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

FORM 10-Q

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

For the quarterly period ended June 30, 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)

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

Registrant’s telephone number, including area code: +86 (536) 567 0008

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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 Exchange Act).
Yes ☐ No ☒

As of August 6, 2016, the registrant had outstanding 46,016,053 shares of common stock.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016 Unaudited	December 31, 2015 Audited
Current Assets		
Cash	$ 146,273,240	$ 133,606,392
Accounts receivable	71,335,678	49,980,358
Inventories, net	6,707,960	7,180,800
Prepayments and deposits	405,545	-
Prepaid land leases	527,574	49,833
Other receivable	559	599
Deferred tax assets	-	3,173
Total Current Assets	225,250,556	190,821,115
Non-Current Assets		
Property, plant and equipment, net	112,549,109	127,871,323
Property, plant and equipment under capital leases, net	743,888	927,218
Prepaid land leases, net of current portion	4,966,172	5,197,216
Deferred tax assets	2,321,098	2,367,180
Goodwill	28,944,958	29,559,174
Total non-current assets	149,525,225	165,922,111
Total Assets	$ 374,775,781	$ 356,743,226
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 14,999,533	$ 9,929,700
Retention payable	17,237	1,135,956
Capital lease obligation, current portion	112,434	196,778
Taxes payable	7,336,261	4,814,003
Total Current Liabilities	22,465,465	16,076,437
Non-Current Liabilities		
Capital lease obligation, net of current portion	2,390,370	2,555,914
Total Liabilities	$ 24,855,835	$ 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 as of June 30, 2016 and December 31, 2015; 46,285,202 and 46,276,269 shares issued; and 46,016,053 and 46,007,120 shares outstanding as of June 30,2016 and December 31, 2015, respectively	23,143	23,139
Treasury stock; 269,149 and 269,149 shares as of June 30, 2016 and December 31, 2015 at cost	(599,441)	(599,441)
Additional paid-in capital	94,136,861	94,124,065
Retained earnings unappropriated	233,473,154	215,286,395
Retained earnings appropriated	21,817,660	20,340,436
Accumulated other comprehensive income	1,068,569	8,936,281
Total Stockholders' Equity	349,919,946	338,110,875
Total Liabilities and Stockholders' Equity	$ 374,775,781	$ 356,743,226

See accompanying notes to the condensed consolidated financial statements.

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

	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
NET REVENUE				
Net revenue	$ 47,600,767	$ 49,350,070	$ 82,096,217	$ 84,260,899
OPERATING INCOME (EXPENSES)				
Cost of net revenue	(29,195,255)	(32,280,120)	(53,076,901)	(57,760,978)
Sales, marketing and other operating expenses	(104,369)	(120,746)	(186,270)	(202,176)
Research and development cost	(70,378)	(63,470)	(130,215)	(111,705)
Exploration cost	-	-	-	(325,840)
General and administrative expenses	(1,009,882)	(2,434,246)	(2,925,912)	(4,415,363)
Other operating income	110,239	109,901	220,521	227,203
	(30,269,645)	(34,788,681)	(56,098,777)	(62,588,859)
INCOME FROM OPERATIONS	17,331,122	14,561,389	25,997,440	21,672,040
OTHER INCOME (EXPENSE)				
Interest expense	(46,009)	(51,013)	(92,138)	(101,866)
Interest income	122,328	108,182	236,774	235,143
INCOME BEFORE TAXES	17,407,441	14,618,558	26,142,076	21,805,317
INCOME TAXES	(4,210,422)	(3,843,298)	(6,478,093)	(5,714,786)
NET INCOME	$ 13,197,019	$ 10,775,260	$ 19,663,983	$ 16,090,531
COMPREHENSIVE INCOME:				
NET INCOME	$ 13,197,019	$ 10,775,260	$ 19,663,983	$ 16,090,531
OTHER COMPREHENSIVE INCOME (LOSS)				
- Foreign currency translation adjustments	(9,760,773)	1,475,380	(7,867,712)	365,032
COMPREHENSIVE INCOME	$ 3,436,246	$ 12,250,640	$ 11,796,271	$ 16,455,563
EARNINGS PER SHARE:				
BASIC	$ 0.29	$ 0.23	$ 0.43	$ 0.36
DILUTED	$ 0.28	$ 0.23	$ 0.42	$ 0.36
WEIGHTED AVERAGE NUMBER OF SHARES:				
BASIC	46,008,102	45,928,234	46,007,611	44,313,537
DILUTED	46,631,091	47,143,073	46,685,709	45,319,208

See accompanying notes to the condensed consolidated financial statements.

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GULF RESOURCES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX-MONTH PERIOD ENDED JUNE 30, 2016
(Expressed in U.S. dollars)

	Common stock								Accumulated	
	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	other comprehensive income	Total
BALANCE AT DECEMBER 31, 2015 Audited	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	-	-	-	-		-	-	-	(7,867,712)	(7,867,712)
Cashless exercise of stock options	8,933	8,933	-	4	-	(4)	-	-	-	-
Issuance of stock options to employees and directors	-	-	-	-	-	12,800	-	-	-	12,800
Net income for six-month period ended June 30, 2016	-	-	-	-	-	-	19,663,983	-	-	19,663,983
Transfer to statutory common reserve fund	-	-	-	-	-	-	(1,477,224)	1,477,224	-	-
BALANCE AT JUNE 30, 2016 Unaudited	46,285,202	46,016,053	269,149	$ 23,143	$(599,441)	$94,136,861	$ 233,473,154	$ 21,817,660	$ 1,068,569	$349,919,946

See accompanying notes to the condensed consolidated financial statements.

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

	Six-Month Period Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 19,663,983	$ 16,090,531
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest on capital lease obligation	91,764	101,460
Amortization of prepaid land leases	255,261	254,087
Depreciation and amortization	13,514,292	14,906,669
Exchange (gain) loss on inter-company balances	(548,734)	24,292
Stock-based compensation expense	12,800	343,800
Deferred tax asset	-	(81,460)
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(22,737,450)	(13,943,594)
Inventories	328,685	268,683
Prepayments and deposits	(14,094)	67,150
Other receivables	-	37,713
Accounts payable and accrued expenses	5,353,742	4,172,413
Retention payable	(1,112,087)	(281,241)
Taxes payable	2,662,606	2,568,444
Net cash provided by operating activities	17,470,768	24,528,947
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions of prepaid land leases	(616,512)	(632,139)
Purchase of property, plant and equipment	(870,875)	-
Consideration paid for business acquisition	-	(66,305,606)
Cash acquired from acquisition	-	14,074,720
Net cash used in investing activities	(1,487,387)	(52,863,025)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayment of capital lease obligation	(287,387)	(306,683)
Repurchase of common stock	-	(37,713)
Net cash used in financing activities	(287,387)	(344,396)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,029,146)	120,721
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	12,666,848	(28,557,753)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	133,606,392	146,585,601
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 146,273,240	$ 118,027,848
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ 4,586,259	$ 3,766,955
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common stock upon cashless exercise of options	$ 4	$ 49
Issuance of common stock for acquisition of business	$ -	$ 13,373,140

See accompanying notes to the condensed consolidated financial statements.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(Expressed in U.S. dollars)
(UNAUDITED)

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

(a) Basis of Presentation and Consolidation

The accompanying condensed financial statements have been prepared by Gulf Resources, Inc. a Nevada corporation and its subsidiaries (collectively, the “Company”), without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of its financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States (“US GAAP”).

In the opinion of management, the unaudited financial information for the three and six months ended June 30, 2016 presented reflects all adjustments, which are only normal and recurring, necessary for a fair statement of results of operations, financial position and cash flows. These condensed financial statements should be read in conjunction with the financial statements included in the Company’s 2015 Form 10-K. Operating results for the interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates. The Company also exercises judgments in the preparation of these condensed financial statements in the areas including classification of leases and related party transactions.

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.

(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.

(c) Allowance for Doubtful Accounts

As of June 30, 2016 and December 31, 2015, allowances for doubtful accounts were nil. No allowances for doubtful accounts were charged to the condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2016 and 2015.

(d) 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 Rural Commercial Bank Company Limited, which are not insured or otherwise protected. The Company placed $146,273,240 and $133,606,392 with these institutions as of June 30, 2016 and December 31, 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 and the payment terms are generally short. Approximately 75.3% and 73.3% of the balances of accounts receivable as of June 30, 2016 and December 31, 2015, respectively, are outstanding for less than three months. All outstanding receivables as of June 30, 2016 and December 31, 2015 are within the credit terms. For the balances of accounts receivable aged more than 90 days as of June 30, 2016, approximately 49% were settled in July 2016. For the balances of all accounts receivable as of June 30, 2016, approximately 17% were settled in July 2016.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(Expressed in U.S. dollars)
(UNAUDITED)

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

(e) 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.

Construction in process primarily represents direct costs of construction of plant, machinery and equipment. Costs incurred are capitalized and transferred to property 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.

(f) 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 condensed consolidated statement of income on an accrual basis when they are due. The Company's contributions totaled $250,152 and $241,972 for the three-month period ended June 30, 2016 and 2015, respectively, and totaled $499,615 and $435,120 for the six-month period ended June 30, 2016 and 2015, respectively.

(g) 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.

GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(Expressed in U.S. dollars)
(UNAUDITED)

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

(h) Recoverability of Long-lived Assets

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

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

For the three-month and six-month periods ended June 30, 2016 and 2015, the Company determined that there are no events or circumstances indicating possible impairment of its long-lived assets.

(i) 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 71,086 and 229,228 shares for the three-month period ended June 30, 2016 and 2015, respectively, and amounted to 64,139 and 294,032 shares for the six-month period ended June 30, 2016 and 2015, respectively. These awards could be dilutive in the future if the market price of the common stock increases and is greater than the exercise price of these awards.

