China Natural Gas, Inc.
Form 10QSB
November 14, 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 September 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 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 |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 November 13, 2006 - 24,210,183 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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHINA NATURAL GAS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2006
(Unaudited)

ASSETS

CURRENT ASSETS:	
Cash & cash equivalents	$ 5,031,991
Accounts receivable, net of allowance for doubtful accounts of $0	316,829
Other receivable	1,831,998
Inventory	298,135
Advances to suppliers	3,121,797
Prepaid expense	165,628
Total current assets	10,766,378
PROPERTY AND EQUIPMENT, net	12,162,205
CONTRACTS IN PROGRESS	418,530
CONSTRUCTION IN PROGRESS	2,267,926
TOTAL ASSETS	$25,615,039

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable & accrued expense	$ 383,617
Other payables	1,310,839
Unearned revenue	518,687
Total current liabilities	2,213,143
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 24,210,183	2,421
Additional paid-in capital	18,223,911
Cumulative translation adjustment	520,604
Statutory reserve	707,776
Retained earnings	3,947,184
Total stockholders' equity	23,401,896
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$25,615,039

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 NINE MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

For the Three Month Period Ended September 30,		For the Nine Mont[h] Septemb[er]
2006	2005	2006

Revenue			
Natural gas revenue	$ 5,210,834	$ 406,365	$ 8,580,236
Construction / installation revenue	1,303,457	986,243	3,445,452
Total revenue	6,514,291	1,392,608	12,025,688
Cost of revenue			
Natural gas cost	2,752,594	315,116	4,862,202
Construction / installation cost	526,292	345,382	1,368,825
	3,278,886	660,498	6,231,027
Gross profit	3,235,405	732,110	5,794,661
Operating expenses			
Selling expenses	366,616	129,353	923,960
General and administrative expenses	270,031	77,097	693,141
Total operating expenses	636,647	206,450	1,617,101
Income from operations	2,598,758	525,660	4,177,560
Non-operating income (expense):			
Interest income	2,485	307	7,262
Other income (expense)	(4,231)	700	(10,182)
Total non-operating income (expense)	(1,746)	1,007	(2,920)
Income before income tax	2,597,012	526,667	4,174,640
Income tax	393,226	130,024	633,005
Net income	$ 2,203,786	$ 396,643	$ 3,541,635
Other comprehensive income			
Foreign currency translation gain	258,640	--	291,857
Comprehensive Income	$ 2,462,426	$ 396,643	$ 3,833,492
Weighted average shares outstanding			
Basic	23,931,197	16,000,000	23,759,285
Diluted	23,931,197	16,000,000	23,759,285
Earnings per share			
Basic	$ 0.09	$ 0.02	$ 0.15
Diluted	$ 0.09	$ 0.02	$ 0.15

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 NINE MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,541,635	$ 736,802
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	497,072	204,426
Exchange gains	(457,976)	--
(Increase) / decrease in assets:		
Accounts receivable	(306,677)	(297,892)
Other receivable	(1,258,975)	(33,390)
Inventory	(248,642)	21,271
Receivable from related party	--	(168,666)
Advances to suppliers	(3,068,491)	(291,955)
Prepaid expense	(147,525)	(16,474)
Contract in progress	(413,237)	379,584
Increase / (decrease) in current liabilities:		
Accounts payable	183,632	(1,128,496)
Other payables	549,701	1,388,554
Unearned revenue	206,537	(724,508)
Net cash provided by (used in) operating activities	(922,946)	69,256
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment on purchase of property and equipment	(4,170,589)	(2,671,533)
Additions to construction in progress	(498,676)	--
Net cash used in investing activities	(4,669,265)	(2,671,533)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	10,400,000	3,503,897
Proceeds from exercise of warrants	1,050,001	--
Payment of offering costs	(1,557,147)	--
Net cash provided by in financing activities	9,892,854	3,503,897
Effect of exchange rate changes on cash and cash equivalents	55,724	36,625
NET INCREASE IN CASH & CASH EQUIVALENTS	4,356,367	938,245
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	675,624	62,998
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 5,031,991	$ 1,001,243

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	$ --	$ --
Income taxes paid	$ --	$ --

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

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CHINA NATURAL GAS, INC. AND SUBSIDIARY
NOTES T0 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 nine months ended September 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.

