

**NASDAQ Ticker:** GFRE  
**Share Price (2/25/10):** \$9.69  
**Total Shares Outstanding:** 34.6 MM  
**Market Capitalization:** \$334.8 MM  
**Net Revenue (ttm):** \$110.3 MM  
**Net Income (ttm)\*:** \$32.0 MM  
**EPS (ttm):** \$1.04  
**P/E (ttm):** 9.3  
**EV/EBITDA (ttm):** 5.9  
**P/B (mrq):** 2.2  
**Fiscal Year End:** December 31



**Company Description** - Gulf Resources, Inc. ("Gulf Resources" or the "Company") is a leading provider of bromine and specialty chemical products in the People's Republic of China ("PRC"). The Company operates through its two wholly-owned subsidiaries; Shouguang City Haoyuan Chemical Company Limited ("SCHC"), which primarily produces and distributes bromine and crude salt, and Shouguang Yuxin Chemical Industry Co., Limited ("SYCI"), which focuses on manufacturing and selling chemical products. Elemental bromine is used to manufacture a wide range of compounds utilized in chemical, manufacturing, pharmaceutical, and agricultural industries. The Company's chemical products are currently utilized in a variety of applications, including oil and gas field exploration, papermaking chemical agents, and inorganic chemicals, such as industrial refrigeration chemicals. Gulf Resources became a U.S. publicly traded company in December 2006 and started trading on NASDAQ in October 2009.

## Investment Highlights

**Access to Ample Bromine Resources and Coveted Production License** - Gulf Resources possesses 50-year mineral and land use rights on 104.54 km<sup>2</sup> (approximately 25,000 acres) of the richest bromine reserve land in China. Through both organic growth and acquisitions, the Company has increased production capacity to 43,300 tons annually and is planning to continue increasing capacity.

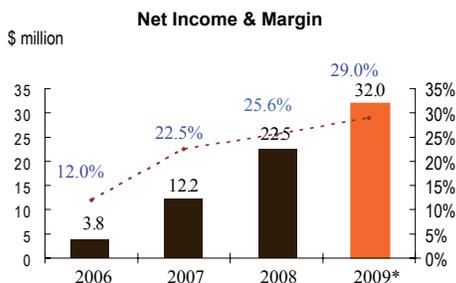
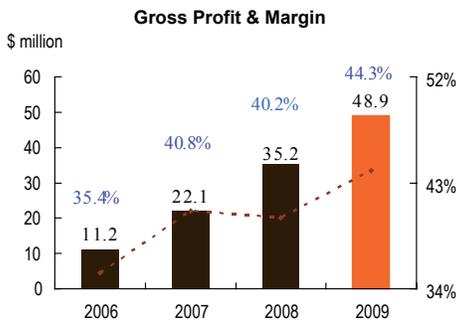
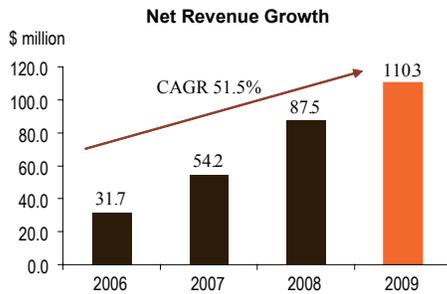
Gulf Resources is granted one of few bromine exploration licenses in Shandong province. In 2006, the provincial government decreed that no additional licenses would be issued and started to close down unlicensed producers. As such, the Company is the largest bromine producer in China through progressive acquisitions of bromine manufacturing properties.

**Disciplined Acquisition Plan** - Since no additional exploration licenses are granted, smaller bromine producers have been forced to shut down. Gulf Resources has adopted an aggressive expansion strategy by acquiring the assets of these smaller bromine manufacturers. The Company has so far acquired bromine production assets from seven unlicensed producers and is actively assessing additional targets. The increased access to bromine and expanded production capacity could increase the Company's market share, and significantly improve revenue and earnings through economies of scale.

**Solid Underlying Market Demand** - Between 2000 and 2009, China's bromine consumption has grown at a CAGR of 8.7%. As bromine demand in China still exceeds domestic supply, long-term bromine price development is likely to remain favorable, albeit short-term fluctuations are possible. Significant barriers to entry due to restricted access to bromine reserves and difficulty of organic capacity expansion further support the general trend of rising prices.

**Established Company with Strong Earnings Growth** - Due to the rapid growth of China's bromine industry, Gulf Resources has experienced significant revenue and profit growth with enhanced profitability. Growth is mainly attributable to newly acquired access to bromine reserves, upgrades in production capacity, and development of new chemical products as well as an optimized product mix and improved production efficiencies and capacity utilization. The Company's revenues reached \$110.3 million and net income reached \$32.0 million (excluding non-cash expenses) in 2009, increasing 26.0% and 42.7% respectively from the same period last year. During the same period, net profit margin improved from 25.6% to 29.0%.