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GULF RESOURCES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016
(Expressed in U.S. dollars)
(UNAUDITED)

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

(i) Basic and Diluted Earnings per Share of Common Stock – Continued

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

	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
Numerator				
Net income	$ 13,197,019	$ 10,775,260	$ 19,663,983	$ 16,090,531
Denominator				
Basic: Weighted-average common shares outstanding during the period	46,008,102	45,928,234	46,007,611	44,313,537
Add: Dilutive effect of stock options	622,989	1,214,839	678,098	1,005,671
Diluted	46,631,091	47,143,073	46,685,709	45,319,208
Earnings per share				
Basic	$ 0.29	$ 0.23	$ 0.43	$ 0.36
Diluted	$ 0.28	$ 0.23	$ 0.42	$ 0.36

(j) 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 statement of income and comprehensive income is translated at average rate 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. The statement of cash flows is translated at average rate during the reporting period, with the exception of the consideration paid for the acquisition of business which is translated at historical rates.

(k) 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.

(l) 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.

(m) 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. Management of the Company evaluates the carrying value of goodwill annually or when a possible impairment is indicated. The Company performs its impairment assessment annually and between annual tests in certain circumstances and determined that there was no impairment of goodwill. Goodwill impairment is assessed using the expected present value of associated future cash flows.

(n) New Accounting Pronouncements

Recently Adopted Accounting Pronouncements
In July 2015, the FASB issued 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 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 financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted
As of June 30, 2016, there are no recently issued accounting standards not yet adopted which would have a material effect on the Company's financial statements through 2017.

(Expressed in U.S. dollars)

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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 $13,169,506 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		28,944,958
Accounts payable and accrued expenses		(8,670,568)
Taxes payable		(963,458)
Cumulative translation adjustment		2,507,313
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 were $51,274,989 and $12,667,379, respectively. 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 the six months ended June 30, 2016 and on a pro forma basis for the six months ended June 30, 2015, as if the acquisition of SCRC had been completed at the beginning of the Company's interim periods presented:

	For the six months ended			
	June 30, 2016 Actual		June 30, 2015 Pro forma	
Net Revenue	$	82,096,217	$	89,975,162
Net Income	$	19,663,983	$	17,560,565
EARNINGS PER SHARE				
-Basic	$	0.43	$	0.38
-Diluted	$	0.42	$	0.37

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:

	June 30, 2016		December 31, 2015	
Raw materials	$	993,737	$	1,014,917
Finished goods		4,926,408		5,486,970
Work-in-process		800,242		691,604
Allowance for obsolete and slow-moving inventory		(12,427)		(12,691)
	$	6,707,960	$	7,180,800

NOTE 4 – PREPAID LAND LEASES

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 three-month period ended June 30, 2016 and 2015, amortization of prepaid land leases totaled $123,717 and $127,583, respectively, which amounts were recorded as cost of net revenue. During the six-month period ended June 30, 2016 and 2015, amortization of prepaid land leases totaled $255,261 and $254,087, respectively, which amounts were 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 that the Company cannot obtain land use rights certificates cover a total of approximately 59.43 square kilometers with an aggregate carrying value of $1,070,738 and approximately 59.43 square kilometers with an aggregate carrying value of $686,073 as at June 30, 2016 and December 31, 2015, respectively.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET

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

	June 30, 2016	December 31, 2015
At cost:		
Mineral rights	$ 6,003,828	$ 6,131,230
Buildings	67,199,375	68,510,164
Plant and machinery	191,237,780	195,295,877
Motor vehicles	8,664	8,847
Furniture, fixtures and office equipment	4,763,536	4,864,619
Construction in process	422,139	57,596
Total	269,635,322	274,868,333
Less: Accumulated depreciation and amortization	(157,086,213)	(146,997,010)
Net book value	$ 112,549,109	$ 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 $40,346,467 and $42,526,151as at June 30, 2016 and December 31, 2015, respectively.

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

During the three-month period ended June 30, 2016, depreciation and amortization expense totaled $6,644,571, of which $6,306,337 and $338,235 were recorded as cost of net revenue and administrative expenses, respectively. During the three-month period ended June 30, 2015, depreciation and amortization expense totaled $7,438,801, of which $7,060,750 and $378,051 were recorded as cost of net revenue and administrative expenses, respectively. During the six-month period ended June 30, 2016, depreciation and amortization expense totaled $13,514,292, of which $12,827,797 and $686,495 were recorded as cost of sales and administrative expenses respectively. During the six-month period ended June 30, 2015, depreciation and amortization expense totaled $14,729,165, of which $13,993,009 and $736,156 were recorded as cost of sales and administrative expenses respectively.

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

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

	June 30, 2016	December 31, 2015
At cost:		
Buildings	$ 124,095	$ 126,729
Plant and machinery	2,332,640	2,382,139
Total	2,456,735	2,508,868
Less: Accumulated depreciation and amortization	(1,712,847)	(1,581,650)
Net book value	$ 743,888	$ 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 three-month period ended June 30, 2016 and 2015, depreciation and amortization expense totaled $83,288 and $88,880, respectively, which was recorded as cost of net revenue. During the six-month period ended June 30, 2016 and 2015, depreciation and amortization expense totaled $166,608 and $177,504, respectively, which was recorded as cost of net revenue.

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NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	June 30, 2016	December 31, 2015
Accounts payable	$ 14,255,753	$ 8,835,442
Salary payable	269,458	271,369
Social security insurance contribution payable	113,227	114,370
Other payables	361,095	708,519
Total	$ 14,999,533	$ 9,929,700

NOTE 8 – RELATED PARTY TRANSACTIONS

During the three-month and six-month periods ended June 30, 2016, the Company borrowed $200,000 and $455,369, respectively, from Jiaxing Lighting Appliance Company Limited (Jiaxing Lighting"), in which Mr. Ming Yang, a shareholder and the Chairman of the Company, had a 100% equity interest. The amounts due to Jiaxing Lighting was unsecured, interest free and repayable on demand and was fully settled in the three-month period ended June 30, 2016. There was no balance owing to Jiaxing Lighting as of June 30, 2016 and December 31, 2015.

During the fiscal year 2013, the Company entered into an agreement with the Shandong Shouguang Vegetable Seed Industry Group Co., Ltd, a related party, to provide property management services for an annual amount of approximately $100,704 for five years from January 1, 2013 to December 31, 2017. The expenses associated with this agreement for the three months period ended June 30, 2016 and 2015 were approximately $24,000 and $25,500. The expense associated with this agreement for the six months period ended June 30, 2016 and 2015 were approximately $48,000 and $51,000.

NOTE 9 – TAXES PAYABLE

Taxes payable consists of the following:

	June 30, 2016	December 31, 2015
Income tax payable	$ 4,213,833	$ 2,400,400
Mineral resource compensation fee payable	416,648	255,984
Value added tax payable	1,548,464	1,030,664
Land use tax payable	885,563	904,354
Other tax payables	271,753	222,601
Total	$ 7,336,261	$ 4,814,003

NOTE 10 – CAPITAL LEASE OBLIGATIONS

The components of capital lease obligations are as follows:

	Imputed Interest rate	June 30, 2016	December 31, 2015
Total capital lease obligations	6.7%	$ 2,502,804	$ 2,752,692
Less: Current portion		(112,434)	(196,778)
Capital lease obligations, net of current portion		$ 2,390,370	$ 2,555,914

Interest expenses from capital lease obligations amounted to $45,873 and $50,803 for the three-month period ended June 30, 2016 and 2015, respectively, which were charged to the condensed consolidated statement of income. Interest expenses from capital lease obligations amounted to $91,764 and $101,460 for the six-month period ended June 30, 2016 and 2015, respectively, which were charged to the condensed consolidated statement of income.

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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 filed an amended and restated 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 sheets as of June 30, 2016 and December 31, 2015.

(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 its profit after tax to the following reserve:

Statutory Common Reserve Funds

SCHC, SYCI and SCRC are required each year to transfer at least 10% of the profit after tax as reported under the PRC statutory financial statements to the Statutory Common Reserve Funds until the balance reaches 50% of the registered share capital. This reserve can be used to make up any loss incurred or to increase share capital. Except for the reduction of losses incurred, any other application should not result in this reserve balance falling below 25% of the registered capital. The Statutory Common Reserve Fund as of June 30, 2016 for SCHC, SYCI and SCRC is 42%, 50% and 10% of its registered capital respectively.

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 approval of the Board of Directors. The Company recorded the entire purchase price of the treasury stock as a reduction of equity.

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 June 30, 2016, the number of shares of the Company's common stock available for issuance under the Plan is 6,980,989.

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.

In early March 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. For the three-month and six-month period ended June 30, 2016, $0 and $7,300 was recognized as general and administrative expenses.

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. For the three-month and six-month period ended June 30, 2016, $5,500 was recognized as general and administrative expenses.

The following table summarizes all Company stock option transactions between January 1, 2016 and June 30, 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, January 1, 2016	2,399,000	$1.39	$	0.95 - $12.60
Granted and vested during the period Ended June 30, 2016	25,000	$1.62	$	1.45-1.78
Exercised during the period ended June 30, 2016	(36,000)	$1.20	$	0.98-1.43
Expired during the period ended June 30, 2016	(50,000)	$12.60	$	12.60
Balance, June 30, 2016	2,338,000	$1.16	$	0.95 - $4.80

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NOTE 13 – STOCK-BASED COMPENSATION – Continued

	Stock and Warrants Options Exercisable and Outstanding		
	Outstanding at June 30, 2016	Range of Exercise Prices	Weighted Average Remaining Contractual Life (Years)
Exercisable and outstanding	2,338,000	$ 0.95 - $4.80	1.66

The aggregate intrinsic value of options outstanding and exercisable as of June 30, 2016 was $1,003,555.

The total intrinsic value of options exercised was $14,292 and $236,535 for the six months ended June 30, 2016 and 2015.

During the three and six months ended June 30, 2016, 8,933 shares of common stock were issued upon cashless exercise of 36,000 options.

NOTE 14 – INCOME TAXES

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

(a) United States

Gulf Resources, Inc. may be subject to the United States of America Tax law at a 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 three-month and six-month periods ended June 30, 2016 and 2015, and management believes that its earnings are permanently invested in the PRC.

(b) BVI

Upper Class Group Limited, a subsidiary of Gulf Resources, Inc., was incorporated in the BVI and, under the current laws of the BVI, it is not subject to tax on income or capital gain in the BVI. Upper Class Group Limited did not generate assessable profit for the three-month and six-month periods ended June 30, 2016 and 2015.

