China Natural Gas, Inc.
Form 10QSB
August 03, 2006

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2006

|_| 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	98-0231607
(State or other jurisdiction of incorporation or organization)	(IRS Employer 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 |X| No |_|

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 2, 2006 - 23,918,516 shares of common stock

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

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

CHINA NATURAL GAS, INC.
Index

CHINA NATURAL GAS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2006

	June 30, 2006
	(unaudited)
ASSETS	
CURRENT ASSETS:	
Cash & cash equivalents	$ 7,142,852
Accounts receivable, net of allowance for doubtful accounts of $0	325,584
Other receivable	795,940
Inventory	111,511
Advances to suppliers	446,343
Prepaid expense	280,271

Total current assets	9,102,501
PROPERTY AND EQUIPMENT, net	10,956,075
CONTRACTS IN PROGRESS	17,353
CONSTRUCTION IN PROGRESS	941,770
INTANGIBLE ASSETS	994
TOTAL ASSETS	$21,018,693
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable & accrued expense	$ 211,384
Other payables	668,072
Unearned revenue	249,768
Total current liabilities	1,129,224
STOCKHOLDERS' EQUITY:	
Preferred stock, $0.0001 per share; authorized 5,000,000 shares; none issued	
Common stock, $0.0001 per share; authorized 30,000,000 shares; issued and outstanding 23,918,516	2,391
Additional paid-in capital	17,173,940
Cumulative translation adjustment	261,964
Statutory reserve	373,534
Retained earnings	2,077,640
Total stockholders' equity	19,889,469
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$21,018,693

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

CHINA NATURAL GAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	Three Months Ended June 30,		Six Months Ended June 3	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudite
Revenue				
Natural gas revenue	$ 2,504,449	$ 425,885	$ 3,369,402	658,6
Construction / installation revenue	1,219,734	652,827	2,141,995	662,7

Total revenue	3,724,183	1,078,712	5,511,397	1,321,4
Cost of revenue				
Natural gas cost	1,603,745	336,383	2,109,608	515,4
Construction / installation cost	505,884	237,266	842,533	239,3
	2,109,629	573,649	2,952,141	754,8
Gross profit	1,614,554	505,063	2,559,256	566,6
Operating expenses				
Selling expenses	312,610	86,152	557,344	169,9
General and administrative expenses	203,408	29,867	423,110	55,8
Total operating expenses	516,018	116,019	980,454	225,8
Income from operations	1,098,536	389,044	1,578,802	340,7
Non-operating income (expense):				
Interest income	2,033	338	4,777	5
Other income (expense)	(5,977)	(960)	(5,951)	(1,1
Total non-operating income (expense)	(3,944)	(622)	(1,174)	(5
Income before income tax	1,094,592	388,422	1,577,628	340,1
Income tax	167,323	--	239,779	
Net income	$ 927,269	$ 388,422	$ 1,337,849	340,1
Other comprehensive income				
Foreign currency translation gain	(29,439)	--	33,217	
Comprehensive Income	$ 897,830	$ 388,422	$ 1,371,066	340,15
Weighted average shares outstanding				
Basic	23,918,956	16,000,000	23,671,904	15,962,8
Duiluted	23,918,956	16,000,000	23,776,062	15,962,8
Earnings per share				
Basic	$ 0.04	$ 0.02	$ 0.06	0.
Diluted	$ 0.04	$ 0.02	$ 0.06	$ 0.

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

CHINA NATURAL GAS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	Six Months Ended June 30, 2006 (unaudited)	Six Months Ended June 30, 2005 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,337,849	$ 340,159
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	312,407	218,630
Exchange gains	(102,032)	
(Increase) / decrease in assets:		
Accounts receivable	(317,954)	4,509
Other receivable	(634,763)	(3,565,918)
Inventory	(65,424)	718
Advances to suppliers	(430,503)	--
Prepaid expense	(263,019)	135
Contract in progress	(17,273)	188,336
Increase / (decrease) in current liabilities:		
Accounts payable	15,914	10,511
Other payables	(77,174)	25,638
Unearned revenue	(55,975)	(624,113)
Net cash provided by (used in) operating activities	(297,947)	(3,401,395)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment on purchase of property and equipment	(2,911,286)	(72,712)
(Additions) reductions to construction in progress	797,444	(7,778)
Net cash used in investing activities	(2,113,842)	(80,490)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock issued for cash	10,400,000	3,504,190
Payment of offering costs	(1,557,147)	--
Net cash provided by in financing activities	8,842,853	3,504,190
Effect of exchange rate changes on cash and cash equivalents	36,164	--
NET INCREASE IN CASH & CASH EQUIVALENTS	6,467,228	22,305
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	675,624	62,998
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 7,142,852	$ 85,303
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ --	$ --
Income taxes paid	$ --	$ --