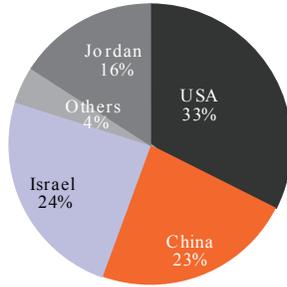
**Diversified Chemical Products Provide Revenue and Margin Opportunities** - Through SYCI, the Company produces approximately 22 major chemical products which are used in oil and gas field exploration, the papermaking industry, and in agricultural applications. Through collaboration with academic and research institutions, the Company has been engaged in product innovation and R&D projects to develop new higher margin products including environmentally friendly compounds for power generation and oil exploration applications, superior paper additives for high-quality specialty paper production and pharmaceutical intermediary products that utilize bromine in their formulation. The Company started production of environmentally friendly additives for oil and gas exploration in September 2008 and completed upgrades to its existing chemical production line to enable production of environmentally friendly pesticide products in December 2009. The Company also began construction on a new chemical additives production line for waste water treatment.



\*Excluding a non-cash expense of \$1.4 million relating to warrants issued in December 2009

# The Bromine and Chemical Market Opportunity

**Global Bromine Production (2009)**



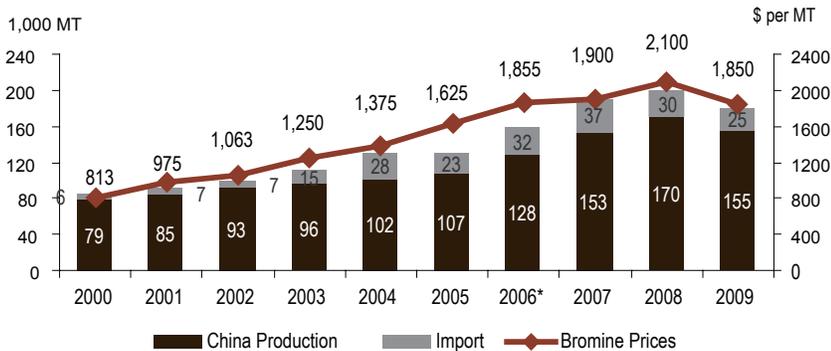
Sources: USGS 2009, Shandong Provincial Government Department of Land and Resources

Bromine is a key component in flame retardants, fumigants, drilling fluids, water treatment chemicals, agricultural chemicals, pharmaceuticals, dyes, and various other chemicals. China is one of the world's fastest growing markets for flame retardants, as electronics, furniture, toys, and other products to which flame retardants are applied are increasingly produced in China and as the country's fire safety regulations become more stringent.

**The Global Bromine Industry** - The world's bromine reserves are concentrated in three regions of the world; USA, around the Dead Sea, and in China. The mineral supply is virtually unlimited, but access to reserves and building economies of scale create barriers to entry.

China is the third largest bromine producing region in the world, with 90% of the country's bromine reserves, production, and consumption concentrated in the Shandong province. Between 2000 and 2009, domestic bromine consumption increased with a CAGR of 8.7%, while production has increased by 7.8% during the same period. As a result, the average price per ton has risen with a CAGR of 9.6%. While prices fell in 2009 due to global economic crisis, faster demand growth compared to production suggests a favorable long-term pricing trend. In 2009, bromine consumption in China reached 180,000 MT.

**Bromine Consumption and Pricing in China**



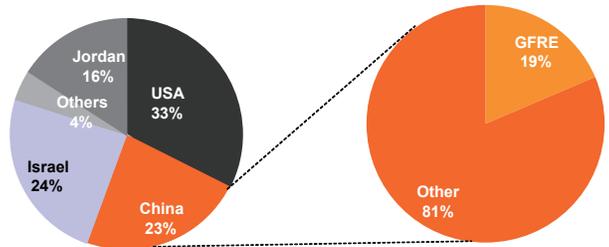
Source: Shandong Provincial Government Department of Land and Resources

\*Approximately 50% of 2006 production is from unlicensed producers

China has remained a net importer of bromine due to strong domestic consumption; in 2009 China produced roughly 155,000 MT of bromine and imported 25,000 MT to meet total consumption. Domestic production is falling short of meeting the growing demand partly due to government intervention in bromine exploration. In 2006, the Shandong provincial government ceased granting additional bromine exploration licenses and started aggressively closing down unlicensed small production facilities. The steps are likely to accelerate industrial consolidation, increase output and streamline distribution. Larger players, such as Gulf Resources, that are able to build on economies of scale are likely to benefit the most from this consolidation.

