GLAUCUS RESEARCH GROUP

Things gained through unjust fraud are never secure. — *Sophocles*

***Disclaimer**: As of the publication date of this report, Glaucus Research Group and other contributors to this report have short positions in GFRE (and/or options of the stock), and therefore stand to realize significant gains if the price of GFRE's stock declines. Following publication of this report, Glaucus Research Group and other contributors to this report intend to continue to buy or sell securities issued by GFRE and may take long, short or neutral positions at any time hereafter regardless of our initial recommendation. This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction. We have obtained all information set forth in this report from public sources which we believe to be credible. All information set forth in this report is presented "as is" without warranty of any kind, whether express or implied. Glaucus Research Group makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with the results obtained from its use. Glaucus Research Group's research, opinions and conclusions should be used at your own risk. All expressions of opinion are subject to change without notice, and Glaucus Research Group does not undertake any duty to update or supplement this report or any information contained herein.*

COMPANY:

GULF RESOURCES, INC. | NASDAQ: GFRE

INDUSTRY: Chinese Industrial Products

Recommendation:

Strong Sell

Estimated Value:

$0.00

Per Share

Report Date:

4.26.11

Price:

$3.91

As of Market Close 4/25/11

Float:

19.28

Million

Avg. 3 Mo. Volume:

~642,873

Shares/day

• A privately held Chinese company, owned by the founder and chairman of the board of GFRE, claims to own and operate all of GFRE's assets and business. This suggests that the chairman sold investors shares of a worthless shell entity while keeping the underlying business under a separate privately held conglomerate. Given the difficulty of litigating in China and the complex multi-jurisdictional corporate structure of GFRE, shareholders may have great difficulty in recovering any value from the company.

• GFRE engaged in inappropriate self-dealing by massively overpaying for a business owned by its chairman and his family.

• GFRE has failed to disclose that its largest customer is a related party.

• We visited each of GFRE's factories and each appeared far smaller than GFRE reported in its SEC filings. A representative from a local government office confirmed that GFRE's production area was substantially smaller than GFRE's claims in its public filings. Videos of GFRE's factories can be seen here, here, here and here.

• GFRE's CEO appears to have lied on his resume and has omitted the fact that he was formerly the CFO of China Finance, Inc., a notorious purveyor of fraudulent Chinese microcap companies. Suspiciously, GFRE's CEO was appointed a mere seven days after GFRE issued shares equal to 15% of its outstanding equity to China Finance, Inc. This CEO then struck a deal that appeared to enrich China Finance, Inc. at the expense of GFRE's shareholders, potentially creating a "death spiral" for GFRE's stock.

• GFRE commissioned two contractors to perform two expensive capital expenditure projects. Despite a thorough investigation, we have been unable to find any evidence that either contractor is a working business. We believe that management may have used these suspicious capital expenditure projects as a vehicle to transfer money out of the company.

• BDO Limited is GFRE's 3rd auditor in 4 years. GFRE dismissed its previous auditor, which had questioned the effectiveness of its internal controls, immediately prior to the release of GFRE's FY 2009 Form 10-K, and replaced it with BDO Limited, an auditor that has represented other publicly listed Chinese companies which have committed or are accused of committing fraud.

Introduction

Gulf Resources, Inc. ("GFRE" or the "company") is a producer and distributor of bromine and crude salt and a manufacturer and distributer of industrial chemical products used in oil and gas field exploration, oil field drilling, wastewater processing, papermaking chemical agents and inorganic chemicals. GFRE operates exclusively in the People's Republic of China ("China"). Like many other Chinese companies which have been investigated and delisted by U.S. securities regulators for fraud, GFRE went public via a reverse merger transaction in December 2006.

In this report, we present compelling evidence that a rival, privately-held Chinese conglomerate owned by GFRE's chairman and founder claims to own GFRE's business. This suggests that insiders at GFRE perpetrated a fraud on investors: they took cash from the capital markets claiming that GFRE owned the underlying business when in fact the two Chinese subsidiaries that own and operate the business are privately owned by a company controlled by the chairman. We believe that, given the difficulty of litigating in China and the complex multi-jurisdictional organizational structure of GFRE, shareholders are most likely left without a remedy. In short, investors in this NASDAQ-listed company are likely holding worthless paper in a shell company.

In addition, we present evidence to suggest that GFRE engaged in an inappropriate self-dealing transaction, the details of which GFRE intentionally concealed from the SEC and investors, that GFRE engaged in dubious capital expenditures that may have been a smokescreen for transfers of cash to insiders, and that GFRE is exaggerating the size of the company's operations. We also present evidence that GFRE's CEO has lied on his resume and concealed his work experience for, and a relationship with, a notorious puppet master of Chinese small cap frauds.

Who Really Owns GFRE's Business?

A privately-held Chinese conglomerate, owned by Ming Yang, the chairman and founder of GFRE, claims to own GFRE's assets and business. This suggests that Ming Yang never transferred the underlying business to GFRE, meaning investors hold the shares of a worthless shell company.

Picture from the Haoyuan Group website, left. Picture from GFRE's website, right.

The Shandong Haoyuan Group (the "Haoyuan Group"), which can be found at this website,[1] claims to, among other businesses, "specialize in the manufacturing, sales and management of … Bromides, Chemical auxiliaries for oilfield, Chemicals for paper making, Sewage treatment chemicals, specialized detergents, Bromine, Brominated flame retardants … Crude salt, Oil accessories, Services of oilfield drilling mud…"[2] This description is strangely similar to the business of another company operating in Shandong: Gulf Resources, Inc. (NASDAQ: GFRE).

When we dug deeper we found that the Haoyuan Group does not just *sound like* GFRE, *it claims to own* GFRE.

The CEO of the Haoyuan Group is Ming Yang, the founder and chairman of GFRE. Above on the left is a picture of Ming Yang from the website of the Haoyuan Goup. On the right is a picture of Ming Yang ringing the opening bell (he is on the right) at the NASDAQ exchange with fellow GFRE executives, which can be found at GFRE's website. It is clearly the same person.

Ming Yang is the founder, former CEO and current chairman of the board of directors of GFRE.[3] But rather than transfer the underlying business to GFRE as the company claims to have done in its SEC filings, it appears that, according to the Haoyuan Group, Ming Yang never transferred the underlying business to GFRE. Instead, Ming Yang and other insiders kept the business under a privately-held conglomerate.

[1] In the event that upon publication of this report the Haoyuan Group takes down this website, we have printed screen shots of all of the material pages, which are attached to this report as Annex I and can also be viewed at our website (http://www.glaucusresearch.com).
[2] http://www.haoyuangroup.cn/cgi/search-en.cgi?f=introduction_en_1_+purchase_en+company_en_1_&t=introduction_en_1_
[3] http://sec.gov/Archives/edgar/data/885462/000119380508000846/e603494_10k-gulf.htm

BROMINE AND CRUDE SALT BUSINESS

The Haoyuan Group claims to own a subsidiary named Shouguang Haoyuan Chemical Company Limited, which has a name almost identical to GFRE's primary subsidiary, Shouguang City Haoyuan Chemical Company Limited ("SCHC"), which accounts for 77% of GFRE's FY 2010 gross revenue.[4]

In the following table we compared the description of the Haoyuan Group's subsidiary, taken from Haoyuan Group's website, against the description of SCHC in GFRE's SEC filings. The similarities are beyond coincidence.

	GFRE'S PUBLIC FILINGS[5]	THE HAOYUAN GROUP'S WEBSITE[6]
Subsidiary Name	Shouguang City Haoyuan Chemical Company Limited	Shouguang Haoyuan Chemical Co., Ltd.
Location of the Company	"Our production sites are located in the Shandong Province in northeastern China . . . in the north region of Shouguang city"	"Shouguang Haoyuan Chemical Co., Ltd., is located in the north of Shouguang city"
Products	"We manufacture and trade bromine and crude salt."	"manufacturing of . . . Bromine and Crude salt."
Capacity	FY 2010, SCHC sold 30,000 tons of Bromine and 370,437 tons of crude salt.	"Now Haoyuan Chemical has a bromine plant with the capacity of 30,000 tons per year, salt field of 12,000 acres with the capacity of 20,000 tons per year."
Research	"[the company] has been engaged in product innovation and research and development projects with Shandong University."	"Haoyuan Chemical relying on Shandong University, increase Scientific and technical input, absorb the experienced technical personnel and strengthen the management."

The Haoyuan Group claims to own a subsidiary with almost the exact same name as GFRE's SCHC. The Haoyuan Group's subsidiary manufactures and sells bromine and crude salt, just like SCHC. It operates out of exactly the same location as SCHC and has an almost identical capacity for bromine production. The Haoyuan Group's subsidiary has a research and development relationship with Shandong University, just like SCHC. Coincidence? We think not.

Rather, the Haoyuan Group is in effect representing that it owns GFRE's bromine and crude salt business. Unfortunately for investors, the Haoyuan Group also claims to own and operate GFRE's chemical products business.

[4] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm
[5] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm
[6] http://www.haoyuangroup.cn/cgi/search-en.cgi?f=purchase_en+purchase_en_1_+company_en_1_&id=1186&t=purchase_en_1_

CHEMICAL PRODUCTS SUBSIDIARY

The similarities are even more striking with respect to GFRE's chemical products subsidiary, Shouguang Yuxin Chemical Industry Co., Limited ("SYCI"). The Haoyuan Group claims to own a subsidiary named Shouguang Yuxin Chemical Co., Ltd., which specializes in producing chemical products used in oil and gas exploration. That name and business model should look familiar to GFRE's shareholders. Not only does it share an almost identical name to GFRE's subsidiary, SYCI, but the description of the business is virtually identical.

In the table below, we show the similarities between GFRE's chemical products subsidiary, SYCI, which accounts for 23% of the company's FY 2010 total revenue, and the subsidiary by a similar name that the Haoyuan Group claims to own.

