have the right to terminate the Settlement and this Stipulation by providing written notice of their election to do so ("Termination Notice") to all other counsel of the Settling Parties hereto within thirty days of:

- a. the Court issues an order declining to enter the Preliminary Approval Order in any material respect;
- b. the Court issues an order refusing to approve this Stipulation or any material part of it;
- c. the Court's declining to enter the Order and Judgment in all material respects as required by paragraph J. above;
- d. the date upon which the Order and Judgment is modified or reversed in any material respect by the Court of Appeals or the Supreme Court; or
- e. in the event that the Court enters an order and judgment in a form other than that provided above (an "Alternative Judgment") and none of the Parties hereto elect to terminate this Settlement, the date that such Alternative Judgment is modified or reversed in any material respect by the Court of Appeals or the Supreme Court.

2. If Defendants or HB&M's Insurer fail to pay the Settlement Amount pursuant to the terms of this Stipulation, neither Defendants nor HB&M's Insurer may terminate the Settlement and this Stipulation pursuant to preceding sub-paragraphs L.1.c., L.1.d. and L.1.e.

3. If prior to the Settlement Hearing, Persons who otherwise would be Class Members have filed with the Court valid and timely requests for exclusion ("Requests for Exclusion") from the Class in accordance with the provisions of the Preliminary Approval Order and the notice given pursuant thereto, and such Persons in the aggregate purchased stock during the Class Period in an amount greater than the amounts specified in a separate Supplemental Agreement between the parties (the "Supplemental Agreement"), CSP and HB&M in their sole and absolute discretion, shall have the option to terminate this Stipulation and Settlement in strict accordance with the requirements and procedures set forth in the Supplemental Agreement

(“Opt-out Termination Option”). Unless the Court orders otherwise, the Supplemental Agreement will not be filed with the Court unless and until a dispute among the parties concerning its interpretation or application arises. Copies of all Requests for Exclusion received, together with copies of all written revocations of Requests for Exclusion, shall be delivered to Defendants’ Counsel no later than fourteen days prior to the Settlement Hearing. The required procedure for and consequences of making such an election are as follows:

a. Defendants must exercise their Opt-out Termination Option by serving written notice, signed by Defendants’ Counsel upon Lead Plaintiff’s Counsel, not less than five business days before the Settlement Hearing;

b. If Defendants exercise their Opt-out Termination Option as provided herein, this Stipulation will be null and void, and the provisions of paragraph L. hereof will apply.

4. If Defendants or HB&M’s insurer, Fireman’s Fund Insurance Company, fail to pay their respective shares of the Settlement Amount pursuant to the terms of this Stipulation, then Lead Plaintiff, in his sole discretion, may elect: (1) at any time prior to the Court’s entering the Order and Judgment to terminate the Settlement by providing written notice to all parties; or (2) to enforce the terms of the Settlement and this Stipulation against Defendants and HB&M’s professional liability insurer, Fireman’s Fund Insurance Company and seek a judgment effecting the terms herein.

5. Upon termination of the Stipulation pursuant to the terms of the Stipulation, the Gross Settlement Fund, less amounts expended for notice to the Class pursuant to the terms of the Stipulation, shall be refunded to Defendants’ Counsel by the Escrow Agent within ten business days (the “Returned Settlement Amount”). Within two business days of

receiving the Returned Settlement Amount, the Defendants' Counsel shall return to any entity that contributed to the Gross Settlement Fund that percentage of the Returned Settlement Amount that equals the percentage of the Gross Settlement Fund paid by the contributing entity, together with any interest earned thereon.

6. If this Stipulation is terminated pursuant to its terms, and at the request of any of the Defendants, the Escrow Agent or his designee shall apply for any tax refund owed to the Gross Settlement Fund and pay the percentage of the proceeds of the tax refund, after deduction of any fees and expenses incurred in connection with such application(s) for refund to each of the Defendants that is equal to the percentage of the Gross Settlement Fund paid by each such Defendant.

7. If this Stipulation is terminated pursuant to its terms, all of the Settling Parties shall be deemed to have reverted to their respective status prior to the execution of this Stipulation, and they shall proceed in all respects as if this Stipulation had not been executed and the related orders had not been entered, preserving in that event all of their respective claims and defenses in the Litigation, and shall revert to their respective positions in the Litigation.

