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Gulf Resources Inc.

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www.gulfresourcesco.com

Gulf Resources Inc. (OTC BB: GFRE)

In 2006, the Chinese government declared that no new bromine licenses would be issued there. A valuable non-renewable resource, bromine is used to manufacture industrial compounds with applications in both industry and agriculture, including paper, dyes, fire retardants, insect repellents, oilfield completion fluids, perfumes, pharmaceuticals, photographic chemicals, water-treatment chemicals, sanitizers, and many other chemicals.

In the wake of the new mandate, Gulf Resources (OTC BB: GFRE) is now one of only a handful of Chinese companies holding an exploitation license for bromine extraction, and the Chinese government is actively shutting down unlicensed production facilities across the nation. "Because of the new law, the number of bromine producers will shrink from over 100 to just six," says Ethan Chuang, the company's director of investor relations. "This gives Gulf Resources a tremendous opportunity to acquire those unlicensed companies. Their assets, their plants, their equipment is just sitting there, waiting for us to buy them at very good prices." And since unlicensed Chinese bromine producers accounted for nearly half of the country's production, Gulf Resources now holds a 30% market share when compared to licensed bromine operations.

Based in Shandong, China, Gulf Resources' subsidiary, Shouguang City Haoyuan Chemical Company Limited (SCHC), manufactures and trades bromine and crude salt, holding a 15% share of the domestic market. "Shandong is the most important region in China for bromine," says Chuang. "Over 90% of all bromine manufactured in China comes from Shandong, and all six players in the country are located there."

Demand for bromine has tripled and prices have doubled over the past 10 years, yet supplies have not increased at the same rate: In 2006, 130,000 tons were produced in China to meet total demand of 160,000 tons. According to Chuang, the unbalanced supply and demand gives Gulf Resources greater bargaining power with its customers.

Jon Thibault
Managing Editor

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Gulf Resources Inc.



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Leading bromine producer with 15% of total market share in China and 30% share when compared to licensed Chinese bromine operators.

Focused on consolidating the highly fragmented bromine industry in China.

China's demand for bromine outpaces supply.

Bromine production is projected to grow each year.

Company fundamentals climb.

Market Information (As of Dec. 31, 2007)

OTC BB:	GFRE	Shares Outstanding:	99.6 million
Recent Price:	\$2.65	Market Cap:	\$264 million
52-Week Range:	\$2.70 - 0.60	Long-Term Debt:	None
Shareholders' Equity:	\$23.1 million	Total Assets:	\$33 million
Book Value/Share:	\$0.23		

RECOMMENDATION

With the Chinese government no longer issuing exploration licenses to non-licensed bromine producers, Gulf Resources, which is engaged in the manufacture of bromine and crude salt, has launched an aggressive plan to acquire and consolidate local bromine producers while expanding its collective production capacity and overall output. The company operates through two subsidiaries based in Shangdong, where 90% of China's bromine production is concentrated.

Gulf Resources now competes with only five other domestic producers of bromine. "The order from China's central government forced those illegal bromine operators out of the market, which re-

duced it from over 100 operators to only six players," says Ethan Chuang, vice president of corporate development for Gulf Resources. "It has created a unique opportunity for Gulf Resources to acquire those bromine assets."

China is the third-largest bromine producer in the world after the U.S. and Israel. China's production of bromine, which is a non-renewable resource, is estimated at 130,000 tons per year, while demand is at approximately 160,000 tons per year. Currently, bromine sales worldwide are estimated to be \$1.24 billion, with \$290 million originating from China.

According to Chuang, the cost of producing bromine in the U.S. is higher than in China. "Shipping and handling costs are very expensive as well as

insurance liability, but we don't pay shipping cost," he says. "We ask the customer to pick up their product." In addition, the country's geography makes it easy to exploit bromine wells.

To date, the company has acquired four bromine producers in China, making it the largest bromine producer in the country. "Last year, those producers contributed 15% of China's bromine production, so as a result of those acquisitions, our market share of licensed bromine operators in China is now 30%."

Due to these acquisitions, Gulf Resources expects to close the year with revenues of \$54 million and a net income of \$13 million.