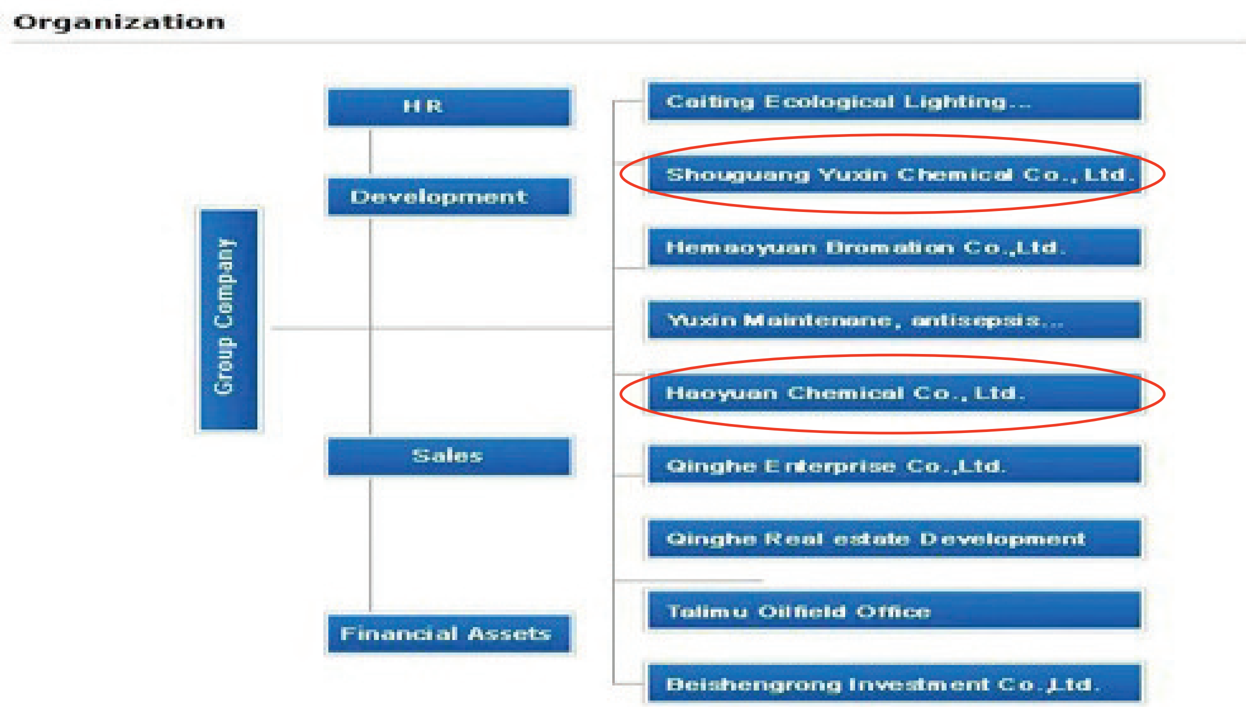
Note that the second column is populated with language taken directly from GFRE's public filings. The language in the third column is taken directly from the Haoyuan Group's website. From the table below, it is evident that both companies claim to own SYCI.

	GFRE'S PUBLIC FILINGS[7]	THE HAOYUAN GROUP'S WEBSITE[8]
Subsidiary Name	Shouguang Yuxin Chemical Industry Co., Limited	Shouguang Yuxin Chemical Co., Ltd.
Location of the Company	The physical location of SYCI is 2nd Living District, Qinghe Oil Factory, Shouguang City, Shandong Province, P. R. China.	"Living Area No.2, Qinghe Oil Extraction Plant, Yangkou Town, Shouguang, Shandong, China"
Location of Customers	"Shengli Oilfield, Daqing Oilfield, Zhongyuan Oilfield, Huabei Oilfield, and Talimu Oilfields"	"Shengli Oilfield, Daqing Oilfield, Zhongyuan Oilfield, etc."
Customers	large domestic paper making manufacturers and major oilfields	"large oilfields large and medium sized paper making enterprises and also some large and medium sized pesticide manufacturers"
Certifications	The company has certified with ISO9001 2000	"The company has been ISO 9001 2000 approved"
Awards	"The company . . . is a Class One supplier for China Petroleum & Chemical Corporation (SINOPC)"	"The company . . . has been awarded as the internet member of Sinopec first level supplier, the No.1 internet member of China Oil Energy."
Products	SYCI concentrates its effort on the productions and sales of chemical products that is use in oil and gas field explorations, oil and gas distribution, oil field drilling, wastewater processing, papermaking chemical agents, and inorganic chemical.	For years, Yuxin Chemical is specialized in the manufacturing and R&D of Chemical additives for oilfield, Chemicals for paper making, Pesticide emulsifiers, Detergents and Brominated flame retardant.

Both GFRE and the Haoyuan Group claim to have subsidiaries which operate under an almost identical name, operate in an identical location, sell virtually the same chemical products to the same types of customers in the same oilfields, and claim to have the same certifications and awards. Put simply, the Haoyuan Group claims to own SYCI.

[7] http://sec.gov/Archives/edgar/data/885462/000119380507000279/e601516_8k-diversifax.txt
[8] http://www.haoyuangroup.cn/cgi/search-en.cgi?f=purchase_en+purchase_en_1_+company_en_1_&id=1183&t=purchase_en_1_

Other evidence of a common claim to ownership abounds. The organizational chart below was downloaded from the Haoyuan Group's website. It clearly shows both the bromine and crude salt and the chemical products subsidiaries as part of the larger conglomerate.



This organizational chart is telling. In it the conglomerate represents that GFRE's bromine, crude salt and chemical products fit snuggly into its structure.

Our independent investigation revealed circumstantial evidence corroborating that GFRE is operating as part of Haoyuan Group. When our investigators visited one GFRE factory, they noticed that part of the factory was devoted to building environmentally friendly light bulbs. The Haoyuan Goup has a subsidiary, abbreviated above as Caiting Ecological Lighting (described on the web site here), which makes light bulbs. This evidence supports our conclusion that GFRE's business is part of the Haoyuan Group's conglomerate, along with other unrelated businesses.

In sum, the Haoyuan Group, led by GFRE's founder Ming Yang, claims to own all of GFRE's business. This is one of the most brazen examples of small cap Chinese fraud we have seen. The chairman and founder of a public company is advertising on a website that a privately held conglomerate actually owns the underlying business and that GFRE's investors hold the securities of a worthless shell company.

WHAT CAN INVESTORS DO?

The outlook is bleak. A dispute between shareholders and a local Chinese conglomerate over assets located in China is an unappetizing prospect.

Chinese courts are notoriously corrupt, arbitrary and protective of local businesses and industry.[9] Notions of judicial independence do not apply. As a result, for foreign investors, litigating against a Chinese conglomerate in a Chinese court is a Sisyphean task. Further hindering any prospect of recovery in this case is the Haoyuan Group's relationship with the local government and state owned enterprises, which would only magnify its influence over the judicial system. In short, confronted with the choice of either validating the claim of a class of (mostly) western shareholders or ruling in favor of a powerful local Chinese conglomerate with ties to both local government and state-run businesses, would anyone bet on a Chinese court ruling in favor of shareholders?

Complicating matters is GFRE's corporate structure which, like many U.S.-listed Chinese companies that went public via a reverse merger transaction, essentially shields miscreants from regulators and plaintiff's attorneys in both China and the United

[9] http://www.bc.edu/bc_org/avp/law/lwsch/journals/bciclr/25_1/02_TXT.htm

States. "Favorable judgments, whether obtained by shareholders or even by government regulators, are usually not enforceable against many Chinese companies, which spread their assets across multiple jurisdictions, complicate judicial enforcement and seizure. As a result, even securities regulators seem to be at a loss."[10]

GFRE is no different. In the table below we have set forth GFRE's corporate structure, assuming the company accurately disclosed its organizational structure to the SEC.

JURISDICTION	PURPORTED GFRE CORPORATE STRUCTURE
Delaware	Gulf Resources
British Virgin Islands	Upper Class Group Ltd.
Hong Kong	Hong Kong Jiaxing
China	Shouguang City Haoyuan Chemical Company (SCHC)
China	Shouguang Yuxin Chemical Industry (SYCI)

GFRE's corporate structure would certainly frustrate any regulator or plaintiff's attorney working to recover value on behalf of defrauded shareholders. Any claim to recover assets or cash from Chinese operations would have to go through the United States, the British Virgin Islands and Hong Kong before prevailing in a Chinese court. This seems like a long shot.

Valuation

Given the bleak prospect of litigation in China, coupled with the fact that GFRE's corporate structure puts the company's revenue and assets out of the reach of regulators and plaintiff's attorneys, investors will likely have no recourse against even the most brazen claims by Ming Yang and the Haoyuan Group to own GFRE's business. Left naked without a legal remedy, investors' equity in GFRE may turn out to be valueless. As a result, we are putting a price target of $0.00 on the shares of GFRE.

[10] http://currents.westlawbusiness.com/Article.aspx?id=f41510c0-eec0-4ad2-b989-3b2817504102&cid=,&src=,&sp=,,,

Skeletons in the Closet: Inappropriate Self-Dealing

GFRE has a disturbing history of inappropriate self-dealing. Immediately after going public, GFRE purportedly acquired a target company at a massively inflated price. At the time, this target was owned by the chairman of the board of directors of GFRE, Ming Yang, and his family. In order to make the transaction appear appropriate, GFRE submitted false financial statements for the target company.

