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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, 2016

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	13-3637458
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Level 11,Vegetable Building, Industrial Park of the East Shouguang City, Shandong, China	262700
(Address of principal executive offices)	(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	Name of each exchange on which registered
Common Stock, $0.0005 par value	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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. As of June 30, 2016, 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 $40,897,146 based upon a closing sale price of $ $1.54.

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 March 11, 2017, the registrant had outstanding 46,793,791 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the Registrant's 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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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, inorganic chemicals, 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. All information in this report gives retroactive effect to a 4-for-1 reverse stock split of our common stock effected on October 12, 2009.

The functional currency of the Company’s operating foreign subsidiaries is the Renminbi (“RMB”), which had an average exchange rate of $0.16066 and $0.15062 during fiscal years 2015 and 2016, respectively. The functional and reporting currency of the Company is the United States dollar (“USD” or $”).

Our Corporate History

We were 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 voting common stock of Gulf Resources, Inc. 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, Gulf Resources, 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, in October 2000. 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 October 12, 2009, we completed a 1-for-4 reverse stock split of our common stock, such that for each four 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 October 27, 2009, our shares began trading on the NASDAQ Global Select Market under the ticker symbol “GFRE” and on June 30, 2011 we changed our ticker symbol to “GURE” to better reflect our corporate name.

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 7,268,011shares 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.

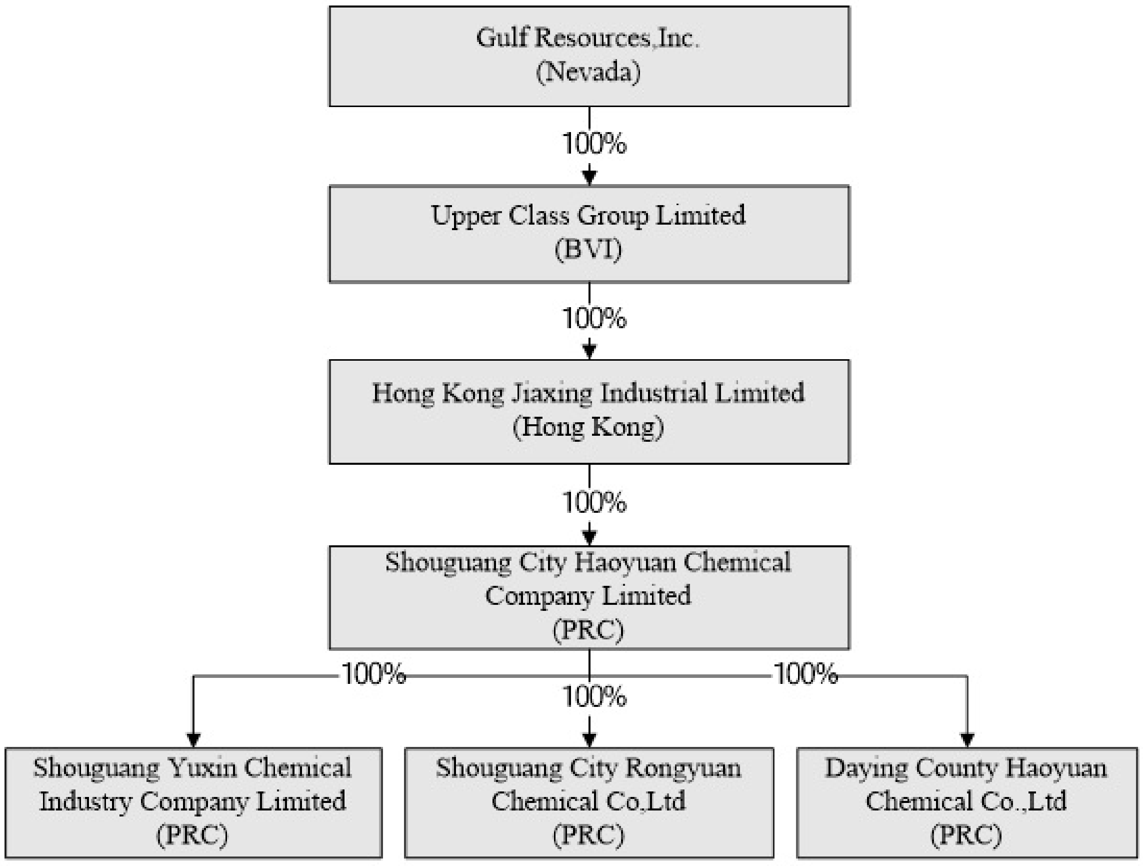
The sellers of SCRC agreed as part of the purchase price to accept the Shares, based on a valuation of $2.00, which was a 73% premium to the price on the day the agreement was reached. For accounting purposes, the Shares are now being valued at $1.84, which was the closing price of our stock on the closing date of the agreement. The price difference between the original $2.00 and the current $1.84 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 RMB11,495,162 capital contributed by SCHC as of December 31, 2016. DCHC was established to further explore and develop natural gas and brine resources (including bromine and crude salt) in China.

On August 30, 2016, Gulf Resources announced its intention to merge SYCI and SCRC. As of December 31, 2016, the legal elements of this merger had not been completed. As a result, these two subsidiaries are still being reported as independent entities.

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



Our executive offices are located in China 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.

Business Acquisitions

On January 12, 2015, the Company's wholly owned subsidiary, SCHC signed an equity interest transfer agreement with the four individual shareholders of SCRC. Consideration for this transaction consists of $66.2 million in cash and the issuance of shares of approximately 7.27 million shares of common stock at a price of $2.00 per share, which represents a 73% premium over our 10 day stock price prior to closing, bringing the total consideration for the purchase of SCRC to $80.8 million. The shareholders of SCRC have guaranteed that SCRC's audited 2014 net income will not be less than approximately $11.4 million, otherwise the purchase price shall be proportionally adjusted.

Leased Facility

On November 5, 2010, SCHC entered into a lease (the "Lease Contract") with State-Operated Shouguang Qingshuibo Farm (the "Lessor"). Pursuant to the Lease Contract, SCHC shall lease certain property with an area of 3,192 square meters 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 RMB5 million, approximately US$755,000, 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 from 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.

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, inorganic chemicals and 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 (Br_2) 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, in which it 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 and Shouguang City Rongyuan Chemical Co, Ltd (PRC), or SCRC. The products we produce and the markets in which they are sold include, among others:

Product name	Application sector
Hydroxyl guar gum	Oil Exploration & Production
Demulsified agent	Oil Exploration & Production
Corrosion inhibitor for acidizing	Oil Exploration & Production
Bactericide	Oil Exploration / Agricultural
Chelant	Paper Making
Iron ion stabilizer	Oil Exploration & Production
Clay stabilizing agent	Oil Exploration & Production
Flocculants agent	Paper Making
Remaining agent	Paper Making
Expanding agent with enhanced gentleness	Paper Making
Bromopropane	Agricultural
Environmental friendly additive products	Oil Exploration & Production
Solid lubricant	Oil Exploration & Production
Polyether lubricant	Oil Exploration & Production
Benzaldehyde dibromide	Agricultural
Chlorantraniliprole	Agricultural
Semi-finished Product of Tetramethylbenzidine	Pharmaceutical intermediates
Semi-finished Product of Trimethylolpropane	Pharmaceutical intermediates
Material of Lactic acid Trimethylolpropane	Pharmaceutical intermediates

SYCI concentrates its efforts on the production and sale of chemical products that are used in oil and gas field explorations, oil and gas distribution, oil field drilling, wastewater processing, papermaking chemical agents, and inorganic chemicals. SYCI also engages in research and development of commonly used chemical products as well as medicine intermediates. Currently, SYCI's annual production of oil and gas field exploration products and related chemicals is over 26,000 tons, and its production of papermaking-related chemical products is over 5,000 tons. These products are mainly distributed to large domestic papermaking manufacturers and major oilfields such as Shengli Oilfield and Talimu Oilfields.

SYCI’s factories are located in Shouguang City at 2nd Living District, Qinghe Oil Factory, Shouguang City, Shandong Province, China. The company has been certified as ISO9001-2000 compliant and received the Quality Products and Services Guarantee Certificate from China Association for Quality. SYCI has been accredited by Shandong as a Provincial Credit Enterprises and is a Class One supplier for both China Petroleum & Chemical Corporation (“SINOPEC”) and Petro China Company Limited.

SCRC, a leading manufacturer of materials for human and animal antibiotics in China and other parts of Asia, located in Yangkou Township, Shouguang City, Shandong Province, China. Its major products including Semi-finished Product of Tetramethylbenzidine , Semi-finished Product of Trimethylolpropane , Material of Lactic acid Trimethylolpropane and so on.

Segment disclosure

We have four reportable segments: bromine, crude salt, chemical products and natural gas.

The amounts set forth below are based upon on an average RMB to USD exchange rates of $0.16066 and $0.15062 during fiscal years 2015 and 2016, respectively.

	Net Revenue by Segment			
	Year Ended December 31, 2016		Year Ended December 31, 2015	
Segment:		% of total		% of total
Bromine	$ 56,811,730	38%	$ 52,385,491	32%
Crude Salt	$ 8,985,852	6%	$ 10,494,939	7%
Chemical Products	$ 83,477,420	56%	$ 99,436,690	61%
Total sales	$ 149,275,002	100%	$ 162,317,120	100%

Segment:	Percentage Increase/Decrease in Net Revenue from fiscal year 2015 to 2016
Bromine	8%
Crude Salt	(14%)
Chemical Products	(16%)

SCHC's products sold in metric tons	Year ended December 31, 2016	Year ended December 31, 2015	Percentage Change
Bromine	14,955	16,569	(10%)
Crude Salt	316,161	330,373	(4%)

Chemical products segment sold in metric tons	Year ended December 31, 2016	Year ended December 31, 2015	Percentage Change
Oil and gas exploration additives	10,505	14,332	(27%)
Paper manufacturing additives	3,032	4,134	(27%)
Pesticides manufacturing additives	2,179	3,127	(30%)
Pharmaceutical intermediates	1,617	1,682	(4%)
By products	12,043	12,273	(2%)
	29,376	35,548	(17%)

	Income from Operations by Segment			
	Year ended December 31, 2016		Year ended December 31, 2015	
Segment:		% of total		% of total
Bromine	$ 21,224,862	45%	$ 10,854,711	24%
Crude Salt	$ 9,076	—	1,183,755	3%
Chemical Products	$ 25,473,792	55%	$ 32,997,870	73%
Natural Gas	$ (4,906)	—	$ —	—
Income from operations before corporate costs	$ 46,702,824	100%	$ 45,036,336	100%
Corporate costs	$ (682,210)		$ (1,447,023)	
Unrealized translation difference	$ 1,702,728		$ 1,575,397	
Income from operations	$ 47,723,342		$ 45,164,710	

Year Ended December 31, 2016	Bromine *	Crude Salt *	Chemical Products	Natural Gas	Segment Total	Corporate	Total
Net revenue (external customers)	$ 56,811,730	$ 8,985,852	$ 83,477,420	$ —	$149,275,002	$ —	$149,275,002
Net revenue (intersegment)	8,484,617	—	—	—	8,484,617	—	8,484,617
Income from operations before taxes	21,224,862	9,076	25,473,792	(4,906)	46,702,824	1,020,518	47,723,342
Income taxes	5,306,216	9,022	6,494,969	—	11,810,207	—	11,810,207
Income from operations after taxes	15,918,646	54	18,978,823	(4,906)	34,892,617	1,020,518	35,913,135
Total assets	143,145,960	33,980,033	186,676,983	1,799,094	365,602,070	89,283	365,691,353
Depreciation and amortization	15,056,980	5,221,667	4,601,599	—	24,880,246	—	24,880,246
Capital expenditures	12,912,583	2,335,963	—	1,747,316	16,995,862	—	16,995,862
Goodwill	—	—	27,668,539	—	27,668,539	—	27,668,539

Year Ended December 31, 2015	Bromine *	Crude Salt *	Chemical Products	Natural Gas	Segment Total	Corporate	Total
Net revenue (external customers)	$ 52,385,491	$10,494,939	$ 99,436,690	$ —	$162,317,120	$ —	$162,317,120
Net revenue (intersegment)	8,039,156	—	—	—	8,039,156	—	8,039,156
Income from operations before taxes	10,854,711	1,183,755	32,997,870	—	45,036,336	128,374	45,164,710
Income taxes	2,508,902	500,451	8,362,555	—	11,371,908	—	11,371,908
Income from operations after taxes	8,345,809	683,304	24,635,315	—	33,664,428	128,374	33,792,802
Total assets	136,701,878	40,306,628	179,733,958	—	356,742,464	762	356,743,226
Depreciation and amortization	17,498,441	6,136,889	5,460,318	—	29,095,648	—	29,095,648
Capital expenditures	20,665,890	2,120,622	72,113	—	22,858,625	—	22,858,625
Goodwill	—	—	29,559,174	—	29,559,174	—	29,559,174

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 relationship can not 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 2016 were Shandong Morui Chemical Company Limited, Shandong Brother Technology Limited, Kuerle Xingdong Trading Limited, Shouguang Weidong Chemical Company Limited and Shouguang Shen Runfa Ocean Chemical Company Limited. We have ongoing policies in place to ensure that sales are made to customers who are credit-worthy. We are not aware of any allowances for doubtful debts required for each of the years ended December 31, 2016 and 2015.

During each of the years ended December 31, 2016 and 2015, sales to our three largest bromine customers, based on net revenue from such customers, aggregated $23,862,341 and $19,540,851, respectively, or approximately 42% and 37% of total net revenue from sale of bromine; and sales to our largest customer represented approximately 17% and 15%, respectively, of total net revenue from the sale of bromine.

During each of the years ended December 31, 2016 and 2015, sales to our three largest crude salt customers, based on net revenue from such customers, aggregated $8,985,852 and $9,080,707, respectively, or approximately 100% and 87% of total net revenue from sale of crude salt; and sales to our largest customer represented approximately 43% and 37%, respectively, of total net revenue from the sale of crude salt.

During each of the years ended December 31, 2016 and 2015, sales to our three largest chemical products customers, based on net revenue from such customers, aggregated $12,887,715 and $22,613,400, respectively, or approximately 15% and 23% of total net revenue from sale of chemical products; and sales to our largest customer represented approximately 7% and 10%, respectively, of total net revenue from the sale of chemical products.

This concentration of customers for all three segments makes us vulnerable to an adverse near-term impact, should one or more of these relationships be terminated.

Principal Suppliers

Our principal external suppliers are Shandong Xinlong Biological Technology Company limited, Shouguang City Rongguang Trading Company Limited and Shandong Xinlong Group Company limited, Shouguang Guoli Chemical Company Limited and Shandong Tianling Fine Chemical co., LTD.

During each of the years ended December 31, 2016 and 2015, we purchased 61.3% and 58.2%, respectively, of raw materials for our bromine and crude production from three suppliers.

During each of the years ended December 31, 2016 and 2015, we purchased 70% and 71%, respectively, of raw materials for our chemical products production from three suppliers. We purchased a portion of the bromine produced by the Company internally as well, at cost totaling $8,484,617 and $8,039,156, for the years ended December 31, 2016 and 2015 respectively, for the production of chemical products.

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 had announced its intent to access more bromine and crude salt resources by finding new underground brine water resources in the Sichuan Province. The Company completed the drilling of its first exploratory well in December 2011 and announced in mid-January 2012 that the Company discovered underground brine water resources in Daying County. It has provided preliminary concentration results after testing by a third-party independent expert. According to the third-party independent report, the bromine concentration in the underground brine water resources is 1.53 grams per liter, which is approximately six to seven times higher than the average bromine concentration from its brine water resources at our bromine factories in Shouguang City. In September 2014, the Company started deeper drilling exploration under its existing well and did an exploration analysis on the resources from different levels. We incurred a total of $488,880 in exploration costs during 2014. On January 30, 2015 we announced that we had found natural gas resources under our bromine well in the Sichuan area. Then the Company subsequently hired a third party (a subsidiary of Sinopec) to conduct of survey of this well. Based on the assessment report, the Company estimates this well should produce annual revenue of approximately US$4.7 million and annual net income approximately US$2.3 million per year. 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). On January 11, 2017, the Company announced that it completed the first brine water and natural gas well field construction in Sichuan Province. Later on January 20, 2017 it announced the commencement of trial production, until satisfied with the progress,the Company will secure a customer for production. Later on January 20, 2017 it announced the commencement of trial production. This trial production will continue until the company is satisfied with the progress, after which the company will secure a customer for the production.

In order to improve the bromine and crude salt production capacity, the Company will continue to enhance its existing bromine and crude salt production facilities. In the third quarter of 2016, the Company incurred enhancement works in our existing bromine extraction and crude salt production facilities at a cost of approximately $15.23 million. The Company expects to carry out enhancement projects for the crude salt fields in 2017, which will cost approximately $15 million. The company will also expect to invest approximately $10.0 million in Sichuan Province for the natural gas resource project in 2017. The Company expects such enhancement expenditures will be funded by the Company's cash on hand. The Company also estimates that the amount of ordinary repair and maintenance expense will be approximately $0.8 million in 2017.

▼ Chemical Products

To expand its chemical production capacity, on January 12, 2015, the Company entered into an Equity Interest Transfer Agreement with SCRC and its shareholders with total consideration of approximately $80.8 million. On February 4, 2015, the transactions contemplated by the agreement dated January 12, 2015 closed. Pursuant to the agreement, SCHC acquired 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.

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 Tianqing Chemical Company Limited, Shandong Weifang Shuangxing Pesticides Company Limited, 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

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 fee in an amount equal to a percent of annual sales. 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.

All of our operating activities in China have been authorized by or obtained written consent from land and resources departments of local governments except bromine Factory No.10 and 11. In addition, all of our operations are subject to and have passed government safety inspections. We also have been granted environmental certification from the PRC Bureau of Environmental Protection that is no subject to expiration.

Employees

As of December 31, 2016, we employed approximately 715 full-time employees, of whom approximately 63% are with SCHC, 16% are with SYCI and 21% are with SCRC. 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 17% 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 28% of the average monthly salary. We have purchased social insurance for almost all of our employees. Expense related to social insurance was approximately $1,039,096 for fiscal year 2016.

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, 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 information contained on our website is not intended to be incorporated into this Annual Report on Form 10-K.

Item 1A. Risk Factors.

You should consider carefully each of the following business and investment risk factors and all of the other information in this report. If any of the following risks and uncertainties develops into actual events, the business, financial condition or results of our operations could be materially adversely affected. If that happens, the trading price of our shares of common stock could decline significantly. The risk factors below contain forward-looking statements regarding our business. Actual results could differ materially from those set forth in the forward-looking statements. See "Special Note Regarding Forward-Looking Information".

Risks Relating to Our Business

The unsuccessful integration of a business or business segment we acquire could have a material adverse effect on our results.

As part of our business strategy, we expect to acquire assets and businesses relating to or complementary to our operations. These acquisitions will involve risks commonly encountered in acquisitions. These risks include exposure to unknown liabilities of the acquired assets, right, additional acquisition costs and unanticipated expenses. Our quarterly and annual operating results could fluctuate due to the costs and expenses of acquiring and integrating new assets and businesses. We may also experience difficulties in assimilating the operations of acquired businesses. Our ongoing business may be disrupted and our management's time and attention diverted from existing operations. Our acquisition strategy will likely require additional equity or debt financing, resulting in additional leverage or dilution of ownership. We cannot assure you that any future acquisition will be consummated, or that if consummated, that we will be able to integrate such acquisition successfully.

