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E-mail 3	zhujianbo002@163.com
E-mail 4	vbai@loeb.com
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(End Notifications)	

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

Or

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

For the transition period from ________________ to ________________

Commission file number 001-34499

Gulf Resources, Inc.

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	13-3637458 (I.R.S. Employer Identification No.)
Level 11,Vegetable Building, Industrial Park of the East Shouguang City, Shandong, China (Address of principal executive offices)	262700 (Zip Code)

+86 (536) 567-0008
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol (s)	Name of each exchange on which registered
Common Stock, $0.0005 par value	GURE	NASDAQ Global Select Market

Securities registered pursuant to section 12(g) of the Act:

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). Yes ☒ _ No ☐_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging Growth Company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 28, 2019, the aggregate market value of the common stock of the registrant held by non-affiliates (excluding shares held by directors, officers and others holding more than 5% of the outstanding shares of the class) was approximately $27 million based upon a closing sale price of $1.00.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)
As of April 14, 2020, the registrant had outstanding 9,517,427 shares of common stock.

Table of Contents

Special Note Regarding Forward Looking Information

This report contains forward-looking statements that reflect management's current views and expectations with respect to our business, strategies, future results and events, and financial performance. All statements made in this report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to future reserves, cash flows, revenues, profitability, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward-looking statements. In particular, the words "believe", "expect", "intend", "anticipate", "estimate", "plan", "may", "will", variations of such words and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking. Readers should not place undue reliance on forward-looking statements which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include those discussed in this report, particularly under the caption "Risk Factors". Except as required under the federal securities laws, we do not undertake any obligation to update the forward-looking statements in this report.

PART I

Item 1. Business.

Introduction

We manufacture and trade bromine and crude salt, natural gas, manufacture and sell chemical products used in oil and gas field exploration, oil and gas distribution, oil field drilling, papermaking chemical agents, and manufacture and sell materials for human and animal antibiotics. To date, our products have been sold only within the People's Republic of China. As used in this report, the terms "we," "our," "Company" and "Gulf Resources" refers to Gulf Resources, Inc. and its wholly-owned subsidiaries, and the terms "ton" and "tons" refers to metric tons, in each case, unless otherwise stated or the context requires otherwise.

The functional currency of the Company's operating foreign subsidiaries is the Renminbi ("RMB"), which had an average exchange rate of $0.15143 and $0.14509 during fiscal years 2018 and 2019, respectively. he reporting currency of the Company is the United States dollar ("USD" or $").

Our Corporate History

We were originally incorporated in Delaware and subsequently re-incorporated in Nevada. From November 1993 through August 2006, we were engaged in the business of owning, leasing and operating coin and debit card pay-per copy photocopy machines, fax machines, microfilm reader-printers and accessory equipment under the name "Diversifax, Inc.". Due to the increased use of internet services, demand for our services declined sharply, and in August 2006, our Board of Directors decided to discontinue our operations.

Upper Class Group Limited, incorporated in the British Virgin Islands in July 2006, acquired all the outstanding stock of Shouguang City Haoyuan Chemical Company Limited ("SCHC"), a company incorporated in Shouguang City, Shandong Province, the People's Republic of China (the "PRC"), in May 2005. At the time of the acquisition, members of the family of Mr. Ming Yang, our president and former chief executive officer, owned approximately 63.20% of the outstanding shares of Upper Class Group Limited. Since the ownership of Upper Class Group Limited and SCHC was then substantially the same, the acquisition was accounted for as a transaction between entities under common control, whereby Upper Class Group Limited recognized the assets and liabilities transferred at their carrying amounts.

On December 12, 2006, our Company, then known as Diversifax, Inc., a public "shell" company, acquired Upper Class Group Limited and SCHC. Under the terms of the agreement, the stockholders of Upper Class Group Limited received 13,250,000 (restated for the 2-for-1 stock split in 2007 and the 1-for-4 stock split in 2009) shares of our voting common stock in exchange for all outstanding shares of Upper Class Group Limited. Members of the Yang family received approximately 62% of our common stock as a result of the acquisition. Under accounting principles generally accepted in the United States, the share exchange is considered to be a capital transaction rather than a business combination. That is, the share exchange is equivalent to the issuance of stock by Upper Class Group Limited for the net assets of Gulf Resources, Inc., accompanied by a recapitalization, and is accounted for as a change in capital structure. Accordingly, the accounting for the share exchange is identical to that resulting from a reverse acquisition, except no goodwill is recorded. Under reverse takeover accounting, the post reverse acquisition comparative historical consolidated financial statements of the legal acquirer, Diversifax, Inc., are those of the legal acquiree, Upper Class Group Limited. Share and per share amounts stated have been retroactively adjusted to reflect the share exchange. On February 20, 2007, we changed our corporate name to Gulf Resources, Inc.

On February 5, 2007, we acquired Shouguang Yuxin Chemical Industry Co., Limited ("SYCI"), a company incorporated in the People's Republic of China. Under the terms of the acquisition agreement, the stockholders of SYCI received a total of 8,094,059 (restated for the 2-for-1 stock split in 2007 and the 1-for-4 stock split in 2009) shares of common stock of Gulf Resources, Inc. in exchange for all outstanding shares of SYCI's common stock. Simultaneously with the completion of the acquisition, a dividend of $2,550,000 was paid to the former stockholders of SYCI. At the time of the acquisition, approximately 49.1% of the outstanding shares of SYCI were owned by Ms. Yu, Mr. Yang's wife, and the remaining 50.9% of the outstanding shares of SYCI were owned by SCHC, all of whose outstanding shares were owned by Mr. Yang and his wife. Since the ownership of Gulf Resources, Inc. and SYCI are substantially the same, the acquisition was accounted for as a transaction between entities under common control, whereby Gulf Resources, Inc. recognized the assets and liabilities of SYCI at their carrying amounts. Share and per share amounts have been retroactively adjusted to reflect the acquisition.

To satisfy certain ministerial requirements necessary to confirm certain government approvals required in connection with the acquisition of SCHC by Upper Class Group Limited, all of the equity interest of SCHC were transferred to a newly formed Hong Kong corporation named Hong Kong Jiaxing Industrial Limited ("Hong Kong Jiaxing") all of the outstanding shares of which are owned by Upper Class Group Limited. The transfer of all of the equity interest of SCHC to Hong Kong Jiaxing received approval from the local State Administration of Industry and Commerce on December 10, 2007.

As a result of the transactions described above, our corporate structure is linear. That is Gulf Resources owns 100% of the outstanding shares of Upper Class Group Limited, which owns 100% of the outstanding shares of Hong Kong Jiaxing, which owns 100% of the outstanding shares of SCHC, which owns 100% of the outstanding shares of SYCI. Further, as a result of our acquisitions of SCHC and SYCI, our historical consolidated financial statements, as contained in our Consolidated Financial Statements and Management's Discussion and Analysis, appearing elsewhere in the report, reflect the accounts of SCHC and SYCI.

On January 12, 2015, the Company and SCHC entered into an Equity Interest Transfer Agreement with Shouguang City Rongyuan Chemical Co., Ltd ("SCRC") pursuant to which SCHC agreed to acquire SCRC and all rights, title and interest in and to all assets owned by SCRC, a leading manufacturer of materials for human and animal antibiotics in China and other parts of Asia.

On February 4, 2015 the Company closed the transactions contemplated by the agreement between the Company, SCHC and SCRC.

On the closing Date, the Company issued 7,268,011 shares of its common stock, par value $0.0005 per share (the "Shares"), at the closing market price of $1.84 per Share on the closing date to the four former equity owners of SCRC .The issuance of the Shares was exempt from registration pursuant to Regulation S of the Securities Act of 1933, as amended. On the Closing Date, the Company entered into a lock-up agreement with the four former equity owners of SCRC. In accordance with the terms of the lock-up agreement, the shareholders agreed not to sell or transfer the Shares for five years from the date the stock certificates evidencing the Shares were issued.

The sellers of SCRC agreed as part of the purchase price to accept the Shares, based on a valuation of $2.00, which was a 73% premium to the price on the day the agreement was reached. For accounting purposes, the Shares were valued at $1.84, which was the closing price of our stock on the closing date of the agreement. The price difference between the original sale price of $2.00 and the $1.84 closing price of our stock on the closing date of the agreement is solely for accounting purposes. There has been no change in the number of shares issued.

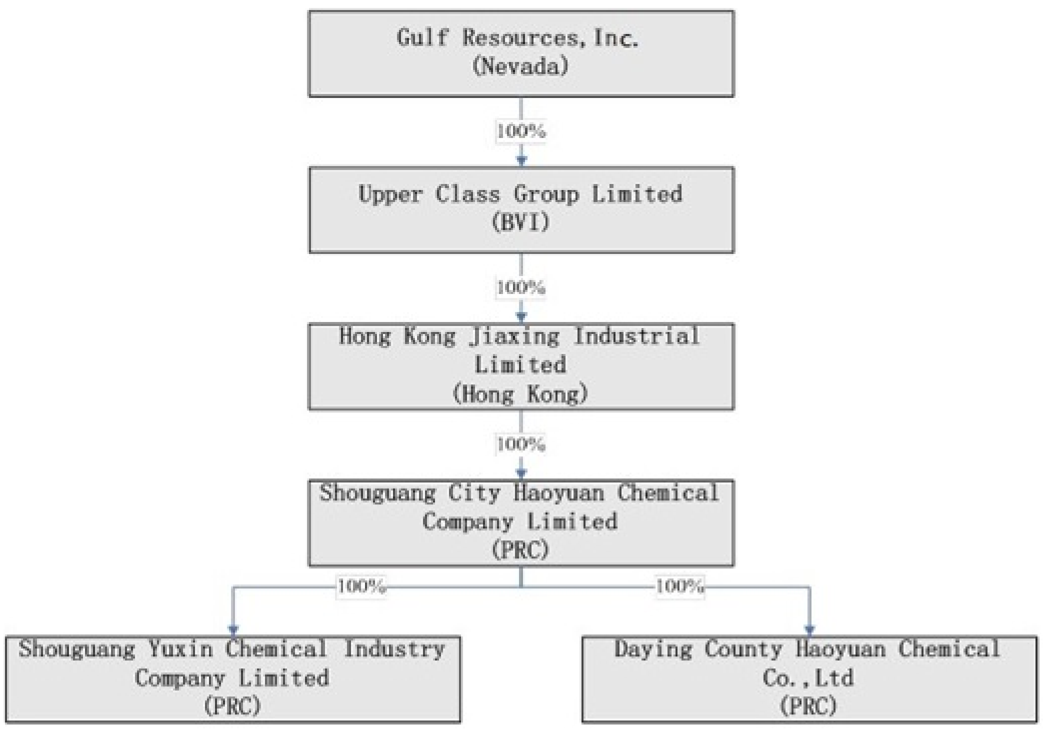
On November 24, 2015, Gulf Resources, Inc., a Delaware corporation consummated a merger with and into its wholly-owned subsidiary, Gulf Resources, Inc., a Nevada corporation. As a result of the reincorporation, the Company is now a Nevada corporation.

On December 15, 2015, the Company registered a new subsidiary in the Sichuan Province of the PRC named Daying County Haoyuan Chemical Company Limited ("DCHC") with registered capital of RMB50,000,000, and there was RMB13,848,730 capital contributed by SCHC as of December 31, 2018. DCHC was established to further explore and develop natural gas and brine resources (including bromine and crude salt) in China.

On September 2, 2016, the Company announced the planned merger of two of its 100% owned subsidiaries, ShouguanYuxin Chemical Co., Limited ("SYCI") and ShouguanRongyuan Chemical Co., Ltd ("SCRC"). On March 24, 2017, the legal process of the merger was completed and SCRC was officially deregistered on March 28, 2017. The results of these two subsidiaries were reported under SYCI in the fiscal year 2018.

On January 27, 2020, we completed a 1-for-5 reverse stock split of our common stock, such that for each five shares outstanding prior to the stock split there was one share outstanding after the reverse stock split. All shares of common stock referenced in this report have been adjusted to reflect the stock split figures. On January 28, 2020, our shares began trading on the NASDAQ Global Select Market under the new CUSIP # 40251W 408.

Our current corporate structure chart is set forth in the following diagram:



Our executive offices are located at Level 11, Vegetable Building, Industrial Park of the East in Shouguang City, Shandong Province, P.R.C. Our telephone number is +86 (536) 5670008. Our website address is www.gulfresourcesinc.com. The information contained on or accessed through our website is not intended to constitute and shall not be deemed to constitute part of this Form 10-K.

Table of Contents

Closure and rectification process of our Bromine, Crude Salt and Chemical Products factories

On September 1, 2017, the Company received letters from the People's Government of Yangkou Town, Shouguang City to each of its subsidiaries, Shouguang City Haoyuan Chemical Company Limited and Shouguang Yuxin Chemical Industry Co., Limited, which stated that in an effort to improve the safety and environmental protection management level of chemical enterprises, the plants are requested to immediately stop production and perform rectification and improvements in accordance with the country's new safety, environmental protection requirements. As a result, our facilities located in Yangkou Town were closed on September 1, 2017 to allow for rectification.

Subsequently, the Safety Supervision and Administration Department and the Environmental Protection Departments of the local government conducted inspections of every bromine production enterprise within its jurisdiction including our facilities, in order to improve security, environmental protections, pollution, and safety.

The Company has been working closely with the county authorities to develop rectification plans for both its bromine and crude salt businesses and agreed on a rectification plan in October 2017. As part of the rectification plan, the Company has converted its bromine and crude salt factories from coal to electricity, installed computerized production monitoring and safety equipment, lined all of the salt ponds, paved roads, and performed some other upgrades. In the fiscal year ended December 31, 2018, the Company incurred $16,243,677 in the rectification and improvements of plant and equipment of the bromine and crude salt factories resulting in a cumulative amount of $34,182,329 incurred as of December 31, 2018 since the beginning of the rectification. The Company entered into contracts related to building new extraction wells for bromine facilities in the aggregate amount of approximately $40 million. The Company has built new extraction wells for bromine facilities and incurred $ 40,135,280 for such purpose during the fiscal year ended December 31, 2019.

On September 21, 2018, the Company received a closing notice from the People's Government of Yangkou Town, Shouguang City informing it to close its three bromine factories (Number 3, Number 4, and Number 11.) and not allowed to resume production. The crude salt fields surrounding these factories have been reclaimed as cultivated or construction land and hence did not meet the requirement for bromine and crude salt co-production set by the relevant authority. In closing these factories, the Company wrote off net book value of these factories' property, plant and equipment in the amount of $18,644,473 in the loss on demolition of the factory in the consolidated statements of loss for the fiscal year ended December 31, 2018, recorded an impairment loss on the related mineral rights of these three factories of $1,284,832 included in the impairment of property, plant and equipment in the consolidated statements of loss for the fiscal year ended December 31, 2018 and wrote off $52,926 of prepaid land lease recorded in other operating loss in the consolidated statements of loss for fiscal year ended December 31, 2018. The Company incurred dismantling fee in the amount of $273,757 recorded in other operating loss in the consolidated statements of loss for fiscal year ended December 31, 2018. The Company negotiated with the local villages over compensation for the payment already made for these land leases and mineral rights in the past. This part of the cost has been used as the resumption of land use, so the village committee will not be compensated.

The Company has completed all the rectification and improvements in accordance with the government requirements, and we are currently waiting for any further notices from the government. We will still need to fulfill project approval, planning approval, land use rights approval and environmental protection assessment approval, by working closely with the local government.

Because many smaller producers have not had the capital to conduct the rectification required by the government, management believes there could be some extremely attractive acquisition opportunities in bromine. However, at the present time, all of management's attention is focused on getting its facilities approved and in full production. Management may consider acquisition opportunities in this segment in the future if the prices were sufficiently attractive.

To date, we have secured the land for our new chemical factory. The Company also has had the final approval regarding environmental protection assessment. The Company expects to start our new chemical factory construction in May 2020. There was an impairment loss on the property, plant and equipment related to the relocation of our chemical plants to Bohai Park in the amount of $16,636,322, since much of the equipment that was used in the chemical factories was relatively old. Further, even if it had been newer, we believe that it might not have passed new environmental tests. The total cost of building the new factory is currently estimated to be approximately $60 million. The Company incurred relocation costs in the amount of $10,320,017 and $10,489,930 as of December 31, 2019 and 2018.

In January 2017, the Company completed the first brine water and natural gas well field construction in Daying located in Sichuan Province and commenced trial production in January 2019. On May 29, 2019, the Company received a verbalnotice from the government of Tianbao Town ,Daying County, Sichuan Province, whereby the Company is required to obtain project approval for its well located in Daying, including the whole natural gas and brine water project, and approvals for safety production inspection, environmental protection assessment, and to solve the related land issue. Until these approvals have been received, the Company has to temporarily halt trial production at its natural gas well in Daying.

We are not writing off any of the goodwill related to our chemicals business. We believe the new chemical factory could produce strong sales and profits. We believe there may be much less capacity in the chemical industry, as many factories may be permanently closed. In addition, other competitor factories may reduce their production capacity. We expect to have a factory that operates efficiently. Considering the above factors and our strength with better equipment, we expect to generate sales and earnings in this segment at a level well above previous periods.

We will continue to control the land and buildings where the old chemical factories are located. At this time, we have not considered how or if we can monetize those assets.

Our Business Segments

Our business operations are conducted in four segments, bromine, crude salt, chemical products, and natural gas. We manufacture and trade bromine, crude salt and natural gas, and manufacture and sell chemical products used in oil and gas field exploration, oil and gas distribution, oil field drilling, papermaking chemical agents and manufacturer of materials for human and animal antibiotics. We conduct all of our operations in China.

Bromine and Crude Salt

We manufacture and distribute bromine through our wholly-owned subsidiary, Shouguang City Haoyuan Chemical Company Limited, or SCHC. Bromine (Br2) is a halogen element and it is a red volatile liquid at standard room temperature which has reactivity between chlorine and iodine. Elemental bromine is used to manufacture a wide variety of bromine compounds used in industry and agriculture. Bromine is also used to form intermediates in organic synthesis, which is somewhat preferable over iodine due to its lower cost. Our bromine is commonly used in brominated flame retardants, fumigants, water purification compounds, dyes, medicines and disinfectants.

The extraction of bromine in the Shandong Province is limited by the provincial government to licensed operations. We hold one such license. As part of our business strategy, it is our plan to continue acquiring smaller scaled and unlicensed producers and to use our bromine to expand our downstream chemical operations

Location of Production Sites

Our production sites are located in the Shandong Province in northeastern China. The productive formation (otherwise referred to as the “working region”), extends from latitude N 36°56’ to N 37°20’ and from longitude E 118°38’ to E 119°14’, in the north region of Shouguang city, from the Xiaoqing River of Shouguang city to the west of the Dan River, bordering on Hanting District in the east, from the main channel of “Leading the Yellow River to Supply Qingdao City Project” in the south to the coastline in the north. The territory is classified as coastal alluvial – marine plain with an average height two to seven meters above the sea level. The terrain is relatively flat.

Geological background of this region

The Shandong Province working region is located to the east of Lubei Plain and on the south bank of Bohai Laizhou Bay. The geotectonic location bestrides on the North China Platte (I) and north three-level structure units, from west to east including individually the North China Depression, Luxi Plate, and Jiaobei Plate. Meanwhile, 4 V-level structure units including the Dongying Sag of Dongying Depression (IV) of North China Depression, the Buried Lifting Area of Guangrao, Niutou sag and Buried Lifting Area of Shuanghe and are all on two V-level structure units including Xiaying Buried Lifting Area of Weifang Depression (IV) of Luxi Plate and Chuangyi Sag, as well as on a V-level structure units of Jiaobei Buried Lifting Area of Jiaobei Plate.

Processing of Bromine

Natural brine is a complicated salt-water system, containing many ionic compositions in which different ions have close interdependent relationships and which can be reunited to form many dissolved soluble salts such as sodium chloride, potassium chloride, calcium sulfate, potassium sulfate and other similar soluble salts. The goal of natural brine processing is to separate and precipitate the soluble salts or ions away from the water. Due to the differences in the physical and chemical characteristics of brine samples, the processing methods are varied, and can result in inconsistency of processing and varied technical performance for the different useful components from the natural brine.

Bromine is the first component extracted during the processing of natural brine. In natural brine, the bromine exists in the form of bromine sodium and bromine magnesium and other soluble salts.

The bromine production process is as follows:

1. natural brine is pumped from underground through extraction wells by subaqueous pumps;

2. the natural brine then passes through transmission pipelines to storage reservoirs;

3. the natural brine is sent to the bromine refining plant where bromine is extracted from the natural brine. In neutral or acidic water, the bromine ion is easily oxidized by adding the oxidative of chlorine, which generates the single bromine away from the brine. Thereafter the extracted single bromine is blown out by forced air, then absorbed by sulfur dioxide or soda by adding acid, chlorine and sulfur. Extracted bromine is stored in containers of different sizes; and

4. the wastewater from this refining process is then transported by pipeline to brine pans.

Our production feeds include (i) natural brine; (ii) vitriol; (iii) chlorine; (iv) sulfur; and (v) coal.

Crude Salt

We also produce crude salt, which is produced from the evaporation of the wastewater after our bromine production process. Once the brine is returned to the surface and the bromine is removed, the remaining brine is pumped to on-site containing pools and then exposed to natural sunshine. This causes the water to evaporate from the brine, resulting in salt being left over afterwards. Crude salt is the principal material in alkali production as well as chlorine alkali production and is widely used in the chemical, food and beverage, and other industries.

Chemical Products

We produce chemical products through our wholly-owned subsidiary, Shouguang Yuxin Chemical Industry Company Limited, or SYCI. At the present time, SYCI is closed pursuant to the letter from government dated on November 24, 2017. It will be relocated to Bohai Marine Fine Chemical Industry Park, Shouguang City. SYCI paid $9,115,276 for a 50-year lease of a piece of land for its new factories at Bohai Marine Fine Chemical Industrial Park in December, 2017 and leased another piece of land from the third party for its new chemical factory. We have had the final approval for our new chemical factory and expect to start construction around in May 2020.

Historically, SYCI concentrated its efforts on the production and sale of chemical products that are used in oil and gas field exploration, oil and gas distribution, oil field drilling, papermaking chemical agents, inorganic chemicals and materials that are used for human and animal antibiotics. SYCI engaged in depth study of existing products and new product research and development at the same time. SYCI's annual production of oil and gas field exploration products and related chemicals was over 26,000 tons, and its production of papermaking-related chemical products was over 5,000 tons. SYCI's annual production capacity of materials that are used for human and animal antibiotics was over 6,800 tons.

Sales and Marketing

We have an in-house sales staff of 19 persons. Our customers send their orders to us first. Our in-house sales staff then attempts to satisfy these orders based on our actual production schedules and inventories on hand. Many of our customers have a long term relationship with us. We expect this to continue due to stable demand for mineral products, however, these relationships cannot be guaranteed in the future.

Principal Customers

We sell a substantial portion of our products to a limited number of PRC customers. Our principal customers during 2019 were Shandong Morui Chemical Company Limited, Shandong Brother Technology Limited, and Shouguang Weidong Chemical Company Limited. We have ongoing policies in place to ensure that sales are made to customers who are credit-worthy.

