China Natural Gas, Inc.
Form 10-K/A
October 01, 2010

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

FORM 10-K/A
(Amendment No. 2)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to _________

Commission File Number: 000-31539

CHINA NATURAL GAS, INC.
(Exact Name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	98-0231607 (I.R.S. Employer Identification Number)

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

Registrant's telephone number, including area code: 86-29-88323325

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, $.0001 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, as of June 30, 2009, was approximately $156,805,654. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

As of February 28, 2010 there were 21,183,904 shares of the issuer's common stock, $0.0001 par value per share, issued and outstanding.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (the “Amended Filing”) amends Amendment No. 1 to the Annual Report of China Natural Gas, Inc. (the “Company”) (as amended, the "Amended 10-K"), which in turn had amended the annual report on Form 10-K for the year ended December 31, 2009, originally filed on March 10, 2010 (the “Original Filing”).

As previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, in February 2010, the Company obtained a bank loan in the amount of $17.7 million (the "Loan") and, in connection with the Loan, Xi'an Xilan Natural Gas Co. Ltd., the Company's variable interest entity, pledged its equipment and vehicles located within China to secure the Loan (the "Pledge") and guaranteed the repayment of the Loan (the "Guarantee").

By August 8, 2010, the Company’s former outside counsel determined that the Pledge was prohibited by the indenture (the "Indenture") for the Company's 5% guaranteed senior note issued to Abax Lotus Ltd. ("Abax") dated January 29, 2008 (the "Senior Notes"). As a result, the Company believed that Abax had the right to declare a default under the Indenture and could thereafter accelerate the Senior Notes, which would cause a simultaneous default under the warrant agreement governing the Company's warrants issued in connection with the Senior Notes, thereby entitling the warrant holders to require the Company to redeem their warrants. In view of the potential default under the Indenture and warrant agreement, the Board, in consultation with management and the Audit Committee, determined that the Company was required to restate its annual financial statements for the year ended December 31, 2009 and the quarter ended March 31, 2010 to reclassify from long term liabilities to short term liabilities the Senior Notes and the fair value of the redeemable warrants (the “Reclassification”).

Therefore, the Company filed a Current Report on Form 8-K on August 19, 2010 to disclose that its financial statements contained in its Annual Report on Form 10-K for the year ended December 31, 2009 (the "Annual Report") and its Quarterly Report for the quarter ended March 31, 2010 (the "Quarterly Report") should not be relied upon, and, on August 20, 2010, the Company filed:

- the Amended 10-K to (i) restate the financial statements contained therein to make the Reclassification and disclose as subsequent events the Loan, the Pledge and the Guarantee as well as the initial determination that the Pledge was not permitted under the Indenture, (ii) make other amendments to the Annual Report to give effect to the foregoing and (iii) amend Part II, Item 9A, Controls and Procedures, of the Annual Report; and

- Amendment No. 1 to the Quarterly Report (as amended, the "Amended 10-Q") to (i) amend Part II, Item 4, Other Information, of the Quarterly Report to disclose the Loan, the Pledge and the Guarantee as well as the initial determination that the Pledge was not permitted under the Indenture, (ii) restate the financial statements contained therein to make the Reclassification, record the Loan as a long term liability and record an increase in restricted cash as a result of obtaining the proceeds of the Loan; (iii) make other amendments to the Quarterly Report to give effect to the foregoing; (iv) amend Part I, Item 4, Controls and Procedures, of the Quarterly Report; and (v) file the Loan, the Pledge and the Guarantee as exhibits to the Amended 10-Q.

Also, in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, the Company (i) recorded the Senior Notes and warrants, which were described as redeemable, as current liabilities in the financial statements contained therein; (ii) made other disclosures in such quarterly report to give effect to the foregoing; and (iii) disclosed in Part II, Item 4, Other Information, of such quarterly report the Loan, the Pledge and the Guarantee as well as the initial determination that the Pledge was not permitted under the Indenture.

Subsequent to restating its financial statements and filing the Amended 10-K and Amended 10-Q, management of the Company internally revisited the analysis of whether the Pledge was indeed prohibited by the Indenture and determined that it was not. In late August 2010, the Company engaged the law firm DLA Piper, which had not previously advised the Company or management on these matters, to review the Company's analysis, and DLA Piper subsequently confirmed the Company's analysis. At the request of the Company's independent auditors, the Company engaged another law firm with no prior relationship to the Company to review the Company's analysis, and that law firm subsequently confirmed the Company's analysis. The Company engaged DLA Piper as its regular outside counsel for SEC reporting and other public company matters in early September 2010. The Board of Directors of the Company, in consultation with management and the Audit Committee, determined on September 15, 2010, that none of the Loan, the Pledge or the Guarantee, individually or together, were prohibited by the Indenture.

The purpose of this Amended Filing is to reverse all disclosure in the Amended 10-K related to the Reclassification and to further amend Part II, Item 9A, Controls and Procedures. With respect to the former, the amendments herein include: (i) reversal of the reclassification of the Company’s Senior Notes payable and the fair value of the redeemable warrants from current liabilities back to long term liabilities, (ii) removal of the statements indicating that the Pledge was not permitted under the Indenture, and (iii) other amendments to the Amended 10-K to give effect to the foregoing.

In accordance with Rule 12b-15 under the Exchange Act, each item of the Original Filing that is amended by this Amended Filing is also restated in its entirety, and this Amended Filing is accompanied by currently dated certifications on Exhibits 31.1, 31.2, 32.1 and 32.2 by the Company’s Chief Executive Officer and Chief Financial Officer. Except as described above, this Amended Filing does not amend, update, or change any items, financial statements, or other disclosures in the Original Filing, and does not reflect events occurring after the filing of the Original Filing, including as to any exhibits to the Original Filing affected by subsequent events. Information not affected by the changes described above is unchanged and reflects the disclosures made at the time of the Original Filing. Accordingly, this Amended Filing should be read in conjunction with the Original Filing and our other SEC filings subsequent to the filing of the Original Filing, including any amendments to those filings. Capitalized terms not defined in the Amended Filing are as defined by the Original Filing.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein, some of the statements in this Report contain forward-looking statements that involve risks and uncertainties. These statements are found in the sections entitled "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors." They include statements concerning: our business strategy; expectations of market and customer response; liquidity and capital expenditures; future sources of revenues; expansion of our product lines; addition of new product lines; and trends in industry activity generally. In some cases, you can identify forward-looking statements by words such as "may," "will," "should," "expect," "plan," "could," "anticipate," "intend," "believe," "estimate," "predict," "potential," "goal," or "continue" or similar terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including, but not limited to, the risks outlined under "Risk Factors," that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. For example, assumptions that could cause actual results to vary materially from future results include, but are not limited to: our ability to successfully develop and market our products to customers; our ability to generate customer demand for our products in our target markets; the development of our target markets and market opportunities; our ability to produce and deliver suitable products at competitive cost; market pricing for our products and for competing products; the extent of increasing competition; technological developments in our target markets and the development of alternate, competing technologies in them; and sales of shares by existing shareholders. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

ITEM 1. BUSINESS

Overview

We are an integrated natural gas operator in The Peoples' Republic of China ("China" or the "PRC"), primarily involved in the distribution of compressed natural gas ("CNG") through our variable interest entity ("VIE")-owned CNG fueling stations. As of December 31, 2009, we operated 24 CNG fueling stations in Shaanxi province and 12 CNG fueling stations in Henan province. Our VIE own our CNG fueling stations while we lease the land upon which our VIE-owned CNG fueling stations operate. For the year ended December 31, 2009, we sold CNG of 164,343,895 cubic meters through our VIE-owned fueling stations, compared to 149,412,144 cubic meters for the year ended December 31, 2008. We also transport, distribute and sell piped natural gas to residential and commercial customers in the Xi'an area, including Lantian County, and the districts of Lintong and Baqiao, in Shaanxi province through a high pressure pipeline network of approximately 120 kilometers.

We operate four main business lines:

- Distribution and sale of CNG through our VIE-owned CNG fueling stations for hybrid (natural gas/gasoline) powered vehicles (36 stations as of December 31, 2009);

- Installation, distribution and sale of piped natural gas to residential and commercial customers through our VIE-owned pipelines. We distributed and sold piped natural gas to approximately 108,423 residential customers as of December 31, 2009;

- Distribution and sale of gasoline through our VIE-owned CNG fueling stations for gasoline and hybrid (natural gas/gasoline) powered vehicles (eight of our CNG fueling stations sold gasoline as of December 31, 2009); and

- Conversion of gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles at our auto conversion sites.

We buy all of the natural gas that we sell and distribute to our customers. We do not mine or produce any of our own natural gas and have no plans to do so during the next 12 months. We currently sell our natural gas in two forms: (i) CNG and (ii) piped natural gas.

On October 24, 2006, our VIE, Xi'an Xilan Natural Gas Co., Ltd. ("XXNGC"), formed a wholly-owned subsidiary, Shaanxi Jingbian Liquefied Natural Gas Co., Ltd. ("SJLNG"), for the purpose of constructing a liquefied natural gas ("LNG") facility to be located in Jingbian, Shaanxi province. We planned to invest approximately $50 million to construct this facility, funded through the sale of senior notes to Abax and our September 2009 equity financing, as well as cash flows from operations. The LNG plant is under construction and is expected to be completed by the second quarter of 2010. Once completed, the plant is expected to have a LNG processing capacity of 500,000 cubic meters per day, or approximately 150 million cubic meters on an annual basis.

We had total revenues of $81,066,118, $67,720,659 and $35,392,053 for the years ended December 31, 2009, 2008 and 2007, respectively. We had net income of $18,830,787, $15,190,368 and $9,116,070 for the years ended December 31, 2009, 2008 and 2007, respectively. We had total assets of $197,614,516, $118,262,291 and 53,289,998 as of December 31, 2009, 2008 and 2007, respectively.

Our Corporate History and Structure

We were incorporated in the state of Delaware on March 31, 1999, as Bullet Environmental Systems, Inc. On May 25, 2000 we changed our name to Liquidpure Corp. and on February 14, 2002 we changed our name to Coventure International, Inc. ("Coventure").

On December 6, 2005, Coventure issued an aggregate of 4 million shares to all of the registered shareholders of XXNGC, and entered into exclusive arrangements with XXNGC and these shareholders that give us the ability to substantially influence XXNGC's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. On December 19, 2005, we changed our name to China Natural Gas, Inc.

On February 22, 2006, we formed Shaanxi Xilan Natural Gas Equipment Co., Ltd., ("SXNGE") as a wholly foreign owned enterprise (“WFOE”). We then, through SXNGE entered into exclusive arrangements with XXNGC and these shareholders that give us the ability to substantially influence XXNGC's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. We memorialized these arrangements on August 17, 2007. As a result, we consolidate the financial results of XXNGC as a variable interest entity pursuant to FASB accounting standard.

On October 24, 2006, XXNGC formed a wholly-owned subsidiary, Shaanxi Jingbian Liquefied Natural Gas Co., Ltd. (“SJLNG”), a limited liability company organized under the laws of the PRC to administer the production and sales of LNG.

On December 1, 2006, XXNGC formed a wholly-owned subsidiary, Xi'an Xilan Auto Body Shop Co., Ltd. ("XXABC"), which converts gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles.

On July 3, 2008, XXNGC formed a wholly owned subsidiary, Henan Xilan Natural Gas Co., Ltd. ("HXNGC"), for the purpose of improving the efficiency of our natural gas fueling station operations, pipeline construction, engineering design, construction and technical advisory work services in Henan province. HXNGC also operates our CNG fueling stations in Henan province.

On October 2, 2008, XXNGC acquired a 100% equity interest in Lingbao Yuxi Natural Gas Co., Ltd. ("LBNGC"), which possesses the right to operate CNG fueling stations and pipelines in the city of Lingbao, from the shareholders of LBNGC, Zhihe Zhang, who held a 90% ownership interest in Henan, and Lingjun Hu, who held a 10% ownership interest in Henan.

On October 27, 2009, XXNGC formed Henan CNPC Kunlun Xilan Compressed Natural Gas Co., Ltd. (“JV”) as a joint venture with China National Petroleum Corporation Kunlun Natural Gas Co., Ltd. (“CNPC Kunlun”) in Henan province, PRC. The JV was established to build and operate CNG compressor stations and fueling stations, sell CNG, provide vehicle conversion services from gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles and technical advisory work services in Henan, PRC. CNPC Kunlun will hold 51% ownership of the JV, and XXNGC will hold 49% ownership.

On October 27, 2009, CHNG formed Xilan Energy Co., Ltd. (“XEC”) as a wholly owned limited liability company in Hong Kong. XEC was established for the purpose of importing liquid natural gas (“LNG”) into PRC.

On December 17, 2009, XXNGC formed Hubei Xilan Natural Gas Co., Ltd. (“HBXNGC”) as a wholly owned limited liability company in Hubei province, PRC. HBXNGC was established to construct harbor LNG fueling stations and ships in Hubei, PRC.

The following diagram illustrates our corporate and share ownership structure:

Our Variable Interest Entity Agreements

The following is a summary of the agreements we have with our variable interest entity, XXNGC:

Consulting Service Agreement, dated August 17, 2007. Under this agreement entered into between SXNGE and XXNGC, SXNGE provides XXNGC exclusive consulting services with respect to XXNGC's general business operation, human resources and research and development. In return, XXNGC pays a quarterly service fee to SXNGE, which is equal to XXNGC’s revenue for such quarter. The term of this agreement is indefinite unless SXNGE notifies XXNGC of its intention to terminate this agreement. XXNGC may not terminate this agreement during its term. This agreement is retroactive to March 8, 2006.

Operating Agreement, dated August 17, 2007. Under this agreement entered into between SXNGE, on the one hand, and XXNGC and certain shareholders of XXNGC, on the other hand, SXNGE agrees to act as a guarantor for XXNGC in the contracts, agreements or transactions in connection with XXNGC’s operation between XXNGC and any other third party, to provide full guarantee for the performance of such contracts. XXNGC agrees, as a counter-guarantee, to pledge all of its assets, including accounts receivable to SXNGE. The XXNGC shareholders party to this operating agreement agree to, among other things, appoint as XXNGC's director, individuals recommended by XXNGC and appoint SXNGE's senior officers as XXNGC's general manager, chief financial officer and other senior officers. The term of this agreement is indefinite unless SXNGE notifies XXNGC of its intention to terminate this agreement with 30 days prior notice. XXNGC may not terminate this agreement during its term. This agreement is retroactive to March 8, 2006.

Equity Pledge Agreement, dated August 17, 2007. Under this agreement entered into between SXNGE, on the one hand, and XXNGC and certain shareholders of XXNGC, on the other hand, to secure the payment obligations of XXNGC under the Consulting Service Agreement described above, the XXNGC shareholders party to this equity pledge agreement have pledged to SXNGE their entire equity ownership interests in XXNGC. Upon the occurrence of certain events of default specified in this agreement, SXNGE may exercise its rights and foreclose on the pledged equity interest. Under this agreement, the pledgors may not transfer the pledged equity interest without SXNGE's prior written consent. This agreement will also be binding upon successors of the pledgor and transferees of the pledged equity interest. The term of the pledge is two years after the obligations under the Consulting Service Agreement have been fulfilled. This agreement is retroactive to March 8, 2006.

Option Agreement, dated August 17, 2007. Under this option agreement entered into between SXNGE, on the one hand, and XXNGC and certain shareholders of XXNGC, on the other hand, the XXNGC shareholders party to this option agreement irrevocably granted to SXNGE, or any third party designated by SXNGE, the right to acquire, in whole or in part, the respective equity interests in XXNGC of these XXNGC shareholders. The option agreement can be terminated by SXNGE by notifying XXNGC of its intention to terminate this agreement with 30 days prior notice. The option agreement is retroactive to March 8, 2006.

Addendum to the Option Agreement, dated August 8, 2008. Under this addendum to the option agreement entered into between SXNGE, on the one hand, and XXNGC and certain shareholders of XXNGC, on the other hand, the XXNGC shareholders (the "Transferors") irrevocably granted to SXNGE an option to purchase the XXNGC shareholders' additional equity share in XXNGC (the "Additional Equity Interest") in connection with an increase in XXNGC's registered capital since the execution of the option agreement at $1.00 or the lowest price permissible under the applicable laws at the time that SXNGE exercises the option to purchase the Additional Equity Interest. The option agreement can be terminated by SXNGE by notifying XXNGC of its intention to terminate this agreement with 30 days prior notice. This addendum is retroactive to June 30, 2008.

Proxy Agreement dated August 17, 2007. Under this agreement entered into between SXNGE, on the one hand, and XXNGC and certain shareholders of XXNGC, on the other hand, the XXNGC shareholders irrevocably granted to SXNGE the right to exercise their shareholder voting rights, including attendance at and voting of their shares at shareholders meetings in accordance with the applicable laws and XXNGC’s articles of associations. This agreement is retroactive to March 8, 2006.

Our Products, Services and Customers

CNG and Gasoline Fueling Stations

As of December 31, 2009, our VIE operated 24 CNG fueling stations in the Shaanxi province and 12 CNG fueling stations in Henan province. Through these VIE-owned fueling stations, CNG is sold to taxis, buses and private cars that operate with CNG technology. During the year ended December 31, 2009, we purchased natural gas at an average cost of RMB1.11/cubic meter and sold each cubic meter for RMB2.33 net of value added taxes in Shaanxi province and we purchased natural gas at an average cost of RMB1.19/cubic meter and sold each cubic meter for RMB2.83 net of value added taxes in Henan province.

We continue to expand our VIE-owned CNG fueling station base by constructing new stations as well as acquiring existing stations. We can obtain approvals and construct a CNG fueling station in Shaanxi province in approximately 60 days for a cost of approximately US$1,300,000 to US$1,500,000. We are evaluating additional sites for CNG fueling stations in Shaanxi, Henan and in other regions.

Our VIE also own three natural gas compressor stations. Two are located in Xi’an: Hongqing station, acquired in July 2005, near our pipeline; and Changsheng station, acquired in September 2008. The third station is located in Xianyang city and was acquired in January 2008. A compressor station compresses natural gas and allows trucks to transport CNG to fueling stations. We currently have a daily processing capacity of 250,000 cubic meters of CNG.

We began to distribute and sell gasoline during the fourth quarter of 2007 in an effort to support our sales of CNG by attracting more natural gas/gasoline hybrid car owners through providing a one-stop refueling option for such customers. Our gasoline facilities were either installed by us at our existing CNG stations or acquired through our acquisition of CNG fueling stations that have both CNG and gasoline fueling capability. As of December 31, 2009, we distributed and sold gasoline at eight of our VIE-owned CNG fueling stations for gasoline and hybrid (natural gas/gasoline) powered vehicles in Xi'an. During the year ended December 31, 2009, we purchased gasoline at an average cost of RMB4.13/liter and sold each liter at an average price of RMB4.39/liter net of value added taxes in Xi'an.

Our Pipeline Distribution System

Our VIE own and operate a high pressure pipeline network of approximately 120 kilometers in the Xi’an area. The network connects to a high pressure government pipeline network operated by Shaanxi Natural Gas Company, which supplies natural gas directly from a gas field in the northern region of the province. Our high pressure pipeline then feeds into city-gate "let-down" stations at Hongqing and Lantian County, where the pressure is reduced and natural gas is transported through a network of low-pressure distribution pipes to supply our residential and commercial customers in Lantian County and the Lintong and Baqiao Districts. The supply also feeds our compressor stations at Hongqing and Xianyan where CNG is collected by tankers to supply our CNG fueling stations.

Each of our pipeline customers is physically connected to our pipeline network through Company-installed and maintained piping and natural gas usage gauges. We generate revenues both from the sale of natural gas to these customers and the installation and maintenance of this equipment.

We believe we are currently the sole authorized provider of natural gas to residential customers in our service areas and the only privately owned company in Shaanxi province to own and operate this type of high pressure pipeline.

Our Automobile Conversion Sites

We began our automobile conversion business during the second quarter of 2007. Our automobile conversion sites convert gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles. As of December 31, 2009, we had four auto conversion sites, all in the Xi'an area.

Our CNG Market

As of December 31, 2009, there were 3,639 buses and 10,646 taxes powered by CNG in Xi’an, which accounts for approximately 97% and 91% of the total market, respectively. Each bus uses an average of approximately 100 cubic meters of CNG per day and each taxi uses an average of approximately 30 cubic meters of CNG per day (Source: PRC Ministry of Science and Technology). The PRC government estimates in its Eleventh Five Year Plan (2006-2010) that current total demand for CNG as a vehicular fuel in the Xi’an area will reach approximately 1,070,000 cubic meters per day by 2010. Compared to gasoline and diesel, we believe natural gas as vehicular fuel is cheaper, cleaner and safer. The PRC government’s Clean Energy Policy encourages the use of CNG as a vehicular fuel.

We estimate that the average CNG station in Xi’an pumped approximately 11,000 cubic meters of CNG per day in 2009. As of December 31, 2009, there were 73 CNG fueling stations in Xi’an and we estimate that approximately 803,000 cubic meters of CNG was pumped per day during 2009, a figure below estimated total demand. As a result, we believe that there is unmet demand for CNG as vehicular fuel in the Xi’an area.

As of December 31, 2009, there were approximately 2,100 buses and 8,900 taxes powered by CNG in Zhengzhou, which account for approximately 50% and 84% of the market shares, respectively. (Source: Zhengzhou Evenings). We estimate each bus uses an average of approximately 100 cubic meters of CNG per day and each taxi uses an average of approximately 30 cubic meters of CNG per day.

We estimate that the average CNG station in Henan pumped approximately 11,000 cubic meters of CNG per day in 2009. As of December 31, 2009, there were 42 CNG fueling stations in Henan and we estimate that approximately 462,000 cubic meters of CNG was pumped per day during 2009, a figure below estimated total demand. As a result, we believe that there is unmet demand for CNG as vehicular fuel in the Henan area.

While there are many competitors in the distribution and sale of CNG in China, we believe we are well positioned in the market through our cooperation with local natural gas suppliers and our experience in Shaanxi and Henan.

Our Pipeline Network Customers

As of December 31, 2009, we had 108,423 customers, including residential and commercial customers. We continue to expand our customer base in Xi’an's newly developed business and residential areas including Baqiao, Hongqing and Xihang as well as Lingbao in Henan Province. Our commercial customers, including the Xiwei Aluminum Company and the Hungtian Company, use natural gas as a raw material for their production process. We are not dependent upon any single customer or group of customers for a material portion of our natural gas sales or revenues.

Our pipeline customers purchase natural gas by prepaid cards that can be inserted into the connection equipment to initiate gas flow.

We entered into agreements with the Xi'an International Port Administrative Committee (the "Port Committee") and the town of Tangyu, China, in April 2008 and October 2008, respectively, to provide natural gas to local residents and businesses. The international port project is estimated to involve the development of approximately 13.5 square miles of business district and the investment of up to $30 million over the next several years, based on the Port Committee's planning schedule. The Tangyu project involves supplying natural gas to potentially 50,000 residential and commercial users at a tourist site undergoing development and expansion. Our agreement with the Port Committee is currently being challenged by the Xi'an Municipal Administration Commission for violating an exclusive agreement between the municipal government and Qin Hua Gas Company, one of our major competitors in our pipeline natural gas business. We disagree with the Xi'an Municipal Administration Commission's assessment and are currently in negotiations with it to resolve its assessment.

Our Liquefied Natural Gas ("LNG") Project

In September 2007, we began the construction of an LNG processing and distribution plant in Jingbian, Shaanxi province (the "LNG Project"). We estimate that the LNG Project will cost approximately $50 million, funded through the sale of senior notes to Abax and our September 2009 equity financing, as well as cash flows from operations. We believe we have obtained all the required permits and approvals to build the LNG plant and expect construction to be completed by the second quarter of 2010.

During 2009, we made significant progress towards completing the LNG Project and spent approximately $31 million in constructing our LNG facility, acquiring technology licenses, prepaying for equipment purchases and acquiring land use rights. We believe that adding LNG to our product offerings will expand our geographic sales footprint and improve our revenues and profitability as well as diversify our revenue and profit structure.

Both CNG and LNG are natural gas compressed into canisters for convenient transportation, usually by tank trucks, to locations of distribution or consumption. Typically, CNG is compressed at 200 kilograms per cubic centimeter and LNG is compressed at up to 625 times atmospheric pressure per normal cubic meter and must be transported at sub-zero temperatures. The cost of compressing and processing LNG is higher than CNG, but LNG can be transported in larger volumes and over longer distances per tanker and the per unit transportation costs are therefore lower than CNG.

We believe we are well positioned in the LNG business because the NDRC has stopped approving LNG projects based on onshore gas fields that involve the processing of domestic natural gas supplies since August 2007.

Suppliers

We purchase our natural gas mainly from four vendors, namely, Shaanxi Natural Gas Co. Ltd., Petrochina Chang Qing Oil Field Branch, Jiyuan City Yuhai Gas Co., Ltd. and Qinshui Lanyan Coal Bed Methane Co., Ltd. Our supply contract with our largest supplier, Shaanxi Natural Gas Co. Ltd., is renewed on an annual basis. We have supply agreements with Petrochina Chang Qing Oil Field Branch, Jiyuan City Yuhai Gas Co., Ltd. and Qinshui Lanyan CoalBed Methane Co., Ltd. with no minimum purchase requirements. Our procurement price in Henan has increased from RMB 1.00/cubic meter to RMB 1.30/cubic meter starting June 2009. We do not expect the price to change materially in 2010.

On October 19, 2006, we received a letter from PetroChina Company Limited pursuant to which PetroChina agreed in principle to supply up to 150 million cubic meters of natural gas annually to our LNG Project subsidiary subject to the negotiation of a final agreement once our LNG plant is near completion.

We do not expect any difficulty in continuing to renew our supply contracts during the next 12 months.

Intellectual Property

We have applied for a service mark on the “Xilan” name, which is used in connection with all our products and services. XXNGC is currently preparing to apply for the “CNG” trademark. XXNGC has also applied for the registration of its corporate name as a trademark under Application No. 5055703. This application has been published for opposition. If there are no successful oppositions once this opposition period expires on September 7, 2009, our corporate name will be registered as a trademark.

Research and Development

We incurred $83,708 expense in connection with the experiment of converting diesel / gasoline fueled ships to be able to run on natural gas. The funding for all research and development expenses is expected to come from operating cash flows.

Governmental and Environmental Regulation

To date, we have complied with, or are in the process of renewing, all registrations and requirements for the issuance and maintenance of all licenses required by the applicable governing authorities in China. These licenses include:

- Xi’an Natural Gas Operations License, authorized by the Shaanxi Municipal Management Committee, effective from August 18, 2009 to August 17, 2010.

- License to Supply, Install Equipment and Maintain Gas Fuel Lines issued by the local Gas Fuels for Heating Bureau, an agency of the Ministry of Construction and the Xi’an Natural Gas Management Bureau. (License number: XIRAN 136)

- Safety and Inspection Regulation for Special Equipment Safety Inspection Standards for High Pressure Pipeline and Technical Safety Inspection Regulations from the Shaanxi Quality and Technology Inspection Bureau for compressor stations and pressure storage tank system. (Approval letter reference: 2004SHAANGUOCHUHAN033)

- Annual Safety Inspection of Lightning Conductor Equipment approved by the Shaanxi Meteorology Bureau. (Certificate number 0005274) The City-gate and Compressor Stations are approved by the local office of the Ministry of Construction.