We depend on revenues from a few significant relationships, and any loss, cancellation, reduction, or interruption in these relationships could harm our business.

In general, we have derived a material portion of our revenue from a limited number of customers. If sales to such customers were terminated or significantly reduced, our revenues and net income could significantly decline. Our success will depend on our continued ability to develop and manage relationships with significant customers and suppliers. Any adverse change in our relationship with our customers and suppliers may have a material adverse effect on our business. Although we are attempting to expand our customer base, we expect that our customer concentration will not change significantly in the near future. We cannot be sure that we will be able to retain our largest customers and suppliers or that we will be able to attract additional customers and suppliers, or that our customers and suppliers will continue to buy our products in the same amounts as in prior years. The loss of one or more of our largest customers or suppliers, any reduction or interruption in sales to these customers or suppliers, our inability to successfully develop relationships with additional customers or suppliers or future price concessions that we may have to make could significantly harm our business.

Attracting and retaining key personnel is an essential element of our future success.

Our future success depends to a significant extent upon the continued service of our executive officers and other key management and technical personnel and on our ability to continue to attract, retain and motivate executive and other key employees, including those in managerial, technical, marketing and information technology support positions. Experienced management and technical, marketing and support personnel are in demand and competition for their talents is intense. The loss of the services of one or more of our key employees or our failure to attract, retain and motivate qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

If we lose the services of our chairman and chief executive officer, our business may suffer.

We are dependent on Mr. Ming Yang, our chairman and Mr. Liu Xiaobin, our chief executive officer. The loss of their services could materially harm our business because of the cost and time necessary to retain and train a replacement. Such a loss would also divert management attention away from operational issues.

If we do not pass the review and approval for renewing our bromine and salt production license, our bromine business may suffer.

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.

Because we do not have any proven or probable reserves of brine water, we may not be able to continue to produce bromine and crude salt at existing levels in the future which could harm our business, results or operations and financial condition

The SEC's Industry Guide 7, which relates to businesses with mining operations such as ours defines "reserves" as: "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination." In addition, Industry Guide 7 provides the following definitions with respect to the classification of reserves for mining companies:

- "Proven (Measured) Reserves" - Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

- "Probable (Indicated) Reserves" - Reserves for which quantity and grade and/or quality are computed form information similar to that used for proven (measure) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

We do not have any proven or probable reserves of brine water on our mining properties. Therefore, we cannot provide investors with any assurance that there will be adequate volume or concentration of brine water on our mining properties to continue our bromine and crude salt operations at existing levels or to expand our production capacity of bromine and crude salt. If we experience decreases in the volume and/or concentration of brine water we are able to extract from our mining properties, our business, results of operations and financial condition may be adversely affected.

We do not have mining permits for some of our bromine factories which we have acquired. Our operations depend on our existing permits and approvals already obtained from government authorities.

We hold government permits or operations permits and for each of our bromine factories except bromine Factory No.10 and 11. However, we do not currently hold valid mining permits issued by the State Land and Resources Bureau for our Factories No. 5, 8, 9, 10 and 11. We have already filed applications for these mining permits, however we are not able to confirm when such mining permits will be issued, if at all.

We received a letter from the Shouguang Municipal State Land and Resources Bureau on March 10, 2011, stating that our Factories No. 5, 6, 7, 8, and 9 "are permitted to continue mining and can operate in a standard manner and carry out mining activities in a reasonable way pursuant to the requirements of the relevant mineral resources authorities, and are free of any illegal acts of exceeding layer or boundary limits and any violations of relevant laws and regulations of the State."

All of our bromine and crude salt production facilities have been authorized by the local land and resources departments, of which Factories No. 1 to No. 4 are included under a single permit, which was originally issued in January 2005. And this permit was updated on July 2016, which Factories No. 1 to No. 4, and Factory 7 are included under a single permit issued on July 2016.

A decision made by relevant government agency(ies) to reject or delay the issuance of a new permit or to repeal or modify an existing permits or approval could prevent or limit our ability to continue operations at the affected facilities and harm our business, financial condition and operating results. Expansion of our existing operations would also require securing the necessary permits and approvals which we may not be able to obtain in a timely manner, if at all.

We do not have a certificate of land use rights for the land relating to certain bromine assets and crude salt production. We will not be able to obtain the property certificates for the relevant buildings attached to the land.

We do not have certificates of land use rights for land leased by SCHC. As a result, we have not been able to obtain the relevant property certificates for buildings on such leased land which are normally required as security in obtaining financing from financial institutions. Although we believe that this is a common occurrence with respect to property leases in the PRC, the property certificates confirm legal ownership of the buildings. Because we do not have certificate of land use rights for the leased land, we might be required by the government to demolish our buildings and/or restore the land back to its original state. If such event occurs, it will have major impact on our operations, financial status and performance results.

Because we have not been able to obtain property certificates to certain of our properties we may not be able to borrow money from banks in the PRC and as a result, could face liquidity problems.

As discussed above, we have not been able to obtain property certificates for certain of our properties. In the PRC banks normally require a company's property certificates to be pledged as security before they will provide a loan to a company. In the past several years we have financed our operations with loans from third-party companies, cash from operations and equity financing. However, if these sources of funds are not available in the future and we need to find an alternate source of financing to maintain our operations, we may not be able to borrow money from a bank to meet our cash needs. This could materially harm our business and have a major impact on our operations, financial status and performance results.

Our inability to successfully manage the growth of our business may have a material adverse effect on our business, results or operations and financial condition.

We expect to experience growth in the number of employees and the scope of our operations as a result of internal growth and acquisitions. Such activities could result in increased responsibilities for management. Our future success will be highly dependent upon our ability to manage successfully the expansion of operations. Our ability to manage and support our growth effectively will be substantially dependent on our ability to implement adequate improvements to financial, inventory, management controls, reporting, order entry systems and other procedures, and hire sufficient numbers of financial, accounting, administrative, and management personnel.

Our future success depends on our ability to address potential market opportunities and to manage expenses to match our ability to finance operations. The need to control our expenses will place a significant strain on our management and operational resources. If we are unable to control our expenses effectively, our business, results of operations and financial condition may be adversely affected.

Our management is comprised almost entirely of individuals residing in the PRC with very limited English skills.

Our management is comprised almost entirely of individuals born and raised in the PRC. As a result of differences in culture, educational background and business experiences, our management may analyze, evaluate and present business opportunities and results of operations differently from the way they are analyzed, evaluated and presented by management teams of public companies in Europe and the United States. In addition, our management has very limited skills in English. Consequently, it is possible that our management team will emphasize or fail to emphasize aspects of our business that might customarily be emphasized in a different manner by comparable public companies from different geographical and political areas.

We cannot accurately forecast our future revenues and operating results, which may fluctuate.

Our short operating history and the rapidly changing nature of the markets in which we compete make it difficult to accurately forecast our revenues and operating results. Furthermore, our revenues and operating results may fluctuate in the future due to a number of factors, including the following:

- the success of identifying and completing mergers and acquisitions;
- the introduction of competitive products by different or new competitors;
- reduced demand for any given product;
- difficulty in keeping current with changing technologies;
- increased or uneven expenses, whether related to sales and marketing, product development or administration;
- deferral of recognition of our revenue in accordance with applicable accounting principles due to the time required to complete projects; and
- costs related to possible acquisitions of technology or businesses.
- new environmental compliance policies enacted by the Chinese government

Due to these factors, forecasts may not be achieved, either because expected revenues do not occur or because they occur at lower prices or on terms that are less favorable to us. In addition, these factors increase the chances that our results could be lower than the expectations of investors and analysts. If so, the market price of our stock would likely decline.

Mr. Ming Yang, our Chairman and a substantial shareholder, has potential conflicts of interest with us, which may adversely affect our business.

Mr. Ming Yang, our chairman, was a substantial owner of SCHC and SCYI before their acquisition by us, and remains, with the shares held by him, both individually and through Shandong Haoyuan Industry Group Ltd., and by his wife and son, Wenxiang Yu and Zhi Yang, a substantial owner of our securities. There may have been conflicts of interest between Mr. Yang and our Company as a result of such ownership interests. The terms on which we acquired SCHC and SCYI may have been different from those that would have been obtained if SCHC and SCYI were owned by unrelated parties. In addition, conflicts of interest between Mr. Yang's dual roles as our shareholder and our director may arise. We cannot assure you that, when conflicts of interest arise, Mr. Yang will act in the best interests of the Company or that conflicts of interest will be resolved in our favor.

Currently, we do not have existing arrangements to address potential conflicts of interest between Mr. Yang and us. We rely on that Mr. Yang to abide by the laws of the State of Nevada, which provide that directors owe a fiduciary duty to the Company, and which require them to act in good faith and in the best interests of the Company, and not use their positions for personal gain. If we cannot resolve any conflicts of interest or disputes between us and Mr. Yang, we would have to rely on legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.

We cannot assure that there will be a return on our investment on certain related exploration costs in the Sichuan Province.

We have been conducting exploration projects in Daying County since 2011. We discovered that the bromine concentration in the underground brine water resources was 6-7 times higher than those in Shandong Province. Then, at beginning of 2015, we discovered natural gas at its original brine well. We subsequently hired a third party (a subsidiary of Sinopec) to conduct a survey of this well. The survey and geographic studies indicated rich natural gas resources under the well. On November 23, 2015, our wholly owned subsidiary, SCHC, entered into a Project Investment 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). We estimate that the well should produce annual revenue of approximately US$4.7 million and annual net income approximately US$2.3 million per year. However, we cannot assure that there will be a return on investment of our exploration costs.

Risks Related to Doing Business in the People's Republic of China.

Our business operations take place primarily in the People's Republic of China. Because Chinese laws, regulations and policies are changing, our Chinese operations will face several risks summarized below.

- *Limitations on Chinese economic market reforms may discourage foreign investment in Chinese businesses.*

  The value of investments in Chinese businesses could be adversely affected by political, economic and social uncertainties in China. The economic reforms in China in recent years are regarded by China's central government as a way to introduce economic market forces into China. Given the overriding desire of the central government leadership to maintain stability in China amid rapid social and economic changes in the country, the economic market reforms of recent years could be slowed, or even reversed.

  Any change in policy by the Chinese government could adversely affect investments in Chinese businesses.

  Changes in policy could result in imposition of restrictions on currency conversion, imports or the source of supplies, as well as new laws affecting joint ventures and foreign-owned enterprises doing business in China. Although China has been pursuing economic reforms, events such as a change in leadership or social disruptions that may occur upon the proposed privatization of certain state-owned industries, could significantly affect the government's ability to continue with its reform.

- *We face economic risks in doing business in China.*

  As a developing nation, China's economy is more volatile than that of developed Western industrial economies. It differs significantly from that of the U.S. or a Western European country in such respects as structure, level of development, capital reinvestment, legal recourse, resource allocation and self-sufficiency. Only in recent years has the Chinese economy moved from what had been a command economy through the 1970s to one that during the 1990s encouraged substantial private economic activity. In 1993, the Constitution of China was amended to reinforce such economic reforms. The trends of the 1990s indicate that future policies of the Chinese government will emphasize greater utilization of market forces. For example, in 1999 the Government announced plans to amend the Chinese Constitution to recognize private property, although private business will officially remain subordinate to state-owned companies, which are the mainstay of the Chinese economy. However, we cannot assure you that, under some circumstances, the government's pursuit of economic reforms will not be restrained or curtailed. Actions by the central government of China could have a significant adverse effect on economic conditions in the country as a whole and on the economic prospects for our Chinese operations.

- *We are subject to comprehensive regulation by the PRC legal system, which is uncertain. As a result, it may limit the legal protections available to you and us and we may not now be, or remain in the future, in compliance with PRC laws and regulations.*

  SCHC, SYCI, SCRC and DCHC, our PRC operating companies, are incorporated under and are governed by the laws of the PRC; all of our operations are conducted in the PRC; and our suppliers and customers are all located in the PRC. The PRC government exercises substantial control over virtually every sector of the PRC economy, including the production, distribution and sale of bromine, brominated chemical products and crude salt. In particular, we are subject to regulation by local and national branches of the Ministry of Land and Resources, as well as the State Administration of Foreign Exchange, and other regulatory bodies. In order to operate under PRC law, we require valid licenses, certificates and permits, which must be renewed from time to time. If we were to fail to obtain the necessary renewals for any reason, including sudden or unexplained changes in local regulatory practice, we could be required to shut down all or part of our operations temporarily or permanently.

SCHC, SYCI, SCRC and DCHC are subject to PRC accounting laws, which require that an annual audit be performed in accordance with PRC accounting standards. The PRC foreign-invested enterprise laws require that our subsidiary, SCHC, SYCI, SCRC and DCHC submit periodic fiscal reports and statements to financial and tax authorities and maintain its books of account in accordance with Chinese accounting laws. If PRC authorities were to determine that we were in violation of these requirements, we could lose our business license and be unable to continue operations temporarily or permanently.

The legal and judicial systems in the PRC are still rudimentary. The laws governing our business operations are sometimes vague and uncertain and enforcement of existing laws is inconsistent. Thus, we can offer no assurance that we are, or will remain, in compliance with PRC laws and regulations.

- *The Chinese legal and judicial system may negatively impact foreign investors.*

In 1982, the National People’s Congress amended the Constitution of China to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in China. However, China's system of laws is not yet comprehensive. The legal and judicial systems in China are still under development, and enforcement of existing laws is inconsistent. Many judges in China lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the Chinese judiciary is relatively inexperienced in enforcing the laws that exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. China's legal system is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may shift to reflect domestic political changes.

The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. However, the trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. We cannot assure you that a change in leadership, social or political disruption, or unforeseen circumstances affecting China's political, economic or social life, will not affect the Chinese government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

The practical effect of the People’s Republic of China’s legal system on our business operations in China can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are not qualitatively different from the general corporation laws of the several states. Similarly, the accounting laws and regulations of the People’s Republic of China mandate accounting practices which are not consistent with U.S. Generally Accepted Accounting Principles. China's accounting laws require that an annual "statutory audit" be performed in accordance with People’s Republic of China’s accounting standards and that the books of account of Foreign Invested Enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People’s Republic of China Wholly Foreign-Owned Enterprise Law requires a Wholly Foreign-Owned Enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. Second, while the enforcement of substantive rights may appear less clear than United States procedures, Foreign Invested Enterprises and Wholly Foreign-Owned Enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Generally, the Articles of Association provide that all business disputes pertaining to Foreign Invested Enterprises are to be resolved by the Arbitration Institute of the Stockholm Chamber of Commerce in Stockholm, Sweden, applying Chinese substantive law. Any award rendered by this arbitration tribunal is, by the express terms of the respective Articles of Association, enforceable in accordance with the "United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958)". Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

Because our principal assets are located outside of the United States and all of our directors and our executive officers reside outside of the United States, it may be difficult for you to enforce your rights based on the United States Federal securities laws against us and our officers and directors in the United States or to enforce judgments of United States courts against us or them in the People's Republic of China.

In addition, our operating subsidiaries and substantially all of our assets are located outside of the United States. You will find it difficult to enforce your legal rights based on the civil liability provisions of the United States Federal securities laws against us in the courts of either the United States or the People's Republic of China and, even if civil judgments are obtained in courts of the United States, to enforce such judgments in the courts of the People's Republic of China. In addition, it is unclear if extradition treaties in effect between the United States and the People's Republic of China would permit effective enforcement against us or our officers and directors of criminal penalties, under the United States Federal securities laws or otherwise.

- *Issues associated with increased rate of inflation as a result of economic reform*

Although the Chinese government owns the majority of productive assets in China, during the past several years the government has implemented economic reform measures that emphasize decentralization and encourage private economic activity. Because these economic reform measures may be inconsistent or ineffectual, we are unable to assure you that:

- We will be able to capitalize on economic reforms;
- The Chinese government will continue its pursuit of economic reform policies;
- The economic policies, even if pursued, will be successful;
- Economic policies will not be significantly altered from time to time; and
- Business operations in China will not become subject to the risk of nationalization.

Since 1979, the Chinese government has reformed its economic systems. Because many reforms are unprecedented or experimental, they are expected to be refined and improved. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment or inflation, or in the disparities in per capita wealth between regions within China, could lead to further readjustment of the reform measures. This refining and readjustment process may negatively affect our operations.

To date, reforms to China's economic system have not adversely impacted our operations and are not expected to adversely impact operations in the foreseeable future; however, there can be no assurance that the reforms to China's economic system will continue or that we will not be adversely affected by changes in China's political, economic, and social conditions and by changes in policies of the Chinese government, such as changes in laws and regulations, measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and remittance abroad, and reduction in tariff protection and other import restrictions.

- *Fluctuations in the value of the RMB may reduce the value of your investment*

Because substantially all of our revenues and expenditures are denominated in RMB and our cash is denominated in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and RMB will affect the relative purchasing power of such amounts and our balance sheet and earnings per share in U.S. dollars. In addition, we report financial results in U.S. dollars, and appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollars terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of earnings from and the value of any U.S. dollar-denominated investments we make in the future.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency.

- *Failure of our PRC resident shareholders to comply with regulations on foreign exchange registration of overseas investment by PRC residents could cause us to lose our ability to contribute capital to SCHC and remit profits out of the PRC as dividends*

The SAFE has promulgated regulations, including the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, effective on July 14, 2014, and its appendixes, that require PRC residents, including PRC institutions and individuals, to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular No. 37 as a "special purpose vehicle." SAFE Circular No. 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in their ability to contribute additional capital into its PRC subsidiary. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

We have requested our current PRC resident shareholders and/or beneficial owners to disclose whether they or their shareholders or beneficial owners fall within the scope of the Circular 37 and urges PRC residents to register with the local SAFE branch as required under the Circular 37. Our affiliates subject to the SAFE registration requirements, including Mr. Ming Yang, our Chairman, Ms. Wenxiang Yu, the wife of Mr. Yang, and Mr. Zhi Yang, Mr. Yang's son, have informed us that they have not made their initial registrations with SAFE. The failure of our PRC resident shareholders and/or beneficial owners to timely furnish or amend their SAFE registrations pursuant to the Circular 37 or the failure of our future shareholders and/or beneficial owners who are PRC residents to comply with the registration requirement set forth in the Circular 37 may subject such shareholders, beneficial owners and/or SCHC to fines and legal sanctions. Any such failure may also limit our ability to contribute additional capital into SCHC, limit SCHC's ability to distribute dividends to us or otherwise adversely affect our business.

The PRC government could restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain expenses as they come due or may restrict which limit the payment of dividends from the Company.

- *We may be treated as a resident enterprise for PRC tax purposes under the currently effective EIT Law, which may subject us to PRC income tax on our taxable global income*

On March 16, 2007, the National People's Congress approved and promulgated a new tax law, the PRC Enterprise Income Tax Law ("EIT Law"). On November 28, 2007, the PRC State Council passed the implementing rules of the EIT Law. Both the EIT Law and the implementing rules of the EIT Law took effect on January 1, 2008. Under the EIT Law, enterprises are classified as "resident enterprises" and "non-resident enterprises." An enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define "de facto management bodies" as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise; however, it remains unclear whether the PRC tax authorities would deem our managing body as being located within China. Due to the short history of the EIT Law and lack of applicable legal precedents, the PRC tax authorities determine the PRC tax resident treatment of a foreign (non-PRC) company on a case-by-case basis.