With the two most recent asset purchases in the Shouguang City housing area and the Shouguang City Renjia area, the company's Shouguang City Hao Yuan Chemical Industry subsidiary is now producing approximately 26,700 metric tons of bromine per year. At this level of production, the facility is operating at approximately 80% of its capacity. Gulf Resources also maintains 50-year lease holdings on over 58 square kilometers of land that contains approximately 1.7 million metric tons of proven and probable reserves. It plans to pursue additional bromine asset purchases to further augment its business and asset base.

While the international market for bromine continues to grow, China currently consumes all of the bromine that is produced domestically. The country's annual consumption represents only 20% of total worldwide use.

Over the past 10 years, the demand for bromine has climbed approximately 200% while the price has increased more than 100%. "In 2007, we expected a price of \$1,900 per ton, but it has now gone up to over \$2,000 per ton," says Chuang. "We expect that it will continue to increase in 2008."

Rising international demand for bromine, coupled with the fact that China will soon become the largest papermaking country in the world, is anticipated to continue fueling the demand and price of bromine.

In addition, according to the Freedonia Group, the market size of oil chemicals is expected to reach \$9.2 billion in 2010, up from \$8.1 billion in 2007. This market opportunity has spurred the company to aggressively market its specialty chemical products while also focusing on introducing new proprietary compounds for customers in the power generation industry.

BUSINESS

Gulf Resources is currently the largest provider of bromine in China, as well as one of the country's leading manufacturers of crude salt and chemical products. The company operates through two wholly owned subsidiaries: Shouguang City Hao Yuan Chemical Industry Co., Ltd. and Shouguang Yu Xin Chemical Industry Co., Ltd.

Bromine is used in making fumigants, flame-proofing agents, water purification compounds, dyes, medicines, sanitizers, inorganic bromides for photographic chemicals, and rubber additives, among other products.

Shouguang City Hao Yuan Chemical Industry Co., Ltd. (SCHC)

Through the acquisition process, SCHC has gained a 30% share of the licensed bromine market in China. Utilizing an economical process, SCHC derives other products from bromine. After producing bromine, the company re-uses the excess liquids in order to create crude salt, and as a result

of this process, also creates other raw materials such as chlorine, coal, sulfur, and hydrochloric acid.

Key company highlights include:

- One of six companies in China with a license to produce and distribute bromine.
- SCHC maintains a 50-year mineral rights and land lease covering 58 square kilometers of land with proven and probable reserves containing about 1.7 million tons of bromine.
- Current bromine production capacity is at 26,700 metric tons annually with the potential to increase yield by installing new production equipment.

Shouguang Yu Xin Chemical Industry Co., Ltd. (SYCI)

SYCI produces chemical products utilized for oil and gas field exploration, oil and gas distribution, oil field drilling, wastewater processing, and papermaking chemical agents. In April, the company signed a supplier agreement for a proprietary product line with Daqing Oilfield Company, a subsidiary of China National Petroleum. The next month, it entered the power generation market with a long-term supply agreement for its environmentally friendly biocide, which is expected to yield \$1.1 million in initial annual revenues and provide an entry into an established and growing market.

In 2006, SYCI reported revenues of \$13.9 million and net income of \$2.65 million, which resulted from the production and sale of 10,000 tons of oil and gas field exploration and related chemical products. It also sold 7,000 tons of papermaking-related chemical products.

Among SYCI's largest customers are PetroChina and SINOPEC. Its portfolio of specialty chemicals includes the following:

- Hydroxyl guar gum: primary uses are dispersion, controlled viscosity, gelling, and it also acts as a preservative.

- Demulsifier agent: a chemical used in the preparation and maintenance of an oil- or synthetic-based drilling fluid.

- Corrosion inhibitor: a chemical used in the preparation and maintenance of an oil- or synthetic-based drilling fluid.

- Bactericide: primary use is to control bacteria populations in drilling, production, processing and transportation operations. As a result of bactericide, pipeline and storage tank corrosion and general product deterioration can be significantly reduced which leads to increased production capacity, lower piping and equipment maintenance costs, as well as increased safety for workers.

- Chelant agent: dramatically increases the strength of fibers, which are used to make paper.