During the year ended December 31, 2019, sales to our three largest bromine customers, based on net revenue from such customers, aggregated $5,371,125, or approximately 54% of total net revenue from sale of bromine; and sales to our largest customer represented approximately 22%, respectively, of total net revenue from the sale of bromine. During the year ended December 31, 2018, the net revenue for the bromine segment was $0 due to the closure of all of our plant and factories in order to perform rectification and improvement since September 1, 2017.

During each of the years ended December 31, 2019 and 2018, sales to our three largest crude salt customers, based on net revenue from such customers, aggregated $522,758 and $1,981,573, respectively, or approximately 100% and 100% of total net revenue from sale of crude salt; and sales to our largest customer represented approximately 37% and 39%, respectively, of total net revenue from the sale of crude salt.

During the year ended December 31, 2019, the net revenue for the chemical products was $0, During the year ended December 31, 2018, there were limited chemical products for sale due to the closure of our chemical factories since September 1, 2017, we only sold limited chemical products and raw materials to our customers in the aggregate amount of $613,368.

Principal Suppliers

Our principal external suppliers are Laizhou Shengfu Chemical Company Limited, Shandong Xinlong Group Company Limited, Weifang Wanhong Chemical Company Limited.

During the year ended December 31, 2019, we purchased 100% of raw materials for our bromine and crude production from our top three suppliers. During the year ended December 31, 2018, we did not purchase any raw materials for our bromine and crude production.

During the year ended December 31, 2019 and 2018, we did not purchase any raw materials for chemical products production. This supplier concentration makes us vulnerable to a near-term adverse impact, should the relationships be terminated.

Business Strategy

Expansion of Production Capacity to Meet Demand

- **Bromine and Crude Salt**

In view of keen competition and the trend of less bromine contraction of brine water being extracted in Shouguang City, Shandong Province, the Company intended to access more bromine and crude salt resources by finding new underground brine water resources in the Sichuan Province. On January 30, 2015 we announced that we had found natural gas resources under our bromine well in the Sichuan area. On November 23, 2015, the Company's wholly owned subsidiary SCHC entered into an agreement with the People's Government of Daying County in Sichuan Province for the exploration and development of natural gas and brine resources (including bromine and crude salt). In January 2017, the Company completed the first brine water and natural gas well field construction in Sichuan Province and announced the commencement of trial production. Then later on, the Company found some issues related to the water and other potential impurities in the natural gas during trial production. In resolving the problem, the Company purchased customized equipment for its natural gas project. The installation of such equipment, including providing piping and electricity, was completed in July 2018. The Company completed the test production at its first natural gas well in Sichuan Province and commenced trial production in January 2019. On May 29, 2019, the Company received a verbal notice from the government of Tianbao Town ,Daying County, Sichuan Province, whereby the Company is required to obtain project approval for its well located in Daying, including the whole natural gas and brine water project, and approvals for safety production inspection, environmental protection assessment, and to solve the related land issue. Until these approvals have been received, the Company has to temporarily halt trial production at its natural gas well in Daying.

On September 1, 2017, the Company received notification from the Government of Yangkou Town, Shouguang City of PRC that required production at all its factories be halted with immediate effect in order for the Company to perform rectification and improvement in accordance with the local new safety and environmental protection requirements.

The Company has been working closely with the County authorities to develop rectification plans for both its bromine and crude salt businesses and had agreed on a plan in October 2017. In the fiscal year ended December 31, 2018, the Company incurred $16,243,677 in the rectification and improvements of plant and equipment of the bromine and crude salt factories resulting in a cumulative amount of $34,182,329 incurred as of December 31, 2018. The Shouguang City Bromine Association, on behalf of all the bromine plants in Shouguang, has started discussions with the local government agencies. The local governmental agencies confirmed the facts that their initial requirements for the bromine industry did not include the project approval, the planning approval and the land use rights approval and that those three additional approvals were new requirements of the provincial government. The Company understood from the local government that it has been coordinating with several government agencies to solve these three outstanding approval issues in a timely manner and that all the affected bromine plants are not allowed to commence production prior to obtaining those approvals. In April 2019, Factory No.1, Factory No.5 and Factory No.7 (Factory no. 5 is considered part of Factory no.7 and both are managed as one factory since 2010) restarted operations upon receipt of verbal notification from local government of Yangkou County. On May 7, 2019, the Company renamed its Subdivision Factory No. 1 to Factory No. 4; and Factory No. 5 (which was previously considered part of Factory No. 7) to Factory No. 7.

The Company is not certain when the approval documents will be obtained. The Company believes that this is another step by the government to improve the environment. It further believes the goal of the government is not to close all plants, but rather to codify the regulations related to project approval, land use, planning approval and environmental protection assessment approval so that illegal plants are not able to open in the future and so that plants close to population centers do not cause serious environmental damage.

The Company believes the issues related to the remaining five bromine and crude salt factories which have passed inspection are almost resolved. The Company is actively working with the local government to obtain the documentation for approval of project, planning, land use rights and environmental protection evaluation.

On November 25, 2019, the government of Shouguang City issued a notice ordering all bromine facilities in Shouguang City, including the Company's all bromine facilities, including Factory No.1 and Factory No. 7, to temporarily stop production from December 16, 2019 to February 10, 2020. Subsequently, due to the coronavirus outbreak in China, the local government ordered those bromine facilities to postpone the commencement of production. Subsequently, the Company received an approval dated on February 27, 2020 issued by the local governmental authority which allows us to resume production after the winter temporary closure. Further, the Company received another approval from the Shouguang Yangkou People's Government dated on March 5, 2020 to resume production at its bromine factories No.1, No. 4, No.7 and No. 9 in order to meet the needs of bromide products for epidemic prevention and control (the "March 2020 Approval"). The Company's factories No.7 and No.1 started trial production on middle of March, 2020, and commenced commercial production on April 3rd, 2020.

▼ Chemical Products

On November 24, 2017, the Company received a letter from the Government of Yangkou County, Shouguang City notifying the Company to relocate its two chemical production plants located in the second living area of the Qinghe Oil Extraction Plant to the Bohai Marine Fine Chemical Industrial Park (the "November 2017 Letter"). Since then, our chemical factory has been shut down. We believe this is part of the country's efforts to improve the development of the chemical industry, facilitate safe production and curb environmental pollution, and ensure the quality of living environment of residents. The Company expects to cost approximately $60 million in total in connection with the relocation. The Company incurred relocation costs in the amount of $10,320,017 as of December 31, 2019.

In January 2020, the Company obtained the environmental protection assessment approval performed by the government of Shouguang City, Shandong Province for the proposed new Yuxin chemical factory. With this approval, the Company is permitted to construct our new chemical factory and the Company plans to begin construction in May 2020.

Competition

To date, our sales have been limited to customers within the PRC and we expect that our sales will remain primarily domestic for the immediate future. Our marketing strategy involves developing long term ongoing working relationships with customers based on large multi-year agreements which foster mutually advantageous relationships.

We compete with PRC domestic private companies and state owned companies. Certain state owned and state backed competitors are more established and have more control of certain resources in terms of pricing than we do. We compete in our business based on price, our reputation for quality and on-time delivery, our relationship with suppliers and our geographical proximity to natural brine deposits in the PRC for bromine, crude salt and chemical productions. Management believes that our stable quality, manufacturing processes and plant capacity for the production of bromine, crude salt and chemical products are key considerations in awarding contracts in the PRC.

Our principal competitors in the bromine business are Shandong Yuyuan Group Company Limited, Shandong Haihua Group Company Limited, Shandong Dadi Salt Chemical Group Company Limited and Shandong Haiwang Chemical Company Limited, all of which produce bromine principally for use in their chemicals businesses and sell part of the bromine produced to customers. These companies may switch to selling bromine to the market if they no longer use bromine in their chemical businesses.

Our principal competitors in the crude salt business are Shandong Haiwang Chemical Company Limited, Shandong Haihua Group Company Limited, Shandong Weifang Longwei Industrial Company Limited, Shandong Yuyuan Group Company Limited and Shandong Caiyangzi Saltworks.

Our principal competitors in the chemical business are Beijing Shiji Zhongxing Energy Technology Co., Ltd, Yanan Chaozheng Nijiang Co., Ltd, Shandong Dacheng Pesticides Company Limited, Binhua Group Company Limited, Dongying City Dongchen (Group) Chemical Industry Company Limited, Beijing Peikangjiaye Technologies Limited, Shouguang Fukang Pharmaceutical Co., Ltd. Shandong Xinhua Pharmaceutical Limited by Share Ltd, Hunan Erkang Pharmaceutical Limited by Share Ltd and Xinan Synthetic Pharmaceutical Limited by Share Ltd.

Government Regulation

China has begun to reinforce the environmental requirements for the entire chemical industry, demanding the closure or rectification of those factories that do not meet the emission requirements and are highly polluting. In early 2017, the government announced the closure or relocation of those chemical industry facilities that are close to residential areas and the new environmental law officially came into full effect in January 2018.

The following is a summary of the principal governmental laws and regulations that are or may be applicable to our operations in the PRC. The scope and enforcement of many of the laws and regulations described below are uncertain. We cannot predict the effect of further developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of laws.

In the natural resources sector, the PRC and the various provinces have enacted a series of laws and regulations over the past 20 years, including laws and regulations designed to improve safety and decrease environmental degradation. The "China Mineral Resources Law" declares state ownership of all mineral resources in the PRC. However, mineral exploration rights can be purchased, sold and transferred to foreign owned companies. Mineral resource rights are granted by the Central Government permitting recipients to conduct mineral resource activities in a specific area during the license period. These rights entitle the licensee to undertake mineral resource activities and infrastructure and ancillary work, in compliance with applicable laws and regulations, within the specific area covered by the license during the license period. The licensee is required to submit a proposal and feasibility studies to the relevant authority and to pay the Central Government a natural resources tax in an amount equal to a percent of annual crude salt sales and tones of bromine sold. Shandong Province has determined that bromine is to be extracted only by licensed entities and we hold one of such licenses. Despite the province desire to limit extraction to licensed entities hundreds of smaller operations continue to extract bromine without licenses.

The Ministry of Land and Resources ("MLR") is the principal regulator of mineral rights in China. The Ministry has authority to grant licenses for land-use and exploration rights, issue permits for mineral rights and leases, oversee the fees charged for them and their transfer, and review reserve evaluations. We are required to hold a bromine and salt production license in order to operate our bromine and salt production business in the PRC. Our bromine and salt production license is subject to a yearly audit. If we do not successfully pass the yearly approval by relevant government authorities, our bromine and salt production operations may be suspended until we are able to comply with the license requirements which could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of December 31, 2019, we employed approximately 606 full-time employees, of whom approximately 59% are with SCHC and DCHC, and 41% are with SYCI. Approximately 6% of our employees are management personnel and 4% are sales and procurement staff. None of our employees are represented by a union.

Our employees in China participate in a state pension arrangement organized by Chinese municipal and provincial governments. We are required to contribute to the arrangement at the rate of 21% of the average monthly salary. In addition, we are required by Chinese law to cover employees in China with other types of social insurance. Our total contribution amounts to 33% of the average monthly salary. We have purchased social insurance for almost all of our employees. Expense related to social insurance was approximately $1,035,687 for fiscal year 2019.

Available Information

We make available free of charge on or through our internet website, www.gulfresourcesinc.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits, and all amendments to those reports, if any, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers like our Company that file electronically with the SEC at http://www.sec.gov. The information contained on our website is not intended to be incorporated into this Annual Report on Form 10-K.

Table of Contents

Item 1A. Risk Factors.

Pursuant to Item 301(c) of Regulation S-K (§ 229.301(c)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

FIGURE 2.1 - REGIONAL MAP OF MINING PROPERTIES

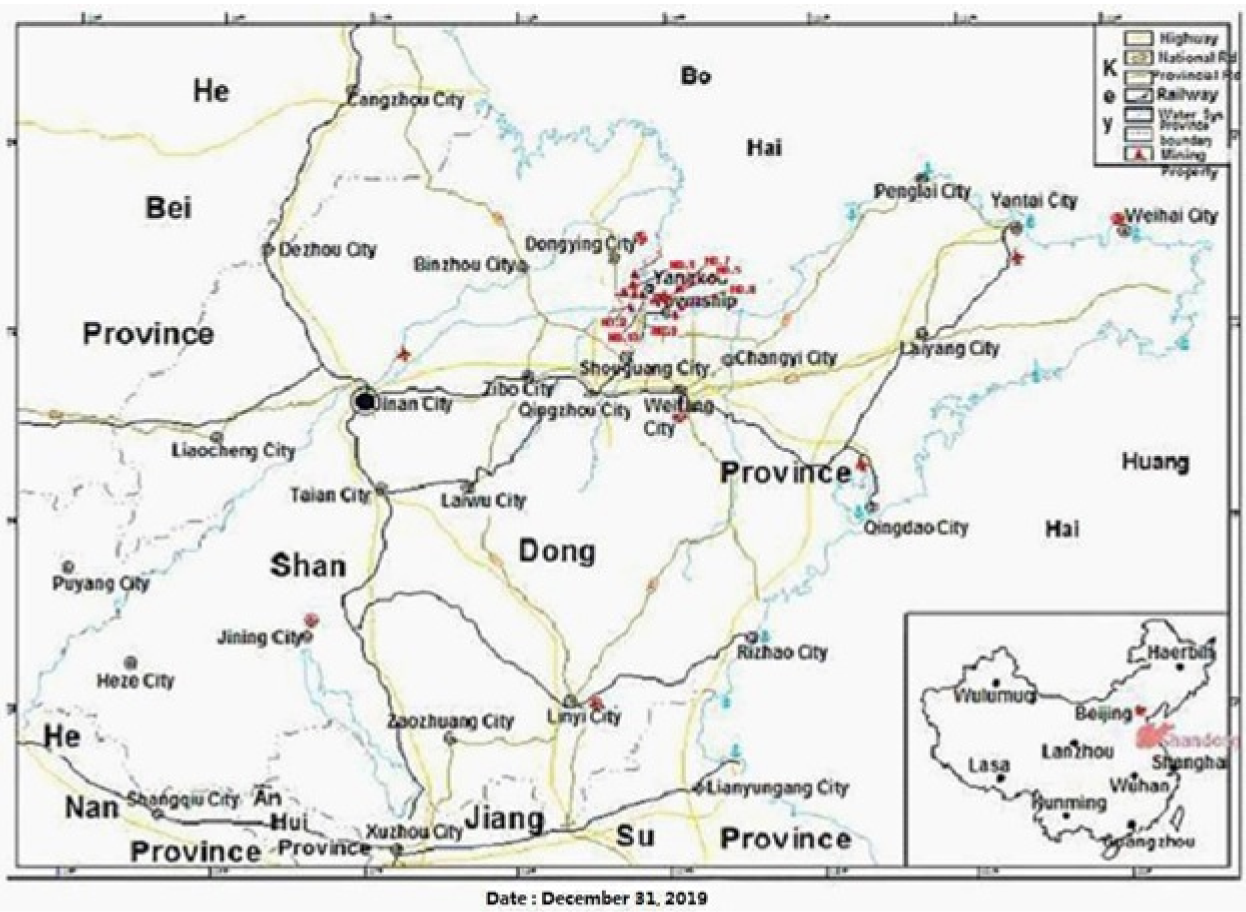
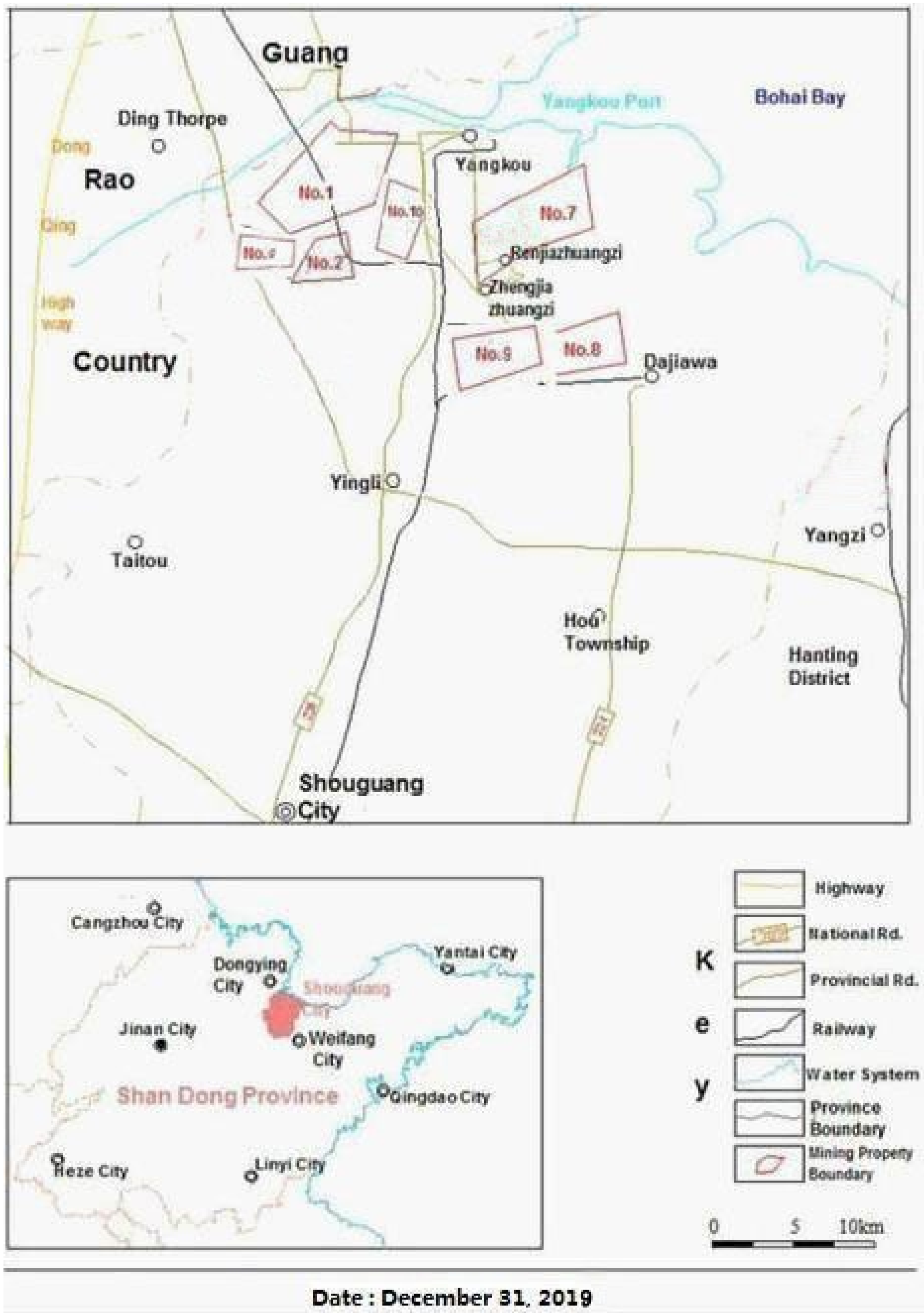


Table of Contents

FIGURE 2.2 – DETAIED MAP OF MINING PROPERTIES



We do not own any land, although we do own some of the buildings on land we lease. Our executive offices are located at Level 11, Vegetable Building, Industrial Park of the East in Shouguang City, Shandong Province, P.R.C, which also is the headquarters of SCHC and SYCI. These offices were purchased from Shandong Shouguang Vegetable Seed industry Group Co., Ltd, in which Mr. Ming Yang, the Chairman of the Company, had 99% equity interest.

SYCI concentrates its efforts on the production and sale of chemical products that are used in oil and gas field exploration, oil and gas distribution, oil field drilling, papermaking chemical agents, and manufacture and sell materials that are used for human and animal antibiotics in China. Currently, SYCI is closed according to the November 2017 Letter. It will be relocated to Bohai Marine Fine Chemical Industry Park, Shouguang City, Shandong Province, China.

DCHC, is a registered company exploring and developing natural gas and brine resources (including bromine and crude salt) in China located in No.14 team, Liguanggou Village, Tianbao Township, Daying County, Suining City, Sichuan Province, China.

In the first quarter of 2018, six out of its ten bromine factories completed their rectification process within factory areas (i.e. excluding crude salt field area) and were approved and scheduled for production commencement by April 2018 as verbally indicated by the local government. The remaining four factories were still undergoing rectification at that time. Three factories (Factory No. 3, Factory No. 4 and Factory No. 11) had to be demolished in September 2018 as required by the government and rectification for Factory No. 10 was completed in November 2018.

The Company operates its bromine and crude salt production facilities through its wholly-owned subsidiary SCHC. SCHC has land use rights to one property (10,790 square meters, or approximately 3 acre) as bromine production area for Factory No. 1 and land lease contracts to seven properties (approximately 17,816 acre), totaling nearly 17,819 acre, located on the south bank of Laizhou Bay on the Shandong Peninsula of the People's Republic of China ("China"). Each of the properties is accessible by road. The Yiyang railway line is within 50 kilometers and the Yangkou port is five kilometers away.

Each of the seven properties contains natural brine deposits which are extracted through wells and are used to extract bromine and produce crude salt. Bromine is a simple molecular element which is produced by extracting the bromine ion from natural brine. Crude salt is sodium chloride. Bromine is an important chemical raw material in flame retardants, fire extinguishing agents, refrigerants, photographic materials, pharmaceuticals, pesticides, and oil and other industries. Crude salt, also known as industrial salt, is used in a wide range of chemical industries, is the major raw material in the soda and chlor-alkali industries and can be widely used in agricultural, animal husbandry, fisheries and food processing industries. Crude salt is also the main raw material for edible salt.

Nature of Ownership Interest in the Properties

All of the land in the PRC is owned by the state. Individuals and companies are permitted to acquire rights to use land or land use rights for specific purposes at no cost. In the case of land used for industrial purposes, the land use rights are granted for a period of 50 years. This period may be renewed at the expiration of the initial and any subsequent terms. Granted land use rights are transferable and may be used as security for borrowings and other obligations. The Company does not own any land but has entered into contracts with the local government and original owners of the land use rights to acquire their rights for a period of 50 years. The contracts required us to pay a one-time fee plus an annual rent.

Mineral Rights

The Chinese and provincial governments have enacted a series of laws and regulations relating to the natural resources sector over the past 20 years, including laws and regulations designed to improve safety and decrease environmental degradation. The "China Mineral Resources Law" declares state ownership of all mineral resources in China. However, mineral exploration rights can be purchased, sold and transferred to both domestic and foreign owned companies. Mineral resource rights are granted by the central government permitting recipients to conduct mineral resource activities in a specific area during the license period. These rights entitle the licensee to undertake mineral resource activities and infrastructure and ancillary work, in compliance with applicable laws and regulations, within the specific area covered by the license during the license period. The licensee is required to submit a proposal and feasibility studies to the relevant authority and to pay the central government a natural resources tax in an amount equal to RMB 1,050 per tonne of bromine sales volumes. The Company was exempt from paying the fee prior to January 1, 2008. Shandong province has determined that bromine is to be extracted only by licensed entities.

Our mineral rights are issued by the local government and allow for a one year period of mining. The rights provide us with the exclusive rights to explore and extract natural brine under the leased land and produce bromine and crude salt. The government performs an annual inspection of the company's previous year's state of production & operations at beginning of each year. The annual inspection reviews: (1) whether the production is safe and if any accidents occurred during the previous year; (2) whether the natural resources tax and other taxes were timely paid; (3) whether employees' salary and welfare benefits were timely paid; and (4) whether the Company meets environment protection meet standards. Only those companies who pass the inspection receive mineral rights for another one year term. For those companies who do not pass the inspection, additional mineral rights are not allocated until they can meet the requirements. If there is major safety accident, the government may revoke the mining permit.