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The Company incorporated a new subsidiary, Shaanxi Natural Gas Equipment Co., Ltd. in February 2006. Shaanxi Natural Gas Equipment Co., Ltd. did not have any operations during the period ended September 30, 2006.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of China Natural Gas, Inc. and its wholly owned subsidiaries, XXNGC and Shaanxi Natural Gas Equipment Co., Ltd. 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; however the accompanying consolidated financial statements have been translated and presented in United States Dollars (USD).

Foreign Currency Translation

As of September 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. The Company's management determined that all receivables are good and there is no need of reserve for bad debts as on September 30, 2006.

Other receivable includes a loan of $1,043,625 made to a third party in September 2006, for a two month period. The loan is unsecured and carry an interest rate of 4.5% per month. However, if the loan is not repaid in the stipulated time frame, the interest rate increases to 20% per month.

Advances

The Company advances to certain vendors (for purchase of its material and equipment) and a consultant . The advances 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 September 30, 2006, the following are the details of the property and equipment:

Office equipment	$ 51,875
Operating equipment	10,896,496
Vehicles	443,280
Buildings	2,380,653
	13,772,305
Less accumulated depreciation	(1,610,100)
	$ 12,162,205

Depreciation expense for the nine months ended September 30, 2006 and 2005 was $495,967 and $204,426, respectively.

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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 consist 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 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 September 30, 2006, the Company had $418,530 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.

Unearned Revenue

Unearned 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.

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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 nine months ended September 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 September 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%.

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 September 30, 2006, the Company had outstanding 1,140,286 warrants. The average stock price for the three and nine months ended September 30, 2006 was less than the exercise price of the warrants; therefore, the warrants are not factored into the diluted earning per share calculation as they are anti-dilutive.

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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 December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("FAS No. 123R"). FAS No. 123R requires companies to recognize in the statement of operations the grant- date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective beginning in the Company's second quarter of fiscal 2006. The Company adopted FAS No. 123R on January 1, 2006 and the adoption of this statement did not have a material impact on its financial position, results of operations or cash flows.

In May 2005, the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Management believes the adoption of this pronouncement will not have a material effect on our financial statements.

In June 2005, the FASB ratified the EITF consensus to amend EITF No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholders Have Certain Approval or Veto Rights". The EITF agreed to amend the Protective Rights section of this consensus, as well as Example of Exhibit 96-16A, to be consistent with the consensus reached in Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similarly Entity When the Limited Partners Have Certain Rights." The provisions of this amendment should be applied prospectively to new investments and to investment agreements that are modified after June 29, 2005. Management believes the adoption of this pronouncement will not have a material effect on our financial statements.

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In June 2005, the EITF reached consensus on Issue No. 05-6, determining the Amortization Period for Leasehold Improvements ("EITF 05-6.") EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. EITF 05-6 is not expected to have a material effect on its financial position or results of operations.

In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAF No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. The Company has not evaluated the impact of this pronouncement its financial statements.

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. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the financial statement.

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In September 2006, FASB issued SFAS 157 `Fair Value Measurements'. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The management is currently evaluating the effect of this pronouncement on financial statements.

In September 2006, FASB issued SFAS 158 `Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statements No. 87, 88, 106, and 132(R)' This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The management is currently evaluating the effect of this pronouncement on financial statements.

Note 3 - Other Payables

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

Other accounts payable	$	99,784
Welfare payable		12,075
Tax payable		1,178,388
Other		20,592
	$	1,310,839

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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.

In September 2006, the Company received $1,050,001 from the exercise of 291,667 warrants.

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	$3.60	
Forfeited	-	-	
Exercised	(291,667)	$3.60	
Outstanding, September 30, 2006	1,140,286	$3.60	$ 0

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

Outstanding Warrants			Exercisable Warrants	
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number
$3.60	1,140,286	2.28	$3.60	1,140,286

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 $34,919 and $8,360 for the nine months ended September 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 $538,054 and $110,520 as reserve for the statutory surplus reserve and welfare fund for the nine months ended September 30, 2006 and 2005, respectively.

Note 7 - Earnings Per Share

Earnings per share for nine months September 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. There were no common stock equivalents that were dilutive during the three and nine months ended September 30, 2006 and 2005; accordingly, basic and diluted earning per share were the same for all periods presented.