- Iron ion stabilizer: utilized in many industries and forms strong complexes with the metal ions present in the target solution.

- Clay stabilizing agent: a chemical additive used to prevent the migration or swelling of clay particles in reaction to water-based fluids. These stabilizers act to retain the clay platelets in position by controlling the charge and electrolytic characteristics of the treatment fluid.

- Flocculant agent: used to treat water supply and sediment processing.

- Retention agent: used in production process of papermaking when a retention system is used. The agent substantially improves the draining (i.e. the speed with which water flows from the fiber suspension), and is also used for water treatment and sediment processing.

HISTORY

When it was first founded in 1989, the company, then named Diversifax, Inc., was engaged in the self-service public fax machine business. From November 1993 to August 2006, the company 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. Due to the increased use of Internet services, demand for the company's services dropped sharply. In August 2006, the board of directors decided to discontinue its operations and eliminate all of its debt.

In December 2006, Diversifax underwent a Reverse Take Over (RTO), which discontinued its previous core business and allowed it to evolve into its current chemical business. In January 2007, shareholders consented in writing to change the company's name from Diversifax, Inc. to Gulf Resources, Inc.

FINANCIAL

Gulf Resources saw a significant increase in fundamentals for the first nine months of 2007 compared to the same period a year ago. For the nine months ended Sept. 30, 2007, net revenues increased approximately 59.5% to \$38.9 million compared to the same period in 2006. Management attributes revenue growth to production development at both divisions coupled with additional bromine asset purchases. In the comparable periods, net income climbed approximately 76.4% to \$9.6 million from \$4.2 million. This equated to earnings of \$0.20 per share for the first nine months of 2007 compared to \$0.13 per share for the first nine months of 2006.

Overall, income from operations totaled \$14.8 million for the first nine months of 2007, up 81%

from the same period a year ago. More specifically, income from the bromine and crude salt division amounted to \$10.1 million, an increase of 100.7%. At the same time, income from the chemical products division totaled \$5.4 million, representing an increased 72.1%.

For 2007, management anticipates revenues of approximately \$54 million, an increase of over 200% from the \$17.8 million reported during calendar 2006. In particular, management expects its core bromine business and specialty chemical business to contribute approximately \$38 million and \$16 million in revenues, respectively. Management also expects net income to increase approximately 980% to at least \$13 million from the \$1.2 million reported in 2006, which included a \$5.3 million non-cash equity compensation charge.

MANAGEMENT



Ming Yang is CEO and director. He was nominated as director of Qinghe Oil Field Office in 1993, where he managed operations. In 1997, he was appointed chairman and general manager of Shouguang Qinghe Shiye LLC. During the next three years its profits doubled. In 2000, he also held the position of general manager of Shouguang City Yu Xin Chemical Industry Co., Ltd. During his stay, he was responsible for quality management and technology progress. His efforts resulted in a 100% success rate for all products. He also helped the company to successfully pass the ISO certification and become a private high-tech enterprise. In 2005, he was appointed chairman of the company, a position that has enabled him to make the company a leading producer of bromine and crude salt in China. Last year, Yang became the chairman of Gulf Resources. He has been the representative of

Shandong Shouguang congress since 1995, and, in 1998, was chosen as Honorary Entrepreneur in Weifang City. In 2002, he was honored as one of the 10 most outstanding young executives in Shouguang.



Min Li has served as CFO and director since 2006. Li has helped implement effective cost controls while efficiently increasing the use of capital. From 1998 to 1999, Li worked at China Construction Bank Shandong branch. In 2000, he

worked at the Yangkou office as the accounting manager. In 2004, he became manager of the accounting department in Shouguang Yu Xin Chemical Industry Co., Ltd.



Naihui Miao has served as vice president and director secretary since January 2006. He is in charge of sales, human resources, and business management. Since 1986, he served as director of Shouguang Business Trade Center. From 1991

to 2005, Miao served as vice president of Shouguang City Commercial Trading Center Company Limited. From 2005 to 2006, he served as vice president and deputy general manager of Shouguang City Yuxin Chemical Company Limited. In 2005, he successfully developed the sales market of Talimu oil field.