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

CHINA NATURAL GAS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Organization and Basis of Presentation

The unaudited consolidated financial statements have been prepared by China Natural Gas, Inc. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended December 31, 2005 included in the Company's Annual Report on Form 10-KSB. The results of the six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

Organization and Line of Business

Xi'an Xilan Natural Gas Co, Ltd. ("XXNGC") was incorporated on January 8, 2000 in Xi'an City in the Shaanxi province, China. The core business of XXNGC is distribution of natural gas to commercial, industrial and residential customers, construction of pipeline networks, and installation of natural gas fittings and parts for end-users and operation of retail filling stations for the distribution of compressed natural gas as a vehicular fuel to retail end users. XXNGC has an exclusive permit to provide gas utility service in Lantian County, Lintong and Baqiao District of Xi'an city, China.

On December 6, 2005, XXNGC entered into and closed a share purchase agreement with Coventure International, Inc. ("Coventure"), a public shell in the United States of America incorporated in the state of Delaware. Pursuant to the purchase agreement, Coventure acquired all of the issued and outstanding capital stock of XXNGC in exchange for 16,000,000 (post-split) shares of Coventure's common stock.

Concurrently with the closing of the purchase agreement and as a condition thereof, Coventure entered into an agreement with John Hromyk, its President and Chief Financial Officer, pursuant to which Mr. Hromyk returned 23,884,712 (post-split) shares of Coventure's common stock for cancellation. Upon completion of the foregoing transactions, Coventure had an aggregate of 20,204,088 (post-split) shares of common stock issued and outstanding.

As a result of the merger, XXNGC's stockholders own approximately 80% of the combined company and the directors and executive officers of XXNGC became the directors and executive officers of Coventure. Accordingly, the transaction has been accounted for as a reverse acquisition of Coventure by XXNGC resulting in a recapitalization of XXNGC rather than as a business combination. XXNGC is deemed to be the purchaser and surviving company for accounting purposes. Accordingly, its assets and liabilities are included in the balance sheet at their historical book values and the results of operations of XXNGC have been presented for the comparative prior period. The historical cost of the net liabilities of Coventure that were acquired was $3,378. Pro forma information is not presented as the financial statements of Coventure are insignificant. In addition, Coventure changed it name to China Natural Gas, Inc. (hereafter referred to as the "Company") and the stockholders approved a stock dividend of three shares for each share held, which has been accounted for as a four to one forward stock split. All shares and per share data have been restated retrospectively.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of China Natural Gas, Inc. and its wholly owned subsidiary, XXNGC. All inter-company accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company's functional currency is the Chinese Renminbi (RMB); however the accompanying consolidated financial statements have been translated and presented in United States Dollars (USD).

Foreign Currency Translation

As of June 30, 2006 and 2005, the accounts of the Company were maintained, and their consolidated financial statements were expressed in the Chinese Yuan Renminbi (RMB). Such consolidated financial statements were translated into United States Dollars (USD) in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, "Foreign Currency Translation," with the RMB as the functional currency. According to the Statement, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholder's equity are translated at the historical rates and statement of operations items are translated at the weighted average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income."

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts and Other Receivable

Accounts and other receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts, as needed. The Company allowance for uncollectible accounts is not significant.

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Reserves are recorded primarily on a specific identification basis.

Advances to Suppliers

The Company advances to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured.

Inventory

Inventory is stated at the lower of cost, as determined on a first-in, first-out basis, or market. Management compares the cost of inventories with the market value, and allowance is made for writing down the inventories to their market value, if lower. Inventory consists of material used in the construction of pipelines.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

Office equipment	5 years
Operating equipment	5-20 years
Vehicles	5 years
Buildings	30 years

At June 30, 2006, the following are the details of the property and equipment:

Office equipment	$ 40,224
Operating equipment	10,096,352
Vehicles	278,912
Buildings	1,949,578
	12,365,066
Less accumulated depreciation	(1,408,991)
	$ 10,956,075

Depreciation expense for the six months ended June 30, 2006 and 2005 was $312,295 and $218,630, respectively.

Long-Lived Assets

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal.

Construction In Progress

Construction in progress consists of the cost of constructing fixed assets for the Company's use. The major cost of construction in progress relates to material, labor and overhead.

Contracts In Progress

Contracts in progress consist of the cost of constructing pipelines for customers. The major cost of construction relates to material, labor and overhead. Revenue from construction and installation of pipelines is recorded when the contract is completed and accepted by the customers. The construction contracts are usually completed within one to two months time. As of June 30, 2006, the Company had $17,353 of contracts in progress.