On February 5, 2007, shortly after consummating the reverse merger transaction that enabled GFRE to list on US capital markets, GFRE purportedly acquired SYCI for an aggregate purchase price of $18,900,000. The owners of SYCI received 8,094,059[11] of newly issued shares of GFRE's common stock and $2.55 million in cash.[12] The value of these shares would climb to as high as $120 million.[13]

SYCI was 100% owned by Ming Yang, CEO and chairman of the board of GFRE,[14] and his wife Wenxiang Yu. At the time of the acquisition, Ming Yang and his wife, Wenxiang Yu, owned 37.2% of GFRE. To further complicate matters, Min Li served at the time as CFO of both GFRE and its prospective target at the time, SYCI. In fairness, GFRE disclosed this relationship. This transaction would not be inappropriate if it paid a fair market value for SYCI. But it did not.

According to publicly available records obtained in China SYCI was actually far less valuable at the time of the acquisition than the financial statements of SYCI filed with the SEC lead investors to believe. In the following table, we have set forth a comparison between the financials of SYCI for FY 2006 filed with the SEC and the financials filed with the local filing offices of the State Administration of Industry and Commerce ("SAIC").

	SEC FILINGS			2006 SAIC FILINGS		
	2005	9MO 2006	FY 2006			2006
SHOUGUANG CITY YUXIN CHEMICAL CO.	"SYCI"	"SYCI"	"CHEMICAL PRODUCTS"	"SYCI"	"SYCI"	DISCREPANCY
INCOME STATEMENT	USD	USD	USD	CNY	USD	USD
Revenues	$9,776,858	$11,507,636	$13,911,119	¥5,314,110	$770,160	$13,140,958
Cost of Revenues	$8,385,048	$8,469,044	n/a	¥4,690,712	$679,813	n/a
Operating Expenses	$797,879	$114,643	n/a	¥2,603,190	$377,274	n/a
Income from Operations	$3,337,001	$3,136,285	$3,714,475	(¥2,482,408)	($359,769)	$4,074,244
Income Tax	$1,048,512	$1,085,311	n/a	¥35,764	$5,183	n/a
Net Income	$2,303,570	$2,062,645	n/a	(¥2,482,408)	($359,769)	n/a
BALANCE SHEET						
Cash	$2,312,835	$3,132,607	n/a	¥2,285,651	$331,253	n/a
Accounts Receivables	$136,561	$128,679	n/a	¥1,947,869	$282,299	n/a
Inventory	$800,548	$419,686	n/a	¥3,028,274	$438,880	n/a
Total Current Assets	$4,152,980	$2,928,276	n/a	¥14,662,268	$2,124,966	n/a
Total Assets	$5,616,845	$5,008,073	$5,069,584	¥19,708,659	$2,856,327	$2,213,256
Total Liabilities	$536,086	$959,701	n/a	¥12,711,437	$1,842,237	n/a
Total Stockholders Equity	$5,080,759	$4,048,372	n/a	¥6,997,221	$1,014,090	n/a

[11] The number of shares has been restated to give retroactive effect to the 2-for-1 stock split in 2007 and the 1-for-4 stock split in 2009.
[12] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm
[13] The price of GFRE's shares in January 2010 climbed as high as $14.49.
[14] SYCI was owned 50% directly by Wenxiang Yu and 50% by Shangdong Haoyuan Industry Group Ltd., which was owned and controlled by Ming Yang and his wife Wenxiang Yu.

The discrepancy between the financial statements filed with the SEC and the financial statements filed with the SAIC is damning. SYCI made one-thirteenth the amount of revenue and owned less than one-half the amount of total assets that GFRE claimed in its SEC filings. Further, SYCI's SAIC filings show that rather than operating as a profitable business at the time of acquisition, it was losing over $350,000 per year. The SAIC filings show that Ming Yang and his cohorts lied to the SEC and defrauded investors by purchasing a company from themselves for substantially more than the company was worth.

Worse still, on January 31, 2007, one week prior to selling SYCI to GFRE, Ming Yang and his wife took $2,189,000 in cash out of SYCI in the form of a shareholder dividend.[15] Essentially, Ming Yang stripped SYCI of its cash and then sold it to GFRE at a massively inflated price.

Note that this occurred almost immediately after GFRE went public. The chairman may have faced a dilemma: the company was flush with cash from investors but management could not be seen to be selling shares on the open market. A convenient solution may have been to overpay for a target that was owned by the chairman, thus lining his pockets with newly raised capital while appearing not to be diluting his ownership stake in the company. This is not the only instance of GFRE engaging in inappropriate self-dealing.

GFRE's Largest Customer is (Secretly) Related

GFRE's largest customer is a subsidiary of the aforementioned Haoyuan Group, the privately held company for which the chairman of GFRE serves as the CEO and which claims to own GFRE's business.

GFRE's largest customer in FY 2010 was Shouguang City Rongyuan Chemical Company Limited ("Rongyuan"), accounting for 13.2% of the company's bromine revenue and 24.3% of its crude salt revenue.[16] Rongyuan accounted for 10.6% of GFRE's total FY 2010 revenue.

The Haoyuan Group and Rongyuan have the same address, same phone number, same fax number and same website. Even Rongyuan's website has the name "Haoyuan" in the URL address. Further, Rongyuan's SAIC filings show the same registered address as the Haoyuan Group.

Our investigators called the Haoyuan Group and a representative confirmed in no uncertain terms that Rongyuan is a subsidiary of the Haoyuan Group. Suffice it to say that they are related.

GFRE failed to disclose in its SEC filings that its largest customer is a related party.[17] Further, the fact that Rongyuan is a related party casts doubt on GFRE's sales figures. Is Rongyuan paying above market for GFRE's products? Does GFRE have sufficient internal controls to ensure that the sale to Rongyuan are genuine or accurately reflected in the company's SEC filings?

The Wondrous Life of Xiaobin Liu

We have uncovered numerous material misstatements and omissions in the resume of GFRE's Chief Executive Officer, Xiaobin Liu ("Liu") including the fact that Liu was appointed under suspicious circumstances and has a murky history with a notorious perpetrator of small cap Chinese frauds, which was never disclosed to investors.

The following paragraph is the bio of GFRE's CEO on the company's website:

> *Effective March 10, 2009, Mr. Xiaobin Liu was appointed the Chief Executive Officer of Gulf Resources. Mr. Liu has been closely involved with the Company since January 2007. Serving as Vice President, he was responsible for all the Company's operations. From June 2005 to December 2006, he was the Vice President of* ***Shenzhen SEG. Dasheng Co., Ltd.,*** *a Shenzhen-listed company engaged in the real estate and hotel industries. From May 2000 to June 2005 he managed the securities department of* ***Saige International Trust and Investment Corporation*** *in Hainan province and was in charge of asset management. From May 1995 to May 2000, Mr. Liu served as the Vice President of* ***Hainan Wanquanhe Development,*** *where he was in charge of corporate operations and financial control. Prior to that, he worked in the finance departments of* ***Chinese Black Metal, Ltd.*** *and* ***Shanxi Aircraft Manufacturing Company.*** *He has a Master's degree in international accounting from the City University of Hong Kong. Mr. Liu was born 1968.*[18]

[15] http://sec.gov/Archives/edgar/data/885462/000119380509000587/e605170_10k-gulf.htm
[16] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm
[17] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm
[18] http://sec.gov/Archives/edgar/data/885462/000119380510000187/e606322_s1-gulf.htm. This bio is also available at http://www.gulfresourcesinc.cn/board-directors.html. We have attached a PDF printout of this webpage as Annex II in case the company deletes this page.

First, we contacted Shenzhen SEG Dasheng Co. Ltd. ("Shenzhen SEG"), which has recently changed its name to Shenzhen Zero-Seven Co., Ltd. Shenzhen SEG has no record of Liu ever working for the company, let alone serving as a vice president for one year. Shenzhen SEG's human resources department stated in no uncertain terms that Liu never worked for the company.

Second, Liu's biography states that he worked at Saige International Trust and Investment Corporation ("Saige International") from May 2000 to June 2005. Omitted from the description of Saige International is that one year after Liu left the firm, it declared bankruptcy. Further, there is inconsistency in Liu's timeline. Businessweek.com states that "Liu served as the Chief Financial Officer of Da Shen Incorporated, a subsidiary of DaShen Real Estate LLC from 2002 to 2004."[19] We also found a public filing stating that Liu served as chief financial officer for another company in 2004.[20]

Third, Liu's biography states that he worked as a vice president at Hainan Wanquanhe Development for five years. We have conducted an extensive search of public records and online sources and we can find no evidence that this company ever existed.

Fourth and most importantly, Liu's biography conceals, we believe deliberately, a crucial detail in Liu's past: he served in 2004 as CFO of China Finance, Inc. ("China Finance"),[21] a notorious China small cap fraud which traded on the OTC before it disappeared in 2009, became delinquent under SEC filing rules and was relegated to the pink sheets.[22]

China Finance has a troubling legacy: it is involved in, and may have orchestrated, one of the largest pump and dump schemes in the history of U.S. capital markets. China Finance's principle business was "providing financial support and services - primarily in the form of surety guarantees or short-term loans - to privately-owned small and medium sized enterprises in China when they seek access to capital or to be acquired by a United States reporting company."[23] China Finance would take a slice of equity in exchange for helping a small cap Chinese company go public. Once public, China Finance would also provide banking and other financial services.

Many of the Chinese small cap companies that China Finance shepherded to US capital markets turned out to be either outright frauds or so poorly managed that their shares are virtually valueless. This table gives just a few examples of the detritus left in China Finance's wake.