Shixiang Huang serves as vice president. He joined the Qinhe Industrial Co., Ltd. in 1994. By 2000, Huang became deputy general manager of Yu Xin Chemical Industry Co., Ltd. In 2003, he was promoted to the position of president of

Yu Xin Chemical Industry Co., Ltd. During his tenure he obtained Weifang City's Private Business Certificate of Safe Operation. He obtained his senior management qualification certificate and his standardization management certificate in Shandong Province. Under Huang, the company passed the ISO and was awarded by the federal government with the National Service and Product Quality Guarantee Business. In 2004, the company was also cited as the Most Creditable Company in Shandong Province.



Ganzuo Li is senior technical adviser and general engineer. He joined Gulf Resources as general engineer in March 2005. Li graduated from Shandong University in July 1960 and was employed by the university upon graduating. From

1980 to 1982, he was visiting scholar at Missouri University in the U.S. From 1986 to 1994, Li taught at Shandong University, where he eventually became associate dean of Chemistry College. From 1990 to 2005, he was a visiting professor at several universities in Asia and the U.S. Li is the editor of J.Disp.Tech.Sci and director of the Shandong Chemical committee.

COMPETITION

Although Gulf Resources is the biggest player in China's bromine market, the company does compete with five other domestic producers that are also trying to strengthen their share of the market. Among these competitors are Shandong Hai Hua Holding Ltd., Shouguang Fu Kang Medicines Manufacturing Company Ltd., Shouguang Wei Dong Chemical Company Ltd., and Shandong Cai Yang Zi Salt Field Company.

RISKS

Gulf Resources operates primarily in China, where laws, regulations, and policies are continuously changing. As a result, the company faces several risks. For one, the value of investments in Chinese businesses could be adversely affected by political, economic and social uncertainties in China. In recent years, economic reforms in China have been implemented by China's central government as a way of introducing a more market-oriented economy that has a rapidly growing private sector. Given the overriding desire of the central government to maintain stability in China amid rapid social and economic changes in the country, the economic market reforms could be slowed, or even reversed.

Other risk factors may include the company's ability to maintain its market position, as well as its ability to expand product development, shipments to end customers, market acceptance of new and existing products, and additional competition from existing and new competitors for bromine and crude salt.

COMPANY ADDRESS**U.S. Office:**

1330 Avenue of the Americas, Suite 2109
New York, New York 10019

Headquarters:

Cheming Industrial Park Unit
Shouguang City, Shandong 262714

INVESTOR RELATIONS**Corporate Contact**

Ethan Chuang
Phone: (646) 200-6316
Email: ethan@gulfresourcesco.com

IR CONTACT

Hayden Communications, Inc.
Matthew Hayden, president
Phone: (760) 994-0034
Email: matt@haydenir.com



Arnaldo Arroyo
Writer



Jon Thibault
Managing Editor



David Bernard
Publisher

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AMEX:UTK UTEK ¹	3-06	13.75	12.45	-9.45	Buy	NASDAQ:HEPH Hollis-Eden Pharmaceuticals	8-07	1.73	1.84	+6.36	Buy
NASDAQ:SIRI SIRIUS Satellite Radio	6-06	4.48	2.94	-34.38	Buy	OTGO.OB Organic To Go Food Corp.	10-07A	1.81	1.50	-17.13	Buy
NASDAQ:GORX GeoPharma	10-06	4.05	3.34	-17.53	Buy	OLGX.OB Osteologix, Inc.	10-07B	1.35	1.60	+18.52	Buy
AMEX:DIL Dyadic International	10-06	4.23	5.30	+25.30	Buy	NASDAQ:TBUS DRI Corporation	11-07	3.03	2.15	-29.04	Buy
MACM.OB MacroChem	3-07	0.59	0.38	-35.59	Buy	NGLPF.OB Nevada Geothermal Power	12-07	1.20	1.25	+4.17	Buy
AMEX:UXG US Gold	5-07	5.58	3.21	-42.47	Buy	GFRE Gulf Resources Inc.	1-08	2.76	2.76	0.00	Buy

¹ Price adjusted for dividends of \$0.02 in 2006 and \$0.02 in 2007.

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