Fair Value of Financial Instruments

Statement of financial accounting standard No. 107, Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Revenue Recognition

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Revenue is recognized when services are rendered to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue. Revenue from gas sales is recognized when gas is pumped through pipelines to the end users. Revenue from construction and installation of pipelines is recorded when the contract is completed and accepted by the customers. The construction contracts are usually completed within one to three months time.

Deferred Revenue

Deferred revenue represents prepayments by customers for gas purchases and advance payments on construction and installation of pipeline contracts. The Company records such prepayment as unearned revenue when the payments are received.

Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. Advertising costs for the six months ended June 30, 2006 and 2005 were insignificant.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123." The Company recognizes in the statement of operations the grant- date fair value of stock options and other equity-based compensation issued to employees and non-employees.

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. At June 30, 2006, there was no significant book to tax differences. There is no difference between book depreciation and tax depreciation as the Company uses the same method for both book and tax.

Local PRC Income Tax

Pursuant to the tax laws of China, general enterprises are subject to income tax at an effective rate of 33%. The Company is in the natural gas industry whose development is encouraged by the government. According to the income tax regulation, any company engaged in the natural gas industry enjoys a favorable tax rate. Accordingly, the Company's income is subject to a reduced tax rate of 15%.

Foreign Currency Transactions and Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. During the six months ended June 30, 2006 and 2005, other comprehensive income in the consolidated statements of income and other comprehensive income included translation gain of $36,164 and $0, respectively.

Basic and Diluted Earning Per Share

Earning per share is calculated in accordance with the Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings per share". SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net earning per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net earning per share is based upon the weighted average number of common shares outstanding. Diluted net earning per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. At June 30, 2006, the Company had outstanding 1,431,953 warrants that resulted in 104,158 common stock equivalents for the six months ended June 30, 2006.

Statement of Cash Flows

In accordance with Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," cash flows from the Company's operations is calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Segment Reporting

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosure About Segments of an Enterprise and Related Information" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. SFAS 131 has no effect on the Company's consolidated financial statements as the Company consists of one reportable business segment. All revenue is from customers in the People's Republic of China. All of the Company's assets are located in the People's Republic of China.

Recent Pronouncements

In March 2006 FASB issued SFAS 156 `Accounting for Servicing of Financial Assets' this Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.

2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.

3. Permits an entity to choose `Amortization method' or Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities:

4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.

5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

Note 3 - Other Payables

Other payable consists of the following as of June 30, 2006:

Other accounts payable	$ 50,525
Welfare payable	11,883
Tax payable	594,718
Other	10,946
	$668,072

Note 4 - Stockholders' Equity

Common stock

On January 6, 2006 and January 9, 2006, the Company entered into securities purchase agreements with four accredited investors and completed the sale of $5,380,000 of units. The units contained an aggregate of 1,921,572 shares of common stock and 523,055 common stock purchase warrants. Each common stock purchase warrant is exercisable for a period of three years at an exercise price of $3.60 per share. Pursuant to the terms of the warrant, each investor has contractually agreed to restrict its ability to exercise the warrants to an amount which would not exceed the difference between the number of shares of common stock beneficially owned by the holder or issuable upon exercise of the warrant held by such holder and 9.9% of the outstanding shares of common stock of the Company.

In connection with the offering, the Company paid a placement fee of 10% of the proceeds in cash, together with non-accountable expenses in the amount of 3% of the proceeds, in cash. In addition, the placement agent was issued warrants to purchase 298,888 shares of common stock on the same terms and conditions as the investors. The warrants issued to the placement agent are being treated as a cost of raising capital. The warrants were valued using the Black Scholes pricing model; however, recording the value of the warrants in the financial statements has no impact as the value of the warrants is both debited and credited to additional paid in capital.

On January 10, 2006 through January 13, 2006, the Company entered into securities purchase agreements with four accredited investors and completed the sale of $2,195,198 of units. The units contained an aggregate of 783,999 shares of common stock and 213,422 common stock purchase warrants. Each common stock purchase warrant is exercisable for a period of three years at an exercise price of $3.60 per share. Pursuant to the terms of the warrant, each investor has contractually agreed to restrict its ability to exercise the warrants to an amount which would not exceed the difference between the number of shares of common stock beneficially owned by the holder or issuable upon exercise of the warrant held by such holder and 9.9% of the outstanding shares of common stock of the Company.

In connection with the offering, the Company paid a placement fee of 10% of the proceeds in cash, together with non-accountable expenses in the amount of 3% of the proceeds, in cash. In addition, the placement agent was issued warrants to purchase 121,955 shares of common stock on the same terms and conditions as the investors. The warrants issued to the placement agent are being treated as a cost of raising capital. The warrants were valued using the Black Scholes pricing model; however, recording the value of the warrants in the financial statements has no impact as the value of the warrants is both debited and credited to additional paid in capital.