COMPANY	SYMBOL	CURRENT STATUS	EXCHANGE	HIGH PRICE	RECENT PRICE (4/18/11)	% OFF ITS HIGH
Jada Art Group	JADA	Accused of Fraud, Delinquent in SEC Filings	Pink Sheets	$5.25	$0.05	–99.0%
China Organic Culture	CNOA	Accused of Fraud	OTC	$3.90	$0.12	–96.9%
Home Systems Group	HSYT	Delinquent in SEC Filings	Pink Sheets	$4.08	$0.15	–96.4%
Universal Travel Group	UTA	Accused of Fraud; Trading halted	NYSE	$17.20	Trading Halted	n/a
Orient Paper	ONP	Accused of Fraud	AMEX	$15.15	$3.89	–74.3%
China Ivy School	CIVS	Current on SEC Filings	OTC	$4.10	$0.02	–99.5%
Beijing Logistics	BJGL.PK	Accused of Fraud, Delinquent in SEC Filings	Pink Sheets	$0.75	Trading Suspended	n/a
China 9D Construction Group	CNAG.PK	Delinquent in SEC Filings	Pink Sheets	$2.00	Trading Suspended	n/a
GULF RESOURCES	GFRE		NASDAQ	$14.74	$4.24	–71.2%

The table above should alert regulators and alarm investors. It shows that China Finance was involved in a number of Chinese reverse merger transactions that allowed companies to go public which were either fraudulent or are currently being accused of fraud. Ultimately, most everything China Finance touches turns to dust.

China Finance helped to take GFRE public. In 2006, China Finance, through its subsidiary Haoyuan Chemical Company Limited, received 6% of GFRE's equity in exchange for its services in connection with going public.

[19] http://investing.businessweek.com/research/stocks/people/person.asp?personId=10016470&ticker=GFRE:US
[20] http://sec.gov/Archives/edgar/data/1123440/000114420404017975/v08150_ex10-10.txt
[21] http://www.prnewswire.com/news-releases/kubla-khan-completes-acquisition-of-value-global-changes-name-to-china-finance-inc-71947722.html Liu served for Kubla Khan, Inc., before the company changed its name to China Finance, Inc.
[22] http://sec.gov/Archives/edgar/data/1123440/000114420404017975/v08150_8ka.htm
[23] http://www.sec.gov/Archives/edgar/data/1123440/000118811207001050/t13808_10-ksb.htm

But the real bombshell is this: not only did GFRE's current CEO serve as the CFO of China Finance, but he was appointed to CEO of GFRE **a mere seven days** after GFRE granted China Finance a considerable equity stake in the company. In other words, it appears as though China Finance, a company that is at the epicenter of the small cap Chinese fraud pandemic, exerts considerable influence over GFRE.

PAYMENTS TO CHINA FINANCE

On January 24, 2009, GFRE entered into an agreement to issue 5.25 million shares of the company's common stock at a price equal to $4.05 per share to Top King Group Limited ("Top King"), Billion Gold Group Limited ("Billion Gold"), Topgood International Limited ("Topgood"), in lieu of paying off in cash approximately $21.3 million in existing loans payable to Shenzhen Hua Yin Guaranty and Investment Limited Liability Company ("Shenzhen GILLC"), a subsidiary of China Finance and shareholder of the company.[24]

Rather than repaying or refinancing debt, on March 3, 2009, GFRE issued 5.25 million shares to Billion Gold, Topgood and Top King, all of which are parties related to Shenzhen GILLC through China Finance and its mysterious backer, Dr. Kit Tsui ("Dr. Kit"). As detailed in this article Dr. Kit may be the man behind the curtain of the small cap Chinese reverse merger fraud. Suspiciously, on March 10, 2010, a mere **seven days** after issuing 5.25 million shares to shell companies controlled by Dr. Kit, GFRE appointed Liu as CEO. These shares would be worth almost $76 million in less than a year.

One of Liu's first acts as CEO of GFRE was to make a deal with Dr. Kit which allowed the puppet master behind China Finance to immediately realize value from the newly issued shares at the expense of GFRE's shareholders.

FLEX CALL OPTION

One of Liu's first acts as CEO of GFRE was to negotiate a Lock-Up Agreement, dated May 10, 2009 (the "Lock-Up Agreement"), with Billion Gold, Topgood and Top King (collectively, "Dr. Kit's Companies"), the entities that received 5.25 million shares ("Dr. Kit's Shares") of GFRE common stock. Under the Lock-up Agreement, Dr. Kit's Companies agreed not to sell Dr. Kit's Shares in a public transaction on an exchange for two years. However, the Lock-Up Agreement permitted Dr. Kit's Companies the right to pledge, trade or transfer Dr. Kit's Shares in a private transaction if the transferee agreed to abide by the terms of the Lock-Up Agreement. But GFRE's shareholders got screwed.

Dr. Kit's Companies, with the permission of GFRE's CEO, pledged Dr. Kit's Shares to War Chest (which, we believe, is another company controlled by Dr. Kit) in exchange for a loan. War Chest turned around and pledged Dr. Kit's Shares to create a European Call FLEX Option ("Call FLEX Option"). The Call FLEX Option permitted HAP Trading LLC ("HAP Trading") to purchase 5.73 million shares (approximately 15% of GFRE's total outstanding equity) for $0.125 each. The proceeds of the sale of the Call FLEX Option went to affiliates of Dr. Kit and HAP Trading was free to sell the shares on the open market, creating what we believe to be a death spiral.

DEATH SPIRAL

A death spiral is a process where convertible financing used to fund primarily small cap companies can be used against the company in the marketplace to cause its stock to fall dramatically, sometimes rendering the company's equity worthless. Under the typical "death spiral" scenario a third party acquires an option (or convertible debt) to purchase a company's common stock at a steep discount to the market value of the shares. The holder of the option then shorts the issuer's common stock.

This short position often causes the stock price to decline. The option holder then exercises some of the options to cover the short position. The option holder then continues to sell short and cover with converted stock which, along with selling by other shareholders alarmed by the falling price, continually drives the share price down. This cycle continues until the equity becomes worthless or the holder runs out of options.

In this case, a firm called War Chest, which we believe is controlled by or affiliated with Dr. Kit, pledged Dr. Kit's Shares to HAP Trading to create the Call FLEX Option, giving HAP Trading the right to exercise calls at a price of $0.125 each on 5.73 million shares of GFRE. According to GFRE, War Chest created the Call FLEX Option on or around November 10, 2010, when its 5.73 million shares of GFRE would have been worth roughly $57.3 million.[25]

[24] http://www.sec.gov/Archives/edgar/data/885462/000119380510000606/e606520_10k-gulf.htm#i12
[25] Shares of GFRE were trading around $10.00 per share at this time.

It is common practice for market makers to take naked short positions to offset long exposure from owning a call option. In this case, because HAP Trading owns rights to GFRE shares though the Call FLEX Option, a firm like HAP Trading would typically take a naked short position in the market to offset its exposure to the name. Given that the Call FLEX Option gives HAP Trading the right to purchase shares of GFRE at $0.125, HAP Trading could profitably short GFRE in down to that price.

If prices of GFRE's shares fall because of HAP Trading's short position, other investors may sell and potential buyers would likely stay clear, further driving down the price of GFRE's shares. Like a Q-tip in a toilet bowl, GFRE's shares may swirl lower and lower until eventually flushed down the drain.

This is precisely why management created a lock-up provision for the shares being issued. But Dr. Kit used the Call FLEX Option to lock in gains at the expense of GFRE's shareholders. HAP Trading believes it is not in violation of the Lock-Up Agreement. So the question is this: did GFRE's CEO, with deep ties to Dr. Kit and China Finance, negotiate the Lock-Up Agreement such that Dr. Kit's companies could create the Call FLEX Option, thus enriching Dr. Kit at the expense of GFRE shareholders and possibly sending GFRE's shares into a death spiral?

The bottom line is simple. GFRE issued 15% of its equity to Dr. Kit's Companies in exchange for the cancellation of a loan. Seven days later, a new CEO, who had previously worked for Dr. Kit's China Finance, was appointed CEO of GFRE. This CEO proceeded to negotiate a lock-up agreement which may have permitted Dr. Kit to enrich himself on the shares at the expense of GFRE's shareholders, potentially creating a death spiral. Still long GFRE?

Phantom Capital Expenditures?

GFRE has completed two major construction projects in the past two years. Despite a diligent search, our investigators cannot find any evidence that either contractor is an operating construction company.

In August 2009, the Company completed a sewage treatment project at a total cost of $6.6 million. The contractor was purportedly Xuzhou Bishui Environmental Science Technology Co., Ltd. ("XBE Tech").[26]

Our investigators conducted an extensive search and could find no evidence that XBE Tech exists. Our investigators found nothing on either Baidu or Google mentioning XBE Tech. Our investigators called two local telephone directory operators (the equivalent of 411 in the area where XBE purportedly operates) and neither operator had any record of XBE Tech. Our investigators also called the Xuzhou City Environment Protection Bureau, where a local sewage treatment construction company would have to register, and the government bureau had no record of XBE Tech. It is our belief that GFRE may have commissioned phantom capital expenditures in order to transfer $6.6 million in cash from the company to related parties. This was not GFRE's last suspicious capital expenditure.

In June 2010, the Company completed the construction of a production line for wastewater treatment chemical additives line at a total cost of $8.88 million. The contractor was purportedly awarded to Shouguang City Shengkun Construction Co., Ltd. ("SCS Construction").

Our investigation revealed no evidence that SCS Construction is an operating company. A Baidu and Google search revealed only a phone number that is no longer in service. Suspiciously, SCS Construction's AIC filings did not reveal a phone number on record. Typically, a construction company that landed an $8.88 million contract for a high profile public company would advertise this fact. But SCS Construction is nowhere to be found.

So our investigators called GFRE's subsidiary SYCI and asked about the project. At first, someone in their operations department named Mr. Liu told our investigator that the sewage treatment started in the second half of 2010 but had not yet been completed. In fact, Mr. Liu said the project was still in the pilot stage. He then awkwardly ended the conversation and asked our investigator to call back the next day. When our investigator called back, Mr. Liu refused to discuss the project. GFRE's SEC filings state clearly that the company completed the project in June 2010. But GFRE's representative said that the project was not complete as of April 2011.