(c) Hong Kong

Hong Kong Jiaxing Industrial Limited, a subsidiary of Upper Class Group 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 three-month and six-month periods ended June 30, 2016 and 2015. The applicable statutory tax rates for the three-month and six-month periods ended June 30, 2016 and 2015 are 16.5%. There is no dividend withholding tax in Hong Kong.

(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 CaiShui [2008] Circular 1 ("Circular 1"). According to Article 4 of Circular 1, distributions of accumulated profits earned by a FIE prior to January 1, 2008 to foreign investor(s) in 2008 will be exempted from withholding tax ("WHT") while distribution of the profit earned by an FIE after January 1, 2008 to its foreign investor(s) shall be subject to WHT at 5% effective tax rate.

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NOTE 14 – INCOME TAXES – Continued

As of June 30, 2016 and December 31, 2015, the accumulated distributable earnings under the Generally Accepted Accounting Principles (GAAP") of PRC of the FIE of the Company are $272,716,023 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 June 30, 2016 and December 31, 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 June 30, 2016 and December 31, 2015, the unrecognized WHT are $12,608,715 and $11,974,695, respectively.

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 2012 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:

	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
Current taxes – PRC	$ 4,210,422	$ 3,843,298	$ 6,478,093	$ 5,796,246
Deferred taxes – PRC	-	-	-	(81,460)
	$ 4,210,422	$ 3,843,298	$ 6,478,093	$ 5,714,786

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

Reconciliations	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
Statutory income tax rate	25%	25%	25%	25%
Non-taxable item	(1%)	-	-	-
US federal net operating loss	-	1%	-	1%
Effective tax rate	24%	26%	25%	26%

Significant components of the Company's deferred tax assets and liabilities at June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016	December 31, 2015
Deferred tax liabilities	$ -	$ -
Deferred tax assets:		
Allowance for obsolete and slow-moving inventories	$ 3,108	$ 3,173
Impairment on property, plant and equipment	440,531	449,879
Exploration costs	1,877,459	1,917,301
Compensation costs of unexercised stock options	475,442	629,162
US federal net operating loss	10,888,570	10,835,000
Total deferred tax assets	13,685,110	13,834,515
Valuation allowance	(11,364,012)	(11,464,162)
Net deferred tax asset	$ 2,321,098	$ 2,370,353
Current deferred tax asset	$ -	$ 3,173
Long-term deferred tax asset	$ 2,321,098	$ 2,367,180

The increase in valuation allowance for each of the three-month period ended June 30, 2016 and 2015 is $1,495 and $209,007, respectively.

The decrease in valuation allowance for the six-month period ended June 30, 2016 is $100,150.

The decrease in valuation allowance for the six-month period ended June 30, 2015 is $554,395.

There were no unrecognized tax benefits and accrual for uncertain tax positions as of June 30, 2016 and December 31, 2015.

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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. 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.

Three-Month Period Ended June 30, 2016	**Bromine***	**Crude Salt***	**Chemical Products**	**Natural Gas**	**Segment Total**	**Corporate**	**Total**
Net revenue (external customers)	$ 18,480,605	$ 2,305,688	$ 26,814,474	$ -	$ 47,600,767	$ -	$ 47,600,767
Net revenue (intersegment)	2,670,931	-	-	-	2,670,931	-	2,670,931
Income(loss) from operations before taxes	8,199,652	(10,099)	8,531,677	(25)	16,721,205	609,917	17,331,122
Income taxes	1,810,252	235,779	2,164,391	-	4,210,422	-	4,210,422
Income (loss) from operations after taxes	6,389,400	(245,878)	6,367,286	(25)	12,510,783	609,917	13,120,700
Total assets	149,221,327	30,673,443	193,703,787	1,058,651	374,657,208	118,573	374,775,781
Depreciation and amortization	4,144,546	1,339,696	1,160,329	-	6,644,571	-	6,644,571
Capital expenditure	-	-	-	813,589	813,589	-	813,589
Goodwill	-	-	28,944,958	-	28,944,958	-	28,944,958

Three-Month Period Ended June 30, 2015	**Bromine***	**Crude Salt***	**Chemical Products**	**Natural Gas**	**Segment Total**	**Corporate**	**Total**
Net revenue (external customers)	$ 15,092,861	$ 2,909,342	$ 31,347,867	$ -	$ 49,350,070	$ -	$ 49,350,070
Net revenue (intersegment)	2,518,562	-	-	-	2,518,562	-	2,518,562
Income (loss) from operations before taxes	4,505,928	(4,027)	10,765,654	-	15,267,555	(706,166)	14,561,389
Income taxes	951,896	171,681	2,719,721	-	3,843,298	-	3,843,298
Income (loss) from operations after taxes	3,554,032	(175,708)	8,045,933	-	11,424,257	(706,166)	10,718,091
Total assets	142,221,356	40,055,235	186,715,430	-	368,992,021	33,732	369,025,753
Depreciation and amortization	4,501,603	1,589,490	1,436,588	-	7,527,681	-	7,527,681
Capital expenditure	-	-	-	-	-	-	-
Goodwill	-	-	31,396,066	-	31,396,066	-	31,396,066

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NOTE 15 – BUSINESS SEGMENTS – Continued

Six-Month Period Ended June 30, 2016	**Bromine***	**Crude Salt***	**Chemical Products**	**Natural Gas**	**Segment Total**	**Corporate**	**Total**
Net revenue (external customers)	$ 31,650,133	$ 4,072,296	$ 46,373,788	$ -	$ 82,096,217	$ -	$ 82,096,217
Net revenue (intersegment)	4,493,133	-	-	-	4,493,133	-	4,493,133
Income(loss) from operations before taxes	11,205,170	217,514	14,255,408	(25)	25,678,067	319,373	25,997,440
Income taxes	2,553,622	299,283	3,625,188	-	6,478,093	-	6,478,093
Income (loss) from operations after taxes	8,651,548	(81,769)	10,630,220	(25)	19,199,974	319,373	19,519,347
Total assets	149,221,327	30,673,443	193,703,787	1,058,651	374,657,208	118,573	374,775,781
Depreciation and amortization	8,512,338	2,532,362	2,469,592	-	13,514,292	-	13,514,292
Capital expenditure	52,777	4,509	-	813,589	870,875	-	870,875
Goodwill	-	-	28,944,958	-	28,944,958	-	28,944,958

Six-Month Period Ended June 30, 2015	**Bromine***	**Crude Salt***	**Chemical Products**	**Natural Gas**	**Segment Total**	**Corporate**	**Total**
Net revenue (external customers)	$ 26,126,110	$ 4,873,073	$ 53,261,716	$ -	$ 84,260,899	$ -	$ 84,260,899
Net revenue (intersegment)	4,024,239	-	-	-	4,024,239	-	4,024,239
Income (loss) from operations before taxes	4,642,886	183,509	17,812,394	-	22,638,789	(966,749)	21,672,040
Income taxes	1,027,302	180,738	4,506,746	-	5,714,786	-	5,714,786
Income (loss) from operations after taxes	3,615,584	2,771	13,305,648	-	16,924,003	(966,749)	15,957,254
Total assets	142,221,356	40,055,235	186,715,430	-	368,992,021	33,732	369,025,753
Depreciation and amortization	9,236,903	2,990,787	2,678,979	-	14,906,669	-	14,906,699
Capital expenditure	-	-	-	-	-	-	-
Goodwill	-	-	31,396,066	-	31,396,066	-	31,396,066

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

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NOTE 15 – BUSINESS SEGMENTS – Continued

Reconciliations	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015
Total segment operating income	$ 16,721,205	$ 15,267,555	$ 25,678,067	$ 22,638,789
Corporate costs	(69,279)	(580,515)	(229,361)	(942,457)
Unrealized gain/(loss) on translation of intercompany balance	679,196	(125,651)	548,734	(24,292)
Income from operations	17,331,122	14,561,389	25,997,440	21,672,040
Other income, net of expense	76,319	57,169	144,636	133,277
Income before taxes	$ 17,407,441	$ 14,618,558	$ 26,142,076	$ 21,805,317

The following table shows the major customer(s) (10% or more) for the three-month period ended June 30, 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	$ 3,269	$ 686	$ 1,696	$ 5,651	11.9%

The following table shows the major customer(s) (10% or more) for the six-month period ended June 30, 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	$ 5,692	$ 1,172	$ 2,997	$ 9,861	12.0%

The following table shows the major customer(s) (10% or more) for the three-month period ended June 30, 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	$ 2,382	$ 731	$ 1,973	$ 5,086	10.3%

The following table shows the major customer(s) (10% or more) for the six-month period ended June 30, 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	$ 4,072	$ 1,195	$ 3,684	$ 8,951	10.6%

NOTE 16 – CUSTOMER CONCENTRATION

During the three-month and six-month periods ended June 30, 2016, the Company sold 33.9% and 34.1% of its products to its top five customers, respectively. As of June 30, 2016, amounts due from these customers were $28,870,903. During the three-month and six-month periods ended June 30, 2015, the Company sold 29.2% and 30.0% of its products to its top five customers, respectively. As of June 30, 2015, amounts due from these customers were $23,645,809.This concentration makes the Company vulnerable to a near-term severe impact, should the relationships be terminated.

NOTE 17 – MAJOR SUPPLIERS

During the three-month and six-month periods ended June 30, 2016, the Company purchased 54.5% and 54.8% of its raw materials from its top five suppliers, respectively. As of June 30, 2016, amounts due to those suppliers included in accounts payable were $6,542,424. During the three-month and six-month periods ended June 30, 2015, the Company purchased 54.6% and 56.6% of its raw materials from its top five suppliers, respectively. As of June 30, 2015, amounts due to those suppliers included in accounts payable were $5,689,387.This concentration makes the Company vulnerable to a near-term severe impact, should the relationships be terminated.

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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 June 30, 2016 and December 31, 2015.

NOTE 19 – CAPITAL COMMITMENT AND OPERATING LEASE COMMITMENTS

As of June 30, 2016, the Company has leased 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 ten parcels 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.