Note 8 - Current Vulnerability Due to Certain Concentrations

For the nine months ended September 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 and two other wholesale vendors. $0. was owing to one of the wholesale vendors at September 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 years 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 nine months ended September 30, 2006, two supplier accounts for 42.2% and 17.0% of the total equipment purchased by the Company.

One customer accounted for 36.1% and 87.0% of the Company's revenue for the nine months ended September 30, 2006 and 2005, respectively.

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.

Note 9 - Related Party Transactions

Included in other payables in the accompanying balance sheet at September 30, 2006 is $0 due to stockholder of the Company.

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 consist of the cost of constructing fixed assets for our use. The major cost of construction in progress relates to material, labor and overhead. As of September 30, 2006 the Company has $2,267,926 Construction in progress.

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 September 30, 2006, the Company has $418,530 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 September 30, 2006 compared to Three Months Ended September 30, 2005

Revenue. We generated revenues of $6,514,291 for the three months ended September 30, 2006, an increase of $5,121,683 or 367.8%, compared to $1,392,608 for the three months ended September 30, 2005. The increase in revenues was due to an 1182% increase in our natural gas revenues, as we opened 4 new filling stations during the three months ended September 30, 2006. In addition, we had approximately a 32.2% increase in our construction/installation revenues during this period, as we continue to increase the number of households we serve to approximately 67,540.

Approximately 80% of our total revenues, for the three months ended September 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 4.19% of our natural gas sales, and 2.88% 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 September 30, 2006, 20%, 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. Three customers accounted for 47.9%, 33.9% and 14.9% of our construction/installation revenue for the three months ended September 30, 2006 and one customer accounted for 81.35% of our revenue for the three months ended September 30, 2005.

Gross profit. We have achieved a gross profit of $3,235,405 for the three months ended September 30, 2006, an increase of $2,503,295 or 341.9%, compared to $732,110 for the three months ended September 30, 2005. Gross profit for natural gas sale for the three month period ended September 30, 2006 was $2,458,240 or 76% of the total gross profit, construction and installation accounted for $777,165 or 24% of the period's gross profit.

Gross profit for the sale of natural gas was $2,458,240 for the three months ended September 30, 2006, an increase of $2,366,991 or 2594%, compared to $91,249 for the three months ended September 30, 2005. Gross profit on the construction and installation activity increased to $777,165 for the three months ended September 30, 2006, an increase of $136,304 or 21.3%, compared to $640,861 for the three months ended September 30, 2005.

Gross margin, as a percentage of revenues, decreased to 49.7% for the three months ended September 30, 2006, from 52.6% for the three months ended September 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 59.6% for this period while the sale of natural has a gross profit margin of 47.2%. 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 September 30, 2006, three suppliers accounted for 37.22%, 14.31% and 9.08% 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 three vendors would not have a material adverse effect on our operations.

Operating expenses. We incurred operating expenses of $636,647 for the three months ended September 30, 2006, an increase of $430,197 or 208.4%, compared to $206,450 for the three months ended September 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 $2,203,786 for the three months ended September 30, 2006, an increase of $1,807,143 or 455.6% from $396,643 for the three months ended September 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 September 30, 2006.

Nine Months Ended September 30, 2006 compared to Nine Months Ended September 30, 2005

Revenue. We generated revenues of $12,025,688 for the nine months ended September 30, 2006, an increase of $9,311,646 or 343.1%, compared to $2,714,042 for the nine months ended September 30, 2005. The increase in revenues was due to an approximately 705.6% increase in the sale of natural gas, from $1,065,017 in the nine months ended September 30, 2005 to $8,580,236 during the nine months ended September 30, 2006. The major factor in this increase was the opening of eleven natural gas filling stations during this period. We also increased construction and installation revenue by approximately 108.9% from $1,649,025 in the nine months ended September 30, 2005 to $3,445,452 during the nine months ended September 30, 2006. This increase is attributed to the approximately 18,000 new residential and commercial customers we signed during the nine months ended September 30, 2006.

Approximately 71.3% of our total revenues, for the nine months ended September 30, 2006, are from the sale of natural gas, and 89.95% 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 5.05% of our natural gas sales, and 4.99% of natural gas revenues was sold wholesale to third party natural gas filling station operators.