SCS Construction's FY 2010 SAIC filings show revenue of $1.82 million. This is much smaller than it should be. According to GFRE's FY 2010 Form 10-K, GFRE paid SCS Construction $8.88 million to complete the sewage treatment project. This discrepancy suggests that perhaps GFRE diverted some of the funds ostensibly used for the sewage treatment capital project to other undisclosed uses.

Ultimately, we can find no evidence that XBE Tech ever existed or that SCS Construction is an operating company (although it clearly exists on paper). We think that it is likely, given the preponderance of the evidence in this report, that the purported payment to XBE Tech and SCS Construction were phantom capital expenditures designed to funnel money out of the company to related parties.

[26] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm

GFRE's Auditor Turnover

GFRE boasts a record of high auditor turnover, as demonstrated by the following chart:

DATES	NAME	NOTES
February 11, 2010 – Present	BDO Limited (BDO)	BDO audited CXTI, a notorious fraud, and other publicly listed Chinese companies accused of fraud, including CHBT and ONP.
February 20, 2007 – February 10, 2010	Morison Cogen, LLP (MCO)	Warned investors about the possibility of fraud at GFRE and was later dismissed.
Reverse Merger Transaction – February 19, 2007	Pender Newkirk & Company, LLP (PNC)	PNC is not considered in the top 100 of global public company accounting firms and has no offices in China.

The details of GFRE's auditor turnover are disturbing to any investor putting faith in GFRE's auditors as a bulwark against fraud. Less than three weeks prior to the filing of GFRE's Form 10-K for the fiscal year 2009, GFRE dismissed MCO, its longest-serving auditor.[27] The timing is suspicious and suggests that there was a major disagreement between MCO and GFRE over GFRE's 2009 Form 10-K. Notably, one year prior to dismissal, MCO stated in GFRE's FY 2008 Form 10-K that it had found the following "material weaknesses" in the effectiveness of GFRE's internal controls:

1. Insufficient complement of accounting personnel with the appropriate level of accounting knowledge, experience and training in the application of accounting principles generally accepted in the United States commensurate with financial statement reporting requirements.

2. Inability to timely and properly recognize issuance of share-based compensation.[28]

MCO warned investors in 2009 that the lack of accounting professionals and the accounting treatment of certain of GFRE's equity issuances created a "reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis."[29] Surprisingly, rather than address such weaknesses, GFRE's management dismissed them as immaterial.[30]

One year later, right before MCO would have another opportunity to warn investors of fraud, GFRE replaced MCO with an accounting firm notorious for its representation of other Chinese companies accused of fraud.

In February 2010, GFRE hired BDO Limited ("BDO"), the Hong Kong member firm of the BDO International network of auditors. BDO Limited completed its audit in **just three weeks,** an unusually short period of time for a newly hired accountant with no familiarity with the company's books, records or accounting practices.

BDO has a track record of signing off on the financial statements of companies which were committing fraud or are currently being accused of committing fraud.

BDO audited China Expert Technology ("CXTI"), a notorious small cap Chinese fraud.[31] CXTI's shares soared to $7.00 on the strength of spectacular financial results. But CXTI was a hoax. The company did not exist. CXTI's financials were conjured from thin air. The CEO and CFO subsequently disappeared and CXTI ceased to file financial statements, wiping out its investors. CXTI's shares are now almost worthless.[32] How could investors have confidence in an auditor that signed off on a company that literally did not exist?

BDO Limited's less than sterling record does not end with CXTI. BDO Limited is the auditor of China Biotics ("CHBT"), and Orient Paper ("ONP"), both of which have been accused of fraud by investors in the past twelve months.

[27] http://sec.gov/Archives/edgar/data/885462/000119380510000389/e606425_8k-gulf.htm
[28] http://sec.gov/Archives/edgar/data/885462/000119380509000587/e605170_10k-gulf.htm
[29] http://sec.gov/Archives/edgar/data/885462/000119380509000587/e605170_10k-gulf.htm
[30] http://sec.gov/Archives/edgar/data/885462/000119380509000587/e605170_10k-gulf.htm
[31] BDO audited CXTI under the name BDO McCabe. The firm changed its name pursuant to a merger.
[32] http://seekingalpha.com/article/213213-orient-paper-not-all-bdos-are-the-same

BDO LIMITED'S RECORD		
COMPANY	COMMENTS	INVESTOR RETURNS
CXTI	CXTI was a hoax. A blatantly fraudulent company.	Currently trading on pink slips. CXTI's management disappeared, sending shares from $8.00 to $0.06.
CHBT	Citron Reseacrh presented a detailed report accusing CHBT of fraud.	Currently trading around $14.00 at the time of Citron's report, currently trading at $8.38.
ONP	Muddy Waters presented a detailed report accusing CHBT of fraud.	Currently trading around $3.89, down from a high of $15.00.

The table above should scare investors. BDO Limited signed off on the financial statements of CXTI, a Potemkin village. Further, BDO Limited has accumulated a roster of clients that, in the last year alone, have seen the value of their shares drop precipitously as a result of accusations of fraud.

This track record may not come as a surprise considering that BDO Limited is not regulated by the PCAOB. Without a legitimate American regulatory authority with dominion over their operations, many Chinese auditors, under pressure to please clients, often refrain from conducting deep due diligence, ignore suspicious numbers, and make favorable assumptions on their clients' behalf. In short, without the risk of censure or punishment, given that they do not answer to any U.S. regulatory body, the carrot of substantial fees can lead Chinese auditors to prioritize client retention over accurate disclosure and a thorough investigation.

In GFRE's case, the timeline speaks for itself. In 2009, MCO warned investors that due to insufficient internal controls there was a reasonable possibility that a material misstatement in GFRE's financial statements would not be detected or prevented on a timely basis. In 2010, just three weeks prior to the release of GFRE's FY 2009 Form 10-K, GFRE fired MCO and hired BDO Limited, a firm notorious for its involvement with publicly listed companies that committed fraud or that currently face accusations of fraud. BDO Limited completed its audit of GFRE in only three weeks. By contrast, it took Deloitte & Touche (discussed below) from September 2010 until February 2011 to issue a report, not a full blown audit, on the company's internal controls. Caveat emptor!

DTT & The Curious Case of Richard Khaleel

Investors long on GFRE may argue that the company is on the right track because it hired Deloitte Touche & Tohmatsu ("DTT"), a "big four" auditor, in September 2010 to investigate and report on the company's internal controls. We disagree.

First, GFRE kept DTT's findings a secret. If DTT had given GFRE a glowing report, we suspect that GFRE would have rushed to publicize it. The fact that GFRE chose to keep DTT's report a secret suggests DTT's assessment of GFRE's internal controls were negative. Second, GFRE did not disclose DTT's recommendations so there is no way for investors to know whether GFRE adopted DTT's advice.

Third, after receiving DTT's report, Richard Khaleel, an independent director and member of the audit committee of the board of directors of GFRE, resigned from the company, ostensibly because he served as a director of another public company that asked him to resign. We have no direct evidence to suggest that Mr. Khaleel resigned because of the contents of DTT's report or that any disagreement arose between Mr. Khaleel and GFRE regarding the company's accounting practices or internal controls or the accuracy of the company's financial statements. In fact, in Mr. Khaleel's resignation letter says that he left for reasons unrelated to GFRE.

But the timing of Mr. Khaleel's resignation is noteworthy and suspicious, if you believe, as we do, that something is rotten with GFRE. Mr. Khaleel resigned less than a month after receiving DTT's report and a mere two weeks prior to the filing of GFRE's FY 2010 Form 10-K. If Mr. Khaleel was disturbed by DTT's findings and suspected that GFRE was falsifying its financial statements, he would certainly want to resign before GFRE filed such financial statements with the SEC. **No doubt he would know that as the only American citizen on the board of directors, he would be the only director under the jurisdiction of the SEC and plaintiff's attorneys.** He would know that as a member of the audit committee, he would be exposed if GFRE defrauded investors. In other words, if DTT's report crucified GFRE for its internal controls and questioned the authenticity of its financial statements, the rational decision for an American director would be to resign prior to the release of such financial statements. Mr. Khaleel resigned effective March 2, 2011.[33] GFRE filed its Form 10-K on March 16, 2011.

[33] http://sec.gov/Archives/edgar/data/885462/000119380511000432/e608145_8k-gulf.htm

Fourth, hiring DDT is an implicit admission by GFRE's management that its current auditor, BDO Limited, lacks credibility among investors. Consider the following. If GFRE hired DTT in order to reassure investors that it maintained adequate internal controls and that it was not committing fraud, then why not hire DTT to audit the company? If DTT conducted an audit it would be under certain legal and professional obligations to disclose any inadequacy in GFRE's accounting practices and might be liable in the event GFRE is committing fraud. Instead, GFRE hired DTT to issue a one-off secret report, for which DTT bears little, if any, legal or reputational risk.

Instead, GFRE stuck with BDO Limited as its primary auditor. This makes no sense. If BDO Limited is not sufficiently credible to reassure investors that the company's financials are accurate, as GFRE virtually conceded when it brought in DTT, why should investors be confident in BDO Limited going forward? Ultimately, to take advantage of DTT's credibility as a "big four" auditor, GFRE should have asked DTT to stand behind the company's publicly filed financials. It did not.

GFRE's Business is Not as Advertised

Our investigators visited each GFRE factory and found that some of the factories were not in the locations described in the company's SEC filings. To boot, each factory was much smaller than GFRE claims in its SEC filings.

WHERE'S WALDO

Our investigators had trouble locating some of GFRE's factories because they were not in the locations that GFRE claimed in its public filings. GFRE's Form 10-K states that Factory 3 is located in Dong Ying City, Liu Hu Village. This is incorrect. Our investigator found Factory 3 in Shouguang City, Yangkou Township, Dingjia Village. These two locations are almost 100 km apart.