- Business license to operate Shaanxi Xilan Natural Gas Equipment Co., Ltd. effective from February 22, 2006 to February 21, 2021.
- Business license to operate Xi'an Xilan Natural Gas Co., Ltd. effective as of January 8, 2000.
- Business license to operate Xi'an Xilan Auto Body Shop Co., Ltd. effective as of December 1, 2006.
- Business license to operate Shaanxi Jingbian Liquefied Natural Gas Co. Ltd. effective from October 24, 2006 to October 23, 2036.
- Business license to operate Henan Xilan Natural Gas Co. Ltd. effective from July 3, 2008 to June 25, 2018.
- Business license to operate Lingbao Yuxi Natural Gas Co., Ltd. effective from June 13, 2008 to June 12, 2012.
- Business license to operate Hubei Xilan Natural Gas Co., Ltd. effective from December 17, 2009 to December 16, 2010.
- Business license to operate Xilan Energy Co., Ltd. effective from October 27, 2009 to October 26, 2010.
- Business license to operate Henan CNPC Kunlun Xilan Compressed Natural Gas Co., Ltd. effective from October 27, 2009 to October 22, 2029.

Fuel service station standards are subject to regulation by the Ministry of Construction, the General Administration of Quality Supervision and the Bureau of Inspection and Quarantine of the People's Republic of China. Upon satisfactory inspection of service stations, certificates will be issued.

Various standards must be met for fueling stations, including the handling and storage of CNG, tanker handling and compressor operation. The Local Ministry of Construction and the Gas Field Operation Department of the Municipal Administration Committee regulate these standards. The Municipal Development and Reform Commission, which issues certificates for the handling of dangerous chemical agents, carries out inspections.

Standards for the design and construction of fueling stations must conform to GB50156-2202 and technology standard BJJ84-2000.

Employees

As of December 31, 2009, we had 868 employees, including, 94 in management, 8 in sales, and 766 in finance, accounting, and operations. We have not experienced any industrial actions and we believe we have good relationships with our employees. We are not a party to any collective bargaining agreements.

Available Information

Our website is http://www.naturalgaschina.com/. We provide free access to various reports that we file with, or furnish to, the U.S. Securities and Exchange Commission, or the SEC, through our website, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports. Information on our website does not constitute part of and is not incorporated by reference into this Annual Report on Form 10-K or any other report we file or furnish with the SEC. You may also read and copy any document that we file at the public reference facilities of the SEC in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's website at http://www.sec.gov.

ITEM 1A. RISK FACTORS

RISK FACTORS

An investment in our common stock involves a high degree of risk and uncertainty. You should carefully consider the risks described below, together with the other information contained in this prospectus, including the consolidated financial statements and notes thereto of our Company, before deciding to invest in our common stock. The risks described below are not the only ones facing our Company. Additional risks not presently known to us or that we presently consider immaterial may also adversely affect our Company. If any of the following risks occur, our business, financial condition and results of operations and the value of our common stock could be materially and adversely affected.

Risks Related to Our Business and the PRC Natural Gas Industry

We may be adversely affected by the slowdown of China's economy caused in part by the recent global crisis in the financial services and credit markets.

We rely on demand for natural gas in China for our revenue growth, which is substantially affected by the growth of the industrial base, increase in residential and vehicle consumption and the overall economic growth of China. The growth of China's economy experienced a slowdown in late 2007. We believe a number of factors contributed to this slowdown, including appreciation of the Renminbi against the U.S. dollar and the Euro, which has adversely affected China's exports, and tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing overheating of China's economy and controlling China's high level of inflation. The slowdown was further exacerbated by the recent global crisis in the financial services and credit markets, which has resulted in extreme volatility and dislocation of the global capital markets.

It is uncertain how long the global crisis in the financial services and credit markets will continue and the impact this will have on the global economy in general and the economy of China in particular. We are currently unable to estimate the impact the slowing of the PRC economy will have on our business as the impact of the decline in international trade is being offset in part through domestic stimulus spending, expanded bank lending, increases in the speed of regulatory approvals of new construction projects and other economic policies. We do not believe we have experienced reduced demand for natural gas to date. If the economic downturn continues, our business may be negatively affected by any decrease in demand for our natural gas products and services. Reduction in demand for natural gas would have a material and adverse effect on our financial condition and results of operations. In particular, if customers of taxis come to rely more on mass transit rather than taxis, a decline in demand for taxis may result in a decline of CNG as a vehicle fuel which would adversely affect our revenue and ability to sustain and grow our operations.

We have benefited from the natural gas procurement and sale prices set by government authorities.

Natural gas sales accounted for 76.8%, 82.3% and 79.9% of our revenue for the three years ended December 31, 2009, 2008 and 2007, respectively. However, the prices at which we purchase our natural gas supplies and sell our natural gas products are strictly regulated by the PRC central government, including the National Development and Reform Commission (“NDRC”), and the local state price bureaus who have the discretion to set natural gas prices within the boundaries set by the PRC central government. Our results of operations for the periods reviewed have benefited from the natural gas procurement and sale prices set by government authorities. There is no assurance that the government authorities will continue to set natural gas procurement and sale prices at levels that will allow us to improve or even maintain our margins. Increased natural gas prices affect the cost to us of natural gas and will adversely impact our margins in cases where we are unable to pass on the increased costs to our customers. In addition, higher natural gas prices may adversely impact the adoption of CNG and LNG and have a material and adverse effect on our financial condition and results of operations.

Our competitors and potential competitors may be larger than us and have greater financial and other resources than we do and those advantages could make it difficult for us to compete with them.

We expect to face intense competition in the natural gas industry, including in both the CNG and LNG industries. Our current, and potential, competitors include companies that are part of much larger companies, including state-owned enterprises. These companies are likely to have greater resources than we do, including longer operating history, larger customer base, stronger customer relationships, greater brand or name recognition and greater financial, technical, marketing, relationship and other resources and may be able to use these greater resources to enter into the CNG and LNG industries and gain substantial market share. Competition could result in price reductions, fewer purchases, reduced gross margins and loss of market share. If we are unable to remain competitive, we may not be able to establish our LNG business, expand our CNG business into new provinces or even maintain our current share of the CNG market in China.

Prices of natural gas in the PRC are subject to government regulation and can be subject to significant fluctuations.

Although regulated by the PRC central government, natural gas prices in China can be subject to significant fluctuations. Natural gas prices may be increased by the government for policy or other reasons including in response to changing national or international market forces, such as changes in domestic and foreign supplies of natural gas, domestic storage levels, crude oil prices, the price difference between crude oil and natural gas, price and availability of alternative fuels, weather conditions, level of consumer demand, economic conditions, price of foreign natural gas imports, and domestic and foreign governmental regulations and political conditions. The volatility of natural gas prices could adversely impact the adoption of CNG vehicle fuel and our business.

Natural gas operations entail inherent safety and environmental risks that may result in substantial liability to us.

Natural gas operations entail inherent risks, including equipment defects, malfunctions and failures, human error and natural disasters, which could result in uncontrollable flows of natural gas, fires, explosions, property damage, injury and death. For example, a competitor of ours in Xi'an providing natural gas to residences recently experienced an accident resulting in significant property damage, injury and death. CNG fuel tanks, if damaged or improperly maintained, may rupture and the contents of the tank may rapidly decompress and result in death or injury. Also, operation of LNG pumps requires special training and protective equipment because of the extreme low temperatures of LNG. LNG tanker trailers have also in the past been, and may in the future be, involved in accidents that result in explosions, causing loss of life, injury and property damage. Improper loading of LNG vehicles can result in venting of methane gas, leading to explosions.

Inherent in our natural gas pipeline business are a variety of hazards and operational risks, such as leaks, ruptures and mechanical problems. The location of pipelines near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering places, could increase the level of damage resulting from these risks, including the loss of human life, significant damage to property, environmental damage, impairment of our operations and substantial loss to us. The risks associated with our natural gas businesses may expose us to liability for personal injury, wrongful death, property damage, pollution and other environmental damage. We may incur substantial liability and cost if damages are not covered by insurance or are in excess of policy limits.

We are dependent on a limited number of suppliers of natural gas, which may affect our ability to supply natural gas to our customers.

With the exception of certain compressed and liquid natural gas supplies, we obtain our supplies of natural gas primarily from four suppliers. The ability to deliver our product is dependent on a sufficient supply of natural gas and if we are unable to obtain a sufficient natural gas supply, we may be prevented from making deliveries to our customers. While we have supply contracts, we do not control our suppliers, nor are we able to control the amount of time and effort suppliers put forth on our behalf. It is possible that our suppliers will not perform as expected and that they may breach or terminate their agreements with us. Our supply contract with our largest supplier Petrochina Chang Qing Oil Field Branch. It is possible that, after a review of our supply contract, they will choose to provide services to a competitor. Any failure to obtain supplies of natural gas could prevent us from delivering our product to our customers and could have a material adverse affect on our business and financial condition.

Our growth depends in part on environmental regulations and programs mandating the use of cleaner burning fuels, and modification or repeal of these regulations may adversely impact our business.

Our business depends in part on environmental regulations and programs in China that promote the use of cleaner burning fuels, including natural gas, for vehicles. In particular, China’s 11th Five-Year Plan (2006-2010) has made the development of natural gas engines for heavy-load trucks a national key development project. In order to meet the demand for natural gas, the PRC government has encouraged private companies to invest in and build the necessary transportation, distribution and sale infrastructure for natural gas. On February 24, 2005, China’s State Council issued an opinion encouraging and supporting private sector businesses to become involved in industries that were previously controlled by state-owned enterprises, including oil and natural gas distribution. In 2007, China's State Development and Reform Commission officially included CNG/gasoline hybrid vehicles in the country's "encouraged development" category. In addition, local governments, including those in Chongqing, Hangzhou, Nanjing, Lanzhou and Dongguan have enacted policies providing subsidies to taxis and buses which covert their gasoline vehicles to CNG/gasoline hybrid vehicles. Any delay, repeal or modification of these regulations or programs that encourage the use of natural gas for vehicles could have a detrimental effect on the PRC natural gas industry, which, in turn, could slow our growth and materially adversely affect our business.

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The infrastructure to support coal, gasoline and diesel consumption is vastly more developed than the infrastructure for natural gas vehicle and industrial fuels.

Coal, gasoline and diesel fueling stations and service infrastructure are widely available in China. For natural gas vehicle and industrial fuels to achieve more widespread use in China, they will require a promotional and educational effort and the development and supply of more natural gas vehicles and fueling stations. This will require significant continued effort by us as well as the government, and we may face resistance from oil companies, coal companies and gasoline station operators. Also, a prolonged economic recession and continued disruption in the capital markets may make it difficult or impossible to obtain financing to expand the natural gas vehicle and industrial fuel infrastructure and impair our ability to grow our business. There is no assurance natural gas will ever achieve the level of acceptance as a vehicle and industrial fuel necessary for us to expand our business significantly.

The expansion of our business into LNG may not be as successful as our CNG business, or at all.

Although a similar business to CNG, our expansion into the LNG business entails different technology and requires us to expand into new markets where permitting, environmental issues, lack of materials and lack of human resources, among other factors, could complicate our ability to operate our LNG processing facility and successfully compete in the LNG segment. In contrast to CNG, the compression and production costs of LNG are higher than CNG due to LNG's more complicated and technical process and we may be unable to complete and operate our LNG expansion successfully due to the advanced technology involved in its production and sale. In addition, the construction of the LNG processing facility could also create increased financial exposure through start-up delays, the need for unforeseen repairs and failure to ramp up to full capacity. If the new plant has higher than expected operating costs or is not able to produce the expected amounts of LNG, we may be forced to sell LNG at a price below processing costs and we may lose money. While we have received a letter from PetroChina Company Limited pursuant to which PetroChina agreed in principle to supply up to 150 million cubic meters of natural gas annually to our LNG Project subsidiary subject to the negotiation of a final agreement once our LNG plant is near completion, we have not entered into a final agreement. Additionally, if the quality of LNG produced at the facility does not meet customer specifications, we may be unable to compete with other LNG producers, which would harm our business. As our target market for our LNG expansion is outside Shaanxi and Henan, there is no assurance that we will be able to establish a strong customer base in our LNG target markets and we currently have not entered into any contracts with customers for the supply of LNG. While we currently also benefit from the NDRC's decision in August 2007 to cease approval of LNG projects based on onshore gas fields that involve the processing of domestic natural gas supplies, there is no assurance that the NDRC will continue such a moratorium and should the NDRC resume such approvals, any expansion of our LNG business may be adversely affected.

We are in the process of constructing only one LNG plant and any prolonged disruption of the construction or operation of the LNG plant may adversely affect our business development plans.

We are in the process of constructing only one LNG production facility. If, for any reason, the LNG production facility should fail to be completed in a timely fashion or does not operate according to expectation, it may become difficult for us to obtain substitute LNG to sell and distribute without interruption and near our current or target markets at competitive prices. We do not have any performance guarantees, insurance or indemnification from our contractors, sub-contractors or technology licensors in connection with the construction of our LNG production facility, and we may be required to make additional investments to complete the project. In addition, if our LNG production facility or our natural gas suppliers are damaged by severe weather, earthquake or other natural disaster, or otherwise experiences prolonged downtime, our LNG production will be restricted. If we are unable to supply enough of our own LNG or purchase it from third parties to meet customer demand, our ability to expand our business into LNG sales may be impeded and may hinder our growth and our business may be adversely affected.

We failed to comply with PRC law in our recent contribution of capital to SJLNG and will be subject to possible fines, penalties and administrative action until the capital contribution is registered in compliance with PRC law.

In August 2008, the board of directors of XXNGC passed a resolution to increase the registered capital of SJLNG to RMB118,305,000 through the form of intangible asset contributions. In September 2008, SJLNG obtained its updated business license reflecting the increased registered capital. Pursuant to XXNGC's board resolution, China Natural Gas, Inc. transferred its right to use the two licenses it obtained relating to the design of our LNG facility directly to SJLNG as SJLNG's registered capital. However, China Natural Gas, Inc. is not a shareholder of SJLNG and is therefore not permitted under PRC law to contribute capital to SJLNG. In addition, PRC law does not allow the contribution of capital in the form of an intangible asset, such as these two licenses, where the assets are not owned by the contributor. We are restructuring the capital contribution as a cash contribution and revising our LNG licenses so that the licensee is SJLNG and believe this capital contribution and license structure will comply with PRC law. However, until we have completed this process, the relevant regulatory authorities may impose fines or penalties, or require us to cease the operations of SJLNG, until such time as these defects are remedied. Any such fines, penalties or stop in operations could have a material and adverse effect on our LNG business in terms of our future growth, financial condition and results of operations.

We rely on suppliers of LNG technology.

Due to the advanced technology involved in the production, loading and transport of LNG, we have relied on suppliers of LNG technology for the construction of our LNG plant, and we anticipate we will rely on such suppliers for technology and know-how in connection with the operation and maintenance of our LNG plant. There are a limited number of suppliers of LNG technology and we may be unable to obtain alternate suppliers at acceptable prices, in a timely manner or at all. If we should lose the assistance of our LNG technology licensors for any reason, we may be unable to complete or operate our planned LNG plant, which could have a material and adverse effect on our future growth, financial condition and results of operations.

If there are advances in other alternative vehicle and industrial fuels or technologies, or if there are improvements in gasoline, diesel or hybrid engines, demand for natural gas vehicle and industrial fuels may decline and our business may suffer.

Technological advances in the production, delivery and use of alternative fuels that are, or are perceived to be, cleaner, more cost-effective or more readily available than CNG or LNG have the potential to slow adoption of natural gas vehicles and industrial facilities. In addition, advances in gasoline and diesel engine technology, especially hybrids, may offer a cleaner, more cost-effective option and make vehicle customers less likely to convert their vehicles to natural gas. Technological advances related to ethanol or biodiesel, which are increasingly used as an additive to, or substitute for, gasoline and diesel fuel, may slow the need to diversify fuels and affect the growth of the natural gas vehicle market. In addition, hydrogen and other alternative fuels in experimental or developmental stages may eventually offer a cleaner, more cost-effective alternative to gasoline and diesel than natural gas. Advances in technology that slow the growth of or conversion to natural gas vehicles or industrial facilities or which otherwise reduce demand for natural gas as a vehicle or industrial fuel will have an adverse effect on our business.

We may need to raise capital to fund our operations and our failure to obtain funding when needed may force us to delay, reduce or eliminate our business development plans.

We may require additional cash resources in order to carry out our business development plans, including constructing and acquiring CNG and LNG fueling and compression stations. If the cost of any such construction or acquisition that our management deems appropriate is higher than our cash resources, we will need to seek additional cash resources, and may seek to sell additional equity or debt securities or borrow under credit facilities. The sale or issuance of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. If we are unable to raise additional capital on terms favorable to us or at all, we may have to delay, scale back, or discontinue our planned facility construction or acquisitions, or obtain funds by entering into agreements on terms not favorable to us. We may also not be able to secure or repay debt incurred to fund facility construction or acquisition, especially if the construction or acquisition does not result in the benefits we anticipated. As a result, our future growth, financial condition and results of operations may be materially and adversely affected.

We have limited insurance coverage and may incur losses due to business interruptions resulting from natural and man-made disasters, and our insurance may not be adequate to cover liabilities resulting from accidents or injuries that may occur.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited commercial insurance products. We carry auto insurance on our vehicles and maintain workers compensation insurance for our fueling station workers. We do not carry any product liability insurance or property insurance on our office buildings, fueling stations, other industrial sites or other property. We believe that current facilities are adequate for our current and immediately foreseeable operating needs. We do not have any policies regarding investments in real estate, securities or other forms of property. We have determined that balancing the risks of disruption or liability from our business, or the loss or damage to our property, including our facilities and equipment, the cost of insuring for these risks on the one hand, and the difficulties associated with acquiring such insurance on commercially reasonable terms on the other hand, makes it impractical for us to have such insurance.

Should any natural catastrophes such as earthquakes, floods, or any acts of terrorism occur in Shaanxi or Henan provinces, where our primary operations are located and most of our employees are based, or elsewhere, we might suffer not only significant property damage, but also loss of revenues due to interruptions in our business operations. In addition, the provision of our services depends on the continuing operation of our natural gas pipelines and fueling stations, which are also vulnerable to damage or interruption from natural catastrophes such as earthquakes and acts of terrorism.

The occurrence of a significant event for which we are not fully insured or indemnified, and/or the failure of a party to meet its underwriting or indemnification obligations, could materially and adversely affect our operations and financial condition. Moreover, no assurance can be given that we will be able to maintain adequate insurance in the future at rates we consider reasonable.

Qinan Ji, our chairman and chief executive officer, has played an important role in the growth and development of our business since its inception, and a loss of his services in the future could severely disrupt our business and negatively affect investor confidence in us, which may also cause the market price of our common stock to go down.

Qinan Ji, our chairman and chief executive officer, has played an important role in the growth and development of our business since its inception. To date, we have relied heavily on Mr. Ji’s expertise in, and familiarity with, our business operations, his relationships within the natural gas industry, including with our suppliers, and his reputation and experience. In addition, Mr. Ji continues to be primarily responsible for formulating our overall business strategies and spearheading the growth of our operations. If Mr. Ji were unable or unwilling to continue in his present positions, we may not be able to easily replace him and may incur additional expenses to identify and train his successor. In addition, if Mr. Ji were to join a competitor or form a competing business, it could severely disrupt our business and negatively affect our financial condition and results of operations. Although Mr. Ji is subject to certain non-competition restrictions during and after termination of his employment with us, we cannot assure you that such non-competition restrictions will be effective or enforceable under PRC law. Moreover, even if the departure of Mr. Ji from our company would not have any actual impact on our operations and the growth of our business, it could create the perception among investors or the marketplace that his departure could severely damage our business and operations and could negatively affect investor confidence in us, which may cause the market price of our common stock to go down. We do not maintain key man insurance for Mr. Ji.

Failure to attract and retain qualified personnel and experienced senior management could disrupt our operations and adversely affect our business and competitiveness.

Our continuing success is dependent, to a large extent, on our ability to attract and retain qualified personnel, including well-trained technicians for the operation and maintenance of our compressing stations, fueling stations, pipeline and delivery trucks and experienced senior management. Due to the intense market competition for highly skilled workers and experienced senior management and our geographical location, we have faced difficulties locating experienced and skilled personnel in certain areas, such as engineers, station and truck operators, administration, marketing, product development, sales, finance and accounting. We cannot assure you that we will be able to attract or retain the key personnel that we will need to achieve our business objectives and if one or more of our key personnel are unable or unwilling to continue to work for us, we may not be able to replace them within a reasonable period of time or at all. Our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses in recruiting and training additional personnel. Although our employees and senior management members are subject to certain non-competition restrictions during and after termination of their employment, we cannot assure you that such non-competition restrictions will be effective or enforceable under PRC law. If any of our key personnel joins a competitor or forms a competing business, our business may be severely disrupted. We have no key man insurance with respect to our key personnel that would provide insurance coverage payable to us for loss of their employment due to death or otherwise.

The expansion of our business into new provinces may not be as successful as in Shaanxi and Henan provinces, or at all.

We plan to expand our business into additional provinces throughout China. However, our experience in operating CNG fueling stations in Shaanxi and Henan may not be applicable in other parts of China. We cannot assure you that we will be able to leverage such experience to expand into other parts of China. When we enter new markets, we may face intense competition from natural gas operators with established experience or presence in the geographical areas in which we plan to expand and from other natural gas operators with similar expansion targets. In addition, expansion or acquisition may require a significant amount of capital investment, divert the resources and time of our management and, if we fail to integrate the new businesses effectively, affect our operating efficiency. Demand for natural gas and government regulation may also be different in other provinces. The distribution of natural gas and operations of fueling stations are highly regulated industries requiring registration for the issuance of licenses required by various governing authorities in China. Additionally, various standards must be met for fueling stations, including handling and storage of natural gas, tanker handling and compressor operation. While we have benefited from quicker permitting and licensing processes and stable access to the supply of natural gas in Shaanxi, there is no assurance that we will have similar success in other provinces. Our failure to manage any of our planned expansion or acquisitions may have a material adverse effect on our business, financial condition and results of operations and we may not have the same degree of success in other provinces that we have had so far to date, or at all

Growth in our CNG business may depend on the increased adoption of CNG technology by buses and private cars and/or the expansion of taxi fleets.

Our revenue from CNG comes primarily from the sale of CNG as a fuel for vehicles and we expect this trend will continue. As many of the taxis in our core CNG markets have adopted CNG technology, growth in our CNG business may depend on the increased adoption of CNG technology by buses and private cars. If buses and private cars do not increasingly adopt CNG technology, growth in our CNG business may be adversely affected.

To expand our business, we must develop new customers. Whether we will be able to expand our customer base will depend on a number of factors, including the level of acceptance and availability of natural gas vehicles, the level of acceptance of natural gas as a vehicular and industrial fuel, the growth in our target markets of natural gas infrastructure that supports CNG and LNG sales and our ability to supply CNG and LNG at competitive prices. The recent and rapid decline in oil, diesel and gasoline prices may result in decreased interest in alternative fuels like CNG and LNG. If our potential customers are unable to access credit to purchase natural gas vehicles it may make it difficult or impossible for them to invest in natural gas vehicles and the conversion of industrial facilities to natural gas, which would impair our ability to grow our business.

If the prices of CNG do not remain sufficiently below the prices of gasoline and diesel, potential fleet customers will have less incentive to purchase natural gas vehicles or convert their fleets to natural gas, which would decrease demand for CNG and limit our growth, including our expansion into LNG .

Natural gas vehicles cost more than comparable gasoline or diesel powered vehicles because converting a vehicle to use natural gas adds to its base cost. If the prices of CNG do not remain sufficiently below the prices of gasoline or diesel, fleet operators may be unable to recover the additional costs of acquiring or converting to natural gas vehicles in a timely manner, and they may choose not to use natural gas vehicles. Recent and extreme volatility in oil and gasoline prices demonstrate that it is difficult to predict future transportation fuel costs. The decline in the price of oil, diesel fuel and gasoline has reduced the economic advantages that our existing or potential customers may realize by using less expensive CNG fuel as an alternative to gasoline or diesel. The reduced prices for gasoline and diesel fuel and continuing uncertainty about fuel prices, combined with higher costs for natural gas vehicles, may cause potential customers to delay or reject converting their fleets to run on natural gas which may limit our growth and cause our business to suffer.

Our acquisition and investment in other lines of business may be unsuccessful.

We intend to selectively pursue strategic acquisition and investment opportunities which complement or enhance our current businesses with new product lines or customers at the appropriate time. However, we may encounter strong competition during the acquisition or investment process and we may fail to select or value targets appropriately, which may result in our experiencing difficulty in completing such acquisitions or investments at reasonable cost or at all. Even if an acquisition or investment is successful, we may have to allocate additional capital and human resources to implement the integration of the new line of business. There is no assurance that such integration will be completed within a reasonable period of time or at all or that it will generate the expected economic benefits.

If we are unable to adequately protect our intellectual property, our business could be harmed.

We protect our intellectual property through a combination of trademark laws, confidentiality procedures and contractual provisions, when appropriate. Nonetheless, our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented or challenged. Enforcement of intellectual property rights can lead to costly litigation and counterclaims. There is a risk that the outcome of such potential litigation will not be in our favor. Such litigation may be costly and may divert management attention as well as expend other resources which could otherwise have been devoted to our business. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, historically, implementation of PRC intellectual property-related laws has been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries, which increases the risk that we may not be able to adequately protect our intellectual property. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our management's attention and resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China's legal system and potential difficulties enforcing a court judgment in China, there is no guarantee that we would be able to halt the unauthorized use of our intellectual property through litigation.

We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.

We cannot assure you that our intellectual property does not or will not infringe upon trademarks, valid copyrights or other intellectual property rights held by third parties. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses, and may be forced to divert management and other resources from our business operations, to defend against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities or may materially disrupt the conduct of our business by restricting or prohibiting our use of the intellectual property in question.

In order to comply with PRC laws limiting foreign ownership of Chinese companies, we conduct our natural gas business through Xi'an Xilan Natural Gas Co., Ltd. by means of contractual arrangements which may not be as effective as direct ownership or may be deemed in violation of PRC restrictions on foreign investment in our industry.

The government of the PRC restricts foreign investment in natural gas businesses in China. Accordingly, we operate our business in China through our variable interest entity, XXNGC. XXNGC holds the licenses, approvals and assets necessary to operate our natural gas business in China. We have no equity ownership interest in XXNGC and rely on contractual arrangements with XXNGC and its shareholders that allow us to substantially control and operate XXNGC. These contractual arrangements may not be as effective in providing control over XXNGC as direct ownership would be. For example, XXNGC could fail to take actions required for our business despite its contractual obligation to do so. If XXNGC fails to perform under its agreements with us, we may have to incur substantial costs and resources to enforce such arrangements and may have to rely on legal remedies under the law of the PRC, which may not be effective. In addition, we cannot assure you that XXNGC’s shareholders would always act in our best interests.

Although we believe we comply with current regulations of the PRC, we cannot assure you that the PRC government would agree that our structure or operating arrangements comply with the PRC’s licensing, registration or other regulatory requirements with existing policies or with requirements or policies that may be adopted in the future. If the PRC government determines that our structure or operating arrangements do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. In addition, the equity pledge in the Equity Pledge Agreement between SXNGE and XXNGC and XXNGC's shareholders has not been registered and may be deemed to be unenforceable under PRC law.

Other than the proxy agreement between SXNGE and XXNGC and XXNGC's chairman and shareholders, which does not contain a choice of law or jurisdictional clause, our contractual arrangements with XXNGC are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. If XXNGC or its shareholders fail to perform their respective obligations under these contractual arrangements, we may have to (i) incur substantial costs and resources to enforce such arrangements, and (ii) rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot be sure would be effective. However, the legal environment in the PRC is not as developed as in the United States and uncertainties in the Chinese legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

Our contractual arrangements with XXNGC may be subject to scrutiny by the Chinese tax authorities and create a potential double layer of taxation for our revenue-generating services conducted by XXNGC.