On January 17, 2006, the Company entered into securities purchase agreements with an accredited investor and completed the sale of $2,824,802 of units. The units contained an aggregate of 1,008,857 shares of common stock and 274,633 common stock purchase warrants. Each common stock purchase warrant is exercisable for a period of three years at an exercise price of $3.60 per share. Pursuant to the terms of the warrant, each investor has contractually agreed to restrict its ability to exercise the warrants to an amount which would not exceed the difference between the number of shares of common stock beneficially owned by the holder or issuable upon exercise of the warrant held by such holder and 9.9% of the outstanding shares of common stock of the Company.

Warrants

Following is a summary of the warrant activity:

	Warrants outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, December 31, 2005	--	--	--
Granted	1,431,953	--	
Forfeited	--	--	
Exercised	--	--	
Outstanding, June 30, 2006	1,431,953	$3.60	$ 0

Following is a summary of the status of warrants outstanding at June 30, 2006:

Outstanding Warrants			Exercisable Warrants	
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number
$3.60	1,431,953	2.53	$3.60	1,431,953

Note 5 - Employee Welfare Plan

The Company has established its own employee welfare plan in accordance with Chinese law and regulations. The Company makes annual contributions of 14% of all employees' salaries to employee welfare plan. The total expense for the above plan was $22,774 and $3,408 for the six months ended June 30, 2006 and 2005, respectively.

Note 6 - Statutory Common Welfare Fund

As stipulated by the Company Law of the People's Republic of China (PRC) as applicable to Chinese companies with foreign ownership, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

i. Making up cumulative prior years' losses, if any;

ii. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;

iii. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

iv. Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

The Company has appropriated $203,812 and $51,023 as reserve for the statutory surplus reserve and welfare fund for the six months ended June 30, 2006 and

2005, respectively.

Note 7 - Earnings Per Share

Earnings per share for six months June 30, 2006 and 2005 were determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock and common stock equivalents outstanding.

The following is an analysis of the differences between basic and diluted earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share".

	Three Months Ended June 30,					
	2006			2005		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic earnings per share						
Net income	$927,269			$388,422		
Weighed shares outstanding		23,918,956			16,000,000	
			$ 0.04			$0.02
Diluted earnings per share						
Net income	$927,269			$388,422		
Weighed shares outstanding		23,918,956			16,000,000	
Effect of dilutive securities Warrants		--			--	
		23,918,956			16,000,000	
			$ 0.04			$0.02

CHINA NATURAL GAS, INC. AND SUBSIDIARY
NOTES T0 CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Six Months Ended June 30,					
	2006			2005		
			Per			Per

	Income	Shares	Share	Income	Shares	Share
Basic earnings per share						
Net income	$1,337,849			$340,159		
Weighed shares outstanding		23,671,904			15,962,847	
			$0.06			$0.02
Diluted earnings per share						
Net income	$1,337,849			$340,159		
Weighed shares outstanding		23,671,904			15,962,847	
Effect of dilutive securities Warrants		104,158			--	
		23,776,062			15,962,847	
			$0.06			$0.02

Note 8 - Current Vulnerability Due to Certain Concentrations

For the six months ended June 30, 2006 and 2005, the Company purchased all of the natural gas for resale from one vendor, Shaanxi Natural Gas Co., Ltd., a government owned enterprise. $24,860 was owing to to this vendor at June 30, 2006. The Company has had annual agreements with Shaanxi Natural Gas that requires the Company to purchase a minimum amount of natural gas. For the year ended December 31, 2005, the minimum purchases was 2.36 million cubic meters. In the past, contracts were renewed on an annual basis. However, as the volume of usage has increased, Shaanxi Natural Gas has revised their policies, and contract terms are now six months and subject to review prior to renewal. The Company's management reports that it does not expect any issues or difficulty in continuing to renew the supply contracts going forward. Price points for natural gas are strictly controlled by the government and have remained stable over the past 3 years.

For the six months ended June 30, 2006, two supplier accounts for 48.2% and 24.1% of the total equipment purchased by the Company.

One customer accounted for 22.4% of the Company's construction revenue for the six months ended June 30, 2006 and two customers accounted for 48.8% and 36.8% of the Company's revenue for the six months ended June 30, 2005.

The Company's operations are carried out in the People's Republic of China. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the People's Republic of China, by the general state of the People's Republic of China`s economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

CHINA NATURAL GAS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 9 - Related Party Transactions

Included in other payables in the accompanying balance sheet at June 30, 2006 is $43,290 due to stockholder of the Company.