The mining certificate were renewed in July 2018 with production limit of 24,000 tons of bromine production per year.

On September 21, 2018, we received a closing notice from the People's Government of Yangkou Town, Shouguang City informing us that we had to shut down our three bromine factories (Factory No. 3,No. 4, and No. 11.).

The following is a description of the land use and mineral rights related to each of the nine properties held by SCHC as of December 31, 2019.

All of the bromine factories are under rectification process without production.

Property	**Factory No. 1 – Haoyuan General Factory**
Area	6,442 acres
Date of Acquisition	February 5, 2007
Land Use Rights Lease Term	Fifty Years
Land Use Rights Expiration Date	2054 (for mining areas only)
The number of remaining years to expiration of the of the land lease as of December 31, 2019	34.25 Years
Prior fees paid for land use rights	RMB8.6 million
Annual Rent	RMB186,633
Mining Permit No.:	C3707002009056220022340
Date of Permission:	July 2018, subject to renewal per three years
Period of Permission:	Three year

Property	**Factory No. 4 (**originally named as Subdivision of Factory No. 1**) – State-owned Shouguang Qinshuibo Farm**
Area	0.79 acres
Date of Factory lease	January 1, 2011
Factory Lease Term	Twenty Years
Factory lease Expiration Date	2030
The number of remaining years to expiration of the of the factory lease as of December 31, 2019	11.0 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB5,000,000
Mining Permit No.:	Under application

Table of Contents

Property	**Factory No. 2 – Yuwenbo**
Area	1,846 acres
Date of Acquisition	April 7, 2007
Land Use Rights Lease Term	Fifty Years
Land Use Rights Expiration Date	2052
The number of remaining years to expiration of the of the land lease as of December 31, 2019	33 Years
Prior Fees Paid For Land Use Rights	RMB7.5 million
Annual Rent	RMB162,560
Mining Permit No.:	C3707002009056220022340
Date of Permission:	July 2018, subject to renewal per three years
Period of Permission:	Three year

Property	**Factory No. 2 – State Operated Shouguang Qingshuibo Farm**
Area	568 acres
Date of Acquisition	December 30, 2010
Land Use Rights Lease Term	Thirty Years
Land Use Rights Expiration Date	2040
The number of remaining years to expiration of the of the land lease as of December 31, 2019	21.7 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB172,500 (increase 5% per year)
Mining Permit No.:	Under application

Property	**Factory No. 7 (originally named as No. 5)– Wangjiancai**
Area	2,165 acres
Date of Acquisition	October 25, 2007
Land Use Rights Lease Term	Fifty Years
Land Use Rights Expiration Date	2054
The number of remaining years to expiration of the of the land lease as of December 31, 2019	35 Years
Annual Rent	RMB176,441
Prior Fees Paid for Land Use Rights	RMB8.3 million
Mining Permit No.:	Under application, written consent obtained from local land and resources departments

Property	**Factory No. 7 – Qiufen Yuan**
Area	1,611 acres
Date of Acquisition	January 7, 2009
Land Use Rights Lease Term	Fifty Years
Land Use Rights Expiration Date	2059
The number of remaining years to expiration of the of the land lease as of December 31, 2019	39.17 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB171,150 (increase 5% per two years)
Mining Permit No.:	C3707002009056220022340
Date of Permission:	July 2018, subject to renewal per three years
Period of Permission:	Three year

Table of Contents

Property	**Factory No. 8 – Fengxia Yuan**
Area	2,723 acres
Date of Acquisition	September 7, 2009
Land Use Rights Lease Term	Fifty Years
Land Use Rights Expiration Date	2059
The number of remaining years to expiration of the of the land lease as of December 31, 2019	39.66 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB347,130 (increase 5% per two years)
Mining Permit No.:	Under application, written consent obtained from local land and resources departments

Property	**Factory No. 9 – Jinjin Li**
Area	759 acres
Date of Acquisition	June 7, 2010
Land Use Rights Lease Term	Fifty Years
Land Use Rights Expiration Date	2060
The number of remaining years to expiration of the of the land lease as of December 31, 2019	40.5 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB184,000 (increase 5% per two years)
Mining Permit No.:	Under application, written consent obtained from local land and resources departments

Property	**Factory No. 10 – Liangcai Zhang**
Area	1,700 acres
Date of Acquisition	December 22, 2011
Land Use Rights Lease Term	Ten Years
Land Use Rights Expiration Date	2021
The number of remaining years to expiration of the of the land lease as of December 31, 2019	2.0 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB688,000 (increase 5% per year)
Mining Permit No.:	Under application

Leased Facility

On November 5, 2010, SCHC entered into a Lease Contract with State-Operated Shouguang Qingshuibo Farm. Pursuant to the Lease Contract, SCHC shall lease certain property with an area of 3,192 square meters (or 0.8 acres) and buildings adjacent to the Company’s Factory No. 1. There are currently non-operating bromine production facilities on the property which have not been in production for more than 12 months. The annual lease payment for the property is RMB 5.0 million, approximately $794,550, per year and shall be paid by SCHC no later than June 30th of each year. The term of the Lease Contract is for twenty years commencing January 1, 2011. The Lease Contract may be renewed by SCHC for an additional twenty year period on the same terms. The Lessor has agreed to permit SCHC to reconstruct and renovate the existing bromine production facilities on the property.

The chart below represents the annual production capacity and annualized utilization ratios for our bromine producing properties currently leased by the Company, which are all located in Shouguang City, Shandong Province, China. There are no proven and probable reserves located on our properties.

Bromine Property	Facility Acquisition Date	Acres	Annual Production Capacity # (in tons)	2019 Utilization Ratio	2018 Utilization Ratio
Factory No. 1	—	6,442	6,681	28%	—
Factory No. 2	April 7, 2007	1,846	4,844	—	—
Factory No. 7* (originally named as No. 5 and No. 7)	October 25, 2007/ January 7, 2009	3,776	6,986	27%	—
Factory No. 8	September 7, 2009	2,723	4,016	—	—
Factory No. 9	June 7, 2010	759	2,793	—	—
Factory No.4 (originally named as Subdivision of Factory No. 1)	January 1, 2011	1	3,186	—	—
Factory No. 10	December 22, 2011	1,700	3,000	—	—

* Bromine production for Factory No. 5 and Factory No. 7 were combined in early 2010 as both factories are located adjacent to each other, and renamed Factory No. 5 (which was previously considered part of Factory No. 7) as Factory No. 7 on May 2019.

The following table shows the annual bromine produced and sold for each of our production facilities and the weighted average price received for all products sold for the last two years.

	2019			**2018**		
Bromine Facility	Produced (in tons)	Sold (in tons)	Selling price (RMB/ton)	Produced (in tons)	Sold (in tons)	Selling price (RMB/ton)
Factory No. 1	1,227	1,113	29,752	—	—	—
Factory No. 2	—	—	—	—	—	—
Factory No. 3**	—	—	—	—	—	—
Factory No. 4**	—	—	—	—	—	—
Factory No. 7* (originally named as No. 5 and No. 7) *	1,255	1,207	29,740	—	—	—
Factory No. 8	—	—	—	—	—	—
Factory No. 9	—	—	—	—	—	—
Factory No. 4(originally know Subdivision of Factory No. 1)	—	—	—	—	—	—
Factory No. 10	—	—	—	—	—	—
Factory No. 11**	—	—	—	—	—	—
Total	2,482	2,320		—	—	

* Bromine production for Factory No. 5 and Factory No. 7 were combined in early 2010 as both factories are located adjacent to each other., and renamed Factory No. 5 (which was previously considered part of Factory No. 7) as Factory No. 7 on May 2019.

** Factory No. 3, 4 and 11 were demolished in September 2018.

Table of Contents

The following table shows the annual crude salt produced and sold for each of our production facilities and the weighted average price received for all products sold for the last two years.

	2019			2018		
Crude Salt Facility	Produced (in tons)	Sold (in tons)	Selling price (RMB/ton)	Produced (in tons)	Sold (in tons)	Selling price (RMB/ton)
Factory No. 1	8,431	7,419	143	—	2,790	264
Factory No. 2	—	1,859	170	—	6,713	250
Factory No. 7* (Originally Named as No. 5 and No. 7) *	13,131	15,163	147	—	10,592	251
Factory No. 8	—	—	—	—	20,371	252
Factory No. 9	—	—	—	—	9,941	255
Total	**21,562**	**24,441**		—	**50,407**	

* Bromine production for Factory No. 5 and Factory No. 7 were combined in early 2010 as both factories are located adjacent to each other, and renamed Factory No. 5 (which was previously considered part of Factory No. 7) as Factory No. 7 on May 2019

The following table shows the chemical products produced and sold for our SYCI's production facilities and the weighted average price received for all products sold for the last two years.

	2019			2018		
Chemical Products	Produced (in tons)	Sold (in tons)	Selling price (RMB/ton)	Produced (in tons)	Sold (in tons)	Selling price (RMB/ton)
Oil and gas exploration additives	—	—	—	—	—	—
Paper manufacturing additives	—	—	—	—	—	—
Pesticides manufacturing additives	—	—	—	—	14	44,000
Pharmaceutical intermediates	—	—	—	—	—	—
By products	—	—	—	—	96	10,222
Total					110	—

Item 3. Legal Proceedings.

On or about August 3, 2018, written decisions of administration penalty captioned Shou Guo Tu Zi Fa Gao Zi [2018] No. 291, Shou Guo Tu Zi Fa Gao Zi [2018] No. 292, Shou Guo Tu Zi Fa Gao Zi [2018] No. 293, Shou Guo Tu Zi Fa Gao Zi [2018] No. 294, Shou Guo Tu Zi Fa Gao Zi [2018] No. 295 and Shou Guo Tu Zi Fa Gao Zi [2018] No. 296 (together, the "Written Decisions") were served on Shouguang City Haoyuan Chemical Company Limited ("SCHC") by the Shouguang City Natural Resources and Planning Bureau (the "Bureau"), naming SCHC as respondent. The Written Decisions challenged the land use of Factory nos. 2, 9, 7, 4, 8 and 10, respectively, and alleged, among other things, that SCHC had illegally occupied and used the land in the total area of approximately 52,674 square meter, on which Factory nos. 2, 9, 7, 4, 8 and 10 were built. The Written Decisions ordered SCHC, among other things, to return the land subject to the Written Decisions to its respective legal owner, restore the land to its original state, and demolish or confiscate all the buildings and facilities thereon and pay monetary penalty of approximately RMB 1.3 million ($184,000) in the aggregate. Each of the Written Decisions were to be executed within 15 days upon serving SCHC. Additional interest penalties would be imposed at a daily rate of 3% in the event that SCHC did not make the monetary penalty payment in a timely manner. As discussed below, the Company did not believe the local government would enforce the penalties so it did not make the payment. Subsequently, the Bureau filed enforcement actions to the People's Court of Shouguang City, Shandong Province (the "Court"), naming SCHC as enforcement respondent and alleged, among other things, that SCHC failed to perform its obligations under each of the Written Decisions within the specified timeframe. The enforcement proceedings sought court orders to enforce the Written Decisions. On May 5, 2019, written decisions of administrative ruling captioned (2019) Lu 0783 Xing Shen No. 384, (2019) Lu 0783 Xing Shen No. 385, (2019) Lu 0783 Xing Shen No. 389, (2019) Lu 0783 Xing Shen No. 390, (2019) Lu 0783 Xing Shen No. 393, and (2019) Lu 0783 Xing Shen No. 394, respectively (together, the "Court Rulings") were made by the Court in favor of the Bureau. The Court ordered, among other relief, to enforce each of the Written Decisions, to return each subject land to its legal owner and demolish or confiscate the buildings and facilities thereon and restore the land to its original state within 10 days from the service of the Court Rulings on SCHC. The Court Rulings became enforceable immediately upon service on SCHC on May 5, 2019.

In the last twenty years, we believe there were no government regulations requiring bromine manufacturers to obtain land use and planning approval documents. As such, we believe most of the bromine manufacturers in Shouguang City do not have land use and planning approval documents and lease their land parcels from the village associations and are facing the same issues in connection with land use and planning as the Company.

The Company is in the process of resolving the issues in connection with SCHC’s land use and planning diligently. The Company has been in discussions closely with the local government authorities with the help from Shouguang City Bromine Association to seek reliefs and, based on verbal confirmation by local government authorities, believes the administrative penalties imposed by the Bureau according to the Written Decisions are being re-assessed by local government authorities and may be revoked. The Company has obtained one confirmation from the local government authorities that the administrative penalty imposed on Factory No. 7 , Factory No. 8 and Factory No.10 are being revoked which are waiting for the Court formal approval ,and production of Factory No. 7 was allowed to resume in April 2019. In addition, on August 28, 2019, the People’s Government of Shandong Province, issued a regulation titled “Investment Project Management Requirements of Chemical Companies in Shandong Province” permitting the construction of facilities on existing sites or infrastructure of bromine manufacturing and other chemical industry-related types of projects (clause 11 of section 3).The Company believes that the goal of the government is to standardize and regulate the industry and not to demolish the facilities or penalize the manufacturers. As of the date of this report, the Company has not been notified by the local government that it will take any measure to enforce the administrative penalties. Based on information known to date, the Company believes that it is remote that the Written Decisions or Court Rulings will be enforced within the expected timeframe and a material penalty or costs and expenses against the Company will result. However, there can be no assurance that there will not be any further enforcement action, the occurrence of which may result in further liabilities, penalties and operational disruption.

In view of the above facts and circumstances, the Company believes that it is not necessary to accrue for any estimated losses or impairment as of December 31, 2019.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Our Common Stock

Our common stock is listed for trading on the NASDAQ Global Select Market, or NASDAQ, under the symbol "GURE".

Dividends

We have never paid cash dividends on our common stock. Holders of our common stock are entitled to receive dividends, if any, declared and paid from time to time by the Board of Directors out of funds legally available. We intend to retain any earnings for the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the payment of cash dividends will depend upon future earnings, results of operations, future expansion of bromine and crude salt business and other, capital requirements, our financial condition and other factors that our Board of Directors may consider.

Our Equity Compensation Plans

The following table provides information as of December 31, 2019 about our equity compensation plans and arrangements.

Equity Compensation Plan Information - December 31, 2019

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	135,100	$7.2	990,198
Equity compensation plans not approved by security holders	—	—	—
Total	135,100	$7.2	990,198

Purchases of Equity Securities by the Company and Affiliated Purchasers

None.

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data.

Pursuant to Item 301(c) of Regulation S-K (§ 229.301(c)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a holding company which conducts operations through our wholly-owned China-based subsidiaries. Our business is conducted and reported in four segments, namely, bromine, crude salt, chemical products and natural gas.

Through our wholly-owned subsidiary, SCHC, we produce and trade bromine and crude salt. We are one of the largest producers of bromine in China, as measured by production output. Elemental bromine is used to manufacture a wide variety of bromine compounds used in industry and agriculture. Bromine also is used to form intermediary chemical compounds such as Tetramethylbenzidine. Bromine is commonly used in brominated flame retardants, fumigants, water purification compounds, dyes, medicines and disinfectants. Crude salt is the principal material in alkali production as well as chlorine alkali production and is widely used in the chemical, food and beverage, and other industries.

Through our wholly-owned subsidiary, SYCI, we manufacture and sell chemical products used in oil and gas field exploration, oil and gas distribution, oil field drilling, papermaking chemical agents, inorganic chemicals and manufacture and sell materials that are used for human and animal antibiotics.

As disclosed in the Company’s Current Report on Form 8-K filed on September 8, 2017, the Company received, on September 1, 2017, letters from the Yangkou County, Shouguang City government addressed to each of its subsidiaries, SCHC and SYCI, which stated that in an effort to improve the safety and environmental protection management level of chemical enterprises, the plants are requested to immediately stop production and perform rectification and improvements in accordance with the country’s new safety and environmental protection requirements. In the Company’s press release of August 11, 2017 and on its conference call of August 14, 2017, the Company addressed concerns that increased government enforcement of stringent environmental rules that were adopted in early 2017 to insure corporations bring their facilities up to necessary standards so that pollution and other negative environmental issues are limited and remediated, could have an impact on our business in both the short and long-term. The Company also expressed that although it believed its facilities were fully compliant at the time, the Company did not know how its facilities would fare under the new rules and that the Company expected to have a full understanding of the implications within the next two months. Teams of inspectors from the government were sent to many provinces to inspect all mining and manufacturing facilities. The local government requested that facilities be closed, so that the facilities can undergo the inspection and analysis in the most efficient manner by inspectors’ team. As a result, our facilities were closed on September 1, 2017.

Subsequently, the Safety Supervision and Administration Department and the Environmental Protection Departments of the local government conducted inspections of every bromine production enterprise within its jurisdiction, in order to improve security, environmental protections, pollution, and safety. The Company had been working closely with the County authorities to develop rectification plans for both its bromine and its chemical businesses. The Company and the government had agreed on a rectification plan for SCHC, the Company’s bromine and crude salt businesses which is currently under process. The Company worked closely with the County authorities to develop rectification plans for both its bromine and crude salt businesses and agreed on a plan in October 2017. In the fiscal year ended December 31, 2018, the Company incurred $16,243,677 in the rectification and improvements of plant and equipment of the bromine and crude salt factories resulting in a cumulative amount of $34,182,329 incurred as of December 31, 2018. Based on the renewed mining certificate, SCHC is limited to produce up to 24,000 tons of bromine per year, we believe this is sufficient for its production utilization rate .The Shouguang City Bromine Association, on behalf of all the bromine plants in Shouguang, has started discussions with the local government agencies. The local governmental agencies confirmed the facts that their initial requirements for the bromine industry did not include the project approval, the planning approval and the land use rights approval and that those three additional approvals were new requirements of the provincial government. The Company understood from the local government that it has been coordinating with several government agencies to solve these three outstanding approval issues in a timely manner and that all the affected bromine plants are not allowed to commence production prior to obtaining those approvals. In April 2019, Factory No.1, Factory No.5 and Factory No.7 (Factory no. 5 is considered part of Factory no.7 and both are managed as one factory since 2010) restarted operations upon receipt of verbal notification from local government of Yangkou County. On May 7, 2019, the Company renamed its Subdivision Factory No. 1 to Factory No. 4; and Factory No. 5 (which was previously considered part of Factory No. 7) to Factory No. 7.

The Company is not certain when the issuance of the approval documents will be effected. The Company believes that this is another step by the government to improve the environment. It further believes the goal of the government is not to close all plants, but rather to codify the regulations related to project approval, land use, planning approval and environmental protection assessment approval so that illegal plants are not able to open in the future and so that plants close to population centers do not cause serious environmental damage. In addition, the Company believes that the Shandong provincial government wants to assure that each of its regional and county governments has applied the Notice in a consistent manner.

The Company believes the issues related to the remaining three bromine and crude salt factories which have passed inspection are almost resolved. The Company is actively working with the local government to obtain the documentation for approval of project, planning, land use rights and environmental protection evaluation.

On November 24, 2017, Gulf Resources received a letter from the People's Government of Yangkou County, Shouguang City notifying the Company that due to the new standards and regulations relating to safety production and environmental pollution, from certain local governmental departments, such as the municipal environmental protection department, the security supervision department and the fire department, decided to relocate chemical enterprises to a new industrial park called Bohai Marine Fine Chemical Industry Park. Chemical companies that are not being asked to move into the park will be permanently closed. Although we are in compliance with regulations within the county due to the proximity of our subsidiary, SYCI's production plant to a residential area, we have been asked to relocate our chemical production plant to Bohai Marine Fine Chemical Industry Park. However, we must not commence activities until we have relocated the production plant and received inspection approval from related departments. The Company has secured from the government the land use rights for its chemical plants located at the Bohai Park and presented a completed construction design draft and other related documents to the local authorities for approval. On January 6 , 2020, the Company received the environmental protection approval by the government of Shouguang City, Shandong Province for the proposed Yuxin Chemical factory. The environmental protection approval was the last approval required before commencing construction. With this approval, Gulf Resources plans to begin construction in May 2020.

In January 2017, the Company completed the first brine water and natural gas well field construction in Sichuan Province and announced the commencement of trial production. The Company has been working with Xinan Shiyou Daxue (Southwest Petroleum University) and developed a solution to DHCH's technical drilling problem. In resolving the problem, the Company purchased customized equipment for its natural gas project. The installation of such equipment, including providing piping and electricity, was completed in July 2018. The Company has completed the test production at its first natural gas well in Sichuan Province and has commenced trial production in January 2019. Later On May 29, 2019, the Company received a verbal notice from the government of Tianbao Town, Daying County, Sichuan Province, whereby the Company is required to obtain project approval for its well located in Daying, including the whole natural gas and brine water project, and approvals for safety production inspection, environmental protection assessment, and to solve the related land issue. Until these approvals have been received, the Company has to temporarily halt trial production at its natural gas well in Daying.

On August 12, 2019, Thypoon Lekima hit Shandong Province. Over 15 inches of rain fell in Weifang city. All of our bromine mines were flooded. We had to close the two factories that were open and postpone opening other factories while we conducted repairs.

As a result of our acquisitions of SCHC and SYCI, our historical consolidated financial statements and the information presented below reflects the accounts of SCHC, SYCI and DCHC, the consolidated financial statements and the information presented below as of and for the year ended December 31, 2019. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.

On January 28, 2020 we completed a 1-for-5 reverse stock split of our common stock, such that for each five shares outstanding prior to the stock split there was one share outstanding after the reverse stock split. All shares of common stock referenced in this report have been adjusted to reflect the stock split figures.

RESULTS OF OPERATIONS.

Year ended December 31, 2019 as compared to year ended December 31, 2018

	Years ended		Percent Change Increase/ (Decrease)
	December 31, 2019	December 31, 2018	
Net Revenue	$ 10,596,521	$ 2,594,941	308%
Cost of Net Revenue	$ (5,430,269)	$ (1,310,272)	314%
Gross Profit	$ 5,166,252	$ 1,284,669	302%
Sales, Marketing and Other Operating Expense	$ (12,434)	$ (66,111)	(81%)
Write-off / Impairment on property, plant and equipment	$ —	$ (1,397,313)	(100%)
Loss on demolition of factory	$ —	$ (18,644,473)	(100%)
Direct labor and factory overheads incurred during plant shutdown	$ (15,175,280)	$ (21,081,692)	(28%)
Write-off / Impairment on prepaid land lease	$ —	$ (4,004,788)	(100%)
Impairment for goodwill	—	(27,966,050)	(100%)
General and Administrative Expenses	$ (13,272,921)	$ (11,268,800)	18%
Other Operating Expense	$ —	$ (407,973)	(100%)
Loss from Operations	$ (23,294,383)	$ (83,552,531)	(72%)
Other Income, Net	$ 301,325	$ 500,690	(40%)
Loss before Taxes	$ (22,993,058)	$ (83,051,841)	(72%)
Income (Taxes) benefit	$ (2,806,987)	$ 13,087,855	(121%)
Net loss	$ (25,800,045)	$ (69,963,986)	(63%)

Net Revenue The table below shows the changes in net revenue in the respective segment of the Company for the fiscal year 2019 compared to the same period in 2018:

	Net Revenue by Segment				
	Year Ended December 31, 2019		Year Ended December 31, 2018		Percent decrease of Net Revenue
Segment		% of total		% of total	
Bromine	$ 10,022,027	95%	$ —	—	—
Crude Salt	522,758	4%	1,981,573	76%	(72%)
Chemical Products	—	—	613,368	24%	(100%)
Natural Gas	51,736	1%	—	—	—
Total sales	$ 10,596,521	100%	$ 2,594,941	100%	308%

	Years Ended December 31		Percent Change
Bromine and crude salt segments product sold in tonnes	2019	2018	Decrease
Bromine (excluded volume sold to SYCI)	2,320	—	—
Crude Salt	24,441	50,407	(52%)

	Year Ended		Percentage Change
Chemical products segment sold in tonnes	December 31, 2019	December 31, 2018	Decrease
Oil and gas exploration additives	—	—	—
Paper manufacturing additives	—	—	—
Pesticides manufacturing additives	—	14	(100%)
Pharmaceutical intermediate	—	—	—
By product	—	96	(100%)
Overall	—	110	—

Natural gas segments product sold in cubic metre	Year Ended December 31, 2019	Year Ended December 31, 2018	Percentage Change Increase
Natural Gas	349,900	—	—

Bromine segment

Net revenue from our bromine segment increased to $10,022,027 for the nine-month period ended December 31, 2019 compared to $0 for the year ended December 31, 2018.