We could face material and adverse tax consequences if the Chinese tax authorities determine that our contractual arrangements with XXNGC were not priced at arm’s length for purposes of determining tax liability. If the Chinese tax authorities determine that these contracts were not entered into on an arm’s-length basis, they may adjust our income and expenses for Chinese tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could result in a reduction, for Chinese tax purposes, of deductions recorded by XXNGC, which could adversely affect us by increasing the tax liabilities of XXNGC. This increased tax liability could further result in late payment fees and other penalties to XXNGC for underpaid taxes. Any payments we make under these arrangements or adjustments in payments under these arrangements that we may decide to make in the future will be subject to the same risk. Prices for such services will be set prospectively and therefore we do not currently have a basis to believe that any of the payments to be made under the contracts will or will not be considered arm’s length for purposes of determining tax liability.

The shareholders of XXNGC may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The shareholders of XXNGC are also beneficial holders of our common shares. They are also directors of both XXNGC and our company. Conflicts of interests between their dual roles as shareholders and directors of both XXNGC and our Company may arise. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, these individuals may breach or cause XXNGC to breach or refuse to renew the existing contractual arrangements that allow us to receive economic benefits from XXNGC. Currently, we do not have existing arrangements to address potential conflicts of interest between these individuals and our company. We rely on these individuals to abide by the laws of Delaware, which provides that directors owe a fiduciary duty to the Company, which requires them to act in good faith and in the best interests of the Company and not to use their positions for personal gain. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of XXNGC, we would have to rely on legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.

Certain shares in XXNGC, our variable interest entity, may be subject to adverse claims.

Six individuals have previously claimed to own 1,200,000 shares of XXNGC's common stock, our main operating company and variable interest entity. They have claimed that they acquired these shares from other shareholders of XXNGC. Based on XXNGC's registered capital of RMB69,000,000 when it became a joint stock limited company in 2004, we believe the 1,200,000 shares represented 1.74% of XXNGC's outstanding common stock at the time the six individuals claim to have acquired the 1,200,000 shares of XXNGC. While we and XXNGC dispute their claim of ownership over the 1,200,000 shares, there is no assurance that XXNGC will prevail if these six individuals pursued their claim in legal proceedings. If these six individuals are found to have ownership over these shares, XXNGC's shareholding structure may change and our revenues from our contractual arrangements with XXNGC may be reduced.

We may lose the ability to use and enjoy assets held by XXNGC that are important to the operation of our business if XXNGC goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with XXNGC, XXNGC holds certain of the assets that are important to the operation of our natural gas business. If XXNGC were to file for bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our natural gas operations, which could materially and adversely affect our business, financial condition and results of operations. If XXNGC undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our natural gas business, which could materially and adversely affect our business, financial condition and results of operations.

The transfer of state-owned assets in China is subject to approval by authorities in charge of state-owned assets administration and supervision and any failure by us or prior owners of our projects to comply with PRC laws and regulations in respect of the transfer of state-owned assets may result in the imposition of fines or forfeiture of our projects.

As part of our business development, we have historically and may continue to acquire assets which were previously state-owned. In particular, XXNGC, our main operating company and variable interest entity, was previously a state-owned enterprise. XXNGC was acquired in 2004 by Xi'an Sunway Technology Industry Co., Ltd. ("Sunway"), a company in which our chairman and CEO, Mr. Ji, is a shareholder, and privatized. Mr. Ji, subsequently acquired XXNGC in October 2005. The acquisition of XXNGC by Sunway was approved by the Xi'an Municipal Administration Committee. However, the transfer price Sunway paid to acquire XXNGC was not evaluated by licensed appraisers. Under PRC law, the transfer of state-owned assets is subject to strict procedures and approvals, including the requirement that the transfer price be evaluated by licensed appraisers. If a previous transferor of state-owned assets failed to comply with relevant PRC law, the transfer of the state-owned assets may be reversed by the government or fines may be levied. In such circumstances, we will have a legal right to recover our investment in the assets, but we may not be able to recover from the relevant parties, which could result in a loss of revenues and a significant increase in operating costs. In addition, because XXNGC is our main operating company, any reversal of the transfer of XXNGC would have material adverse effect on our business, financial condition and result of operations.

Acquisition of state-owned assets involves a public bidding process and failure to win the bids for our state-owned target companies or equity interests therein may limit our future growth and the control of our existing projects.

Under PRC law, we are required to bid for the acquisition of state-owned assets that we wish to acquire. We typically negotiate the terms of the sale with the state-owned seller prior to the bidding process. However, we may not be successful in the bid and may fail to obtain the project as a result. To the extent we seek in the future to acquire state-owned assets, we will need to follow this process, and may not be successful in obtaining the target business.

We may be required to vacate some of the land upon which our CNG fueling stations operate.

We entered into long term lease agreements with third parties to lease certain land upon which our CNG fueling stations operate. Some of the entities from which we leased the land may not possess valid title to their properties. In addition, we have leased land from individual villagers or villager committees and applicable PRC law may be interpreted as prohibiting such land to be used for non-agricultural purposes or from being leased to parties other than local residents or their collective economic organizations. If there are disputes over the legal title to any of these leased properties or if the relevant authorities determine that our use of such properties violate PRC law and our leases are deemed to be invalid under PRC law, we may be required to vacate such sites and our business, financial condition and results of operations may be adversely affected.

We may be subject to fines in connection with the construction of our CNG fueling stations due to failure to comply with proper procedural requirements.

According to relevant PRC laws and regulations in Shaanxi and Henan provinces, contracts exceeding certain specified amounts relating to the construction of natural gas stations, such as construction contracts and equipment purchase agreements, must be obtained through bidding. We, however, did not comply with such bidding procedures in connection with the construction of any of our CNG fueling stations. While we believe this is accepted local practice, it is not in compliance with national and local legal requirements, and as a result, we may be subject to administrative fines and other penalties as a result of our failure to comply with these requirements.

Our business operations are subject to extensive government regulation.

Our business activities are extensively regulated by policies and other laws and regulations enacted by the PRC government. Natural gas operations require approvals, licenses or permits from the relevant central and local government authorities, some of which may take longer to obtain than others. In addition, from time to time, the relevant government authorities may impose new regulations on these activities. The success of our strategy to increase our natural gas business is contingent upon, among other things, receipt of all required licenses, permits and authorizations, including, but not limited to, construction, safety and environmental permits. While we believe we have, or are in the process of obtaining, all the required licenses, permits and authorizations material to our business, there is no assurance that changes or concessions required by our regulatory authorities could also involve significant costs and delay or prevent the completion of our growth or could result in the loss of an existing license, permit or authorization, any of which could have a material adverse effect on our financial condition and results of operations. Furthermore, to the extent we have failed to obtain any licenses, permits and authorizations, the relevant government authorities may subject us to fines, penalties or require us to cease operations.

Because we may rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for our cash requirements, restrictions under Chinese law on their ability to make such payments could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses.

We have adopted a holding company structure, and our holding companies may rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for their cash requirements, including the funds necessary to service any debt we may incur or financing we may need for operations other than through our Chinese subsidiaries. Chinese legal restrictions permit payments of dividends by our Chinese subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC GAAP. Our Chinese subsidiaries are also required under Chinese laws and regulations to allocate at least 10% of their after-tax profits determined in accordance with PRC GAAP to statutory reserves until such reserves reach 50% of the company's registered capital. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. Any limitations on the ability of our Chinese subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

Our failure to fully comply with PRC labor laws exposes us to potential liability.

Companies operating in China must comply with a variety of labor laws, including certain pension, housing and other welfare-oriented payment obligations. While we intend to make such payments beginning in July 2009, our failure to make previous payments may be in violation of applicable PRC labor laws and we cannot assure you that PRC governmental authorities will not impose penalties on us for failure to comply. In addition, in the event that any current or former employee files a complaint with the PRC government, we may be subject to making up the social insurance payment obligations as well as paying administrative fines.

Risks Related to the People's Republic of China

Adverse changes in PRC economic and political policies could have a material adverse effect on the overall economic growth of China, which could reduce the demand for natural gas and materially and adversely affect our business.

Substantially all of our assets are located in China and substantially all of our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant extent, to the economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many aspects, including:

- the level of government involvement;
- the level of development;
- the growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has grown significantly in the past two decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow or to do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. Any measures taken by the PRC government, even if they benefit the overall Chinese economy in the long-term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments. Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through allocating resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of investments and expenditures in China, which in turn could lead to a reduction in demand for natural gas and consequently have a material adverse effect on our businesses.

The PRC legal system embodies uncertainties that could limit the legal protections available to you and us.

Unlike common law systems, the PRC legal system is based on written statutes and decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investment in China. Our PRC operating subsidiaries are subject to laws and regulations applicable to foreign investment in China. Our PRC affiliated entities are subject to laws and regulations governing the formation and conduct of domestic PRC companies. Relevant PRC laws, regulations and legal requirements may change frequently, and their interpretation and enforcement involve uncertainties. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than under more developed legal systems. Such uncertainties, including the inability to enforce our contracts and intellectual property rights, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with respect to the natural gas sector, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors.

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The PRC currency is not a freely convertible currency, which could limit our ability to obtain sufficient foreign currency to support our business operations in the future.

The PRC currency, the "Renminbi" or "RMB," is not a freely convertible currency. We rely on the PRC government's foreign currency conversion policies, which may change at any time, in regard to our currency exchange needs. We receive substantially all of our revenues in Renminbi, which is not freely convertible into other foreign currencies. In China, the government has control over Renminbi reserves through, among other things, direct regulation of the conversion of Renminbi into other foreign currencies and restrictions on foreign imports. Although foreign currencies that are required for current account transactions can be bought freely at authorized PRC banks, the proper procedural requirements prescribed by PRC law must be met. At the same time, PRC companies are also required to sell their foreign exchange earnings to authorized PRC banks and the purchase of foreign currencies for capital account transactions still requires prior approval of the PRC government. This substantial regulation by the PRC government of foreign currency exchange may restrict our business operations and a change in any of these government policies could negatively impact our operations, which could result in a loss of profits.

In order for our PRC subsidiaries to pay dividends to us, a conversion of Renminbi into U.S. dollars is required. Under current PRC law, the conversion of Renminbi into foreign currency for capital account transactions generally requires approval from SAFE and, in some cases, other government agencies. Government authorities may impose restrictions that could have a negative impact in the future on the conversion process and upon our ability to meet our cash needs and to pay dividends to our shareholders. Although, our subsidiaries' classification as wholly foreign-owned enterprises, or WFOEs, under PRC law permits them to declare dividends and repatriate their funds to us in the United States, any change in this status or the regulations permitting such repatriation could prevent them from doing so. Any inability to repatriate funds to us would in turn prevent payments of dividends to our shareholders.

Fluctuations in exchange rates could result in foreign currency exchange losses.

Because substantially all of our revenues and expenditures are denominated in Renminbi and the net proceeds from our capital raising were denominated in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and Renminbi affect the relative purchasing power of these proceeds and our balance sheet and earnings per share in U.S. dollars. In addition, we report our financial results in U.S. dollars, and appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future.

Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.5% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium- to long-term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

SAFE regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders and beneficial owners who are PRC residents fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

The PRC State Administration of Foreign Exchange, or SAFE, has promulgated several regulations, including Circular No. 75 issued in November 2005 and implementation rules issued in May 2007, requiring registrations with, and approvals from, PRC government authorities in connection with direct or indirect offshore investment activities by PRC residents. These regulations apply to our shareholders and beneficial owners who are PRC residents.

The SAFE regulations require registration of direct or indirect investments made by PRC residents in offshore companies. In the event that a PRC shareholder with a direct or indirect stake in an offshore parent company fails to make the required SAFE registration, the PRC subsidiaries of that offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

We have requested our shareholders and beneficial owners who are PRC residents to make the necessary applications and filings as required under these regulations and under any implementing rules or approval practices that may be established under these regulations. We believe our PRC resident shareholders, including Mr. Ji, our chairman and chief executive officer, have already completed the registration process. However, as a result of the recent enactment of the regulations, lack of implementing rules and uncertainty concerning the reconciliation of the new regulations with other approval requirements, it remains unclear how these regulations, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. There is a risk that not all of our shareholders and beneficial owners who are PRC residents will in the future comply with our request to make or obtain any applicable registration or approvals required by these regulations or other related legislation. The failure or inability of our PRC resident shareholders and beneficial owners to receive any required approvals or make any required registrations may subject us to fines and legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, as a result of which our acquisition strategy and business operations and our ability to distribute profits to you could be materially and adversely affected.

We may have difficulty establishing adequate management, legal and financial controls in the People's Republic of China.

The PRC historically has been deficient in Western style management and financial reporting concepts and practices, as well as in modern banking, computer and other control systems. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards.

Because our assets and operations are located in China, you may have difficulty enforcing any civil liabilities against us under the securities and other laws of the United States or any state.

We are a holding company, and all of our assets are located in the PRC. In addition, our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon these non-residents, or to enforce against them judgments obtained in United States courts, including judgments based upon the civil liability provisions of the securities laws of the United States or any state.

There is uncertainty as to whether courts of the PRC would enforce:

- Judgments of United States courts obtained against us or these non-residents based on the civil liability provisions of the securities laws of the United States or any state; or

- In original actions brought in the PRC, liabilities against us or non-residents predicated upon the securities laws of the United States or any state. Enforcement of a foreign judgment in the PRC also may be limited or otherwise affected by applicable bankruptcy, insolvency, liquidation, arrangement, moratorium or similar laws relating to or affecting creditors' rights generally and will be subject to a statutory limitation of time within which proceedings may be brought.

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our variable interest entity, XXNGC, and its shareholders. We are considered a foreign person or foreign invested enterprise under PRC law. As a result, we are subject to PRC law limitations on foreign ownership of Chinese companies. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found to be in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

The new Antimonopoly Law ("AML") may subject our future acquisitions to increased scrutiny, which could affect our ability to consummate acquisitions on terms favorable to us or at all.

On August 8, 2006, six PRC government authorities, including the PRC Ministry of Commerce, the State Administration for Industry and Commerce, and the China Securities Regulatory Commission, promulgated a rule entitled “Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors”, or the New M&A Rule, which became effective on September 8, 2006. The New M&A Rule, among other things, requires that certain acquisitions of Chinese domestic enterprises by foreign investors be subject to anti-trust scrutiny by the Ministry of Commerce and the State Administration for Industry and Commerce. The AML was adopted by the Standing Committee of the National People’s Congress on August 30, 2007 and became effective on August 1, 2008. The AML was enacted in part to guard against and cease monopolistic activities, and to safeguard and promote orderly market competition. In accordance with the AML, monopolistic acts shall include monopolistic agreements among business operators, abuse of dominant market positions by business operators and concentration of business operators that eliminates or restricts competition or might be eliminating or restricting competition. On August 3, 2008, the State Council promulgated the Regulations on the Thresholds for Reporting of Concentration of Business Operators, or the Reporting Threshold Regulations, which provide specific thresholds for reporting of concentration of business operators. Under the AML and the Reporting Threshold Regulations, the parties to an acquisition must report to the Ministry of Commerce in advance if in the preceding accounting year the turnover in the aggregate achieved by all the parties to the transaction exceeds RMB10.0 billion worldwide or RMB2.0 billion within China, and the turnover achieved by at least two of them respectively exceeds RMB400.0 million within China. However, the Ministry of Commerce has the right to initiate investigation of a transaction not reaching the above-mentioned reporting thresholds if the Ministry of Commerce has evidence that the transaction has or may have the effect of excluding or restricting competition. The anti-trust scrutiny procedures and requirements set forth in the AML and the Reporting Threshold Regulations grant the government extensive authority of evaluation and control over the terms of acquisitions in China by foreign investors, and their implementation involves significant uncertainties and risks. To the extent our future acquisitions meet the threshold requirements set forth in the AML and the Reporting Threshold Regulations, or are deemed by the Ministry of Commerce to meet the thresholds, we will be subject to anti-monopoly review. The consummation of our future acquisitions could therefore be much more time-consuming and complex, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or prevent the consummation of such acquisitions, and prevent us from attaining our business objectives.

We may be deemed a PRC "resident enterprise" under the EIT Law and be subject to PRC taxation on our worldwide income.

The EIT Law also provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations to the EIT Law issued by the State Council, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. It remains unclear how the PRC tax authorities will interpret this term. A substantial number of our management personnel are located in the PRC, and all of our revenues arise from our operations in China. However, we do recognize some interest income and other gains from our financing activities outside China. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the new EIT Law also provides that, if a resident enterprise already invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested resident enterprise are exempt from income tax, subject to certain qualifications. Therefore, if we are classified as a resident enterprise, the dividends received from our PRC subsidiaries and investee company may be exempt from income tax. However, due to the short history of the EIT Law, it is unclear as to (i) the detailed qualification requirements for such exemption and (ii) whether dividend payments by our PRC subsidiaries and investee company to us will meet such qualification requirements, even if we are considered a PRC resident enterprise for tax purposes.

Dividends we receive from our operating subsidiaries located in the PRC may be subject to PRC withholding tax.

The EIT Law provides that a withholding income tax rate of 20% will be applicable to dividends payable to foreign investors that are “non-resident enterprises” to the extent such dividends have their source within China unless the jurisdiction of such foreign investor has a tax treaty with China that provides a different withholding arrangement. The implementing regulations to the EIT Law subsequently reduced this withholding income tax rate from 20% to 10%.

We are a Delaware company and substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% withholding income tax if we are considered as a “non-resident enterprise” under the EIT Law. If we are required under the EIT Law to pay income tax for any dividends we receive from our subsidiaries, it will materially and adversely affect the amount of dividends, if any, we may pay to our shareholders.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit our ability to use the proceeds of this offering to make additional capital contributions or loans to our PRC operating businesses.

Any capital contributions or loans that we, as an offshore company, make to our PRC operating businesses, including from the proceeds of this offering, are subject to PRC regulations. For example, any of our loans to our PRC operating businesses cannot exceed the difference between the total amount of investment our PRC operating businesses are approved to make under relevant PRC laws and their respective registered capital, and must be registered with the local branch of the State Administration of Foreign Exchange as a procedural matter. In addition, our capital contributions to our PRC operating businesses must be approved by the National Development and Reform Commission and the Ministry of Commerce or their local counterpart and registered with the State Administration for Industry and Commerce or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC operating businesses or to fund their operations may be negatively affected, which could adversely affect their liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments. Furthermore, the State Administration of Foreign Exchange promulgated a new circular in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into RMB. Pursuant to this new circular, RMB converted from foreign exchange capital contribution can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition unless otherwise allowed by PRC laws or regulations. As a result, we may not be able to increase the capital contribution of our operating subsidiaries or equity investee and subsequently convert such capital contribution into RMB for equity investment or acquisition in China.

We may be adversely affected by complexity, uncertainties and changes in PRC regulation of natural gas businesses and companies, including limitations on our ability to own key assets.

The PRC government regulates the natural gas industry including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the natural gas industry. These laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be a violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the natural gas industry include the following:

. we only have contractual control over XXNGC. We do not own it due to the restriction of foreign investment in Chinese businesses; and

- uncertainties relating to the regulation of the natural gas business in China, including evolving licensing practices, means that permits, licenses or operations at our company may be subject to challenge. This may disrupt our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, natural gas businesses in China, including our business.

If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that its approval was required in connection with this offering, we may become subject to penalties.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006. The M&A Rule, among other things, has certain provisions that require offshore special purpose vehicles, or SPVs, formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to listing their securities on an overseas stock exchange. We believe, based on the opinion of our PRC legal counsel, Shaanxi Jiarui Law Firm, that while the CSRC generally has jurisdiction over overseas listings of SPVs like us, CSRC's approval is not required for our overseas listing and any future offerings given the fact that our current corporate structure was established before the new regulation became effective. However, there remains some uncertainty as to how this regulation will be interpreted or implemented in the context of an overseas offering. If the CSRC or another PRC regulatory agency subsequently determines that its approval was required for our overseas listing and any future offerings, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the injection of proceeds from an offering into our PRC subsidiaries, restrict or prohibit payment or remittance of dividends by our PRC subsidiaries to us or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common stock.

We may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities if we or our Chinese employees fail to comply with Chinese regulations relating to employee share options granted by offshore listed companies to Chinese citizens.

On March 28, 2007, SAFE issued the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Holding Plan or Share Option Plan of Overseas Listed Company, or the Share Option Rule. Under the Share Option Rule, Chinese citizens who are granted share options by an offshore listed company are required, through a Chinese agent or Chinese subsidiary of the offshore listed company, to register with SAFE and complete certain other procedures, including applications for foreign exchange purchase quotas and opening special bank accounts. We and our Chinese employees who have been granted share options are subject to the Share Option Rule. If we or our Chinese employees fail to comply with these regulations, we or our Chinese employees may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities and we may be prevented from further granting options under our share incentive plans to our employees. Such events could adversely affect our business operations.

Recent changes in the PRC labor law restrict our ability to reduce our workforce in the PRC in the event of an economic downturn and may increase our labor costs.

In June 2007, the National People's Congress of the PRC enacted the Labor Contract Law, which became effective on January 1, 2008. To clarify certain details in connection with the implementation of the Labor Contract Law, the State Council promulgated the Implementing Rules for the Labor Contract Law, or the Implementing Rules, on September 18, 2008 which came into effect immediately. The Labor Contract Law provides various rules regarding employment contracts that will likely have a substantial impact on employment practices in China. The Labor Contract Law imposes severe penalties on employers that fail to timely enter into employment contracts with employees. The employer is required to pay a double salary to the employee if it does not enter into a written contract with the employee within one month of the employment, and a non-fixed-term contract is assumed if a written contract is not executed after one year of the employment. Additionally, the Labor Contract Law sets a limit of two fixed-term contracts regardless of the length of each term, after which the contract must be renewed on a non-fixed-term basis should the parties agree to a further renewal unless otherwise required by the respective employee. This requirement curtails the common practice of continuously renewing short-term employment contracts. The Implementing Rules appear to further tighten this rule by suggesting that an employee has the right to demand a non-fixed-term contract upon the completion of the second fixed term regardless of whether the employer agrees to a contract renewal. A non-fixed-term contract does not have a termination date and it is generally difficult to terminate such a contract because termination must be based on limited statutory grounds. The employer can no longer supplement such statutory grounds through an agreement with the employee. In addition, the Labor Contract Law requires the payment of statutory severance upon the termination of an employment contract in most circumstances, including the expiration of a fixed-term employment contract.

Under the Labor Contract Law, employers can only impose a post-termination non-competition provision on employees who have access to their confidential information for a maximum period of two years. If an employer intends to maintain the enforceability of a post-termination non-competition provision, the employer has to pay the employee compensation on a monthly basis post-termination of the employment. Under the Labor Contract Law, a "mass layoff" is defined as termination of more than 20 employees or more than 10% of the workforce. The Labor Contract Law expands the circumstances under which a mass layoff can be conducted, such as when the company undertakes a restructuring pursuant to the PRC Enterprise Bankruptcy Law, suffers serious difficulties in business operations, changes its line of business, performs significant technology improvements, changes operating methods, or where there has been a material change in the objective economic circumstances relied upon by the parties at the time of the conclusion of the employment contract, thereby making the performance of such employment contract impractical. The employer must follow specific procedures in conducting a mass layoff. There is little guidance on what penalties an employer will suffer if it fails to follow the procedural requirements in conducting the mass layoff. Finally, the Labor Contract Law requires that the employer discuss the company's internal rules and regulations that directly affect the employees' material interests (such as employees' salary, work hours, leave, benefits, and training, etc.) with all employees or employee representative assemblies and consult with the trade union or employee representatives on such matters before making a final decision.

All of our employees based exclusively within the PRC are covered by the new laws. As there has been little guidance and precedents as to how the Labor Contract Law and its Implementing Rules will be enforced by the relevant PRC authorities, there remains uncertainty as to their potential impact on our business and results of operations. The implementation of the Labor Contract Law and its Implementing Rules may increase our operating expenses, in particular our personnel expenses and labor service expenses. If we want to maintain the enforceability of any of our employees' post-termination non-competition provisions, the compensation and procedures required under the Labor Contract Law may add substantial costs and cause logistical burdens to us. Prior to the new law such compensation was often structured as part of the employee's salary during employment, and was not an additional compensation cost. In the event that we decide to terminate employees or otherwise change our employment or labor practices, the Labor

Contract Law and its Implementing Rules may also limit our ability to effect these changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations. In particular, our ability to adjust the size of our operations when necessary in periods of recession or less severe economic downturns such as the recent financial turmoil may be affected. In addition, during periods of economic decline when mass layoffs become more common, local regulations may tighten the procedures by, among other things, requiring the employer to obtain approval from the relevant local authority before conducting any mass layoff. Such regulations can be expected to exacerbate the adverse effect of the economic environment on our results of operations and financial condition.

Risks Related to Corporate and Stock Matters

Qinan Ji, our chairman and chief executive officer, beneficially owns a significant percentage of our outstanding common stock and, as a result, he has significantly greater influence over us and our corporate actions relative to our public shareholders and his interests may not be aligned with the interests of other shareholders.

As of December 31, 2009, our co-founder and chief executive officer, Mr. Ji, beneficially owned 2,965,799 shares of common stock or approximately 14.0% of our outstanding shares of common stock. Mr. Ji is an affiliate as defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, due to the large size of his shareholding in us and his positions with us as our chairman and chief executive officer. Rule 144 defines an affiliate of a company as a person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, our company. Mr. Ji has, and may continue to have, significant influence in determining the outcome of any corporate transactions or other matters submitted to our shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. He may not act in the best interests of our other shareholders. In addition, without the consent of Mr. Ji, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our common stock. These actions may be taken even if they are opposed by our other shareholders.

The limited trading volume in our stock may cause volatility in the market price of our common stock.

Our common stock is currently traded on a limited basis on the OTCBB under the symbol, “CHNG.OB” The quotation of our common stock on the OTCBB does not assure that a meaningful, consistent and liquid trading market currently exists, and in recent years, such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Our common stock is thus subject to volatility. In the absence of an active trading market:

- investors may have difficulty buying and selling or obtaining market quotations;
- market visibility for our common stock may be limited; and
- a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

NASD sales practice requirements may also limit a stockholder’s ability to buy and sell our stock.

Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 promulgated thereunder by the SEC require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor’s account.

Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock." Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii)reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

Shares eligible for future sale may adversely affect the market price of our common stock, as the future sale of a substantial amount of our restricted stock in the public marketplace could reduce the price of our common stock.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act ("Rule 144"), subject to certain limitations. In general, pursuant to Rule 144, a stockholder (or stockholders whose shares are aggregated) who has satisfied a six-month holding period may, under certain circumstances, sell within any three-month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading-volume of the class during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitations, by a non-affiliate of our company that has satisfied a one-year holding period. Any substantial sale of common stock pursuant to Rule 144 or pursuant to any resale prospectus may have an adverse effect on the market price of our securities.

Stockholders should have no expectation of any dividends.

The holders of our common stock are entitled to receive dividends when declared by the Board of Directors out of funds available. To date, we have not declared nor paid any cash dividends. The Board of Directors does not intend to declare any dividends in the near future, but instead intends to retain all earnings, if any, for use in our business operations. Furthermore, if we decide to pay dividends, foreign exchange and other regulations in China may restrict our ability to distribute retained earnings from China or convert those payments from Renminbi into foreign currencies.

Item 1B. Unresolved Staff Comments.

None

ITEM 2. PROPERTIES

Our principal executive offices are located at 19th Floor, Building B, Van Metropolis, No. 35 Tangyan Road, Hi-Tech Zone, Xi'an, 710065, Shaanxi province, People's Republic of China. Our property consists of approximately 818 square meters, which is rented on an annual basis for $88,225.

We have additional properties located in Lantian County, the districts of Baqiao, Lintong and Gaoxin in the city of Xi'an, and the cities of Jiyuan, Kaifung and Pindingshan, in Henan province. We own a 120km high-pressure underground pipeline network and two Citygate stations (terminals) with accompanying buildings and equipment. We lease the main office building where we are headquartered and all of our CNG fueling station sites. In order to secure sufficient CNG supply, our VIE also own three mother stations in Xi'an city to support our stations. As of December 31, 2009, our VIE own and operate 24 CNG fueling stations in Shaanxi province and 12 CNG fueling stations in Henan province.