Note 10 - Reclassifications

Certain prior period amounts have been reclassified to conform to the six months ended June 30, 2006 presentation.

15

Item 2. Management's Discussion and Analysis or Plan of Operations

Forward-Looking Statements

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as "believes," "estimates," "could," "possibly," "probably," anticipates," "projects," "expects," "may," "will," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our audited financial statements included in our Annual Report on Form 10KSB for the year ended December 31, 2005. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

Corporate History

We were incorporated in the state of Delaware on March 31, 1999, as Bullet Environmental Systems, Inc. and on May 25, 2000 we changed our name to Liquidpure Corp. and on February 14, 2002 we changed our name to Coventure International Inc. On December 6, 2005, we closed a Share Purchase Agreement with Xian Xilan Natural Gas Co., Ltd., a corporation formed under the laws of the People's Republic of China on January 8, 2000, and the shareholders of Xian Xilan Natural Gas Co., Ltd. Pursuant to the Agreement, we acquired all of the issued and outstanding capital stock of Xian Xilan Natural Gas Co., Ltd. from the shareholders of Xian Xilan Natural Gas Co., Ltd. In exchange the shareholders of Xian Xilan Natural Gas Co., Ltd. received 16,000,000 (post split) shares of common stock of Coventure International Inc. On December 19, 2005 we changed our name to China Natural Gas, Inc.

Significant Accounting Policies

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable

Accounts and other receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts, as needed. Our allowance for uncollectible accounts is not significant.

We maintain reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Reserves are recorded primarily on a specific identification basis.

Advances to Suppliers

We advance to certain vendors for purchase of our material. The advances to suppliers are interest free and unsecured.

Inventory

Inventory is stated at the lower of cost, as determined on a first-in, first-out basis, or market. Management compares the cost of inventories with the market value, and allowance is made for writing down the inventories to their market value, if lower. Inventory consists of material used in the construction of pipelines.

Property and equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives.

Construction In Progress

Construction in progress consists of the cost of constructing fixed assets for our use. The major cost of construction in progress relates to material, labor and overhead.

Contracts In Progress

Contracts in progress consist of the cost of constructing pipelines for customers. The major cost of construction relates to material, labor and overhead. Revenue from construction and installation of pipelines is recorded when the contract is completed and accepted by the customers. The construction contracts are usually completed within one to two months time. As of December 31, 2005, the Company has no contracts in progress.

Revenue recognition

Our revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Revenue is recognized when services are rendered to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue. Revenue from gas sales is recognized when gas is pumped through pipelines to the end users. Revenue from construction and installation of pipelines is recorded when the contract is completed and accepted by the customers. The construction contracts are usually completed within one to three months time.

Stock-based compensation

We account for our stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123." We recognize in the statement of operations the grant- date fair value of stock options and other equity-based compensation issued to employees and non-employees.

Income taxes

We utilize SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Local PRC Income Tax

Pursuant to the tax laws of China, general enterprises are subject to income tax at an effective rate of 33%. We are in the natural gas industry whose development is encouraged by the government. According to the income tax regulation, any company engaged in the natural gas industry enjoys a favorable tax rate. Accordingly, our income is subject to a reduced tax rate of 15%.

Foreign currency transactions and comprehensive income (loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. Transactions occur in Chinese Renminbi. The unit of Renminbi is in Yuan.

Recent Accounting Pronouncements

In March 2006 FASB issued SFAS 156 `Accounting for Servicing of Financial Assets' this Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.

2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.

3. Permits an entity to choose `Amortization method' or Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities:

4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.

5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

Results of Operations

Three Months Ended June 30, 2006 compared to Three Months Ended June 30, 2005

Revenue. We generated revenues of $3,724,183 for the three months ended June 30, 2006, an increase of $2,645,471 or 245.2%, compared to $1,078,712 for the three months ended June 30, 2005. The increase in revenues was due to a 488% increase in our natural gas revenues, as we opened 4 new filling stations during the three months ended June 30, 2006. However, we also had approximately an 87% increase in our construction/installation revenues during this period, as we continue to increase the number of households we serve to approximately 63,000.

Approximately 67.2% of our total revenues, for the three months ended June 30, 2006, are from the sale of natural gas, 92.9% of our revenues of natural gas were sold in our natural gas filling stations. We sell the compressed natural gas at the filling stations to CNG powered vehicles. Utility customers accounted for 3.9% of our natural gas sales, and 3.2% of natural gas revenues was sold wholesale to third party natural gas filling station operators.