The following table sets forth the Company's contractual obligations as of June 30, 2016:

	Capital Lease Obligations	Operating Lease Obligations	Property Management Fees	Capital Expenditure
Payable within:				
the next 12 months	$ 283,052	$ 952,146	$ 94,079	$ 596,263
the next 13 to 24 months	283,052	974,385	47,039	-
the next 25 to 36 months	283,052	994,513	-	-
the next 37 to 48 months	283,052	1,018,798	-	-
the next 49 to 60 months	283,052	1,040,909	-	-
thereafter	2,547,463	17,306,076	-	-
Total	$ 3,962,723	$ 22,286,827	$ 141,118	$ 596,263
Less: Amount representing interest	(1,459,919)			
Present value of net minimum lease payments	$ 2,502,804			

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NOTE 19 – CAPITAL COMMITMENT AND OPERATING LEASE COMMITMENTS – Continued

Rental expenses related to operating leases of the Company amounted to $264,240 and $251,741, which were charged to the condensed consolidated statements of income for the three months ended June 30, 2016 and 2015, respectively. Rental expenses related to operating leases of the Company amounted to $524,624 and $517,038, which were charged to the condensed consolidated statements of income for the six months ended June 30, 2016 and 2015, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

The discussion below contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, and Section 21E of the Exchange Act. We have used words such as "believes," "intends," "anticipates," "expects" and similar expressions to identify forward-looking statements. These statements are based on information currently available to us and are subject to a number of risks and uncertainties that may cause our actual results of operations, financial condition, cash flows, performance, business prospects and opportunities and the timing of certain events to differ materially from those expressed in, or implied by, these statements. These risks, uncertainties and other factors include, without limitation, those matters discussed in Item 1A of Part I of our 2015 Form 10-K. Except as expressly required by the federal securities laws, we undertake no obligation to update such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events, developments, or changed circumstances, or for any other reason. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing in our 2015 Form 10-K and Item 1A, "Risk Factors" for the year ended December 31, 2015.

Overview

Gulf Resources conducts operations through its four wholly-owned China subsidiaries, SCHC, SYCI, SCRC and DCHC. Our business is also reported in four segments, Bromine, Crude Salt, Chemical Products and Natural Gas.

Through SCHC, we produce and sell 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 brominated compounds used in industry and agriculture. Bromine is commonly used in brominated flame retardants, fumigants, water purification compounds, dyes, medicines, and disinfectants.

Through SYCI, we manufacture and sell chemical products that are used in oil and gas field exploration, oil and gas distribution, oil field drilling, wastewater processing, papermaking chemical agents and inorganic chemicals.

Through SCRC, we manufacture and sell chemical products that are used for human and animal antibiotics.

Through DCHC, we manufacture and sell natural gas.

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 SCHC, a company incorporated in Shouguang City, Shandong Province, 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, we, 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 financial statements of the legal acquirer, Gulf Resources, Inc., are those of the legal acquire, 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.

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On February 5, 2007, we acquired SYCI, a company incorporated in PRC, 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.

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, 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 SCRC.

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

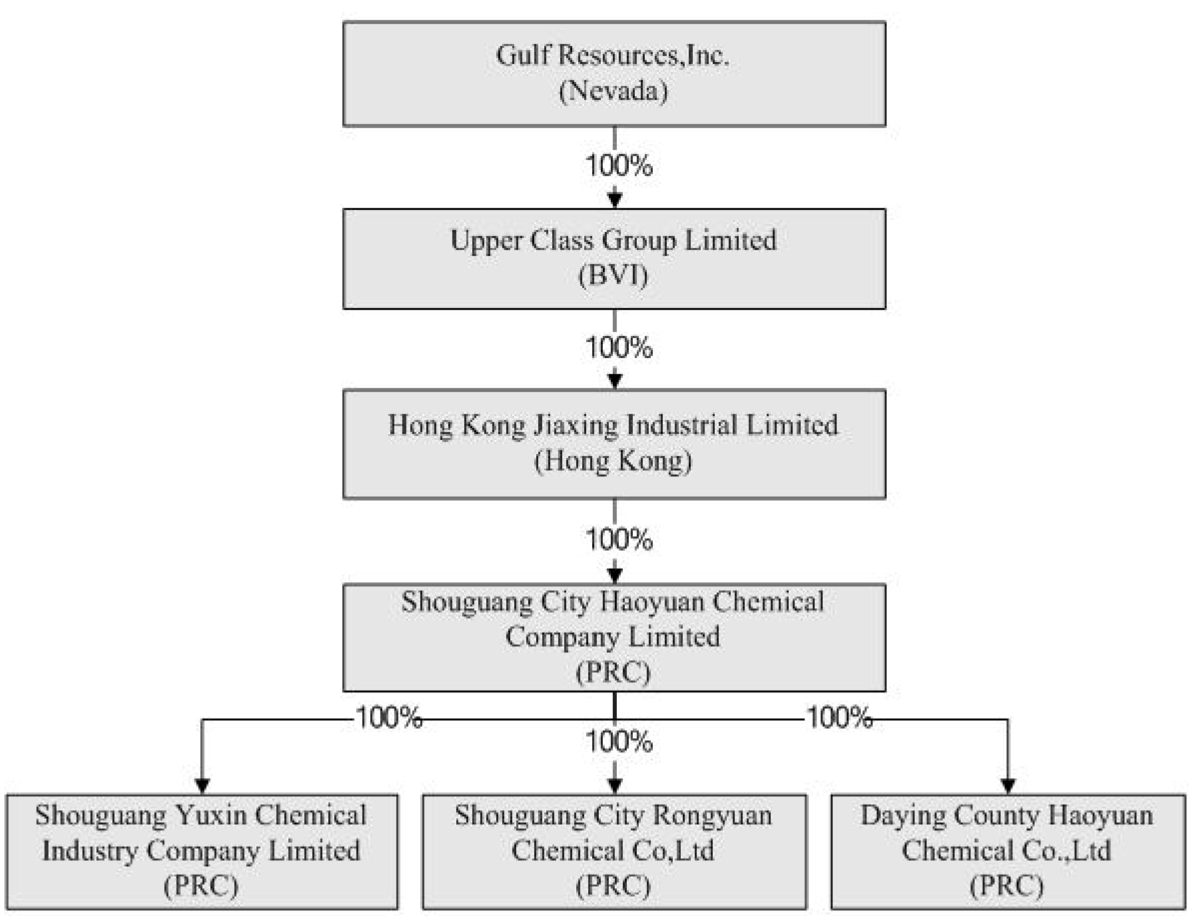
On the Closing Date, the Company issued 7,268,011shares of its common stock, par value $0.0005 per share (the "Shares"), at the closing market price of $1.84 per Share on the Closing Date to the four former equity owners of SCRC .The issuance of the Shares was exempt from registration pursuant to Regulation 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 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 has been RMB7,020,200 capital contributed by SCHC during the second quarter of 2016. DCHC was established to further explore and develop natural gas and brine resources (including bromine and crude salt) in China.

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



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

RESULTS OF OPERATIONS

The following table presents certain information derived from the consolidated statements of operations, cash flows and stockholders equity for the three-month and six-month periods ended June 30, 2016 and 2015.

Comparison of the Three-Month Period Ended June 30, 2016 and 2015

	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Percent Change Increase/ (Decrease)
Net revenue	$ 47,600,767	$ 49,350,070	(4%)
Cost of net revenue	$ (29,195,255)	$ (32,280,120)	(10%)
Gross profit	$ 18,405,512	$ 17,069,950	8%
Sales, marketing and other operating expenses	$ (104,369)	$ (120,746)	(14%)
Research and development costs	$ (70,378)	$ (63,470)	11%
General and administrative expenses	$ (1,009,882)	$ (2,434,246)	(59%)
Other operating income	$ 110,239	$ 109,901	-
Income from operations	$ 17,331,122	$ 14,561,389	19%
Other income	$ 76,319	$ 57,169	33%
Income before taxes	$ 17,407,441	$ 14,618,558	19%
Income taxes	$ (4,210,422)	$ (3,843,298)	10%
Net income	$ 13,197,019	$ 10,775,260	22%

Net revenue. The table below shows the changes in net revenue in the respective segment of the Company for the three-month period ended June 30, 2016 compared to the same period in 2015:

	Net Revenue by Segment				
	Three-Month Period Ended June 30, 2016		Three-Month Period Ended June 30, 2015		Percent Increase/ (Decrease) of Net Revenue
Segment		% of total		% of total	
Bromine	$ 18,480,605	39%	$ 15,092,861	31%	22%
Crude Salt	$ 2,305,688	5%	$ 2,909,342	6%	(21%)
Chemical Products	$ 26,814,474	56%	$ 31,347,867	63%	(14%)
Total sales	$ 47,600,767	100%	$ 49,350,070	100%	(4%)

Bromine and crude salt segments product sold in tonnes	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Percentage Change Decrease
Bromine (excluded volume sold to SYCI and SCRC after acquisition in January 2015)	4,613	4,751	(3%)
Crude Salt	80,377	90,475	(11%)

Chemical products segment sold in tonnes	Three-Month Period Ended June 30, 2016	Three-Month Period Ended June 30, 2015	Percentage Change Decrease
Oil and gas exploration additives	3,113	3,893	(20%)
Paper manufacturing additives	897	1,099	(18%)
Pesticides manufacturing additives	646	844	(23%)
Pharmaceutical intermediate	462	540	(14%)
By product	3,484	3,805	(8%)
Overall	8,602	10,181	(16%)

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Bromine segment

The increase in net revenue from our bromine segment was mainly due to the increase in the selling price of bromine. The selling price of bromine increased from $3,177 per tonne for the three-month period ended June 30, 2015 to $4,006 per tonne for the same period in 2016, an increase of 26%.

The sales volume of bromine decreased from 4,751 tonnes for the three-month period ended June 30, 2015 to 4,613 tonnes for the same period in 2016, a decrease of 3%. The major reason for the decrease in the sales volume of bromine was mainly due to the continuing macro-economic tightening policy imposed by the PRC government beginning in the second half of 2011 to slow down the economy, 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 three-month period ended June 30, 2016 compared to the same period in 2015.