In February, 2006 we formed our wholly-owned subsidiary, Shaanxi Xilan Natural Gas Equipment Co., Ltd., which maintains an office in the No. 3 Xianmen St., Lantian County, Xi'an, Shaanxi province, China. The office consists of approximately 1001 sq. feet, with annual rental payment of $1,106.

On October 24, 2006, XXNGC formed a wholly-owned subsidiary, Shaanxi Jingbian Liquefied Natural Gas Co., Ltd., which maintains an office in the Tongwang Road, Zhangjiapan Town, Jingbian County, China. The office consists of approximately 3,921 sq. feet, with annual rental payment of $5,214.

On February 29, 2008, the Company entered into a 62 month lease agreement in connection with an office located on the 22nd Floor, 370 Lexington Avenue, New York, New York. The monthly rent during the first year was $6432.

In May 27, 2008, the Company purchased a 412.10-square-meter property in Zhengzhou, Henan province and uses it as office spaces for the local operations in Henan province.

In August 2008, the Company purchased a 531.72-square-meter property in Beijing and uses it as office spaces for local operations in Beijing. Therefore, the Company does not incur any rent for Henan and Beijing Offices.

In October 2008, the Company acquired Lingbao Yuxi Natural Gas, Co., Ltd. through Xi'an Xilan Natural Gas Co., Ltd. Lingbao Yuxi Natural Gas maintains an office located at Changan Rd. W, Lingbao, Henan province, with annual rent of approximately $3,314.

In December, 2009, XXNGC formed a wholly-owned subsidiary, Hubei Xilan Natural Gas, Co., which maintains an office in the No. 478 of Hongneng Manson, Jianshe Avenue,Jianghan District,Wuhan City,Hubei Province, China. The office consists of approximately 900 square meters, with annual rental payment of $36,946.

As of December 31, 2009, our VIE owned 19 trucks and 34 tankers that the Company used to transport natural gas.

The company considers the properties to be adequate and sufficient for the requirements of each location. The extent of utilization of such properties varies from property to property and from time to time during the year.

Insurance

We carry auto insurance on our vehicles and maintain workers compensation insurance for our fueling station workers. We believe this insurance is adequate for our needs. We do not carry any product liability insurance or property insurance on our office buildings or other property. We do not carry any third party liability insurance.

We believe that current facilities are adequate for our current and immediately foreseeable operating needs. We do not have any policies regarding investments in real estate, securities or other forms of property.

We also carry directors’ and officers' liability insurance with XL Insurance Company Ltd. with aggregate limit of liability of $15 million to cover our management and directors in the event that any claim may arise against such insured persons due to employment related acts. The insurance will expire on October 15, 2010 and is renewed annually.

ITEM 3. LEGAL PROCEEDINGS

A former member of the board of directors filed a lawsuit on June 16, 2008 against the Company in New York State Supreme Court, Nassau County, in which he has sought, among other things, to recover a portion of his monthly compensation plus 20,000 options that he alleges are due to him pursuant to a written agreement. After the plaintiff rejected an offer by the Company that included the options that plaintiff alleged were due to him, the Company moved to dismiss the complaint. The judge ordered the Company to issue the 20,000 options to the plaintiff subject to any restrictions required by applicable securities laws, which was essentially what the Company had previously offered, and dismissed all of the plaintiff's remaining claims against the Company. The current board of directors has complied with the court's decision by tendering an option agreement to the plaintiff consistent with the court's decision, but the plaintiff has refused to execute the agreement, and instead has filed an appeal. Regardless of the outcome of the appeal, we believe that any liability we would incur will not have a materially adverse effect on our financial condition or our results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Prior to June 5, 2009, our common stock was quoted on the Over-the-Count Bulletin Board (“OTCBB”) under the symbol “CHNG.” On June 5, 2009, we terminated our listing on OTCBB and listed our common stock on NASDAQ Global Market also under the symbol “CHNG.” The following table sets forth, for the indicated periods, the high and low sales prices for our common stock, as reported on NASDAQ, and prior to June 5, 2009, as reported on the OTCBB. The quotations represent inter-dealer prices without retail markup, markdown or commission, and may not necessarily represent actual transactions.

	COMMON STOCK MARKET PRICE HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2009:		
Fourth Quarter	$ 15.62	$ 9.07
Third Quarter	$ 14.36	$ 8.15
Second Quarter	$ 18.00	$ 5.02
First Quarter	$ 6.40	$ 3.00
FISCAL YEAR ENDED DECEMBER 31, 2008:		
Fourth Quarter	$ 4.08	$ 2.25
Third Quarter	$ 6.00	$ 3.50
Second Quarter	$ 7.33	$ 5.15
First Quarter	$ 7.25	$ 4.75

As of February 28, 2010 there were approximately 23 holders of record of our common stock.

Shareholders' return on the common stock for the past five years are shown as follows

	2009	2008	2007	2006	2005
Return on equity	17.5%	24.7%	23.7%	30.9%	12.9%

Dividends

There are no restrictions in our articles of incorporation or bylaws that prevent us from declaring dividends. The Delaware General Corporation Law, however, does prohibit us from declaring dividends where, after giving effect to the distribution of the dividend:

1. We would not be able to pay our debts as they become due in the usual course of business; or
2. Our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

We have never paid any cash dividends on our common stock. We currently anticipate that we will retain any future earnings for use in our business. Consequently, we do not anticipate paying any cash dividends in the foreseeable future.

The payment of dividends in the future will depend upon our results of operations, as well as our short-term and long-term cash availability, working capital, working capital needs and other factors, as determined by our board of directors. Currently, except as may be provided by applicable laws, there are no contractual or other restrictions on our ability to pay dividends if we were to decide to declare and pay them.

Securities Authorized for Issuance under Equity Compensation Plan

There has been no common stock authorized for issuance with respect to any equity compensation plan as of the fiscal year ended December 31, 2009.

Recent Sales of Unregistered Securities

The Company did not sell any equity securities that were not registered under the Securities Act of 1933, as amended, during the quarter ended December 31, 2009.

ITEM 6. SELECTED FINANCIAL DATA

For the past five years, the increase in the number of our VIE-owned CNG fueling stations has not affected our gross margin or per-station based operating margin since the natural gas cost and retail price remains stable. Meanwhile, our selling, general and administrative expenses also increases in proportion to our scale of operations. Therefore, the increase in the number of our VIE-owned CNG fueling stations doesn't materially affect the comparability of our financial data.

	Year ended December 31				
	2009	2008	2007	2006	2005
STATEMENT OF OPERATIONS:					
Revenues					
Natural gas revenue	62,236,342	55,746,893	28,278,033	13,713,145	1,687,154
Gasoline revenue	6,384,172	4,616,052	38,486	-	-
Installation and others	12,445,604	7,357,714	7,075,534	5,115,645	3,163,545
Total revenues	81,066,118	67,720,659	35,392,053	18,828,790	4,850,699
Cost of revenues					
Natural gas cost	29,478,854	27,234,508	14,838,997	7,663,060	1,293,585
Gasoline cost	5,993,207	4,277,458	34,747	-	-
Installation and others	5,432,978	3,469,671	3,151,331	2,054,940	1,110,452
Total cost of revenues	40,905,039	34,981,637	18,025,075	9,718,000	2,404,037
Gross profit	40,161,079	32,739,022	17,366,978	9,110,790	2,446,662
Operating expenses					
Selling expenses	9,566,387	7,651,948	3,451,161	1,308,464	474,855
General and administrative expenses	5,541,885	4,024,882	2,837,768	1,287,735	500,228
Total operating expenses	15,108,272	11,676,830	6,288,929	2,596,199	975,083
Income from operations	25,052,807	21,062,192	11,078,049	6,514,591	1,471,579
Non-operating income (expense):					
Interest income	125,287	209,502	70,697	41,109	2,131

Interest expense	(747,172)	(2,228,244)	-	-	-
Foreign currency exchange loss	(69,077)	(397,299)	(150,729)	-	-
Other income (expense)	(186,805)	111,859	31,976	(79,021)	(671)
Change in fair value of warrants	(1,031,330)				
Total non-operating income (expense)	(1,909,097)	(2,304,182)	(48,056)	(37,912)	1,460
Income before income tax	23,143,710	18,758,010	11,029,993	6,476,679	1,473,039
Provision for income tax	4,312,923	3,567,642	1,913,923	1,025,584	220,956
Net income	18,830,787	15,190,368	9,116,070	5,451,095	1,252,083
Other comprehensive income					
Foreign currency translation gain	52,959	5,184,035	2,637,573	610,705	228,175
Comprehensive income	18,883,746	20,374,403	11,753,643	6,061,800	1,480,258
Weighted average shares outstanding					
Basic	16,624,294	14,600,154	13,100,340	11,936,468	8,149,735
Diluted	16,830,907	14,645,070	13,150,901	11,936,468	8,149,735
Earnings per share					
Basic	1.13	1.04	0.70	0.46	0.15
Diluted	1.12	1.04	0.69	0.46	0.15
BALANCE SHEETS DATA (at end of period):					
PROPERTY AND EQUIPMENT, net	72,713,012	76,028,272	32,291,995	17,193,728	8,267,897
Working Capital	46,661,041	4,989,448	13,581,900	5,289,220	(320,253)
TOTAL ASSETS	197,614,516	118,262,291	53,289,998	28,466,351	10,911,062
Long Term Debt	46,837,925	42,021,605	-	-	-
Stockholders ' Equity	144,113,272	71,648,421	51,207,314	25,630,204	9,675,550

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 financial statements, included herewith. 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.

Overview

We are an integrated natural gas operator in The People's Republic of China ("China" or the "PRC"), primarily involved in distribution of compressed natural gas ("CNG") through our VIE-owned CNG fueling stations. As of December 31, 2009, our VIE operated 24 CNG fueling stations in Shaanxi province and 12 CNG fueling stations in Henan province. Our VIE own the CNG fueling stations while we lease the land upon which our VIE owned CNG fueling stations operate. For the year ended December 31, 2009, we sold CNG of 164,343,895 cubic meters through our fueling stations, compared to 149,412,144 cubic meters for the year ended December 31, 2008. Our VIE also transport, distribute and sell piped natural gas to residential and commercial customers in the city of Xi'an in Shaanxi Province, including Lantian County, and the districts of Lintong and Baqiao, and in the city of Lingbao in Henan Province.

We operate four main business lines:

- Distribution and sale of compressed natural gas through our VIE owned CNG fueling stations for hybrid (natural gas/gasoline) powered vehicles (36 stations as of December 31, 2009);

- Installation, distribution and sale of piped natural gas to residential and commercial customers through our VIE owned pipelines. We distributed and sold piped natural gas to approximately 108,423 residential customers as of December 31, 2009;

- Distribution and sale of gasoline through our VIE owned CNG fueling stations for gasoline and hybrid (natural gas/gasoline) powered vehicles (eight of our CNG fueling stations sold gasoline as of December 31, 2009); and

- Conversion of gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles at our auto conversion sites.

We buy all of the natural gas that we sell and distribute to our customers. We do not mine or produce any of our own natural gas and have no plans to do so during the next 12 months. We currently sell our natural gas in two forms: (i) CNG and (ii) piped natural gas.

On October 24, 2006, our variable interest entity XXNGC, formed a wholly-owned subsidiary, SJLNG, for the purpose of constructing a LNG facility to be located in Jingbian, Shaanxi province. We planned to invest approximately $50 million to construct this facility, funded through the sale of senior notes to Abax and our September 2009 equity financing, as well as cash flows from operations. The LNG plant is under construction and is expected to be completed and fully operational by the second quarter of 2010. Once completed, the plant is expected to have a processing capacity of 500,000 cubic meters per day, or approximately 150 million cubic meters on an annual basis.

We had total revenues of $81,066,118, $67,720,659 and $35,392,053 for the years ended December 31, 2009, 2008 and 2007, respectively. We had net income of $18,830,787, $15,190,368 and $9,116,070 for the years ended December 31, 2009, 2008 and 2007, respectively.

Critical Accounting Policies

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred while 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 and improvements	5-30 years

Construction in Progress

Construction in progress (“CIP”) consists of the cost of constructing property and equipment for the gas stations and a new project of processing, distribution and sale of LNG. The major cost of construction in progress relates to technology licensing fees, equipment purchases, land use rights requisition cost, capitalized interest and other construction fees. No depreciation is provided for construction in progress until such time as the assets are completed and placed into service. Interest incurred during construction is capitalized into construction in progress. All other interest is expensed as incurred.

Revenue Recognition

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 ours exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue. Revenue from gas and gasoline sales is recognized when gas and gasoline is pumped through pipelines to the end users. Revenue from installation of pipelines is recorded when the contract is completed and accepted by the customers. The installation contracts are usually completed within one to two months. Revenue from repairing and modifying vehicles is recorded when services are rendered to and accepted by the customers.

Fair Value of Financial Instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements established a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosures requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

FASB accounting standard regarding derivatives and hedging specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. This FASB accounting standard also provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus qualifies for the exception.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Depending on the product and the terms of the transaction, the fair value of our notes payable and derivative liabilities were modeled using a series of techniques, including closed-form analytic formula, such as the Black-Scholes option-pricing model, which does not entail material subjectivity because the methodology employed does not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets.

Factors Affecting Our Results of Operations

Significant factors affecting our results of operations are:

Successful expansion of our CNG fueling station business in our target markets. Our revenue increased by 19.7% during the year ended December 31, 2009, from the year ended December 31, 2008, partially because the newly added fueling stations in 2008 contributed a full year's of revenue in 2009, as well as the addition of 1 new CNG fueling station during 2009. For the year ended December 31, 2008, our revenue increased by 91.3%, compared to the year December 31, 2007, primarily because of the addition of 11 new CNG fueling stations during 2008. As of December 31, 2009, we operated 36 CNG fueling stations in total and, in Shaanxi alone, we operated 24 CNG fueling stations. We believe we are the largest provider of CNG fueling stations in Xi'an, one of our core target markets for CNG. As of December 31, 2009, we operated 12 CNG fueling stations in Henan province, another of our core target markets. The successful expansion of our CNG fueling station business in Xi'an and Henan province has been a significant factor driving our revenue growth and results of operations for the period reviewed. While we intend to expand into different provinces, we anticipate the growth of our CNG fueling business in Xi'an and Henan province will continue to significantly affect our results of operations as we intend to continue to increase the number of CNG fueling stations we operate in these areas.

Regulation of natural gas prices in the PRC. The prices at which we purchase our natural gas supplies and sell CNG and pipeline natural gas products are strictly regulated by the PRC central government, including the NDRC, and the local state price bureaus who have the discretion to set natural gas prices within the boundaries set by the PRC central government. In addition, natural gas procurement and sale prices are not uniform across China and can vary across provinces. For example, the prices at which we procure and sell CNG and piped natural gas are lower in Shaanxi than in Henan. Accordingly, our results of operations and, in particular, our revenue, cost of revenue and gross profit and gross margin are affected significantly by factors which are outside of our control. As we expand our natural gas business into other provinces, we expect our results of operations to continue to be affected significantly by the regulation of natural gas prices in the PRC.

Government policies encouraging the adoption of cleaner burning fuels. Our results of operations for the periods reviewed have benefited from environmental regulations and programs in the PRC that promote the use of cleaner burning fuels, including natural gas for vehicles. As an enterprise engaged in the natural gas industry in Shaanxi province, our VIE benefits from a reduced income tax rate of 15% compared to the standard 25% enterprise income tax rate in the PRC. In addition, the PRC government has encouraged companies to invest in and build the necessary transportation, distribution and sale infrastructure for natural gas in various policy pronouncements such as by officially including CNG/gasoline hybrid vehicles in the country's "encouraged development" category. These policies have benefited our results of operations by encouraging the demand for our natural gas products and also by lowering our expenses. As we expand into the LNG business, we anticipate that our results of operations will continue to be affected by government policies encouraging the adoption of cleaner burning fuels and the increased adoption of CNG and LNG technology.

The overall economic growth of China’s economy. We do not export our products outside China and our results of operations are thus substantially affected by the growth of the industrial base, the increase in residential, commercial and vehicular consumption and the overall economic growth of China. While China's economy has experienced a slowdown in 2008 and a recovery period in 2009, Although the government has initiated extensive domestic stimulus spending, expanded bank lending, increases in the speed of regulatory approvals of new construction projects and other economic policies, we are currently unable to predict the overall direction of PRC economy. Our results of operations rely on the overall success of China’s economy and may be affected by the macro economic trends.

Taxation

United States

We are incorporated in the State of Delaware and are subject to the tax laws of the United States. We incurred a net operating loss for income tax purposes for the years ended December 31, 2009, 2008 and 2007, and the net operating loss carry forwards for United States income tax purposes amounted to $3,232,855 and $1,657,473 as of December 31, 2009 and 2008, respectively, which may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized, beginning in 2027 through 2029. Our management believes that the realization of the benefits arising from this loss appear to be uncertain due to our Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, we have provided a 100% valuation allowance at December 31, 2009.

The PRC

Our subsidiary, VIE and its subsidiaries operate in China. Starting January 1, 2008, pursuant to the tax laws of China, general enterprises are subject to income tax at an effective rate of 25% compared to 33% prior to 2008. Based on certain income tax regulations adopted in 2001 to encourage the development of certain industries, including the natural gas industry, in the western portions of China such as Shaanxi province, XXNGC is subject to a reduced tax rate of 15%. Accordingly, except for income from XXNGC, which is subject to the reduced tax rate of 15%, income from SXNGE, SJLNG, XXABC, HXNGC, LBNGC and HBXNGC are subject to the 25% PRC income tax rate. Our effective income tax rate for the years ended December 31, 2009, 2008 and 2007 were approximately 19%, 19% and 17%, respectively.

Value Added Tax

Sales revenue represents the invoiced value of goods, net of a value-added tax ("VAT"). All of our variable interest entity XXNGC's products that are sold in the PRC are subject to a Chinese VAT at a rate of 13% of the gross sales price. This VAT may be offset by VAT paid by XXNGC on raw materials and other materials included in the cost of producing their finished products. XXNGC records VAT payable and VAT receivable net of payments in its financial statements. VAT tax returns are filed offsetting the payables against the receivables.

All revenues from XXABC are subject to a Chinese VAT at a rate of 6%. This VAT cannot be offset with VAT paid for materials included in the cost of revenues.

Internal Control Over Financial Reporting

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must report on our internal control over financial reporting. Our management may report whether our internal control over our financial reporting is effective based on internal assessments. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may report that our internal control over financial reporting is not effective.

Results of Operations

The following table sets forth certain information regarding our results of operations for the years ended December 31, 2009, 2008 and 2007.

	Year Ended December 31,		
	2009	2008	2007
Revenues			
Natural gas revenue	$ 62,236,342	$ 55,746,893	$ 28,278,033
Gasoline revenue	6,384,172	4,616,052	38,486
Installation and others	12,445,604	7,357,714	7,075,534
Total revenues	81,066,118	67,720,659	35,392,053
Cost of revenues			
Natural gas cost	29,478,854	27,234,508	14,838,997
Gasoline cost	5,993,207	4,277,458	34,747
Installation and others	5,432,978	3,469,671	3,151,331
Total cost of revenues	40,905,039	34,981,637	18,025,075
Gross profit	40,161,079	32,739,022	17,366,978
Operating expenses			
Selling expenses	9,566,387	7,651,948	3,451,161
General and administrative expenses	5,541,885	4,024,882	2,837,768
Total operating expenses	15,108,272	11,676,830	6,288,929
Income from operations	25,052,807	21,062,192	11,078,049
Non-operating income (expense):			
Interest income	125,287	209,502	70,697
Interest expense	(747,172)	(2,228,244)	-
Other income, net	(186,805)	111,859	31,976
Chang in fair value warrants	(1,031,330)	-	-
Foreign currency exchange loss	(69,077)	(397,299)	(150,729)
Total non-operating expense	(1,909,097)	(2,304,182)	(48,056)
Income before income tax	23,143,710	18,758,010	11,029,993
Provision for income tax	4,312,923	3,567,642	1,913,923
Net income	18,830,787	15,190,368	9,116,070
Other comprehensive income			
Foreign currency translation gain	52,959	5,184,035	2,637,573
Comprehensive income	$ 18,883,746	$ 20,374,403	$ 11,753,643

Fiscal Year Ended December 31, 2009 Compared to Fiscal Year Ended December 31, 2008

The following table represents the consolidated operating results for the years ended December 31, 2009 and 2008:

Sales Revenues

The following table sets forth a breakdown of our revenues for the period indicated:

	December 31, 2009	December 31, 2008	Increase in dollar Amount	Increase in percentage
Natural gas from fueling stations	$ 59,257,975	$ 53,219,853	$ 6,038,122	11.3%
Natural gas from pipelines	2,978,367	2,527,040	451,327	17.9%
Gasoline	6,384,172	4,616,052	1,768,120	38.3%
Installation	9,838,812	4,854,438	4,984,374	102.7%
Auto conversion	2,606,792	2,503,276	103,516	4.1%
Total	$ 81,066,118	$ 67,720,659	$ 13,345,459	19.7%

Overall. Revenue increased by $13,345,459, or 19.7%, to $81,066,118 for the year ended December 31, 2009, from $67,720,659 for year ended December 31, 2008. This increase was mainly due to the newly added fueling stations in 2008 contributing full year revenue in 2009 as well as the addition of 1 new fueling station during 2009, and an increase in the number of residential and commercial pipeline customers to 108,423 as of December 31, 2009, from 96,033 as of December 31, 2008. We sold natural gas of 176,424,700 cubic meters during the year ended December 31, 2009, compared to 160,696,902 cubic meters during the year ended December 31, 2008. For the year ended December 31, 2009, 84.7% of our revenue was generated from the sale of natural gas and gasoline, and the other 15.3% was generated from our installation and auto conversion services.

Natural Gas from Fueling Stations. Natural gas revenue from our fueling stations increased by $6,038,122, or 11.3%, to $59,257,975 for the year ended December 31, 2009 from $53,219,853 for the year ended December 31, 2008, and contributed to73.1% of our total revenue, which was the largest among our four major business lines. The increase of natural gas revenue was mainly due to newly added fueling stations in 2008 contributing full year revenue in 2009, as well as the addition of 1 new fueling station during 2009. During the year ended December 31, 2009, we sold compressed natural gas of 164,343,895 cubic meters, compared to 149,412,144 cubic meters during the year ended December 31, 2008 through our VIE-owned fueling stations. In terms of average station sales value and volume, in the year ended December 31, 2009, we sold approximately $1,677,271 and 4,651,681 cubic meters of compressed natural gas per station, remaining flat as compared to approximately $1,694,001 and 4,755,824 cubic meters in the year ended December 31, 2008. Unit selling price was stable at $0.37 (RMB 2.5).

Natural Gas from Pipelines. Revenue from sales of piped natural gas increased by $451,327, or 17.9%, to $ 2,978,367 for the year ended December 31, 2009, from $2,527,040 for the year ended December 31, 2008, and contributed to 3.7% of our total revenue. Our residential customers of piped natural gas increased to 108,423 as of December 31, 2009, from 96,033 as of December 31, 2008. We also sold 12,080,805 cubic meters of natural gas through our VIE-owned pipelines during the year ended December 31, 2009, compared to 11,284,758 cubic meters during the year ended December 31, 2008.

Gasoline. Revenue from gasoline sales increased by $1,768,120 to $6,384,172 for the year ended December 31, 2009 from $4,616,052 for the year ended December 31, 2008, and contributed 7.9% to our total revenue. The gasoline revenue increase was due to the sales volume increased 43.5% from 6,891,030 liters to 9,885,482 liters, offset by 4.0% decrease of unit sales price from $0.67 (RMB 4.65) per liter in the year ended December 31, 2008 to $0.64 (RMB 4.39) per liter in the year ended December 31, 2009, due to the decrease of international oil price. The increased sales volume was due to 3 stations began selling gasoline since the second half of 2008 and 1 station began selling gasoline in the first quarter of 2009.

Installation Services. Revenue from our pipeline installation business increased by $4,984,374, or 102.7%, to $9,838,812 for the year ended December 31, 2009, from $4,854,438 for the year ended December 31, 2008, and contributed 12.1% to our total revenue. The increase of installation sales was mainly due to the increase of pipeline customers in the newly acquired subsidiary, Lingbao Natural Gas, Co., in Henan Province. During 2009, Lingbao contributed $4,397,403 in installation revenue. Installation services to our top four customers contributed to 8.4%, 8.2%, 6.2% and 5.3% of our installation revenue for the year ended December 31, 2009.

Auto Conversion Services. Revenue from our automobile conversion business increased by $103,516, or 4.1%, to $2,606,792 for the year ended December 31, 2009, from $2,503,276 for the year ended December 31, 2008, and contributed 3.2% to our total revenue.

We expect natural gas sales to continue to generate the bulk of our revenue as we intend to continue to increase the number of CNG fueling stations we operate and the number of our natural gas pipeline customers as well as begin to process, distribute and sell LNG once our LNG plant is completed and fully operational, which we anticipate will occur in 2010. We expect gasoline sales will continue to comprise a smaller portion of our entire business given that such sales are primarily designed to support our existing CNG sales to customers with hybrid fuel vehicles and are not a growth focus for our Company. We also expect revenue from our pipeline installation and our automobile conversion businesses to continue to make up a minor portion of our business.

Cost of revenue

The following table sets forth a breakdown of our cost of revenue for the periods indicated:

	December 31, 2009	December 31, 2008	Increase / (Decrease) in dollar amount	Increase / (Decrease) in percentage
Natural gas from fueling stations	$ 27,395,962	$ 25,420,764	$ 1,975,198	7.8%
Natural gas from pipelines	2,082,892	1,813,744	269,148	14.8%
Gasoline	5,993,207	4,277,458	1,715,749	40.1%
Installation	3,888,996	1,961,300	1,927,696	98.3%
Auto conversion	1,543,982	1,508,371	35,611	2.4%
Total	$ 40,905,039	$ 34,981,637	$ 5,923,402	16.9%

Overall. Our cost of revenue consists of the cost of natural gas and gasoline sold, as well as installation and other costs. Cost of natural gas and gasoline sold consists of the cost of natural gas and gasoline purchases from our suppliers. Cost of installation and other costs include certain expenditures for the connection of customers to our VIE-owned pipeline system, and the cost for converting gasoline-fueled vehicles into natural gas hybrid vehicles.

Our cost of revenue for the year ended December 31, 2009 was $40,905,039, an increase of $5,923,402, or 16.9%, from $34,981,637 for the year ended December 31, 2008, while our revenue increased by 19.7% during the same period.

Natural Gas from Fueling Stations. Cost of revenue of our natural gas for our VIE-owned fueling stations increased by 7.8%, or $1,975,198, to $27,395,962 during the year ended December 31, 2009, as compared to $25,420,764 for the year ended December 31, 2008. The low growth rate for cost of natural gas for our fueling stations was primarily due to the low procurement price in coal bed methane we obtained from July 2008 to May 2009 in Henan province that reduced our unit cost from one of our major supplier by approximately 35%, from $0.22 (RMB1.55) to $0.14 (RMB1.00), offset by the increase of natural gas procurement price starting June 2009, from $0.15(RMB1.00) to $0.19 (RMB1.30). Our overall average unit cost was reduced by 3.4% during the year ended December 31, 2009.

Natural Gas from Pipelines. Cost of revenue of our natural gas sold through our VIE-owned pipelines increased by 14.8%, or $269,148 to $2,082,892 during the year ended December 31, 2009, as compared to $1,813,744 during the year ended December 31, 2008, which was in line with the sales growth.

Gasoline. Cost of our gasoline revenue increased by 40.1%, to $5,993,207 during the year ended December 31, 2009, from $4,277,458 for the year ended December 31, 2008. The increase of cost of gasoline revenue was due to the increase in sales volume, offset by the effect of the decrease of average unit cost from $0.62 (RMB 4.28) per liter during the year ended December 31, 2008 to $0.61 (RMB 4.13) per liter during the year ended December 31, 2009 due to the decreasing price of the international fuel market.