The balance of our total revenues for the three month period ended June 30, 2006, 32.8%, was from construction/installation revenue. New households pay approximately 60% of the construction costs of the pipeline that supplies their homes with natural gas up front and the balance is paid as part of the monthly natural gas bill. One customer accounted for 18.5% of our construction/ installation revenue for the three months June 30, 2006 and two customers accounted for 58.3% and 32.2% of our revenue for the three months ended June 30, 2005.

Gross profit. We have achieved a gross profit of $1,614,554 for the three months ended June 30, 2006, an increase of $1,109,491 or 219.7%, compared to $505,063 for the three months ended June 30, 2005. Gross profit for natural gas sale for the three month period ended June 30, 2006 was $900,704 or 55.8% of the total gross profit, construction and installation accounted for $713,850 or 44.2% of the period's gross profit.

Gross profit for natural gas sale increased to $900,704 for the three months ended June 30, 2006, an increase of $811,202 or 906.4%, compared to $86,502 for the three months ended June 30, 2005. Gross profit on the construction and installation activity increased to $713,850 for the three months ended June 30, 2006, an increase of $298,289 or 71.7%, compared to $415,561 for the three months ended June 30, 2005.

Gross margin, as a percentage of revenues, decreased to 43.4% for the three months ended June 30, 2006, from 46.8% for the three months ended June 30, 2005. The decrease in gross profit margin is due to the large increase in our filling station revenues and natural gas revenues overtaking construction/installation revenues as the major contributor to our total revenues. The gross profit margin on construction/installation is 58.5% for this period while the sale of natural has a gross profit margin of 35.96%. We work with gross margins on the construction and installation activity that are approximately 60%, dependent on the scope of the job, mostly due to the low cost of labor. This segment of our business, although not a monthly recurring business is highly profitable.

We purchase all of our natural gas for resale from a government owned entity, the Shaanxi Natural Gas Co. Inc. As all land in China is owned by the government, the government controls and owns all the natural resources coming from the ground, thus the government controls the price and flow of the natural gas. As China shifts from a centrally planned economy to a market economy, we believe that it is in the government's best interest to keep prices stable, as they have been for the last 3 years, and maintain a stable flow of supply. The government has undertaken programs to promote the growth of the region in which we are located. The rate that we pay for natural gas is set by the central government, and has been stable for the past 3 years. Therefore, we expect supply and our cost price to continue to be stable in the future. There is one price that we charge all of our household, retail/commercial and industrial customers (utility customers) set by the local provincial government. There is no fixed formula to derive the selling price, nor are the rates designed to capture costs and expenses, or achieve a specified level of profit.

For the three months ended June 30, 2006, three suppliers accounted for 48.5%, 33.6% and 12.2% of the total equipment we purchased for construction activities. We believe that as a result of our relationships within the construction industry and the construction equipment vendor community, and the availability of other vendors to supply the construction equipment and materials, the loss of any one of the two vendors would not have a material adverse effect on our operations.

Operating expenses. We incurred operating expenses of $516,018 for the three months ended June 30, 2006, an increase of $399,999 or 344.8%, compared to $116,019 for the three months ended June 30, 2005. These operating expenses are related to increased sales and marketing costs to sign new residential and commercial customers (utility customers) as well as marketing for the four new filling stations we began to operate during the period. The four new filling stations also added additional staff to our operations. We currently have in place a marketing strategy targeting professional drivers to increase their awareness of our filling stations and educating them about the differences between our filling stations and our competitors run by inefficient government entities or other privately owned operators that lack sufficient supply. We continue to identify possible locations for new filling stations, and are applying to the proper governmental agencies for all necessary approvals and licenses to construct the new filling stations. We are also in discussions to acquire existing filling stations from our competitors.

Net Income. Net income was $927,269 for the three months ended June 30, 2006, an increase of $538,847 or 138.7% from $388,422 for the three months ended June 30, 2005. The increase is attributed to the growth of all segments of our business, from construction and installation to the sale of natural gas to our three classes of customers (utility, our own filling stations and wholesale to third party filling stations). The greatest impact has been from the addition of four new natural gas filling stations during the three months ended June 30, 2006.

Six Months Ended June 30, 2006 compared to Six Months Ended June 30, 2005

Revenue. We generated revenues of $5,511,397 for the six months ended June 30, 2006, an increase of $4,189,963 or 317.1%, compared to $1,321,434 for the six months ended June 30, 2005. The increase in revenues was due to an approximately 412% increase in the sale of natural gas, from $658,652 in the six months ended June 30, 2005 to $3,369,402 during the six months ended June 30, 2006. The major factor in this increase was the opening of 7 natural gas filling stations during this period. We also increased construction and installation revenue by approximately 223% from $662,782 in the six months ended June 30, 2005 to $2,141,995 during the six months ended June 30, 2006. This increase is attributed to the approximately 13,000 new residential and commercial customers we signed during the six months ended June 30, 2006.