Crude salt segment

Net revenue from our crude salt segment decreased to $522,758 for the year ended December 31, 2019 compared $1,981,573 for the same period in 2018, The reason for the decrease in the year ended December 31, 2019compared with the same period of last year is that the production of only two plants resumed in April 2019, Hence, there is limited amount of crude salt available for sale in the year ended December 31, 2019.

Chemical products segment

	Product Mix of Chemical Products Segment				Percent Change of Net Revenue
	Year Ended December 31, 2019		Year Ended December 31, 2018		
Chemical Products		% of total		% of total	
Oil and gas exploration additives	$ —	—	$ —	—	—
Paper manufacturing additives	—	—	—	—	—
Pesticides manufacturing additives	—	—	98,200	16%	(100%)
Pharmaceutical intermediates	—	—	—	—	—
By product	—	—	154,666	25%	(100%)
Raw materials	—	—	360,502	59%	(100%)
Total sales	$ —	—	$ 613,368	100%	—

For the year ended December 31, 2019, the net revenue for the chemical products segment was $0 due to the closure of our chemical factories since September 1, 2017. For the year ended December 31, 2018, the net revenue for the chemical products segment was $613,368 was from inventory on hand as of September 1, 2017.We are setting up a new factory in Bohai Park. As a result there were no chemical products for sale for the year ended December 31, 2019.

Table of Contents

Natural gas segment

For the year ended December 31, 2019, the net revenue for the natural gas was $51,736.

Cost of Net Revenue

	Cost of Net Revenue by Segment				% Change of Cost of Net Revenue
	Year Ended December 31, 2019		Year Ended December 31, 2018		
Segment		% of total		% of total	
Bromine	$ 4,815,890	89%	$ —	—	—
Crude Salt	564,091	10%	765,944	58%	(26%)
Chemical Products	—	—	544,328	42%	(100%)
Natural Gas	50,288	1%	—	—	—
Total	$ 5,430,269	100%	$ 1,310,272	100%	314%

Cost of net revenue reflects mainly the raw materials consumed and the direct salaries and benefits of staff engaged in the production process, electricity, depreciation and amortization of manufacturing plant and machinery and other manufacturing costs. Our cost of net revenue was $5,430,269 for the year ended December 31, 2019, an increase of $4,119,997 (or 314%) as compared to the same period in 2018 due to the sale of goods produced in Factory no. 1 and Factory no. 7 which resumed production in April 2019.

Bromine production capacity and utilization of our factories

The table below represents the annual capacity and utilization ratios for all of our bromine producing properties:

	Annual Production Capacity (in tonnes)	Utilization Ratio (i)
Fiscal year 2018	31,506	—
Fiscal year 2019	31,506	19%
Variance of the fiscal year 2019 and 2018	0	0

(i) Utilization ratio is calculated based on the annualized actual production volume in tonnes for the periods divided by the annual production capacity in tonnes.

Our utilization ratio was 12% for the year ended December 31, 2019.

Bromine segment

For the year ended December 31, 2019 the cost of net revenue for the bromine segment was $4,815,890.

For the year ended December 31, 2018, the cost of net revenue for the bromine segment was $0 due to the closure of all of our plant and factories to perform rectification and improvement since September 1, 2017. As a result, there was no bromine in inventory for sale for the year ended December 31, 2018.

Crude salt segment

For the year ended December 31, 2019 the cost of net revenue for the crude salt segment was $564,091.The cost of net revenue for our crude salt segment for the year ended December 31, 2018 was $765,944.

Chemical products segment

Cost of net revenue for our chemical products segment for the fiscal year 2018 was $544,328.

Natural gas segment

Cost of net revenue for our natural gas segment for the year ended December 31, 2019 was $50,288.

Gross Profit. Gross profit was $5,166,252, or 49%, of net revenue for the year ended December 31, 2019 compared to $1,284,669, or 50%, of net revenue for the same period in 2018.

	Gross Profit (Loss) by Segment				% Point Change of Gross Profit Margin
	Year Ended December 31, 2019		Year Ended December 31, 2018		
Segment		Gross Profit (loss) Margin		Gross Profit Margin	
Bromine	$ 5,206,136	52%	$ —	—	49%
Crude Salt	(41,332)	(8%)	1,215,629	61%	(61%)
Chemical Products	—	—	69,040	11%	(11%)
Natural Gas	1,448	3%	—	—	—
Total Gross Profit	$ 5,166,252	49%	$ 1,284,669	50%	(1%)

Bromine segment

For the year ended December 31, 2019, the gross profit margin for our bromine segment was 52%.

Crude salt segment

For the year ended December 31, 2019 the gross loss margin for our crude salt segment was 8%.

Chemical products segment

For the year ended December 31, 2018, the gross profit margin for our chemical segment was 11% because the goods sold was raw materials in which we had recorded a 100% allowance for obsolescence in the fiscal year 2017.

Direct labor and factory overheads incurred during plant shutdown. On September 1, 2017, the Company received notification from the government of Yangkou County, Shouguang City of PRC stated that production at all its bromine and crude salt and chemical factories should be halted with immediate effect in order for the Company to perform rectification and improvement in accordance with the county's new safety and environmental protection requirements. On November 24, 2017, the Company received a letter from the Government of Yangkou County, Shouguang City notifying the Company to relocate its two chemical production plants located in the second living area of the Qinghe Oil Extraction Plant to Bohai Park. As such, direct labor and factory overhead costs (including depreciation of plant and machinery) of a total amount of $15,175,280 and $21,081,692 incurred for the fiscal year 2019 and 2018 which would have been presented in the cost of net revenue were presented as part of the operating expense.

Loss on demolition of factory On September 21, 2018, the Company received a closing notice from the People's Government of Yangkou Town, Shouguang City informing it to close its three bromine factories (Number 3, Number 4, and Number 11.). The crude salt fields surrounding these factories have been reclaimed as cultivated or construction land and hence did not meet the requirement for bromine and crude salt co-production set by the relevant authority. In closing these factories, the Company wrote off net book value of these factories' property, plant and equipment in the amount of $18,644,473 in the loss on demolition of factory in the consolidated statements of income for the fiscal year 2018.

Impairment for goodwill. As of December 31, 2018, the Company performed the qualitative assessment and determined that it is more likely than not that the fair value of its chemical segment is less than its carrying amount due to the uncertainty in the timing of receipt of the final approval of the design of the new factory and the time that the segment may need to build up the customer base to a level similar to the past. Considering these factors, the Company determined the fair value of its chemical segment based on the discounted cash flow model is less than the carrying amount of its chemical segment to the extent of the entire goodwill and recorded an impairment charge of $27,966,050 in the year ended December 31, 2018.

Table of Contents

General and Administrative Expenses. General and administrative expenses were $13,272,921 for the year ended December 31, 2019, an increase of $2,004,121 (or 18%) as compared to$11,268,800 for the same period in 2018.

Loss from Operations. Loss from operations was $23,294,383 for the fiscal year 2019, compared to a loss of $83,552,531 in the same period in 2018.

	Income (loss) from Operations by Segment			
	Year ended December 31, 2019		Year ended December 31, 2018	
Segment:		% of total		% of total
Bromine	$ (15,609,979)	68%	$ (40,504,752)	48%
Crude Salt	$ (4,446,900)	19%	$ (8,336,305)	10%
Chemical Products	$ (2,823,298)	12%	$ (34,757,750)	42%
Natural Gas	$ (188,949)	1%	$ (204,517)	—
Loss from operations before corporate costs	$ (23,069,126)	100%	$ (83,803,324)	100%
Corporate costs	$ (646,914)		$ (1,064,661)	
Unrealized gain on translation of intercompany balance	$ 421,657		$ 1,315,454	
Loss from operations	$ (23,294,383)		$ (83,552,531)	

Bromine segment

Loss from operations from our bromine segment was $15,609,979 for the fiscal year 2019, compared to a loss of $40,504,752 in the same period in 2018.

Crude salt segment

Loss from operations from our crude salt segment was $4,446,900 for fiscal year 2019, compared to a loss of $8,336,305 in the same period in 2018.

Chemical products segment

Loss from operations from our chemical products segment was $2,823,298 for the fiscal year 2019, compared to a loss of $34,757,750 in the same period in 2018.

Natural gas segment

Loss from operations from our natural gas segment was $188,949 for the fiscal year 2019, compared to a loss of $204,517 in the same period in 2018.

Other Income, Net. Other income, net, which represent bank interest income, net of finance lease interest expense was $301,325 for the fiscal year 2019, an decrease of $199,365(or approximately 40%) as compared to the same period in 2018.

Net Income (loss). Net loss was $25,800,045 for the fiscal year 2019, compared to net loss of $69,963,986 in the same period in 2018. This decrease in the net loss was attributable to resume production and sales of two factories.

Effective Tax Rate. Our effective income tax (expense) benefit rate for the fiscal years 2019 and 2018 were (12%) and 16% respectively. This was mainly due to an increase in valuation allowance of $8,672,817 in the fiscal year 2019. The effective income tax benefit rate of 16% for the fiscal year 2018 differs from the PRC statutory income tax rate of 25% mainly due to non-taxable item in connection with the unrealized exchange gain.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2019, cash and cash equivalents were $100,301,986 as compared to $178,998,935 as of December 31, 2018. The components of this decrease of $78,696,949 are reflected below.

Statement of Cash Flows

	Years Ended December 31	
	2019	2018
Net cash (used in) provided by operating activities	$ (15,309,112)	$ 17,340,671
Net cash used in investing activities	$ (60,611,949)	$ (35,954,282)
Net cash used in financing activities	$ (275,509)	$ (294,295)
Effects of exchange rate changes on cash and cash equivalents	$ (2,500,379)	$ (10,999,918)
Net decrease in cash and cash equipment	$ (78,696,949)	$ (29,907,824)

For the fiscal years 2019 and 2018, we met our working capital and capital investment requirements mainly by using cash flows from operations and cash on hand.

Net Cash Provided by Operating Activities

During the year ended December 31, 2019, cash flow used in operating activities of approximately $15 million was mainly due to a net loss of $25.8 million, an increase in accounts receivable of $5.07 million, reduced by a non-cash adjustment related to a decrease in deferred tax assets of $2.7 million and to depreciation and amortization of property, plant and equipment.

During the year ended December 31, 2018, cash flow from operating activities of approximately $17.3 million was more than our net loss of approximately $70.0 million mainly due to (i) cash used in working capital of approximately $30.8 million, which mainly consisted of the decrease in accounts receivable and decrease in inventories, which offset by decrease in retention payable; and (ii) substantial non-cash charges of approximately $56.5 million, mainly in the form of depreciation and amortization of property, plant and equipment and loss on demolition of factory, which was offset by increased deferred tax assets.

Accounts receivable

Cash collections on our accounts receivable had a major impact on our overall liquidity. The following table presents the aging analysis of our accounts receivable as of December 31, 2019 and 2018.

	December 31, 2019		December 31, 2018	
		% of total		% of total
Aged 1-30 days	$ —	—	$ —	—
Aged 31-60 days	—	—	—	—
Aged 61-90 days	—	—	—	—
Aged 91-120 days	—	—	—	—
Aged 121-150 days	506,703	10%	—	—
Aged 151-180 days	2,368,495	49%	—	—
Aged 181-210 days	2,001,908	41%	—	—
Aged 211-240 days	—	—	—	—
Total	$ 4,877,106	100%	$ —	—

The overall accounts receivable balance as of December 31, 2019increased by $4,877,106, as compared to those of December 31, 2018. We have policies in place to ensure that sales are made to customers with an appropriate credit history. We perform ongoing credit evaluation on the financial condition of our customers. All receivables were collected in the January through March in 2020.

Inventory

Our inventory consists of the following:

	December 31, 2019		December 31, 2018	
		% of total		% of total
Raw materials	$ 20,928	3%	$ —	—
Finished goods	669,159	97%	—	—
Total	$ 690,087	100%	$ —	—

The net inventory level as of December 31, 2019 increased by $690,087, as compared to the net inventory level as of December 31, 2018.

Raw materials increased by $20,928 as of December 31, 2019 as compared to December 31, 2018.

Our finished goods increased by $669,159 as of December 31, 2019 as compared to December 31, 2018.

Net Cash Used In Investing Activities

For the fiscal year 2019, we used approximately $65 million to acquire property, plant and equipment.

In the fiscal year 2018, we used approximately $0.7 million cash for the prepayment of land leases. We also used approximately $28.6 million to perform the rectification and improvements of our bromine and crude salt factories and the relocation of our chemical factories for the fiscal year 2018.

Net Cash Used In Financing Activities

We have no major financing activities for the year ended December 31, 2019.

We believe that our available funds and cash flows generated from operations will be sufficient to meet our anticipated ongoing operating needs for the next twelve months.

We had available cash of approximately $100 million at December 31, 2019, all of which is in highly liquid current deposits which earn no or little interest. We do not anticipate paying cash dividends in the foreseeable future.

We intend to continue to focus our efforts on the activities of SCHC, SYCI and DCHC as these segments continue to expand within the Chinese market.

We may not be able to identify, successfully integrate or profitably manage any businesses or business segment we may acquire, or any expansion of our business. An expansion may involve a number of risks, including possible adverse effects on our operating results, diversion of management's attention, inability to retain key personnel, risks associated with unanticipated events and the financial statement effect of potential impairment of acquired intangible assets, any of which could have a materially adverse effect on our condition and results of operations. In addition, if competition for acquisition candidates or operations were to increase, the cost of acquiring businesses could increase materially. We may effect an acquisition with a target business which may be financially unstable, under-managed, or in its early stages of development or growth. Our inability to implement and manage our expansion strategy successfully may have a material adverse effect on our business and future prospects.

Contractual Obligations and Commitments

We have no significant contractual obligations not fully recorded on our consolidated balance sheets or fully disclosed in the notes to our consolidated financial statements. Additional information regarding our contractual obligations and commitments at December 31, 2019 is provided in the notes to our consolidated financial statements. See "Notes to Consolidated Financial Statements, Note 19 - Capital Commitment and Operating Lease Commitments."

Table of Contents

Material Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements falling within the definition of Item 303(a) of Regulation S-K.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which requires us to make judgments, estimates and assumptions. See "Note 1 – Nature of Business and Summary of Significant Accounting Policies," in Notes to the Consolidated Financial Statements, which is included in "Item 8. Financial Statements and Supplementary Data," which describes our significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. The methods, estimates and judgments that we use in applying our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain.

Our most critical estimates include:

- allowance for doubtful accounts, which impacts revenue;
- the valuation of inventory, which impacts gross margins;
- impairment of long-lived assets (including goodwill);
- the valuation and recognition of share-based compensation, which impacts operating expenses; and
- the recognition and measurement of deferred income taxes, which impact our provision for taxes.

Allowance for Doubtful Accounts

We makes estimates of the uncollectibility of accounts receivable, especially analyzing accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms, when evaluating the adequacy of the allowance for doubtful accounts. Credit evaluations are undertaken for all major sale transactions before shipment is authorized. On a quarterly basis, we evaluate aged items in the accounts receivable aging report and provide an allowance in an amount we deem adequate for doubtful accounts. If management were to make different judgments or utilize different estimates, material differences in the amount of our reported operating expenses could result.

Inventory Valuation

Inventory is stated at the lower of cost or market, with cost determined on a first-in first-out basis. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. We evaluate the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required in the future, which could have a material adverse effect on our results of operations.

Depreciation of Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Expenditures for new facilities or equipment, and major expenditures for betterment of existing facilities or equipment are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs over the estimated productive lives. All other ordinary repair and maintenance costs are expensed as incurred. Mineral rights are recorded at cost less accumulated depreciation and any impairment losses. Mineral rights are amortized ratably over the term of the lease, or the equivalent term under the units of production method, whichever is shorter. In some situations, the life of the asset may be extended or shortened if circumstances arise that would lead us to believe that the estimated life of the asset has changed. The life of leasehold improvements may change based on the extension of lease contracts with our landlords. Changes in the estimated lives of assets will result in an increase or decrease in the amount of depreciation recognized in future periods.

Impairment of Long Lived Assets

We periodically evaluate whether events or circumstances have occurred that indicate long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded.

Valuation Allowance on Deferred Tax Assets

We evaluate our deferred income tax assets to determine if valuation allowances are required or should be adjusted. A valuation allowance is established against our deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry forward periods, our experience with expiring unused tax attributes and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified.

Stock-based compensation

We account for stock-based compensation in accordance with the fair value recognition provisions of U.S. GAAP. We use the Black-Scholes model which requires the input of highly subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them, the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements. The assumptions for expected volatility and expected term are the two assumptions that significantly affect the grant date fair value. Changes in expected risk-free rate of return do not significantly impact the calculation of fair value, and determining this input is not highly subjective.

We use annualized historical stock price volatility which is deemed to be appropriate to serve as the expected volatility of our stock price and is assumed to be constant and prevailing. The expected term represents the weighted-average period that our stock options are expected to be outstanding. The expected life is based on historical option exercise pattern.

Recent Accounting Pronouncements

See "Note 1 – Nature of Business and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on Consolidated Balance Sheets and Consolidated Statements of Income.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are included in a separate section of this Report. See "Index to Consolidated Financial Statements" on Page F-1.

GULF RESOURCES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018

C O N T E N T S

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Gulf Resources, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Gulf Resources, Inc. and Subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of loss and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes and schedules (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Morison Cogen LLP

We have served as the Company's auditor since 2011.

Blue Bell, Pennsylvania
April 14, 2020

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. dollars)

	December 31, 2019	December 31, 2018
Current Assets		
Cash	$ 100,301,986	$ 178,998,935
Accounts receivable	4,877,106	—
Inventories, net	690,087	—
Prepayments and deposits	1,332,970	8,096,636
Prepaid land leases	—	235,459
Other receivables	559	12,506
Total Current Assets	107,202,708	187,343,536
Non-Current Assets		
Property, plant and equipment, net	137,994,949	82,282,630
Finance lease right-of use assets	179,526	250,757
Operating lease right-of –use assets	8,817,884	—
Prepaid land leases, net of current portion	9,115,276	9,639,009
Deferred tax assets	15,940,642	19,030,858
Total non-current assets	172,048,277	111,203,254
Total Assets	$ 279,250,985	$ 298,546,790
Commitment and Contingencies		
Liabilities and Stockholders' Equity		
Current Liabilities		
Payable and accrued expenses	$ 1,106,048	$ 905,258
Retention payable	3,805,483	332,416
Taxes payable-current	779,623	1,188,687
Finance lease liability, current portion	198,506	197,480
Operating lease liabilities, current portion	416,604	—
Total Current Liabilities	6,306,264	2,623,841
Non-Current Liabilities		
Finance lease liability, net of current portion	1,905,772	2,069,545
Operating lease liabilities, net of current portion	7,931,849	—
Total Non-Current Liabilities	$ 9,837,621	$ 2,069,545
Total Liabilities	$ 16,143,885	$ 4,693,386
Commitment and Contingencies		
Stockholders' Equity		
PREFERRED STOCK; $0.001 par value; 1,000,000 shares authorized; none outstanding		
COMMON STOCK; $0.0005 par value; 80,000,000 shares authorized; 9,562,444 and 9,410,588 shares issued; and 9,516,614 and 9,360,758 shares outstanding as of December 31, 2019 and December 31, 2018	$ 23,904	$ 23,525
Treasury stock; 45,830 and 49,830 shares as of December 31, 2019 and December 31, 2018 at cost	(510,329)	(554,870)
Additional paid-in capital	95,043,388	95,020,808
Retained earnings unappropriated	159,808,400	185,608,445
Retained earnings appropriated	24,233,544	24,233,544
Accumulated other comprehensive loss	(15,491,807)	(10,478,048)
Total Stockholders' Equity	263,107,100	293,853,404
Total Liabilities and Stockholders' Equity	$ 279,250,985	$ 298,546,790

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in U.S. dollars)

	Years Ended December 31, 2019	2018
NET REVENUE		
Net revenue	$ 10,596,521	$ 2,594,941
OPERATING EXPENSE		
Cost of net revenue	(5,430,269)	(1,310,272)
Sales, marketing and other operating expenses	(12,434)	(66,111)
Write-off/Impairment on property, plant and equipment	—	(1,397,313)
Loss on demolition of factory	—	(18,644,473)
Direct labor and factory overheads incurred during plant shutdown	(15,175,280)	(21,081,692)
Write-off of prepaid land lease	—	(4,004,788)
Impairment for goodwill	—	(27,966,050)
General and administrative expenses	(13,272,921)	(11,268,800)
Other operating loss	—	(407,973)
	(33,890,904)	(86,147,472)
LOSS FROM OPERATIONS	(23,294,383)	(83,552,531)
OTHER INCOME (EXPENSE)		
Interest expense	(145,445)	(160,422)
Interest income	446,770	661,112
LOSS BEFORE INCOME TAXES	(22,993,058)	(83,051,841)
INCOME TAX (EXPENSE) BENEFIT	(2,806,987)	13,087,855
NET LOSS	$ (25,800,045)	$ (69,963,986)
COMPREHENSIVE LOSS:		
NET LOSS	$ (25,800,045)	$ (69,963,986)
OTHER COMPREHENSIVE LOSS		
- Foreign currency translation adjustments	(5,013,759)	(18,641,006)
COMPREHENSIVE LOSS	$ (30,813,804)	$ (88,604,992)
LOSS PER SHARE:		
BASIC AND DILUTED	$ (2.73)	$ (7.45)
WEIGHTED AVERAGE NUMBER OF SHARES:		
BASIC AND DILUTED	9,465,432	9,360,758

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in U.S. dollars)

	Common stock									
	Number of shares issued	Number of shares outstanding	Number of treasury stock	Amount	Treasury stock	Additional paid-in capital	Retained earnings unappropriated	Retained earnings appropriated	Accumulated other comprehensive Income (loss)	Total
BALANCE AT JANUARY 1, 2018	9,410,588	9,360,758	49,830	$ 23,525	$ (554,870)	$ 94,524,608	$ 255,572,431	$ 24,233,544	$ 8,162,958	$ 381,962,196
Translation adjustment	—	—	—	—		—	—	—	(18,641,006)	(18,641,006)
Issuance of stock options to employees and directors	—	—	—	—	—	496,200	—	—	—	496,200
Net loss for year ended December 31, 2018	—	—	—	—	—	—	(69,963,986)	—	—	(69,963,986)
BALANCE AT DECEMBER 31, 2018	9,410,588	9,360,758	49,830	$ 23,525	$ (554,870)	$ 95,020,808	$ 185,608,445	$ 24,233,544	$ (10,478,048)	$ 293,853,404
BALANCE AT JANUARY 1, 2019	9,410,588	9,360,758	49,830	$ 23,525	$ (554,870)	$ 95,020,808	$ 185,608,445	$ 24,233,544	$ (10,478,048)	$ 293,853,404
Translation adjustment	—	—	—	—	—	—	—	—	(5,013,759)	(5,013,759)
Shares issued from treasury stock for services	—	4,000	(4,000)	—	44,541	(22,941)	—	—	—	21,600
Cashless exercise of stock options	151,856	151,856	—	379	—	(379)	—	—	—	—
Issuance of stock options to employees						45,900				45,900
Net loss for year ended December 31, 2019	—	—	—	—	—	—	(25,800,045)	—	—	(25,800,045)
BALANCE AT DECEMBER 31, 2019	9,562,444	9,516,614	45,830	$ 23,904	$ (510,329)	$ 95,043,388	$ 159,808,400	$ 24,233,544	$ (15,491,807)	$ 263,107,100

The accompanying notes are an integral part of these consolidated financial statements.

