

China Natural Gas, Inc.  
Form 10QSB  
August 20, 2007

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

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended June 30, 2007

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 small business issuer as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

98-0231607  
(IRS Employer of  
Identification No.)

Tang Xing Shu Ma Building, Suite 418  
Tang Xing Road  
Xian High Tech Area  
Xian, Shaanxi Province, China  
(Address of principal executive offices)

86-29-88323325  
(Issuer's telephone number)

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

Check whether the issuer (1) 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

Number of shares of Common Stock outstanding as of August 10, 2007: 28,888,655

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

Yes  No

Transitional Small Business Disclosure Format (check one): Yes  No

(Mark One)

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CHINA NATURAL GAS INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2007

ASSETS

	June 30, 2007 (Unaudited)
<b>CURRENT ASSETS:</b>	
Cash & cash equivalents	\$ 7,601,358
Accounts receivable, trade	709,328
Other receivables	1,433,695
Inventories	133,962
Advances to suppliers	1,493,755
Prepaid expense and other current assets	111,477
<b>Total current assets</b>	<b>11,483,575</b>
<b>PLANT AND EQUIPMENT, net</b>	<b>20,164,004</b>
<b>CONSTRUCTION IN PROGRESS</b>	<b>2,396,447</b>
<b>Total assets</b>	<b>\$ 34,044,026</b>

LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued expense	\$ 795,359
Other payables	107,741
Unearned revenue	350,672
Taxes payable	1,568,003
<b>Total current liabilities</b>	<b>2,821,775</b>

**SHAREHOLDERS' EQUITY:**

Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, none outstanding as of June 30, 2007	-
Common stock, \$0.0001 par value, 30,000,000 shares authorized,	2,421

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24,210,183 shares issued and outstanding as of June 30, 2007	
Additional paid in capital	18,223,911
Statutory reserves	1,245,269
Retained earnings	10,174,486
Accumulated other comprehensive income	1,576,164
Total shareholders' equity	31,222,251
Total liabilities and shareholders' equity	\$ 34,044,026

The accompanying notes are an integral part of these consolidated financial statements.

CHINA NATURAL GAS INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME AND  
 OTHER COMPREHENSIVE INCOME  
 FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
 (UNAUDITED)

	Three Months Ended June 30		Six months Ended June 30	
	2007	2006	2007	2006
<b>REVENUES</b>				
Natural gas revenue	\$ 6,765,265	\$ 2,504,449	\$ 11,688,837	\$ 3,369,402
Construction/installation revenue	1,508,044	1,219,734	3,328,048	2,141,995
<b>Total revenue</b>	<b>8,273,309</b>	<b>3,724,183</b>	<b>15,016,885</b>	<b>5,511,397</b>
<b>COST OF GOODS SOLD</b>				
Natural gas revenue	3,463,242	1,603,745	5,955,893	2,109,608
Construction/installation revenue	666,957	505,884	1,400,523	