Approximately 61% of our total revenues, for the six months ended June 30, 2006, are from the sale of natural gas, and 85.4% of our revenues of natural gas were sold in our natural gas filling stations. We sell the compressed natural gas at the filling stations to CNG powered vehicles. Utility customers accounted for 6.4% of our natural gas sales, and 8.2% of natural gas revenues was sold wholesale to third party natural gas filling station operators. The balance of our total revenues for the six month period ended June 30, 2006, approximately 39%, was from construction/installation revenue. In the six months ended June 30, 2005 construction/installation revenue was approximately half of all revenues during the period. One customer accounted for 22.4 of our revenue for the six months June 30, 2006 and two customers accounted for 48.8 and 36.8% of our revenue for the six months ended June 30, 2005.

20

Gross profit. We have achieved a gross profit of $2,559,256 for the six months ended June 30, 2006, an increase of $1,992,623 or 351.7%, compared to $566,633 for the six months ended June 30, 2005. Gross profit for natural gas sale for the six month period ended June 30, 2006 was $1,259,794 or 49.2% of the total gross profit, construction and installation accounted for $1,299,462 or 50.8% of the period's gross profit.

Gross profit for natural gas sale increased to $1,259,794 for the six months ended June 30, 2006, an increase of $1,116,553 or 779.5%, compared to $143,241 for the six months ended June 30, 2005. Gross profit on the construction and installation activity increased to $1,299,462 for the six months ended June 30, 2006, an increase of $876,070 or 206.9%, compared to $423,392 for the six months ended June 30, 2005.

Gross margin, as a percentage of revenues, increased to 46.4% for the six months ended June 30, 2006, from 42.9% for the six months ended June 30, 2005. The increase in gross profit is due to the increased construction and installation activity. The gross profit margin on construction/installation is 60.7% for this period while the sale of natural has a gross profit margin of 37.4%. We work with gross margins on the construction and installation activity that are approximately 60%, dependent on the scope of the job, mostly due to the low cost of labor. This segment of our business, although not a monthly recurring business is highly profitable.

We purchase all of our natural gas for resale from a government owned entity, the Shaanxi Natural Gas Co. Inc. As all land in China is owned by the government, the government controls and owns all the natural resources coming from the ground, thus the government controls the price and flow of the natural gas. As China shifts from a centrally planned economy to a market economy, we believe that it is in the government's best interest to keep prices stable, as they have been for the last 3 years, and maintain a stable flow of supply. The government has undertaken programs to promote the growth of the region in which we are located. The rate that we pay for natural gas is set by the central government, and has been stable for the past 3 years. Therefore, we expect supply and our cost price to continue to be stable in the future. There is one price that we charge all of our household, retail/commercial and industrial customers set by the local provincial government. There is no fixed formula to derive the selling price, nor are the rates designed to capture costs and expenses, or achieve a specified level of profit.

For the six months ended June 30, 2006, two suppliers accounted for 48.2% and 24.1% of the total equipment we purchased for construction activities. We believe that as a result of our relationships within the construction industry and the construction equipment vendor community, and the availability of other vendors to supply the construction equipment and materials, the loss of any one of the two vendors would not have a material adverse effect on our operations.

Operating expenses. We incurred operating expenses of $980,454 for the six months ended June 30, 2006, an increase of $754,561 or 334.0%, compared to $225,893 for the six months ended June 30, 2005. These operating expenses are related to increased sales and marketing costs to sign new residential and commercial customers (utility customers) that were put on line during the period, as well as marketing for the seven new filling stations we began to operate during the period. The seven new filling stations also added additional staff to our operations. We commenced a marketing strategy targeting professional drivers to increase their awareness of our filling stations and educating them about the differences between our filling stations and our competitors run by inefficient government entities or other privately owned operators that lack sufficient supply. We continue identifying possible locations for new filling stations, and are applying to the proper governmental agencies for all necessary approvals and licenses to construct the new filling stations. We are in discussions to acquire existing filling stations from our competitors.

Net Income. Net income was $1,337,849 for the six months ended June 30, 2006, an increase of $997,690 or 293.3% from $340,159 for the six months ended June 30, 2005. The increase is attributed to the growth of all segments of our business, from construction and installation to the sale of natural gas to our three classes of customers (utility, our own filling stations and wholesale to third party filling stations). The greatest impact has been due to the addition of seven new natural gas filling stations during the six months ended June 30, 2006.

Liquidity and Capital Resources

As of June 30, 2006 we had $7,142,852 of cash and cash equivalents on hand compared to $675,624 cash and cash equivalents as of December 31, 2005.