Installation Services. Cost of revenue from our installation services increased by 98.3%, or $1,927,696, to $3,888,996 during the year ended December 31, 2009, as compared to $1,961,300 during the year ended December 31, 2008, as a result of the increase of pipeline customers.

Auto Conversion Services. Cost of our auto conversion revenue increased by 2.4%, or $35,611, to $1,543,892 during the year ended December 31, 2009, as compared to $1,508,371 during the year ended December 31, 2008.

Gross profit

The following table sets forth a breakdown of our gross profit for the periods indicated:

	December 31, 2009	December 31, 2008	Increase in dollar amount	Increase in percentage
Natural gas from fueling stations	$ 31,862,013	$ 27,799,089	$ 4,062,924	14.6%
Natural gas from pipelines	895,475	713,296	182,179	25.5%
Gasoline	390,965	338,594	52,371	15.5%
Installation	5,949,816	2,893,138	3,056,678	105.7%
Auto conversion	1,062,810	994,905	67,905	6.8%
Total	$ 40,161,079	$ 32,739,022	$ 7,422,057	22.7%

We earned a gross profit of $40,161,079 for the year ended December 31, 2009, an increase of $7,422,057 or 22.7%, compared to $32,739,022 for the year ended December 31, 2008. In summary, gross profit increase was mainly due to the increased sales volume of natural gas from fueling stations with low procurement price in coal bed methane from July 2008 to May 2009 in Henan; the increased sales volume of pipeline natural gas with stable unit price and cost; and the increased installation revenue from new pipeline customers.

Gross margin

Gross margin for natural gas sold through our VIE owned fueling stations increased from 52.2% in the year ended December 31, 2008 to 53.8% in the year ended December 31, 2009 due to due to lower coal bed methane procurement cost in Henan Province.

Gross margin for natural gas sold through pipelines was 30.1% during the year ended December 31, 2009, and increased slightly as compared to 28.2% during the year ended December 31, 2008.

Gross margin for gasoline sales decreased from 7.3% during the year ended December 31, 2008 to 6.1% during the year ended December 31, 2009, due to gasoline retail price decreasing more than purchase cost.

Gross margin for our installation business increased to 60.5% in the year ended December 31, 2009 from 59.6% in the year ended December 31, 2008. Gross margin for our auto conversion business remained flat at 39.7% in the year ended December 31, 2008 as compared to 40.8% in the year ended December 31, 2009.

Due to the low procurement price in coal bed methane from July 2008 to May 2009 in Henan, our total gross margin increased from 48.3% for the year ended December 31, 2008 to 49.5% for the year ended December 31, 2009.

Operating expenses.

We incurred operating expenses of $15,108,272 for the year ended December 31, 2009, an increase of $3,431,442 or 29.4%, compared to $11,676,830 for the year ended December 31, 2008. Sales and marketing costs increased 25.0% from $7,651,948 for the year ended December 31, 2008 to $9,566,387 for the year ended December 31, 2009, primarily due to the $1,119,315 increase in depreciation expense as well as $473,695 and $318,272 increase in leasing and utility expense, respectively, mainly related to the acquisition of Lingbao Natural Gas, Co. in October 2008 as well as the newly added fueling stations since 2008. In addition, we also increased our efforts to obtain new residential and commercial customers and attract customers to our fueling stations. General and administrative expenses increased 37.7% from $4,024,882 for the year ended December 31, 2008 to $5,541,885 for the year ended December 31, 2009 mainly due to increase of $1,517,003 in depreciation expense and $245,066 increase in salary expense primarily reflecting the growth of employees, the recruiting of Chief Financial Officer as well as adjustment of compensation for our Chief Executive Officer to market rate. The transportation cost per million cubic meters of natural gas during the year ended December 31, 2009 was approximately $2,834.

Income from operations and operating margin.

For the foregoing reasons, income from operations increased by $3,990,615 or 19.0%, to $ 25,052,807 for the year ended December 31, 2009 from $21,062,192 for the year ended December 31, 2008. Operating margin was 30.9% for the year ended December 31, 2009, compared to 31.1% for the year ended December 31, 2008.

Non-operating income (expense).

Our non-operating expense decreased by $395,085 to $1,909,097 for the year ended December 31, 2009 from $2,304,182 during the year ended December 31, 2008, primarily due to interest expense of $747,172 net of capitalized interest of $4,597,544 during the year ended December 31,2009, compared to interest expense of 2,228,244 net of capitalized interest of $1,932,931 during the year ended December 31,2008, as well as the recognition of $1,031,330 non-operating expense related to change in fair value of the Company's outstanding warrants.

Provision for the income tax.

Income tax increased by $745,281, or 20.9%, to $4,312,923 for the year ended December 31, 2009, from $3,567,642 for year ended December 31, 2008 primarily due to the increase in our sale of natural gas and, consequently, income before income tax.

Net income.

As a result of the foregoing, net income increased by $3,640,419, or 24.0%, to $18,830,787 for the year ended December 31, 2009, from $15,190,368 for the year ended December 31, 2008. Net margin was 23.2% for the year ended December 31, 2009, compared to 22.4% for the year ended December 31, 2008.

Comparing Fiscal Years Ended December 31, 2008 and 2007:

The following table represents the consolidated operating results for the years ended December 31, 2008 and 2007:

Sales Revenues

The following table sets forth a breakdown of our revenues for the period indicated:

	December 31, 2008	December 31, 2007	Increase in dollar Amount	Increase in percentage
Natural gas from fueling stations	$ 53,219,853	$ 26,765,249	$ 26,454,604	98.8%
Natural gas from pipelines	2,527,040	1,512,784	1,014,256	67.0%
Gasoline	4,616,052	38,486	4,577,566	11894.1%
Installation	4,854,438	6,122,453	(1,268,015)	(20.7)%
Auto conversion	2,503,276	953,081	1,550,195	162.6%
Total	$ 67,720,659	$ 35,392,053	$ 32,328,606	91.3%

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Overall . Revenue increased by $32,328,606, or 91.3%, to $67,720,659 for the year ended December 31, 2008, from $35,392,053 for year ended December 31, 2007. This increase was mainly due to the newly added fueling stations in 2007 contributing a full year of revenue in 2008, and an increase in the number of residential and commercial pipeline customers to 96,033 as of December 31, 2008, from 84,500 as of December 31, 2007. We sold natural gas of 160,696,902 cubic meters during the year ended December 31, 2008, compared to 92,147,935 cubic meters during the year ended December 31, 2007. For the year ended December 31, 2008, 89.1% of our revenue was generated from the sale of natural gas and gasoline, and the other 10.9% was generated from our installation and auto conversion services.

Natural Gas from Fueling Stations . Natural gas revenue from our fueling stations increased by $26,454,604, or 98.8%, to $53,219,853 for the year ended December 31, 2008 from $26,765,249 for the year ended December 31, 2007, and contributed to78.6% of our total revenue, which was the largest among our four major business lines. The increase of natural gas revenue was mainly due to adding 11 fueling stations in 2008 compared to 2007. During the year ended December 31, 2008, we sold compressed natural gas of 149,412,144 cubic meters, compared to 83,739,106 cubic meters during the year ended December 31, 2007 through our VIE-owned fueling stations. In terms of average station sales value and volume, in the year ended December 31, 2008, we sold approximately $1,694,001 and 4,755,824cubic meters of compressed natural gas per station, remaining flat as compared to approximately $1,543,998 and 4,889,113 cubic meters in the year ended December 31, 2007. Average unit selling price increased from $0.32 (RMB 2.42) during the year ended December 31, 2007 to $0.36 (RMB 2.5) during the year ended December 31, 2008, primarily due to revenue in Henan where selling price is $0.47 (RMB 2.83), higher than $0.34 (RMB 2.33) in Xi’an, contributing 33.1% to total volume sold during the year ended December 31, 2008, compared to 18.3% to total volume sold during the year ended December 31, 2007.

Natural Gas from Pipelines . Revenue from sales of piped natural gas increased by $1,014,256, or 67.0%, to $2,527,040 for the year ended December 31, 2008, from $1,512,784 for the year ended December 31, 2007, and contributed to 3.7% of our total revenue. Our residential customers of piped natural gas increased to 96,033 as of December 31, 2008, from 84,500 as of December 31, 2007. We also sold 11,284,758 cubic meters of natural gas through our VIE-owned pipelines during the year ended December 31, 2008, compared to 7,403,314 cubic meters during the year ended December 31, 2007.

Gasoline . Revenue from gasoline sales increased by $4,577,566 to $4,616,052 for the year ended December 31, 2008 from $38,486 for the year ended December 31, 2007, and contributed 6.8% to our total revenue. The gasoline revenue increase was due to the sales volume increased from 58,649 liters to 6,891,030 liters, offset by 2.2% increase of unit sales price from $0.66 (RMB 4.98) per liter in the year ended December 31, 2007 to $0.67 (RMB 4.65) per liter in the year ended December 31, 2008, due to the change of translation rate. The increased sales volume was due to three stations began selling gasoline in 2007 contributing full year revenue in 2008.

Installation Services . Revenue from our pipeline installation business decreased by $1,268,015, or 20.7%, to $4,854,438 for the year ended December 31, 2008, from $6,122,453 for the year ended December 31, 2007, and contributed 7.2% to our total revenue. The decrease of installation sales was mainly due to the slowing down properties market in 2008 compared with 2007.

Auto Conversion Services . Revenue from our automobile conversion business increased by $1,550,195, or 162.6%, to $2,503,276 for the year ended December 31, 2008, from $953,081 for the year ended December 31, 2007, and contributed 3.7% to our total revenue.

Cost of revenue

The following table sets forth a breakdown of our cost of revenue for the periods indicated:

	December 31, 2008	December 31, 2007	Increase / (Decrease) in dollar amount	Increase / (Decrease) in percentage
Natural gas from fueling stations	$ 25,420,764	$ 13,737,306	$ 11,683,458	85.0%
Natural gas from pipelines	1,813,744	1,101,691	712,053	64.6%
Gasoline	4,277,458	34,747	4,242,711	12,210.3%
Installation	1,961,300	2,574,994	(613,694)	(23.8)%
Auto conversion	1,508,371	576,337	932,034	161.7%
Total	$ 34,981,637	$ 18,025,075	$ 16,956,562	94.1%

Overall . Our cost of revenue consists of the cost of natural gas and gasoline sold, as well as installation and other costs. Cost of natural gas and gasoline sold consists of the cost of purchases from our suppliers. Cost of installation and other costs include certain expenditures for the connection of customers to our pipeline system, and the cost for converting gasoline-fueled vehicles into natural gas hybrid vehicles.

Our cost of revenue for the year ended December 31, 2008 was $34,981,637, an increase of $16,956,562, or 94.1%, from $18,025,075 for the year ended December 31, 2007, while our revenue increased by 91.3% during the same period.

Natural Gas from Fueling Stations . Cost of revenue of our natural gas for our VIE owned fueling stations increased by 85.0%, or $11,683,458, to $25,420,764 during the year ended December 31, 2008, as compared to $13,737,306 for the year ended December 31, 2007. The low growth rate for cost of natural gas for our VIE owned fueling stations was primarily due to the low procurement price in coal bed methane we obtained from July 2008 in Henan province that reduced our unit cost from one of our major supplier by approximately 35%, from $0.22 (RMB1.55) to $0.14 (RMB1.00). Our overall average unit cost was reduced by 4.0% during the year ended December 31, 2008.

Natural Gas from Pipelines . Cost of revenue of our natural gas sold through our VIE owned pipelines increased by 64.6%, or $712,053 to $1,813,744 during the year ended December 31, 2008, as compared to $1,101,691 during the year ended December 31, 2007, which was in line with the sales growth.

Gasoline . Cost of our gasoline revenue increased to $4,277,458 during the year ended December 31, 2008, from $34,747 for the year ended December 31, 2007. The increase of cost of gasoline revenue was due to the increase in sales volume, offset by the effect of the increase of average unit cost from $0.59 (RMB 4.50) per liter during the year ended December 31, 2007 to $0.62 (RMB 4.28) per liter during the year ended December 31, 2008 due to the change of translation rate.

Installation Services . Cost of revenue from our installation services decreased by 23.8%, or $613,694, to $1,961,300 during the year ended December 31, 2008, as compared to $2,574,994 during the year ended December 31, 2007, which was in line with the sales change.

Auto Conversion Services . Cost of our auto conversion revenue increased by 161.7%, or $932,034, to $1,508,371 during the year ended December 31, 2008, as compared to $576,337 during the year ended December 31, 2007.

Gross profit

The following table sets forth a breakdown of our gross profit for the periods indicated:

	December 31, 2008	December 31, 2007	Increase in dollar amount	Increase in percentage
Natural gas from fueling stations	$ 27,799,089	$ 13,027,943	$ 14,771,146	113.4%
Natural gas from pipelines	713,296	411,093	302,203	73.5%
Gasoline	338,594	3,739	334,855	8955.7%
Installation	2,893,138	3,547,459	(654,321)	(18.4)%
Auto conversion	994,905	376,744	618,161	164.1%
Total	$ 32,739,022	$ 17,366,978	$ 15,372,044	88.5%

We earned a gross profit of $32,739,022 for the year ended December 31, 2008, an increase of $15,372,044 or 88.5%, compared to $17,366,978 for the year ended December 31, 2007. In summary, gross profit increase was mainly due to the increased sales volume of natural gas from fueling stations with low procurement price in coal bed methane in Henan; the increased sales volume of pipeline natural gas with stable unit price and cost; and the increased installation revenue from new pipeline customers.

Gross margin

Gross margin for natural gas sold through our VIE-owned fueling stations increased from 48.7% in the year ended December 31, 2007 to 52.2% in the year ended December 31, 2008 due to due to lower coal bed methane procurement cost in Henan Province.

Gross margin for natural gas sold through our VIE-owned pipelines was 28.2% during the year ended December 31, 2008, and increased as compared to 27.2% during the year ended December 31, 2008.

Gross margin for gasoline sales decreased from 9.7% during the year ended December 31, 2007 to 7.3% during the year ended December 31, 2008, due to more decrease of gasoline retail price than gasoline purchase cost.

Gross margin for our installation business increased to 59.6% in the year ended December 31, 2008 from 57.9% in the year ended December 31, 2007. Gross margin for our auto conversion business increased to 39.7% in the year ended December 31, 2008 from 39.5% in the year ended December 31, 2007.

Operating expenses

Operating expenses. The Company incurred operating expenses of $11,676,830 for the twelve months ended December 31, 2008, an increase of $5,387,901 or 85.67%, compared to $6,288,929 for the twelve months ended December 31, 2007. Our operating expenses increased primarily as a result of expenses related to the construction, acquisition, and operation of 11 new fueling stations in 2008, as well as continuing expenses related to the identification of possible locations for additional fueling stations and the governmental licensing and approval process, as well as the evaluation of existing natural gas fueling stations as potential acquisition targets. In addition, sales and marketing costs increased in 2008 as we increased our efforts to obtain new residential and commercial customers and attract customers to our fueling stations. General and administrative expenses increased from $2,837,768 in 2007 to $4,024,882 in 2008 due to an increase in personnel as a result of our growth. In 2008, the transportation cost per million cubic meters is approximately $3,137.

Income tax

Income tax was $3,567,642 for the twelve months ended December 31, 2008, as compared to $1,913,923 for the twelve months ended December 31, 2007. The increase in income tax was attributed to the growth of installation fees and the sale of natural gas.

Net Income

Net Income. Net income increased 66.63% to $15,190,368 for the twelve months ended December 31, 2008, an increase of $6,074,298, from $9,116,070 for the twelve months ended December 31, 2007. Increase in net income is attributed to our material increase in revenues, partially offset by a higher cost of sales and operating expenses, as well as the non cash expense related to the amortization of offering cost associated with the $40 million senior notes issued to Abax Lotus, Ltd. in 2008.

Liquidity and Capital Resources

Historically, our primary sources of liquidity have consisted of cash generated from our operations and equity financing. In 2008, we sold senior notes with a face value of $40 million to Abax. Our principal uses of cash have been, and are expected to continue to be, for operational purposes as well as for constructing and acquiring natural gas fueling stations and constructing our LNG plant.

As of December 31, 2009, 2008 and 2007, we had $48,177,794, $5,854,383 and, $13,291,729 of cash and cash equivalents on hand, respectively. The increase in 2009 was primarily attributable to the underwritten public offering in September 2009, the net proceeds of which is approximately $54.4 million.

Net cash provided by operating activities was $25,433,922 for the year ended December 31, 2009, compared to net cash provided by operating activities of $20,916,801 for the year ended December 31, 2008, primarily as a result of the increase in our net income, adjusted for non-cash expense items and changes in working capital. Net cash provided by operating activities was $20,916,801 for the year ended December 31, 2008, compared to net cash provided by operating activities of $10,476,441 for the year ended December 31, 2007, mainly due to the increase in net income, adjusted for non-cash expense items and increase in unearned revenues and taxes payables during the year ended December 31, 2008 offset by an increase in accounts receivable and prepaid expense and other current assets.

Net cash used in investing activities was $37,537,257 for the year ended December 31, 2009, compared to net cash used in investing activities of $67,606,724 for year ended December 31, 2008, primarily because of prepayment to equipment suppliers and construction of the LNG plant, and construction of additional fueling stations during the year ended December 31, 2009. For the year ended December 31, 2009, major cash outflow were primarily to our construction in progress for the LNG Plant. Net cash used in investing activities was $67,606,724 for the year ended December 31, 2008, compared to net cash used in investing activities of $16,885,340 for the year ended December 31, 2007, primarily due to the equipment purchased in LBNGC and addition of fueling stations, payments made to equipment suppliers for investments necessary to construct fueling stations and the LNG facility

Net cash provided by financing activities was $54,370,359 for the year ended December 31, 2009, compared to net cash provided by financing activities of $37,877,491 for the year ended December 31, 2008, primarily due to the secondary public offering in 2009. Net cash provided by financing activities was $37,877,491 for the year ended December 31, 2008, compared to net cash provided by financing activities of $13,823,467 for the year ended December 31, 2007, primarily due to the sale of senior notes with a face value of $40 million we sold to Abax in 2008.

Based on past performance and current expectations, we believe our cash and cash equivalents, cash generated from operations, as well as future possible cash from financing activities, will satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations for at least the next 12 months.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

Capital Expenditures

Our planned capital expenditures as of December 31, 2009 were $45 million, which we expect to be incurred in connection with the construction of our LNG facility, joint-venture cooperation with CNPC Kunlun and the acquisition of additional fueling stations. We planned to invest approximately $45 million to construct our LNG facility but are anticipating now that the total investment increase to approximately $49 million primarily attributed to significant increase in material and labor costs incurred due to additional engineering reinforcement needs to ensure project safety, excluding $2.7 million additional payment of land use right for phase I, phase II and phase III because soaring local land price due to recent energy resource explorations as well as the cost of $4.5 million to purchase an additional 8.3 acres of land use right for the Yulin government's construction of an electricity substation, phase II and phase III of the LNG plant.

Phase I of the LNG plant is under construction and is expected to be completed by the second quarter 2010, later than originally planned because of delays mainly due to macro tariff exemption changes and additional document requirements at Shaanxi Province customs; engineering reinforcement of plant basis; ocean shipment route changes to avoid pirates in Somali area.

Outstanding Indebtedness

On December 30, 2007, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with Abax. The Purchase Agreement was subsequently amended on January 29, 2008, pursuant to which we (i) agreed to issue 5.00% Guaranteed Senior Notes due 2014 (the "Senior Notes") of approximately $20,000,000, (ii) agreed to issue to Abax Senior Notes in aggregate principal amount of approximately $20,000,000 on or before March 3, 2008 subject to our meeting certain closing conditions, (iii) granted Abax an option to purchase up to approximately $10,000,000 in principal amount of its Senior Notes and (iv) agreed to issue to Abax seven-year warrants exercisable for up to 2,900,000 shares of our common stock (the "Warrants") at an initial exercise price equal to $7.3652 per share, subject to certain adjustments. On January 29, 2008, we issued $20,000,000 Senior Notes and 2,900,000 warrants pursuant to the Purchase Agreement. On March 3, 2008, Abax exercised its first option for an additional $20,000,000 of Senior Notes. On March 10, 2008, we issued $20,000,000 in additional Senior Notes resulting in total Senior Notes of $40,000,000.

We are required to make mandatory prepayments on the Senior Notes on certain dates and we are subject to customary covenants for financings of this type, including restrictions on the incurrence of liens, payment of dividends, and disposition of properties as well as obligated to maintain certain financial ratios.

Contractual Obligations

Our contractual obligations are as follows:

Contractual obligations	Total	Less than 1 year	1-3 Years	3-5 years	More than 5 years
		Payments due by period (in thousands)			
Long-Term Debt Obligations	$ 40,000	$ -	$ 13,333	$ 26,667	$ -
Capital Lease Obligations	-	-	-	-	-
Operating Lease Obligations(1)	32,303	1,583	3,218	3,176	24,326
Purchase Obligations (2)	13,679	11,536	2,143	-	-
Other Long-Term Liabilities Reflected on Company's Balance Sheet (3)	17,500	-	-	-	17,500
Total	$ 103,482	$ 13,119	$ 18,694	$ 29,843	$ 41,826

(1) The Company entered into a series of long-term lease agreements with outside parties to lease land use rights to the self-built Natural Gas filing stations located in the PRC. The agreements have terms ranging from 10 to 30 years. The Company makes annual prepayments for most lease agreements. The Company also entered into two office leases in Xi'an, PRC, one office lease in Jingbian, PRC, one office lease in Wuhan, PRC and one office lease in New York, NY.

(2) The Company has purchase commitments for materials, supplies, services and property and equipment for constructing the LNG plant and other CIP projects.

(3) The $17,500,000 reflects derivative liability related to the embedded put option in the 1,450,000 warrants we issued to Abax in January 2008. If Abax does not exercise the warrants by January 29, 2015, Abax will be entitled to require that we purchase the warrants for $17,500,000 at that time.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2009, the FASB's accounting standard regarding other investments providing additional guidance which amended the impairment model to remove the exclusive reliance on "market participant" estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB's accounting standard regarding fair value measurements and disclosures providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly for fair value measurements. This guidance shall be applied prospectively with retrospective application not permitted. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB ' s accounting standard regarding debt and equity securities requires to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This guidance will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This guidance provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this guidance does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued an accounting standard that requires disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this guidance, fair values for these assets and liabilities were only disclosed annually. This guidance applies to all financial instruments and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2009, the FASB updated an accounting standard regarding subsequent events providing guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting standard requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. We adopted this Standard during the second quarter of 2009. This guidance requires that public entities evaluate subsequent events through the date that the financial statements are issued. We have evaluated subsequent events through the time of filing these consolidated financial statements with the SEC on March 10, 2010.

In June 2009, the FASB issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This guidance is effective for the Company beginning in 2010. Should the Company's accounts receivable securitization programs not qualify for sale treatment under the revised rules, future securitization transactions entered into on or after January 1, 2010 would be classified as debt and the related cash flows would be reflected as a financing activity. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2009, the FASB updated an accounting standard regarding consolidation guidance which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. This guidance requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. This guidance also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance did not have a material impact on the our consolidated financial statements.

In August 2009, the FASB issued an Accounting Standards Update ("ASU") regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued an ASU regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of this guidance did not have a material impact on our consolidated financial statements .

In November 2009, the FASB issued an ASU regarding accounting for stock dividends, including distributions to shareholders with components of stock and cash. This ASU clarifies that the stock portion of a distribution to shareholders that contains components of cash and stock and allows shareholders to select their preferred form of the distribution (with a limit on the amount of cash that will be distributed in total) should be considered a stock dividend and included in EPS calculations as a share issuance. The adoption of this guidance did not have a material impact on our consolidated financial statements

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140. The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In December, 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. We are currently evaluating the impact of this ASU, however, we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We are currently evaluating the impact of this ASU, however, we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Natural Gas Price Risk

Our major market risk exposure continues to be the pricing applicable to our purchases and value-added reselling of CNG. Our revenues and profitability depend substantially upon the applicable prices of natural gas, which in China are regulated and fixed by central and local governments and that have historically not fluctuated significantly or with great frequency. Such price involatility is expected to continue for our operations in China. We currently do not have any hedge positions in place to reduce our exposure to changes in natural gas wholesale and retail prices.

Interest Rate Risk

We are subject to interest rate risk on our long-term fixed-interest rate debt. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at a higher rate. All else being equal, the fair value of our fixed rate debt will increase or decrease as interest rates change. We had long-term debt outstanding of $40 million as of December 31, 2009, all of which bears interest at fixed rates. The $40 million of fixed-rate debt is due 2014. We currently have no interest rate hedge positions in place to reduce our exposure to changes in interest rates.

Foreign Currency Exchange Rates Risk

Because substantially all of our revenues and expenditures are denominated in Renminbi and the net proceeds from this offering were denominated in U.S. dollars, fluctuations in the exchange rate between the U.S. dollars and Renminbi affect the relative purchasing power of these proceeds and our balance sheet and earnings per common stock in U.S. dollars. In addition, we report our financial results in U.S. dollars, and appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollars terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future.

Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.5% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium- to long-term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

As of December 31, 2009 and 2008, our accounts were maintained, and our consolidated financial statements were expressed in RMB. Such consolidated financial statements were translated into USD in accordance with an accounting standard issued by the FASB, with the RMB as the functional currency. All assets and liabilities were translated at the exchange rate as of the balance sheet date, stockholders' equity were translated at the historical rates and statement of income and cash flow items were translated at the weighted average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income. Cash flows from the our operations are calculated based upon the local currencies and translated to USD at average translation rates for the period. As a result, translation adjustments amount related to assets and liabilities reported on the consolidated statement of cash flows will not necessarily agree with changes in the corresponding consolidated balances on the balance sheet.

The balance sheet amounts with the exception of equity at December 31, 2009, were translated 6.82 RMB to $1.00 as compared to 6.82 RMB at December 31, 2008. The equity accounts were stated at their historical rate. The average translation rates applied to income and cash flow statement amounts for the years ended December 31, 2009, 2008 and 2007, were 6.82 RMB, 6.98 RMB and 7.59 RMB to $1.00, respectively. Translation adjustments resulting from this process in the amount of $8,714,019 and $8,661,060 as of December 31, 2009 and 2008, respectively, are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheets. For the years ended December 31, 2009, 2008 and 2007, other comprehensive income in the consolidated statements of income and other comprehensive income included translation gains of $52,959 and $5,184,035 and $2,637,573, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of the Company and its subsidiaries as of December 31, 2009, 2008, and 2007, including the notes thereto, together with the report of Frazer Frost, LLP (Successor Entity of Moore Stephens Wurth Frazer and Torbet, LLP) are presented beginning on page F-1 of this report.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Year Ended December 31, 2009					
Net operating revenues	18,527,666	20,742,520	20,125,184	21,670,748	81,066,118
Gross profit	9,633,652	10,278,190	9,717,692	10,531,545	40,161,079
Net income	4,201,623	3,862,756	4,647,519	6,118,889	18,830,787
Basic EPS	0.29	0.26	0.29	0.29	1.13
Diluted EPS	0.29	0.26	0.29	0.28	1.12
Year Ended December 31, 2008					
Net operating revenues	$ 14,025,674	$ 16,890,486	$ 18,401,200	$ 18,403,299	$ 67,720,659
Gross profit	6,088,476	7,665,763	9,492,367	9,492,416	32,739,022
Net income	2,808,571	3,512,892	5,136,590	3,732,315	15,190,368
Basic EPS	0.20	0.24	0.35	0.25	1.04
Diluted EPS	0.20	0.24	0.35	0.25	1.04

Year Ended December 31, 2007					
Net operating revenues	$ 6,743,576	$ 8,273,309	$ 9,078,089	$ 11,297,079	$ 35,392,053
Gross profit	3,517,359	4,143,110	4,319,839	5,386,670	17,366,978
Net income	2,110,326	2,745,009	1,961,662	2,299,073	9,116,070
Basic EPS	0.18	0.22	0.14	0.16	0.70
Diluted EPS	0.18	0.22	0.14	0.15	0.69

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The Company's fiscal year 2009 operating result was impacted by the following non-operating items:

- Expense recognized in connection with the change in fair value of warrants in the amount of $1,031,330 related to 383,654 warrants previously treated as equity, all future changes in the fair value of which will be recognized in the income statement as a result of changes in accounting standards.