Increase in net revenue of bromine as a result of:	Three-Month Period Ended June 30, 2016 vs. 2015
Increase in average selling price	$ 3,885,056
Decrease in sales volume	$ (497,312)
Total effect on net revenue of bromine	$ 3,387,744

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 11% from 90,475 tonnes for the three-month period ended June 30, 2015 to 80,377 tonnes for the same period in 2016. The average selling price of crude salt decreased from $32.16 per tonne for the three-month period ended June 30, 2015 to $28.69 per tonne for the same period in 2016, a decrease of 11%. The major reason for the decrease in the sales volume and selling price were mainly due to the continuing macro-economic tightening policy imposed by the PRC government beginning in the second half of 2011 to slow down the economy, which has affected our customers' industries.

Decrease in net revenue of crude salt as a result of:	Three-Month Period Ended June 30, 2016 vs. 2015
Decrease in average selling price	$ (296,462)
Decrease in sales volume	$ (307,192)
Total effect on net revenue of crude salt	$ (603,654)

Chemical products segment

Chemical Products	Product Mix of Chemical Products Segment — Three-Month Period Ended June 30, 2016		Three-Month Period Ended June 30, 2015		Percent Change of Net Revenue
		% of total		% of total	
Oil and gas exploration additives	$ 6,087,314	23%	$ 7,644,723	24%	(20%)
Paper manufacturing additives	$ 1,056,309	4%	$ 1,318,107	4%	(20%)
Pesticides manufacturing additives	$ 3,422,250	13%	$ 4,300,074	14%	(20%)
Pharmaceutical intermediates	$ 11,778,466	44%	$ 13,418,871	43%	(12%)
By product	$ 4,470,135	16%	$ 4,666,092	15%	(4%)
Total sales	$ 26,814,474	100%	$ 31,347,867	100%	(14%)

Net revenue from our chemical products segment decreased from $31,347,867 for the three-month period ended June 30, 2015 to $26,814,474 for the same period in 2016, a decrease of approximately 14%. This decrease was primarily attributable to the decreased sales volume of all our chemical products. Net revenue from our oil and gas exploration chemicals contributed $6,087,314 (or 23%) and $7,644,723 (or 24%) of our chemical segment revenue for the three-month periods ended June 30, 2016 and 2015, respectively, with a decrease of $1,557,409, or 20%. Net revenue from our paper manufacturing additives decreased from $1,318,107 for the three-month period ended June 30, 2015 to $1,056,309 for the same period in 2016, a decrease of approximately 20%. Net revenue from our pesticides manufacturing additives decreased from $4,300,074 for the three-month period ended June 30, 2015 to $3,422,250 for the same period in 2016, a decrease of approximately 20%. Net revenue from our pharmaceutical intermediates decreased from $13,418,871 for the three-month period ended June 30, 2015 to $11,778,466 for the same period in 2016, a decrease of approximately 12%. Net revenue from our by products decreased from $4,666,092 for the three-month period ended June 30, 2015 to $4,470,135 for the same period in 2016, a decrease of approximately 4%.

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 three-month period ended June 30, 2016 from the same period in 2015.

Decrease in net revenue, for the three-month period ended June 30, 2016 vs. 2015, as a result of:	Oil and gas exploration additives	Paper manufacturing additives	Pesticides manufacturing additives	Total
Increase /(Decrease) in average selling price	$ (28,937)	$ (21,724)	$ 151,031	$ 100,370
Decrease in sales volume	$ (1,528,472)	$ (240,074)	$ (1,028,855)	$ (2,797,401)
Total effect on net revenue of chemical products	$ (1,557,409)	$ (261,798)	$ (877,824)	$ (2,697,031)

The table below shows the changes in the average selling price and changes in the sales volume of following major chemical products for the three-month period ended June 30, 2016 from the same period in 2015.

Decrease in net revenue, for the three-month period ended June 30, 2016 vs. 2015, as a result of:	Pharmaceutical intermediates	By products	Total
Increase in average selling price	$ 323,022	$ 207,208	$ 530,230
Decrease in sales volume	$ (1,963,427)	$ (403,165)	$ (2,366,592)
Total effect on net revenue of chemical products	$ (1,640,405)	$ (195,957)	$ (1,836,362)

Cost of Net Revenue

Segment	Cost of Net Revenue by Segment — Three-Month Period Ended June 30, 2016		Three-Month Period Ended June 30, 2015		% Change of Cost of Net Revenue
		% of total		% of total	
Bromine	$ 9,327,259	32%	$ 9,613,683	30%	(3%)
Crude Salt	$ 2,177,214	7%	$ 2,716,619	8%	(20%)
Chemical Products	$ 17,690,782	61%	$ 19,949,818	62%	(11%)
Total	$ 29,195,255	100%	$ 32,280,120	100%	(10%)

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 $29,195,255 for the three-month period ended June 30, 2016, a decrease of $3,084,865 (or 10%) as compared to the same period in 2015. This decrease was primarily attributable to the decrease volume of products sold due to the macro-economic tightening policy imposed by the PRC government, 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)
Three-month period ended June 30, 2015	47,347	47%
Three-month period ended June 30, 2016	47,347	45%
Variance of the three-month period ended June 30, 2016 and 2015	-	(2%)

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

Our utilization ratio decreased by 2% for the three-month period ended June 30, 2016 as compared with the same period in 2015.

In view of the trend of a decrease in the bromine concentration of the brine water being extracted at our production facilities as explained in 2015 Form 10-K, 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 plan to carry out enhancement projects for the transmission channels and ducts and our existing bromine extraction in 2016. During the three-month period ended June 30, 2016, no such enhancement work was carried out due to unexpected weather conditions. We expect to resume the enhancement work in the third quarter of 2016 when weather conditions permit.

Bromine segment

For the three-month period ended June 30, 2016, the cost of net revenue for the bromine segment was $9,327,259, a decrease of $286,424 or 3% over the same period in 2015. The major components of the costs of net revenue for the bromine segment were cost of raw materials and finished goods consumed of $3,164,060 (or 34%), depreciation and amortization of manufacturing plant and machinery of $4,029,071 (or 43%) and electricity of $834,692 (or 9%) for the three-month period ended June 30, 2016. For the three-month period ended June 30, 2015, the major components of the cost of net revenue were the cost of raw materials and finished goods consumed of $3,148,642 (or 33%), depreciation and amortization of manufacturing plant and machinery of $4,381,296 (or 46%) and electricity of $896,064 (or 9%). The cost structure changed as compared with the same period in 2015 where the contribution from cost of raw materials and finished goods consumed in relation to the total cost of net revenue increased by 1% and depreciation and amortization of manufacturing plant and machinery in relation to the total cost of net revenue decreased by 3%. The decrease in net cost of net revenue was mainly attributable to the decreased volume of products sold, which was partially offset by the increase in the purchase price of raw material.

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

Per tonne production cost component of bromine segment	Three-Month Period Ended June 30, 2016			Three-Month Period Ended June 30, 2015			% Change
			% of total			% of total	
Raw materials	$	1,106	49%	$	1,021	47%	8%
Depreciation and amortization	$	764	33%	$	790	36%	(3%)
Electricity	$	158	7%	$	161	7%	(2%)
Others	$	246	11%	$	214	10%	15%
Production cost of bromine per tonne sold	$	2,274	100%	$	2,186	100%	4%

Our production cost of bromine per tonne sold was $2,274 for the three-month period ended June 30, 2016, an increase of 4% (or $88) as compared to the same period in 2015, which was mainly to the increase in the purchase price of raw material

Crude salt segment

The cost of net revenue for our crude salt segment for the three-month period ended June 30, 2016 was $2,177,214, representing a decrease of $539,405, or 20%, compared to $2,716,619 for the same period in 2015. The decrease in cost was mainly due to the decrease in volume of crude salt sold due to the macro-economic tightening policy imposed by the PRC government, which has affected our customers' industries. The significant cost components for the three-month period ended June 30, 2016 were depreciation and amortization of $1,554,715 (or 71%), resource taxes calculated based on crude salt sold of $246,130 (or 11%) and electricity of $127,597 (or 6%). The significant cost components for the three-month period ended June 30, 2015 were depreciation and amortization of $1,927,377 (or 71%), resource taxes calculated based on crude salt sold of $295,654 (or 11%) and electricity of $198,678 (or 7%).The table below represents the major production cost component of crude salt per ton sold for respective periods:

Per tonne production cost component of crude salt segment	Three-Month Period Ended June 30, 2016			Three-Month Period Ended June 30, 2015			% Change
			% of total			% of total	
Depreciation and amortization	$	19.34	71%	$	21.30	71%	(9%)
Resource tax	$	3.06	11%	$	3.27	11%	(6%)
Electricity	$	1.59	6%	$	2.20	7%	(28%)
Others	$	3.10	12%	$	3.26	11%	(5%)
Production cost of crude salt per tonne sold	$	27.09	100%	$	30.03	100%	(10%)

Chemical products segment

Cost of net revenue for our chemical products segment for the three-month period ended June 30, 2016 was $17,690,782, representing a decrease of $2,259,036 or 11% 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 $18,405,512, or 39%, of net revenue for three-month period ended June 30, 2016 compared to $17,069,950, or 35%, of net revenue for the same period in 2015.

	Gross Profit by Segment				% Point Change of Gross Profit Margin
	Three-Month Period Ended June 30, 2016		Three-Month Period Ended June 30, 2015		
Segment		Gross Profit Margin		Gross Profit Margin	
Bromine	$ 9,153,346	50%	$ 5,479,178	36%	14%
Crude Salt	$ 128,474	6%	$ 192,723	7%	(1%)
Chemical Products	$ 9,123,692	34%	$ 11,398,049	36%	(2%)
Total Gross Profit	$ 18,405,512	39%	$ 17,069,950	35%	4%

Bromine segment

For the three-month period ended June 30, 2016, the gross profit margin for our bromine segment was 50% compared to 36% for the same period in 2015. This 14% increase is mainly due to the selling price of bromine increased from $3,177 per tonne for the three-month period ended June 30, 2015 to $4,006 per tonne for the same period in 2016, an increase of 26%.

Crude salt segment

For the three-month period ended June 30, 2016 the gross profit margin for our crude salt segment was 6% compared to 7% for the same period in 2015.