8. No order of the Court or modification or reversal of any order of the Court concerning the Plan of Allocation or the amount of any attorneys' fees, costs, and expenses awarded by the Court shall constitute grounds for cancellation or termination of the Stipulation.

M. MISCELLANEOUS PROVISIONS

1. The Settling Parties: (a) acknowledge that it is their intent to consummate the Settlement contemplated by this Stipulation; and (b) agree to cooperate to the extent reasonably necessary to effectuate and implement all terms and conditions of this Stipulation; and (c) agree to exercise their best efforts and to act in good faith to accomplish the foregoing terms and conditions of the Stipulation.

2. All of the exhibits attached hereto are hereby incorporated by reference as though fully set forth herein.

3. This Stipulation may be amended or modified only by a written instrument signed by counsel for all Defendants and by Lead Plaintiff's Counsel or their successors-in-interest.

4. This Stipulation and the exhibits attached hereto constitute the entire agreement among the Settling Parties, and no representations, warranties or inducements have been made to any Settling Party concerning this Stipulation or its exhibits other than the representations, warranties and covenants contained and memorialized in such documents.

5. Except as otherwise provided herein, each Settling Party shall bear its own costs. Plaintiffs' Counsel's Attorneys' Fees and Expenses, subject to Court approval, shall be paid only out of the Gross Settlement Fund and neither the Defendants nor HB&M's Insurer shall have any obligation with respect to the payment of said Attorneys' Fees and Expenses.

6. Lead Plaintiff's Counsel, on behalf of the Class, is expressly authorized to take all appropriate action required or permitted to be taken by the Class pursuant to this Stipulation to effectuate its terms and is also expressly authorized to enter into any modifications or amendments to this Stipulation on behalf of the Class.

7. Defendants' Counsel and Plaintiffs' Counsel represent that they are authorized to sign this Stipulation on behalf of their respective clients.

8. This Stipulation may be executed in one or more original, photocopied or facsimile counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument. Defendants' Counsel and Plaintiffs' Counsel shall exchange among

themselves original signed counterparts of this Stipulation, and a complete set of original executed counterparts of this Stipulation shall be filed with the Court.

9. This Stipulation shall be binding upon, and inure to the benefit of, the successors, assigns, executors, administrators, heirs and legal representatives of the Settling Parties. No assignment shall relieve any party hereto of obligations hereunder.

10. All terms of this Stipulation and all exhibits hereto shall be governed and interpreted according to the laws of the State of New York without regard to its rules of conflicts of law, except to the extent that federal law requires that federal law governs, and in accordance with the laws of the United States.

11. Defendants, HB&M's Insurer and Lead Plaintiff on behalf of himself and each member of the Class hereby irrevocably submit to the jurisdiction of the Court for any suit, action, proceeding or dispute arising out of or relating to this Stipulation or the applicability of this Stipulation. The administration and consummation of the Settlement as embodied in this Stipulation shall be under the authority of the Court and the Court shall retain jurisdiction for the purpose of entering orders providing for awards of Attorneys' Fees and Expenses to Plaintiffs' Counsel, and enforcing the terms of this Stipulation.

12. None of the Settling Parties shall be considered to be the drafter of this Stipulation or any provision hereof for purposes of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter hereof. Because of the arm's-length negotiations which preceded the execution of this Stipulation, all Parties hereto have contributed substantially and materially to the preparation of this Stipulation.

13. Neither this Stipulation, nor the fact of the Settlement is an admission or concession by any Defendant of any liability or wrongdoing whatsoever. This Stipulation is not a finding of the validity or invalidity of any claims in the Litigation or of any wrongdoing by any of the Defendants named therein. Neither this Stipulation, nor the fact of settlement, nor the settlement proceedings, nor the settlement negotiations, nor any related documents, shall be used or construed as an admission of any fault, liability or wrongdoing by any person or entity. Neither this Stipulation, nor the fact of settlement, nor the settlement proceedings, nor the settlement negotiations, nor any related documents shall be offered or received in evidence as an admission, concession, presumption or inference against any party in any proceeding other than such proceedings as may be necessary to consummate or enforce this Stipulation.