- Interest expense of $344,190 related to the Company's $40 million senior notes due 2014, net of capitalized interest. This charge includes $280,250 in amortization of discount on our senior notes, and $63,940 in amortization of deferred offering costs. The Company capitalized $4,597,544 of interest expense and amortization into construction in progress for fiscal year 2009.

These two non-operating charges have a combined effect of $1,375,520 on our net income. The capitalized interest increases the cost of our long term assets and is depreciated or amortized over the useful life of these assets.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no reportable disagreements with our former independent auditors, Moore Stephens Wurth Frazer and Torbet, LLP, or our current independent auditors, Frazer Frost, LLP (Successor Entity of Moore Stephens Wurth Frazer and Torbet, LLP).

ITEM 9A CONTROLS AND PROCEDURES

Disclosure Controls and Procedures (Restated)

During and subsequent to the reporting period covered by this report, and under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures that were in effect at the end of the period covered by this report. Disclosure controls and procedures is defined under Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as those controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on their evaluation and after considering the material weaknesses in our internal control over financial reporting discussed below in "Management's Report on Internal Control over Financial Reporting (Restated)," our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures that were in effect on December 31, 2009 were not effective because the Company failed to implement policies and procedures that would have prevented the Company's:

- failure to disclose the Loan, the Pledge and the Guarantee as subsequent events in the footnotes to its consolidated financial statements included in the Original Filing;

- failure to disclose the Loan, the Pledge and the Guarantee in the Quarterly Report, which led to an understatement of restricted cash in the amount of $13.2 million and the understatement of bank loans in the amount of $13.2 million in the consolidated balance sheet included therein;

- failure to file a Current Report on Form 8-K within four days after entry into the Loan, the Pledge and the Guarantee;

- incorrect determination that the Pledge constituted a breach of the Indenture, which led the Company to erroneously (i) make the Reclassification and related amendments in the Amended 10-K and Amended 10-Q, (ii) disclose in the Amended 10-K, the Amended 10-Q and the Quarterly Report for the quarter ended June 30, 2010 that the Pledge constituted a breach of the indenture and (iii) classify the Senior Notes and warrants as current liabilities instead of long term liabilities in the Quarterly Report for the quarter ended June 30, 2010; and

- failure to document and communicate to the Board of Directors and members of management the evaluation of disclosure requirements in connection with acquisitions of four natural gas stations in the second quarter of 2010 and the acquisition of Hanchun Makou Yuntong Compressed Natural Gas Co., Ltd. in the third quarter of 2010.

Although the foregoing events occurred subsequent to the end of the reporting period covered by this Amended Filing, management concluded that these events indicated that the Company's policies and procedures in place as of December 31, 2009 were not sufficient to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act was being recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, nor were such policies and procedures sufficient to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act was being accumulated and communicated to the Company’s management to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting (Restated)

The Company’s management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is defined under Rule 13a-15(f) as a process designed by, or under the supervision of, an issuer's principal executive officer and principal financial officer, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and include those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the issuer’s assets that could have a material effect on the financial statements.

In connection with this Amended Filing, management has conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Evaluation Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its evaluation under the Internal Control - Evaluation Framework and due to the material weaknesses evidenced by the events described below, management concluded that our internal control over financial reporting was not effective as of December 31, 2009. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work.

During management’s evaluation of the effectiveness of internal control over financial reporting in connection with this Amended Filing, management concluded that the Company had material weaknesses in its internal control over financial reporting as of December 31, 2009 because control deficiencies resulted in key executives of the Company executing agreements on behalf of the Company or its variable interest entity to:

- extend loans to third parties in the amount of $14 million in the first quarter of 2010 without pre-approval of the Board;
    - enter into the Loan, the Pledge and the Guarantee without pre-approval of the Board; and
- acquire four natural gas fueling stations in the second quarter of 2010 without pre-approval of the Board of the final acquisition price.

Although the foregoing events occurred subsequent to the end of the reporting period covered by this Amended Filing, management concluded that these events indicated that the Company's policies and procedures in place as of December 31, 2009 were not sufficient to provide reasonable assurance that as of December 31, 2009 transactions were being recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company were being made only in accordance with authorizations of the Company's Board, nor were such policies and procedures sufficient to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's financial statements that could have had a material effect on the Company's financial statements.

Frazer Frost, LLP, the independent registered public accounting firm that audited the consolidated financial statements, has issued an attestation report on our internal control over financial reporting which is included herein.

Management's Remediation Initiatives

In response to the above identified material weaknesses and to strengthen our internal control over financial reporting, we have taken the following remediation initiatives:

- our Audit Committee and Board of Directors held meetings promptly after being notified of the material weaknesses in internal controls identified above to address such weaknesses, and determined to meet regularly specifically for the purpose of monitoring and discussing with management the remediation of such weaknesses;

- in early September 2010, we re-engaged Ernst & Young through February 2011 to review and test our existing internal controls procedures, evaluate and identify inadequacies with our existing internal control procedures, and recommend changes as necessary and appropriate for the improvement of internal controls; and

- our Audit Committee and Board of Directors adopted a written internal authorization policy establishing approval procedures for various corporate actions. The policy lists various operational, administrative and financial corporate events and actions and for each such event and action, identifies whether prior approval or discussion with particular executive officers, the Board of Directors or legal counsel is required. The policy also sets quantitative limits on specific types of transactions that management may approve without Board approval. After adopting such policy, our Audit Committee and Board of Directors discussed the policy with management.

In addition, the Company continues to reassess its internal controls and procedures in light of these recent events and is in the process of determining additional appropriate actions to take to remediate these material weaknesses.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Independent Registered Public Accounting Firm's Attestation Report

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
China Natural Gas, Inc.

We have audited China Natural Gas, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). China Natural Gas, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 10, 2010, we expressed an unqualified opinion on the effectiveness of internal control over financial reporting as of December 31, 2009. As described in the following paragraph, the Company subsequently indentified material misstatements in its financial statements, which caused the annual financial statements to be restated. Accordingly, our opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, expressed herein is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses because certain material transactions were entered into without pre-approval from the Company’s board of directors which resulted in management’s override of its internal control over financial reporting and disclosure controls. Therefore, these transactions were not recorded and reported in the consolidated financial statements. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2009 financial statements and this report does not affect our report dated March 10, 2010, except for the effects on the consolidated financial statements of the restatement described in Note 2 and Note 15, as to which the date is September 30, 2010, on those consolidated financial statements (as restated).

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, China Natural Gas, Inc. and subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of income and other comprehensive income, stockholders’ equity , and cash flows of China Natural Gas, Inc. and subsidiaries, and our report dated March 10, 2010, except for the effects on the consolidated financial statements of the restatement described in Note 2 and Note 15, as to which the date is September 30, 2010, expressed an unqualified opinion.

/s/ Frazer Frost, LLP

Brea, California
March 10, 2010, except for the effects of the
material weaknesses described in the sixth paragraph
above, as to which the date is September 30, 2010

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.

Below are the names and certain information regarding our executive officers and directors as of December 31, 2009:

Name	Age	Position	Held Position Since
Qinan Ji	53	Chief Executive Officer and Chairman of the Board	2005
David She(1)	26	Acting Chief Financial Officer	2010
Zhiqiang Wang	70	Director	2006
Donald Yang	44	Director	2008
Carl Yeung	31	Director	2008
Lawrence Leighton	76	Director	2008

(1) Veronica Chen resigned as the Company's CFO effective as of January 31, 2010. David She replaced Ms. Chen as the Company's acting CFO on February 1, 2010.

Officers are elected annually by the Board of Directors, at our annual meeting, to hold such office until an officer's successor has been duly appointed and qualified, unless an officer sooner dies, resigns or is removed by the Board.

Background of Executive Officers and Directors

Qinan Ji, Chairman of the Board of Directors - Mr. Ji joined Xilan as the Chairman of the Board of Directors in 2005. In 1996, he founded the Anxian Hotel in Weinan City in Shaanxi province. In 2001, he formed the Xi'an Sunway Technology and Industry Co., Ltd. He has more than 20 years experience in the energy and petroleum industries in operational, administrative, management and government relation roles. He received a Bachelors of Economic Management from Northwestern University (Shaanxi).

David She, Acting Chief Financial Officer - Mr. She joined China Natural Gas in February 2008 as Vice President of Finance and was placed in charge of the Company's New York office. He returned to the Company's headquarters in Xi'an, China, in December 2008 and was soon promoted to Assistant Chief Financial Officer. He is succeeding Veronica Jing Chen, who is resigning as Chief Financial Officer due to family reasons. Mr. She was in charge of several functions within the Company, including the oversight of quarterly and annual filings with the U.S. Securities and Exchange Commission, evaluations of the Company's major acquisition opportunities, and the management of investor relations. He helped to coordinate the Company's $40 million debt financing in March 2008 and supervised legal, audit and regulatory reporting issues in the Company's $57 million underwritten public offering in September 2009. Prior to joining China Natural Gas, Mr. She served as a securities analyst for West China Securities in Beijing. He received Bachelor's degrees in Mathematics and Business Administration from Beijing Institute of Technology as well as a Master's degree in Finance from State University of New York at Buffalo.

Zhiqiang Wang, Vice Chairman of the Board of Directors - Mr. Wang was the former head of energy industry regulations from 1992 to 2002 as well as the Vice Mayor of the city of Xi'an, China's largest western city with a population of 8 million, in which position he was in charge of regulating and licensing the city's energy and natural gas businesses. From 2002 until his retirement in 2004, Mr. Wang was the Chief Executive Officer of Xi'an Municipal Government Construction Company where he was in charge of the city's major construction projects. Mr. Wang graduated from the Northwestern University of Politics and Law in China in 1962.

Donald Yang, Director - Mr. Yang is a founding partner and president of Abax Global Capital (“AGC”), a leading Hong Kong based investment firm focused on Pan-Asian public and private investments especially in Greater China and Southeast Asia. He was a Managing Director responsible for Merrill Lynch’s Hong Kong and China Debt Capital Markets division from 2000 to 2007. Mr. Yang also serves as a director for Sinoenergy Corporation (Ticker “SNEH”), a NASDAQ listed company. Mr. Yang holds a MBA degree from Wharton School of Business and a BA degree from Nankai University in China. Abax, an affiliate of AGC, is the sole investor in the Company’s $40 million note financing which closed in January 2008. Pursuant to an investor rights agreement, Abax has the right to appoint one member of the Company’s Board of Directors.

Carl Yeung, Director - Mr. Yeung is the Chief Financial Officer of ATA Inc, a China based, leading provider of computer-based testing and education services in China listed on the NASDAQ Global Market. Prior to that, Mr. Yeung worked as an associate and analyst at Merrill Lynch (Asia Pacific) Limited from 2002 to 2006. Mr. Yeung holds a bachelor’s degree in economics with concentrations in finance and operations management from Wharton School, University of Pennsylvania, and a bachelor’s degree in applied science with concentration in systems engineering from School of Engineering and Applied Sciences, University of Pennsylvania.

Lawrence Leighton, Director - Mr. Leighton has had an extensive 40-year international investment banking career. Beginning at what is now Lehman Brothers, he advised on financing for the Mexican Government and leading Mexican corporations. As Director of Strategic Planning for the consumer products company, Norton Simon Inc, he initiated and executed the acquisition of Avis Rent-a-car. Subsequently, he was a Limited Partner of Bear Stearns & Co., a Managing Director of the investment bank of Chase Manhattan Bank and then President and Chief Executive Officer of the U.S. investment bank of Credit Agricole, the major French Bank. Among his transactions have been advising Pernod Ricard, the major European beverage company, on its acquisitions in the United States; and advising Verizon, the major U. S. telecom company, on its dispositions of certain European operations. Mr. Leighton received his BSE degree in engineering from Princeton University and an MBA degree from Harvard Business School. He holds a commercial pilot’s license with instrument rating.

Board of Directors.

Our Directors are elected by the vote of a plurality in interest of the holders of our voting stock and hold office for a term of one year or until a successor has been elected and qualified.

A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business. The directors must be present at the meeting to constitute a quorum. However, any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board individually or collectively consent in writing to the action.

There are no family relationships, or other arrangements or understandings between or among any of the directors, executive officers or other person pursuant to which such person was selected to serve as a director or officer.

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

4. being found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Committees of the Board of Directors

The Board of Directors has the following standing committees: Audit, Compensation and Nominating. The Board of Directors has adopted written charters for each of these committees, copies of which can be found on our website at www.naturalgaschina.com. Mr. Wang, Mr. Yeung and Mr. Leighton are independent directors within the meaning set forth in the rules of NASDAQ, as currently in effect.

Audit Committee

The Audit Committee consists of Mr. Leighton and Yeung and Wang with Mr. Yeung serving as the chair. The board of directors has determined that Mr. Yeung is an "Audit Committee Financial Expert," as defined in Item 407(d)(5) of Regulation S-K and Mr. Yeung is an independent director within the meaning set forth in the rules of NASDAQ, as currently in effect. The Audit Committee adopted a charter which provides that the Committee, (i) oversees our accounting, financial reporting and audit process; (ii) appoints, determines the compensation of, and oversees, the independent auditors; (iii) pre-approves audit and non-audit services provided by the independent auditors; (iv) reviews of the results and scope of audit and other services provided by the independent auditors; (v) reviews the accounting principles and practices and procedures used in preparing our financial statements; and (vi) reviews of internal controls.

The Audit Committee works closely with management and our independent auditors. The Audit Committee also meets with our independent auditors on a quarterly basis, following our auditors' quarterly reviews and annual audit and prior to our earnings announcements, to review the results of their work. The Audit Committee also meets with our independent auditors to approve the annual scope and fees for the audit services to be performed.

Compensation Committee

The Compensation Committee consists of Mr. Leighton and Yeung and Wang with Mr. Leighton serving as the chair. The Compensation Committee adopted a charter which provides that the Committee, (i) review and approves corporate goals and objectives relevant to the CEO's compensation, evaluation of the CEO's performance relative to goals and objectives and sets the CEO's compensation annually and (ii) makes recommendations annually to the Board of Directors with respect to non-CEO compensation.

Nominating Committee

The Nominating Committee consists of Mr. Leighton and Yeung and Wang with Mr. Wang serving as the chair. The Compensation Committee adopted a charter which provides that the Committee, (i) identify and review candidates for the Board and recommend to the full Board candidates for election to the Board and (ii) review from time to time the appropriate skills and characteristics required of Board members in the context of current composition of the Board.

Code of Ethics

On June 14, 2006, we adopted a Code of Ethics that applies to all officers, directors and employees of our Company. A copy of our Code of Ethics is available to you at no charge upon written request. The written request should be addressed to our corporate office at 19th Floor, Building B, Van Metropolis, No. 35 Tangyan Road, High Tech Zone, Xi'an 710065, Shaanxi province, the People's Republic of China.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Forms 3, 4 and 5 respectively. Executive officers, directors and greater than 10% shareholders are required by the Securities and Exchange Commission regulations to furnish our Company with copies of all Section 16(a) reports they file.

To the Company's knowledge, based solely on a review of the copies of the reports furnished to the Company, all executive officers, directors and greater than 10% shareholders filed the required reports in a timely manner, except for Zhiqiang Wang who did not timely file a Form 3 when he was appointed to the Company’s Board of Directors and David She who did not timely file a Form 3 when he was appointed as the Company ’ s Acting Chief Financial Officer.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Our Compensation Committee assists our board of directors in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Our Compensation Committee, which currently consists of three members, each of whom is independent of management, seeks to ensure that senior executives of the Company are compensated effectively in a manner consistent with the strategy of the Company, competitive practice and the requirements of the appropriate regulatory bodies. Our Compensation Committee also oversees, reviews and administers all compensation and employee benefit plans and programs.

Compensation Philosophy and Objectives

Our Compensation Committee’s goals regarding executive compensation are primarily to recruit, hire, retain, motivate and reward the most talented and dedicated executives possible. In determining what constitutes fair and competitive compensation for each executive, our Compensation Committee evaluates individual executive performance with a goal of setting compensation at levels based on the executive’s general business and industry knowledge and experience while taking into account our relative performance and our strategic goals.

We review annually and approve our compensation strategy to help ensure that executives are rewarded appropriately for their contributions to company growth and profitability. During our review of an individual executive’s compensation, our Compensation Committee considers primarily individual performance of that executive and internal review of the executive’s compensation, both individually and relative to other executive officers. Our Compensation Committee also considers factors of corporate performance including our sales, revenue and the current overall economic situation. Adjustments to salary levels are typically made annually as part of our performance review process, as well as upon a change in job responsibility. Merit-based increases to salaries are based on our Compensation Committee’s assessment of the individual executive’s performance.

Elements of Compensation

Our Compensation Committee has structured our executive compensation to motivate executives to achieve our business goals. Our executive compensation consists of the following elements:

Base Salary

For base salary, we determine executive salaries based on job responsibilities and individual experience and expect to continue to provide competitive salaries to our executive officers by conducting our annual review and, if appropriate, recommending adjustments in salaries based on individual performance during the prior fiscal year and cost of living adjustments. Our Compensation Committee believes that any increases in base salary should be based upon a favorable evaluation of individual performance, which is evaluated by assessing factors such as the functioning of that executive's team within the corporate structure, success in furthering the corporate strategy and goals and individual management skills, responsibilities and anticipated workload.

Incentive and Discretionary Bonus Plans

We currently have no incentive plans in place. Any incentive plan we adopt will be aimed at attracting and retaining outstanding executive officers capable of leading our Company to fulfill its business objectives and establish an appropriate link between executive compensation and achievement of our Company's strategic and financial performance goals. We intend for any incentive plan we adopt to provide rewards to executive officers who, because of the extent of their responsibilities, can make significant contributions to the success of our Company by their ability, loyalty and exceptional services.

The Compensation Committee may award a discretionary bonus to executive officers to reward outstanding personal achievement during the year. The actual amount of discretionary bonus is determined following a review of each executive's individual performance and contribution to our strategic goals. In March 2009, the Compensation Committee recommended, and our board of directors approved, an annual salary of $120,000 and a discretionary bonus of up to $60,000 for Mr. Qinan Ji, our CEO, for 2009.

Stock Options

On March 11, 2009, the board of directors approved by written consent the Company's stock option plan for its employees, directors and consultants. Pursuant to the plan, the total stock option pool will equal to 10% of the Company's total shares outstanding as of March 11, 2009. Among the option pool approved, 4% shall be awarded in 2009 and another 4% shall be awarded in 2010, and 2% reserved for future awards. For the 2009 stock option award, the CEO and CFO were granted total options of 1% and 0.6% of the common shares outstanding respectively, 50% as Non-qualified Stock Options (NSO) and 50% as Incentive Stock Awards (ISA), for a vesting period of four years. The company granted the former CFO, Veronica Chen, options to purchase 75,000 shares (post-split) of the Company's common stock, representing approximately 0.5% of the Company's outstanding shares as of March 11, 2009, which forfeited as Veronica Chen resigned as CFO. 5,000 option shares per year will be granted to each non-executive board member and 6,000 option shares per year granted to the Audit Committee Chairman. Other senior management and employees will be granted total options of 2.11% of the Company's common shares. On April 1, 2009 and May 1, 2009, the Company issued 243,850 and 75,000 stock options, respectively, pursuant to the Company's 2009 employee stock option and stock award plan. The strike price for the options was $4.90 per share. The stock option has a term of six years and vests evenly over four years starting one year from the issuance date on an annually basis. Please refer to "Note 9. Accounting for stock-based compensation" in "Item 8. Financial Statements" for more details.

Other Compensation

Consistent with our compensation philosophy, we intend to continue to maintain our current benefits and perquisites for our executive officers; however, the Compensation Committee in its discretion may revise, amend or add to the officer's benefits and perquisites, if it deems it advisable and to the extent permitted by law and/or the officer's employment agreement. We are required to participate in a defined contribution plan operated by the local municipal government in accordance with Chinese laws and regulations. We make annual contributions of 14% of all our employees' salaries to the plan. Beginning in 2008, no minimum contribution is required but the maximum contribution cannot exceed 14% of the current salary expense. In addition, certain employees of our subsidiaries, including Mr. Ji, our Chairman and Chief Executive Officer, have pension and healthcare benefits through plans offered by such subsidiaries, as required by local Chinese laws. In October 2008, we entered into an employment agreement with our former CFO, Mr. Richard Wu, wherein we agreed to pay Mr. Wu a $10,000 insurance allowance per year. We do not have any profit sharing plan or similar plans for the benefit of our officers, directors or employees. However, we may establish such plans in the future.

We currently have no plans to change either the employment agreements of our executive officers as described below (except as required by law or as required to clarify the benefits to which our executive officers are entitled as set forth herein) or levels of benefits and perquisites provided thereunder.

Monitoring Executive Compensation Program

Our Compensation Committee monitors our executive compensation program by evaluating individual performance of that executive and internal review of the executive's compensation, both individually and relative to other executive officers. Our Compensation Committee also considers factors of corporate performance including our sales, revenue and the current overall economic situation.

Compensation Committee's Processes and Procedures for Consideration and Determination of Executive Compensation

The Compensation Committee oversees all of our executive compensation policies and decisions, including the administration and interpretation of our benefit plans. The Compensation Committee also reviews and approves executive officer compensation, including, as applicable, salary, bonus, special or supplemental benefits and other forms of executive officer compensation. The Committee periodically reviews regional and industry-wide compensation practices and trends to assess the adequacy and competitiveness of our compensation programs. The Committee's membership is determined annually by the full board and includes only independent directors. The Committee meets as often as it deems appropriate, but not less frequently than annually.

The board has delegated authority to the Compensation Committee to review and make recommendations with respect to compensation matters, but has retained the authority to approve and take final action on all executive compensation awards.

Role of Executive Officers in Compensation Process

The Compensation Committee also solicits appropriate input from Mr. Ji, our chairman and CEO, regarding base salary and other forms of executive officer compensation for our other executive officers and the administration of our benefit plans.

External Advisors

The Compensation Committee has not engaged the services of outside advisors to assist it in fulfilling its duties.

EXECUTIVE COMPENSATION

The following table sets forth information regarding compensation awarded or paid to, or earned by, our principal executive officer and the two individuals who served as our principal financial officers during the year ended December 31, 2008. No other executive officer of our Company had total compensation exceeding $100,000 during the year ended December 31, 2008.

Summary Compensation Table

Summary Compensation Table

Name and Principal Position(1)	Year	Salary ($)	Bonus ($)	Option Awards (2) ($)	All Other Compensation ($)	Total ($)
Qinan Ji, Chief Executive Officer and Chairman of the Board	2009	120,000	60,000	94,909		274,909
	2008	15,000	-	-	-	15,000
	2007	15,000	-	-	-	15,000
Veronica Chen, Chief Financial Officer(3)	2009	71,481				71,481
Richard P. Wu, Chief Financial Officer(4)	2009	72,917	-	-	-	72,917
	2008	47,260	-	-	1,890	49,150
Lihong Guo, Chief Financial Officer(5)	2008	40,000	-	-	-	40,000
	2007	4,000	-	-	-	4,000

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(1) Identifies our named executive officers during the specified period.
(2) Represents the dollar amount of expense recognized for financial statement reporting purposes with respect to awards of options to acquire common stock. See the notes to our financial statements contained herein for an explanation of all assumptions made by us in determining the values of our option awards.
(3) Ms. Chen was appointed as our CFO on May 1, 2009 and resigned from the position effective January 31, 2010.
(4) Mr. Wu was appointed as our CFO on October 23, 2008, and resigned from the position on March 25, 2009.
(5) Ms. Guo was appointed as our CFO on December 10, 2007 and resigned from that position on October 23, 2008.

Employment Agreements

The Company signs employment agreements with all of our employees. Our employment agreements are intended to comply with the current Labor Contract Law of the PRC. Our employment agreements are typically valid for one year and are renewable if both the Company and the employee decide to renew the employment agreement afterwards. In determining whether to renew an employment agreement, our Company considers primarily individual performance of that executive and our corporate performance including our sales, revenue, growth and the current overall economic situation.

In March 2009, our CEO, Mr. Ji, signed a one-year employment contract with the Company with the following key terms:

- Salary for 2009 will be $120,000
- Discretionary bonus of up to $60,000
- Contract can be renewed on a yearly basis if both the Company and Mr. Ji decide to renew the employment agreement

In May 2005, our CEO, Mr. Ji signed a one-year employment contract with the Company with the following key terms:

- Annual Salary of $15,000
- Contract was superseded by the March 2009 agreement described above

In May 1, 2009, our former CFO, Ms. Veronica Jin Chen, signed a one-year employment contract with the Company with the following key term:

- Salary for the 12-month period commencing on May 1, 2009, will be $95,308

- Eligible for up to 0.514% stock option of the Company’s shares outstanding, pending the Company’s employee stock option plan
- Contract can be renewed on a yearly basis if both the Company and Ms. Chen decide to renew the employment agreement

In October 2008, our former CFO, Mr. Richard Peidong Wu, signed a one-year employment contract with the Company with the following key terms:

- Salary for the 12-month period commencing on October 10, 2008, will be $250,000
- The Company will provide an additional $10,000 insurance allowance per year
- Eligible for up to 1.5% stock option of the Company’s shares outstanding, pending the Company’s employee stock option plan
- Contract can be renewed on a yearly basis if both the Company and Mr. Wu decide to renew the employment agreement

In December 2007, our former CFO, Ms. Lihong Guo, signed a one-year employment contract with the Company with the following key terms:

- Salary for 2008 will be $40,000
- Contract can be renewed on a yearly basis if both the Company and Ms. Guo decide to renew the employment agreement

Grants of Plan-Based Awards

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Closing Market Price ($/Sh)	Grant Date Fair Value of Stock and Option Awards($)
Ji Qinan	04/01/2009		146,000	4.90	5.20	506,183
Veronica Chen(1)	05/01/2009		75,000	4.90	5.70	291,737

(1) Forfeited as Veronica Chen resigned as CFO effective January 31, 2010.

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Outstanding Equity Awards at the Year Ended December 31, 2009

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (Vested) (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (Unvested) (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price $ - (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(1) (j)
Ji Qinan	-	-	146,000	$ 4.90	04/01/2015	-	-	-	-
Veronica Chen(1)			75,000	$ 4.90	05/01/2015				

(1) Forfeited as Veronica Chen resigned as CFO effective January 31, 2010.

Option Exercises and Stock Vested

Our executives did not exercise any stock options or hold any stock awards that vested during the year ended December 31, 2009.

Pension Benefits

We have not adopted any pension benefits plans.

Nonqualified Deferred Compensation

None of our executive officers participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us.

Severance and Change of Control Agreements

We do not have any agreements or arrangements providing for payments to an executive officer in connection with any termination of the officer's employment or change of control of our Company.

Director Compensation

The Governance and Nominating Committee of the board of directors, which is comprised of Mr. Lawrence Leighton, Mr. Carl Yeung and Mr. Zhiqiang Wang, are responsible for evaluating compensation levels and compensation programs for our board of directors and for making recommendations to the board of directors regarding appropriate compensation awards for directors. The board of directors' compensation program is designed to attract, retain and motivate experienced non-employee (outside) directors, to optimize long-term shareholder value and reward members of the board of directors based on the extent of their participation on the board of directors and its committees. Generally, the Governance and Nominating Committee makes an annual recommendation regarding the structure of the non-employee director compensation program, considering the factors described above and considering information regarding director compensation programs for other comparable companies.