Chemical products segment

The gross profit margin for our chemical products segment for the three-month period ended June 30, 2016 was 34% compared to 36% for the same period in 2015. This 2% decrease was primarily attributable to the increase in factory overhead per unit produced due to lower volume of production.

Research and Development Costs . The total research and development costs incurred for the three-month period ended June 30, 2016 and 2015 were $70,378 and $63,470, respectively, an increase of 11%. Research and development costs for the three-month period ended June 30, 2016 and 2015 represented raw materials used by SYCI and SCRC for testing the manufacturing routine.

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General and Administrative Expenses. General and administrative expenses were $1,009,882 for the three-month period ended June 30, 2016, a decrease of $1,424,364 (or 59%) as compared to $2,434,246 for the same period in 2015. This decrease in general and administrative expenses was primarily due to (i) a non-cash expense related to stock options granted to employees that decreased from $336,400 for the three-month period ended June 30, 2015 to $5,500 for the three-month period ended June 30, 2016 ; and (ii) the unrealized exchange gain in relation to the translation difference of inter-company balances in USD and RMB for the three-month period ended June 30,2016 amounted to $679,196, as compared to the unrealized exchange loss for the same period in 2015 amounted to $125,651; and (iii) franchise tax fee in the amount of $45,369 for the three-month period ended June 30, 2015, with no such expense in 2016 due to the reincorporation of the Company from Delaware to Nevada.

Other Operating Income Other operating income, which represented the sales of wastewater to some of our customers, was $110,239 for the three-month period ended June 30, 2016, representing an increase of $338 (or 0.3%) from $109,901 for the same period in 2015. 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 $17,331,122 for the three-month period ended June 30, 2016 (or 36% of net revenue), an increase of $2,769,733, or approximately 19%, over income from operations for the same period in 2015.

	Income /loss from Operations by Segment			
	Three-Month Period Ended June 30, 2016		Three-Month Period Ended June 30, 2015	
Segment:		% of total		% of total
Bromine	$ 8,199,652	49%	$ 4,505,928	30%
Crude Salt	(10,099)	-	(4,027)	-
Chemical Products	8,531,677	51%	10,765,654	70%
Natural Gas	(25)	-	-	-
Income from operations before corporate costs	16,721,205	100%	15,267,555	100%
Corporate costs	(69,279)		(580,515)	
Unrealized(loss)/gain on translation of Intercompany balance	679,196		(125,651)	
Income from operations	$ 17,331,122		$ 14,561,389	

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Bromine segment
Income from operations from our bromine segment was $8,199,652 for the three-month period ended June 30, 2016, an increase of $3,693,725 (or approximately 82%) as compared to the same period in 2015. This increase resulted primarily from the higher selling price of bromine in the three-month period ended June 30, 2016 compared to the same period in 2015.

Crude salt segment
Loss from operations from our crude salt segment was $10,099 for the three-month period ended June 30, 2016. Loss from operations from our crude salt segment was $4,027 for the three-month period ended June 30, 2015. This increase in loss resulted primarily from the decreased selling price of crude salt in the three-month period ended June 30, 2016 compared to the same period in 2015.

Chemical products segment
Income from operations from our chemical products segment was $8,531,677 for the three-month period ended June 30, 2016, a decrease of $2,233,977 (or approximately 21%) compared to the 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 of $76,319 represented bank interest income, net of capital lease interest expense for the three -month period ended June 30, 2016, an increase of $19,150 (or approximately 33%) as compared to the same period in 2015,.

Net Income Net income was $13,197,019 for the three-month period ended June 30, 2016, an increase of $2,421,759 (or approximately 22%) compared to the same period in 2015. This significant increase was primarily attributable to the increased bromine price and the decrease general and administrative expense incurred for the three-month period ended June 30, 2016 compared with the same period in 2015.

Effective Tax Rate Our effective tax rate for the three-month period ended June 30, 2016 and 2015 were 24% and 26% respectively. The effective tax rate for the three-month period ended June 30, 2016 was 1% lower than the PRC statutory income tax rate of 25% due to non-deductible expense in connection with the unrealized exchange gain for the Company. The effective tax rate for the three-month period ended June 30, 2015 was 1% higher than the PRC statutory income tax rate of 25% due to the US federal net operating loss incurred by the Company in which a full valuation allowance was booked .

Comparison of the Six-Month Period Ended June 30, 2016 and 2015

	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015	% Change
Net revenue	$ 82,096,217	$ 84,260,899	(3%)
Cost of net revenue	$ (53,076,901)	$ (57,760,978)	(8%)
Gross profit	$ 29,019,316	$ 26,499,921	10%
Sales, marketing and other operating expenses	$ (186,270)	$ (202,176)	(8%)
Research and development costs	$ (130,215)	$ (111,705)	17%
Exploration cost	$ -	$ (325,840)	(100%)
General and administrative expenses	$ (2,925,912)	$ (4,415,363)	(34%)
Other operating income	$ 220,521	$ 227,203	(3%)
Income from operations	$ 25,997,440	$ 21,672,040	20%
Other income	$ 144,636	$ 133,277	9%
Income before taxes	$ 26,142,076	$ 21,805,317	20%
Income taxes	$ (6,478,093)	$ (5,714,786)	13%
Net income	$ 19,663,983	$ 16,090,531	22%

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Net revenue. The table below shows the changes in net revenue in the respective segment of the Company for the six-month period ended June 30, 2016 compared to the same period in 2015:

	Net Revenue by Segment								
	Six-Month Period Ended June 30, 2016				Six-Month Period Ended June 30, 2015				Percent Increase / (Decrease) of Net Revenue
Segment				% of total				% of total	
Bromine	$	31,650,133		39%	$	26,126,110		31%	21%
Crude Salt	$	4,072,296		5%	$	4,873,073		6%	(16%)
Chemical Products	$	46,373,788		56%	$	53,261,716		63%	(13%)
Total sales	$	82,096,217		100%	$	84,260,899		100%	(3%)

Bromine and crude salt segments product sold in tonnes	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015	Percentage Change Decrease
Bromine (excluded volume sold to SYCI and SCRC after acquisition in January 2015)	8,041	8,422	(5%)
Crude Salt	139,577	153,202	(9%)

Chemical products segment sold in tonnes	Six-Month Period Ended June 30, 2016	Six-Month Period Ended June 30, 2015	Percentage Change Increase/(Decrease)
Oil and gas exploration additives	5,547	7,374	(25%)
Paper manufacturing additives	1,600	2,090	(23%)
Pesticides manufacturing additives	1,154	1,614	(29%)
Pharmaceutical intermediate	837	852	(2%)
By product	6,279	6,146	2%
Overall	15,417	18,076	(15%)

Bromine segment

The increase in net revenue from our bromine segment was mainly due to the increase in the selling price of bromine. The selling price of bromine increased from $3,102 per tonne for the six-month period ended June 30, 2015 to $3,936 per tonne for the same period in 2016, an increase of 27%.

The sales volume of bromine decreased from 8,422 tonnes for the six-month period ended June 30, 2015 to 8,041 tonnes for the same period in 2016, a decrease of 5%. The major reason for the decrease in the sales volume of bromine was mainly due to the continuing macro-economic tightening policy imposed by the PRC government beginning in the second half of 2011 to slow down the economy, 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 six-month period ended June 30, 2016 compared to the same period in 2015.

Increase in net revenue of bromine as a result of:		Six-Month Period Ended June 30, 2016 vs. 2015
Increase in average selling price	$	6,863,564
Decrease in sales volume	$	(1,339,541)
Total effect on net revenue of bromine	$	5,524,023

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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 9% from 153,202 tonnes for the six-month period ended June 30, 2015 to 139,577 tonnes for the same period in 2016. The average selling price of crude salt decreased from $31.81 per tonne for the six-month period ended June 30, 2015 to $29.18 per tonne for the same period in 2016, a decrease of 8%. The major reason for the decrease in the sales volume and selling price were mainly due to the continuing macro-economic tightening policy imposed by the PRC government beginning in the second half of 2011 to slow down the economy, which has affected our customers' industries.

Increase/Decrease in net revenue of crude salt as a result of:	Six-Month Period Ended June 30, 2016 vs. 2015
Decrease in average selling price	$ (385,327)
Decrease in sales volume	$ (415,450)
Total effect on net revenue of crude salt	$ (800,777)

Chemical products segment

	Product Mix of Chemical Products Segment				Percent
	Six-Month Period Ended June 30, 2016		Six-Month Period Ended June 30, 2015		Change of Net Revenue
Chemical Products		% of total		% of total	
Oil and gas exploration additives	$ 10,763,392	23%	$ 14,213,220	27%	(24%)
Paper manufacturing additives	$ 1,868,845	4%	$ 2,457,912	4%	(24%)
Pesticides manufacturing additives	$ 6,052,512	13%	$ 8,002,252	15%	(24%)
Pharmaceutical intermediates	$ 19,783,779	43%	$ 21,118,012	40%	(6%)
By product	$ 7,905,260	17%	$ 7,470,320	14%	6%
Total sales	$ 46,373,788	100%	$ 53,261,716	100%	(13%)

Net revenue from our chemical products segment decreased from $53,261,716 for the six-month period ended June 30, 2015 to $46,373,788 for the same period in 2016, a decrease of approximately 13%. This decrease was primarily attributable to the decreased sales volume of all our chemical products except by products. Net revenue from our oil and gas exploration chemicals contributed $10,763,392 (or 23%) and $14,213,220 (or 27%) of our chemical segment revenue for the six-month periods ended June 30, 2016 and 2015, respectively, with a decrease of $3,449,828, or 24%. Net revenue from our paper manufacturing additives decreased from $2,457,912 for the six-month period ended June 30, 2015 to $1,868,845 for the same period in 2016, a decrease of approximately 24%. Net revenue from our pesticides manufacturing additives increased from $8,002,252 for the six-month period ended June 30, 2015 to $6,052,512 for the same period in 2016, a decrease of approximately 24%. Net revenue from our pharmaceutical intermediates decreased from $21,118,012 for the six-month period ended June 30, 2015 to $19,783,779 for the same period in 2016, a decrease of approximately 6%. Net revenue from our by products increased from $7,470,320 for the six-month period ended June 30, 2015 to $7,905,260 for the same period in 2016, an increase of approximately 6%.