If the PRC tax authorities determine that we are a "resident enterprise" for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our global taxable income, as well as PRC enterprise income tax reporting obligations. Second, under the EIT Law and its implementing rules, dividends paid between "qualified resident enterprises" are exempt from enterprise income tax. It is unclear whether the dividends we receive will constitute dividends between "qualified resident enterprises" and would therefore qualify for tax exemption, because the definition of qualified resident enterprises is unclear and the relevant PRC governmental authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes.

In addition to the uncertainty as to the application of the "resident enterprise" classification, there can be no assurance that the PRC governmental authorities will not amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or retroactively apply the EIT Law, or any subsequent changes in PRC tax laws, rules or regulations. If such changes occur and/or if such changes are applied retroactively, such changes could materially and adversely affect our results of operations and financial condition.

- *Restricted power supply could disrupt our production and have an adverse effect on our business, financial position and results of operations*

All of our products are produced at our manufacturing facilities in Shouguang, Shandong province, China. A significant disruption at those facilities, such as electricity power control, even on a short-term basis, could impair our ability to timely produce and deliver products, which could have an adverse effect on our business, financial position and results of operations. We have encountered power shortages historically due to restrictions on the power supply provided to industrial users when the usage of electricity is high and the supply is limited or as a result of damage to the electricity supply network. Interruptions of electricity supply could result in lengthy production shutdowns, increased costs associated with restarting production and the loss of production in progress. Any major suspension or termination of electricity or other unexpected business interruptions could have an adverse impact on our business, financial condition and results of operations.

Risks Associated with Bromine Extraction

We are subject to risks associated with our operations which may affect our results.

The resource industry in the PRC has drawbacks that the resource industry does not have within the United States. For instance:

- In China, insurance coverage is a relatively new concept compared to that of the United States and for certain aspects of a business operation, insurance coverage is restricted or expensive. Workers compensation for employees in the PRC may be unavailable or, if available, insufficient to adequately cover such employees.

- The environmental laws and regulations in the PRC set various standards regulating certain aspects of health and environmental quality, including, in some cases, the obligation to rehabilitate current and former facilities and locations where operations are or were conducted. Violation of those standards could result in a temporary or permanent restriction by the PRC of our bromine operations.

We cannot assure you that we will be able to adequately address any of these or other limitations.

Our earnings and, therefore our profitability, may be affected by price volatility.

We anticipate that the majority of our future revenues will be derived from the sale of bromine and products derived from bromine, as well as the sale of natural gas, and, as a result, our earnings are directly related to the prices of these products. There are many factors influencing the price of these products including expectations for inflation; global and regional demand and production; political and economic conditions; and production costs. These factors are beyond our control and are impossible for us to predict. As a result, price changes may adversely affect our operating results.

We may become subject to numerous risks and hazards associated with our chemical processing business.

Bromine is highly corrosive and must be handled carefully in order to avoid leakage and damage to containers, transportation equipment and other facilities. The risks associated with bromine include:

- environmental hazards; and
- industrial accidents, including personal injury.

Such risks could result in:

- damage to or destruction of properties or production facilities;
- personal injury or death;
- environmental damage;
- monetary losses; and
- legal liability.

Our business operations and related activities may be subject to PRC government regulations concerning environmental protection.

We may have to make a significant financial commitment for the construction of environmental protection facilities and the establishment of a sound environmental protection management and monitoring system. Compliance with existing and future environmental protection regulations may increase our operating costs and may adversely affect our operating results.

Our operations and business activities may involve dangerous materials.

Although we may establish stringent rules relating to the storage, handling and use of dangerous materials, there is no assurance that accidents will not occur. Should we be held liable for any such accident, we may be subject to penalties and possible criminal proceedings may be brought against our employees.

We may have to reduce our bromine production volumes based on guidelines issued by the Shouguang Bromine Professional Association.

We are a member of the Shouguang Bromide Professional Association (the "Association"), whose members are bromine producers in the Shouguang region of Shandong province. Members of the Association are required to follow production guidelines recommended by the Association. If the Association asks its members to reduce production volumes in the future, we may be required to limit our bromine production volume which could adversely affect our business, financial condition and results of operations.

We may have to temporarily halt production at our facilities in order to prepare for environmental inspections made by the local government.

In the past few years we have experienced an increase in the number of environmental inspections of our factories made by the local government in order to renew our mining licenses, which we have successfully passed. As a result of these inspections, we may be required to temporarily halt production at our factories in order to prepare for and pass the inspections made by the local government. If we are required to close some or all of our factories in order to prepare for these inspections, our business, financial condition and results of operations could be adversely affected.

Decreases in the bromine yield from our brine water could have an adverse effect on our business, financial position and results of operations.

In recent years, we have been able to extract less bromine from brine water during the production process due to a decrease in the bromine concentration of brine water being extracted. In an effort to address this issue, we carried out enhancement projects to certain of our extraction wells in May 2012, November 2015 and Third quarter of 2016, respectively, by increasing the depth of our brine water wells to extract brine water from a lower second layer which we believe will have a higher bromine concentration. However, we cannot be certain that this will improve the bromine yield from our production facilities in the long run. If we are not able to improve the bromine yield at our production facilities or if the bromine concentration in the brine water we extract continues to decline, our business, financial condition and results of operations could be adversely affected.

Taking of leased land by the Chinese government could disrupt our production facilities and capacity, and have a material adverse effect on our business, financial position and results of operations.

Most of our bromine and crude salt manufacturing facilities are located on land leased by SCHC. Any taking of leased land by the Chinese government could impair our carrying value of production facilities and our ability to timely produce and deliver products, which could have an adverse effect on our business, financial position and results of operations. In mid-May 2011, one of our leased parcels of land was taken by the Chinese government for civil redevelopment, which caused suspension of the operations of Factory No. 4 in early July 2011 for relocation, which took four months. In September 2013, another one of our leased parcels of land was taken by the Chinese government for railway construction, which caused suspension of the operations of Factory No.3 in September 2013 for relocation, which took four months. In November 2016, we entered into a Demolition Compensation Agreement with the Weifang City government. The government needed to acquire the land on which Factory #6 of SCHC is located for certain government sponsored construction projects that are underway. We were compensated for the demolition of the factory. Any future taking of our leased lands will adversely affect our existing business and productivity.

Unlicensed bromine operators could have a have a material adverse effect on our business, financial position and results of operations.

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. If competition remains unregulated, these smaller operators may adversely affect our existing business and productivity.

Risks Associated with the Manufacturing and Production of Chemical Products

Research and development is very costly and highly uncertain; we may not succeed in developing or acquiring commercially successful products.

There are many difficulties and uncertainties inherent in human and animal pharmaceutical research and development and the introduction of new products. There is a high rate of failure inherent in new product discovery and development. Failure can occur at any point in the process, including late in the process after substantial investment. As a result, most funds invested in research programs will not generate financial returns. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, limited scope of approved uses, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. We cannot state with certainty when or whether our products now under development will be approved or launched; whether we will be able to develop, license or otherwise acquire additional product candidates or products; or whether our products, once launched, will be commercially successful. We must maintain a continuous flow of successful new products and successful new indications or brand extensions for existing products sufficient both to cover our research and development costs. Failure to do so in the short-term or long-term would have a material adverse effect on our business, results of operations, cash flows, financial position and prospects.

Our business may be subject to product liability claims.

The manufacturing and distribution of the Company's products for human and animal antibiotics involve an inherent risk of product liability claims being asserted against us. Regardless of whether we are ultimately determined to be liable or our products are determined to be defective, we might incur significant legal expenses not covered by insurance. In addition, product liability litigation could damage our reputation and impair our ability to market our products, regardless of the outcome. Litigation could also impair our ability to retain product liability insurance or make our insurance more expensive. Although the Company currently maintains liability insurance, we cannot assure that we will be able to continue to obtain such insurance on acceptable terms, or that such insurance will provide adequate coverage against all potential claims. If we are subject to an uninsured or inadequately insured product liability claim, our business, financial condition and results of operations could be adversely affected.

Regulatory compliance problems could be damaging to the Company.

The marketing, promotional, and pricing practices of human and animal antibiotics are subject to extensive regulation. These claims could result in substantial expense and other significant consequences to us. It is possible that we could become subject to such investigations and that the outcome could include fines, penalties, or other monetary or non-monetary remedies.

We face intense competition from multinational companies.

We compete with a large number of multinational companies, biotechnology companies and pharmaceutical companies. To compete successfully, we must continue to deliver to the market innovative, cost-effective products that meet our customer's needs. Our product revenues can be adversely affected by the introduction by competitors of products that are perceived as superior by the marketplace.

Risks Relating to our Common Stock and our status as a Public Company

The price of our common stock fluctuate significantly.

The market price of our common stock may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for the common stock in the future. In addition, the market price for our common stock may be volatile depending on a number of factors, including business performance, industry dynamics, and news announcements or changes in general economic conditions.

We have not and do not anticipate paying any dividends on our common stock; because of this our securities could face devaluation in the market.

We have paid no dividends on our common stock to date and it is not anticipated that any dividends will be paid to holders of our common stock in the foreseeable future. While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion and for the implementation of our business plan. As an investor, you should take note of the fact that a lack of a dividend can further affect the market value of our stock, and could significantly affect the value of any investment in our Company.

We will continue to incur significant costs as a result of operating as a public company, and our management will continue to be required to devote substantial time to compliance requirements.

As a public company we incur significant legal, accounting and other expenses under the Sarbanes-Oxley Act of 2002, together with rules implemented by the Securities and Exchange Commission and applicable market regulators. These rules impose various requirements on public companies, including requiring certain corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these compliance requirements. Moreover, these rules and regulations increase our legal and financial compliance costs.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, commencing in 2007, we must perform system and process evaluations and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Compliance with Section 404 may require that we incur substantial accounting expenses and expend significant management efforts. If we are not able to comply with the requirements of Section 404 in a timely manner, or if our accountants later identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other applicable regulatory authorities.

Lack of management control by purchasers of our common stock

As of the date of this report, Mr. Ming Yang, our chairman and former chief executive officer, and his affiliates, may be deemed to beneficially own approximately 28.62% of our common stock. As a result of this concentration of ownership, our public stockholders, acting alone, may not have the ability to influence the outcome of matters requiring stockholder approval, including the election of our directors or significant corporate transactions. In addition, this concentration of ownership, which is not subject to any voting restrictions, may discourage or thwart efforts by third parties to take-over or effect a change in control of our Company that may be desirable for our stockholders, and may limit the price that investors are willing to pay for our common stock.

Our Board of Directors has the authority, without stockholder approval, to issue preferred stock with terms that may not be beneficial to common stock holders and with the ability to adversely affect stockholder voting power and perpetuate the board's control over the Company.

Our article of incorporation authorizes the issuance of up to 1,000,000 shares of preferred stock. Our Board of Directors by resolution may authorize the issuance of up to 1,000,000 shares of preferred stock in one or more series with such limitations and restrictions as it may determine, in its sole discretion, with no further authorization by security holders required for the issuance thereof. The Board may determine the specific terms of the preferred stock, including: designations; preferences; conversions rights; cumulative; relative; participating; and optional or other rights, including: voting rights; qualifications; limitations; or restrictions of the preferred stock.

The issuance of preferred stock may adversely affect the voting power and other rights of the holders of common stock. Preferred stock may be issued quickly with terms calculated to discourage, make more difficult, delay or prevent a change in control of our company or make removal of management more difficult. As a result, the Board of Directors' ability to issue preferred stock may discourage the potential hostile acquirer, possibly resulting in beneficial negotiations. Negotiating with an unfriendly acquirer may result in terms more favorable to us and our stockholders. Conversely, the issuance of preferred stock may adversely affect any market price of, and the voting and other rights of the holders of the common stock. We presently have no plans to issue any preferred stock.

Future sales of our common stock, or the perception that such sales could occur, could have an adverse effect on the market price of our common stock.

We had approximately 46,793,791 shares of our common stock outstanding as of the date of this report. There are a limited number of holders of our common stock. Future sales of our common stock, pursuant to a registration statement or Rule 144 under the Securities Act, or the perception that such sales could occur, could have an adverse effect on the market price of our common stock. The number of our shares available for sale pursuant to registration statements or Rule 144 is very large relative to the trading volume of our shares. Any attempt to sell a substantial number of our shares could severely depress the market price of our common stock. In addition, we may use our capital stock in the future to finance acquisitions and to compensate employees and management, which will further dilute the interests of our existing shareholders and could also depress the trading price of our common stock.

Techniques employed by manipulative short sellers in Chinese small cap stocks may drive down the market price of our common stock.

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller's best interests for the price of the stock to decline, many short sellers (sometime known as "disclosed shorts") publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog ("blogging") have allowed many disclosed shorts to publicly attack a company's credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firm and independent research analysts. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers with business operations based in China and who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks, can be particularly vulnerable to such short attacks.

These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed shorts will continue to issue such reports.

While we intend to strongly defend our public filings against any such short seller attacks, oftentimes we are constrained, either by principles of freedom of speech, applicable state law (often called "Anti-SLAPP statutes"), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy – oftentimes blogging from outside the U.S. with little or no assets or identity requirements – should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

FIGURE 2.1 - REGIONAL MAP OF MINING PROPERTIES

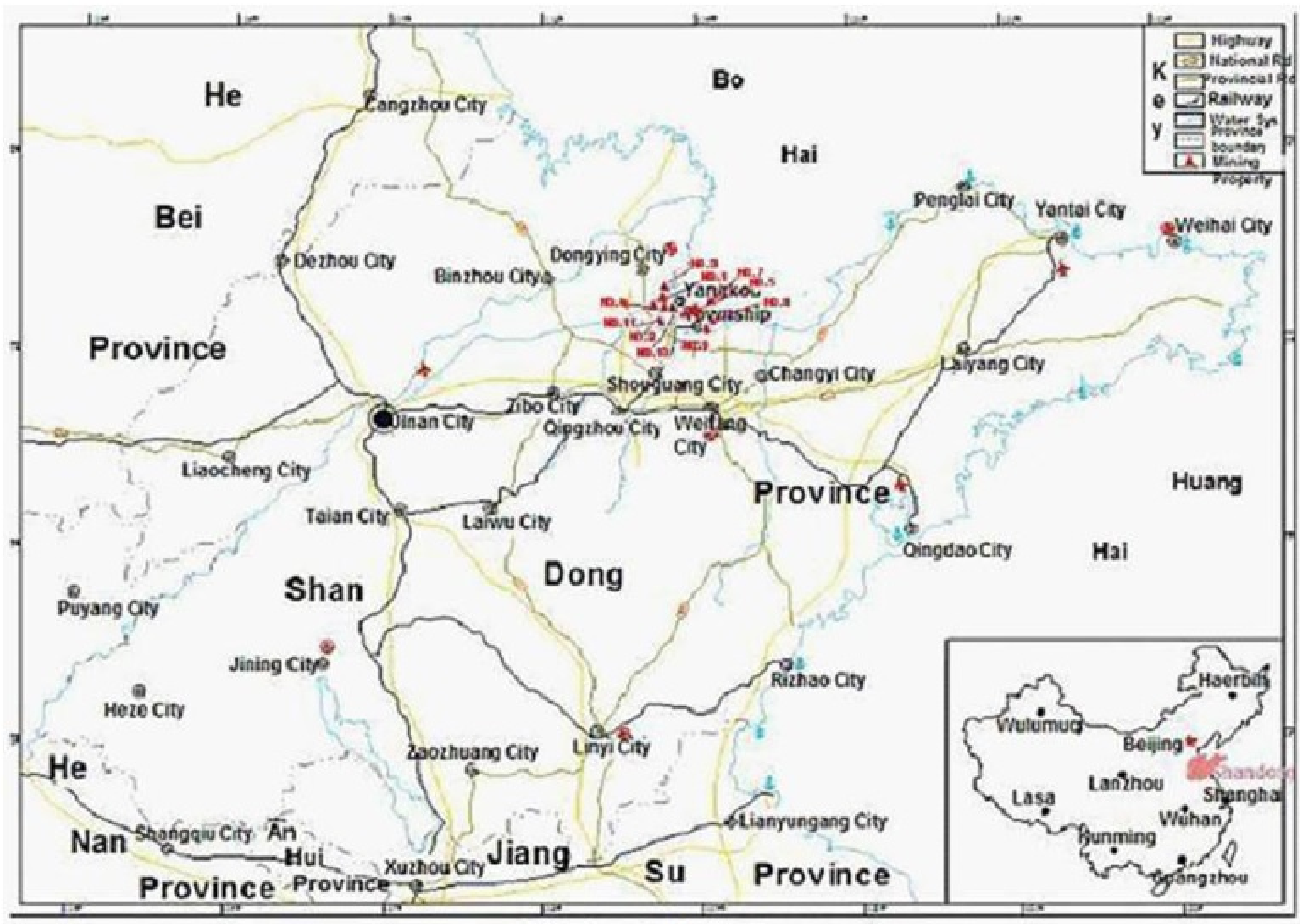
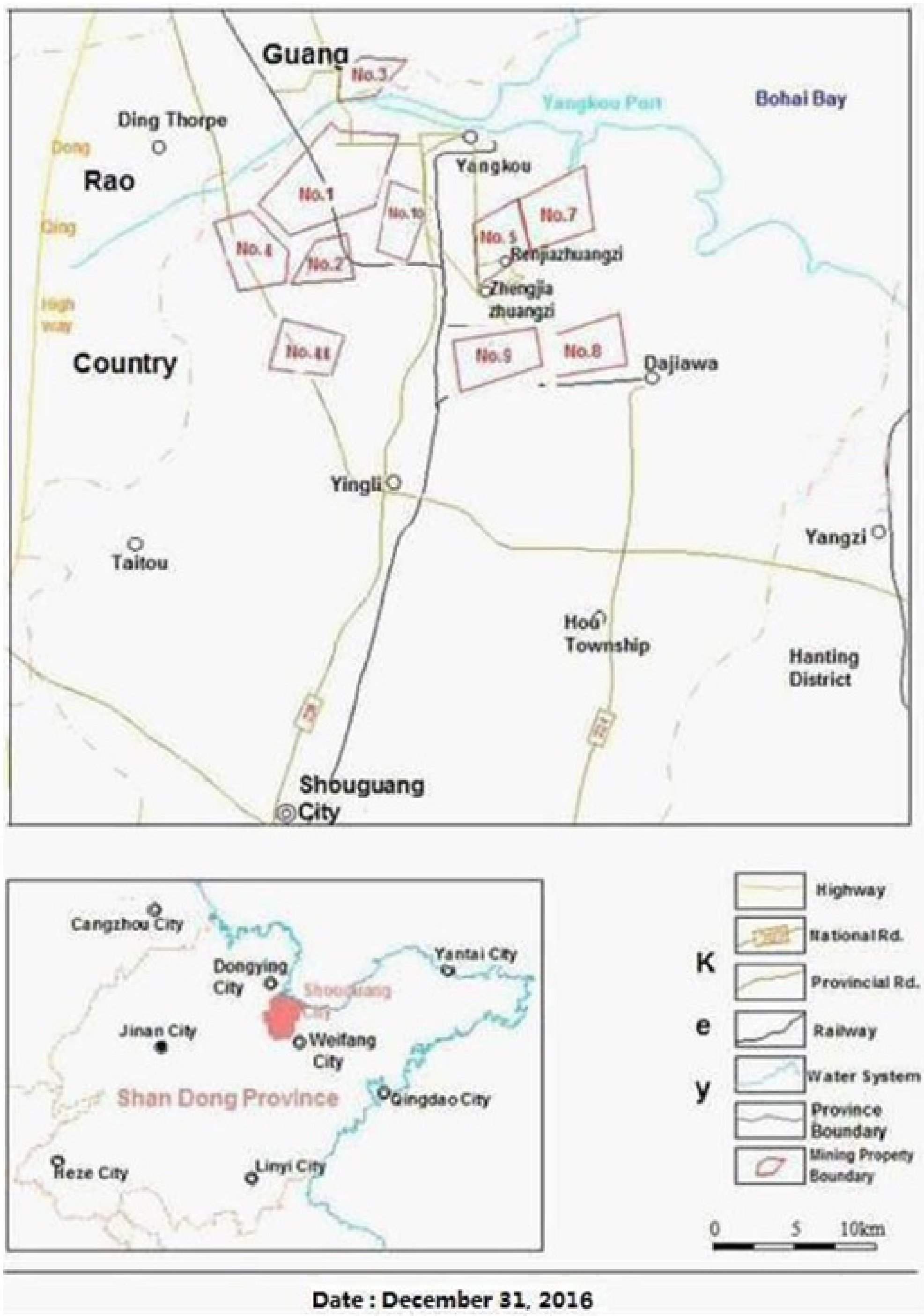


FIGURE 2.2 - DETAILED MAP OF MINING PROPERTIES



We do not own any land, though we do own some of the buildings on land we lease. Our executive offices are located in China 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, SYCI and SCRC. 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's factories are located in the 2nd Living District, Shouguang City, Shandong Province, the People's Republic of China which is located on approximately 18,768 square meters of land owned by Shouguang City Houxin village. There are three buildings owned by SYCI located on the property. Two of the buildings are operational plants of steel structure with an aggregate of approximately 1,560 square meters of production space and a total of 4,000 square meters for pump rooms, boiler rooms, finished products and raw materials storage. The third building is primarily for administration and has approximately 795 square meters. The Company has a 50 year lease on the land from April 1, 1998 to March 31, 2048 at an annual rent of RMB 4,000 or $619.