During the year ended December 31, 2009, Mr. Yeung and Mr. Leighton received a director fee of $3,000 per month. Mr. Wang received an annual director fee of $5,279. Each of our directors were reimbursed for reasonable expenses incurred in attending Board and committee meetings. Our chairman and CEO, Mr. Ji, did not receive any compensation for their services as a director during the year ended December 31, 2009.

The following Director Compensation Table summarizes the compensation of our directors for services rendered to the Company during the year ended December 31, 2009.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (2)	All Other Compensation ($)	Total ($)
Qinan Ji (1)	-	-	-	-	-
Zhiqiang Wang	5,279	-	3,250	-	22,614
Donald Yang	36,000	-	3,250	-	53,335
Carl Yeung	36,000	-	3,900	-	56,802
Lawrence Leighton	36,000	-	3,250	-	53,335

(1) Ji Qinan, our Chief Executive Officer, did not receive any compensation for his service as a director.

(2) Details of stock options are as follows:

Name	Number of securities to be issued upon exercise of outstanding options and rights (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date	Expiration Date	Grant Date Fair Value of Stock and Option Awards($)
Carl Yeung	6,000	4.90	04/01/2009	04/01/2015	20,802
Lawrence Leighton	5,000	4.90	04/01/2009	04/01/2015	17,335
Donald Yang	5,000	4.90	04/01/2009	04/01/2015	17,335
Zhiqiang Wang	5,000	4.90	04/01/2009	04/01/2015	17,335

We did not pay any other compensation to our directors during the year ended December 31, 2009.

Compensation Committee Interlocks and Insider Participation

During our fiscal year ended December 31, 2009, Mr. Lawrence Leighton, Mr. Carl Yeung and Mr. Zhiqiang Wang served as members of our Compensation Committee wherein management compensation issues generally were reviewed and approved. Mr. Leighton, Mr. Yeung and Mr. Wang have serve on the Compensation Committee since their appointment to our board on August 7, 2008. None of the members who served on our Compensation Committee during the year ended December 31, 2008 was an officer or employee of our Company during the fiscal year ended December 31, 2009, was formerly an officer of our company, was a promoter of the Company or has, or will have, a direct or indirect interest in a transaction since the beginning of the fiscal year ended December 31, 2009, or any currently proposed transaction, in which our Company was or is to be a participant and the amount involved exceeds $120,000. During our fiscal year ended December 31, 2009, no executive officer of our Company served on the board of directors, compensation committee or other board committee performing equivalent functions of a compensation committee of another entity that had an executive officer serve on our board of directors or compensation committee.

Compensation Committee Report

We, the Compensation Committee of the Board, have reviewed and discussed the Compensation Discussion and Analysis contained in this Form 10-K with management. Based on such review and discussion, we have recommended to the Board that the Compensation Discussion and Analysis be included in this Form 10-K for the year ended December 31, 2009.

Compensation Committee

Lawrence Leighton

Carl Yeung

Zhiqiang Wang

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information, as of February 28, 2010 with respect to the beneficial ownership of the outstanding common stock by (i) any holder of more than five (5%) percent; (ii) each of our executive officers and directors; and (iii) our directors and executive officers as a group. Except as otherwise indicated, each of the stockholders listed below has sole voting and investment power over the shares beneficially owned.

Name of Beneficial Owner (1)	Number of Common Stock Beneficially Owned	Percentage Of Common Stock Outstanding(2)
Executive Officers and Directors		
Qinan Ji	2,965,799(3)	14%
Lawrence W. Leighton	1,000	0%
All officers and directors as a group (1 person)	2,966,799(3)	14%

5% holders		
Xiang Ji	1,760,000	8.31%
Heartland Advisors	1,476,000(4)	6.97%
Wellington Management	1,446,730(5)	6.83%
Xi'an Sunway Technology & Industry Co., Ltd	1,437,683(3)	6.79%
Abax Lotus Ltd.	1,450,000(6)	6.41%

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(1) Except as otherwise indicated, the address of each beneficial owner is c/o Xi'an Xilan Natural Gas Co., Ltd., 19th Floor, Building B, Van Metropolis, Tangyan Road, Hi-Tech Zone, Xi'an 710065, Shaanxi province, China.

(2) Applicable percentage ownership is based on 21,18,904 shares of common stock outstanding as of December 31, 2009, together with securities exercisable or convertible into shares of common stock within 60 days of December 31, 2009 for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of December 31, 2009 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(3) Of which 1,437,683 shares are owned by Xi'an Sunway Technology & Industry Co., Ltd. Qinan Ji owns 42.1% of Xi'an Sunway and may be deemed to beneficially own such shares. None of the shares have been pledged as security for any loan or indebtedness.

(4) William J. Nasgovitz has shared voting and dispositive power with respect to such shares as reported in the Schedule 13G/A filed with the SEC on February 10, 2010.

(5) Robert Toner has shared voting and dispositive power with respect to such shares as reported in the Schedule 13G filed with the SEC on February 12, 2010.

(6) As set forth in Schedule 13D filed with the SEC on February 6, 2008.

No Director, executive officer, affiliate or any owner of record or beneficial owner of more than 5% of any class of voting securities of the Company is a party adverse to the Company or has a material interest adverse to the Company.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the Company's equity compensation plan information as of December 31, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	318,850	$ 4.90	1,141,150
Equity compensation plans not approved by stockholders			
Total	318,850	$ 4.90	1,141,150

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Transactions with Related Persons

None.

Review, Approval or Ratification of Transaction with Related Persons

Although we have not adopted formal procedures for the review, approval or ratification of transactions with related persons, we adhere to a general policy that such transactions should only be entered into if they are on terms that, on the whole, are no more favorable, or no less favorable, than those available from unaffiliated third parties and their approval is in accordance with applicable law. Such transactions require the approval of our board of directors.

Director Independence

The Board has determined that all Board members, excluding Qinan Ji and Donald Yang, are independent under the applicable NASDAQ rules. The Board has also determined the members of each committee of the Board are independent under the listing standards of the NASDAQ Global Select Market. In making these determinations, the Board considered, among other things, the types and amounts of the commercial dealings between the Company and the companies and organizations with which the directors are affiliated.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

All the service agreements related with auditors and lawyers need to be approved and signed by the Company’s Audit Committee. 100% of those services provided were approved by the Committee.

The following table shows the fees paid or accrued for the audit and other services provided by our independent auditors for 2008 and 2009.

Audit fees	2008	2009
Frazer Frost, LLP (Successor of Moore Stephen Wurth Frazer and Torbet, LLP)*	$ 180,000	$ 275,000
Kabani & Company, Inc.	$ 7,500	$ -
Audit-related fees		
Tax fees**	$ 10,000	$ 10,000
All other fees		
Total fees paid or accrued to our principal accountants	$ 190,000	$ 285,000

*The fees billed for professional services rendered for the audit of the Company's internal control over financial reporting, audit of the consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by our auditors in connection with statutory and regulatory filings or engagements.

**The fee billed for professional services rendered for the preparation of the Company's corporate and state tax return.

Our Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services, Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. The independent registered public accounting firm and management are required to periodically report to our Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval. None of the services related to Audit-Related Fees, Tax Fees or All Other Fees described above were approved by our Audit Committee pursuant to a waiver of pre-approval provisions set forth in applicable rules of the SEC.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits:

Number	Description of Exhibit
2.1	Form of Equity Ownership Transfer Agreement (incorporated by reference to same exhibit filed with the Company's Form 8-K filed on December 31, 2008).
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	Registrant's Amended and Restated By-Laws (incorporated by reference to exhibit 3.1 filed with the Registrant's Form 8K filed June 16, 2006, SEC file no. 000-31539).
10.1	Share Purchase Agreement made as of December 6, 2005 among Coventure International Inc., Xi'an Xilan Natural Gas Co., Ltd. and each of Xilan's shareholders. (incorporated by reference to the exhibits to Registrant's 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 Registrant's 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 Registrant's Form 8-K filed on December 23, 2005).
10.4	Form of Securities Purchase Agreement (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 12, 2006).
10.5	Form of Common Stock Purchase Agreement (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 12, 2006).
10.6	Form of Registration Rights Agreement (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 12, 2006).

10.7	CNG Product Purchase and Sale Agreement between Xi'an Xilan Natural Gas Co., Ltd. and Zhengzhou Zhongyou Hengran Petroleum Gas Co., Ltd. made as of July 20, 2006, (translated from the original Mandarin) (incorporated by reference to the exhibits to Registrant's Form 10-KSB filed on April 17, 2007).
10.8	Securities Purchase Agreement dated, August 2, 2007, between the Company and the Investors named therein (incorporated by reference to the exhibits to Registrant's Form 8-K filed on August 8, 2007).
10.9	Registration Rights Agreement dated, August 2, 2007, between the Company and the Investors named therein (incorporated by reference to the exhibits to Registrant's Form 8-K filed on August 8, 2007).
10.10	Consulting Services Agreement dated, August 17, 2007, between Shaanxi Xilan Natural Gas Equipment Co., Ltd. and Xi'an Xilan Natural Gas Co., Ltd. (incorporated by reference to the exhibits to Registrant's Form 10-QSB filed on August 20, 2007).
10.11	Operating Agreement, dated August 17, 2007, between Shaanxi Xilan Natural Gas Equipment Co., Ltd. and Xi'an Xilan Natural Gas Co., Ltd. (incorporated by reference to the exhibits to Registrant's Form 10-QSB filed on August 20, 2007).

10.12	Equity Pledge Agreement, dated August 17, 2007, between Shaanxi Xilan Natural Gas Equipment Co., Ltd. and Xi'an Xilan Natural Gas Co., Ltd. (incorporated by reference to the exhibits to Registrant's Form 10-QSB filed on August 20, 2007).
10.13	Option Agreement dated, August 17, 2007, between Shaanxi Xilan Natural Gas Equipment Co., Ltd. and Xi'an Xilan Natural Gas Co., Ltd. (incorporated by reference to the exhibits to Registrant's Form 10-QSB filed on August 20, 2007).
10.14	Proxy Agreement dated, August 17, 2007, between Shaanxi Xilan Natural Gas Equipment Co., Ltd. and Xi'an Xilan Natural Gas Co., Ltd. (incorporated by reference to the exhibits to Registrant's Form 10-QSB filed on August 20, 2007).
10.15	Securities Purchase Agreement, dated December 30, 2007, between the Company and Abax Lotus Ltd. (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.16	Amendment to Securities Purchase Agreement, dated January 29, 2008, between the Company and Abax Lotus Ltd. (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.17	Indenture, dated January 29, 2008, by and among the Company and DB Trustees (Hong Kong) Limited, as trustee, relating to the 5.00% Guaranteed Senior Notes due 2014 (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.18	Warrant Agreement, dated January 29, 2008, by and among the Company, Mr. Qinan Ji, Deutsche Bank AG, Hong Kong Branch as Warrant Agent and Deutsche Bank Luxembourg S.A. as Warrant Agent (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.19	Equity Registration Rights Agreement, dated January 29, 2008, by and between the Company and Abax Lotus Ltd. (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.20	Investor Rights Agreement, dated January 29, 2008, by and among the Company, its subsidiaries, Mr. Qinan Ji, and Abax Lotus Ltd. (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.21	Information Rights Agreement, dated January 29, 2008, between the Company and Abax Lotus Ltd. (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.22	Onshore Share Pledge Agreement, dated January 29, 2008, between the Company and DB Trustees (Hong Kong) Limited, as security agent (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.23	Account Pledge and Security Agreement, dated January 29, 2008, by and between the Company and DB Trustees (Hong Kong) Limited as Security Agent (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 31, 2008).
10.24	Natural Gas Purchase Agreement entered by and between Xi' An Xilan Natural Gas Co., Ltd. and China Petroleum Co., Ltd., Changqing Branch, dated July 30, 2006 (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.25	Natural Gas Purchase Agreement entered by and between Ji Nan Yuhai Natural Gas Co., Ltd. and Xi' An Xilan Natural Gas Co., Ltd. dated, February 28, 2008 (incorporated herein by reference to the exhibits to

the Registrant’s Form 10-K/A filed on July 20, 2009)..

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10.26	Natural Gas Supply Agreement between Jincheng Ming Shi Natural Gas Co., Ltd., Jinan Branch, and Xi' An Xilan Natural Gas Co., Ltd. dated, March 20, 2008 (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.27	Natural Gas Purchase Agreement entered by and between Shaanxi Natural Gas Co., Ltd. and Xi' An Xilan Natural Gas Co., Ltd., dated July 17, 2008 (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.28	Independent Director Agreement, dated January 1, 2008, by and between China Natural Gas., Inc. and Zhiqiang Wang (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.29	Independent Director Agreement, dated July 1, 2008, by and between China Natural Gas., Inc. and Carl Yeung (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.30	Independent Director Agreement, dated August 5, 2008, by and between China Natural Gas., Inc. and Lawrence W. Leighton (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.31	Employment Agreement, dated October 10, 2008, by and between China Natural Gas., Inc. and Richard Peidong Wu (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.32	Employment Agreement, dated May 10, 2005, by and between China Natural Gas., Inc. and Qinan Ji (incorporated herein by reference to the exhibits to the Registrant's Form 10-K/A filed on July 20, 2009).
10.33	Equity Ownership Transfer Agreement, dated October 2, 2008, by and between Xi'an Xilan Natural Gas Co., Ltd., Zhihe Zhang and Lingjun Hu (incorporated by reference to the Registrant's Form 8-K filed on December 31, 2008).
10.34	Joint Venture Agreement dated July 22, 2009 by and between Xi'an Xilan Natural Gas Co., Ltd. and China National Petroleum Corporation Kunlun Natural Gas Co., Ltd. (incorporated by reference to the Registrant's Form 8-K filed on July 28, 2009).
10.35	Strategic Cooperation Framework Agreement dated as of July 6, 2009 by and between Xi'an Xilan Natural Gas Co., Ltd. and China National Petroleum Corporation Kunlun Natural Gas Co., Ltd. (incorporated by reference to the Registrant's Form 8-K filed on July 8, 2009).
14.1	Code of Ethics adopted by the Company on June 14, 2006 (incorporated by reference to the exhibits to Registrant's Form 8-K filed on June 16, 2006).
16.1	Letter of Moore Stephens Wurth Frazer and Torbet, LLP dated January 7, 2010 (incorporated by reference to the exhibits to Registrant's Form 8-K filed on January 7, 2010).
21.1**	List of Subsidiaries.
23.1	Written consent of Moore Stephens Wurth Frazer and Torbet, LLP (incorporated by reference to the exhibits to Registrant's Form S-3/A filed on July 2, 2009).

23.2	Written consent of Kabani & Company, Inc. (incorporated by reference to the exhibits to Registrant's Form S-3/A filed on July 2, 2009).
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)

* Filed herewith
** Filed with the Original Filing

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 30, 2010

CHINA NATURAL GAS, INC.

/s/ Qinan Ji	/s/ David She
Name: Qinan Ji	Name: David She
Title: Chief Executive Officer	Title: Acting Chief Financial Officer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf of the registrant and in the capacities and on the dates indicated.

/s/ Qinan Ji Qinan Ji	President and Chief Executive Officer and Director (Principal Executive Officer)	September 30, 2010
/s/ Zhiqiang Wang Zhiqiang Wang	Director	September 30, 2010
/s/ Donald Yang Donald Yang	Director	September 30, 2010
/s/ David She David She	Acting Chief Financial Officer (Principal Financial and Accounting Officer)	September 30, 2010
/s/ Carl Yeung Carl Yeung	Director	September 30, 2010
/s/ Lawrence Leighton Lawrence Leighton	Director	September 30, 2010

CHINA NATURAL GAS, INC.
AND SUBSIDIARIES

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
China Natural Gas, Inc.

We have audited the accompanying consolidated balance sheets of China Natural Gas, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income and other comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. China Natural Gas, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Natural Gas, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Natural Gas, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2010, except for the effects of the material weaknesses described in the six paragraph of that report, as to which the date is September 30, 2010, expressed an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Frazer Frost, LLP (Successor Entity of Moore Stephens Wurth Frazer and Torbet, LLP, see Form 8-K filed on January 7, 2010)

Brea, California
March 10, 2010, except for the effects on the consolidated financial statements of the restatement described in Note 2 and 15, as to which the date is September 30, 2010

CHINA NATURAL GAS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 and 2008

	2009 (As Restated see Note 2)	2008
ASSETS		
CURRENT ASSETS:		
Cash & cash equivalents	$ 48,177,794	$ 5,854,383
Accounts receivable, net of allowance for doubtful accounts of $163,280 and $0 as of December 31, 2009 and 2008, respectively	1,289,116	906,042
Other receivable	709,741	60,784
Other receivable - employee advances	338,689	332,263
Inventories	841,837	519,739
Advances to suppliers	596,868	837,592
Prepaid expense and other current assets	1,076,915	777,510
Loan receivable	293,400	293,400
Total current assets	53,324,360	9,581,713
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	1,467,000	-
PROPERTY AND EQUIPMENT, NET	72,713,012	76,028,272
CONSTRUCTION IN PROGRESS	52,918,236	22,061,414
DEFERRED FINANCING COSTS	1,336,998	1,746,830
OTHER ASSETS	15,854,910	8,844,062
TOTAL ASSETS	$ 197,614,516	$ 118,262,291
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 2,081,261	$ 800,013
Other payables	80,788	124,151
Unearned revenue	1,813,641	944,402
Accrued interest	786,052	861,114
Taxes payable	1,901,577	1,862,585
Total current liabilities	6,663,319	4,592,265
LONG TERM LIABILITIES:		
Notes payable, net of discount of $12,707,713 and $15,478,395 as of December 31, 2009 and 2008, respectively	27,292,287	24,521,605
Derivative liabilities - warrants	19,545,638	17,500,000
Total long term liabilities	46,837,925	42,021,605
Total liabilities	53,501,244	46,613,870
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		

Preferred stock, $0.0001 per share; 5,000,000 shares authorized; none issued	-	-
Common stock, $0.0001 per share; 45,000,000 shares authorized, 21,183,904 shares and 14,600,154 shares issued and outstanding at December 31, 2009 and 2008, respectively	2,118	1,460
Additional paid-in capital	79,851,251	32,115,043
Accumulative other comprehensive gain	8,714,019	8,661,060
Statutory reserves	5,962,695	3,730,083
Retained earnings	49,583,189	27,140,775
Total stockholders' equity	144,113,272	71,648,421
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 197,614,516	$ 118,262,291

The accompanying notes are an integral part of these consolidated statements.
See report of independent registered public accounting firm.

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CHINA NATURAL GAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Years Ended December 31, 2009	2008	2007
Revenues			
Natural gas revenue	$ 62,236,342	$ 55,746,893	$ 28,278,033
Gasoline revenue	6,384,172	4,616,052	38,486
Installation and others	12,445,604	7,357,714	7,075,534
Total revenues	81,066,118	67,720,659	35,392,053
Cost of revenues			
Natural gas cost	29,478,854	27,234,508	14,838,997
Gasoline cost	5,993,207	4,277,458	34,747
Installation and others	5,432,978	3,469,671	3,151,331
Total cost of revenues	40,905,039	34,981,637	18,025,075
Gross profit	40,161,079	32,739,022	17,366,978
Operating expenses			
Selling expenses	9,566,387	7,651,948	3,451,161
General and administrative expenses	5,541,885	4,024,882	2,837,768
Total operating expenses	15,108,272	11,676,830	6,288,929
Income from operations	25,052,807	21,062,192	11,078,049
Non-operating income (expense):			
Interest income	125,287	209,502	70,697
Interest expense	(747,172)	(2,228,244)	-
Other income (expense), net	(186,805)	111,859	31,976
Change in fair value of warrants	(1,031,330)	-	-
Foreign currency exchange loss	(69,077)	(397,299)	(150,729)
Total non-operating expense	(1,909,097)	(2,304,182)	(48,056)
Income before income tax	23,143,710	18,758,010	11,029,993
Provision for income tax	4,312,923	3,567,642	1,913,923
Net income	18,830,787	15,190,368	9,116,070
Other comprehensive income			
Foreign currency translation gain	52,959	5,184,035	2,637,573
Comprehensive income	$ 18,883,746	$ 20,374,403	$ 11,753,643
Weighted average shares outstanding			
Basic	16,624,294	14,600,154	13,100,340
Diluted	16,830,907	14,645,070	13,150,901

Earnings per share						
Basic	$	1.13	$	1.04	$	0.70
Diluted	$	1.12	$	1.04	$	0.69

The accompanying notes are an integral part of these consolidated statements.
See report of independent registered public accounting firm.

CHINA NATURAL GAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulative Other Comprehensive Gain	Retained Earnings Statutory Reserve	Unrestricted	Total Stockholders' Equity
Balance December 31, 2006	12,105,093	$ 1,211	$ 18,225,121	$ 839,452	$ 750,886	$ 5,813,534	$ 25,630,204
Shares issued for cash, at $3.25	2,307,693	231	14,999,769				15,000,000
Offering Costs			(1,176,533)				(1,176,533)
Cashless exercise of warrants	187,368	18	(18)				-
Cumulative translation adjustment				2,637,573			2,637,573
Net Income						9,116,070	9,116,070
Transfer to statutory reserve					1,051,849	(1,051,849)	-
Balance December 31, 2007	14,600,154	$ 1,460	$ 32,048,339	$ 3,477,025	$ 1,802,735	$ 13,877,755	$ 51,207,314
Options issued for services			66,704				66,704
Cumulative translation adjustment				5,184,035			5,184,035
Net Income						15,190,368	15,190,368
Transfer to statutory reserve					1,927,348	(1,927,348)	-
Balance December 31, 2008	14,600,154	$ 1,460	$ 32,115,043	$ 8,661,060	$ 3,730,083	$ 27,140,775	$ 71,648,421
Reclassification of warrants from equity to derivative liabilities			(6,858,547)			5,844,239	(1,014,308)
Stock issuance for cash at $ 8.75	6,583,750	658	57,607,155				57,607,813
Offering costs			(3,237,452)				(3,237,452)
Options issued for services			66,535				66,535

Stock based compensation			158,517				158,517
Cumulative translation adjustment				52,959			52,959
Net Income						18,830,787	18,830,787
Transfer to statutory reserve					2,232,612	(2,232,612)	-
Balance December 31, 2009	21,183,904	$ 2,118	$ 79,851,251	$ 8,714,019	$ 5,962,695	$ 49,583,189	$ 144,113,272

The accompanying notes are an integral part of these consolidated statements.
See report of independent registered public accounting firm.

CHINA NATURAL GAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 18,830,787	$ 15,190,368	$ 9,116,070
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,571,772	3,474,905	1,639,685
Loss on disposal of equipment	21,373	24,806	-
Amortization of discount on senior notes	280,250	1,004,677	-
Amortization of financing costs	63,940	227,989	-
Options issued for services	66,535	66,704	-
Stock based compensation	158,517	-	-
Change in fair value of warrants	1,031,330	-	-
Change in assets and liabilities:			
Accounts receivable	(387,948)	(568,370)	290,660
Other receivable	(644,083)	247,349	36,929
Other receivable - employee advances	(6,425)	(55,747)	-
Inventories	(322,099)	(267,470)	71,226
Advances to suppliers	240,724	(125,896)	245,514
Prepaid expense and other current assets	(306,445)	(642,857)	(11,113)
Accounts payable and accrued liabilities	45,888	275,929	28,531
Other payables	(43,362)	63,239	(208,669)
Unearned revenue	869,239	583,940	22,425
Accrued interest	(75,062)	861,114	-
Taxes payable	38,991	556,121	(754,817)
Net cash provided by operating activities	25,433,922	20,916,801	10,476,441
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment on investment in unconsolidated joint ventures	(1,467,000)	-	-
Purchase of property and equipment	(1,074,066)	(43,225,673)	(14,180,053)
Proceeds from sales of equipment	41,325	194,891	-
Proceeds from (purchases of) short term investments	-	250,821	(229,106)
Additions to construction in progress	(28,020,498)	(19,012,750)	(519,309)
Prepayment on long term assets	(6,139,766)	(5,729,833)	(1,914,343)
Return of acquisition deposit	(283,200)	-	-
Payment for intangible assets	(161,486)	(53,826)	-
Payment for land use rights	(432,566)	(30,354)	(42,529)
Net cash used in investing activities	(37,537,257)	(67,606,724)	(16,885,340)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Stock issued for cash	57,607,813	-	15,000,000
Proceeds from senior notes	-	40,000,000	-
Payment for offering costs	(3,237,454)	(2,122,509)	(1,176,533)
Net cash provided by financing activities	54,370,359	37,877,491	13,823,467

Effect of exchange rate changes on cash and cash equivalents	56,387	1,375,086	582,948
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	42,323,411	(7,437,346)	7,997,516
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	5,854,383	13,291,729	5,294,213
CASH & CASH EQUIVALENTS, END OF YEAR	$ 48,177,794	$ 5,854,383	$ 13,291,729
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid, net of capitalized interest	$ 503,845	$ 902,777	$ -
Income taxes paid	$ 4,178,066	$ 2,998,627	$ 2,387,487
Non-cash transactions for investing and financing activities:			
Interest capitalized to construction in progress from amortization of discount on senior notes and financing costs	$ 2,836,324	$ 1,164,618	$ -
Purchase of equipment through accounts payable	$ 1,234,603	$ -	$ -
Construction in progress transferred to property and equipment	$ -	$ 823,464	$ -
Prepayment on long term assets transferred to property and equipment	$ -	$ 405,630	$ -

The accompanying notes are an integral part of these consolidated statements.
See report of independent registered public accounting firm.

China Natural Gas, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2009

Note 1 - Organization

Organization and Line of Business

China Natural Gas, Inc. (the "Company" or "CHNG") was incorporated in the state of Delaware on March 31, 1999. The Company through its wholly-owned subsidiaries and variable interest entities, located in Shaanxi and Henan Province in the People's Republic of China ("PRC"), engages in sales and distribution of natural gas and gasoline to commercial, industrial and residential customers, construction of pipeline networks, installation of natural gas fittings and parts for end-users, and modification of automobiles services for vehicles to be able to use natural gas.

Recent Developments

On October 27, 2009, the Company through its variable interest entity, Xi'an Xilan Natural Gas Co., Ltd. ("XXNGC") formed Henan CNPC Kunlun Xilan Compressed Natural Gas Co., Ltd. ("JV") as a joint venture with China National Petroleum Corporation Kunlun Natural Gas Co., Ltd. ("CNPC Kunlun"), with registered capital of $7,335,000 in Henan province, PRC. The JV was established to build and operate compressed natural gas ("CNG") compressor stations and fueling stations, sell CNG, provide vehicle conversion services from gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles and technical advisory work services in Henan, PRC. CNPC Kunlun will hold 51% ownership of the JV, and XXNGC will hold 49% ownership.

On October 27, 2009, CHNG formed Xilan Energy Co., Ltd. ("XEC") as a wholly owned limited liability company, with authorized capital of $5,000,000 in Hong Kong. XEC was established for the purpose of importing liquid natural gas ("LNG") into PRC.

On December 17, 2009, the Company through its variable interest entity, Xi'an Xilan Natural Gas Co., Ltd. ("XXNGC") formed Hubei Xilan Natural Gas Co., Ltd. ("HBXNGC") as a wholly owned limited liability company, with registered capital of $1,467,000 in Hubei province, PRC. HBXNGC was established to construct harbor LNG fueling stations and ships in Hubei, PRC.

Note 2- Restatement of Previously Reported Consolidated Financial Statement

On August 20, 2010, the Company restated its annual consolidated financial statements as of December 31, 2009. The Company is hereby restating its annual consolidated financial statements as of December 31, 2009 to reverse the August 20, 2010 restatement in relation to the classification of the senior notes payable and the fair value of the redeemable warrants as well as the disclosures related to the violation of the Indenture.