**Global Competitive Environment and Major Players** - Global bromine production is approximately 675,000 metric tons per year and the market is dominated by three major producers: ICL (formerly Israel Chemicals), Chemtura (including the former Great Lakes), and Albemarle.

**Major Bromine Producers**

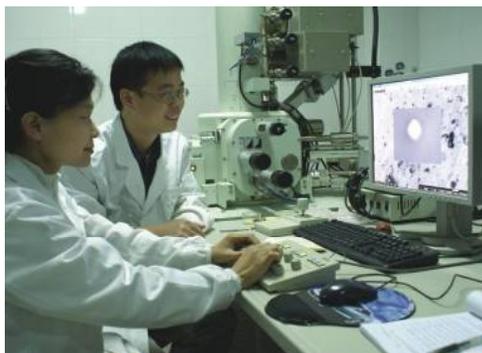


Sources: USGS, GFRE estimates

Gulf Resources believes it is the largest bromine producer in China, accounting for approximately 20% of China's bromine production in 2009.

## Competitive Advantages

**Bromine Exploration: High Barriers to Entry** - The Company is taking advantage of high barriers to entry in the bromine exploration industry. The Company has access to a sizeable asset base including 50-year mineral and land use rights with significant access to bromine and crude salt, as well as a valuable exploration and production license issued by the government. The government has since halted granting licenses, allowing existing players to strengthen their positions.



**Systematic Quality Control** - SYCI's production facilities have 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 PetroChina Company Limited, allowing the Company to sell directly to these market leaders.

**Strong R&D Initiatives** - SYCI's strong research and development team has been engaged in product innovation and research projects with prestigious academic institutions including East China University of Science and Technology, Shandong University, Southeast University and other higher education institutions, with the intentions to pursue targeted research and development of refined bromide compounds and end products utilizing bromine. During the

second quarter of 2008, the Company established a cooperative research and development agreement with the Shandong Institute of Light Industry to create improved and high quality specialty chemical products for use in the papermaking industry to expand product offerings. The agreement provides SYCI the sole right to use any products and technologies developed under the agreement for a period of two years. SYCI has hired three college professors and three professionals holding PhD degrees to lead its research and development department.

## Corporate Overview

Gulf Resources was incorporated in 2006 to manufacture and trade bromine and crude salt, as well as chemical products. The Company's principal operating subsidiaries, SCHC and SYCI, were formed in May 2005 and October 2000 respectively. All of the Company's operations are in China, in close proximity to China's petrochemical and oil refinery manufacturing base supporting this rapidly growing industry.

**Bromine Production** - Through its subsidiary SCHC, the Company produces bromine and crude salt. SCHC maintains a sizeable asset base with 50-year mineral rights and land leases covering property with significant bromine and crude salt reserves. The Company has increased its asset base through acquisitions of assets of smaller bromine producers in 2007 through 2009. With its current installation of close to 4,000 wells, current bromine production capacity is estimated at 43,300 tons annually with the potential to increase yield as the Company continues installing new production equipment and starts production at its most recently acquired property.



In addition, additional non-reserve mineralized materials include rock salt (liquid NaCl), potassium chloride, magnesium chloride, magnesium sulfate, and calcium sulfate.

Date of Acquisition	Factory	Annual Production Capacity (MT)	Utilization Ratio (2009)
<b>Existing Assets</b>	<b>Factory 1</b>	<b>12,000</b>	<b>97%</b>
April 7, 2007	Factory 2	5,000	81%
June 8, 2007	Factory 3	4,800	88%
October 25, 2007	Factory 4	4,600	96%
October 26, 2007	Factory 5	4,500	89%
January 8, 2008	Factory 6	4,800	79%
January 7, 2009	Factory 7	3,500	67%
September 9, 2009	Factory 8	4,100	10%
<b>Total</b>		<b>43,300</b>	<b>81%</b>

**Bromine Products** - Bromine is found naturally in bromides, or compounds of bromine, which are extracted from salt lakes, seawater and underground brine wells. Elemental bromine is produced by extracting the bromine ion from natural brine. Elemental bromine a reddish brown volatile liquid at room temperature with toxic and corrosive vapors.

Gulf Resources utilizes a simple production method for extracting bromine, with extraction rates reaching 70-80%. The bromine ion is oxidized by adding chlorine and separating the elemental bromine from the brine. The elemental bromine is then absorbed by sulfur or soda. The process can also be completed in a closed system, with less harm to the environment.