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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 six-month period ended June 30, 2016 from the same period in 2015.

Decrease in net revenue, for the six-month period ended June 30, 2016 vs. 2015, as a result of:	Oil and gas exploration additives	Paper manufacturing additives	Pesticides manufacturing additives	Total
Decrease in average selling price	$ 83,476	$ (14,772)	$ 396,912	$ 465,616
Increase/(Decrease) in sales volume	$ (3,533,305)	$ (574,295)	$ (2,346,652)	$ (6,454,252)
Total effect on net revenue of chemical products	$ (3,449,829)	$ (589,067)	$ (1,949,740)	$ (5,988,636)

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 six-month period ended June 30, 2016 from the same period in 2015 (only five months were included since we acquired SCRC in January 2015).

Increase/(Decrease) in net revenue, for the six-month period ended June 30, 2016 vs. 2015, as a result of:	Pharmaceutical intermediates	By products	Total
Increase /(Decrease)in average selling price	$ (971,060)	$ 269,767	$ (701,293)
Increase /(Decrease) in sales volume	$ (363,172)	$ 165,173	$ (197,999)
Total effect on net revenue of chemical products	$ (1,334,232)	$ 434,940	$ (899,292)

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 six-month period ended June 30, 2016 from the same period in 2015 (six months were included).

Decrease in net revenue, for the six-month period ended June 30, 2016 vs. 2015, as a result of:	Pharmaceutical intermediates	By products	Total
Increase /(Decrease)in average selling price	$ (843,291)	$ 319,687	$ (523,604)
Decrease in sales volume	$ (5,081,704)	$ (1,338,162)	$ (6,419,866)
Total effect on net revenue of chemical products	$ (5,924,995)	$ (1,018,475)	$ (6,943,470)

Cost of Net Revenue

	Cost of Net Revenue by Segment				% Change of Cost of Net Revenue
	Six-Month Period Ended June 30, 2016		Six-Month Period Ended June 30, 2015		
Segment		% of total		% of total	
Bromine	$ 18,485,272	35%	$ 19,169,659	33%	(4%)
Crude Salt	$ 3,620,848	7%	$ 4,317,740	8%	(16%)
Chemical Products	$ 30,970,781	58%	$ 34,273,579	59%	(10%)
Total	$ 53,076,901	100%	$ 57,760,978	100%	(8%)

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 $53,076,901 for the six-month period ended June 30, 2016, a decrease of $4,684,077 (or 8%) as compared to the same period in 2015. This decrease was primarily attributable to the decrease volume of products sold due to the macro-economic tightening policy imposed by the PRC government, 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)
Six-month period ended June 30, 2015	47,347	41%
Six-month period ended June 30, 2016	47,347	39%
Variance of the six-month period ended June 30, 2016 and 2015	-	(2%)

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

Our utilization ratio decreased by 2% for the six-month period ended June 30, 2016 as compared with the same period in 2015.

Bromine segment

For the six-month period ended June 30, 2016, the cost of net revenue for the bromine segment was $18,485,272, a decrease of $684,387 or 4% over the same period in 2015. The major components of the costs of net revenue for the bromine segment were cost of raw materials and finished goods consumed of $6,304,653 (or 34%), depreciation and amortization of manufacturing plant and machinery of $8,276,572 (or 45%) and electricity of $1,444,784 (or 8%) for the six-month period ended June 30, 2015. For the six-month period ended June 30, 2015, the major components of the cost of net revenue were the cost of raw materials and finished goods consumed of $6,330,499 (or 33%), depreciation and amortization of manufacturing plant and machinery of $8,990,182 (or 47%) and electricity of $1,582,660 (or 8%). The cost structure changed as compared with the same period in 2015 where the contribution from cost of raw materials and finished goods consumed in relation to the total cost of net revenue increased by 1% and depreciation and amortization of manufacturing plant and machinery in relation to the total cost of net revenue decreased by 2%. The decrease in net cost of net revenue was attributable mainly to the decrease in volume of products sold.

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

Per tonne production cost component of bromine segment	Six-Month Period Ended June 30, 2016			Six-Month Period Ended June 30, 2015			% Change
			% of total			% of total	
Raw materials	$	1,176	47%	$	1,065	44%	10%
Depreciation and amortization	$	902	36%	$	925	39%	(2%)
Electricity	$	157	6%	$	163	7%	(3%)
Others	$	268	11%	$	232	10%	16%
Production cost of bromine per tonne sold	$	2,503	100%	$	2,385	100%	5%

Our production cost of bromine per tonne sold was $2,503 for the six-month period ended June 30, 2016, an increase of 5% (or $118) as compared to the same period in 2015.

Crude salt segment

For the six-month period ended June 30, 2016, the cost of net revenue for our crude salt segment was $3,620,848, representing a decrease of $696,892, or 16%, compared to $4,317,740 for the same period in 2015. The decrease in cost was mainly due to the decrease in volume of crude salt sold due to the macro-economic tightening policy imposed by the PRC government, which has affected our customers' industries. The significant cost components for the six-month period ended June 30, 2016 were depreciation and amortization of $2,627,850 (or 73%), resource taxes calculated based on crude salt sold of $427,483 (or 12%) and electricity of $174,900 (or 5%). The significant cost components for the six-month period ended June 30, 2015 were depreciation and amortization of $3,094,508 (or 72%), resource taxes calculated based on crude salt sold of $500,043 (or 12%) and electricity of $268,117 (or 6%).The table below represents the major production cost component of crude salt per ton sold for respective periods:

Per tonne production cost component of crude salt segment	Six-Month Period Ended June 30, 2016			Six-Month Period Ended June 30, 2015			% Change
			% of total			% of total	
Depreciation and amortization	$	18.83	73%	$	20.20	72%	(7%)
Resource tax	$	3.06	12%	$	3.26	12%	(6%)
Electricity	$	1.25	5%	$	1.75	6%	(28%)
Others	$	2.80	10%	$	2.97	10%	(6%)
Production cost of crude salt per tonne sold	$	25.94	100%	$	28.18	100%	(8%)

Chemical products segment

Cost of net revenue for our chemical products segment for the six-month period ended June 30, 2016 was $30,970,781, representing a decrease of $3,302,798 or 10% over the same period in 2015. This decrease was primarily attributable to the decrease in volume of all our chemical products except by products.

Gross Profit. Gross profit was $29,019,316, or 35%, of net revenue for six-month period ended June 30, 2016 compared to $26,499,921, or 31%, of net revenue for the same period in 2015.The increase in gross profit percentage was primarily attributable to an increase in the margin percentage of bromine.

	Gross Profit by Segment				% Point Change of Gross Profit Margin
	Six-Month Period Ended June 30, 2016		Six-Month Period Ended June 30, 2015		
Segment		Gross Profit Margin		Gross Profit Margin	
Bromine	$ 13,164,861	42%	$ 6,956,451	27%	15%
Crude Salt	$ 451,448	11%	$ 555,333	11%	0%
Chemical Products	$ 15,403,007	33%	$ 18,988,137	36%	(3%)
Total Gross Profit	$ 29,019,316	35%	$ 26,499,921	31%	4%

Bromine segment
The gross profit margin for our bromine segment for the six-month period ended June 30, 2016 was 42% compared to 27% for the same period in 2015.This 15% increase was mainly due to the increase in bromine price.

Crude salt segment
For the six-month period ended June 30, 2016, the gross profit margin for our crude salt segment was 11% compared to 11% for the same period in 2015.

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Chemical products segment
The gross profit margin for our chemical products segment for the six-month period ended June 30, 2016 was 33% compared to 36% for the same period in 2015. This 3% decrease was primarily attributable to the increase in factory overhead per unit produced due to lower volume of production.

Research and Development Costs. For the six-month period ended June 30, 2016 and 2015, the total research and development costs incurred were $130,215 and $111,705, respectively, an increase of 17%. Research and development costs for the six-month period ended June 30, 2016 and 2015 represented raw materials used by SYCI and SCRC for testing the manufacturing routine.

Exploration Costs The total exploration costs incurred for the three-month periods ended June 30, 2016 and 2015 were $0 and $325,840. As of June 30, 2016 the Company incurred a total of $7,848,873 in exploration cost for the drilling of natural gas resources. On January 30, 2015, the Company announced that it found natural gas resources under its bromine well in the Sichuan area and received a testing report in early May 2015 which confirmed the economics of the natural gas under this well. The Company is constructing the roads and related infrastructure needed to begin operations in the remote and mountainous region of Daying county. The Company expects to begin production on the first well in the fourth quarter of 2016.

General and Administrative Expenses. General and administrative expenses were $2,925,912 for the six-month period ended June 30, 2016, a decrease of $1,489,451 (or 34%) as compared to $4,415,363 for the same period in 2015. This decrease in general and administrative expenses was primarily due to (i) audit fee incurred in the amount of $115,000 related to the audit of SCRC acquired in the six-month period ended June 30, 2015; and (ii) a non-cash expense related to stock options granted to employees decreased from $343,800 for the six-month period ended June 30, 2015 to $12,800 for the same period of 2016; and (iii) the unrealized exchange gain in relation to the translation difference of inter-company balances in USD and RMB for the six-month period ended June 30,2016 amounted to $548,724, as compared to the unrealized exchange loss for the same period in 2015 amounted to $24,292; and (iii) incurred franchise tax fee in the amount of $166,369 for the six-month period ended June 30, 2015, with no such expense in 2016 due to the reincorporation of the Company from Delaware to Nevada.

Other Operating Income Other operating income, which represented the sales of wastewater to some of our customers, was $220,521 for the six-month period ended June 30, 2016, representing a decrease of $6,682 (or 3%) from $227,203 for the same period in 2015.
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 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.

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Income from Operations. Income from operations was $25,997,440 for the six-month period ended June 30, 2016 (or 32% of net revenue), an increase of $4,325,400, or approximately 20%, over income from operations for the same period in 2015. This increase was primarily attributable to the increased bromine price and the decrease general and administrative expense incurred for the six-month period ended June 30, 2016 compared with the same period in 2015.