In January 2006, we entered into securities purchase agreements with several accredited investors and completed the sale of $10.4 million of units. The proceeds of the financing are intended for the investment necessary to construct or acquire natural gas filling stations, purchase of raw materials and working capital. On July 12, 2006 we completed the acquisition of 2 additional natural gas filling stations from individual owners. At July 12, 2006, we own a total of 9 natural gas filling stations. Our plans for the remainder of 2006 are to construct or acquire from third parties up to an additional 12 natural gas filling stations. Each filling station costs approximately $600,000 to construct. There is a premium for filling stations that we acquire dependent on historical sales, location and the ability for us to produce revenue from that filling station immediately upon completing the acquisition. We believe that the proceeds of the financing along with operating cash flow will cover all expenses associated with the build out or acquisition of these filling stations.

We had net cash flows used in operations of $297,947 for the six months ended June 30, 2006 as compared to net cash used in operations of $3,401,395 for the six months ended June 30, 2005. The increase in net cash flows from operations for the six months ended June 30, 2006 as compared to corresponding period in 2005 was mainly due to the decrease of other receivables and unearned revenue.

Cash outflows used in investing activities increased to $2,911,286 for the six months ended June 30, 2006 as compared to $80,490 for the six months ended June 30, 2005 as a result of payments made for property and equipment for investments necessary to construct and build the filling stations and for construction materials used to build the pipelines to individual households. Typically, this construction is completed within thirty to sixty days. Any prepayments that we make to our construction equipment/material vendors are made to ensure timely delivery and ensure preferred treatment of any last minute or rush delivery of materials that we may need. Based on our relationships with our vendors the prepayments are unsecured and interest free, however, since most construction projects are completed in slightly more than 30 days this fact becomes inconsequential as materials are delivered to the job site well in advance of the completion of each project.

We had cash flows from financing activities of $8,842,853 for the six months ended June 30, 2006, as compared to $3,504,190 for the six months ended June 30, 2005. The increase is due to the sale of 3,714,428 shares of common stock and 1,432,953 warrants to purchase common stock, for gross proceeds of $10.4 million Based on past performance and current expectations, we believe our cash and cash equivalents, cash generated from operations, as well as future possible cash investments, will satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations and near term growth strategies.

The majority of our revenues and expenses were denominated primarily in Renminbi ("RMB"), the currency of the People's Republic of China.

There is no assurance that exchange rates between the RMB and the U.S. Dollar will remain stable. We do not engage in currency hedging. Inflation has not had a material impact on our business.

Item 3. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There were no significant changes in internal control over financial reporting (as defined in Rule 13a-15f under the Exchange Act) that occurred during the fourth quarter of 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation (incorporated by reference to same exhibit filed with the Company's Form 10SB Registration Statement filed September 15, 2000, SEC file no. 000-31539).

3.2	Certificate of Ownership of Coventure international Inc. and China Natural Gas, Inc., dated December 12, 2005 (incorporated by reference to same exhibit filed with the Company's Form 10KSB filed March 22, 2006)
3.3	Registrant's By-Laws (incorporated by reference to same exhibit filed with the Company's Form 10SB Registration Statement filed September 15, 2000, SEC file no. 000-31539).
10.1	Share Purchase Agreement made as of December 6, 2005 among Coventure International Inc., Xian Xilan Natural Gas Co., Ltd. and each of Xilan's shareholders. (incorporated by reference to the exhibits to Registrants Form 8-K filed on December 9, 2005).
10.2	Return to Treasury Agreement between Coventure International Inc. and John Hromyk, dated December 6, 2005. (incorporated by reference to the exhibits to Registrants Form 8-K filed on December 9, 2005).
10.3	Purchase Agreement made as of December 19, 2005 between China Natural Gas, Inc. and John Hromyk (incorporated by reference to the exhibits to Registrants Form 8-K filed on December 23, 2005).
10.4	Form of Securities Purchase Agreement (incorporated by reference to the exhibits to Registrants Form 8-K filed on January 12, 2006).
10.5	Form of Common Stock Purchase Agreement (incorporated by reference to the exhibits to Registrants Form 8-K filed on January 12, 2006).
10.6	Form of Registration Rights Agreement (incorporated by reference to the exhibits to Registrants Form 8-K filed on January 12, 2006).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Natural Gas, Inc.

August 3, 2006

By: /s/ Qinan Ji

Qinan Ji
Chief Executive Officer (Principal Executive Officer)

August 3, 2006

By: /s/ Xiaogang Zhu

Xiaogang Zhu
Chief Financial Officer
(Principal Financial and Accounting Officer)