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.

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 ten properties (approximately 24,179 acre), totaling nearly 24,183 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 ten 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 fee in an amount equal to 2% of annual bromine sales. 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 mineral resources compensation fees 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. All of the relevant documentation to apply for renewal of mining rights must be filed with the Land and Resources Bureau before March 31st each year.

All of our bromine and crude salt production facilities have been authorized by the local land and resources departments except bromine Factory No.10 and 11, of which Factories No. 1 to No. 4 are included under a single permit, which was originally issued in January 2005. And this permit was updated on July 2016, which Factories No. 1 to No. 4, and Factory 7 are included under a single permit issued on July 2016. For Factories No. 5, 8, 9, 10 and 11, the related mining permit applications are under review by the local land and resources departments, nevertheless we have obtained written consent from the local land and resources department to commence the production for Factories No. 5,8 and 9. In addition, all of our operations are subject to and have passed government safety inspections. We also have been granted environmental certification from the PRC Bureau of Environmental Protection.

Factories No. 1 to No. 11 are in their production stage and operate bromine extraction and crude salt production facilities. The facilities each include wells, which are used to extract natural brine from underground, natural brine transmission pipelines, natural brine storage reservoirs, bromine refining equipment, wastewater transport pipes, and drying brine drying pans.

The equipment and facilities described above were constructed within three months after the acquisition of each of our respective properties using the latest technology and equipment and do not currently require modernization. Because bromine is a highly corrosive liquid, the equipment undergoes inspection and maintenance each year, especially the subaqueous pumps which need to be regularly inspected and maintained or replaced. Also, enhancements to certain protective shells to the crude salt fields, extraction wells and transmission channels and ducts are carried out every 5 to 8 years, depending on the erosion rate, which is affected by different weather conditions and the change in acid components of brine water over time.

As of December 31, 2016, the Company had invested approximately $107.26 million in its eleven production factories and facilities (including the demolition of Factory No.6 in 2016) and paid approximately $9.8 million in prepaid land lease payments and mineral rights. The Company incurred enhancement works in our existing bromine extraction and crude salt production facilities at costs of approximately $15.23 million for the fiscal year 2016. In light of the increased labor and raw materials costs of construction projects in recent years, the cost to replace those eroded parts increased the overall cost of the enhancement project to its current level.

Each of the ten bromine production facilities is provided with electricity and water by local government utilities.

The following is a description of the land use and mineral rights related to each of the ten properties held by SCHC as of December 31, 2016.

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, 2016	37.25 Years
Prior fees paid for land use rights	RMB8.6 million
Annual Rent	RMB186,633
Mining Permit No.:	C3707002009056220022340
Date of Permission:	July 2016, subject to renewal per three years
Period of Permission:	Three year

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, 2016	36 Years
Prior Fees Paid For Land Use Rights	RMB7.5 million
Annual Rent	RMB162,560
Mining Permit No.:	C3707002009056220022340
Date of Permission:	July 2016, subject to renewal per three years
Period of Permission:	Three year

Property	**Factory No. 3 – Yangdonghua**
Area	2,318 acres
Date of Acquisition	June 8, 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, 2016	35.3 Years
Prior Fees Paid For Land Use Rights	RMB5 million
Annual Rent	RMB111,317
Mining Permit No.:	C3707002009056220022340
Date of Permission:	July 2016, subject to renewal per three years
Period of Permission:	Three year

Property	**Factory No. 4 – Liuxingji**
Area	2,310 acres
Date of Acquisition	October 26, 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, 2016	37.83 Years
Annual Rent	RMB139,255
Prior Fees Paid For Land Use Rights	RMB6.5 million
Mining Permit No.:	C3707002009056220022340
Date of Permission:	July 2016, subject to renewal per three years
Period of Permission:	Three year

Property	**Factory 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, 2016	38 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, 2016	42.17 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 2016, subject to renewal per three years
Period of Permission:	Three year

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, 2016	42.66 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, 2016	43.5 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, 2016	5.0 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB688,000 (increase 5% per year)
Mining Permit No.:	Under application

Property	**Factory No. 11 – Chengyong Zhao**
Area	1,730 acres
Date of Acquisition	November 26, 2012
Land Use Rights Lease Term	Twenty Years
Land Use Rights Expiration Date	2032
The number of remaining years to expiration of the of the land lease as of December 31, 2016	16.0 Years
Prior Fees Paid for Land Use Rights	Not applicable
Annual Rent	RMB918,800 (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) or 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 from 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)	2016 Utilization Ratio	2015 Utilization Ratio
Factory No. 1	-	6,442	6,681	38%	42%
Factory No. 2	April 7, 2007	1,846	4,844	36%	38%
Factory No. 3	June 8, 2007	2,318	4,701	33%	36%
Factory No. 4	October 26, 2007	2,310	3,801	37%	41%
Factory No. 5 and Factory No. 7 *	October 25, 2007/ January 7, 2009	3,776	6,986	39%	44%
Factory No. 6*	January 8, 2008	2,641	4,539	32%	42%
Factory No. 8	September 7, 2009	2,723	4,016	38%	42%
Factory No. 9	June 7, 2010	759	2,793	35%	38%
Subdivision of Factory No. 1	January 1, 2011	1	3,186	34%	36%
Factory No. 10	December 22, 2011	1,700	3,000	37%	41%
Factory No. 11	November 26, 2012	1,730	2,800	36%	37%

* Bromine production for Factory No. 5 and Factory No. 7 were combined in early 2010 as both factories are located adjacent to each other.

* Bromine production for Factory No. 6 was demolished in November 2016.

\# Except for Factory No. 10 and No.11 which were acquired after the assessment performed, annual production capacities for other factories were reassessed by Grant Sherman Appraisal Limited on October 28, 2011.

Each of the properties described above was not in operation when the Company acquired the asset. The owners of each of the properties did not hold the proper license for the exploration and production of bromine, and production at each of the assets acquired had been previously halted by the government. With respect to Factory No. 2, the property had not been operational for nine months; with respect to Factory No. 3, the property had not been operational for eleven months; with respect to Factory No. 4 and No. 5, the property had not been operational for fifteen months; with respect to Factory No. 6, the property had not been operational for eighteen months; with respect to Factory No. 7, the property had not been operational for thirteen months; with respect to Factory No. 8, the property had not been operational for fourteen months; and with respect to Factories No. 9 No. 10 and No.11, the assets had not been operational for six months.

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.

	2016			**2015**		
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	2,556	2,584	25,152	2,830	2,812	19,731
Factory No. 2	1,737	1,737	25,214	1,824	1,821	19,338
Factory No. 3	1,530	1,526	25,184	1,709	1,737	19,754
Factory No. 4	1,413	1,414	25,192	1,569	1,571	19,724
Factory No. 5 and Factory No. 7 *	2,735	2,715	25,141	3,079	3,081	19,785
Factory No. 6*	1,457	1,525	25,116	1,914	1,944	19,768
Factory No. 8	1,514	1,513	25,197	1,675	1,676	19,778
Factory No. 9	976	977	25,192	1,064	1,067	19,399
Subdivision of Factory No. 1	1,096	1,096	25,180	1,220	1,221	19,797
Factory No. 10	1,089	1,088	25,200	1,141	1,152	19,373
Factory No. 11	1,006	999	25,192	1,027	1,042	19,358
Total (Note A)	**17,110**	**17,173**		**19,053**	**19,124**	

* Bromine production for Factory No. 5 and Factory No. 7 were combined in early 2010 as both factories are located adjacent to each other.

* Bromine production for Factory No. 6 was demolished in November 2016.

Note A: This includes sale to the chemical segment

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.

Crude Salt Facility	2016 Produced (in tons)	2016 Sold (in tons)	2016 Selling price (RMB/ton)	2015 Produced (in tons)	2015 Sold (in tons)	2015 Selling price (RMB/ton)
Factory No. 1	7,220	5,543	189	9,560	6,097	188
Factory No. 2	25,980	21,988	190	27,200	25,587	202
Factory No. 5 and Factory No. 7 *	129,900	117,796	189	138,000	130,280	198
Factory No. 6*	29,800	40,364	189	36,500	37,467	197
Factory No. 8	88,400	78,426	189	90,500	90,451	199
Factory No. 9	49,400	52,045	189	42,600	40,490	194
Total	**330,700**	**316,161**		**344,360**	**330,373**	

* Bromine production for Factory No. 5 and Factory No. 7 were combined in early 2010 as both factories are located adjacent to each other.
* Bromine production for Factory No. 6 was demolished in November, 2016.

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, for our SCRC's production facilities and the weighted average price received for all products sold for the last one years.

Chemical Products	2016 Produced (in tons)	2016 Sold (in tons)	2016 Selling price (RMB/ton)	2015 Produced (in tons)	2015 Sold (in tons)	2015 Selling price (RMB/ton)
Oil and gas exploration additives	10,488	10,505	14,696	14,354	14,379	12,002
Paper manufacturing additives	3,033	3,032	8,838	4,090	4,087	7,317
Pesticides manufacturing additives	2,179	2,179	39,824	3,119	3,127	31,056
Pharmaceutical intermediates	4,088	1,617	139,891	4,388	1,682	134,700
By products	12,044	12,043	8,123	12,225	12,273	7,494
Total	**31,832**	**29,376**		**38,176**	**35,548**	

Item 3. Legal Proceedings.

None

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". The prices set forth below reflect the quarterly high and low sales prices per share for our common stock, as reported by the NASDAQ:

	High	Low
2017		
First Quarter (through March 10)	$ 2.30	$ 1.91
2016		
First Quarter	$ 1.87	$ 1.39
Second Quarter	$ 1.65	$ 1.41
Third Quarter	$ 2.46	$ 1.46
Fourth Quarter	$ 2.53	$ 1.95
2015		
First Quarter	$ 1.96	$ 1.15
Second Quarter	$ 2.66	$ 1.63
Third Quarter	$ 2.27	$ 1.39
Fourth Quarter	$ 1.99	$ 1.36

Holders

As of March 11, 2017, our common stock was held of record by approximately 40 stockholders, some of whom may hold shares for beneficial owners and have not been polled to determine the extent of beneficial ownership.

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, 2016 about our equity compensation plans and arrangements.

Equity Compensation Plan Information - December 31, 2016

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	185,000	$2.19	7,338,489
Equity compensation plans not approved by security holders	-	-	-
Total	185,000	$2.19	7,338,489

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, wastewater processing, papermaking chemical agents and inorganic chemicals.

On December 12, 2006, we acquired, through a share exchange, Upper Class Group Limited, a British Virgin Islands holding corporation which then owned all of the outstanding shares of SCHC. Under accounting principles generally accepted in the United States, the share exchange is considered to be a capital transaction in substance, rather than a business combination. That is, the share exchange is equivalent to the issuance of stock by Upper Class for the net assets of our Company, accompanied by a recapitalization, and is accounted for as a change in capital structure. Accordingly, the accounting for the share exchange was identical to that resulting from a reverse acquisition, except no goodwill was recorded. Under reverse takeover accounting, the post reverse acquisition comparative historical consolidated financial statements of the legal acquirer, our Company, are those of the legal acquiree, Upper Class Group Limited, which is considered to be the accounting acquirer. Share and per share amounts reflected in this report have been retroactively adjusted to reflect the merger.

On February 5, 2007, the Company, acting through SCHC, acquired SYCI. Since the ownership of the Company and SYCI was then substantially the same, the transaction was accounted for as a transaction between entities under common control, whereby we recognized the assets and liabilities of SYCI at their carrying amounts. Share and per share amounts stated in this report have been retroactively adjusted to reflect the merger.

On August 31, 2008, SYCI completed the construction of a new chemical production line. It passed the examination by Shouguang City Administration of Work Safety and local fire department. This new production line focuses on producing environmental friendly additive products, solid lubricant and polyether lubricant, for use in oil and gas exploration. The line has an annual production capacity of 5,000 tons. Formal production of this chemical production line started on September 15, 2008. The total annual production capacity of SYCI is 36,300 tons.

On October 12, 2009 we completed a 1-for-4 reverse stock split of our common stock, such that for each four 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 October 27, 2009 our shares began trading on the NASDAQ Global Select Market under the ticker symbol "GFRE" and on June 30, 2011 we changed our ticker symbol to "GURE" to better reflection of our corporate name.

On January 12, 2015, the Company and SCHC entered into an Equity Interest Transfer Agreement with 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 entered into. For accounting purposes, the Shares are now being valued at $1.84, which was the closing price of our stock on the day of the closing date of the agreement. The price difference between the original $2.00 and the current $1.84 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 RMB11,495,162 capital contributed by SCHC as of December 31, 2016. DCHC was established to further explore and develop natural gas and brine resources (including bromine and crude salt) in China.

On August 30, 2016, Gulf Resources announced its intention to merge SYCI and SCRC. As of December 31, 2016, the legal elements of this merger had not been completed. As a result, these two subsidiaries are still being reported as independent entities.

As a result of our acquisitions of SCHC, SYCI and SCRC, our historical consolidated financial statements and the information presented below reflects the accounts of SCHC, SYCI, SCRC and DCHC, the consolidated financial statements and the information presented below as of and for the year ended December 31,2016. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.

RESULTS OF OPERATIONS

Year ended December 31, 2016 as compared to year ended December 31, 2015

	Years ended		Percent Change
	December 31, 2016	December 31, 2015	Increase/ (Decrease)
Net Revenue	$ 149,275,002	$ 162,317,120	(8%)
Cost of Net Revenue	$ (94,785,671)	$ (109,035,870)	(13%)
Gross Profit	$ 54,489,331	$ 53,281,250	2%
Sales, Marketing and Other Operating Expense	$ (343,105)	$ (375,365)	(9%)
Research and Development Costs	$ (261,931)	$ (230,590)	14%
Exploration cost	$ —	$ (325,840)	(100%)
Write-off / Impairment on property, plant and equipment	$ (106,545)	$ (969,638)	(89%)
Loss on demolition of factory	$ (1,053,445)	$ —	—
General and Administrative Expenses	$ (5,434,755)	$ (6,668,838)	(19%)
Other Operating Income	$ 433,792	$ 453,731	(4%)
Income from Operations	$ 47,723,342	$ 45,164,710	6%
Other Income, Net	$ 312,696	$ 275,235	14%
Income before Taxes	$ 48,036,038	$ 45,439,945	6%
Income Taxes	$ (11,810,207)	$ (11,371,908)	4%
Net Income	$ 36,225,831	$ 34,068,037	6%

Net Revenue The table below shows the changes in net revenue in the respective segment of the Company for the fiscal year 2016 compared to the same period in 2015:

	Net Revenue by Segment				
	Year Ended December 31, 2016		Year Ended December 31, 2015		Percent Change Increase/(Decrease)
Segment		Percent of total		Percent of total	
Bromine	$ 56,811,730	38%	$ 52,385,491	32%	8%
Crude Salt	$ 8,985,852	6%	$ 10,494,939	7%	(14%)
Chemical Products	$ 83,477,420	56%	$ 99,436,690	61%	(16%)
Total sales	$ 149,275,002	100%	$ 162,317,120	100%	(8%)

	Years Ended December 31		Percent Change
Bromine and crude salt segments product sold in tonnes	2016	2015	Decrease
Bromine (excluded volume sold to SYCI and SCRC after acquisition in January 2015)	14,955	16,569	(10%)
Crude Salt	316,161	330,373	(4%)

	Years Ended December 31		Percent Change
Chemical products segment sold in tonnes	2016	2015	Decrease
Oil and gas exploration additives	10,505	14,332	(27%)
Paper manufacturing additives	3,032	4,134	(27%)
Pesticides manufacturing additives	2,179	3,127	(30%)
Pharmaceutical intermediates	1,617	1,682	(4%)
By products	12,043	12,273	(2%)
Overall	29,376	35,548	(17%)

Bromine segment

The increase in net revenue from our bromine segment was mainly due to the increase in the selling price. The selling price of bromine increased from $3,162 per tonne for the fiscal year 2015 to $3,799 per tonne for the same period in 2016, an increase of 20%.

The sales volume of bromine decreased from 16,569 tonnes for the fiscal year 2015 to 14,955 tonnes for the same period in 2016, a decrease of 10%. The major reason for the decrease in the sales volume of bromine was mainly due to the slowdown in the Chinese economy and the financial tightening, which has affected our customers' industries. The table below shows the changes in the average selling price and changes in the sales volume of bromine for the fiscal year 2016 from the same period in 2015.