14. The Settling Parties intend the Settlement to be a final and complete resolution of all disputes asserted or which could be asserted by the Class Members against the Released Parties with respect to the Settled Claims. Accordingly, unless Court's Order and Judgment approving the Settlement does not become Final, Lead Plaintiff and the Defendants agree not to assert in any forum that the Litigation was brought by Lead Plaintiff or defended by Defendants in bad faith or without a reasonable basis. The Settling Parties shall assert no claims of any violation of Rule 11 of the Federal Rules of Civil Procedure relating to the prosecution, defense, or settlement of the Litigation. The Settling Parties agree that the amount paid and the other terms of the Settlement were negotiated at arm's-length in good faith by the Settling Parties, and reflect a settlement that was reached voluntarily after consultation with experienced legal counsel.

15. The headings in this Stipulation are used for purposes of convenience and ease of reference only and are not meant to have any legal effect, nor are they intended to influence the construction of this Stipulation in any way.

16. The waiver of one Settling Party of any breach of this Stipulation by any other Settling Party shall not be deemed a waiver of any other breach of this Stipulation. The provisions of this Stipulation may not be waived except by a writing signed by the affected Settling Party, or counsel for that Settling Party.

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IN WITNESS WHEREOF, the Settling Parties hereto, intending to be legally bound hereby, have caused this Stipulation to be executed, by their duly authorized attorneys, as of the day and year first above written.

COHEN MILSTEIN
SELLERS & TOLL

Steven J. Toll
Julie Goldsmith Reiser
Matthew B. Kaplan
1100 New York Avenue, NW
Suite 500 East Tower
Washington, DC 20005

Lead Counsel for Plaintiffs

PRYOR CASHMAN LLP

Richard C. Schoenstein
7 Times Square
New York, New York 10036

*Counsel for Defendants China Shenghuo
Pharmaceutical Holdings, Inc.; Lan
International Medicine Investment Co.
Limited; Gui Hua Lan; and Qiong Hua Gao*

Chicago Insurance Company
One of the Fireman's Fund Insurance
Companies
33 West Monroe Street, 12th Floor
Chicago, IL 60603

Shawn Kirkwood, Claims Specialist

1463116

THE ROSEN LAW FIRM, P.A.

Laurence M. Rosen
Phillip Kim
Timothy W. Brown
275 Madison Avenue, 34th Floor
New York, New York 10016

Counsel for Plaintiffs

LESTER SCHWAB KATZ & DWYER LLP

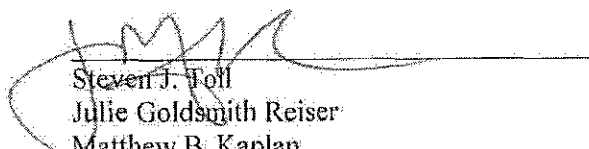
Lawrence A. Steckman
120 Broadway
New York, New York 10271

*Counsel for Defendant Hansen Barnett &
Maxwell P.C.*

IN WITNESS WHEREOF, the Settling Parties hereto, intending to be legally bound hereby, have caused this Stipulation to be executed, by their duly authorized attorneys, as of the day and year first above written,

COHEN MILSTEIN
SELLERS & TOLL

THE ROSEN LAW FIRM, P.A.


Steven J. Toll
Julie Goldsmith Reiser
Matthew B. Kaplan
1100 New York Avenue, NW
Suite 500 East Tower
Washington, DC 20005

Laurence M. Rosen
Phillip Kim
Timothy W. Brown
275 Madison Avenue, 34th Floor
New York, New York 10016

Lead Counsel for Plaintiffs

Counsel for Plaintiffs

PRYOR CASHMAN LLP

LESTER SCHWAB KATZ & DWYER LLP

Richard C. Schoenstein
7 Times Square
New York, New York 10036

Lawrence A. Steckman
120 Broadway
New York, New York 10271

*Counsel for Defendants China Shenghuo
Pharmaceutical Holdings, Inc.; Lan
International Medicine Investment Co.
Limited; Gui Hua Lan; and Qiong Hua Gao*

*Counsel for Defendant Hansen Barnett &
Maxwell P.C.*

Chicago Insurance Company
One of the Fireman's Fund Insurance
Companies
33 West Monroe Street, 12th Floor
Chicago, IL 60603

Harry Veldhuis, AVP.

1463116