	Income from Operations by Segment			
	Six-Month Period Ended June 30, 2016		Six-Month Period Ended June 30, 2015	
Segment:		% of total		% of total
Bromine	$ 11,205,170	44%	$ 4,642,886	20%
Crude Salt	217,514	-	183,509	1%
Chemical Products	14,255,408	56%	17,812,394	79%
Natural Gas	(25)	-	-	-
Income from operations before corporate costs	25,678,067	100%	22,638,789	100%
Corporate costs	(229,361)		(942,457)	
Unrealized (loss)/gain on translation of intercompany balance	548,734		(24,292)	
Income from operations	$ 25,997,440		$ 21,672,040	

Bromine segment
Income from operations from our bromine segment was $11,205,170 for the six-month period ended June 30, 2016, an increase of $6,562,284 (or approximately 141%) compared to the same period in 2015. This was mainly due to the higher selling price of bromine in the six-month period ended June 30, 2016 compared to the same period in 2015.

Crude salt segment
For the six-month period ended June 30, 2016, income from operations from our crude salt segment was $217,514, an increase of $34,005 (or approximately 19%) compared to the same period in 2015. This was mainly due to exploration cost incurred during the six-month period ended June 30, 2015, no such cost was incurred during the same period of 2016.

Chemical products segment
Income from operations from our chemical products segment was $14,255,408 for the six-month period ended June 30, 2016, a decrease of $3,556,986 (or approximately 20%) compared to the same period in 2015. This decrease was primarily attributable to the decrease in sales volume of all of our chemical products except by products.

Other Income, Net. Other income, net of $144,636 represented bank interest income, net of capital lease interest expense for the six -month period ended June 30, 2016, an increase of $11,359 (or approximately 9%) as compared to the same period in 2015.

Net Income. Net income was $19,663,983 for the six-month period ended June 30, 2016, an increase of $3,573,452 (or approximately 22%) compared to the same period in 2015. This significant increase was primarily attributable to the increased bromine price and the decrease general and administrative expense incurred for the six-month period ended June 30, 2016 compared with the same period in 2015.

Effective Tax Rate. Our effective tax rate for the six-month period ended June 30, 2016 and 2015 was 25% and 26%, respectively. The effective tax rate of 25% for the six-month period ended June 30, 2016 consistent with the PRC statutory income tax rate.
The effective tax rate for the six-month period ended June 30, 2015 was 1% higher than the PRC statutory income tax rate of 25% due to the US federal net operating loss incurred by the Company in which a full valuation allowance was booked.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2016, cash and cash equivalents were $146,273,240 as compared to $133,606,392 as of December 31, 2015. The components of this increase of $12,666,848 are reflected below.

Statement of Cash Flows

	Six-Month Period Ended June 30, 2016		2015	
Net cash provided by operating activities	$	17,470,768	$	24,528,947
Net cash used in investing activities	$	(1,487,387)	$	(52,863,025)
Net cash used in financing activities	$	(287,387)	$	(344,396)
Effects of exchange rate changes on cash and cash equivalents	$	(3,029,146)	$	120,721
Net increase(decrease)in cash and cash equivalents	$	12,666,848	$	(28,557,753)

For the six-month period ended June 30, 2016, we met our working capital and capital investment requirements mainly by using cash flow from operations and cash on hand.

Net Cash Provided by Operating Activities

During the six-month period ended June 30, 2016 and 2015, we had positive cash flow from operating activities of approximately $17.5 million and $24.5 million, respectively.

During the six-month period ended June 30, 2016, cash flow from operating activities of approximately $17.5 million was less than our net income of approximately $19.7 million, mainly due to (i) cash using in working capital of approximately $15.5 million, which mainly consisted of the increase in accounts receivable, partially offset by the increase in accounts payable and accrued expenses and tax payable; partially offset by (ii) substantial non-cash charges of approximately $13.3 million, mainly in the form of depreciation and amortization of property, plant and equipment;

During the six-month period ended June 30, 2015, cash flow from operating activities of approximately $24.5 million exceeded our net income of approximately $16.09 million, mainly due to (i) substantial non-cash charges of approximately $15.5 million, mainly in the form of depreciation and amortization of property, plant and equipment; partially offset by (ii) cash using in working capital of approximately $7.1 million, which mainly consisted of the increase in accounts receivable, partially offset by the increase in accounts payable and accrued expenses and tax payable.

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 June 30, 2016 and December 31, 2015.

	June 30, 2016			December 31, 2015		
			% of total			% of total
Aged 1-30 days	$	18,632,784	26%	$	12,711,454	26%
Aged 31-60 days	$	19,375,458	27%	$	12,436,059	25%
Aged 61-90 days	$	15,694,960	22%	$	11,470,333	23%
Aged 91-120 days	$	12,120,448	17%	$	8,208,711	16%
Aged 121-150 days	$	4,392,737	6%	$	5,153,801	10%
Aged 151-180 days	$	1,119,291	2%	$	-	-
Total	$	71,335,678	100%	$	49,980,358	100%

The overall accounts receivable balance as of June 30, 2016 increased by $21,355,320 (or 43%), as compared to those as of December 31, 2015. Such increase is mainly attributable to the extended settlement days by customers due to the macro-economic tightening policy imposed by PRC government to slow down the economy, which in turn lengthened the average turnover days of accounts receivable from customers from 103 days for the fiscal year 2015 to 134 days for the six-month period ended June 30, 2016. Normally, a 90 to 180-day credit period is granted to customers with good payment history. Approximately 49% of the balances of accounts receivable as of June 30, 2016 aged more than 90 days were settled in July 2016. We have policies in place to ensure that sales are made to customers with an appropriate credit history. We perform ongoing credit evaluation on the financial condition of our customers. No allowance for doubtful debts for the six-month period ended June 30, 2016 is required.

Inventory

Our inventory consists of the following:

	June 30, 2016		December 31, 2015	
		% of total		% of total
Raw materials	$ 993,737	15%	$ 1,014,917	14 %
Finished goods	$ 4,926,408	73%	$ 5,486,970	76 %
Work-in-process	800,242	12%	691,604	10 %
	$ 6,720,387	100%	$ 7,193,491	100 %
Allowance for obsolete and slowing-moving inventory	$ (12,427)	-	$ (12,691)	-
Total	$ 6,707,960	100%	$ 7,180,800	100 %

The net inventory level as of June 30, 2016 decreased by $472,840 (or 7%), as compared to the net inventory level as of December 31, 2015.

Raw materials decreased by 2% as of June 30, 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. So, we concluded that all of our raw materials as of June 30, 2016 are fully realizable for production of finished goods without any impairment.

Our finished goods consist of bromine, crude salt and chemical products. Our chemical products are similar to raw materials, as there is no loss over time and a stable market price with a positive gross profit margin of 33% for the six-month period ended June 30, 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 six-month period ended June 30, 2016 increased to 42%, as compared with 30% in fiscal year 2015, we anticipated that the price though 2016 will not fluctuate significantly to impair the cost of bromine.

The annual loss of crude salt due to evaporation is around 3%. The average selling price of crude salt per tonne decreased from $32.16 in the second quarter of 2015 to $28.69 in the same period in 2016. If the selling price continues to decrease, there will be an impact on our crude salt realization value.

Net Cash Used in Investing Activities

For the six-month period ended June 30, 2016, we used approximately $0.6 million cash for the prepayment of land leases. For the six-month period ended June 30, 2016, we also used approximately $0.06 million to acquire property, plant and equipment and $0.81 million cash for the construction of roads and related infrastructure needed to begin operations in the remote and mountainous region of Daying county.

For the six-month period ended June 30, 2015, we used approximately $0.6 million cash for the prepayment of land leases. We also used approximately $66.3 million to acquire SCRC. We received approximately $14.1 million from the acquisition of SCRC.

Net Cash Used in Financing Activities

We repaid approximately $0.3 million cash for our capital lease obligation for the six-month period ended June 30, 2016 and 2015.

For the six-month period ended June 30, 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 (12) months.

Working capital was approximately $202.8 million at June 30, 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 six-month period ended June 30, 2016.

We had available cash of approximately $146.3 million at June 30, 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.

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 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 June 30, 2016 is provided in the notes to our consolidated financial statements. See "Notes to Condensed 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 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. We base its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions. We have identified the following critical accounting policies and estimates used by us in the preparation of our financial statements: accounts receivable and allowance for doubtful accounts, assets retirement obligation, property, plant and equipment, recoverability of long lived assets, mineral rights, revenue recognition, income taxes, and stock-based compensation. These policies and estimates are described in the Company's 2015 Form 10-K.

Item 3. 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 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, regulations and related forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Form 10-Q.

(b) Changes in internal controls

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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None.

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Item 1A. Risk Factors

There have been no changes with respect to risk factors as previously disclosed in our 2015 Form 10-K. Investing in our common stock involves a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and in our 2015 Form 10-K, under the caption "Risk Factors", our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 2 of Part I of this Quarterly Report on Form 10-Q, our consolidated financial statements and related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and our consolidated financial statements and related notes, as well as our Management's Discussion and Analysis of Financial Condition and Results of Operations and the other information in our 2015 Form 10-K. Readers should carefully review those risks, as well as additional risks described in other documents we file from time to time with the Securities and Exchange Commission.

Item 2. Unregistered Shares of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer 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 of Chief Financial Officer 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.
101	The following financial statements from Gulf Resources, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Other Comprehensive Income (Loss); (iii) the Consolidated Statements of Changes in Equity; (iv) the Consolidated Statement of Cash Flows; and, (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	GULF RESOURCES, INC.	
Dated: August 10, 2016	By:	/s/ Xiaobin Liu
		Xiaobin Liu Chief Executive Officer (principal executive officer)
Dated: August 10, 2016	By:	/s/ Min Li
		Min Li Chief Financial Officer (principal financial and accounting officer)

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 Quarterly Report on Form 10-Q for the period ended June 30, 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 most recent 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: August 10, 2016

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 Quarterly Report on Form 10-Q for the period ended June 30, 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 most recent 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: August 10, 2016

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 Quarterly Report of Gulf Resources, Inc. on Form 10-Q for the period ended June 30, 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: August 10, 2016

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

Dated: August 10, 2016

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