Increase in net revenue of bromine as a result of:	Fiscal Year 2016 vs. 2015
Increase in average selling price	$ 10,044,003
Decrease in sales volume	$ (5,617,764)
Total effect on net revenue of bromine	$ 4,426,239

Crude salt segment

The decrease in net revenue from our crude salt segment was due to the decrease in both the sales volume and selling price of crude salt. The sales volume of crude salt decreased by 4% from 330,373 tonnes for the fiscal year 2015 to 316,161 tonnes for the same period in 2016. The average selling price of crude salt decreased from $31.77 per tonne for the fiscal year 2015 to $28.42 per tonne for the same period in 2016, a decrease of 11%. The major reason for the decrease in the sales volume of crude salt was mainly due to the slowdown in the Chinese economy and the financial tightening, which has affected our customers' industries.

The table below shows the changes in the average selling price and changes in the sales volume of crude salt for the fiscal year 2016 from the same period in 2015.

Decrease in net revenue of crude salt as a result of:	Fiscal Year 2016 vs. 2015
Decrease in average selling price	$ (1,081,403)
Decrease in sales volume	$ (427,684)
Total effect on net revenue of crude salt	$ (1,509,087)

Chemical products segment

	Product Mix of Chemical Product Segment				
	Year Ended December 31, 2016		Year Ended December 31, 2015		Percent Change Decrease
Chemical Products		Percent of total		Percent of total	
Oil and gas exploration additives	$ 19,914,575	24%	$ 27,642,028	28%	(28%)
Paper manufacturing additives	$ 3,456,932	4%	$ 4,908,057	5%	(30%)
Pesticides manufacturing additives	$ 11,194,214	13%	$ 15,611,616	16%	(28%)
Pharmaceutical intermediates	$ 34,159,589	41%	$ 36,488,364	36%	(6%)
By products	$ 14,752,110	18%	$ 14,786,625	15%	—
Total sales	$ 83,477,420	100%	$ 99,436,690	100%	(16%)

Net revenue from our chemical products segment decreased from $99,436,690 for the fiscal year 2015 to $83,477,420 for the same period in 2016, a decrease of approximately 16%. This decrease was primarily attributable to the decreased sales volume of all our chemical products mainly due to the slowdown in the Chinese economy and the financial tightening, which has affected our customers' industries. Net revenue from our oil and gas exploration chemicals contributed $19,914,575 (or 24%) and $27,642,028 (or 28%) of our chemical segment revenue for the fiscal year 2016 and 2015, respectively, with a decrease of $7,727,453, or 28%. Net revenue from our paper manufacturing additives decreased from $4,908,057 for the fiscal year 2015 to $3,456,932 for the same period in 2016, a decrease of approximately 30%. Net revenue from our pesticides manufacturing additives decreased from $15,611,616 for the fiscal year 2015 to $11,194,214 for the same period in 2016, a decrease of approximately 28%. Net revenue from our pharmaceutical intermediates decreased from $36,488,364 for the fiscal year 2015 to $34,159,589 for the same period in 2016, a decrease of approximately 6%. Net revenue from our by products was $14,786,625 for the fiscal year 2015 compared to $14,752,110 for the same period in 2016.

The table below shows the changes in the average selling price and changes in the sales volume of major chemical products of SYCI for the fiscal year 2016 from the same period in 2015.

Decrease in net revenue of major chemical products, for fiscal year 2016 vs. 2015, as a result of:	Oil and Gas Exploration Additives	Paper Manufacturing Additives	Pesticides Agricultural Additives	Total
Increase/(Decrease) in average selling price	$ (409,432)	$ (168,733)	$ 384,142	$ (194,023)
Decrease in sales volume	$ (7,318,021)	$ (1,282,392)	$ (4,801,544)	$ (13,401,957)
Total effect on net revenue of chemical products	$ (7,727,453)	$ (1,451,125)	$ (4,417,402)	$ (13,595,980)

The table below shows the changes in the average selling price and changes in the sales volume of the following major chemical products for the fiscal year 2016 from the same period in 2015 (only eleven months were included since we acquired SCRC in January 2015).

Decrease in net revenue, for the fiscal year 2016 vs. 2015, as a result of:	Pharmaceutical intermediates	By products	Total
Increase /(Decrease)in average selling price	$ (937,167)	$ 244,572	$ (692,595)
Decrease in sales volume	$ (1,391,608)	$ (279,087)	$ (1,670,695)
Total effect on net revenue of chemical products	$ (2,328,775)	$ (34,515)	$ (2,363,290)

If the full twelve months net revenue were to be included in 2015, the table showing the changes in the average selling price and changes in the sales volume would be as follows:

Decrease in net revenue, for the fiscal year 2016 vs. 2015, as a result of:	Pharmaceutical intermediates	By products	Total
Increase /(Decrease)in average selling price	$ (1,308,147)	$ 268,504	$ (1,039,643)
Decrease in sales volume	$ (5,611,390)	$ (1,756,434)	$ (7,367,824)
Total effect on net revenue of chemical products	$ (6,919,537)	$ (1,487,930)	$ (8,407,467)

Cost of Net Revenue

	Cost of Net Revenue by Segment				
	Year Ended December 31, 2016		Year Ended December 31, 2015		Percent Change Decrease
Segment		Percent of total		Percent of total	
Bromine	$ 30,879,323	32%	$ 36,592,812	33%	(16%)
Crude Salt	$ 8,187,291	9%	$ 8,335,648	8%	(2%)
Chemical Products	$ 55,719,057	59%	$ 64,107,410	59%	(13%)
Total Cost of Net Revenue	$ 94,785,671	100%	$ 109,035,870	100%	(13%)

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 $94,785,671 for fiscal year 2016, a decrease of $14,250,199 (or approximately 13%) compared to fiscal year 2015. This decrease was primarily attributable to the decrease volume of products sold due to the slowdown in the Chinese economy and the financial tightening, which has affected our customers' industries.

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 2015	47,347	40%
Fiscal year 2016	47,347	36%
Variance of the fiscal year 2016 and 2015	-	(4%)

(i) Utilization ratio is calculated based on the actual production volume in tonnes for the year divided by the annual production capacity in tonnes. The product produce below reflect the annualized production.

Our utilization ratio decreased by 4% for the fiscal year 2016 as compared with the same period in 2015.

In view of the trend of a decrease in the bromine concentration of brine water being extracted at our production facilities, and in order to reduce the leakage rate and attempt to recover the annual production capacity of bromine and crude salt to a higher level in the future, we continue carrying out enhancements to replace eroded protective shells and enhancement works in our existing bromine extraction. In the third quarter of 2016, the Company incurred enhancement works in our existing bromine extraction and crude salt production facilities at costs of approximately $15.23 million. The Company expects to carry out enhancement projects for the crude salt fields in 2017, which will cost approximately $15 million. The Company also estimates that the amount of ordinary repair and maintenance expense will be approximately $0.8 million in 2017.

Bromine segment

For the fiscal year 2016, the cost of net revenue for our bromine segment was $30,879,323, a decrease of $5,713,489 (or 16%) compared to $36,592,812 for the fiscal year 2015. The major components of our cost of net revenue for the bromine segment were cost of raw materials and finished goods consumed of $8,198,333 (or 27%), depreciation and amortization of manufacturing plant and machinery of $14,614,059 (or 47%) and electricity of $2,566,285 (or 8%) for fiscal year 2016. The major components of our cost of net revenue for the bromine segment were cost of raw materials and finished goods consumed of $11,985,783 (or 33%), depreciation and amortization of manufacturing plant and machinery of $17,026,160 (or 47%) and electricity of $2,985,975 (or 8%) for fiscal year 2015, a similar cost structure as compared with the same in 2016. The decrease in net cost of net revenue was mainly attributable to the decreased volume of products sold and decrease in purchase cost of raw material.

The table below represents the major production cost components of bromine per ton sold for the respective periods:

	Year Ended December 31, 2016		Year Ended December 31, 2015		% Change
		Percent of total		Percent of total	
Raw materials	$ 971	45%	$ 1,047	45%	(7%)
Depreciation and amortization	$ 851	38%	$ 890	38%	(4%)
Electricity	$ 149	7%	$ 156	7%	(4%)
Others	$ 320	10%	$ 241	10%	33%
Production cost of bromine per ton	$ 2,292	100%	$ 2,334	100%	(2%)

Crude salt segment

For the fiscal year 2016, the cost of net revenue for our crude salt segment was $8,187,291, representing a decrease of $148,357, or 2%, over the same period in 2015. The decrease in cost was mainly due to the decrease in volume of crude salt sold and unit production cost. The significant costs were depreciation and amortization of $5,837,225 (or 71%), resource tax calculated based on the crude salt sold of $919,268 (or 11%) and electricity of $437,453 (or 5%) for the fiscal year 2016. The significant costs were depreciation and amortization of $5,839,694 (or 70%), resource tax calculated based on the crude salt sold of $1,060,665 (or 13%) and electricity of $535,178 (or 6%) for the fiscal year 2015. The table below represents the major production cost components of crude salt per ton sold for the respective periods:

	Year Ended December 31, 2016		Year Ended December 31, 2015		% Change
		Percent of total		Percent of total	
Depreciation and amortization	$ 18.5	70%	$ 17.7	70%	4%
Resource tax	$ 2.9	13%	$ 3.2	13%	(9%)
Electricity	$ 1.4	6%	$ 1.6	6%	(15%)
Others	$ 3.1	11%	$ 2.7	11%	15%
Production cost of crude salt per ton	$ 25.9	100%	$ 25.2	100%	3%

Chemical products segment

For the fiscal year 2016, the cost of net revenue for our chemical products segment was $55,719,057, representing a decrease of $8,388,353, or 13%, over the same period in 2015. This decrease was primarily attributable to the decrease in sales volume of all our chemical products.

Gross Profit. Gross profit was $54,489,331, or 37%, of net revenue for fiscal year 2016 as compared to $53,281,250, or 33%, of net revenue for fiscal year 2015.

	Gross Profit by Segment				% Point
	Year Ended December 31, 2016		Year Ended December 31, 2015		Change of Gross Profit
Segment		Percent of Net Revenue		Percent of Net Revenue	
Bromine	$ 25,932,407	46%	$ 15,792,679	30%	16%
Crude Salt	$ 798,561	9%	$ 2,159,291	21%	(12%)
Chemical Products	$ 27,758,363	33%	$ 35,329,280	36%	(3%)
Total Gross Profit	$ 54,489,331	37%	$ 53,281,250	33%	4%

Bromine segment

For the fiscal year 2016, the gross profit margin for our bromine segment was 46%, as compared to 30% for the fiscal year 2015. This 16% increase is mainly due to the selling price of bromine increased from $3,162 per tonne for the fiscal year 2015 to $3,799 per tonne for the same period in 2016, an increase of 20%. We expect that the average selling price and gross profit margin of bromine will remain at current levels through the first quarter of 2017 should the PRC government's macro-economic tightening policy remain in place.

Crude salt segment

For the fiscal year 2016, the gross profit margin for our crude salt segment was 9% as compared to 21% for the same period in 2015. This 12% decrease is mainly attributable to the selling price decreased from $31.77 per tonne for the fiscal year 2015 to $28.42 per tonne for the same period in 2016, a decrease of 11%.

Chemical products segment

The gross profit margin for our chemical products segment for the fiscal year 2016 was 33% as compared to 36% for the same period in 2015, a decrease of 3%. This 3% decrease was primarily attributable to the increase in purchase cost of raw material.

Research and Development Costs The total research and development costs incurred for the fiscal years 2016 and 2015 were $261,931 and $230,590, respectively, an increase of 14%. Research and development costs for the fiscal year 2016 and 2015 represented raw materials used by SYCI and SCRC for testing the manufacturing routine.

Exploration Costs The total exploration costs incurred for fiscal year 2016 and 2015 were $0 and $325,840. The Company expenses exploration costs. When the financial viability of a project is proven, the Company will capitalize all future expenses and allocate them to the business line of that project. Prior to January 30, 2015, the Company incurred a total of $7,848,873 in exploration costs for the drilling of natural gas and brine wells in Daying County of Sichuan Province. These expenses were charged to the Company's Bromine and Crude Salt segments. On January 30, 2015, the Company announced that it found natural gas resources under its bromine well in Sichuan. In early May 2015, the Company received a testing report that confirmed the economics of the natural gas under this well.

Since May 2015, all cost related to the well are included in the segment for DCHC. All related expenditures are being capitalized.

Write-off/Impairment on property, plant and equipment. Write-off on property, plant and equipment for the fiscal year 2016 and 2015 were $106,545 and $969,638, respectively, a decrease of 89%. Write-off on property, plant and equipment of $106,545 for the fiscal year 2016 represented the write-off of (i) certain protective shells to transmission pipelines and ducts replaced of $90,395 during the enhancement project that started in August 2016 and completed in September 2016; and (ii) certain machinery and equipment replaced during the enhancement work to our bromine production facilities in Factory No. 7 of $16,150. Write-off on property, plant and equipment of $969,638 for the fiscal year 2015 mainly represented the write-off of (i) certain protective shells to transmission pipelines and ducts replaced of $753,025 during the fourth phase enhancement project that started in August 2015 and completed in September 2015; and (ii) certain machinery and equipment replaced during the enhancement work to our bromine production facilities in Factory No. 11 of $66,676; (iii) the dismantle cost of $149,937 due to part of the Factory No.1 and 9 plant construction equipment did not meet the government's safety and environmental standards.

General and Administrative Expenses. General and administrative expenses were $5,434,755 for the fiscal year 2016, a decrease of $1,234,083 (or 19%) as compared to $6,668,838 for the same period in 2015. The decrease was primarily due to (i)the unrealized exchange gain in relation to the translation difference of inter-company balances in USD and RMB for the fiscal year 2016 in the amount of $1,702,728, as compared to the unrealized exchange gain for the same period in 2015 in the amount of $1,575,397; (ii) a non-cash expense related to stock options granted to employees decreased from $374,600 for the fiscal year 2015 to $40,300 for the same period of 2016; and (ii) audit fee incurred in the amount of $115,000 related to the audit of SCRC acquired in the fiscal year 2015; and (iii) incurred franchise tax fee in the amount of $241,081 for the fiscal year 2015, with no such expense in 2016 due to the reincorporation of the Company from Delaware to Nevada.

Other Operating Income. Other operating income was $433,792 for the fiscal year 2016, a decrease of $19,939(or 4%) as compared to $453,731 for the same period in 2015 for sales of wastewater. Wastewater is generated from the production of bromine and eventually becomes crude salt when it evaporates. Not all of our bromine production plants have sufficient area on the property to allow for evaporation of wastewater to produce crude salt. Certain of our customers who have facilities located adjacent to our bromine production plants have agreed to allow us to channel our wastewater into brine pans on their properties for evaporation. These customers then are able to sell the resulting crude salt themselves. We signed agreements with four of our customers to sell them our wastewater at market prices.

Income from Operations. Income from operations was $47,723,342 for the fiscal year 2016 (or 32% of net revenue), an increase of $2,558,632 (or approximately 6%) over income from operations for the fiscal year 2015. This increase was primarily attributable to the increased bromine price and the decrease in general and administrative expense, reduced by the decrease in sales volume of the chemical products in fiscal year 2016 compared with the same period in 2015.

	Income from Operations by Segment			
	Year ended December 31, 2016		Year ended December 31, 2015	
Segment:		% of total		% of total
Bromine	$ 21,224,862	45%	$ 10,854,711	24%
Crude Salt	$ 9,076	—	$ 1,183,755	3%
Chemical Products	$ 25,473,792	55%	$ 32,997,870	73%
Natural Gas	$ (4,906)	—	$ —	—
Income from operations before corporate costs	$ 46,702,824	100%	$ 45,036,336	100%
Corporate costs	$ (682,210)		$ (1,447,023)	
Unrealized translation difference	$ 1,702,728		$ 1,575,397	
Income from operations	$ 47,723,342		$ 45,164,710	

Bromine segment

Income from operations from our bromine segment was $21,224,862 for the fiscal year 2016, an increase of $10,370,151 (or approximately 96%) compared to the same period in 2016. This increase was mainly due to the increase in selling price of bromine from $3,162 per tonne in fiscal year 2015 to $3,799 per tonne in fiscal year 2016 and the decreased cost of revenue for the fiscal year 2016 compare for the same period in 2015 as mentioned in the cost of net revenue for our bromine segment.

Crude salt segment

Income from operations from our crude salt segment was $9,076 for the fiscal year 2016, a decrease of $1,174,679 (or approximately 99%) as compared to the same period in 2015. This decrease is mainly attributable to decreased selling price of crude salt in the fiscal year 2016 compared to the same period in 2015.

Chemical products segment

Income from operations from our chemical products segment was $25,473,792 for the fiscal year 2016, a decrease of $7,524,078 (or approximately 23%) over same period in 2015. This decrease was primarily attributable to the decrease in sales volume of all of our chemical products.

Other Income, Net. Other income, net, which represent bank interest income, net of capital lease interest expense was $312,696 for the fiscal year 2016, an increase of $37,461 (or approximately 14%) as compared to the same period in 2015.

Net Income. Net income was $36,225,831 for the fiscal year 2016, an increase of $2,157,794 (or approximately 6%) as compared to the same period in 2015. This increase was primarily attributable to the increased bromine price and the decrease in general and administrative expense , reduced by the decrease in sales volume of chemical products in fiscal year 2016 compared with the same period in 2015.

Effective Tax Rate. Our effective tax rates for the fiscal years 2016 and 2015 were 25% and 25%, respectively. The effective tax rate of 25% for the fiscal year 2015 and 2016 is consistent with the PRC statutory income tax rate.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, cash and cash equivalents were $163,884,574 as compared to $133,606,392 as of December 31, 2015. The components of this increase of $30,278,182 are reflected below.

Statement of Cash Flows

	Years Ended December 31	
	2016	2015
Net cash provided by operating activities	$ 55,216,598	$ 70,401,210
Net cash used in investing activities	$ (14,961,379)	$ (75,772,640)
Net cash used in financing activities	$ (287,387)	$ (344,396)
Effects of exchange rate changes on cash and cash equivalents	$ (9,689,650)	$ (7,263,383)
Net cash inflow /(outflow)	$ 30,278,182	$ (12,979,209)

For the fiscal years 2016 and 2015, 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 years ended December 31, 2016 and 2015, we had positive cash flow from operating activities of approximately $55.2 million and $70.4 million respectively, primarily attributable to net income.

During the year ended December 31, 2016, cash flow from operating activities of approximately $55.2 million exceeded our net income of approximately $36.2 million due to non-cash charges in the amount of approximately $25.3 million, mainly in the form of depreciation and amortization of property, plant and equipment, exchange loss on intercompany balances and loss on demolition of factory; partially offset cash used in working capital of approximately $6.4 million, which mainly consisted of an increase in accounts receivable and a decrease in accounts payable and accrued expenses and retention payable, partially offset by the decrease in inventories.

During the year ended December 31, 2015, cash flow from operating activities of approximately $70.4 million exceeded our net income of approximately $34.1 million due to non-cash charges in the amount of approximately $29.8 million, mainly in the form of depreciation and amortization of property, plant and equipment, write-off/impairment on property, plant and equipment and amortization of prepaid expenses; and cash used in working capital of approximately $6.6 million, which mainly consisted of decrease in accounts receivable and increase in retention payable and tax payable, partially offset by the decrease in accounts payable and accrued expenses.

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, 2016 and 2015.

