

China Natural Gas, Inc.  
Form 10-Q  
August 10, 2009

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000-31539  
(Commission file number)

CHINA NATURAL GAS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

98-0231607  
(IRS Employer of Identification No.)

19th Floor, Building B, Van Metropolis  
Tang Yan Road, Hi-Tech Zone  
Xi'an, 710065, Shaanxi Province, China  
(Address of principal executive offices)

\_\_\_\_\_  
(zip code)

86-29-8832-7391  
(registrant 's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Number of shares of Common Stock outstanding as of August 1, 2009: 14,600,154

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CHINA NATURAL GAS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2009 AND DECEMBER 31, 2008

	June 30, 2009 (Unaudited)	December, 31 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash & cash equivalents	\$ 9,701,176	\$ 5,854,383
Accounts receivable	979,179	906,042
Other receivable - employee advances	152,813	332,263
Inventories	1,196,791	519,739
Advances to suppliers	1,105,243	837,592
Prepaid expense and other current assets	558,868	838,294
Loan receivable	293,000	293,400
Total current assets	13,987,070	9,581,713
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>73,104,770</b>	<b>76,028,272</b>
<b>CONSTRUCTION IN PROGRESS</b>	<b>33,644,992</b>	<b>22,061,414</b>
<b>DEFERRED FINANCING COSTS</b>	<b>1,541,914</b>	<b>1,746,830</b>
<b>OTHER ASSETS</b>	<b>9,021,067</b>	<b>8,844,062</b>
<b>TOTAL ASSETS</b>	<b>\$ 131,299,813</b>	<b>\$ 118,262,291</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 1,621,773	\$ 800,013
Other payables	197,161	124,151
Unearned revenue	1,969,317	944,402
Accrued interest	1,237,778	861,114
Taxes payable	2,166,889	1,862,585
Total current liabilities	7,192,918	4,592,265
<b>LONG TERM LIABILITIES:</b>		
Notes payable, net of discount of \$14,167,334 and \$15,478,395 as of June 30, 2009 and December 31, 2008, respectively	25,832,666	24,521,605
Redeemable liabilities - warrants	17,500,000	17,500,000
Derivative liabilities - warrants	2,130,091	-
Total long term liabilities	45,462,757	42,021,605
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.0001 per share; 5,000,000 shares authorized; none issued		