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. dollars)

	Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (25,800,045)	$ (69,963,986)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Interest on capital lease obligation	144,881	159,839
Amortization of prepaid land leases	—	761,713
Depreciation and amortization	14,060,927	17,443,318
Allowance for obsolete and slow-moving inventories	—	21,248
Write-off / Impairment loss on property, plant and equipment	—	1,397,313
Write-off of Prepaid land lease	—	4,004,788
Loss on demolition of factories	—	18,644,473
Impairment for goodwill	—	27,966,050
Unrealized translation difference	(421,657)	(1,315,454)
Deferred tax asset	2,746,770	(13,087,855)
Stock-based compensation expense-options	45,900	496,200
Shares issued from treasury stock for services	21,600	—
Changes in assets and liabilities		
Accounts receivable	(5,070,180)	30,241,680
Other receivables	11,794	(11,289)
Inventories	(700,476)	1,192,262
Prepayment and deposits	14,166	(81,469)
Payable and accrued expenses	(102,963)	(106,163)
Retention payable	—	(597,991)
Taxes payable	(374,575)	175,994
Operating lease	114,746	—
Net cash (used in) provided by operating activities	(15,309,112)	17,340,671
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions of prepaid land leases	—	(680,975)
Purchase of property, plant and equipment	(60,611,949)	(35,273,307)
Net cash used in investing activities	(60,611,949)	(35,954,282)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of finance lease obligation	(275,509)	(294,295)
Net cash used in financing activities	(275,509)	(294,295)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,500,379)	(10,999,918)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(78,696,949)	(29,907,824)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	178,998,935	208,906,759
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 100,301,986	$ 178,998,935

Table of Contents

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Expressed in U.S. dollars)

	Years Ended December 31,	
	2019	2018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	$ —	$ —
Operating right-of-use assets obtained in exchange for lease obligations	$ 8,241,818	$ —
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Purchase of Property, plant and equipment included in Retention payable	$ 3,515,132	$ —
Par value of common stock issued upon cashless exercise of options	$ 379	$ —

The accompanying notes are an integral part of these consolidated financial statements.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Consolidation

The accompanying audited consolidated financial statements have been prepared by Gulf Resources, Inc. ("Gulf Resources"). a Nevada corporation and its subsidiaries (collectively, the "Company").

The consolidated financial statements include the accounts of Gulf Resources, Inc. and its wholly-owned subsidiary, Upper Class Group Limited, a company incorporated in the British Virgin Islands, which owns 100% of Hong Kong Jiaxing Industrial Limited, a company incorporated in Hong Kong ("HKJI"). HKJI owns 100% of Shouguang City Haoyuan Chemical Company Limited ("SCHC") which owns 100% of Shouguang Yuxin Chemical Industry Co., Limited ("SYCI") and Daying County Haoyuan Chemical Company Limited ("DCHC"). All material intercompany transactions have been eliminated on consolidation.

(b) Nature of Business

The Company manufactures and trades bromine and crude salt through its wholly-owned subsidiary, Shouguang City Haoyuan Chemical Company Limited ("SCHC") and manufactures chemical products for use in the oil industry, pesticides, paper manufacturing industry and for human and animal antibiotics through its wholly-owned subsidiary, Shouguang Yuxin Chemical Industry Co., Limited ("SYCI") in the People's Republic of China ("PRC"). DCHC was established to further explore and develop natural gas and brine resources (including bromine and crude salt) in the PRC. DCHC's business commenced trial operation in January 2019 but suspended production temporarily in May 2019 as required by the government to obtain project approval (see Note 1 (b)(iii)).

(i) Bromine and Crude Salt Segments

On September 1, 2017, the Company received notification from the Government of Yangkou County, Shouguang City of PRC that production at all its factories should be halted with immediate effect in order for the Company to perform rectification and improvement in accordance with the county's new safety and environmental protection requirements.

The Company worked closely with the county authorities to develop rectification plans for both its bromine and crude salt businesses and agreed on a plan in October 2017. In the fiscal year ended December 31, 2018, the Company incurred $16,243,677 in the rectification and improvements of plant and equipment of the bromine and crude salt factories resulting in a cumulative amount of $34,182,329 incurred as of December 31, 2018 recorded in the plant, property and equipment in the consolidated balance sheet. No such costs were incurred in the year ended December 31, 2019 and the Company does not expect to incur any additional capital expenditures in the rectification of its bromine and crude salt factories in respect of meeting the county's new safety and environmental protection requirement.

In the first quarter of 2018, six out of its ten bromine factories completed their rectification process within factory areas (i.e. excluding crude salt field area) and were approved and scheduled for production commencement by April 2018 as verbally indicated by the local government. The remaining four factories were still undergoing rectification at that time. Three factories (Factory no. 3, Factory no. 4 and Factory no. 11) had to be demolished in September 2018 as required by the government and rectification for Factory no. 10 was completed in November 2018.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In 2018, the Shandong Provincial government required the local government to conduct "four rating and one comprehensive evaluation" for all of the chemical companies within its jurisdiction. This has delayed the production commencement schedule of the six bromine and crude salt factories in which rectification work was completed. On June 29 2018, the Company received a formal notice (dated June 25, 2018) jointly issued by various provincial government agencies in Shandong Province (the "Notice") forwarded by the Weifang City Special Operations Leading Group Office of Safe Production, Transformation and Upgrading of Chemical Industry. In the Notice, the provincial government agencies set forth further requirements and procedures covering the following four aspects for the chemical industrial enterprises: project approval, planning approval, land use rights approval and environmental protection assessment approval. Those standards and procedures apply to all chemical industrial enterprises in Shandong Province including the Company's bromine plants that have not completed project approval procedures, planning approval procedures, land use rights approval procedures and environmental protection assessment procedures. The Company believes that the government will not grant approval to the Company to allow its bromine and crude salt plants to resume operations until the Company has fully complied with the aforesaid rules set forth in the Notice.

The Shouguang City Bromine Association, on behalf of all the bromine plants in Shouguang, has started discussions with the local government agencies. The local governmental agencies confirmed the facts that their initial requirements for the bromine industry did not include the project approval, the planning approval and the land use rights approval and that those three additional approvals were new requirements of the provincial government. The Company understood from the local government that it has been coordinating with several government agencies to solve these three outstanding approval issues in a timely manner and that all the affected bromine plants are not allowed to commence production prior to obtaining those approvals. In April 2019, Factory No.1, Factory No.5 and Factory No.7 (Factory no. 5 is considered part of Factory no.7 and both are managed as one factory since 2010) restarted operations upon receipt of verbal notification from local government of Yangkou County. On May 7, 2019, the Company renamed its Subdivision Factory No. 1 to Factory No. 4; and Factory No. 5 (which was previously considered part of Factory No. 7) to Factory No. 7.

On November 25, 2019, the government of Shouguang City issued a notice ordering all bromine facilities in Shouguang City, including the Company's bromine facilities, including Factory No.1 and Factory No.7, to temporarily stop production from December 16, 2019 to February 10, 2020. Subsequently, due to an outbreak of a novel coronavirus (COVID-19) in China, the local government ordered these bromine facilities to postpone the commencement of production. On February 27, 2020, the Company received an approval issued by the local governmental authority which allows the Company to resume production after the winter temporary closure. It received another approval from the Shouguang Yangkou People's Government dated March 5, 2020 to resume production at its bromine factories No.1, No. 4, No.7 and No. 9 in order to meet the needs of bromide products for epidemic prevention and control. Company factories No.7 and No.1 had started trial production in the middle of March, 2020, and these two factories started its commercial production on April 3,2020.

The Company is not certain when the issuance of the approval documents will be effected. The Company believes that this is another step by the government to improve the environment. It further believes the goal of the government is not to close all plants, but rather to codify the regulations related to project approval, land use, planning approval and environmental protection assessment approval so that illegal plants are not able to open in the future and so that plants close to population centers do not cause serious environmental damage. In addition, the Company believes that the Shandong provincial government wants to assure that each of its regional and county governments has applied the Notice in a consistent manner.

The Company believes the issues related to the remaining bromine and crude salt factories including No.2, No.8, No.10 which have passed inspection are almost resolved. The Company is actively working with the local government to obtain the documentation for approval of project, planning, land use rights and environmental protection evaluation.

Table of Contents

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(ii) Chemical Segment

On November 24, 2017, the Company received a letter from the Government of Yangkou County, Shouguang City notifying the Company to relocate its two chemical production plants located in the second living area of the Qinghe Oil Extraction to the Bohai Marine Fine Chemical Industrial Park ("Bohai Park"). This is because the two plants are located in a residential area and their production activities will impact the living environment of the residents. This is as a result of the country's effort to improve the development of the chemical industry, manage safe production and curb environmental pollution accidents effectively, and ensure the quality of the living environment of residents. All chemical enterprises which do not comply with the requirements of the safety and environmental protection regulations will be ordered to shut down.

The Company believes this relocation process will cost approximately $60 million in total. The Company incurred relocation costs comprising prepaid land lease and professional fees related to the design of the new chemical factory in the amount of $10,320,017 and 10,489,930, which were recorded in the prepaid land leases and property, plant and equipment in the consolidated balance sheets as of December 31, 2019 and December 31, 2018.

The Company does not anticipate that the Company's new chemical factory to be significantly impacted by the Notice. The Company has secured from the government the land use rights for its chemical plants located at the Bohai Park and presented a completed construction design draft and other related documents to the local authorities for approval. On January 6 , 2020, the Company received the environmental protection approval by the government of Shouguang City, Shandong Province for the proposed Yuxin Chemical factory. The environmental protection approval was the last approval required before commencing construction. With this approval, Gulf Resources plans to begin construction in May 2020.

(iii) Natural Gas Segment

In January 2017, the Company completed the first brine water and natural gas well field construction in Daying located in Sichuan Province and commenced trial production in January 2019. On May 29, 2019, the Company received a verbal notice from the government of Tianbao Town ,Daying County, Sichuan Province, whereby the Company is required to obtain project approval for its well located in Daying, including the whole natural gas and brine water project, and approvals for safety production inspection, environmental protection assessment, and to solve the related land issue. Until these approvals have been received, the Company has to temporarily halt trial production at its natural gas well in Daying. At present, some documents have been submitted and the Company is still waiting for approval.

(c) Use of Estimates

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and this requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The most significant accounting estimates with regard to these consolidated financial statements that require the most significant and subjective judgments include, but are not limited to, useful lives of property, plant and equipment, recoverability of long-lived assets, determination of impairment losses, assessment of market value of inventories and provision for inventory obsolescence, allowance for doubtful accounts, recognition and measurement of deferred income taxes, valuation allowance for deferred tax assets, and assumptions used for the valuation of share based payments. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and highly liquid investments with original maturities of three months or less. Because of short maturity of these investments, the carrying amounts approximate their fair values.

(e) Accounts receivable and Allowance for Doubtful Accounts

Accounts receivable is stated at cost, net of allowance for doubtful accounts. The normal credit term extended to customers ranges between 90 and 240 days. The company reviews all receivables that exceed the term. The Company establishes an allowance for doubtful accounts based on management's assessment of the collectability of trade and other receivables. A considerable amount of judgment is required in assessing the amount of allowance and the Company considers the historical level of credit losses. The Company makes judgments about the credit worthiness of each customer based on ongoing credit evaluations, and monitors current economic trends that might impact the level of credit losses in the future. If the financial condition of the customer begins to deteriorate, resulting in their inability to make payments within credit term provided, a larger allowance may be required.

As of December 31, 2019 and December 31, 2018, There were no allowances for doubtful accounts. No allowances for doubtful accounts were charged to the consolidated statements of loss for years ended December 31, 2019 and 2018.

(f) Concentration of Credit Risk

The Company is exposed to credit risk in the normal course of business, primarily related to accounts receivable and cash and cash equivalents. Substantially all of the Company's cash and cash equivalents are maintained with financial institutions in the PRC, namely, Industrial and Commercial Bank of China Limited, China Merchants Bank Company Limited and Sichuan Rural Credit Union, which are not insured or otherwise protected. The Company placed $100,301,986 and $178,998,935 with these institutions as of December 31, 2019 and 2018, respectively. The Company has not experienced any losses in such accounts in the PRC.

Concentrations of credit risk with respect to accounts receivable exists as the Company sells a substantial portion of its products to a limited number of customers. However, such concentrations of credit risks are limited since the Company performs ongoing credit evaluations of its customers' financial condition and extends credit terms as and when appropriate.

Accounts receivable of $4,877,106 as of December 31, 2019 was fully collected in the period January through March in 2020.

(g) Inventories

Inventories are stated at the lower of cost, determined on a first-in first-out cost basis, or net realizable value. Costs of work-in-progress and finished goods comprise direct materials, direct labor and an attributable portion of manufacturing overhead. Net realizable value is based on estimated selling price less costs to complete and selling expenses.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Expenditures for new facilities or equipment, and major expenditures for betterment of existing facilities or equipment are capitalized and depreciated, when available for intended use, using the straight-line method at rates sufficient to depreciate such costs less 5% residual value over the estimated productive lives. All other ordinary repair and maintenance costs are expensed as incurred.

Mineral rights are recorded at cost less accumulated depreciation and any impairment losses. Mineral rights are amortized ratably over the term of the lease, or the equivalent term under the units of production method, whichever is shorter.

Construction in process primarily represents direct costs of construction of property, plant and equipment. Costs incurred are capitalized and transferred to property, plant and equipment upon completion and depreciation will commence when the completed assets are placed in service.

The Company’s depreciation and amortization policies on property, plant and equipment, other than mineral rights and construction in process, are as follows:

	Useful life (in years)
Buildings (including salt pans)	8 - 20
Plant and machinery (including protective shells, transmission channels and ducts)	3 - 8
Motor vehicles	5
Furniture, fixtures and equipment	3-8

Property, plant and equipment under the finance lease are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the lease, which is 20 years.

Producing oil and gas properties are depreciated on a unit-of-production basis over the proved developed reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

(i) Asset Retirement Obligation

The Company follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), which established a uniform methodology for accounting for estimated reclamation and abandonment costs. FASB ASC 410 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which the legal obligation associated with the retirement of the long-lived asset is incurred. When the liability is initially recorded, the offset is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. To settle the liability, the obligation is paid, and to the extent there is a difference between the liability and the amount of cash paid, a gain or loss upon settlement is recorded.

Table of Contents

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Currently, there are no reclamation or abandonment obligations associated with the land being utilized for exploitation by the bromine and crude salt factories. Also, for the two chemical plants that are to be relocated, currently, there are no obligations to restore the land to its original condition.

(j) Recoverability of Long-lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10-35*"Impairment or Disposal of Long-lived Assets"*, long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable or that the useful lives of those assets are no longer appropriate. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment.

The Company determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets.

For the year ended December 31, 2019, the Company determined that there were no events or circumstances indicating possible impairment of its long-lived assets.

Upon the receipt of the closure notice from the People's Government of Yangkou Town, Shouguang City in September 2018 (See Note 1 (b)), the Company demolished the affected factories. As a result, the Company wrote off net book value of the affected factories' property, plant and equipment in the amount of $18,644,473 which was recorded in the loss on demolition of factories in the consolidated statements of loss for the fiscal year ended December 31, 2018. The Company will negotiate with the local villages over compensation for the payment already made for the land leases and mineral rights of these factories. However, the Company is uncertain of the amount that it could recover and when this could be accomplished. Therefore, the Company wrote off the mineral rights of the affected factories of $1,284,832 included in the write-off/impairment on property, plant and equipment in the consolidated statements of loss for the fiscal year ended December 31, 2018 and $52,926 of prepaid land lease recorded in other operating loss in the consolidated statements of loss for fiscal year ended December 31, 2018. The Company incurred dismantling fees in the amount of $273,757 recorded in other operating loss in the consolidated statements of loss for fiscal year ended December 31, 2018. In addition, the Company recorded a write-off of $112,481 included in the write-off/impairment of property, plant and equipment for certain wells and equipment damaged by flood from a typhoon that occurred in August 2018.

(k) Retirement Benefits

Pursuant to the relevant laws and regulations in the PRC, the Company participates in a defined contribution retirement plan for its employees arranged by a governmental organization. The Company makes contributions to the retirement plan at the applicable rate based on the employees' salaries. The required contributions under the retirement plans are charged to the consolidated statement of loss on an accrual basis when they are due. The Company's contributions totaled $1,035,687 and $1,216,096 for the years ended December 31, 2019 and 2018, respectively.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

(l) Mineral Rights

The Company follows FASB ASC 805 "Business Combinations" that certain mineral rights are considered tangible assets and that mineral rights should be accounted for based on their substance. Mineral rights are included in property, plant and equipment.

(m) Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated balance sheets. Finance leases are included in finance lease ROU assets and finance lease liabilities in the consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease and finance lease ROU assets and liabilities are recognized at January 1, 2019 based on the present value of lease payments over the lease term discounted using the rate implicit in the lease. In cases where the implicit rate is not readily determinable, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has elected not to recognize operating lease ROU assets and liabilities arising from short-term lease.

(n) Basic and Diluted Earnings per Share of Common Stock

Basic earnings per common share are based on the weighted average number of shares outstanding during the periods presented. Diluted earnings per share are computed using weighted average number of common shares plus dilutive common share equivalents outstanding during the period. Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive, i.e. the exercise prices of the outstanding stock options were greater than the market price of the common stock. Anti-dilutive common stock equivalents which were excluded from the calculation of number of dilutive common stock equivalents amounted to 103,392 and 51,747 shares for the years ended December 31, 2019 and 2018, respectively. These awards could be dilutive in the future if the market price of the common stock increases and is greater than the exercise price of these awards.

Because the Company reported a net loss for the years ended December 31, 2019 and 2018, common stock equivalents including stock options and warrants were anti-dilutive, therefore the amounts reported for basic and diluted loss per share were the same.

(o) Reporting Currency and Translation

The financial statements of the Company's foreign subsidiaries are measured using the local currency, Renminbi ("RMB"), as the functional currency; whereas the functional currency and reporting currency of the Company is the United States dollar ("USD" or "$").

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

As such, the Company uses the "current rate method" to translate its PRC operations from RMB into USD, as required under FASB ASC 830 "Foreign Currency Matters". The assets and liabilities of its PRC operations are translated into USD using the rate of exchange prevailing at the balance sheet date. The capital accounts are translated at the historical rate. Adjustments resulting from the translation of the balance sheets of the Company's PRC subsidiaries are recorded in stockholders' equity as part of accumulated other comprehensive income/(loss). The consolidated statement of income/(loss) and comprehensive income/(loss) is translated at average rates during the reporting period. Gains or losses resulting from transactions in currencies other than the functional currencies are recognized in net income/(loss) for the reporting periods as part of general and administrative expense. Included in the general and administrative expense is a foreign exchange gain of $421,657 and $1,315,454 for the years ended December 31, 2019 and 2018. The consolidated statement of cash flows is translated at the average rate during each quarter, with the exception of issuance of shares and payment of dividends which are translated at historical rates.

(p) Foreign Operations

All of the Company's operations and assets are located in PRC. The Company may be adversely affected by possible political or economic events in this country. The effect of these factors cannot be accurately predicted.

(q) Revenue Recognition

Net revenue is net of discount and value added tax and comprises the sale of bromine, crude salt and chemical products. Revenue is recognized at a point time when the control of the promised goods is transferred to the customers in an amount that reflects the consideration that the Company expects to receive from the customers in exchange for those goods. The acknowledgement of receipt of goods by the customers is when control of the product is deemed to be transferred. Invoicing occurs upon acknowledgement of receipt of the goods by the customers. Customers have no rights to return the goods upon acknowledgement of receipt of goods. Revenue from contracts with customers is disaggregated in Note 15.

(r) Income Taxes

The Company accounts for income taxes in accordance with the Income Taxes Topic of the FASB ASC, which requires the use of the liability method of accounting for deferred income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their reported amounts at each period end. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. The deferred income tax effects of a change in tax rates are recognized in the period of enactment. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. The guidance also provides criteria for the recognition, measurement, presentation and disclosures of uncertain tax positions. A tax benefit from an uncertain tax position may be recognized if it is "more likely than not" that the position is sustainable based solely on its technical merits. Interests and penalties associated with unrecognized tax benefits are included within the (benefit from) provision for income tax in the consolidated statement of profit (loss).

(s) Exploration Costs

Exploration costs, which included the cost of researching for appropriate places to drill wells and the cost of well drilling in search of potential natural brine or other resources, are charged to the income statement as incurred. Once the commercial viability of a project has been confirmed, all subsequent costs are capitalized.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

For oil and gas properties, the successful efforts method of accounting is adopted. The Company carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalized and are reviewed periodically for impairment.

(t) Contingencies

The Company accrues for costs relating to litigation, including litigation defense costs, claims and other contingent matters, including liquidated damage liabilities, when such liabilities become probable and reasonably estimable. Such estimates may be based on advice from third parties or on management's judgment, as appropriate. Revisions to accruals are reflected in earnings (loss) in the period in which different facts or information become known or circumstances change that affect the Company's previous assumptions with respect to the likelihood or amount of loss. Amounts paid upon the ultimate resolution of such liabilities may be materially different from previous estimates.

(u) Stock-based Compensation

The Company accounts for stock-based compensation under the provisions of FASB ASC 718, *Compensation Stock Compensation,* which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method. In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 7I8), Improvements to Nonemployee Share-Based Payment Accounting.* The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Prior to this Update, Topic 718 applied only to share-based transactions to employees. Consistent with the accounting requirement for employee share-based payment awards, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The Company has elected to account for the forfeiture of stock-based awards as they occur.