Likewise for Factory 5. GFRE states that it is located in Shouguang City, Houxing Village but our investigator found the factory over 20 km from its reported location in Shouguang City, Yingli Township, Yangzi Village. Similarly, GFRE's public filing states that factory 6 is located in Shouguang City, Hanting District. We found Factory 6 in Weifang City, Hanting District.

The following map shows the discrepancies between the location of the factories according to GFRE (shown in red) and the actual locations of the factories as confirmed by our investigative team (as shown in orange).

FACTORY LOCATIONS

GFRE is not only misrepresenting the location of certain factories, but the size of its operation. The following table compares, for each factory, the acreage listed in GFRE's SEC filings and the estimates of our investigators of the size of each factory.

FACTORY NUMBER AND NAME	LAND AREA (ACRE)		ESTIMATED OVERSTATEMENT	GLAUCUS DUE DILIGENCE VIDEO LINKS
	REPORTED	ACTUAL		
1) Haoyuan General Factory	6,442	22	6,420	http://www.youtube.com/watch?v=I7FueoMP3rk
2) Yuwenbo	1,846	6	1,840	http://www.youtube.com/watch?v=yxW9PaHLyqs
3) Yangdonghua	2,318	15	2,303	http://www.youtube.com/watch?v=V9cb23o7nk0
4) Wangjiancai	2,310	7	2,303	http://www.youtube.com/watch?v=m7sLV 0 oJU
5) Liuxingji	2,165	15	2,150	http://www.youtube.com/watch?v=CMjsGKK8NjU
6) Yangxiaodong	2,641	15	2,626	http://www.youtube.com/watch?v=AwKyA6YhAMY
7) Qiufen Yuan, Han Wang & Yufen Zhang	1,611	20	1,591	http://www.youtube.com/watch?v=vbKHXtkjC54
8) Yuliang Gao, Han Wang & Qing Yang	2,723	20	2,703	http://www.youtube.com/watch?v=fcxMcGhuYNk
9) Jinjin Li & Qiuzhen Wang	759	20	739	http://www.youtube.com/watch?v=O8uUr9GxUJk
TOTAL	22,815	140	22,675	

Note that the "Actual Land Area" column is an estimate of the area of the factory that is walled off. As demonstrated by our videos, each factory is surrounded by brine ponds, which we did not include in our "Actual Land Area" calculation. As such, our estimate for "Actual Land Area" is likely underestimating the size of the respective factories. However, we believe that even including the fields surrounding such factories, management is exaggerating the size of its factories in its public filings.

In order to corroborate these observations we called the Shouguang City State Land & Resources Bureau ("Land & Resources Bureau") for the locality in which GFRE operates. When asked, a Land & Resources Bureau representative stated that the land area of Factory 7 was only 7.4 acres. This is much smaller than the 1,611 acres claimed by GFRE.

More importantly, the Land & Resources Bureau representative said that the total bromine production area registered under GFRE's operating subsidiary was 282 acres, which is 81 times smaller than the land area claimed by GFRE in its SEC filings and much closer to the size of the production area observed by our investigators.

The Land & Resources Bureau representative also directly refuted GFRE's claim that it could mine bromine without a permit. In GFRE's Form 10-K, the company admits that it does not hold a permit to produce bromine for Factories 5, 6, 7, 8 and 9, but claims that the company received a "letter from the Shouguang Municipal State Land and Resources Bureau on March 10, 2011, stating that these five bromine factories 'are permitted to continue with the mining and can operate in a standard manner and carry out mining activities in a reasonable way pursuant to the requirements of the relevant mineral resources authorities, and are free of any illegal acts of exceeding layer or boundary limits and any violations of relevant laws and regulations of the State.'"[34]

However, the Land & Resources Bureau representative said that the law strictly prohibited producing bromine without a permit. When we asked if GFRE could be excused from this requirement if it received a letter from a government authority stating that it could operate while its permit application was pending, the Land & Resources Bureau representative said no. He said that without a permit, law enforcement would shut down any unlicensed production of bromine.

China is a complex web of over-lapping municipal, provincial and national bureaucracies. It is entirely possible that one bureaucracy could issue a permission slip contradicting the dictates of another silo of governmental authority. But our conversation with the Land & Resources Bureau representative illustrates that there is considerable risk associated with operating without a bromine permit, and investors should not depend on revenue streams from GFRE's Factories that are unlicensed.

[34] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm

GFRE's Financials Are "Too Good To Be True"

One of the common denominators to many small cap Chinese frauds is that such companies' boast financials that appear too good to be true. GFRE is no different.

Promoters and investors salivate over high inventory turnover ratios as a proxy for robust growth, efficiency and profitability. GFRE's inventory turnover ratio suggests that GFRE is wildly efficient at turning a profit.

INVENTORY TURNOVER RATIO ACCORDING TO GFRE'S SEC FILINGS			
GULF RESOURCES ("GFRE")	2007	2008	2009
Cost of Goods Sold (in USD)	$32,108,180	$52,302,085	$61,402,820
Inventory (in USD)	$442,003	$415,825	$534,295
Inventory Turnover Ratio	72.6	125.8	114.9

INVENTORY TURNOVER RATIO ACCORDING TO GFRE'S SAIC FILINGS			
SHOUGUANG CITY HAOYUAN CHEMICAL CO. ("SCHC")	2007	2008	2009
Cost of Goods Sold (in CNY)	¥7,767,741	¥17,866,278	¥37,834,290
Inventory (in CNY)	¥1,436,493	¥3,276,383	¥3,750,558
Inventory Turnover Ratio	5.4	5.5	10.1
SHOUGUANG CITY YUXIN CHEMICAL CO. ("SYCI")	2007	2008	2009
Cost of Goods Sold (in CNY)	¥3,988,687	¥9,298,743	¥31,074,806
Inventory (in CNY)	¥3,246,437	¥3,690,380	¥4,129,196
Inventory Turnover Ratio	1.2	2.5	7.5

Finance 101 teaches that a higher inventory turnover rate often leads to higher growth and offers investors a healthy return on their investment. GFRE's inventory turnover ratio is spectacular. Incredibly so. According to GFRE's financial statements, on average, the company turns its inventory 206 times per year, at an average rate of once every two days. This is not credible.

Our research indicates that the industry average for inventory turnover is between 4-7x per year. Not coincidentally, the inventory turnover ratios of GFRE's subsidiaries are close to this industry average if we calculate the ratio using the financial data from the company's SAIC filings, as shown in the table below.

Using financial data from GFRE's SAIC filings, the company's inventory turnover ratios are within the realm of reason and are comparable to other companies in the industry. This suggests that GFRE's SAIC financials are much more reliable than the financials it filed with the SEC.

To believe that GFRE's SEC financials are accurate, an investor would have to conclude, based on GFRE's inventory turnover ratio, that GFRE has discovered a magic formula, which is unknown to much more sophisticated firms in the same industry, and which allows GFRE to achieve seemingly unachievable results on a limited amount of capital. The much simpler, believable and likely explanation is that GFRE is fabricating its financial statements.

SAIC FILINGS

We obtained income statements and balance sheets for SCHC and SYCI from local filing offices of the SAIC showing that GFRE's business is considerably smaller than the company has represented to investors. The SAIC filings, summarized on a chart on the next page, corroborate other evidence suggesting that the company's revenues and net income are much smaller than stated in GFRE's SEC filings.

	SAIC FILINGS				SEC FILINGS	
2009	SHOUGUANG CITY HAOYUAN CHEMICAL CO.	SHOUGUANG CITY YUXIN CHEMICAL CO.			GULF RESOURCES	
	"SCHC"	"SYCI"	TOTAL	TOTAL	GFRE TOTAL	DISCREPANCY
INCOME STATEMENT	CNY	CNY	CNY	USD	USD	USD
Revenues	¥42,505,099	¥30,601,800	¥73,106,899	$10,595,202	$110,276,908	$99,681,705
Cost of Revenues	¥37,834,290	¥31,074,806	¥68,909,096	$9,986,825	$61,402,820	$51,415,994
Operating Expenses	¥1,726,781	¥540,798	¥2,267,579	$328,634	$68,036,074	$67,707,439
Income from Operations	¥2,615,260	¥1,684,878	¥930,381	$134,837	$42,240,834	$42,105,996
Income Tax	¥883,514	¥110,390	¥993,904	$144,044	$11,184,398	$11,040,353
Net Income	¥1,949,666	¥1,684,878	¥264,788	$38,375	$30,591,415	$30,553,039
BALANCE SHEET						
Cash	¥135,490,726	¥8,053,824	¥143,544,551	$20,803,558	$45,536,735	$24,733,176
Accounts Receivables	¥12,045,867	¥15,505,565	¥27,551,433	$3,992,961	$14,960,002	$10,967,040
Inventory	¥2,695,258	¥4,342,233	¥7,037,491	$1,019,926	$650,332	($369,594)
Total Current Assets	¥179,031,256	¥33,661,878	¥212,693,134	$30,825,091	$63,707,412	$32,882,320
Total Assets	¥229,372,206	¥42,263,701	¥271,635,908	$39,367,522	$146,423,168	$107,055,645
Total Liabilities	¥4,365,370	¥37,389,454	¥41,754,824	$6,051,423	$12,040,198	$5,988,774
Total Stockholders Equity	¥225,006,836	¥4,874,247	¥229,881,083	$33,316,099	$134,382,970	$101,066,870

According to documents filed by GFRE in China, the company has been fabricating its SEC filed financial statements.

There has been much debate recently about the validity of SAIC filings. The SAIC is a government agency which, among other functions, issues business licenses to Chinese firms. In order to obtain and renew a business license, which is required to operate in China, a Chinese company must file an annual inspection report with a local government office containing a balance sheet and an income statement.

