

May 11, 2011

Honorable Patrick T. McHenry, Chairman

Subcommittee on TARP, Financial Services, and Bailout of Public Services and Private Programs

Committee on Oversight and Government Reform

2157 Rayburn House Office Building

Washington, DC 20515-6143

Dear Congressman McHenry,

I am writing to take issue with the letter sent to you on April 27, 2011, by Mary L. Shapiro, Chairman of the U.S. Securities and Exchange Commission.

To be sure, Congressman, there are a hand full of China RTO companies that have been less than honest in their financial filings and/or their public statements regarding the growth of their businesses. However, I would contend that these occurrences are no more frequent than the same types of activities we have seen with U.S. micro and small cap companies. You need only review the number of U.S. micro and small cap stocks halted for trading on U.S. stock exchanges to confirm my opinion.

A far greater danger to the U.S. investing public is the numerous illegal and vicious attacks on small cap China companies carried out by mysterious short-seller networks. I have attached one article which describes how some of these illegal naked short-seller schemes are carried out. Many individual retail investors such as me have complained to the S.E.C. about these illegal naked short sale activities by networks of bloggers, class action law firms, and offshore hedge funds. To date, to my knowledge, the S.E.C. has not taken a serious look into any of these illegal and fraudulent schemes.

Congressman, it is clear that these illegal short sale schemes are resulting in the following effects on U.S. capital markets:

- 1) Many small U.S. retail investors are losing millions of investment dollars when they or their fund managers are blind-sided by one of these illegal short-seller attacks.
- 2) Many private investors are moving their investments offshore to the Hong Kong and Shanghai stock exchanges. Those exchanges do not allow naked short selling. Some of them do not allow short selling – period.

- 3) Within the “smart money” investing crowd in east Asia is it becoming common knowledge that the U.S. stock exchanges are high risk due to the fact the S.E.C. does not enforce regulations regarding naked short selling. This problem has become more acute since the Bush administration approved the elimination of the “uptick rule”.

For whatever it’s worth, I personally have experienced the effect of one of these vicious and fraudulent attacks by unscrupulous U.S. short sellers. I own stock in a small China paper company called “Orient Paper Corporation”. This company was attacked in the media (internet) by a fake “stock research company” calling itself Muddy Waters Research Company LLC about a year ago. I traveled to Hong Kong to investigate the offices that Muddy Waters claimed were their “Asia Research Offices”. In a word, the offices were a complete farce and Muddy Waters did not inhabit the offices listed on their inaugural “research report” about ONP.

As a further piece of my due diligence effort, I traveled to Beijing to meet with the CEO, board of directors, and the senior managers of ONP last August. I left these meetings convinced that ONP is a legitimate company and that they are dedicated to growing the company and adding value for their shareholders. ONP has since hired Deloitte, at great expense, to independently investigate all of the accusations of fraud put forth by Muddy Waters. ONP’s audit committee concluded from the Deloitte final report that there is no basis in fact for the accusations put forth by Muddy Waters. In spite of all of ONP’s efforts to be transparent, the stock is still trading at about 50 per cent of its value prior to the vicious short seller attack.

Bottom Line:

- 1) A network of unscrupulous U.S. scam artists is taking full advantage of the fact that the S.E.C. is not enforcing existing regulations regarding stock price manipulation and naked short selling. It is widely believed some of these schemes are financed by crime families based in the U.S. and they are carried out via offshore shell corporations to avoid paying taxes in the U.S.
- 2) Small U.S. retail investors are losing huge amounts of investment capital due to the failure of the S.E.C. to carry out its mandate to stop illegal manipulation of stock prices and naked short selling.
- 3) More and more, sophisticated investors in east Asia companies are moving their investment dollars to offshore exchanges which are better regulated than the U.S. stock exchanges.

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Congressman, I have sent numerous messages to the White House on this topic. I have filed 3 complaints with the S.E.C. in the ONP – MW case and I have provided voluminous documentation to support my complaints. I have written to my Georgia Congressman, The Honorable Tom Graves, on this issue. To date I have received no explanation as to why the incompetence and the failure to act by the S.E.C. is tolerated by this government.

In my humble opinion, Mary L. Shapiro and her incompetent staff should be fired and replaced.

With all due respect, will you please take a serious look into this issue?

Respectfully Yours,

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Cc:

Mary L. Shapiro, Chairman

U.S. Securities and Exchange Commission

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President Barack Obama

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The Honorable Congressman Tom Graves

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Attachment