(v) New Accounting Pronouncements

Recent accounting pronouncements adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this Update specify the accounting for leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from operating leases. The Company adopted the standard effective January 1, 2019 under the optional transition method which allows an entity to apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment, if any, to the opening balance of retained earnings in the period of adoption. The Company elected the available practical expedients. As a result of the adoption of this standard, the Company recognized operating lease ROU assets of $8,817,884, operating lease liabilities of $8,348,453, with the remaining balance paid in the consolidated financial statements as of and for the year ended December 31, 2019 with no cumulative-effect adjustment to retained earnings as of January 1, 2019.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In June 2018, the FASB issued ASU No.2018-07, Compensation- Stock Compensation (Topic 718). Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Prior to this update, Topic 718 applied only to share-based transactions to employees. Consistent with the accounting requirements for employee share-based payment awards, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The amendments in the Update are effective for public business entities form fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company adopted this standard as of January 1, 2019. This adoption of this standard does not have a material impact on the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The amendments in this Update affect loans, debt securities, trade receivables, and any other financial assets that have the contractual right to receive cash. The ASU requires an entity to recognize expected credit losses rather than incurred losses for financial assets. For public entities, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effect of this on the consolidated financial statements and related disclosure.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 2 – INVENTORIES

Inventories consist of:

	December 31, 2019	December 31, 2018
Raw materials	$ 20,928	$ —
Finished goods	669,159	65,169
Allowance for obsolete and slow-moving inventory	—	(65,169)
	$ 690,087	$ —

NOTE 3 – PREPAID LAND LEASES

The Company has the rights to use certain parcels of land located in Shouguang, Shandong , PRC, through lease agreements signed with local townships or the government authority. The production facilities and warehouses of the Company are located on these parcels of land. The lease term ranges from ten to fifty years. Some of the lease contracts were paid in one lump sum upfront and some are paid annually at the beginning of each anniversary date. These leases have no purchase option at the end of the lease term and were classified as operating leases prior to and as of January 1, 2019 when the new lease standard was adopted. Prior to January 2019, the prepaid land lease was amortized on a straight line basis. As of January 1, 2019, all the leases in which term has commenced and were in use were classified as operating lease right-of-use assets (“ROU”). See Note 6.

In December 2017, the Company paid a one lump sum upfront amount of $9,115,276 for a 50-year lease of a parcel of land at Bohai Marine Fine Chemical Industrial Park (“Bohai”) for the new chemical factory to be built. There is no purchase option at the end of the lease term. This was classified as an operating lease prior to and as of January 1, 2019. The land use certificate was issued on October 25, 2019. The lease term expires on August 12, 2069. As of December 31, 2019, the construction of the chemical factory has not commenced. The amount paid was recorded as prepaid land leases, net of current portion in the consolidated balance sheet as of Dec 31, 2019 and 2018. No amortization of this prepaid land lease was recorded as of December 31, 2019. Amortization will commence when the factory is completed and placed in service.

During the year ended December 31, 2018, amortization of prepaid land leases totaled $761,713, which amounts were recorded as direct labor and factory overheads incurred during plant shutdown.

For parcels of land that are collectively owned by local townships, the Company cannot obtain land use rights certificates. The parcels of land of which the Company cannot obtain land use rights certificates cover a total of approximately 38.6 square kilometers with an aggregate carrying value in prepaid land lease of $599,747 as at December 31, 2018.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following:

	December 31, 2019	December 31, 2018
At cost:		
Mineral rights	$ 2,764,462	$ 2,809,977
Buildings	59,880,567	60,866,462
Plant and machinery	234,669,007	161,178,816
Motor vehicles	6,129	6,230
Furniture, fixtures and office equipment	3,235,736	3,289,010
Construction in process	1,204,742	6,535,808
Total	301,760,643	234,686,303
Less: Accumulated depreciation and amortization	(146,330,705)	(134,681,628)
Impairment	(17,434,989)	(17,722,045)
Net book value	$ 137,994,949	$ 82,282,630

The Company has certain buildings and salt pans erected on parcels of land located in Shouguang, PRC, and such parcels of land are collectively owned by local townships or the government authority. The Company has not been able to obtain property ownership certificates over these buildings and salt pans. The aggregate carrying values of these properties situated on parcels of the land are $ 19,894,947 and $20,409,998 as at December 31, 2019 and December 31, 2018, respectively.

During the year ended December 31, 2019,depreciation and amortization expense totaled $13,991,583 of which $ 10,796,085, $848,345 and $2,347,153 were recorded in direct labor and factory overheads incurred during plant shutdown, administrative expenses and cost of net revenue.

During the year ended December 31, 2018, depreciation and amortization expense totaled $17,176,306, of which $16,209,588 and $966,718 were recorded in direct labor and factory overheads incurred during plant shutdown and administrative expenses, respectively in the consolidated statement of income (loss).

NOTE 5 –FINANCE LEASE RIGHT-OF-USE ASSETS

Property, plant and equipment under finance leases, net consist of the following:

	December 31, 2019	December 31, 2018
At cost:		
Buildings	$ 117,956	$ 119,899
Plant and machinery	2,157,848	2,193,375
Total	2,275,804	2,313,274
Less: Accumulated depreciation and amortization	(2,096,278)	(2,062,517)
Net book value	$ 179,526	$ 250,757

The above buildings erected on parcels of land located in Shouguang, PRC, are collectively owned by local townships. The Company has not been able to obtain property ownership certificates over these buildings as the Company could not obtain land use rights certificates on the underlying parcels of land.

During the year ended December 31, 2019, depreciation and amortization expense totaled $69,344, respectively, which was recorded in direct labor and factory overheads incurred during plant shutdown.

During the year ended December 31, 2018, depreciation and amortization expense totaled $267,012, respectively, which was recorded in direct labor and factory overheads incurred during plant shutdown.

NOTE 6 – OPERATING LEASE RIGHT–OF-USE ASSETS

As of December 31, 2019, the total operating lease ROU assets was $8,817,884.

The total operating lease cost for the years ended December 31, 2019 and 2018 was $889,683 and $1,046,486.

The Company has the rights to use certain parcels of land located in Shouguang, the PRC, through lease agreements signed with local townships or the government authority (See Note 3). For parcels of land that are collectively owned by local townships, the Company cannot obtain land use rights certificates. The parcels of land of which the Company cannot obtain land use rights certificates covers a total of approximately 38.6 square kilometers with an aggregate operating lease right-of-use assets amount of $8,326,861 as at December 31, 2019.

NOTE 7 –PAYABLE AND ACCRUED EXPENSES

Payable and accrued expenses consist of the following:

	December 31, 2019	December 31, 2018
Salary payable	$ 310,097	$ 241,343
Social security insurance contribution payable	105,750	140,326
Other payable-related party (see Note 8)	89,424	90,900
Deposit on subscription of a subsidiary's share	144,798	—
Accrued expense for construction	97,913	104,246
Accrued expense-others	358,066	328,443
Total	$ 1,106,048	$ 905,258

The deposit on subscription of a subsidiary's share of $144,798 as of December 31, 2019 relates to sale of non-controlling interests in DCHC.

NOTE 8 – RELATED PARTY TRANSACTIONS

During the fiscal years 2019 and 2018, the Company borrowed $419,995 and $355,212, and fully repaid later during the same period, from Jiaxing Lighting Appliance Company Limited (Jiaxing Lighting"), in which Mr. Ming Yang, a shareholder and the Chairman of the Company, has a 100% equity interest. The amounts due to Jiaxing Lighting were unsecured, interest free and repayable on demand. There was no balance owing to Jiaxing Lighting as of December 31, 2019 and 2018.

On September 25, 2012, the Company purchased five floors of a commercial building in the PRC, through SYCI, from Shandong Shouguang Vegetable Seed Industry Group Co., Ltd. (the "Seller") at a cost of approximately $5.7 million in cash, of which Mr. Ming Yang, the Chairman of the Company, had a 99% equity interest in the Seller. During the first quarter of 2018, the Company entered into an agreement with the Seller, a related party, to provide property management services for an annual amount of approximately $89,425 for five years from January 1, 2018 to December 31, 2022. The expense associated with this agreement for the year ended December 31, 2019 was approximately $89,425.The expense associated with this agreement for the year ended December 31, 2018 was approximately $90,897.

Table of Contents

NOTE 9 – TAXES PAYABLE

	December 31, 2019	December 31, 2018
Land use tax payable	$ 779,623	$ 1,188,687

NOTE 10 –LEASE LIABILITIES-FINANCE AND OPERATING LEASE

The components of finance lease liabilities were as follows:

	Imputed Interest rate	December 31, 2019	December 31, 2018
Total finance lease liability	6.7%	$ 2,104,278	$ 2,267,025
Less: Current portion		(198,506)	(197,480)
Finance lease liability, net of current portion		$ 1,905,772	$ 2,069,545

Interest expenses from finance lease obligations amounted to $144,880 and $159,839 for the years ended December 31, 2019 and 2018, respectively, which were charged to the consolidated statement of loss.

The components of operating lease liabilities as follows:

	Imputed Interest rate	December 31, 2019	December 31, 2018
Total Operating lease liabilities	4.89%	$ 8,348,453	$ —
Less: Current portion		(416,604)	—
Operating lease liabilities, net of current portion		$ 7,931,849	$ —

The weighted average remaining operating lease term at December 31, 2019 was 22.3 years and the weighted average discounts rate was 4.89%, This discount rates used are based on the base rate quoted by the People's Bank of China and vary with the remaining term of the lease.

Maturities of lease liabilities were as follows:

	Finance lease	Operating Lease
Payable within:		
the next 12 months	$ 269,049	$ 772,866
the next 13 to 24 months	269,049	786,584
the next 25 to 36 months	269,049	637,294
the next 37 to 48 months	269,049	644,149
the next 49 to 60 months	269,049	641,946
thereafter	1,614,295	11,442,172
Total	2,959,540	14,925,011
Less: Amount representing interest	(855,262)	(6,576,558)
Present value of net minimum lease payments	$ 2,104,278	$ 8,348,453

NOTE 11 —EQUITY

Reverse Stock Split and Authorized Shares

On January 27, 2020, the Company completed a 1-for-5 reverse stock split of the company's common stock, such that for each five shares outstanding prior to the stock split there was one share outstanding after the reverse stock split. All shares of common stock referenced in this report have been adjusted to reflect the stock split figures.

There is no change to the authorized shares of the Company' common stock which remain at 80,000,000.

Retained Earnings - Appropriated

In accordance with the relevant PRC regulations and the PRC subsidiaries' Articles of Association, the Company's PRC subsidiaries are required to allocate its profit after tax to the following reserve:

Statutory Common Reserve Funds

SCHC, SYCI and DCHC are required each year to transfer at least 10% of the profit after tax as reported under the PRC statutory financial statements to the Statutory Common Reserve Funds until the balance reaches 50% of the registered share capital. This reserve can be used to make up any loss incurred or to increase share capital. Except for the reduction of losses incurred, any other application should not result in this reserve balance falling below 25% of the registered capital. The Statutory Common Reserve Fund as of December 31, 2019 for SCHC, SYCI and DCHC is 16%, 14% and 0% of its registered capital respectively.

Retained earnings - Unappropriated

SCHC transferred approximately $84 million (equivalent to RMB590 million) from its undistributed profit to its paid in capital during the year ended December 31, 2019.

NOTE 12 – TREASURY STOCK

In January 2019, the Company issued 4,000 shares of common stock from the treasury shares to one of its consultants. The shares were valued at the closing market price on the date of the agreement and recorded as general and administrative expense in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019. The shares issued were deducted from the treasury shares at weighted average cost and the excess of the cost over the closing market price was charged to additional paid-in-capital.

On September 13, 2019, the Company received a staff deficiency notice from The Nasdaq Stock Market informing the Company that it has failed to comply with Nasdaq's shareholder approval requirements relating to shares issued to this consultant. A total of 8,000 restricted shares issued to this consultant from treasury will be canceled. On January 14, 2020, the Company reissued the shares from the 2019 Omnibus Equity Incentive Plan adopted by the board of directors of the Company and approved by the stockholders at the annual stockholders meeting held on December 18, 2019.

On January 23, 2020, the Company received a letter from the Nasdaq Stock Market Listing Qualifications Staff (the "Staff") notifying that the Company has regained compliance with the shareholder approval requirements set forth in Nasdaq Listing Rule 5635(c) in connection with shares issued to a consultant based on the Staff's review of the Company's submitted materials.

NOTE 13 – STOCK-BASED COMPENSATION

Pursuant to the Company's Amended and Restated 2007 Equity Incentive Plan approved in 2011("Plan"), the aggregate number shares of the Company's common stock available for grant of stock options and issuance is 868,398 shares. On October 5, 2015, during the annual meeting of the Company's stockholders, the aggregate number of shares reserved and available for grant and issuance pursuant to the Plan was increased to 2,068,398. As of December 31, 2019, the number of shares of the Company's common stock available for issuance under the Plan is 990,198.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The risk free rate is based on the yield-to-maturity in continuous compounding of the US Government Bonds with the time-to-maturity similar to the expected tenor of the option granted, volatility is based on the annualized historical stock price volatility of the Company, and the expected life is based on the historical option exercise pattern.

On December 3, 2018, the Company granted to 17 members of the management staff options to purchase 99,400 shares of the Company's common stock, at an exercise price of $3.565 per share and the options vested immediately. The options were valued at $121,000 fair value, with assumed 39.91% volatility, a four-year expiration term with an expected tenor of 1.64 years, a risk free rate of 2.78% and no dividend yield.

On December 3, 2018, the Company granted to our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer options to purchase 240,000 shares of the Company's common stock, at an exercise price of $3.565 per share and the options vested immediately. The options were valued at $354,700 fair value, with assumed 41.72% volatility, a four-year expiration term with an expected tenor of 2.62 years, a risk free rate of 2.83% and no dividend yield.

On December 3, 2018, the Company granted to four independent directors and a consultant options to purchase 16,000 shares of the Company's common stock at an exercise price of $3.565 per share and the options vested immediately. The options were valued at $20,500 fair value, with assumed 38.87% volatility, a three-year expiration term with expected tenor of 1.97 years, a risk free rate of 2.82% and no dividend yield.

On April 1, 2019, the Company granted to one employee options to purchase 30,000 shares of the Company's common stock, at an exercise price of $4.55 per share and the options vested immediately. The options were valued at $45,900 fair value, with assumed 45.26% volatility, a four-year expiration term with an expected tenor of 1.60 years, a risk free rate of 2.37% and no dividend yield.

For the year ended December 31, 2019 and 2018, total compensation costs for options issued recorded in the consolidated statement of loss were $45,900 and $496,200. There were no related tax benefits as a full valuation allowance was recorded in the years ended December 31, 2019 and 2018.

The following table summarizes all Company stock option transactions between January 1, 2019 and December 31, 2019.

	Number of Option and Warrants Outstanding and exercisable	Weighted- Average Exercise price of Option and Warrants	Range of Exercise Price per Common Share
Balance, January 1, 2019	503,600	$4.85	$3.55 - $24
Granted and vested	30,000	$4.55	$4.55
Exercised	(379,400)	$3.65	$3.57 - $4.56
Expired/cancelled	(19,100)	$11.20	$7.20 - $24.00
Balance, December 31, 2019	135,100	$7.21	$3.57 - $9.9

Stock and Warrants Options Exercisable and Outstanding

	Outstanding at December 31, 2019	Range of Exercise Prices	Weighted Average Remaining Contractual Life (Years)
Exercisable and outstanding	135,100	$3.57 - $9.9	1.55

All options exercisable and outstanding at December 31, 2019 are fully vested. As of December 31, 2019, there was no unrecognized compensation cost related to outstanding stock options,

The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2019 was $0. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlining options and the stock price of $2.55 and $3.90 for the Company's common stock on December 31, 2019 and 2018.

The aggregate intrinsic value of options exercised during the years ended December 31, 2019 and 2018 was $922,429 and $119,059.

During the year ended December 31, 2019, 151,856 shares of common stock were issued upon cashless exercise of 379,400 options.

NOTE 14 – INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes in accordance with FASB ASC 740-10. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

(a) United States ("US")

Gulf Resources, Inc. may be subject to the United States of America Tax laws at a tax rate of 21%. No provision for the US federal income taxes has been made as the Company had no US taxable income for the years ended December 31, 2019 and 2018, and management believes that its earnings are permanently invested in the PRC.

(b) British Virgin Islands ("BVI")

Upper Class Group Limited, a subsidiary of Gulf Resources, Inc., was incorporated in the BVI and, under the current laws of the BVI, it is not subject to tax on income or capital gain in the BVI. Upper Class Group Limited did not generate assessable profit for the years ended December 31, 2019 and 2018.

(c) Hong Kong

HKJI, a subsidiary of Upper Class Group Limited, was incorporated in Hong Kong and is subject to Hong Kong taxation on its activities conducted in Hong Kong and income arising in or derived from Hong Kong. No provision for income tax has been made as it has no taxable income for the years ended December 31, 2019 and 2018. The applicable statutory tax rates for the years ended December 31, 2019 and 2018 are 16.5%. There is no dividend withholding tax in Hong Kong.

(d) PRC

Enterprise income tax ("EIT") for SCHC, SYCI and DCHC in the PRC is charged at 25% of the assessable profits.

The operating subsidiaries SCHC, SYCI and DCHC are wholly foreign-owned enterprises ("FIE") incorporated in the PRC and are subject to PRC Local Income Tax Law. The PRC tax losses may be carried forward to be utilized against future taxable profit for ten years for High-tech enterprises and small and medium-sized enterprises of science and technology and for five years for other companies. Tax losses of the operating subsidiaries of the Company may be carried forward for five years.

On February 22, 2008, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued CaiShui [2008] Circular 1 ("Circular 1"). According to Article 4 of Circular 1, distributions of accumulated profits earned by a FIE prior to January 1, 2008 to foreign investor(s) in 2008 will be exempted from withholding tax ("WHT") while distribution of the profit earned by an FIE after January 1, 2008 to its foreign investor(s) shall be subject to WHT at 5% effective tax rate.

As of December 31, 2019 and December 31, 2018, the accumulated distributable earnings under the Generally Accepted Accounting Principles (GAAP") of PRC that are subject to WHT are $124,616,722 and $240,563,868, respectively. Since the Company intends to reinvest its earnings to further expand its businesses in mainland China, its foreign invested enterprises do not intend to declare dividends to their immediate foreign holding companies in the foreseeable future. Accordingly, as of December 31, 2019 and December 31, 2018, the Company has not recorded any WHT on the cumulative amount of distributable retained earnings of its foreign invested enterprises that are subject to WHT in China. As of December 31, 2019 and December 31, 2018, the unrecognized WHT are $5,254,560 and $11,035,843, respectively.

NOTE 14 – INCOME TAXES – Continued

The Company's income tax returns are subject to the various tax authorities' examination. The federal, state and local authorities of the United States may examine the Company's income tax returns filed in the United States for three years from the date of filing. The Company's US income tax returns since 2016 are currently subject to examination.

Inland Revenue Department of Hong Kong ("IRD") may examine the Company's income tax returns filed in Hong Kong for seven years from date of filing. For the years 2012 through 2018, HKJI did not report any taxable income. It did not file any income tax returns during these years except for 2014 and 2018. For companies which do not have taxable income, IRD typically issues notification to companies requiring them to file income tax returns once in every four years. The tax returns for 2014 and 2018 are currently subject to examination.

The components of the provision for income tax (expense) income tax benefit from continuing operations are:

	Years Ended December 31, 2019	2018
Current taxes – PRC	$ —	$ —
Deferred taxes – PRC	5,865,830	13,302,779
Change in valuation allowance	(8,672,817)	(214,924)
	$ (2,806,987)	$ 13,087,855

The effective income tax benefit (expense) rate differs from the PRC statutory income tax rate of 25% from continuing operations in the PRC as follows:

Reconciliations	Years Ended December 31, 2019	2018
Statutory income tax rate	25%	25%
Non-taxable & Non deductible items	1%	(9%)
Change in valuation allowance	(38%)	—
Effective income tax benefit (expense) rate	(12%)	16%

As of December 31, 2019 and 2018, the Company had a US federal net operating loss ("NOL") of approximately $2,100,000 and $566,000. The NOL can be carried forward up to 20 years from the year the losses were recorded. The timing and manner in which the Company can utilize operating loss carryforwards in any year may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations. Such limitation may have an impact on the ultimate realization of its carry forwards and future tax deductions. In addition, since the Company intends to reinvest its earnings to further expand its businesses in mainland China, its foreign invested enterprises do not intend to declare dividends to their immediate foreign holding companies in the foreseeable future. Accordingly, a 100% deferred tax asset valuation allowance was recorded for these net operating losses.

Significant components of the Company's deferred tax assets and liabilities at December 31, 2019 and December 31, 2018 are as follows:

	December 31, 2019	December 31, 2018
Deferred tax liabilities	$ —	$ —
Deferred tax assets:		
Allowance for obsolete and slow-moving inventories	$ —	$ 16,292
Impairment on property, plant and equipment	2,974,542	3,696,332
Impairment on prepaid land lease	826,673	840,284
Exploration costs	1,784,583	1,813,965
Compensation costs of unexercised stock options	171,672	194,016
PRC tax losses	18,737,005	12,663,985
US federal net operating loss	432,000	119,000
Total deferred tax assets	24,926,475	19,343,874
Valuation allowance	(8,985,833)	(313,016)
Net deferred tax asset	$ 15,940,642	$ 19,030,858

The increase in valuation allowance for the year ended December 31, 2019 is $8,672,817.

The increase in valuation allowance for the year ended December 31, 2018 is $214,924.

The increase in valuation allowance in the year ended December 31, 2019 is mainly attributable to valuation allowance recorded for the deferred tax assets related to a portion of the PRC tax losses that more likely than not will expire before it could be utilized and the exploration costs which more likely than not will not be realized.

There were no unrecognized tax benefits and accrual for uncertain tax positions as of December 31, 2019 and 2018.

There were no amounts accrued for penalties and interest for the years ended December 31, 2019 and 2018. There were no change in unrecognized tax benefits during the years ended December 31, 2019 and 2018.

NOTE 15 – BUSINESS SEGMENTS

An operating segment's performance is primarily evaluated based on segment operating income, which excludes share-based compensation expense, certain corporate costs and other income not associated with the operations of the segment. These corporate costs are separately stated below and also include costs that are related to functional areas such as accounting, treasury, information technology, legal, human resources, and internal audit. The Company believes that segment operating income, as defined above, is an appropriate measure for evaluating the operating performance of its segments. All the customers are located in PRC.

Year Ended December 31, 2019	**Bromine***	**Crude Salt***	**Chemical Products**	**Natural Gas**	**Segment Total**	**Corporate**	**Total**
Net revenue (external customers)	$ 10,022,027	$ 522,758	$ —	$ 51,736	$ 10,596,521	$ —	$ 10,596,521
Net revenue (intersegment)	—	—	—	—	—	—	—
Loss from operations before income tax expense	(15,609,979)	(4,446,900)	(2,823,298)	(188,949)	(23,069,126)	(225,257)	(23,294,383)
Income tax (expense) benefit	(3,181,343)	(247,250)	621,606	—	(2,806,987)	—	(2,806,987)
Loss from operations after income tax (expense) benefit	(18,791,322)	(4,694,150)	(2,201,692)	(188,949)	(25,876,113)	(225,257)	(26,101,370)
Total assets	142,568,684	23,352,060	111,506,728	1,732,380	279,159,852	91,133	279,250,985
Depreciation and amortization	9,625,334	3,833,288	459,613	142,692	14,060,927	—	14,060,927
Capital expenditures	57,607,104	3,004,845	—	—	60,611,949	—	60,611,949

Table of Contents

Year Ended December 31, 2018	Bromine *	Crude Salt *	Chemical Products	Natural Gas	Segment Total	Corporate	Total
Net revenue (external customers)	$ —	$ 1,981,573	$ 613,368	$ —	$ 2,594,941	$ —	$ 2,594,941
Net revenue (intersegment)	—	—	—	—	—	—	—
Income (loss) from operations before income taxes benefit	(40,504,752)	(8,336,305)	(34,757,750)	(204,517)	(83,803,324)	250,793	(83,552,531)
Income taxes benefit	10,304,897	1,902,111	880,847	—	13,087,855	—	13,087,855
Income (loss) from operations after income taxes benefit	(30,199,855)	(6,434,194)	(33,876,903)	(204,517)	(70,715,469)	250,793	(70,464,676)
Total assets	115,233,773	37,254,518	144,172,070	1,883,419	298,543,780	3,010	298,546,790
Depreciation and amortization	11,979,985	4,983,636	479,697	—	17,443,318	—	17,443,318
Capital expenditures	31,904,288	2,145,440	1,192,963	30,616	35,273,307	—	35,273,307

* Certain common production overheads, operating and administrative expenses and asset items (mainly cash and certain office equipment) of bromine and crude salt segments in SCHC were split by reference to the average selling price and production volume of the respective segment.