	December 31, 2016		December 31, 2015	
		% of total		% of total
Aged 1-30 days	$ 10,300,739	20%	$ 12,711,454	26%
Aged 31-60 days	$ 11,074,573	21%	$ 12,436,059	25%
Aged 61-90 days	$ 10,577,810	21%	$ 11,470,333	23%
Aged 91-120 days	$ 7,919,209	15%	$ 8,208,711	16%
Aged 121-150 days	$ 6,924,979	13%	$ 5,153,801	10%
Aged 151-180 days	$ 5,037,908	10%	$ —	—
Total	$ 51,835,218	100%	$ 49,980,358	100%

The overall accounts receivable balance as of December 31, 2016 increased by $1,854,860 (or 4%), as compared to those as of December 31, 2015. Such increase is mainly attributable to the extended settlement days by customers due to the slowdown in the Chinese economy and the financial tightening, which in turn lengthened the average turnover days of accounts receivable from customers from 103 days for the fiscal year 2015 to 124 days for the fiscal year 2016. Normally, a 90 to 180-day credit period is granted to customers with good payment history. Approximately 53% of the balances of accounts receivable as of December 31, 2016 more than 90 days was settled by February 28, 2017. We have policies in place to ensure that sales are made to customers with an appropriate credit history and we perform ongoing credit evaluation on the financial condition of our customers. No allowance for doubtful debts for the fiscal year 2016 is required.

Inventory

Our inventory consists of the following:

	December 31, 2016		December 31, 2015	
		Percent of total		Percent of total
Raw materials	$ 818,500	14%	$ 1,014,917	14%
Finished goods	$ 4,370,331	74%	$ 5,486,970	76%
Work-in-process	$ 692,850	12%	$ 691,604	10%
	5,881,681	100%	7,193,491	100%
Allowance for obsolete and slowing-moving inventory	$ —	—	$ (12,691)	—
Total	$ 5,881,681	100%	$ 7,180,800	100%

The net inventory levels as of December 31, 2016 decreased by $1,299,119 (or 18%), as compared to the net inventory levels as of December 31, 2015.

Raw materials decreased by 19% as of December 31, 2016 as compared to December 31, 2015. All of the raw materials are basic chemical industry materials, few of which have a possibility of loss over time, or major fluctuations in their prices. As a result, we concluded that all of our raw materials as of December 31, 2016 are fully realizable for production of finished goods with no write down necessary.

Our finished goods consist of bromine, crude salt and chemical products. Our chemical products are similar to raw materials. There is no loss over time and a stable market price exists with a positive gross profit margin of 33% for the fiscal year 2016 (36% for fiscal year 2015). Therefore, we believe that the realization of the chemical products is 100%. Similarly, as there is no depletion of bromine, we believe that the realization of it is also 100%. The gross profit margin for bromine for the fiscal year 2016 increased to 46%, as compared with 30% for the same period in fiscal year 2015, we anticipate that the price through 2017 will not fluctuate significantly to impair the cost of bromine.

As of December 31, 2016, the crude salt included in the inventory is approximately $1.6 million. The annual loss of crude salt due to evaporation is approximately 3%. The average selling price of crude salt per tonne decreased from $31.77 for the fiscal year 2015 to $28.42 for the same period in 2016. In the same period, gross profit also decreased from 21% for the fiscal year 2015 to 9% for the same period in 2016. We believe that there will be no realization problem for crude salt as we do not expect selling price to be lower than the current price. If the selling price continues to decrease, there will be an impact on our crude salt realization value. The selling price of crude salt per tonne has increased to $29.35 and $29.6 in January and February, 2017, respectively.

Net Cash Used In Investing Activities

In the fiscal year 2016, we used approximately $0.7 million cash for the prepayment of land leases. In the same period, we also used approximately $15.23 million cash to carry out enhancement projects to our existing bromine extraction and crude salt production facilities and $1.74 million cash for the construction of roads and related infrastructure needed to begin operations in the remote and mountainous region of Daying county.

In the fiscal year 2015, we used approximately $0.7 million cash for the prepayment of land leases. We also used approximately $66.3 million to acquire SCRC. In the same period, we also used approximately $10.4 million cash in the fourth phase enhancement project related to the protective shells to transmission channels and ducts in Factory No. 10 and 11 and approximately $12.1 million cash to carry out enhancement projects to our existing bromine extraction in Factory No. 10 and 11.

We also received approximately $14.1 million from the acquisition of SCRC.

The above investing activities were financed by the opening cash balances as of December 31, 2015 and cash generated from operation during the fiscal year 2016.

Net Cash Used In Financing Activities

We repaid approximately $0.3 million cash for our capital lease obligation for the fiscal year 2016 and 2015.

In the fiscal year 2015, we used $0.04 million to repurchase 31,000 shares of common stock of the Company with the approval of the Board of Directors.

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.

Working capital was approximately $207.8 million at December 31, 2016 as compared to approximately $174.7 million at December 31, 2015. The increase was mainly attributable to the cash provided by operating activities during the fiscal year 2016.

We had available cash of approximately $163.9 million at December 31, 2016, most of which is in highly liquid current deposits which earn no or little interest. We intend to retain the cash for future expansion of our bromine and crude salt businesses through acquisition, enhancements to our existing bromine and crude salt business, and further development of the new resources in Sichuan Province. We do not anticipate paying cash dividends in the foreseeable future.

In the future we intend to focus our efforts on the activities of SCHC, SYCI, SCRC 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 consolidated 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, 2016 is provided in the notes to our consolidated financial statements. See "Notes to Consolidated Financial Statements, Note 19 - Capital Commitment and Operating Lease Commitments."

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;
• the valuation and recognition of share-based compensation, which impacts operating expenses; and
• the recognition and measurement of current and 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 the estimated average of the life of options using the “simplified” method, as prescribed in FASB ASC 718, due to insufficient historical exercise activity during recent years as a basis from which to estimate future exercise patterns.

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, 2016 and 2015

C O N T E N T S

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Gulf Resources, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Gulf Resources, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedules as of and for the years ended December 31, 2016 and 2015 listed in the Index at Item 15(a)2. Gulf Resources, Inc. and Subsidiaries’ management is responsible for these consolidated financial statements and financial statement schedule. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gulf Resources, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedules as of and for the years ended December 31, 2016 and 2015, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Morison Cogen LLP

Blue Bell, Pennsylvania

March 17, 2017

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

	As of December 31, 2016	As of December 31, 2015
Current Assets		
Cash	$ 163,884,574	$ 133,606,392
Accounts receivable	51,835,218	49,980,358
Inventories, net	5,881,681	7,180,800
Prepayments and deposits	117,338	—
Prepaid land leases	47,255	49,833
Other receivables	1,424	559
Deferred tax assets	—	3,173
Total Current Assets	221,767,490	190,821,115
Non-Current Assets		
Property, plant and equipment, net	108,731,126	127,871,323
Property, plant and equipment under capital leases, net	554,257	927,218
Prepaid land leases, net of current portion	4,754,169	5,197,216
Deferred tax assets	2,215,772	2,367,180
Goodwill	27,668,539	29,559,174
Total non-current assets	143,923,863	165,922,111
Total Assets	$ 365,691,353	$ 356,743,226
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 8,682,318	$ 9,929,700
Retention payable	733,869	1,135,956
Capital lease obligation, current portion	187,678	196,778
Taxes payable	4,341,331	4,814,003
Total Current Liabilities	13,945,196	16,076,437
Non-Current Liabilities		
Capital lease obligation, net of current portion	2,284,959	2,555,914
Total Liabilities	$ 16,230,155	$ 18,632,351
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; 47,052,940 and 46,276,269 shares issued; and 46,793,791 and 46,007,120 shares outstanding as of December 31, 2016 and 2015, respectively	23,525	23,139
Treasury stock; 259,149 and 269,149 shares as of December 31, 2016 and 2015	(577,141)	(599,441)
Additional paid-in capital	94,156,679	94,124,065
Retained earnings unappropriated	248,941,696	215,286,395
Retained earnings appropriated	22,910,966	20,340,436
Accumulated other comprehensive (loss) income	(15,994,527)	8,936,281
Total Stockholders' Equity	349,461,198	338,110,875
Total Liabilities and Stockholders' Equity	$ 365,691,353	$ 356,743,226

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

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

	Years Ended December 31, 2016	Years Ended December 31, 2015
NET REVENUE		
Net revenue	$ 149,275,002	$ 162,317,120
OPERATING INCOME (EXPENSE)		
Cost of net revenue	(94,785,671)	(109,035,870)
Sales, marketing and other operating expenses	(343,105)	(375,365)
Research and development cost	(261,931)	(230,590)
Exploration cost	—	(325,840)
Write-off / Impairment on property, plant and equipment	(106,545)	(969,638)
Loss on demolition of factory	(1,053,445)	—
General and administrative expenses	(5,434,755)	(6,668,838)
Other operating income	433,792	453,731
	(101,551,660)	(117,152,410)
INCOME FROM OPERATIONS	47,723,342	45,164,710
OTHER INCOME (EXPENSE)		
Interest expense	(174,921)	(194,036)
Interest income	487,617	469,271
	312,696	275,235
INCOME BEFORE TAXES	48,036,038	45,439,945
INCOME TAXES	(11,810,207)	(11,371,908)
NET INCOME	$ 36,225,831	$ 34,068,037
COMPREHENSIVE INCOME (LOSS)		
NET INCOME	36,225,831	34,068,037
OTHER COMPREHENSIVE LOSS		
- Foreign currency translation adjustments	(24,930,808)	(21,740,602)
COMPREHENSIVE INCOME	$ 11,295,023	$ 12,327,435
EARNINGS PER SHARE		
BASIC	$ 0.78	$ 0.75
DILUTED	$ 0.78	$ 0.74
WEIGHTED AVERAGE NUMBER OF SHARES		
BASIC	46,279,033	45,167,288
DILUTED	46,625,663	46,109,404

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

GULF RESOURCES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(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	Total
BALANCE AT JANUARY 1, 2015	38,911,014	38,672,865	238,149	$ 19,456	$(561,728)	$80,380,008	$ 183,480,402	$18,078,392	$ 30,676,883	$312,073,413
Translation adjustment	—	—	—	—	—	—	—	—	(21,740,602)	(21,740,602)
Common stock repurchased		(31,000)	31,000		$ (37,713)	—	—	—	—	(37,713)
Cashless exercise of stock options	97,244	97,244	—	49	—	(49)	—	—	—	—
Issuance of stock options to employees	—	—	—	—	—	374,600	—	—	—	374,600
Common stock issued for business acquisition	7,268,011	7,268,011	—	3,634	—	13,369,506	—	—	—	13,373,140
Net income for year ended December 31, 2015	—	—	—	—	—	—	34,068,037	—	—	34,068,037
Transfer to statutory common reserve fund	—	—	—	—	—	—	(2,262,044	2,262,044	—	—
BALANCE AT DECEMBER 31, 2015	46,276,269	46,007,120	269,149	$ 23,139	$(599,441)	$94,124,065	$ 215,286,395	$20,340,436	$ 8,936,281	$338,110,875
BALANCE AT JANUARY 1, 2016	46,276,269	46,007,120	269,149	$ 23,139	$(599,441)	$94,124,065	$ 215,286,395	$20,340,436	$ 8,936,281	$338,110,875
Translation adjustment	—	—	—	—		—	—	—	(24,930,808)	(24,930,808)
Common stock issued	—	10,000	(10,000		22,300	(7,300)	—	—	—	15,000
Cashless exercise of stock options	776,671	776,671	—	386	—	(386)	—	—	—	—
Issuance of stock options to employees and directors	—	—	—	—	—	40,300	—	—	—	40,300
Net income for year ended December 31, 2016	—	—	—	—	—	—	36,225,831	—	—	36,225,831
Transfer to statutory common reserve fund	—	—	—	—	—	—	(2,570,530)	2,570,530	—	—
BALANCE AT DECEMBER 31, 2016	47,052,940	46,793,791	259,149	$ 23,525	$(577,141)	$94,156,679	$ 248,941,696	$22,910,966	$ (15,994,527)	$349,461,198

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,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 36,225,831	$ 34,068,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest on capital lease obligation	174,167	193,162
Amortization of prepaid land leases	774,250	774,512
Depreciation and amortization	24,880,246	29,095,648
Allowance for obsolete and slow-moving inventories	(12,691)	9,236
Write-off / Impairment loss on property, plant and equipment	106,545	969,638
Loss on demolition of factory	1,053,445	—
Unrealized translation difference	(1,702,728)	(1,575,397)
Deferred tax asset	3,013	(83,856)
Stock-based compensation expense-options	40,300	374,600
Treasury stock issued for services	15,000	—
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(6,167,996)	7,387,941
Other receivables	(877)	37,713
Inventories	901,528	(592,841)
Prepayment and deposits	(128,384)	92,400
Accounts payable and accrued expenses	(503,015)	(1,847,462)
Retention payable	(365,150)	841,225
Taxes payable	(76,886)	656,654
Net cash provided by operating activities	55,216,598	70,401,210
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions of prepaid land leases	(673,934)	(683,129)
Compensation received from government on property disposition	2,708,417	—
Purchase of property, plant and equipment	(16,995,862)	(22,858,625)
Consideration paid for business acquisition	—	(66,305,606)
Cash acquired from acquisition	—	14,074,720
Net cash used in investing activities	(14,961,379)	(75,772,640)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock	—	(37,713)
Repayment of capital lease obligation	(287,387)	(306,683)
Net cash used in financing activities	(287,387)	(344,396)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(9,689,650)	(7,263,383)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,278,182	(12,979,209)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	133,606,392	146,585,601
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 163,884,574	$ 133,606,392

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

	Years Ended December 31,	
	2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	$ 12,140,763	$ 10,747,472
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Par value of common stock issued upon cashless exercise of options	$ 386	$ 49
Fair value of common stock issued for acquisition of business	$ —	$ 13,373,140
Transfer from construction in progress to property, plant and equipment	$ 57,596	—

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

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016
(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. a Nevada corporation and its subsidiaries (collectively, the “Company”). 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.

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”), Shouguang City Rongyuan Chemical Co, Ltd (“SCRC”) and Daying County Haoyuan Chemical Company Limited (“DCHC”). All material intercompany transactions have been eliminated on consolidation.

Upper Class Group Limited was incorporated with limited liability in the British Virgin Islands on July 28, 2006 and was inactive until October 9, 2006 when Upper Class Group Limited acquired all the issued and outstanding stock of Shouguang City Haoyuan Chemical Company Limited (“SCHC”). SCHC is an operating company incorporated in Shouguang City, Shangdong Province, the People’s Republic of China (the “PRC”) on May 18, 2005. SCHC is engaged in manufacturing and trading bromine and crude salt in China. Since the ownership of Upper Class Group Limited and SCHC were the same, the merger 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, Gulf Resources, Inc. (formerly Diversifax, Inc.), a public “shell” company, acquired Upper Class Group Limited and its wholly-owned subsidiary, SCHC (together “Upper Class”). Under the terms of the agreement, all stockholders of Upper Class received a total amount of 13,250,000 (restated for the 2-for-1 stock split in 2007 and the 1-for-4 stock split in 2009) shares of voting common stock of Gulf Resources, Inc. in exchange for all shares of Upper Class’ common stock held by all stockholders. Under accounting principles generally accepted in the United States, the share exchange is considered to be a capital transaction in substance, rather than a business combination. That is, the share exchange is equivalent to the issuance of stock by Upper Class for the net monetary 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 will be identical to that resulting from a reverse acquisition, except no goodwill will be recorded. Under reverse takeover accounting, the post reverse acquisition comparative historical financial statements of the legal acquirer, Gulf Resources, Inc., are those of the legal acquiree, Upper Class, which is considered to be the accounting acquirer. Share and per share amounts stated have been retroactively adjusted to reflect the merger.

On February 5, 2007, SCHC acquired Shouguang Yuxin Chemical Industry Co., Limited (“SYCI”), a company incorporated in PRC on October 30, 2000. SYCI manufactures chemical products utilized in oil and gas field explorations and as papermaking chemical agents. Under the terms of the merger agreement, all stockholders of SYCI received a total amount 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 voting common stock of Gulf Resources, Inc. in exchange for all shares of SYCI’s common stock held by all stockholders. Also, upon the completion of the merger, Gulf Resources, Inc. paid a $2,550,000 dividend to the original stockholders of SYCI. Since the ownership of Gulf Resources, Inc. and SYCI are substantially the same, the merger was accounted for as a transaction between entities under common control, whereby Gulf Resources, Inc. recognized the assets and liabilities of the Company transferred at their carrying amounts. Share and per share amounts stated have been retroactively adjusted to reflect the merger.

On November 11, 2007, Upper Class formed Hong Kong Jiaxing Industrial Limited (formerly known as Jiaxing Technology Limited) (“HKJI”), a wholly-owned subsidiary of Upper Class, in Hong Kong. Upper Class transferred its equity interest in SCHC to HKJI.

On January 12, 2015, Gulf Resources, Inc. (the “Company” or “Gulf”) and Shouguang City Haoyuan Chemical Company Limited, a wholly owned subsidiary of the Company (“SCHC”), entered into an Equity Interest Transfer Agreement (the “Agreement”) with Shouguang City Rongyuan Chemical Co., Ltd (“SCRC”).

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 7,268,011shares 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 have agreed not to sell or transfer the Shares for five years from the date the stock certificates evidencing the Shares are issued.

The sellers of SCRC agreed as part of the purchase price to accept 7,268,011 shares of Gulf Resources stock, 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, these shares are now being valued at $1.84, which was the closing price of Gulf Resources' stock on the day of the closing of the agreement. The price difference between the original $2.00 and the current $1.84 is solely for accounting purposes. There has been no change in the number of shares issued.

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 has been RMB11,495,162 capital contributed by SCHC as of December 31, 2016. 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 SYCI and SCRC. As of December 31, 2016, this merger has not yet been finalized. This merger has no material impact on the Company’s consolidated financial statements as of and for fiscal year 2016.

(b) Nature of the Business

The Company manufactures and trades bromine and crude salt through its wholly-owned subsidiary, Shouguang City Haoyuan Chemical Company Limited ("SCHC"), manufactures chemical products for use in the oil industry, pesticides and paper manufacturing industry through its wholly-owned subsidiary, Shouguang Yuxin Chemical Industry Co., Limited ("SYCI"), and manufactures chemical products used for human and animal antibiotics through its wholly-owned subsidiary, Shouguang City Rongyuan Chemical Co, Ltd (“SCRC”) 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 PRC. The business is not fully operational as of December 31, 2016.

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

(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 current and 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.

(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 of 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 180 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, 2016 and 2015, allowances for doubtful accounts were nil. No allowances for doubtful accounts were charged to the income statement for the years ended December 31, 2016 and 2015.

(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 $163,884,574 and $133,606,392 with these institutions as of December 31, 2016 and 2015, 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. Approximately 61.6% and 73.3% of the balances of accounts receivable as of December 31, 2016 and December 31, 2015, respectively, were 90 days old or less. Approximately 38% of the accounts receivable as of December 31, 2016 was collected by February 28, 2017. Approximately 53% of the accounts receivable as of December 31, 2016 more than 90 days old were settled by February 28, 2017.

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

(g) Inventories

Inventories are stated at the lower of cost, determined on a first-in first-out cost basis, or market. 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.

(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 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 (in tonnes) 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, at which time depreciation commences.

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 capital 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.

(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.

Currently, there are no reclamation or abandonment obligations associated with the land being utilized for exploitation.

