

China Natural Gas, Inc.
Form 10-Q
August 13, 2010

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, 2010

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

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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):

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 6: 21,215,337

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, 2010 AND DECEMBER 31, 2009

	June 30, 2010 (Unaudited)	December, 31 2009
ASSETS		
CURRENT ASSETS:		
Cash & cash equivalents	\$ 42,606,410	\$ 48,177,794
Accounts receivable, net of allowance for doubtful accounts of \$206,514 and \$163,280 as of June 30, 2010 and December 31, 2009, respectively	1,174,673	1,289,116
Other receivables	36,942	709,741
Other receivable - employee advances	303,887	338,689
Inventories	842,259	841,837
Advances to suppliers	1,385,058	596,868
Prepaid expense and other current assets	3,769,977	1,076,915
Loans receivable	-	293,400
Total current assets	50,119,206	53,324,360
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	1,467,000	1,467,000
PROPERTY AND EQUIPMENT, NET	80,342,000	72,713,012
CONSTRUCTION IN PROGRESS	78,363,718	52,918,236
DEFERRED FINANCING COSTS	1,132,082	1,336,998
OTHER ASSETS	17,262,417	15,854,910
TOTAL ASSETS	\$ 228,686,423	\$ 197,614,516
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 3,550,860	\$ 2,081,261
Other payables	96,412	80,788
Unearned revenue	2,282,024	1,813,641
Accrued interest	706,065	786,052
Taxes payable	2,051,374	1,901,577
Notes payable, net of discount \$11,135,111 and \$0 as of June 30, 2010 and December 31, 2009, respectively	28,864,889	-
Redeemable liabilities - warrants	17,500,000	-
Total current liabilities	55,051,624	6,663,319
LONG TERM LIABILITIES:		
Notes payable, net of discount \$0 and \$12,707,713 as of June 30, 2010 and December 31, 2009, respectively	-	27,292,287
Derivative liabilities - warrants	987,455	19,545,638
Long term debt	17,676,000	-
Total long term liabilities	18,663,455	46,837,925

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Total liabilities	73,715,079	53,501,244
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.0001 per share; 5,000,000 shares authorized; none issued	-	-
Common stock, \$0.0001 per share; 45,000,000 shares authorized, 21,321,904 shares issued and outstanding at June 30, 2010 and December 31, 2009	2,132	2,118
Additional paid-in capital	81,394,533	79,851,251
Cumulative other comprehensive gain	9,473,023	8,714,019
Statutory reserves	6,925,689	5,962,695
Retained earnings	57,175,967	49,583,189
Total stockholders' equity	154,971,344	144,113,272
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 228,686,423	\$ 197,614,516

The accompanying notes are an integral part of these consolidated 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, 2010 AND 2009
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues				
Natural gas revenue	\$ 16,221,003	\$ 15,720,679	\$ 31,704,632	\$ 30,686,498
Gasoline revenue	2,033,840	1,633,016	3,502,656	2,807,414
Installation and others	2,880,756	3,388,825	5,295,134	5,776,274
Total revenues	21,135,599	20,742,520	40,502,422	39,270,186
Cost of revenues				
Natural gas cost	8,357,990	7,490,518	16,222,644	14,237,447
Gasoline cost	1,910,294	1,529,752	3,277,572	2,659,809
Installation and others	1,251,783	1,444,060	2,291,706	2,461,088
Total cost of revenues	11,520,067	10,464,330	21,791,922	19,358,344
Gross profit	9,615,532	10,278,190	18,710,500	19,911,842
Operating expenses				
Selling expenses	3,054,992	2,596,784	5,946,782	5,177,609
General and administrative expenses	1,913,866	917,354	3,731,522	2,342,678
Total operating expenses	4,968,858	3,514,138	9,678,304	7,520,287
Income from operations	4,646,674	6,764,052	9,032,196	12,391,555
Non-operating income (expense):				
Interest income	260,021	7,784	349,387	16,692
Interest expense	-	(388,618)	-	(970,110)
Other income (expense), net	(3,031)	(20,926)	43,538	(23,229)
Change in fair value of warrants	665,115	(1,312,834)	1,058,183	(1,115,783)
Foreign currency exchange loss	(34,665)	(19)	(42,775)	(50,807)
Total non-operating income (expense)	887,440	(1,714,613)	1,408,333	(2,143,237)
Income before income tax	5,534,114	5,049,439	10,440,529	10,248,318
Provision for income tax	973,611	1,186,683	1,884,756	2,183,939
Net income	4,560,503	3,862,756	8,555,773	8,064,379
Other comprehensive income				
Foreign currency translation gain (loss)	797,858	(2,997)	759,004	(155,112)
Comprehensive income	\$ 5,358,361	\$ 3,859,759	\$ 9,314,777	\$ 7,909,267
Weighted average shares outstanding				
Basic	21,246,771	14,600,154	21,215,337	14,600,154