Reconciliations	Years Ended December 31, 2019	2018
Total segment operating loss	$ (23,069,126)	$ (83,803,324)
Corporate costs	(646,914)	(1,064,661)
Unrealized gain on translation of intercompany balance	421,657	1,315,454
Loss from operations	(23,294,383)	(83,552,531)
Other income, net of expense	301,325	500,690
Loss before taxes	$ (22,993,058)	$ (83,051,841)

The following table shows the major customer(s) (10% or more) for the year ended December 31, 2019.

Number	Customer	Bromine (000's)	Crude Salt (000's)	Chemical Products (000's)	Total Revenue (000's)	Percentage of Total Revenue (%)
1	Shandong Morui Chemical Company Limited	$ 2,203	$ 175	$ —	$ 2,378	22.6%
2	Shouguang Weidong Chemical Company Limited	$ 1,629	$ 154	$ —	$ 1,783	16.9%
3	Shandong Brother Technology Limited, Kuerle Xingdong Trading Limited	$ 1,539	$ 192	$ —	$ 1,731	16.4%
4	Dongying Bomeite Chemical Company Limited	$ 1,098	$ —	$ —	$ 1,098	10.4%
5	Shandong Shouguang Shenrunfa Ocean Chemical Company Limited	$ 1,297	$ —	$ —	$ 1,297	12.3%

The following table shows the major customer(s) (10% or more) for the year ended December 31, 2018.

Number	Customer	Bromine (000's)	Crude Salt (000's)	Chemical Products (000's)	Total Revenue (000's)	Percentage of Total Revenue (%)
1	Shandong Morui Chemical Company Limited	$ —	$ 656	$ 155	$ 811	31%
2	Shandong Brother Technology Limited, Kuerle Xingdong Trading Limited	$ —	$ 783	$ —	$ 783	30%
3	Shouguang Weidong Chemical Company Limited	$ —	$ 543	$ —	$ 543	21%

NOTE 16– CUSTOMER CONCENTRATION

The Company sells a substantial portion of its products to a limited number of customers. During the year ended December 31, 2019, the Company sold 78.6% of its products to its top five customers, respectively. As of December 31, 2019, amounts due from these customers were $4,877,106.

During the year ended December 31, 2018, the Company sold 90% of its products to its top five customers, respectively. At December 31, 2018, amount due from these customers were $0.

NOTE 17– MAJOR SUPPLIERS

During the year ended December 31, 2019, the Company purchased 100% of its raw materials from its top five suppliers. As of December 31, 2019, amounts due to those suppliers were $0. During the year ended December 31, 2018, the Company did not purchase any raw materials.

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of financial instruments, which consist of cash, accounts receivable and accounts payable and other payables, approximate their fair values due to the short-term nature of these instruments. There were no material unrecognized financial assets and liabilities as of December 31, 2019 and 2018.

NOTE 19 – CAPITAL COMMITMENT AND OTHER SERVICE CONTRACTUAL OBLIGATIONS

The following table sets forth the Company's contractual obligations as of December 31, 2019:

	Property Management Fees	Capital Expenditure
Payable within:		
the next 12 months	$ 89,425	$ 25,801
the next 13 to 24 months	89,425	—
the next 25 to 36 months	89,425	—
the next 37 to 48 months	89,425	—
Total	$ 357,700	$ 25,801

NOTE 20 –LOSS CONTINGENCIES

On or about August 3, 2018, written decisions of administration penalty captioned Shou Guo Tu Zi Fa Gao Zi [2018] No. 291, Shou Guo Tu Zi Fa Gao Zi [2018] No. 292, Shou Guo Tu Zi Fa Gao Zi [2018] No. 293, Shou Guo Tu Zi Fa Gao Zi [2018] No. 294, Shou Guo Tu Zi Fa Gao Zi [2018] No. 295 and Shou Guo Tu Zi Fa Gao Zi [2018] No. 296 (together, the "Written Decisions") were served on Shouguang City Haoyuan Chemical Company Limited ("SCHC") by Shouguang City Natural Resources and Planning Bureau (the "Bureau"), naming SCHC as respondent respectively thereof. The Decisions challenged the land use of Factory nos. 2, 9, 7, 4, 8 and 10, respectively, and alleged, among other things, that SCHC had illegally occupied and used the land in the total area of approximately 52,674 square meter, on which Factory nos. 2, 9, 7, 4, 8 and 10 were built, respectively. The Written Decisions ordered SCHC, among other things, to return the land subject to the Written Decisions to its respective legal owner, restore the land to its original state, and demolish or confiscate all the buildings and facilities thereon and pay monetary penalty of approximately RMB 1.3 million ($184,000) in the aggregate. Each of the Written Decisions shall be executed within 15 days upon serving on SCHC. Additional interest penalty shall be imposed at a daily rate of 3% in the event that SCHC does not make the monetary penalty payment in a timely manner. Subsequently, the Bureau filed enforcement actions to the People's Court of Shouguang City, Shandong Province (the "Court"), naming SCHC as enforcement respondent and alleged, among other things, that SCHC failed to perform its obligations under each of the Written Decisions within the specified timeframe. The enforcement proceedings sought court orders to enforce the Written Decisions. On May 5, 2019, written decisions of administrative ruling captioned (2019) Lu 0783 Xing Shen No. 384, (2019) Lu 0783 Xing Shen No. 385, (2019) Lu 0783 Xing Shen No. 389, (2019) Lu 0783 Xing Shen No. 390, (2019) Lu 0783 Xing Shen No. 393, and (2019) Lu 0783 Xing Shen No. 394, respectively (together, the "Court Rulings") were made by the Court in favor of the Bureau. The Court orders, among other relief, to enforce each of the Written Decisions, to return each subject land to its legal owner and demolish or confiscate the buildings and facilities thereon and restore the land to its original state within 10 days from the service of the Court Rulings on SCHC. The Court Rulings became enforceable immediately upon service on SCHC on May 5, 2019.

In the last twenty years, there were no government regulations requiring bromine manufacturers to obtain land use and planning approval document. As such, the Company believes most of the bromine manufacturers in Shouguang City do not have land use and planning approval documents and lease their land parcels from the village associations. They are facing the same issues in connection with land use and planning as the Company.

The Company is in the process of resolving the issues in connection with SCHC's land use and planning diligently. The Company has been in discussions closely with the local government authorities with the help from Shouguang City Bromine Association to seek reliefs and, based on verbal confirmation by local government authorities, believes the administrative penalties imposed by the Bureau according to the Written Decisions are being re-assessed by local government authorities and may be revoked. The Company has obtained one confirmation from the local government authorities that the administrative penalty imposed on Factory No. 7 , Factory No. 8 and Factory No.10 are being revoked which are waiting for the Court formal approval ,and production of Factory No. 7 was allowed to resume in April 2019. In addition, on August 28, 2019, the People's Government of Shandong Province, issued a regulation titled "Investment Project Management Requirements of Chemical Companies in Shandong Province" permitting the construction of facilities on existing sites or infrastructure of bromine manufacturing and other chemical industry-related types of projects (clause 11 of section 3).The Company believes that the goal of the government is to standardize and regulate the industry and not to demolish the facilities or penalize the manufacturers. As of the date of this report, the Company has not been notified by the local government that it will take any measure to enforce the administrative penalties. Based on information known to date, the Company believes that it is remote that the Written Decisions or Court Rulings will be enforced within the expected timeframe and a material penalty or costs and expenses against the Company will result. However, there can be no assurance that there will not be any further enforcement action, the occurrence of which may result in further liabilities, penalties and operational disruption.

In view of the above facts and circumstances, the Company believes that it is not necessary to accrue for any estimated losses or impairment as of December 31, 2019.

NOTE 21 - SUBSEQUENT EVENT

In January 2020, the Company obtained the environmental protection assessment approval performed by the government of Shouguang City, Shandong Province for the proposed new Yuxin chemical factory. With this approval, the Company is permitted to construct our new chemical factory and the Company plans to begin construction in May 2020.

In January 2020, an outbreak of a novel coronavirus (COVID-19) surfaced in Wuhan, China. The outbreak in China caused the Chinese government to require businesses to close and to restrict certain travel within the country. In cooperation with the government authorities, the Company's operations in China extended their winter temporary shut down by approximately three weeks. As of the date of this filing, the Company has been allowed to resume production at its bromine factories No. 1, No. 4, No. 7 and No. 9, and the Company has been in preparation process for resuming production at those factories. The Company does not believe that the COVID-19 had material adverse impact on the Company's operating results as of the end of fiscal 2019. The Company's bromine factories No.7 and No.1 started trial production in the middle of March 2020, and commenced commercial production on April 3, 2020.

On March 11, 2020, the World Health Organization (WHO) officially declared COVID-19 a pandemic, pointing to the over 118,000 cases of COVID-19 illness in over 110 countries and territories around the world and the sustained risk of further global spread. On April 8, 2020, WHO reported that there were more than 1.3 million of confirmed cases of COVID-19 including 79,235 deaths globally. Given this fact, the duration and intensity of the impact of the COVID-19 and resulting disruption to the Company's operations is uncertain . While our operations are currently not materially affected, it is unknown whether or how they may be affected if such a pandemic persists for an extended period. While not yet quantifiable, the Company expects this situation will not have a material adverse impact on its operating results in the first quarter of 2020 and continues to assess the financial impact for the remainder of the year.

Table of Contents

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Expressed in U.S. dollars)

SCHEDULE I – PARENT ONLY FINANCIAL INFORMATION

The following presents condensed parent company only financial information of Gulf Resources, Inc.

Condensed Balance Sheets

	As of December 31,	
	2019	2018
Current Assets		
Prepayments and deposits	$ —	$ —
Total Current Assets	—	—
Non-Current Assets		
Interests in subsidiaries	200,057,813	230,229,081
Amounts due from group companies	63,546,235	64,017,517
Total non-current assets	263,604,048	294,246,598
Total Assets	$ 263,604,048	294,246,598
Liabilities and Stockholders' Equity		
Current Liabilities		
Other payables and accrued expenses	$ 354,247	$ 250,493
Amounts due to group companies	142,701	142,701
Total Current Liability	496,948	393,194
Total Liabilities	$ 496,948	$ 393,194
Stockholders' Equity		
PREFERRED STOCK; $0.001 par value; 1,000,000 shares authorized; none outstanding	$ —	$ —
COMMON STOCK; $0.0005 par value; 80,000,000 shares authorized; 9,562,444 and 9,410,588 shares issued; and 9,516,614 and 9,360,758 shares outstanding as of December 31, 2019 and December 31, 2018	23,904	23,525
Treasury stock; 45,830 and 49,830 shares as of December 31, 2019 and December 31, 2018 at cost	(510,329)	(554,870)
Additional paid-in capital	95,043,388	95,020,808
Retained earnings unappropriated	159,808,400	185,608,445
Retained earnings appropriated	24,233,544	24,233,544
Cumulative translation adjustment	(15,491,807)	(10,478,048)
Total Stockholders' Equity	263,107,100	293,853,404
Total Liabilities and Stockholders' Equity	$ 263,604,048	$ 294,246,598

Table of Contents

Condensed Statements of Loss

	Years Ended December 31,	
	2019	2018
OPERATING EXPENSES		
General and administrative expenses	$ (642,151)	$ (1,061,674)
TOTAL OPERATING EXPENSES	(642,151)	(1,061,674)
OTHER EXPENSES		
Interest expense	(385)	(500)
TOTAL OTHER EXPENSES	(385)	(500)
TOTAL EXPENSES	(642,536)	(1,062,174)
Equity in net Loss of subsidiaries	(25,157,509)	(68,901,812)
LOSS BEFORE INCOME TAXES	(25,800,045)	(69,963,986)
INCOME TAXES	—	—
NET LOSS	$ (25,800,045)	$ (69,963,986)

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (25,800,045)	$ (69,963,986)
Adjustments to reconcile net Loss to net cash provided by operating activities:		
Equity Loss in unconsolidated subsidiaries	25,157,509	68,901,812
Stock-based compensation expense-options	45,900	496,200
Shares issued from treasury stock for services	21,600	—
Changes in assets and liabilities:		
Other payables and accrued expenses	103,754	4,888
Net cash used in operating activities	(471,282)	(561,086)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from group companies	471,282	561,086
Net cash provided by financing activities	471,282	561,086
NET INCREASE IN CASH AND CASH EQUIVALENTS	—	—
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	—	—
CASH AND CASH EQUIVALENTS - END OF YEAR	$ —	$ —

(i) Basis of presentation

In the condensed parent-company-only financial statements, the Company’s investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. The Company’s share of net loss of its subsidiaries is included in condensed statements of loss using the equity method. These condensed parent-company-only financial statements should be read in connection with the consolidated financial statements and notes thereto.

As of December 31, 2019, the Company itself has no purchase commitment, capital commitment and operating lease commitment.

(ii) Restricted Net Assets

Schedule I of Rule 5-04 of Regulation S-X requires the condensed financial information of registrant shall be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant’s proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances or cash dividends without the consent of a third party (i.e., lender, regulatory agency, foreign government, etc.).

The condensed parent company financial statements have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X as the restricted net assets of the subsidiaries of Gulf Resources, Inc. exceed 25% of the consolidated net assets of Gulf Resources, Inc. The ability of the Company’s Chinese operating subsidiaries to pay dividends may be restricted due to the foreign exchange control policies and availability of cash balances of the Chinese operating subsidiaries. Because a significant portion of the Company’s operations and revenues are conducted and generated in China, a significant portion of the revenues being earned and currency received are denominated in RMB. RMB is subject to the exchange control regulation in China, and, as a result, the Company may be unable to distribute any dividends outside of China due to PRC exchange control regulations that restrict the Company’s ability to convert RMB into US Dollars.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures”, as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have carried out an evaluation as required by Rule 13a-15(d) under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2019, the Company’s disclosure controls and procedures were effective.

(b) ***Management’s Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the process designed by, or under the supervision of, our principal executive officer and principal financial officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the company.

Management has used the framework set forth in the report entitled *Internal Control—Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), known as COSO, to evaluate the effectiveness of our internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Based on such evaluation our CEO and CFO have concluded that, as of December 31, 2019, our internal controls over financial reporting were effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, which permits us to provide only management's report in this annual report.

The Company's management took all necessary steps to make its disclosure controls to be more efficient by, including, not limited to, (i) more closely monitoring the application of the Company's comprehensive disclosure policy implementing procedures to strengthen disclosure controls, (ii) enhancing the identification, analysis and control of risks relevant to accurate and timely disclosure, and (iii) ensuring more timely transmission of information and communication within the organization during 2019. Specifically, (i) the Company held weekly meetings with its business units heads and investor relations officers to identify and discuss information that may require public disclosure; (ii) the Company's management required all business units to report information that may require public disclosure to the Company's investor relations officers immediately; (iii) the Company's management consulted with the Company's outside securities counsel to the extent they deemed necessary; (iv) the Company's management designated the Company's investor relations officers as disclosure coordinator to perform functions of collecting information, preparing disclosure, distributing disclosure for review and comment to business units and obtaining comment from each reviewing person and their confirmation that the portions of such disclosure relevant to such person's areas of responsibility were fairly and accurately presented and did not omit any material information required to be disclosed.

(c) Changes in internal controls

Other than as described in (b) above, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth certain information about our executive officers and directors as of the date of this Annual Report.

Name	**Age**	**Other positions with Company; other directorships held in last five years**	**Has served as Company director since**
Ming Yang	51	Chairman of the Board of Director	December 2006
Xiaobin Liu	50	Chief Executive Officer and Director	March 2009
Naihui Miao	50	Secretary, Chief Operating Officer and Director	January 2006
Yang Zou (1)(3)	47	Independent Director	March 2011
Shengwei Ma (1)(2)	51	Independent Director	December 2019
Shitong Jiang (1)(2)(3)	50	Independent Director	April 2008
Tengfei Zhang (2)(3)	51	Independent Director	June 2011

(1) Serves as a member of the Audit Committee.

(2) Serves as a member of the Compensation Committee.

(3) Serves as a member of the Nominating and Corporate Governance Committee.

Ming Yang, **Chairman of the Board of Director** – Mr. Yang has served as Chairman of Shouguang Vegetable Industry Group Holding Company. since 2013. In addition, he has served as Chairman of Shouguang City Yuxin Chemical Company Limited since July 2000. Since May 2005, Mr. Yang has served as Chairman of Shouguang City Haoyuan Chemical Company Limited, Shouguang City He Mao Yuan Bromize Company Limited, and Shouguang City Qing River Real Estate Construction Company. He was nominated as director of Qinghe Oil Field Office in 1993, where he managed operations. In 1997 he was appointed Chairman and General Manager of Shouguang Qinghe Shiye LLC and during the next three years its profits doubled. He took the position of general manager of Shouguang City Yu Xin Chemical Industry Co., Ltd. in 2000. During his stay, he focused on quality management and technology progress, which led to a 100 percent success rate of all products. He also helped the company successfully pass the ISO certification and become a private high-tech enterprise. In 2005 he was appointed to the position of Chairman, where he has helped the company to become a leading producer of bromine and crude salt in China. In 2006 he became the Chairman of Gulf Resources, Inc. Mr. Yang has been the representative of Shandong Shouguang congress since 1995 and in 1998 he was awarded as Honorary Entrepreneur in Weifang City.

Xiaobin Liu, **Chief Executive Officer and Director** – Mr. Liu was appointed as Chief Executive Officer and Director on March 10, 2009. Mr. Liu joined the Company as Vice President in December 2007. He has served as Chairman of Chengdu Philosopher's Stone Culture Media Co. LTD since August 2018. He has served as Chairman of Shouguang Vegetable Industry Group, Inc. since 2011 and resigned in 2017. Before he joined the Company, Mr. Liu served as project manager of Shenzhen Guangshen Accounting Firm from January 2007 to November 2007; the department manager of Hainan Zhongou Accounting Firm from January 2003 to December 2006; the CFO (equivalent of Vice President) of Dasheng Real Estate Development Company, which is the subsidiary of Saige Dasheng Co., Ltd from May 2002 to November 2002; the CFO of Shenzhen Securities Department of Hainan Saige International Trust Investment Company from May 2000 to August 2004; and the financial manager of Hainan Wanquanyuan Hot Spring Tourism Development Co., Ltd from 1995 to 2000. During this time, he also was the CFO of Qionghai City Guantang Hotspring Leisure Center, the CFO of Qionghai City Wanquanhe Agricultural Development Co., Ltd, the CFO of Qionghai Wanquanhe Hotspring Tourist Development Property Management Co., Ltd, and the CFO of Qionghai Guantangyuzhuang Resort Co., Ltd. Prior to that, Mr. Liu worked in the financial department of Hainan Jinyuan Industrial Co., Ltd, which is a subsidiary of Chinese Black Metal Limited Company Northwest Branch from 1992 to 1995, and the financial department of Shanxi Aircraft Manufacturing Company from 1988 to 1992. Mr. Liu earned a master degree from the Economic and Management School at Hong Kong City University.

Naihui Miao, Secretary, Chief Operating Officer and Director – Mr. Miao has served as Vice President of Shouguang City Haoyuan Chemical Company Limited since January 2006. Since January 2006, Mr. Miao has served as Director, Secretary and Vice President of Gulf Resources, Inc. and he is in charge of sales, human resource and business management. From 2005 to 2006, Mr. Miao served as Vice President of Shouguang City Yuxin Chemical Company Limited as the deputy general manager. From 1991 to 2005, Mr. Miao served as a Manager and then Vice President of Shouguang City Commercial Trading Center Company Limited. He was the director of Shouguang Business Trade Center since 1986. He has served as Supervisor of Chengdu Philosopher's Stone Culture Media Co. LTD since August 2018.

Yang Zou, **Independent Director –** Mr. Zou was appointed a director on March 2, 2011. Mr. Zou has served as Vice Director of Beijing Zhongtianhuamao Accounting Firm (General Partnership) since July 1, 2017 and resigned in August 2018. He is a Certified Public Accountant of China and holds the certificate of Certified Internal Auditor. From March 2003 to September 2009, Mr. Zou was chief financial officer of Bohua Ziguang Zhiye Co., Ltd. From July 2001 to January 2003, Mr. Zou was the audit department manager of financial center of Beijing Hengji Weiye Electronic Products Co., Ltd., where he was in charge of internal audit, financial budget management, and coordination with external audit. From July 1999 to June 2001, Mr. Zou was manager of finance and audit department of Zhonglian Online Information Development Co., Ltd. From September 1993 to June 1999, Mr. Zou had served as assistant auditor, auditor, and head of project audit of Hainan Zhongou Certified Public Accountants Co., Ltd. From July 1991 to August 1993, Mr. Zou was an accountant of department of finance of Hunan Department Store Co., Ltd. Mr. Zou graduated from Beijing University with bachelor's degree in finance.

Shitong Jiang, Independent Director – Mr. Jiang was appointed a director on April 23, 2008. Mr. Jiang is Chief of the Shouguang City Audit Bureau, Shandong Province, has been with the Audit bureau since 1990. During his career at the Shouguang City Audit Bureau he has held multiple positions including, Auditing Officer and Audit Section Deputy Chief. The Shouguang City Audit Bureau is responsible for the independent audit supervision of the affairs of the government. From 1987 to 1990 Mr. Jiang attended Shandong Financial Institution.

Tengfei Zhang, Independent Director – Mr. Zhang was appointed a director on June 30, 2011. Mr. Zhang has served as Director of Shenzhen Kaili Industrial Co., Ltd. since January 1, 2017. Prior to this position, he was the Chairman of the Board of Supervisors of Shenzhen Kaili Industrial Co., Ltd. He is a Certified Public Accountant in China. From July 2000 to December 2004 , Mr. Zhang was Supervisor of Shenzhen Kaili Industrial Co., Ltd. and Director of Finance of Changsha Kaili Real Estate Development Co., Ltd. From January to June 2000, he was Manager of Financial Department of Shenzhen Kaili Industrial Co., Ltd. Mr. Zhang graduated from Economics and Management Department of Hunan Business School with a college degree in 1989.

Shengwei Ma, Independent Director – Mr. was appointed a director on December 18, 2019. Mr. Ma has served as Department Manager of Shouguang City Urban Construction and Investment Group since March 2012. Mr. Ma holds a Senior Accountant Certificate. Mr. Ma graduated from Central Broadcasting and Television University with bachelor’s degree in accounting in 2004.

Family Relationships

There are no family relationships among our executive officers, directors and significant employees.