Brokers pumping small cap Chinese stocks often argue that SAIC filings do not match SEC filings because the SAIC is a business registrar and it does not review the accuracy of submitted financial statements. This makes no sense. Why would a government agency ask a company to submit a balance sheet or income statement and then not care if it is blatantly false? More importantly, what would a company gain by lying on financial statements submitted to the SAIC?

Some small cap brokers have argued that Chinese companies understate revenue in SAIC filings so as to avoid the attention of corrupt government officials. This argument is weak. Nothing should attract more attention from potentially corrupt government officials than raising tens of millions of dollars in cash through American capital markets. Regardless, why are investors comfortable with a company that lies on any financial statement filed with any governmental agency, in the U.S. or China?

Western investors defending the discrepancy between financial statements filed with the SAIC and those filed with the SEC should consider the following decision box:

DECISION	UPSIDE	DOWNSIDE
GFRE lies on financial statements filed with the SAIC	?	Fines or criminal prosecution of officers and directors (including capital punishment) by the Chinese government.
GFRE lies on financial statements filed with the SEC	Tens of millions of dollars from investors looking for the next Chinese stock.	None (other than delisting). Neither the SEC nor the US government has jurisdiction over GFRE, its officers or directors.

Whereas for a Chinese company there is large upside and limited downside to lying to the SEC, there is by comparison no upside and a potentially large downside to lying to the SAIC. So if there is a discrepancy between SEC and SAIC filings, it is logically more likely that the SEC filings are false. Finally, empirical evidence shows that there are many examples of legitimate companies that file accurate financial statements with the SAIC.

Shipping Costs - Suspiciously Low?

GFRE's shipping costs are suspiciously low considering the company purportedly moves up to 34,672 metric tons of bromine and 370,437 metric tons of crude salt per year. According to its public filings, the company classifies shipping and handling costs as part of the cost of net revenue, which amounted to $567,686, $492,582 and $424,819 for the years ended December 31, 2010, 2009 and 2008, respectively.[35]

The following table compares, year over year, the growth in GFRE's bromine and crude salt production against the change in shipping costs.

GULF RESOURCES ("GFRE") METRIC TONS OF PRODUCTION	2010	2009	2008	2007
Bromine (MT)	34,672	34,930	28,673	17,648
Crude Salt (MT)	370,437	356,839	66,500	51,000
Total	405,109	391,769	95,173	68,648
yr/yr tonnage growth	3%	312%	39%	
Shipping Costs	$567,686	$492,582	$424,819	$384,868
yr/yr shipping cost growth	15%	16%	10%	
Shipping costs per metric ton (excluding chemicals)	$1.40	$1.26	$4.46	

The table above presents very unusual numbers. GFRE's production grew 312% from 2007 to 2008, yet shipping costs only increased by 16% in the same period. How was the company able to spectacularly ramp up production yet pay only a marginal increase in the shipping cost? From 2009 to 2010, GFRE's increased by almost the same amount (roughly 15%), yet the company only shipped 3% more in metric tons.

GFRE claims to ship crude salt and bromine for a little over $1/ton for the last two years. This cost seems suspiciously low.

Bromine is a hazardous chemical which is highly corrosive and volatile. Bromine is so dangerous that both Israel and the United States, the largest producers in the world, tightly regulate the transportation of the chemical.[36] Recall that GFRE's production sites are located in remote, hard to reach areas of China. According to our investigators who made the journey, it was difficult (and slow) to reach GFRE's factories in a small vehicle. The roads in and around many of GFRE's factories were unpaved, muddy and riddled with pot holes. Trucks shipping large quantities of extremely hazardous chemicals must take even longer. Put simply, the roads did not seem suited to handle hundreds of thousands of metric tons of bromine and crude salt. And the condition of the roads made it seem especially unlikely that GFRE could ship its products for $1/ton.

[35] http://sec.gov/Archives/edgar/data/885462/000119380511000481/e608177_10k-gulf.htm
[36] http://www.jpost.com/HealthAndSci-Tech/Health/Article.aspx?id=193625

Conclusion - Selling Ice to Eskimos

The cumulative evidence that GFRE is omitting material information from its SEC financial statements should give pause to anyone owning GFRE's shares. Given that the chairman and founder publicly advertises on a website that he effectively holds the business in a privately held conglomerate, it is staggering that GFRE has thus far duped investors and escaped the attention of regulators. To review:

• A privately held Chinese company, owned by the founder and chairman of the board of GFRE, claims to own and operate all of GFRE's assets and business. This suggests that the chairman sold investors shares of a worthless shell entity while keeping the underlying business under a separate privately held conglomerate. Given the difficulty of litigating in China and the complex multi-jurisdictional corporate structure of GFRE, shareholders may have great difficulty in recovering any value from the company.

• GFRE engaged in inappropriate self-dealing by massively overpaying for a business owned by its chairman and his family.

• GFRE has failed to disclose that its largest customer is a related party.

• We visited each of GFRE's factories each appeared far smaller than GFRE reported in its SEC filings. A representative from a local government office confirmed that GFRE's production area was substantially smaller than GFRE's claims in its public filings. Videos of GFRE's factories can be seen here, here, here and here.

• GFRE's CEO appears to have lied on his resume and has omitted the fact that he was formerly the CFO of China Finance, Inc., a notorious purveyor of fraudulent Chinese microcap companies. Suspiciously, GFRE's CEO was appointed a mere seven days after GFRE issued shares equal to 15% of its outstanding equity to China Finance, Inc. This CEO then struck a deal that appeared to enrich China Finance, Inc. at the expense of GFRE's shareholders, potentially creating a "death spiral" for GFRE's stock.

• GFRE commissioned two contractors to perform two expensive capital expenditure projects. Despite a thorough investigation, we have been unable to find any evidence that either contractor is a working business. We believe that management may have used these suspicious capital expenditure projects as a vehicle to transfer money out of the company.

• BDO Limited is GFRE's 3rd auditor in 4 years. GFRE dismissed an auditor which had questioned the effectiveness of its internal controls immediately before the release of GFRE's FY 2009 Form 10-K and replaced it with BDO Limited, an auditor that has represented other publicly listed Chinese companies which have committed or are accused of committing fraud.

• The only American director on GFRE's board, who also served as a member of the audit committee, resigned after Deloitte Touche Tomatsu delivered a report to GFRE on its internal controls. He resigned a mere two weeks before the company filed its Form 10-K for the FY 2010.

• SAIC Filings show that GFRE has submitted fraudulent financial statements to the SEC.

We therefore issue a strong sell rating on GFRE's publicly traded securities and urge the last investor to turn out the lights.

We Stand Behind Our Report

According to Greek mythology, Glaucus, a god of the sea blessed with the power of prophecy, frequently came to the rescue of distressed sailors and fisherman. We founded Glaucus Research Group to help capital markets investors navigate treacherous financial waters in search of great investment opportunities.

We live in turbulent times. Over the past few years, companies from all over the world have rushed to raise capital on US securities markets. We believe that the temptation of public capital has lured disreputable management teams and over zealous brokers who seek to take advantage of unsuspecting investors and their appetite for seemingly hot stocks. Glaucus Research Group was formed to prod opportunities that appear "too good to be true" in an effort to alert investors and regulators to companies providing misleading public disclosures and inaccurate financial statements.

The team at Glaucus Research Group offers a unique combination of members with experience in U.S. capital markets, the Chinese business community and investigative journalism. Matthew Wiechert, our research director, played an integral role for a prominent investment bank in building the market for U.S.-listed Chinese companies. He has extensive experience in securing funding for initial and secondary offerings by such companies.

We are at heart iconoclasts. As we state in our disclaimer at the beginning of this report, we (including our contributors and our clients) are short GFRE and stand to realize gains if the price of GFRE's shares declines. We have invested a significant amount of time and money into researching GFRE, and our team strives to deliver research of the highest quality and authenticity.

Glaucus, the Greek god, provided pivotal assistance to Jason and the Argonauts in their quest for the Golden Fleece. At Glaucus Research Group, we hope that our guidance can help investors in their pursuits, whatever they may be.

To contact us, please visit our website at http://www.glaucusresearch.com/.

→ 网站首页 → 网站地图 → ENGLISH

HAOYUAN 豪源 山東豪源集團 SHANDONG HAOYUAN GROUP

产品搜索： ----产品分类----- 搜索

· 网站首页 · 公司概况 · 新闻动态 · 产品中心 · 工艺技术 · 下属企业 · 销售网络 · 招贤纳才 · 在线订单 · 联系方式 · 客户留言

首页> 企业概况> 总经理致辞

企业概况

- 总经理致辞
- 企业文化
- 荣誉资质
- 发展历程
- 组织结构

产品类

- 原料药
- 中间体
- 保健品
- 溴化物
- 荧光材料及荧光灯
- 油气用化学品
- 油田用化学品
- 制浆与造纸用化学品

总经理致辞

豪源集团，集众英之豪气，
厚积薄发，源远流长。

豪源精神，忠诚、厚爱、高效、超群，
根植寿光沃土，藤挂万水千山。

豪源产品，惠及大众，品质一流。

豪源人愿与您结伴同行，共创美好未来。

董事长杨明愿与海内外有识之士，
常叙友谊、共谋发展。

----------下属企业----------

公司概况 | 产品世界 | 公司新闻 | 下属企业 | 销售网络 | 工艺技术 | 人力资源 | 联系我们 | 网站地图

HAOYUAN 豪源 山東豪源集團 SHANDONG HAOYUAN GROUP

HOME SITEMAP CHINESE

Sitemap: GO

Go Home · Company Profile · News Center · Products · Quality Control · Sub-Company · Sales Network · Order Online · Contact Us

Home > Company Profile > Sub-company

Company Profile

- About Us
- Culture
- Honors
- Organization

Products

- API
- Intermediates
- Health Product
- Bromides
- Ecological lighting products
- Chemicals for oil&gas
- Chemicals for oilfield
- Chemicals for pulping & paper making
- Fluorescent Products

Sub-company

Shouguang Haoyuan Chemical Co., Ltd.