Bromine is used to manufacture flame retardants, pharmaceuticals, paper, dyes, insect repellents, drilling fluids, perfumes, photographic chemicals, water-treatment chemicals, and sanitizers. Bromine is also a key component of other chemicals.

**Crude Salt** - Crude salt is a by-product of bromine production and a basic material in the chemical industry. It is the principal material in alkali production as well as chlorine alkali production and is widely used in the chemical, food & beverage, and national defense industries. In 2008 and 2009, the Company has established and acquired salt pans for the extraction of crude salt and expects to bring its annual crude salt production to 450,000 MT.

In 2009, the majority, or 67%, of the Company's revenue came from bromine and crude salt products.

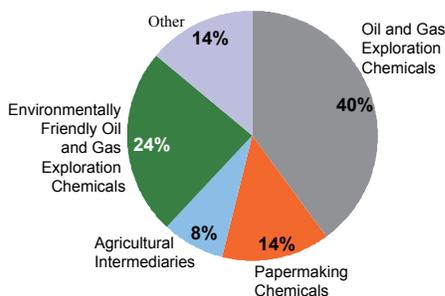
**Chemical Products** - Through SYCI, the Company produces and sells approximately 22 major chemical products used in oil and gas field exploration and distribution, oil field drilling, wastewater processing, papermaking chemical agents and inorganic chemicals. In fiscal year 2009, revenue from chemical products contributed 33% of total revenue.

In September 2008, SYCI opened a new production line focusing on environmentally friendly additive products, such as solid lubricants and polyether lubricants, for use in oil and gas exploration. It has also upgraded its pesticide intermediate production line and plans to open a wastewater treatment intermediate chemical production line in the second half of 2010. The planned waste water treatment intermediates use bromine in their formulation, allowing the Company to utilize its bromine assets for internal production.

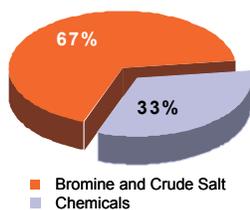
SYCI also engages in research and development of other commonly used chemical products as well as pharmaceutical intermediates which utilize bromine in their formulation. The Company plans to add additional production capacity in its chemical segment to enable the production of these products in the future.



### Chemical Product Revenue 2009



### Revenue Breakdown 2009



### Bluechip Customer Base

#### Major Bromine Customers

Gulf Resources currently sells a substantial portion of its bromine and crude salt products to a limited number of customers located in Shandong province. Shandong province is the primary location for end customers due to high transportation costs. In addition, approximately 3% of SCHC's bromine products are used as input for chemical products through SYCI.

Two largest Bromine and Crude Salt Customers (12 Months Ended December, 2009)

Customers	Percentage of Bromine and Crude Salt Revenue
Shandong Morui Chemical Company Limited	15.4 %
Shouguang City Rongyuan Chemical Company Limited	15.4 %
<b>Total</b>	<b>30.8%</b>

#### Major Chemical Product Customers

In total, Gulf Resources chemical products subsidiary supplies a limited number of customers throughout China, including divisions and subsidiaries. The Company is a class-one certified supplier of oil & gas exploration chemicals for its two largest customers, China Petroleum & Chemical Corporation (SINOPEC) and PetroChina Company Limited (CNPC).

In addition to major oilfields such as the Shengli, Daqing, Zhongyuan, Huabei, and Talimu, SYCI's products are distributed primarily to large domestic papermaking manufacturers, such as the Chengmin Papermaking Company, China's largest paper manufacturer. Since July 2008, SYCI also has an agreement with Longteng, the largest privately owned coated art-paper producer in China.

Four largest Chemical Product Customers (12 Months Ended December, 2009)

Customers	Percentage of Chemical Product Revenue
Kuerle Xingdong Trading Limited	23.7 %
Talimu Oil Exploration Limited	16.9 %
Shouguang Longteng Trading Limited	14.3%
Sinopec Shengli -field Ltd's Qinghe Factory	13.0%
<b>Total</b>	<b>67.9%</b>

Gulf Resources mainly supplies its customers directly and currently only all of the environmentally friendly products and a small portion of other chemical product sales are directed through distributors. However, the Company expects sales through distributors to increase to 20-25% in 2009. By shifting sales to distributors, Gulf Resources decreases selling expenses and operating risk.



**Stable Power Supply** - Gulf Resources is located in the production area of SINOPEC's Shengli Oilfield. As oil production is a prioritized industry in China, the electricity supply in this area is guaranteed by the Chinese government. In 2007, the Company built a connection network from the Shengli oilfield to Gulf Resources' facilities to ensure uninterrupted power supply. Given the likelihood of power shortages in China, the investment is likely to benefit Gulf Resources over other bromine producers.