The balance of our total revenues for the nine month period ended September 30, 2006, approximately 28.7%, was from construction/installation revenue. In the nine months ended September 30, 2005 construction/installation revenue was approximately 60.8% of all revenues during the period. Two customers accounted for 36.08%, and 25.5% of our construction/installation revenue for the nine months September 30, 2006 and one customer accounted for 87.2 of our revenue for the nine months ended September 30, 2005.

Gross profit. We have achieved a gross profit of $5,794,661 for the nine months ended September 30, 2006, an increase of $4,495,918 or 346.2%, compared to $1,298,743 for the nine months ended September 30, 2005. Gross profit for natural gas sale for the nine month period ended September 30, 2006 was $3,718,034 or 64.2% of the total gross profit, construction and installation accounted for $2,076,627 or 35.8% of the period's gross profit.

Gross profit for natural gas sale increased to $3,718,034 for the nine months ended September 30, 2006, an increase of $3,483,544 or 1485.6%, compared to $234,490 for the nine months ended September 30, 2005. Gross profit on the construction and installation activity increased to $2,076,627 for the nine months ended September 30, 2006, an increase of $1,012,374 or 95.1%, compared to $1,064,253 for the nine months ended September 30, 2005.

Gross margin, as a percentage of revenues, increased to 48.2% for the nine months ended September 30, 2006, from 47.9% for the nine months ended September 30, 2005. The increase in gross profit is due to the increased construction and installation activity. The gross profit margin on construction/installation is 60.3% for this period. We work with gross margins on the construction and installation activity that historically 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. The sale of natural has a gross profit margin of 43.3% during the nine months ended September 30, 2006. In the same nine month period in 2005 the sale of natural gas had a gross profit margin of approximately 22%, the majority these sales were utility sales. In the nine month period ended September 30, 2006 the majority of our natural gas is sold through our natural gas filling stations. In the same period in 2005 we had no filling stations. At these stations we are able to receive a higher price for each cubic meter of natural gas sold.

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 nine months ended September 30, 2006, three suppliers accounted for approximately 44.2%, 16.99% and 10.41% 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 three vendors would not have a material adverse effect on our operations.

Operating expenses. We incurred operating expenses of $1,617,101 for the nine months ended September 30, 2006, an increase of $1,184,758 or 274%, compared to $432,343 for the nine months ended September 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 eleven new filling stations we began to operate during the period. The eleven 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 $3,541,635 for the nine months ended September 30, 2006, an increase of $2,804,833 or 380.7% from $736,802 for the nine months ended September 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 eleven new natural gas filling stations during the nine months ended September 30, 2006.

Liquidity and Capital Resources

As of September 30, 2006 we had $5,031,991 of cash and cash equivalents on hand compared to $1,001,243 cash and cash equivalents as of September 30, 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. During the quarter ended September 30, 2006, an investor elected to exercise 291,667 warrants and we received $1,050,001.

As of November 10, 2006, we have a total of 17 natural gas filling stations. Our plans for the remainder of 2006 are to construct or acquire from third parties at least four 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.

During the quarter ended September 30, 2006 we started the planning process of building a Liquefied Natural Gas (LNG) facility. We have met with several builders of such facilities and are evaluating our options. We feel that as the acceptance of natural gas as an alternative fuel grows we will need to be ready with the infrastructure to meet the demand.

We had net cash flows used in operations of $922,946 for the nine months ended September 30, 2006 as compared to net cash provided by operations of $69,256 for the nine months ended September 30, 2005. The increase in net cash flows used in operations for the nine months ended September 30, 2006 as compared to corresponding period in 2005 was mainly due to the increase of other receivables, $1,258,975, and the increase of advances to suppliers, $3,068,491.

Cash outflows used in investing activities increased to $4,669,265 for the nine months ended September 30, 2006 as compared to $2,671,533 for the nine months ended September 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 $9,892,854 for the nine months ended September 30, 2006, as compared to $3,503,897 for the nine months ended September 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. We also received $1.05 million during the quarter ended September 30, 2006, the result of an investor electing to exercise 291,667 warrants. 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.

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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.

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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.

November 14, 2006

By: --------------------------------
Qinan Ji
Chief Executive Officer (Principal Executive Officer)

November 14, 2006

By: --------------------------------
Xiaogang Zhu
Chief Financial Officer
(Principal Financial and Accounting Officer)