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

(j) Recoverability of Long Lived Assets

In accordance with 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, 2015, certain property, plant and machinery, with net book values of $969,638 were replaced during the fourth phase enhancement project to protective shells for transmission channels, the enhancement work to bromine production facilities in Factory No.9 and 11 and to dismantle Factory No.1 and 9 plant construction equipment as they did not meet the government's safety and environmental standards. Write-offs of the same amounts were made and included in write-off/impairment on property, plant and equipment.

For the year ended December 31, 2016, certain property, plant and machinery, with net book values of $90,395 were replaced during the enhancement project to protective shells for transmission channels. Write-offs of the same amounts were made and included in write-off/impairment on property, plant and equipment.

(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 income on an accrual basis when they are due. The Company's contributions totaled $1,039,096 and $980,359 for the years ended December 31, 2016 and 2015, respectively.

(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) Leasing arrangements

Rentals payable under operating leases are charged to the consolidated statement of income on a straight line basis over the term of the relevant lease. For capital leases, the present value of future minimum lease payments at the inception of the lease is reflected as an asset and a liability in the consolidated balance sheet. Amounts due within one year are classified as short-term liabilities and the remaining balance as long-term liabilities.

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

(n) 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 "$").

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. The consolidated statement of income and comprehensive income 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 for the reporting periods as part of general and administrative expense. Included in the general and administrative expense is a foreign exchange gain of $1,702,728 and $1,575,397 for the years ended December 31, 2016 and 2015. The consolidated statement of cash flows is translated at average rates during the reporting period, with the exception of issuance of shares and payment of dividends which are translated at historical rates.

(o) 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.

(p) Revenue Recognition

The Company recognizes revenue, net of value-added tax, when persuasive evidence of an arrangement exists, delivery of the goods has occurred, customer acceptance has been obtained, which means the significant risks and ownership have been transferred to the customer, the price is fixed or determinable and collectability is reasonably assured.

(q) 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. 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.

(r) 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.

(s) 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.

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

(t) Stock-based Compensation

Common stock, stock options and stock warrants issued to employees or directors are recorded at their fair values estimated at grant date using the Black-Scholes model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

Common stock, stock options and stock warrants issued to other than employees or directors are recorded on the basis of their fair value using the Black-Scholes option-pricing model on the basis of the market price of the underlying common stock on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance is the date of the contract, and for all other contracts the measurement date is the date that the service is complete. Expense related to the options and warrants is recognized on a straight-line basis over the period in which services are to be received. Where expense must be recognized prior to a valuation date, the expense is computed under the Black-Scholes model on the basis of the market price of the underlying common stock at the end of the period, and any subsequent changes in the market price of the underlying common stock up through the valuation date is reflected in the expense recorded in the subsequent period in which that change occurs.

(u) 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 135,938 and 132,813 shares for the years ended December 31, 2016 and 2015, respectively.

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31, 2016	Years ended December 31, 2015
Numerator		
Net income	$ 36,225,831	$ 34,068,037
Denominator		
Basic: Weighted-average common shares outstanding during the year	46,279,033	45,167,288
Add: Dilutive effect of stock options	346,630	942,116
Diluted	46,625,663	46,109,404
Earnings per share		
Basic	$ 0.78	$ 0.75
Diluted	$ 0.78	$ 0.74

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

(v) Goodwill

Goodwill represents the excess of the purchase price over the net of the fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed in business acquisitions. Goodwill impairment is assessed based on qualitative factors to determine whether it is more likely than not that the fair value of a reporting entity is less than its carrying amount, including goodwill. If the Company determines that it is more likely than not that the fair value of a reporting entity is less than its carry amount, the two-step goodwill impairment test will be performed. As of December 31, 2016, the Company performed the qualitative assessment and determined that it is not more likely than not that the fair value of goodwill is less than its carrying amount and therefore deemed a full impairment test to be unnecessary. Management believes there has been no impairment to the value of recorded goodwill as of December 31, 2016.

(w) New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11, Inventory (Topic 330), Simplifying the Measurement of Inventory. The amendments in this Update require an entity to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments in this Update are effective for fiscal years beginning after December 15, 2016. The amendments in this Update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. As of January 1, 2016, the Company adopted the amendments in this Update which has no material impact on the consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. As of January 1, 2016, the Company adopted the amendments in this Update which has no material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14 which deferred the effective date of Update 2014-09 to annual reporting periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016. The Company expects to adopt the new standard in the first quarter of 2018. It has made significant progress in evaluating its existing contracts and accounting policies to determine the impact this standard will have on the consolidated financial statements and related disclosures.

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 leases. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the impact of this on the consolidated financial statements and related disclosures.

NOTE 2 – BUSINESS ACQUISITION

In order to increase the Company's profit margins, produce more consistent and reliable earnings and lessen dependence on the economically sensitive bromine industry, on January 12, 2015, Gulf Resources, Inc. (the"Company" or "Gulf") and Shouguang City Haoyuan Chemical Company Limited, a wholly owned subsidiary of the Company ("SCHC"), entered into an Equity Interest Transfer Agreement (the "Agreement") to acquire 100% of Shouguang City Rongyuan Chemical Co., Ltd. ("SCRC") for a total consideration of $79,678,746 to be settled in cash and in shares of common stock of the Company.

On February 4, 2015, the Company closed the transactions contemplated by the Agreement between the Company, SCHC and SCRC. The Closing Date is deemed to be the acquisition date.

On the Closing Date, the Company issued 7,268,011shares 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 sellers of SCRC agreed as part of the purchase price to accept 7,268,011 restricted shares of Gulf Resources stock, 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, these shares are being valued at $1.84, which was the closing price of the Company's stock on the Closing Date. There is no change in the number of shares issued. The total purchase consideration consisted of $66,305,606 in cash and $13,373,140 in the shares of the common stock of the Company.

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 have agreed not to sell or transfer the Shares for five years from the date the stock certificates evidencing the Shares are issued.

The following table represents the fair value of identifiable assets and liabilities of SCRC acquired and goodwill recognized at acquisition date.

Cash	$ 14,074,720
Accounts receivable	19,365,259
Inventories	1,646,196
Other current assets	82,562
Property, plant and equipment, net	17,891,360
Prepaid land leases, net of current portion	4,800,404
Goodwill	27,668,539
Accounts payable and accrued expenses	(8,670,568)
Taxes payable	(963,458)
Cumulative translation adjustment	3,783,732
Total purchase price	$ 79,678,746

The net revenue and net income of SCRC since the acquisition date that are included in the consolidated statement of income for the fiscal year 2015 are $51,274,989 and $12,667,379. Goodwill is not expected to be deductible for tax purpose.

Costs of $121,512 related to the acquisition, which included audit fee and valuation fees, have been charged directly to operations and are included in general and administrative expenses in the consolidated statement of income for the fiscal year 2015.

The following table shows supplemental information of the actual results of operations for fiscal year 2016 and on a pro forma basis for fiscal year 2015, as if the acquisition of SCRC had been completed at the beginning of the Company's periods presented:

	Year Ended December 31,	
	2016 Actual	2015 Pro forma
Net Revenue	$ 149,275,002	$ 168,031,383
Net Income	$ 36,225,831	$ 35,538,071
EARNINGS PER SHARE		
-Basic	$ 0.78	$ 0.79
-Diluted	$ 0.78	$ 0.77

The pro forma information presented has been calculated after adjusting for results of SCRC to reflect the business combination accounting effect resulting from this acquisition including the elimination of intercompany sales, depreciation and amortization on the increase in valuation of property, plant and equipment and prepaid land lease. There are no nonrecurring items included in the pro forma results of operations presented.

NOTE 3 – INVENTORIES

Inventories consist of:

	As of December 31, 2016	As of December 31, 2015
Raw materials	$ 818,500	$ 1,014,917
Finished goods	4,370,331	5,486,970
Work-in-process	692,850	691,604
Allowance for obsolete and slow-moving inventories	—	(12,691)
	$ 5,881,681	$ 7,180,800

NOTE 4 – PREPAID LAND LEASE

The Company prepaid for land leases with lease terms for periods ranging from one to fifty years to use the land on which the production facilities and warehouses of the Company are situated. The prepaid land lease is amortized on a straight line basis.

During the year ended December 31, 2016, amortization of prepaid land lease totaled $774,250, which was recorded as cost of net revenue.

During the year ended December 31, 2015, amortization of prepaid land lease totaled $774,512, which was recorded as cost of net revenue.

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. 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 54.97 square kilometers of aggregate carrying value of $620,978 and approximately 59.43 square kilometers square meters of aggregate carrying value of $686,073 as at December 31, 2016 and 2015, respectively.

NOTE 5– PROPERTY, PLANT AND EQUIPMENT, NET

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

	As of December 31, 2016	As of December 31, 2015
At cost:		
Mineral rights	$ 4,438,115	$ 6,131,230
Buildings	61,656,398	68,510,164
Plant and machinery	184,544,140	195,295,877
Motor vehicles	8,282	8,847
Furniture, fixtures and office equipment	4,553,473	4,864,619
Construction in progress	374,790	57,596
Total	255,575,198	274,868,333
Less: accumulated depreciation and amortization	(146,844,072)	(146,997,010)
Net book value	$ 108,731,126	$ 127,871,323

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. 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 $35,184,613 and $42,526,151 as at December 31, 2016 and 2015, respectively.

During the year ended December 31, 2016, depreciation and amortization expense totaled $24,552,507 of which $23,220,525 and $1,331,982 were recorded as cost of net revenue and administrative expenses, respectively.

During the year ended December 31, 2015, depreciation and amortization expense totaled $28,746,069 of which $27,281,471 and $1,464,598 were recorded as cost of net revenue and administrative expenses, respectively.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET – Continued

In the third quarter of 2016, the Company incurred enhancement works in our existing bromine extraction and crude salt production facilities at costs of approximately $15.23 million. The above enhancement projects have estimated useful lives of 5 to 8 years and are capitalized as buildings and plant and machinery.

At the end of November 2016, the Company has signed the demolition compensation agreement for its Factory No. 6 with the Yangzi Street Office of Weifang City Binhai Economic-Technological Development Zone for the Taiwan Island Ecological Culture City Project.

The operation of the original Factory No.6 was stopped at the end of November 2016 to allow for the demolition of the factory by the government collection unit. The total written off during the demolition period was $3,761,862

Upon the completion of demolition and clearance of all ground fixtures in December 2016, a total sum of $2,708,417 was received from government. The write-off and demolition costs were offset against the compensation proceeds resulting in a net loss on demolition of factory of $1,053,445. This is included in the income statement for the year ended December 31, 2016 as loss on demolition of factory. This is accounted for in accordance with FASB ASC 605-40 “Revenue Recognition – Gains and Losses”.

In the fiscal year 2016, the company incurred $1,747,316 for the construction of roads and related infrastructure needed to begin operations in the remote and mountainous region of Daying county.

In the third quarter of 2015, the Company incurred enhancement works in Factories No. 10 and 11 at costs of approximately $10,396,597 to the protective shells to transmission channels and ducts. In the fourth quarter of 2015, the Company incurred enhancement projects to our existing bromine extraction in Factory No. 10 and 11 at costs of approximately $12,088,375. The above enhancement projects have estimated useful lives of 5 to 8 years and are capitalized as buildings and plant and machinery.

For the years ended December 31, 2016 and 2015, ordinary repair and maintenance expenses were $463,156 and $607,688, respectively.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT UNDER CAPITAL LEASES, NET

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

	As of December 31,	
	2016	2015
At cost:		
Buildings	$ 118,623	$ 126,729
Plant and machinery	2,229,775	2,382,139
Total	2,348,398	2,508,868
Less: accumulated depreciation and amortization	(1,794,141)	(1,581,650)
Net book value	$ 554,257	$ 927,218

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, 2016, depreciation and amortization expense totaled $327,738, which was recorded as cost of sales.

During the year ended December 31, 2015, depreciation and amortization expense totaled $349,579, which was recorded as cost of sales.

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSE

Accounts payable and accrued expenses consist of the following:

	As of December 31,	
	2016	2015
Accounts payable	$ 7,513,075	$ 8,835,442
Salary payable	319,489	271,369
Social security insurance contribution payable	119,444	114,370
Other payables	730,310	708,519
Total	$ 8,682,318	$ 9,929,700

NOTE 8 – DUE TO A RELATED PARTY AND RELATED PARTY TRANSACTIONS

On September 25, 2012, the Company purchased five stories 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. The cost of the five stories of the commercial building was valued by an independent appraiser on September 17, 2012 to its fair value and recorded as property, plant and equipment. The Company commenced using the property as the new headquarters for the office in early January, 2013. During the fiscal year 2013, the Company entered into an agreement with the Seller to provide property management services for an annual amount of $100,704 for five years from January 1, 2013 to December 31, 2017. The company recorded in general and administrative expense an amount of $100,704 in the years ended December 31, 2016 and 2015.

During the fiscal year 2016 and 2015, the Company borrowed $655,369 and $949,150, 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 in Jiaxing Lighting. The amounts due to Jiaxing Lighting were unsecured, interest free and repayable on demand.

NOTE 9 – TAXES PAYABLE

Taxes payable consists of the following:

	As of December 31,	
	2016	2015
Income tax payable	$ 1,849,535	$ 2,400,400
Natural resource tax	651,230	255,984
Value added tax payable	887,913	1,030,664
Land use tax payable	818,921	904,354
Other tax payables	133,732	222,601
Total	$ 4,341,331	$ 4,814,003

NOTE 10 – CAPITAL LEASE OBLIGATIONS

The components of capital lease obligations are as follows:

	Imputed Interest rate	As of December 31, 2016	2015
Total capital lease obligations	6.7%	$ 2,472,637	$ 2,752,692
Less: Current portion		(187,678)	(196,778)
Capital lease obligations, net of current portion		$ 2,284,959	$ 2,555,914

Interest expense from capital lease obligations amounted to $174,167 and $193,162, which were charged to the consolidated statement of income for the years ended December 31, 2016 and 2015. See Note 19 for future minimum lease payments disclosure.

NOTE 11 –EQUITY

(a) Authorized shares

During the annual general meeting held on June 18, 2013, the shareholders of the Company approved the amendment to the Certificate of Incorporation to decrease the number of the authorized shares of the Company's common stock to 80,000,000. The Company has completed the filing of the amendment and restatement of the Certificate of Incorporation with the Secretary of the State of Delaware to decrease the number of authorized shares of the Company's common stock. Accordingly, 80,000,000 is disclosed as the authorized shares of the Company's common stock in the consolidated balance sheet as of December 31, 2016.

(b) 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 a portion of its profit after tax to the following reserve:

Statutory Common Reserve Funds

SCHC, SYCI, SCRC 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 for SCHC, SYCI, SCRC and DCHC is 43%, 50%, 11% and 0% of its registered capital as of December 31, 2016, and 40%, 50%, 8% and 0% of its registered capital as of December 31, 2015.

NOTE 12 – TREASURY STOCK

In January 2015, the Company repurchased 31,000 shares of common stock of the Company at an average price of $1.22 per share for a total cost of $37,713 under the share repurchase plan that was approved by the Board of Directors. The Company recorded the entire purchase price of the treasury stock as a reduction of equity.

In July 2016, the Company issued 10,000 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 statements of income and comprehensive income for the year ended December 31, 2016. 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.

NOTE 13 – STOCK-BASED COMPENSATION

Pursuant to the Company's Amended and Restated 2007 Equity Incentive Plan approved in 2011("Plan"), the aggregate number of shares of the Company's common stock available for grant and issuance of stock options is 4,341,989 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 10,341,989. As of December 31, 2016, the number of shares of the Company's common stock available for issuance under the Plan is 7,338,489.

The fair value of each option award below 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 March 2, 2016, the Company granted to an independent director an option to purchase 12,500 shares of the Company's common stock at an exercise price of $1.78 per share and the options vested immediately. The options were valued at $7,300 fair value, with assumed 65.69% volatility, a three-year expiration term with expected tenor of 1.33 years, a risk free rate of 0.71% and no dividend yield.

On May 7, 2016, the Company granted to an independent director an option to purchase 12,500 shares of the Company's common stock at an exercise price of $1.45 per share and the options vested immediately. The options were valued at $5,500 fair value, with assumed 66.40% volatility, a three-year expiration term with an expected tenor of 1.33 years, a risk free rate of 0.58% and no dividend yield.

On July 1, 2016, the Company granted to an independent director an option to purchase 12,500 shares of the Company's common stock at an exercise price of $1.54 per share and the options vested immediately. The options were valued at $4,600 fair value, with assumed 52.38% volatility, a three-year expiration term with expected tenor of 1.33 years, a risk free rate of 0.49% and no dividend yield.

On November 10, 2016, the Company granted to an independent director an option to purchase 12,500 shares of the Company's common stock at an exercise price of $2.17 per share and the options vested immediately. The options were valued at $7,200 fair value, with assumed 51.78% volatility, a three-year expiration term with expected tenor of 1.69 years, a risk free rate of 0.85% and no dividend yield.

On December 18, 2016, the Company granted to a consultant to purchase 30,000 shares of the Company's common stock, respectively, at an exercise price of $2.10 per share and the options vested immediately. The options were valued at $15,700 fair value, respectively, with assumed 50.67% volatility, a three-year expiration term with expected tenor of 1.50 years, a risk free rate of 1.06% and no dividend yield.

For the year ended December 31, 2016 and 2015, total compensation costs for options issued recorded in the consolidated statement of income were $40,300 and $374,600. There were no related tax benefits as a full valuation allowance was recorded in the years ended December 31, 2016 and 2015.

During the year ended December 31, 2016, 776,671 shares of common stock were issued upon cashless exercise of 1,831,500 options.

During the year ended December 31, 2015, 97,244 shares of common stock were issued upon cashless exercise of 182,500 options.

NOTE 13 – STOCK-BASED COMPENSATION – Continued

The following table summarizes all Company stock option transactions between January 1, 2015 and December 31, 2016.

	Number of Option and Warrants Outstanding and exercisable	Weighted- Average Exercise price of Option and Warrants		Range of Exercise Price per Common Share
Balance, December 31, 2014	2,744,000	$	2.38	$0.95 - $12.60
Granted and vested during the year ended December 31, 2015	655,000	$	1.49	$1.43 - $2.55
Exercised during the year ended December 31, 2015	(182,500)	$	1.12	$0.95-$1.66
Expired during the year ended December 31, 2015	(817,500)	$	4.86	$2.06 - $4.97
Balance, December 31, 2015	2,399,000	$	1.39	$0.95 - $12.60
Granted and vested during the year ended December 31, 2016	80,000	$	1.87	$1.45 - $2.17
Exercised during the year ended December 31, 2016	(1,831,500)	$	1.11	$0.95-$1.45
Expired during the year ended December 31, 2016	(462,500)	$	2.24	$0.95 - $12.60
Balance, December 31, 2016	185,000	$	2.19	$1.54 - $4.80

	Stock and Warrants Options Exercisable and Outstanding			
	Outstanding at December 31, 2016	Range of Exercise Prices	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price of Options Currently Outstanding
Exercisable and outstanding	185,000	$1.54 - $4.80	1.85	$2.19

All options exercisable and outstanding at December 31, 2016 are fully vested.

The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2016 was $16,825.