Involvement in Certain Legal Proceedings

To the best of our knowledge, there have been no events under any bankruptcy act, no criminal proceedings and no judgments, injunctions, orders or decrees material to the evaluation of the ability and integrity of any director, executive officer, promoter or control person of our Company during the past ten years.

Board of Directors

All directors hold office until the next annual meeting of shareholders and until their successors have been duly elected and qualified. Directors are elected at the annual meetings to serve for one-year terms. Officers are elected by, and serve at the discretion of, the board of directors. Our board of directors shall hold meetings on at least a quarterly basis.

As a Nasdaq listed company, we comply with the NASDAQ Listing Rules with respect to certain corporate governance matters. As a smaller reporting company, under the NASDAQ rules we are required to maintain a board of directors comprised of a majority of independent directors, and an audit committee of at least three members, comprised solely of independent directors who also meet the requirements of Rule 10A-3 under the Securities Exchange Act of 1934.

Director Independence

The Board of Directors has determined that Yang Zou, Shitong Jiang, Tengfei Zhang and Shengwei Ma are independent under Rule 5605(a)(2) of the NASDAQ Listing Rules. In making this determination, our board of directors considered the relationships that each of these non-employee directors has with us and all other facts and circumstances our board of directors deemed relevant in determining their independence. As required under applicable NASDAQ rules our independent directors will meet on a regular basis as often as necessary to fulfill their responsibilities, including at least annually in executive session without the presence of non-independent directors and management. In addition, under applicable rules and regulations, and as determined by the Board, all of the members of the Audit, Compensation, and Nominating and Corporate Governance Committees are “independent” directors.

Board Committees

Our board of directors has established standing committees in connection with the discharge of its responsibilities. These committees include an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. Our board of directors has adopted written charters for each of these committees. Copies of the charters are available on our website at www.gulfresourcesinc.com. Our board of directors may establish other committees as it deems necessary or appropriate from time to time.

Board Operations

The positions of principal executive officer and Chairman of the Board of Company are held by different persons. The Chairman of the Board chairs Board and stockholder meetings and participates in preparing their agendas. The Chairman of the Board also serves as a focal point for communication between management and the Board between Board meetings, although there is no restriction on communication between directors and management. The Company believes that these arrangements afford the directors sufficient resources to supervise management effectively, without being overly engaged in day-to-day operations.

The Board plays an active role, as well as the independent committees, in overseeing the management of the Company's risks. The Board regularly reviews reports from members of senior management and committees on areas of material risk to the Company, including operational, financial, legal, strategic and regulatory risks.

Audit Committee

The Board of Directors has standing audit, compensation, and nominating committees, comprised solely of independent directors. Each committee has a charter, which is available at Company's website, www.gulfresourcesinc.com.

Audit Committee

The Audit Committee is responsible for reviewing the results and scope of the audit, and other services provided by our independent auditors, and reviewing and evaluating our system of internal controls. Mr. Jiang is the Audit Committee Financial Expert as defined in Item 407(d)(5) of Regulation S-K promulgated under the Securities Act, and the chair of the Audit Committee. Our Board of Directors has determined that Messrs. Jiang, Zou and Ma are "independent directors" within the meaning of Rule 10A-3 under the Exchange Act, as determined based upon the criteria for "independence" set forth in the rules of the NASDAQ Stock Market.

Compensation Committee

The Compensation Committee is responsible for (a) reviewing and providing recommendations to the Board of Directors on matters relating to employee compensation and benefit plans, and (b) assisting the Board in determining the compensation of the Chief Executive Officer and making recommendations to the Board with respect to the compensation of the Chief Financial Officer, other executive officers of the Company and independent directors. Each of Tengfei Zhang, Shitong Jiang and Shengwei Ma are members of the Compensation Committee. The Compensation Committee operates under a written charter. Mr. Zhang is the Chairman of Compensation Committee.

Table of Contents

Nominating and Corporate Governance Committee

Our Board of Directors established a Nominating and Corporate Governance Committee in June 2009. The purpose of the Nominating and Corporate Governance Committee is to assist our Board of Directors in identifying qualified individuals to become board members, in determining the composition of the Board of Directors and in monitoring the process to assess board effectiveness. Each of Tengfei Zhang, Shitong Jiang and Yang Zou are members of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee operates under a written charter. Mr. Jiang is the Chairman of Nominating and Corporate Governance Committee.

Material Changes to the Procedures by which Security Holders May Recommend Nominees to the Board

We do not currently have a procedure by which security holders may recommend nominees to the Board.

Director Qualifications

The Company seeks directors with established strong professional reputations and experience in areas relevant to the strategy and operations of our businesses. The Company also seeks directors who possess the qualities of integrity and candor, who have strong analytical skills and who are willing to engage management and each other in a constructive and collaborative fashion, in addition to the ability and commitment to devote time and energy to service on the Board and its committees. We believe that all of our directors meet the foregoing qualifications.

The Nominating and Corporate Governance Committee and the Board believe that the leadership skills and other experience of the Board members, as described below, provide the Company with a range of perspectives and judgment necessary to guide our strategies and monitor their execution.

Ming Yang is the founder of the company and has been in the chemical industry for more than ten years. Mr. Yang has contributed to the Board's strong leadership and vision for the development of the Company.

Xiaobin Liu was appointed as Chief Executive Officer and Director on March 10, 2009. Mr. Liu has years of experience in capital markets, financial and business management, and strategic planning and development.

Naihui Miao has served as Vice President of Shouguang City Haoyuan Chemical Company Limited since January 2006. Since January 2006, Mr. Miao has served as Director, Secretary and Vice President of the Company. He is in charge of sales, human resource and business management. Mr. Miao has years of experience in the chemical industry, business operations and management, and strategic planning and development.

Yang Zou was appointed as a Director on March 2, 2011. Mr. Zou has served as the Vice Director of Beijing Zhongtianhuamao Accounting Firm (General Partnership) since July 1, 2016. He is a Certified Public Accountant and holds the certificate of Certified Internal Auditor. Mr. Zou has extensive experience in auditing and accounting related matters.

Shitong Jiang was appointed as a Director on April 23, 2008. Mr. Jiang is Chief of the Shouguang City Audit Bureau, Shandong Province. He has been with the audit bureau since 1990. Mr. Jiang has many years of auditing and management experience with PRC government departments.

Tengfei Zhang was appointed as a Director on June 30, 2011. Mr. Zhang has served as Director of Shenzhen Kaili Industrial Co., Ltd. He is a Certified Public Accountant. Mr. Zhang has many years of experience in management, finance, business strategy and audit related matters.

Shengwei Ma elected as a director on December 18, 2019. Mr. Ma has served as Department Manager of Shouguang City Urban Construction and Investment Group since March 2012. Mr. Ma holds a Senior Accountant Certificate. Mr. Ma Mr. Zhang has many years of experience in management and accounting matters.

Code of Ethics

The Board has adopted a code of ethics applicable to Company's directors, officers, and employees. The code of ethics is available at Company's website, www.gulfresourcesinc.com.

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Company's directors and executive officers and any beneficial owner of more than 10% of any class of Company equity security to file reports of ownership and changes in ownership with the Securities and Exchange Commission and furnish copies of the reports to Company. Based solely on the Company's review of copies of such forms and written representations by Company's executive officers and directors received by it, Company believes that during 2019, all such reports were filed timely, except that Mr. Shengwei Ma inadvertently failed to file a Form 3 in connection his election of director of the Company.

Item 11. Executive Compensation

Set forth below is information regarding the compensation paid during the year ended December 31, 2018 and 2017 to our principal executive officer and principal financial officer, who are collectively referred to as "named executive officers" elsewhere in this Annual Report.

FISCAL 2019 COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus($)	Stock Awards($)	Option Awards$(1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Xiaobin Liu	2018	109,029	—	—	118,233	—	—	—	227,262
CEO	2019	104,467	—	—	—	—	—	—	104,467
Min Li	2018	109,029	—	—	118,233	—	—	—	227,262
CFO	2019	104,467	—	—	—	—	—	—	104,467
Naihui Miao	2018	109,029	—	—	118,233	—	—	—	227,262
COO	2019	104,467	—	—	—	—	—	—	104,467

(1) Represents the dollar amount recognized for financial statement reporting purposes in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 718 – "Compensation - Stock Compensation."

Except as disclosed below under the caption "Compensation of Directors," we have not paid or accrued any fees to any of our executive directors for serving as a member of our Board of Directors. We do not have any retirement, pension, profit sharing or insurance or medical reimbursement plans covering our officers and directors. Our executive officers are reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of such expenses by anyone other than our Board of Directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

Grants of Plan-Based Awards

There was no plan-based award granted by the Company during fiscal 2019.

Narrative Discussion

The following employment agreements were entered into by the Company and the named executive officers:

Xiaobin Liu

The employment agreement for Xiaobin Liu to serve as Chief Executive Officer of the Company was renewed on June 1, 2019 with a term of three years. Xiaobin Liu is also a member of the Board of Directors. Pursuant to the agreement, Mr. Liu is entitled to receive annual compensation equal to approximately $107,327, subject to changes in the foreign exchange rate and market conditions.

Min Li

The employment agreement for Min Li to serve as Chief Financial Officer of the Company was renewed on January 1, 2020 with a term of one year. Pursuant to the agreement, Mr. Li is entitled to receive annual compensation equal to approximately $107,327, subject to changes in the foreign exchange rate and market conditions.

Naihui Miao

The employment agreement for Naihui Miao to serve as Chief Operating Officer of the Company was renewed on June 1, 2019 with a term of three years. Mr. Miao is also a member of the Board of Directors. Pursuant to the agreement, Mr. Miao is entitled to receive annual compensation equal to approximately $107,327 subject to changes in the foreign exchange rate and market conditions.

In addition, each of our named executive officers is entitled to participate in any and all benefit plans from time to time, in effect for employees, along with vacation, sick and holiday pay in accordance with policies established and in effect from time to time.

Assuming the employment of the Company's named executive officers was to be terminated without cause or for good reason or in the event of change in control, as of December 31, 2019, the following individuals would have been entitled to payments in the amounts set forth opposite to their name in the below table:

Name	**Cash Payment**
Xiaboin Liu	$0
Min Li	$0
Naihui Miao	$0

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth, for each named executive officer, information regarding unexercised stock options, unvested stock awards, and equity incentive plan awards outstanding as of December 31, 2019.

OUTSTANDING EQUITY AWARDS AT 2019 FISCAL YEAR END

OPTION AWARDS						STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Xiaobin Liu, CEO	20,000(1)	—	—	7.27	August 22, 2021	—	—	—	—
Min Li, CFO	20,000(1)	—	—	7.27	August 22, 2021	—	—	—	—
Naihui Miao, COO	20,000(1)	—	—	7.27	August 22, 2021	—	—	—	—

(1) Represents an option to purchase shares of Common Stock granted on August 23, 2017, which vested and became exercisable beginning on August 23, 2017 and are adjusted to reflect the 1-for-5 reverse stock split of our common stock completed on January 27, 2020.

Table of Contents

Option Exercises and Stock Vested

The following table sets forth aggregate information with respect to each named executive officer regarding the exercise of stock options, stock appreciation rights, and similar instruments and the vesting of restricted stock, restricted stock units and similar instruments, for fiscal 2019.

FISCAL 2019 OPTION EXERCISES AND STOCK VESTED

	OPTION AWARDS		STOCK AWARDS	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Xiaobin Liu, CEO	33,246*	202,801	0	0
Min Li, CFO	33,246*	202,801	0	0
Naihui Miao, COO	33,246*	202,801	0	0

* Reflected the 1-for-5 reverse stock split of our common stock completed on January 27, 2020.

Compensation Committee Interlocks and Insider Participation

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Compensation of Directors

The following table sets forth information regarding compensation of each director, excluding our executive directors, Xiaobin Liu and Naihui Miao, who do not receive compensation in their capacity as executive directors, for fiscal 2019.

FISCAL 2019 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards $(l)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Ming Yang	$ 69,121	—	—		—	—	$ 69,121
Nan Li (2)	—	—	—	—	—	—	—
Shitong Jiang	—	—	—	—	—	—	—
Yang Zou	—	—	—	—	—	—	—
Tengfei Zhang	—	—	—	—	—	—	—
Shengwei Ma	—	—	—	—	—	—	—

(1) Represents the dollar amount recognized for financial statement reporting purposes in accordance with FASB ASC 718 – “Compensation – Stock Compensation.”

(2) Mr. Nan Li resigned as an independent director of the Company on April 22, 2019.

Pursuant to the terms of their director agreements, each of our independent directors, receive options to purchase 12,500 shares of our Common Stock on an annual basis with exercise prices not less than the closing market price of our Common Stock on the dates of grant. The grant of future options is contingent upon the director's continued service with the Company. We do not pay any cash compensation to the independent directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of Common Stock, as of the date of this annual report, by each of Company's directors and executive officers; all executive officers and directors as a group, and each person known to Company to own beneficially more than 5% of Company's Common Stock. Except as otherwise noted, the persons identified have sole voting and investment powers with respect to their shares. As of the date of this annual report, there were 9,517,427 shares of the Company's Common Stock outstanding.

Name of Beneficial Owner (1)	Number of Shares		Percent of Class
Ming Yang (Chairman)	2,810,622	(2)	29.5%
Xiaobin Liu (CEO)	38,115	(3)	*
Min Li (CFO)	38,115	(3)	*
Naihui Miao (COO)	38,115	(3)	*
Shengwen Ma (Director)	—		—
Yang Zou (Director)	2,500	(4)	*
Shi Tong Jiang (Director)	2,500	(5)	*
Tengfei Zhang (Director)	2,500	(6)	*
All Directors and Executive Officers as a Group (eight persons)	2,932,466		30.8%
Chen Weijie	1,213,603	(7)	12.8%
Wenxiang Yu	1,015,945	(7)(8)	10.7%
Shandong Haoyuan Industry Group Ltd.	824,947	(7)(8)	8.7%

* Less than 1%.

(1) The address of each director and executive officer is c/o Gulf Resources, Inc., Level 11, Vegetable Building, Industrial Park of the East City, Shouguang City, Shandong Province, 262700, the People's Republic of China.

(2) Consists of 634,770 shares owned by Ming Yang, 1,015,945 shares owned by Ms. Wenxiang Yu, the wife of Mr. Yang, 334,960 shares owned by Mr. Zhi Yang, Mr. Yang's son, and 824,947 shares owned by Shandong Haoyuan Industry Group Ltd. ("SHIG"), of which Mr. Yang is the controlling shareholder, chief executive officer and a director. Mr. Yang disclaims beneficial ownership of the shares owned by his wife and SHIG.

(3) Consists of 20,000 shares issuable upon exercise of options held by such beneficial owner.

(4) Consists of 2,500 shares issuable upon exercise of options held by Mr. Zou.

(5) Consists of 2,500 shares issuable upon exercise of options held by Mr. Jiang.

(6) Consists of 2,500 shares issuable upon exercise of options held by Mr. Zhang.

(7) Based on Schedule 13D filed on August 12, 2015. Mr. Chen's address is North Weigao Road, Luocheng Sub-district Office, Shouguang, Shandong Province 262700, the People's Republic of China.

(8) The address of the shareholder is c/o Gulf Resources, Inc., Level 11, Vegetable Building, Industrial Park of the East City, Shouguang City , Shandong Province, 262700, the People's Republic of China.

Item 13. Certain Relationships and Related Transactions, Director Independence

Certain Relationships and Related Transactions

During the fiscal year 2018 and 2019, the Company borrowed $355,212 and $$419,995 , and fully repaid later during the same period, from Jiaxing Lighting Appliance Company Limited ("Jiaxing Lighting"), in which Mr. Ming Yang, a shareholder and the Chairman of the Company, has a 100% equity interest. The amounts due to Jiaxing Lighting were unsecured, interest free and repayable on demand.

Our policy is that a contract or transaction either between the Company and a director, or between a director and another company in which he is financially interested is not necessarily void or void-able if the relationship or related party transactions are approved or ratified by the Audit Committee.

Item 14. Principal Accounting Fees and Services

Audit Fees

The aggregate fees billed to the Company by its principal accountant for the last two fiscal years were as follows:

Fees	**2018**	**2019**
Audit Fees	$208,000	$233,000
Audit Related Fees	$0	$0
Tax Fees	$9,000	$9000
All Other Fees	$0	$0
Total	$217,000	$242,000

Audit Fees

This category consists of fees for the audit of our annual financial statements, review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent registered public accountants in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-Related Fees

This category consists of services by our independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees. This category includes accounting consultations on transaction and proposed transaction related matters. There were no such fees incurred by the Company in the years ended December 31, 2019 and 2018.

Tax Fees

The tax fee of $9,000 relate to tax compliance services rendered in each of the years ended December 31,2019 and 2018.

All Other Fees

There are no other fees to disclose.

Pre-Approval of Services

The Audit Committee appoints the independent accountant each year and pre-approves the audit services. The Audit Committee chair is authorized to pre-approve specified non-audit services for fees not exceeding specified amounts, if he promptly advises the other Audit Committee members of such approval.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements and Schedules

(1) Financial Statements – The financial statements filed as part of this filing are listed on the index to the Financial Statements and Supplementary Data, Item 8 of Part II, on page F-1.

(2) Financial Statement Schedules – "Schedule I – Parent Only Financial Information" filed as part of this filing is listed on the Financial Statements and Supplementary Data, Item 8 of Part II, on pages S-1 and S-2. All other financial statement schedules have been omitted because they are not applicable, or the information required is set forth in the Consolidated Financial Statements or related notes thereto.

(b Exhibit Index

2.1	Agreement and Plan of Merger dated December 10, 2006, among the Registrant, DFAX Acquisition vehicle, Inc., Upper Class Group Limited and the shareholders of UCG, incorporated herein by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K filed on December 12, 2006.
2.2	Share Exchange Agreement among the Registrant, Upper Class Limited, Shouguang Yuxin Chemical Industry Company Limited and shareholders of Shouguang Yuxin Chemical Industry Company Limited, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 9, 2007.
2.3	Agreement and Plan of Merger dated November 24, 2015, incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 1, 2015.
3.1	Articles of Incorporation of Gulf Resources Inc., incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 1, 2015.
3.2	Bylaws of Gulf Resources Inc., incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on December 1, 2015.
3.4	Certificate of Amendment to Articles of Incorporation, incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 28, 2020.
4.1	Description of Securities. *

10.20	Taiwan Island Ecological Culture City Project Demolition Compensation Agreement for Factory #6, dated November 25, 2016, incorporated by reference to Exhibit 10.1 to the Registrant's current report on Form 8-K, filed on November 29, 2016.
14	Code of Ethics, incorporated herein by reference to Exhibit 14 to the Registrant' annual report on Form 10-K filed on March 16, 2009.
21.1	List of Subsidiaries, incorporated herein by reference to Exhibit 21.1 to the Registrant's annual report on Form 10-K filed on March 16, 2018.
23.1	Consent of Morison Cogen LLP, an independent registered public accounting firm.*
31.1	Certification pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

* Filed herewith.

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act, the Company has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 14, 2020

By: /s/ Xiaobin Liu
By: Xiaobin Liu
Title: Chief Executive Officer

By: /s/ Min Li
By: Min Li
Title: Chief Financial Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following person on behalf of the Company and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Xiaobin Liu Xiaobin Liu	Chief Executive Officer and Director	April 14, 2020
/s/ Min Li Min Li	Chief Financial Officer	April 14, 2020
/s/ Ming Yang Ming Yang	Director	April 14, 2020
/s/ Naihui Miao Naihui Miao	Director	April 14, 2020
/s/ Tengfei Zhang Tengfei Zhang	Director	April 14, 2020
/s/ Yang Zou Yang Zou	Director	April 14, 2020
/s/ Shengwei Ma Shengwei Ma	Director	April 14, 2020
/s/ Shi Tong Jiang Shi Tong Jiang	Director	April 14, 2020

Exhibit 4.1

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

General

Gulf Resources, Inc. has one class of securities, common stock, registered under Section 12 of the Securities Exchange Act of 1934, as amended. The following is a summary of all material characteristics of our common stock as set forth in our articles of incorporation and bylaws. The summary does not purport to be complete and is qualified in its entirety by reference to our articles of incorporation and bylaws, all of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part, and to the provisions of the Nevada Revised Statutes.

As of April 14, 2020, our authorized capital stock consists of 80,000,000 shares of common stock, par value $0.0005 per share, of which 9,517,427 shares are issued and outstanding, and 1,000,000 shares of preferred stock, par value $0.001 per share, of which none are outstanding.

Common Stock

The holders of our common stock are entitled to one vote for each share held of record. The affirmative vote of a majority of shares present in person or represented by proxy at a meeting of stockholders that commences with a lawful quorum is sufficient for approval of matters upon which stockholders may vote, including questions presented for approval or ratification at the annual meeting. Our common stock does not carry cumulative voting rights, and holders of more than 50% of our common stock have the power to elect all directors and, as a practical matter, to control our company. Holders of our common stock are not entitled to preemptive rights, and our common stock may only be redeemed at our election.

After the satisfaction of requirements with respect to preferential dividends, if any, holders of our common stock are entitled to receive, pro rata, dividends when and as declared by our board of directors out of funds legally available therefore. Upon our liquidation, dissolution or winding-up, after distribution in full of the preferential amount, if any, to be distributed to holders of the preferred stock, holders of our common stock are entitled to share ratably in our assets legally available for distribution to our stockholders. All outstanding shares of common stock are fully paid and non-assessable.

Our common stock is listed on The NASDAQ Global Select Market under the symbol "GURE." The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Preferred Stock

Our board of directors is authorized to issue up to the total of 1,000,000 shares of preferred stock, which includes without any further action by the stockholders. Our board of directors may also divide the shares of preferred stock into series and fix and determine the relative rights and preferences of the preferred stock, such as the designation of series and the number of shares constituting such series, dividend rights, redemption and sinking fund provisions, liquidation and dissolution preferences, conversion or exchange rights and voting rights, if any. Issuance of preferred stock by our board of directors will result in such shares having dividend and/or liquidation preferences senior to the rights of the holders of our common stock and could dilute the voting rights of the holders of our common stock.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-207731 dated November 2, 2015) of Gulf Resources, Inc. and in the related Prospectus included therein, of our report dated April 14, 2020, relating to the consolidated financial statements of Gulf Resources, Inc. appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ Morison Cogen LLP
Blue Bell, Pennsylvania

April 14, 2020

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Rule 13A-14(A)/15D-14(A)
of the Securities Exchange Act of 1934

I, Xiaobin Liu, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2019 of Gulf Resources, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   c. evaluated the effectiveness of registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

By: /s/ Xiaobin Liu
Xiaobin Liu
Chief Executive Officer

Dated: April 14, 2020

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Rule 13A-14(A)/15D-14(A)
of the Securities Exchange Act of 1934

I, Min Li, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2019 of Gulf Resources, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   c. evaluated the effectiveness of registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

By: /s/ Min Li
Min Li
Chief Financial Officer

Dated: April 14, 2020

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350 AND EXCHANGE ACT RULES 13a-14(b) AND 15d-14(b)
(Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report of Gulf Resources, Inc. on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of the operation of the Company.

Dated: April 14, 2020

By: /s/ Xiaobin Liu
Xiaobin Liu
Chief Executive Officer

Dated: April 14, 2020

By: /s/ Min Li
Min Li
Chief Financial Officer