## Strategy for Growth

**Increase Acreage and Bromine Land Reserves** - To secure supply of input material and to enhance its pricing ability, the Company seeks to expand its access to bromine reserves. As no additional bromine exploration licenses will be issued, Gulf Resources is actively continuing to acquire bromine manufacturing assets from inactive asset holders that lack the required production and exploration license. The expansive strategy is supported by the Company's strong cash flow.

**Increase Bromine Production Capacity and Output** - As the Company's asset base grows, the Company will continue to make capital improvements where appropriate, including adding new bromine wells and trench lines, while leveraging new integrated production processes to improve capacity utilization. The Company also plans to increase the utilization of existing halogen water and establishing additional salt pans in order to increase the output of crude salt.

**Chemical Capacity Expansion for Value-Added Products** - Gulf Resources has recently upgraded its older chemical production line for the production of environmentally friendly pesticide additives. The Company is currently in the process of constructing a new production line for the development of water treatment intermediate chemicals, which it plans to open in the second half of 2010.

The Company has a proven track record for commercializing new innovations. In 2008, the Company, in cooperation with Eastern China University of Science and Technology and Shandong University, developed a new type of environmentally oil field drilling fluid system utilized by two of CNPC's subsidiaries.

## Valuation

			Stock Price	Market Cap	P/E (ttm)	EV/EBITDA (ttm)	P/B (MRQ)
Gulf Resources	GFRE	\$	9.69	334.8M	9.3	5.9	2.2
ICL	ICL.TA	\$	12.20	15.4B	19.0	15.8	5.3
Albemarle	ALB	\$	36.91	3.4B	24.7	18.1	2.7

Data: Thomson as of February 25, 2010.

GFRE ttm December 31, 2009, ALB and ICL.TA ttm September 30, 2009

GFRE P/E based on adjusted net income excluding \$1.4 million in non-cash expenses related to warrants issued in December 2009.

## Key Management and Directors

**Xiaobin Liu, CEO** - Mr. Liu was appointed CEO in March 2009 and has previously, since January 2007, served as Vice President of Gulf Resources. He previously worked for a large Chinese public company and has more than 20 years of experience from financial and business management.

**Min Li, CFO and Director** - Mr. Li was appointed Director on October 30, 2007. He has served as CFO of Gulf Resources since December 2006 and as CFO for Shouguang City Haoyuan Chemical Company Limited. He has more than 10 years of experience from accounting and financial management.

**Ming Yang, Chairman of the Board** - Mr. Yang became the Chairman of Gulf Resources, Inc and he has served as Chairman of Shouguang City Yuxin Chemical Company Limited since July 2000 and Chairman of Shouguang City Haoyuan Chemical Company Limited since May 2005. He has more than 15 years of experience from the chemical and oil sector in China. He was CEO of the Company until March 2009.

## Selected Financial Statements

### Income Statement

US \$ (except share data)	FY ended December 31,		
	2009 Unaudited	2008 Audited	2007 Audited
Net revenue	110,276,908	87,488,334	54,248,650
Cost of net revenue	61,402,820	52,302,085	32,108,180
Gross profit	48,874,088	35,186,249	22,140,470
Operating expenses			
Research and development cost	500,406	514,780	268,168
General and administrative exp.	6,132,848	4,094,312	1,847,374
Income from operations	42,240,834	30,577,157	20,024,928
Other income (expense)			
Interest expense	(17,078)	60,111	161,577
Interest income	80,805	94,129	54,969
Sundry income (expense)	(528,748)	3,764	97,524
Other income		-	15,801
Income before income tax	41,775,813	30,607,411	20,031,645
Income taxes - current	11,184,398	8,211,939	7,798,682
Net income	30,591,415	22,395,472	12,232,963
EPS - Basic	1.00	0.90	0.51
EPS - Diluted	1.00	0.90	0.51
Weighted avg number of shares			
Basic	30,698,824	24,917,210	24,172,126
Diluted	30,701,697	24,917,210	24,172,126

### Balance Sheet

US \$	December 31, 2009	December 31, 2008
Cash	45,536,735	30,878,044
Total current assets	63,707,412	43,222,299
Property, plant, and equipment, net	81,993,894	45,399,456
Total assets	146,423,168	89,359,466
Working capital	51,667,214	24,669,546
Total current liabilities	12,040,198	18,552,753
Total liabilities	12,040,198	36,890,246
Total shareholders' equity	134,382,970	52,469,220

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