The total intrinsic value of options exercised during the years ended December 31, 2016 and 2015 was $1,479,042 and $236,535.

NOTE 14 – INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes in accordance with FASB ASC 740-10.

(a) United States

Gulf Resources, Inc. may be subject to the United States of America Tax law at tax rate of 35%. 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, 2016 and 2015, and management believes that its earnings are permanently invested in the PRC.

(b) BVI

Upper Class Group Limited 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 31 December 31, 2016 and 2015.

(c) Hong Kong

Hong Kong Jiaxing Industrial Limited was incorporated in Hong Kong and is subject to Hong Kong profits tax. The Company 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 profits tax has been made as the Company has no assessable income for the years ended December 31, 2016 and 2015. The applicable statutory tax rates for the years ended December 31, 2016 and 2015 are 16.5%.

(d) PRC

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

The operating subsidiaries SCHC, SYCI, SCRC and DCHC are wholly foreign-owned enterprises ("FIE") incorporated in the PRC and are subject to PRC Foreign Enterprise Income Tax Law.

On February 22, 2008, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued Cai Shui [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, 2016 and 2015, the accumulated distributable earnings under the Generally Accepted Accounting Principles ("GAAP") of PRC are $274,769,840 and $260,471,507, 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, 2016 and 2015, the Company has not recorded any WHT on the cumulative amount of distributable retained earnings of its foreign invested enterprises in China. As of December 31, 2016 and 2015, the unrecognized WHT are $12,756,698 and $11,974,695, respectively.

NOTE 14 – INCOME TAXES – Continued

The Company's 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 tax returns filed in the United States for three years from the date of filing. The Company's US tax returns since 2013 are currently subject to examination. Inland Revenue Department of Hong Kong may examine the Company's tax returns filed in Hong Kong for seven years from date of filing. The Company's Hong Kong tax returns from year 2009 are currently subject to examination.

The components of the provision for income taxes from continuing operations are:

	Years ended December 31, 2016	Years ended December 31, 2015
Current taxes – PRC	$ 11,807,194	$ 11,455,764
Deferred tax – PRC	3,013	(83,856)
	$ 11,810,207	$ 11,371,908

The effective income tax expenses differ from the PRC statutory income tax rate of 25% from continuing operations in the PRC as follows:-

	Years ended December 31, 2016	Years ended December 31, 2015
Statutory income tax rate	25%	25%
Non-deductible items	(1%)	(1%)
Change in valuation allowance-US federal net operating loss	1%	1%
Effective tax rate	25%	25%

As of December 31, 2016 and 2015, the Company had US federal net operating loss ("NOL") of approximately $33.1 million and $30.9 million available to offset against future federal income tax liabilities, respectively. NOL can be carried forward up to 20 years from the year the loss is incurred. NOL will begin to expire after 2019. The Company believes the realization of benefits from these losses remains uncertain due to the Company's limited operating history and continuing losses. Accordingly, a 100% deferred tax asset valuation allowance has been provided.

Differences between the application of accounting principles and tax laws cause differences between the bases of certain assets and liabilities for financial reporting purposes and tax purposes. The tax effects of these differences, to the extent they are temporary, are recorded as deferred tax assets and liabilities. Significant components of the Company's deferred tax assets and liabilities at December 31, 2016 and 2015 are as follows:

	As of December 31, 2016	As of December 31, 2015
Deferred tax liabilities	$ —	$ —
Deferred tax assets:		
Allowance for obsolete and slow-moving inventories	$ —	$ 3,173
Impairment on property, plant and equipment	421,106	449,879
Exploration costs	1,794,667	1,917,301
Compensation costs of unexercised stock options	120,986	629,162
US federal net operating loss	11,575,000	10,835,000
Total deferred tax assets	13,911,759	13,834,515
Valuation allowance	(11,695,986)	(11,464,162)
Net deferred tax asset	$ 2,215,773	$ 2,370,353
Current deferred tax asset	$ —	$ 3,173
Long-term deferred tax asset	$ 2,215,773	$ 2,367,180

The increases in valuation allowance for the year ended December 31, 2016 was $231,824.

The decreases in valuation allowance for the year ended December 31, 2015 was $345,134.

There were no unrecognized tax benefits and accrual for uncertain tax positions as of December 31, 2016 and 2015.

NOTE 15 – BUSINESS SEGMENTS

The Company has four reportable segments: bromine, crude salt, chemical products and natural gas. The reportable segments are consistent with how management views the markets served by the Company and the financial information that is reviewed by its chief operating decision maker.

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 (income) 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. All intersegment transactions have been eliminated. 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, 2016	**Bromine ***	**Crude Salt ***	**Chemical Products**	**Natural Gas**	**Segment Total**	**Corporate**	**Total**
Net revenue (external customers)	$ 56,811,730	$ 8,985,852	$ 83,477,420	$ —	$ 149,275,002	$ —	$ 149,275,002
Net revenue (intersegment)	8,484,617	—	—	—	8,484,617	—	8,484,617
Income from operations before taxes	21,224,862	9,076	25,473,792	(4,906)	46,702,824	1,020,518	47,723,342
Income taxes	5,306,216	9,022	6,494,969	—	11,810,207	—	11,810,207
Income from operations after taxes	15,918,646	54	18,978,823	(4,906)	34,892,617	1,020,518	35,913,135
Total assets	143,145,960	33,980,033	186,676,983	1,799,094	365,602,070	89,283	365,691,353
Depreciation and amortization	15,056,980	5,221,667	4,601,599	—	24,880,246	—	24,880,246
Capital expenditures	12,912,583	2,335,963	—	1,747,316	16,995,862	—	16,995,862
Goodwill	—	—	27,668,539	—	27,668,539	—	27,668,539

Year Ended December 31, 2015	**Bromine ***	**Crude Salt ***	**Chemical Products**	**Natural Gas**	**Segment Total**	**Corporate**	**Total**
Net revenue (external customers)	$ 52,385,491	$ 10,494,939	$ 99,436,690	$ —	$ 162,317,120	$ —	$ 162,317,120
Net revenue (intersegment)	8,039,156	—	—	—	8,039,156	—	8,039,156
Income from operations before taxes	10,854,711	1,183,755	32,997,870	—	45,036,336	128,374	45,164,710
Income taxes	2,508,902	500,451	8,362,555	—	11,371,908	—	11,371,908
Income from operations after taxes	8,345,809	683,304	24,635,315	—	33,664,428	128,374	33,792,802
Total assets	136,701,878	40,306,628	179,733,958	—	356,742,464	762	356,743,226
Depreciation and amortization	17,498,441	6,136,889	5,460,318	—	29,095,648	—	29,095,648
Capital expenditures	20,665,890	2,120,622	72,113	—	22,858,625	—	22,858,625
Goodwill	—	—	29,559,174	—	29,559,174	—	29,559,174

* 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 respective segment.

NOTE 15 – BUSINESS SEGMENTS – Continued

Reconciliations	Years ended December 31, 2016	2015
Total segment operating income	$ 46,702,824	$ 45,036,336
Corporate costs	(682,210)	(1,447,023)
Unrealized translation difference	1,702,728	1,575,397
Income from operations	47,723,342	45,164,710
Other income	312,696	275,235
Income before taxes	$ 48,036,038	$ 45,439,945

The following table shows the major customer(s) (10% or more) for the year ended December 31, 2016.

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	$ 9,823	$ 2,678	$ 5,347	$ 17,848	12.0%

The following table shows the major customer(s) (10% or more) for the year ended December 31, 2015.

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	$ 7,989	$ 2,703	$ 7,431	$ 18,123	11.2%

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, 2016, the Company sold 30.9% of its products to its top five customers. At December 31, 2016, amount due from these customers were $25,111,129. During the year ended December 31, 2015, the Company sold 31.7% of its products to its top five customers. At December 31, 2015, amount due from these customers were $21,872,942.

NOTE 17 – MAJOR SUPPLIERS

During the year ended December 31, 2016, the Company purchased 54.4% of its raw materials from its top five suppliers. At December 31, 2016, amounts due to those suppliers included in accounts payable were $3,598,861. During the year ended December 31, 2015, the Company purchased 57.6% of its raw materials from its top five suppliers. At December 31, 2015, amounts due to those suppliers included in accounts payable were $3,460,249.

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, 2016 and 2015.

NOTE 19 – CAPITAL COMMITMENT AND OPERATING LEASE COMMITMENTS

As of December 31, 2016, the Company leased a real property adjacent to Factory No. 1, with the related production facility, channels and ducts, other production equipment and the buildings located on the property, under a capital lease. The future minimum lease payments required under the capital lease, together with the present value of such payments, are included in the table show below.

The Company has leased nine parcel of land under non-cancelable operating leases, which are fixed rentals and expire through December 2021, December 2022, December 2023, December 2030, December 2031, December 2032, December 2040, February 2059, August 2059 and June 2060, respectively.

NOTE 19 – CAPITAL COMMITMENT AND OPERATING LEASE COMMITMENTS – Continued

The following table sets forth the Company's contractual obligations as of December 31, 2016:

	Capital Lease Obligations	Operating Lease Obligations	Property Management Fees	Capital Expenditure
Payable within:				
the next 12 months	$ 270,570	$ 912,915	$ 89,930	$ 48,434
the next 13 to 24 months	270,570	931,415	89,930	—
the next 25 to 36 months	270,570	953,551	—	—
the next 37 to 48 months	270,570	973,869	—	—
the next 49 to 60 months	270,570	998,047	—	—
thereafter	2,435,124	16,479,046	—	—
Total	$ 3,787,974	$ 21,248,843	$ 179,860	$ 48,434
Less: Amount representing interest	(1,315,337)			
Present value of net minimum lease payments	$ 2,472,637			

Rental expenses related to operating leases of the Company amounted to $1,043,615 and $1,072,767 were charged to the consolidated statements of income for the years ended December 31, 2016 and 2015, respectively.

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, 2016	As of December 31, 2015
Current Assets		
Prepayments and deposits	$ —	$ —
Total Current Assets	—	—
Non-Current Assets		
Interests in subsidiaries	284,649,094	272,678,589
Amounts due from group companies	65,197,650	65,882,207
Total non-current assets	349,846,744	338,560,796
Total Assets	$ 349,846,744	$ 338,560,796
Liabilities and Stockholders’ Equity		
Current Liabilities		
Other payables and accrued expenses	$ 242,845	$ 307,220
Amounts due to group companies	142,701	142,701
Total Liabilities	$ 385,546	$ 449,921
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; 47,052,940 and 46,276,269 shares issued; and 46,793,791 and 46,007,120 shares outstanding as of December 31, 2016 and 2015, respectively	23,525	23,139
Treasury stock; 259,149 and 269,149 shares as of December 31, 2016 and 2015	(577,141)	(599,441)
Additional paid-in capital	94,156,679	94,124,065
Retained earnings unappropriated	248,941,696	215,286,395
Retained earnings appropriated	22,910,966	20,340,436
Cumulative translation adjustment	(15,994,527)	8,936,281
Total Stockholders’ Equity	349,461,198	338,110,875
Total Liabilities and Stockholders’ Equity	$ 349,846,744	$ 338,560,796

Condensed Statements of Income

	Years Ended December 31, 2016	Years Ended December 31, 2015
OPERATING EXPENSES		
General and administrative expenses	$ (674,814)	$ (1,430,831)
TOTAL OPERATING EXPENSES	(674,814)	(1,430,831)
OTHER EXPENSES		
Interest expense	(668)	(663)
TOTAL OTHER EXPENSES	(668)	(663)
TOTAL EXPENSES	(675,482)	(1,431,494)
Equity in net income of subsidiaries	36,901,313	35,499,531
INCOME BEFORE TAXES	36,225,831	34,068,037
INCOME TAXES	—	—
NET INCOME	$ 36,225,831	$ 34,068,037

Condensed Statements of Cash Flows

	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 36,225,831	$ 34,068,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity earnings in unconsolidated subsidiaries	(36,901,313)	(35,499,531)
Stock-based compensation expense-options	40,300	374,600
Shares issued from treasury stock for services	15,000	—
Changes in assets and liabilities:		
Prepayment and deposits	—	4,586
Other payables and accrued expenses	(64,375)	(15,474)
Net cash used in operating activities	(684,557)	(1,067,782)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from / (to) group companies	684,557	1,105,495
Repurchase of common stock	—	(37,713)
Net cash provided by financing activities	684,557	1,067,782
NET INCREASE IN CASH AND CASH EQUIVALENTS	—	—
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	—	—
CASH AND CASH EQUIVALENTS - END OF YEAR	$ —	$ —
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Par value of common stock issued upon cashless exercise of options	$ 386	$ 49
Fair value of common stock issued for acquisition of business	$ —	$ 13,373,140

(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 income of its subsidiaries is included in condensed statements of income 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, 2016, 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.

Evaluation of Disclosure Controls and Procedure 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, 2016. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016, the Company's disclosure controls and procedures were effective.

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. Base on such evaluation our CEO and CFO have concluded that, as of December 31, 2016, our internal controls over financial reporting was 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.

Changes in Internal Control Over Financial Reporting

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 which is the subject of this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

We are incorporating by reference the information required by Part III of this report on Form 10-K from our proxy statement relating to our 2017 annual meeting of stockholders (the "2017 Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2016.

Item 10. Directors and Executive Officers and Corporate Governance.

The information required by this item is included under the captions "Election of Directors — Nominees," "Information Concerning Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2017 Proxy Statement and incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item is included under the captions "Election of Directors — Compensation of Non-Employee Directors," "Election of Directors — Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," and "Compensation Committee Report" in the 2017 Proxy Statement and incorporated herein by reference.

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

The information required by this item is included under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the 2017 Proxy Statement and incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is included under the captions "Certain Relationships and Related Person Transactions, and Director Independence" and "Election of Directors — Board Meetings and Committees" in the 2017 Proxy Statement and incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by this item is included under the caption "Audit Committee Report" in the 2017 Proxy Statement and incorporated herein by reference.

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, 2007.
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 2.1 to the Registrant's Current Report on Form 8-K filed on December 1, 2015.
10.1	Lock-up Agreement by and among the Registrant, Top King Group Limited, Billion Gold Group Limited, Top good International Limited, Ming Yang, Wenxiang Yu, Zhi Yang and Shandong Haoyuan Industry Group Ltd., dated May 10, 2009, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 14, 2009.
10.2	Asset Purchase Agreement by and among the Registrant, Shouguang City Haoyuan Chemical Company Limited, Fengxia Yuan, Han Wang and Qing Yang, dated September 7, 2009, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 10, 2009.
10.3	Securities Purchase Agreement by and among the Registrant and institutional investors dated December 11, 2009, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 11, 2009.

10.4	Registration Rights Agreement by and among the Registrant and institutional investors dated December 11, 2009, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 11, 2009.
10.5	Asset Purchase Agreement by and between Shouguang Haoyuan Chemical Co., Ltd., Jinjin Li, and Qiuzhen Wang dated June 7, 2010, incorporated herein by reference to Exhibit 10.1 to the Registrant's Amendment No. 3 on the Current Report on Form 8-K filed on February 22, 2011
10.6	Crude Salt Field Acquisition Agreement by and between Shouguang City Haoyuan Chemical Co., Ltd. and State-Operated Shouguang Qingshuibo Farm dated December 30, 2010, incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 4, 2011.
10.7	Attachment to the Crude Salt Field Acquisition Agreement by and between Shouguang City Haoyuan Chemical Co., Ltd. and State-Operated Shouguang Qingshuibo Farm dated December 30, 2010, incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 4, 2011
10.8	Lease Contract dated November 5, 2010 by and between Shouguang City Haoyuan Chemical Co., Ltd. and State-Operated Shouguang Qingshuibo Farm, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 4, 2011.
10.9	Supplementary Agreement dated March 1, 2011 by and between Shouguang City Haoyuan Chemical Co., Ltd. and State-Operated Shouguang Qingshuibo Farm, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 4, 2011.
10.10	Bromine Factory Relocation Compensation Agreement dated August 22, 2011 by and between Yangkou Township People's Government of Shouguang Municipality and Shouguang City Haoyuan Chemical Co., Ltd., incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 25, 2011.
10.11	Asset Purchase Agreement dated December 22, 2011 by and between Shouguang City Haoyuan Chemical Co., Ltd, Gulf Resources, Inc., and Liangcai Zhang, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 22, 2011.
10.12	Commercial Property Purchase Agreement dated September 25, 2012 by and between Shandong Shouguang Vegetable Seed Industry Group Co., Ltd. and Shouguang Yuxin Chemical Industry Co., Ltd., incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 1, 2012.
10.13	Asset Purchase Agreement dated November 26, 2012 by and between Gulf Resources, Inc., Shouguang City Haoyuan Chemical Co., Ltd, and Chengyong Zhao, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 28, 2012.
10.14	Translation of Bromine Factory Relocation Compensation Agreement dated September 25, 2013, incorporated by reference to Exhibit 10.1 to Registrant's Current Report on 8-K filed on September 26, 2013.
10.15	Equity Interest Transfer Agreement, dated January 12, 2015, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 14, 2015.
10.16	Lock-Up Agreement, dated February 4, 2015 incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 5, 2015.
10.17	Project Investment Agreement, dated November 23, 2015, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 30, 2015.
10.18	Amended and Restated 2007 Equity Incentive Plan, incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on February 28, 2007.

10.19	Amendment to Amended and Restated 2007 Equity Incentive Plan, incorporated by reference to Appendix A to Registrant's Definitive Proxy Statement on Schedule 14A filed on August 31, 2015.
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.*
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.

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: March 17, 2017

By: /s/ Xiaobin Liu
By: Xiaobin Liu
Title: President and Chief Executive Officer
(principal executive officer)

By: /s/ Min Li
By: Min Li
Title: Chief Financial Officer
(principal financial and accounting 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	March 17, 2017
/s/ Min Li Min Li	Chief Financial Officer	March 17, 2017
/s/ Ming Yang Ming Yang	Director	March 17, 2017
/s/ Naihui Miao Naihui Miao	Director	March 17, 2017
/s/ Tengfei Zhang Tengfei Zhang	Director	March 17, 2017
/s/ Yang Zou Yang Zou	Director	March 17, 2017
/s/ Nan Li Nan Li	Director	March 17, 2017
/s/ Shi Tong Jiang Shi Tong Jiang	Director	March 17, 2017

Exhibit 21.1

Subsidiaries

Name	Jurisdiction of Incorporation	Ownership
Upper Class Group Limited.	BVI	100% (Direct)
Hong Kong Jiaxing Industrial Limited	Hong Kong	100% (Indirect)
Shouguang City Haoyuan Chemical Company Limited.	China	100% (Indirect)
Shouguang Yuxin Chemical Industry Co. Limited.	China	100% (Indirect)
Shouguang City Yongyuan Chemical Co., Ltd.	China	100% (Indirect)
Daying County Haoyuan Chemicial Co., Ltd.	China	100% (Indirect)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-177835 dated November 9, 2011) of Gulf Resources, Inc. and in the related Prospectus included therein, of our report dated March 17, 2017, 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, 2016.

/s/ Morison Cogen LLP

Blue Bell, Pennsylvania

March 17, 2017

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, 2016 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 and President

Dated: March 17, 2017

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, 2016 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: March 17, 2017

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, 2016, 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: March 17, 2017

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

Dated: March 17, 2017

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