Shouguang Haoyuan Chemical Co., Ltd., is located in the north of Shouguang city, which is specialized in the manufacturing of Inorganic chemicals, Bromine and Crude salt. Now Haoyuan Chemical has a bromine plant with the capacity of 30000 tons per year, salt field of 12000 acres with the capacity of 20000 tons per year.

Haoyuan Chemical always insist on the business philosophy of " To survive on quality and to develop on reputation", relying on Shandong University, increase Scientific and technical input, absorb the experienced technical personnel and strengthen the management. Since establishment, the company develop fast and business is good. Products have been well received by customers from Jiangsu, Zhejiang, Henan and locally.

Add: South of Bamianhe Village, Wopu Town, Shouguang, Shandong, China
Post Code: 262716
Tel: +86-536-5563999
Fax: +86-536-5569666



-----------Sub-Company---------

About Us| Products | News Center | Sub-company | Sales Network | Quality Control | Contact Us

Company Profile

- About Us
- Culture
- Honors
- Organization

Products

- API
- Intermediates
- Health Product
- Bromides
- Ecological lighting products
- Chemicals for oil&gas
- Chemicals for oilfield
- Chemicals for pulping & paper making
- Fluorescent Products

Sub-company

Shouguang Yuxin Chemical Co., Ltd.

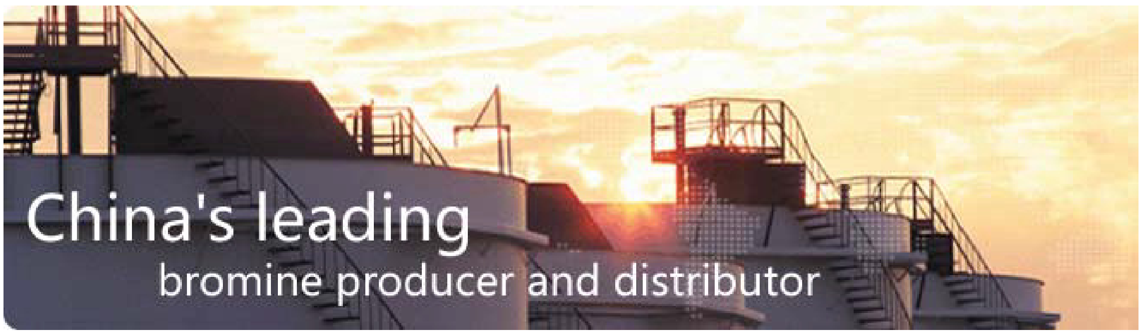
Shouguang Yuxin Chemical Co., Ltd. was founded in 1992, which is located in the center of Qinghe Oil Extraction Plant of Shengli Oilfield, in the north of Shouguang city, with a registered capital of 10.99 million RMB. Yuxin Chemical is engaged in the production of chemical products and oil accessories, also provides anticorrosion and heat prevention services etc.. The company has been ISO 9001-2000 approved, and also has been awarded as the internet member of Sinopec first-level supplier, the No.1 internet member of China Oil Energy, and enterprise of "honoring contracts and standing by reputation" in Shandong Province. For years, Yuxin Chemical is specialized in the manufacturing and R&D of Chemical additives for oilfield, Chemicals for paper-making, Pesticide emulsifiers, Detergents and Brominated flame retardant. Yuxin Chemical follows the business philosophy of "honesty, being practical, innovation and efficiency", making full use of local resources and digging the market potential. Products are selling to large oilfields such as Shengli Oilfield, Daqing Oilfield, Zhongyuan Oilfield, etc., large and medium-sized paper-making enterprises and also some large and medium-sized pesticide manufacturers.

With powerful technical strength and perfect testing method, Yuxin Chemical employs some experts, professors, doctors and high technology specialized personnel and adopt the high-tech from home and abroad, to devote itself to the R&D of new products. With high-grade and high-quality products, Yuxin Chemical always takes the lead in the chemical industry.

Add: Living Area No.2, Qinghe Oil Extraction Plant, Yangkou Town, Shouguang, Shandong, China
Post Code: 262714
Tel:+86-536-5563888, 0546-8839655
Fax:+86-536-5563888
Mobile: 15964031999

-----------Sub-Company---------

GULF RESOURCES



About Gulf

Overview

Corporate History

Chairman's Message

Management Team

Board of Directors

Board Of Directors

Ming Yang Chairman of the Board

Mr. Yang was born in 1966. He was nominated as director o
Field Office in 1993, where he managed operations. In 1997
appointed Chairman and General Manager of Shouguang Q
LL C and during the next three years the company s profits
took the position of General Manager of Shouguang City Yu
Industry Co., Ltd. in 2000. During his stay, he focused on qu
management and technology progress, which led to a 100 p
success rate on all products. He also helped the company su
pass the ISO certification and become a private high-tech enterprise. In 2005 he wa
to the position of Chairman, where he has helped the company to become a leading
bromine and crude salt in China. In 2006 he became Chairman of Gulf Resources, I
has been the representative of Shandong Shouguang congress since 1995 and in 1
awarded as Honorary Entrepreneur in Weifang City. In 2002 he was honored as one
outstanding youth in Shouguang.

Ya Fei Ji Independent Director

Mr. Ji obtained his doctorate degree in chemical engineering from the China Univers
& Technology (Beijing), in September 2001 and has engaged in medicinal chemistry
and served as an instructor at the East China University of Science and Technology
December 2003. From December 2001 until November 2003, he engaged in post-d
research at the Institute of Materia Medica, Chinese Academy of Medical Sciences
Union Medical College. From November 1996 to November 2001 he conducted rese

drug synthesis process and taught at the China University of
Chemical Industry Institute of Applied Chemistry, where he v
associate professor in 1999.

Naihui Miao Director Secretary

Mr. Miao was born in 1968. He was Director of Shouguang E
Trade Center since 1986. From 1991 to 2005, Mr. Miao serv
President of Shouguang City Commercia l Trading Center C
Limited. From 2005 to 2006, Mr. Miao served as Vice Presid
Shouguang City Yuxin Chemical Company Limited and as th
general manager. In 2005, he successfully developed the sa
Talimu oil Field. Since January 2006, Mr. Miao has served a
Secretary and Vice President of Gulf Resources, Inc. he is in
sales, human resources and business management.

Yang Zhou Independent Director

Mr. Yang Zou currently serves as auditing project leader at Beijing Zhongpingjianhu
Accountants Co., Ltd. He is a Certified Public Accountant of China and holds the ce
Certified Internal Auditor. From March 2003 to September 2009, Mr. Zou was chief f
officer of Bohua Ziguang Zhiye Co., Ltd. From July 2001 to January 2003, Mr. Zou v
department manager of financial center of Beijing Hengji Weiye Electronic Products
where he was in charge of internal audit, financial budget management, and coordin
external audit. From July 1999 to June 2001, Mr. Zou was manager of finance and a
department of Zhonglian Online Information Development Co., Ltd. From Septembe
June 1999, Mr. Zou had served as assistant auditor, auditor, and head of project au
Zhongou Certified Public Accountants Co., Ltd. From July 1991 to August 1993, Mr.
accountant of department of finance of Hunan Department Store Co., Ltd. Mr. Zou g
from Beijing University with bachelor's degree in finance.

Nan Li Independent Director

Mr. Li currently serves as Financial Controller at Global Pharm Holdings Group, Inc.
Bulletin Board listed company. He holds an Intermediate Accountant Certificate and
Public Accountant of China. From 2005 to 2010, Mr. Li was audit manager and divis
manager at Shenzhen Tianhua Accounting Firm, where he participated or been resp

auditing various Chinese large-scale financial institutions, securities companies, and companies, as well as acting as auditor or financial consultant to many U.S.-listed c From March 2002 to July 2004 and from July 2004 to February 2005, he worked as the internal control department of two Hong Kong listed companies, Suncorptech ar Grande Group, respectively. Mr. Li graduated from Changchun School of Taxation v bachelor's degree in Accountancy in 1996, and also obtained a master's degree in I Accountancy from the City University of Hong Kong in 2005.

Shitong Jiang Independent Director

Since 1990, Mr. Jiang has served as Section Chief of the Financial Department, Vic Chief of the Finance and Economics Department, and auditor of Shouguang Audit E Shandong. He also held the position of Coach of Shouguang Audit Bureau in Shanc 2002 and 2005. Between 2001 and 2004, he served as independent director of Sha Morischemical Co., Ltd. Mr. Jiang graduated from Shangdong Finance and Econom with a bachelors' degree.

Xiaobin Liu Director

Effective March 10, 2009, Mr. Xiaobin Liu was appointed the Executive Officer of Gulf Resources. Mr. Liu has been close with the Company since January 2007. Serving as Vice Pres responsible for all the Company's operations. From June 20 December 2006, he was the Vice President of Shenzhen SE Co., Ltd., a Shenzhen-listed company engaged in the real es hotel industries. From May 2000 to June 2005 he managed department of Saige International Trust and Investment Cor Hainan province and was in charge of asset management. From May 1995 to May 2 served as the Vice President of Hainan Wanquanhe Development, where he was in corporate operations and financial control. Prior to that, he worked in the finance de Chinese Black Metal, Ltd. and Shanxi Aircraft Manufacturing Company. He has a M degree in international accounting from the City University of Hong Kong. Mr. Liu wa

Board of Directors
Contact Us

Manufacturing Facilities
Research & Development

Investor Kits
Webcasts
FAQs