The Company's Audit Committee made a decision to restate the consolidated financial statements to reverse the August 20, 2010 restatement upon the recommendation of the board of directors and management and following the confirmation by two different independent law firms that the opinion on which the Company had previously relied – the basis of its conclusion that the August 20, 2010 restatement was necessary – was incorrect. The general nature and scope of the errors and adjustments are summarized as follows:

(1) Reverse of reclassification of senior notes payable—— on February 26, 2010, the Company entered into a bank loan of $17.7 million with Pudong Development Bank Xi'an Branch ("SPDB") (the "Bank Loan"). The loan is secured by the Company's variable interest entity Xi'an Xilan Natural Gas Co., Ltd.'s ("XXNGC") equipment and vehicles located within the PRC. The Company was entitled to borrow amounts under the loan

between March 1, 2010 to June 30, 2010. In connection with the Bank Loan, XXNGC pledged its equipment and vehicles located in PRC to secure the Bank Loan (the "Pledge") and guaranteed the repayment of the Bank Loan. The original opinion on which the Company relied when concluding that the August 20, 2010 restatement was necessary indicated that the Pledge was prohibited by the Indenture for the Company's 5% Guaranteed Senior Note issued to Abax Lotus Ltd., ("Abax") dated January 26, 2008 (the "Senior Notes"). As a result, the Company believed that Abax had the right to declare a default under the Indenture and could thereafter accelerate the Senior Notes, and consequently, that the Company was required to reclassify from long term liabilities to short term liabilities the Senior Notes. Subsequent to the August 20, 2010 restatement, management of the Company internally revisited the analysis of whether the Pledge was indeed prohibited by the Indenture and determined that it was not. The Company engaged two additional independent law firms who reviewed and confirmed this determination. As a result, the Company reverses the August 20, 2010 reclassification of the Senior Notes in an amount of $28 million from long term liabilities to short term liabilities.

(2) Reverse of reclassification of fair value of the redeemable warrants—— in connection with the Senior Notes, the Company issued certain warrants to purchase the Company's common stock pursuant to a Warrant Agreement and Warrant Certificates. Under the terms of the Warrant Agreement, in the event of a default under the Indenture for the Senior Notes, the warrant holders are entitled to require the Company to redeem the warrants for a price equal to the pro rata portion of the aggregate redemption price of $17,500,000 applicable to the warrants tendered by such holders. As described above, in connection with the August 20, 2010 restatement, the Company believed the Pledge was prohibited by the Indenture and that Abax had a right to declare an event of default under the Indenture. Accordingly, the Company also believed that the warrant holders were entitled to require the Company to redeem their warrants and, consequently, that the Company was required to reclassify from long term liabilities to short term liabilities the fair value of the redeemable warrants. As a result of the Company's conclusion that the Pledge was not prohibited by the Indenture, the Company reverses the August 20, 2010 reclassification of the warrants in an amount of $17.5 million from long term liabilities to short term liabilities.

The following tables present the adjustments due to the restatements of the Company's previously issued consolidated balance sheet as of December 31, 2009 and the financing activities

	Consolidated Balance Sheet December 31, 2009			
	Previously Reported		Adjustments	As Restated
ASSETS				
CURRENT ASSETS:				
Cash & cash equivalents	$ 48,177,794		$	$ 48,177,794
Accounts receivable,	1,289,116			1,289,116
Other receivable	709,741			709,741
Other receivable - employee advances	338,689			338,689
Inventories	841,837			841,837
Advances to suppliers	596,868			596,868
Prepaid expense and other current assets	1,076,915			1,076,915
Loan receivable	293,400			293,400
Total current assets	53,324,360			53,324,360
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	1,467,000			1,467,000
PROPERTY AND EQUIPMENT, NET	72,713,012			72,713,012
CONSTRUCTION IN PROGRESS	52,918,236			52,918,236
DEFERRED FINANCING COSTS	1,336,998			1,336,998
OTHER ASSETS	15,854,910			15,854,910
TOTAL ASSETS	$ 197,614,516			$ 197,614,516
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	$ 2,081,261			$ 2,081,261
Other payables	80,788			80,788
Unearned revenue	1,813,641			1,813,641
Accrued interest	786,052			786,052
Taxes payable	1,901,577			1,901,577
Notes Payable	27,292,287	(1)	(27,292,287)	-
Redeemable liabilities- warrants	17,500,000	(2)	(17,500,000)	-
Total current liabilities	51,455,606		(44,792,287)	6,663,319
LONG TERM LIABILITIES:				
Notes payable	-	(1)	27,292,287	27,292,287
Derivative liabilities - warrants	2,045,638	(2)	17,500,000	19,545,638
Total long term liabilities	2,045,638		44,792,287	46,837,925
TOTAL LIABILITIES	53,501,244		-	53,501,244
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY:				
Preferred stock	-			-
Common stock	2,118			2,118
Additional paid-in capital	79,851,251			79,851,251
Accumulative other comprehensive gain	8,714,019			8,714,019

Statutory reserves	5,962,695	5,962,695
Retained earnings	49,583,189	49,583,189
	144,113,272	144,113,272
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 197,614,516	$ 197,614,516

Note 3 – Summary of Significant Accounting Policies

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 Company's reporting currency is the United States Dollar ("USD"); therefore, the accompanying consolidated financial statements have been translated and presented in USD.

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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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of China Natural Gas, Inc. and its wholly owned subsidiaries, Shaanxi Xilan Natural Gas Equipment Co., Ltd ("SXNGE"), Xilan Energy Co., Ltd. ("XEC") and its 100% variable interest entities ("VIE"), Xi'an Xilan Natural Gas Co. Ltd. ("XXNGC"), Shaanxi Jingbian Liquefied Natural Gas Co., Ltd. ("SJLNG,"), Shaanxi Xilan Auto Bodyshop Co., Ltd. ("SXABC"), Henan Xilan Natural Gas Co., Ltd. ("HXNGC"), Lingbao Yuxi Natural Gas Co., Ltd. ("LBNGC"), and Hubei Xilan Natural Gas Co., Ltd. ("HBXNGC"). All inter-company accounts and transactions have been eliminated in the consolidation.

Consolidation of Variable Interest Entity

In accordance with Financial Accounting Standards Board's ("FASB") accounting standard regarding consolidation, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

On February 21, 2006, the Company formed SXNGE as a wholly-owned foreign enterprise (WOFE). Then through SXNGE, the Company entered into exclusive arrangements with XXNGC and its shareholders that give the Company the ability to substantially influence XXNGC's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. The Company memorialized these arrangements on August 17, 2007 and made retroactive to March 8, 2006. As a result, the Company consolidates the financial results of XXNGC as VIE .The arrangements consist of the following agreements:

a. XXNGC holds the licenses and approvals necessary to operate its natural gas business in China.

b. SXNGE provides exclusive technology consulting and other general business operation services to XXNGC in return for a consulting services fee which is equal to XXNGC's revenue.

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c. XXNGC' shareholders have pledged their equity interests in XXNGC to the Company.

d. Irrevocably granted the Company an exclusive option to purchase, to the extent permitted under PRC law, all or part of the equity interests in XXNGC and agreed to entrust all the rights to exercise their voting power to the person appointed by the Company.

On August 8, 2008, the Company through SXNGE entered into an Addendum to Option Agreement with Mr. Qinan Ji, chairman and shareholder of XXNGC, and each of the shareholders of XXNGC (hereafter collectively referred to as the "Transferor"), and made retroactive to June 30, 2008. According to the Agreement, the Chairman and the Shareholders of XXNGC irrevocably grants to SXNGE an option to purchase each Transferor's Purchased Equity Interest at $1.00 or the lowest price permissible under the applicable laws at the time that SXNGE exercises the Option. The Agreement limits XXNGC and the transferors' right to make all equity interest related decisions.

Foreign Currency Translation

As of December 31, 2009 and 2008, the accounts of the Company were maintained, and their consolidated financial statements were expressed in RMB. Such consolidated financial statements were translated into USD in accordance with an accounting standard issued by the FASB, with the RMB as the functional currency. All assets and liabilities were translated at the exchange rate as of the balance sheet date, stockholders' equity were translated at the historical rates and statement of income and cash flow items were translated at the weighted average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income. Cash flows from the Company's operations are calculated based upon the local currencies and translated to USD at average translation rates for the period. As a result, translation adjustments amount related to assets and liabilities reported on the consolidated statement of cash flows will not necessarily agree with changes in the corresponding consolidated balances on the balance sheet.

The balance sheet amounts with the exception of equity at December 31, 2009, were translated 6.82 RMB to $1.00 as compared to 6.82 RMB at December 31, 2008. The equity accounts were stated at their historical rate. The average translation rates applied to income and cash flow statement amounts for the years ended December 31, 2009, 2008 and 2007, were 6.82 RMB, 6.94 RMB, and 7.59 RMB to $1.00, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits in accounts maintained with state-owned banks within the PRC, Hong Kong and the United States. The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

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Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash. The Company maintains balances at financial institutions which, from time to time, may exceed Hong Kong Deposit Protection Board ("HKDPB") insured limits for the banks located in Hong Kong or may exceed Federal Deposit Insurance Corporation ("FDIC") insured limits for the banks located in the United States. Balances at financial institutions or state-owned banks within the PRC are not covered by insurance. As of December 31, 2009 and 2008, the Company had total deposits of $47,459,560 and $5,604,383 without insurance coverage or in excess of HKDPB or FDIC or HKDPB insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

Accounts Receivable

Accounts receivable are netted against an allowance for uncollectible accounts, as needed. 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 in the period of the related sales. Delinquent account balances are written-off after management has determined that the likelihood of collection is not probable, and known bad debts are written off against allowance for doubtful accounts when identified. The Company recorded allowance for bad debts of $163,280 and $0 as of December 31, 2009 and 2008.

Other Receivable

Other receivable mainly include security deposit for equipments storage. This security deposit will be refunded to the Company after the equipments are removed from the storage area for construction.

Other Receivable – Employee Advances

From time to time, the Company advances predetermined amounts based upon internal Company policy to certain employees and internal units to ensure certain transactions are performed in a timely manner. The Company has full oversight and control over the advanced accounts. As of December 31, 2009 and 2008, no allowance for the uncollectible accounts was deemed necessary.

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 an allowance is made for writing down the inventories to their market value, if lower. Inventory consists of material used in the construction of pipelines and material used in repairing and modifying vehicles. Inventory also consists of gasoline.

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The following are the details of the inventories:

	December 31, 2009	December 31, 2008
Materials and supplies	$ 345,611	$ 318,069
Gasoline	496,226	201,670
	$ 841,837	$ 519,739

Advances to Suppliers

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

Loan Receivable

Loan receivable consists of the following:

	December 31, 2009	December 31, 2008
Shanxi Yuojin Mountain Mining Company, due on November 30, 2009, extended to November 30, 2010, annual interest at 5.84%	$ 293,400	$ 293,400

Investments in Unconsolidated Joint Ventures

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an Investee depends on an evaluation of several factors including, among others, representation on the Investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the Investee company. Under the equity method of accounting, an Investee company's accounts are not reflected within the Company's consolidated balance sheets and statements of income and other comprehensive income; however, the Company's share of the earnings or losses of the Investee company is reflected in the caption "Earnings (loss) on equity investment" in the consolidated statements of income and other comprehensive income. The Company's carrying value in an equity method Investee company is reflected in the caption "Investments in Unconsolidated Joint Ventures" in the Company's consolidated balance sheets.

When the Company's carrying value in an equity method Investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company guaranteed obligations of the Investee company or has committed additional funding. When the Investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

The Company's investment in unconsolidated joint ventures that are accounted for on the equity method of accounting represents the 49% interest in Henan CNPC Kunlun Xilan Compressed Natural Gas Co., Ltd. ("JV"), which is engaged in building and operating CNG compressor stations and fueling stations, sell CNG, provide vehicle conversion services from gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles and technical advisory work services in Henan, PRC. The investment in this company amounted to $1,467,000 and $0 at December 31, 2009 and 2008, respectively. The JV does not have any operations as of December 31, 2009.

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The results of financial position of the JV as of December 31, 2009 are summarized below:

		2009
Condensed balance sheet information:		
Current assets	$	2,993,878
Noncurrent assets		-
Total assets	$	2,993,878
Current liabilities		-
Noncurrent liabilities		-
Equity	$	2,993,878
Total liabilities and equity	$	2,993,878

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred while 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 and improvements	5-30 years

The following are the details of the property and equipment:

	December 31, 2009	December 31, 2008
Office equipment	$ 439,055	$ 412,490
Operating equipment	61,350,503	59,473,283
Vehicles	2,486,614	2,414,756
Buildings and improvements	21,414,553	21,190,599
Total property and equipment	85,690,725	83,491,128
Less accumulated depreciation	(12,977,713)	(7,462,856)
Property and equipment, net	$ 72,713,012	$ 76,028,272

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was $5,565,608, $3,473,429 and $1,639,685, respectively.

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Construction in Progress

Construction in progress ("CIP") consists of the cost of constructing property and equipment for the Company's gas stations and a new project of processing, distribution and sale of LNG. The major cost of construction in progress relates to technology licensing fees, equipment purchases, land use rights requisition cost, capitalized interest and other construction fees. No depreciation is provided for construction in progress until such time as the assets are completed and placed into service. Interest incurred during construction is capitalized into construction in progress. All other interest is expensed as incurred.

As of December 31, 2009 and 2008, the Company had construction in progress in the amount of $52,918,236 and $22,061,414, respectively. Interest cost capitalized into construction in progress for the years ended December 31, 2009, 2008 and 2007, amounted to $4,597,544, $1,932,931 and $0, respectively.

Construction in progress at December 31, 2009 consisted of the following:

No.	Project Description	Location	December 31, 2009	Commencement Date	Expected completion date	Estimated additional cost to complete
1	Jingbian LNG (1)	JBLNG	$ 44,411,503	Dec-06	Jun-10	$ 11,150,000
2	Sa Pu mother station	HXNGC	814,822	Jul-08	Jun-11	6,300,000
3	Zijing Energy mother station	XXNGC	4,213,074	Sep-08	Mar-10	513,450
4	Xi'an Cangsheng mother station	XXNGC	1,891,584	Sep-08	May-11	3,227,400
5	Other CIP projects	XXNGC	1,587,253	Various	Various	450,000
			$ 52,918,236			$ 21,640,850

(1) Phase I of the LNG project cost $48,963,000 to construct and the additional $6,598,503 represent costs incurred in connection with phase II and phase III of the LNG plant

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Long-Lived Assets

The Company evaluates at least annually, more often when circumstances require, the carrying value of long-lived assets to be held and used. 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. Based on its review, the Company believes that, as of December 31, 2009, there were no significant impairments of its long-lived assets.

Unearned Revenue

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

Fair Value of Financial Instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement, and enhance disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for current receivables and payables qualify as financial instruments. Management concluded the carrying values are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and if applicable, their stated interest rate approximates current rates available. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

FASB accounting standard regarding derivatives and hedging specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company’s own stock and (b) classified in stockholders’ equity in the statement of financial position would not be considered a derivative financial instrument. This FASB accounting standard also provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the exception.

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As a result of adopting this FASB accounting standard, 383,654 warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the strike price of the warrants is denominated in US dollar, a currency other than the Company's functional currency, the Chinese Renminbi. As a result, the warrants are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire.

As such, effective January 1, 2009, the Company reclassified the fair value of these warrants from equity to liability, as if these warrants were treated as a derivative liability since their issuance in October 2007. On January 1, 2009, the Company reclassified from additional paid-in capital, as a cumulative effect adjustment, $5,844,239 to beginning retained earnings and $1,014,308 to warrant liabilities to recognize the fair value of such warrants. The fair value of the warrants was $2,045,638 on December 31, 2009. The Company recognized a $1,031,330 loss from the change in fair value of warrants for the year ended December 31, 2009.

These common stock purchase warrants do not trade in an active securities market, and as such, we estimate the fair value of these warrants using the Black-Scholes Option Pricing Model using the following assumptions:

	December 31, 2009		January 1, 2009	
Annual dividend yield	-		-	
Expected life (years)	2.82		3.82	
Risk-free interest rate	1.49	%	1.13	%
Expected volatility	90	%	90	%

Expected volatility is based on historical volatility. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the warrants. The Company believes this method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants. The Company has no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Depending on the product and the terms of the transaction, the fair value of the derivative liabilities were modeled using a series of techniques, including closed-form analytic formula, such as the Black-Scholes Option Pricing Model, which does not entail material subjectivity because the methodology employed does not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets.

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The following table sets forth by level within the fair value hierarchy of the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009.

	Carrying Value at December 31, 2009	Fair Value Measurement at December 31, 2009 Level 1	Level 2	Level 3
Senior notes	27,292,287			35,366,128
Redeemable liability - warrants	17,500,000			15,308,170
Derivative liability - warrants	2,045,638	-	2,045,638	-
Total liability measured at fair value	$ 46,837,925	$ -	$ 2,045,638	$ 50,674,298

Other than the derivative liabilities - warrants carried at fair value, the Company did not identify any other assets and liabilities that are required to be presented on the balance sheet.

Revenue Recognition

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 collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue. Revenue from gas and gasoline sales is recognized when gas and gasoline is pumped through pipelines to the end users. Revenue from 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. Revenue from repairing and modifying vehicles is recorded when services are rendered to and accepted by the customers.

Enterprise Wide Disclosure

The Company's chief operating decision-makers (i.e. chief executive officer and his direct reports) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by business lines for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Based on qualitative and quantitative criteria established by the FASB's accounting standard for segment reporting, the Company considers itself to be operating within one reportable segment.

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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 years ended December 31, 2009, 2008 and 2007, were insignificant.

Stock-Based Compensation

The Company records and reports stock-based compensation pursuant to FASB's accounting standard regarding stock compensation which defines a fair-value-based method of accounting for stock-based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with this accounting standard, as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured.

Income Taxes

FASB's accounting standard regarding income taxes 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 temporary 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 December 2009 and 2008, 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. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no affect on the Company's consolidated financial statements.

Local PRC Income Tax

The Company's subsidiary and VIEs operate in China. Starting January 1, 2008, pursuant to the tax laws of China, general enterprises are subject to income tax at an effective rate of 25% compared to 33% prior to 2008. The Company's VIE, XXNGC, 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, except for income from SXNGE, JBLNG, SXABC, HXNGC, LBNGC and HBXNGC which subjects to 25% PRC income tax rate, XXNGC's income is subject to a reduced tax rate of 15%. A reconciliation of tax at the United States federal statutory rate to the provision for income tax recorded in the financial statements is as follows:

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	For the years ended December 31		
	2009	2008	2007
Tax provision (credit) at statutory rate	34%	34%	34%
Foreign tax rate difference	(9)%	(9)%	(1)%
Effect of favorable tax rate	(9)%	(9)%	(17)%
Other item (1)	3%	3%	1%
Total provision for income taxes	19%	19%	17%

(1) The 3% represents $3,444,173 in expenses incurred by CHNG that are not deductible in PRC for the year ended December 31, 2009. The 4% represents $3,661,932 expenses incurred by CHNG that are not deductible in PRC for the year ended December 31, 2008. The 1% represents $949,652 expenses incurred by CHNG that are not deductible in PRC for the year ended December 31, 2007.

The estimated tax savings for the years ended December 31, 2009, 2008 and 2007, amounted to approximately $2,410,928, $2,195,871 and $2,174,806, respectively. The net effect on earnings per share, had the income tax been applied, would decrease basic earnings per share for the years ended December 31, 2009, 2008 and 2007, from $1.13 to $0.99, $1.04 to $0.86, and $0.70 to $0.52, respectively. The net effect on earnings per share, had the income tax been applied, would decrease diluted earnings per share for the years ended December 31, 2009, 2008 and 2007, from $1.12 to $0.98, $1.04 to $0.86, and $0.69 to $0.52, respectively.

China Natural Gas, Inc. was incorporated in the United States and has incurred net operating loss for income tax purpose for the period ended December 31, 2009. The estimated net operating loss carry forwards for United States income tax purposes amounted to $3,232,855 and $1,657,473 as of December 31, 2009 and 2008, respectively, which may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized, beginning in 2027 through 2029. Management believes that the realization of the benefits arising from this loss appear to be uncertain due to Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at December 31, 2009. Management reviews this valuation allowance periodically and makes adjustments as warranted. The valuation allowances were as follow:

	For the years ended December 31,		
Valuation allowance	2009	2008	2007
Balance, beginning of period	$ 563,541	$ 322,614	$ -
Increase	535,630	240,927	322,614
Balance, end of period	$ 1,099,171	$ 563,541	$ 322,614

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The Company has cumulative undistributed earnings of foreign subsidiaries of approximately $30,658,764 as of December 31, 2009, which is included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

Value added tax

Sales revenue represents the invoiced value of goods, net of a value-added tax ("VAT"). All of the Company's variable interest entity XXNGC's products that are sold in the PRC are subject to a Chinese value-added tax at a rate of 13% of the gross sales price. This VAT may be offset by VAT paid by the XXNGC on raw materials and other materials included in the cost of producing their finished product. XXNGC recorded VAT payable and VAT receivable net of payments in the financial statements. The VAT tax return is filed offsetting the payables against the receivables.

All revenues from SXABC are subject to a Chinese VAT at a rate of 6%. This VAT cannot offset with VAT paid for materials included in the cost of revenues.

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the FASB's accounting standard regarding earnings per share. Basic net earnings per share is based upon the weighted average number of common shares outstanding. Diluted net earnings per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

All share and per share amounts used in the Company's consolidated financial statements and notes thereto have been retroactively restated to reflect the 1-for-2 reverse stock split, which were effective on April 28, 2009.

Recently issued accounting pronouncements

In January 2009, the FASB's accounting standard regarding other investments providing additional guidance which amended the impairment model to remove the exclusive reliance on "market participant" estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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In April 2009, the FASB's accounting standard regarding fair value measurements and disclosures providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly for fair value measurements. This guidance shall be applied prospectively with retrospective application not permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB's accounting standard regarding debt and equity securities requires to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This guidance will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This guidance provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this guidance does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued an accounting standard that requires disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this guidance, fair values for these assets and liabilities were only disclosed annually. This guidance applies to all financial instruments and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This guidance is effective for the Company beginning in 2010. Should the Company's accounts receivable securitization programs not qualify for sale treatment under the revised rules, future securitization transactions entered into on or after January 1, 2010 would be classified as debt and the related cash flows would be reflected as a financing activity. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB updated an accounting standard regarding consolidation guidance which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. This guidance requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. This guidance also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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In August 2009, the FASB issued an Accounting Standards Update ("ASU") regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued an ASU regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements .

In November 2009, the FASB issued an ASU regarding accounting for stock dividends, including distributions to shareholders with components of stock and cash. This ASU clarifies that the stock portion of a distribution to shareholders that contains components of cash and stock and allows shareholders to select their preferred form of the distribution (with a limit on the amount of cash that will be distributed in total) should be considered a stock dividend and included in EPS calculations as a share issuance. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140. The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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In December, 2009, FASB issued ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

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In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Note 4 – Other Assets

Other assets consisted of the following:

	December 31, 2009	December 31, 2008
Prepaid rent – natural gas stations	$ 340,211	$ 272,635
Prepayment for acquiring land use right	1,936,440	1,060,675
Advances on purchasing equipment and construction in progress	12,056,964	6,427,974
Refundable security deposits	1,264,283	981,083
Others	257,012	101,695
Total	$ 15,854,910	$ 8,844,062

All land in the PRC is government owned. However, the government grants users land use rights. As of December 31, 2009 and 2008, the Company prepaid $1,936,440 and $1,060,675, respectively, to the PRC local government to purchase land use rights. The Company is in the process of negotiating the final purchase price with the local government and the land use rights have not yet been granted to the Company. Therefore, the Company did not amortize the prepaid land use rights.

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Advances on the purchase of equipment and construction in progress are monies deposited or advanced to outside vendors/subcontractors for the purchase of operating equipment or for services to be provided for constructions in progress.

Refundable security deposits are monies deposited with one of the Company's major vendors and gas station landlord. These amounts will be returned to the Company if they terminate the business relationship or at the end of the lease.

Note 5 – Senior Notes Payable

On December 30, 2007, the Company entered into a Securities Purchase Agreement with Abax Lotus Ltd. (the "Investor"). The Purchase Agreement was subsequently amended on January 29, 2008, pursuant to which the Company (i) agreed to issue 5.00% Guaranteed Senior Notes due 2014 (the "Senior Notes") of approximately $20,000,000, (ii) agreed to issue to the Investor Senior Notes in aggregate principal amount of approximately $20,000,000 on or before March 3, 2008 subject to the Company meeting certain closing conditions, (iii) granted the Investor an option to purchase up to approximately $10,000,000 in principal amount of its Senior Notes and (iv) agreed to issue to the Investor seven-year warrants exercisable for up to 1,450,000 shares of the Company's common stock (the "Warrants") at an initial exercise price equal to $14.7304 per share, subject to certain adjustments, which adjusted to $7.3652 on January 29, 2009. On January 29, 2008, the Company issued $20,000,000 Senior Notes and 1,450,000 warrants pursuant to the Purchase Agreement. On March 3, 2008, the Investor exercised its first option for an additional $20,000,000 of Senior Notes. On March 10, 2008, the Company issued $20,000,000 in additional Senior Notes resulting in total Senior Notes of $40,000,000.

At the closing, the Company entered into:

- An indenture for the 5.00% Guaranteed Senior Notes due 2014;
- An investor rights agreement;
- A registration rights agreement covering the shares of common stock issuable upon exercise of the warrants;
- An information rights agreement that grants to the Investor, subject to applicable law, the right to receive certain information regarding the Company;
- A share-pledge agreement whereby the Company granted to the Collateral Agent (on behalf of the holders of the Senior Notes) a pledge on 65% of the Company's equity interest in SXNGE, a PRC corporation and wholly-owned subsidiary of the Company; and
- An account pledge and security agreement whereby the Company granted to the Collateral Agent a security interest in the account where the proceeds from the Senior Notes are deposited.

In addition, Qinan Ji, Chief Executive Officer and Chairman of the Board of the Company, executed a non-compete agreement for the benefit of the Investor.

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The Senior Notes were issued pursuant to an indenture between the Company and DB Trustees (Hong Kong) Limited, as trustee, at the closing. The Senior Notes will mature on January 30, 2014 and will initially bear interest at the stated interest rate of 5.00% per annum, subject to an increase in the event of certain circumstances. The Company is required to make mandatory repayments on the Senior Notes on the following dates and in the following amounts, expressed as a percentage of the aggregate principal amount of Notes that will be outstanding on the first such payment date:

Date	Repayment Percentage
July 30, 2011	8.3333%
January 30, 2012	8.3333%
July 30, 2012	16.6667%
January 30, 2013	16.6667%
July 30, 2013	25.0000%

During the twelve month period commencing January 30 of the years set forth below, the Company may redeem the Senior Notes at the following principal amount:

Year	Principal
2009	$ 43,200,000
2010	42,400,000
2011	41,600,000
2012	40,800,000
2013 and thereafter	40,000,000

Upon the occurrence of certain events defined in the indenture, the Company must offer the holders of the Senior Notes the right to require the Company to purchase the Senior Notes in an amount equal to 105% of the aggregate principal amount purchased plus accrued and unpaid interest on the Senior Notes purchased.

The indenture requires the Company to pay additional interest at the rate of 3.0% per annum of the Senior Notes if the Company has not obtained a listing of its common stock on the Nasdaq Global Market, the Nasdaq Capital Market or the New York Stock Exchange by January 29, 2009 and maintained such listing continuously thereafter as long as the Senior Notes are outstanding. As of January 29, 2009, the Company has not obtained a listing of its common stock on the market stated in the agreement. However, the Company obtained a three-month waiver from ABAX for the additional interest payment. The waiver gives the Company three more months until April 28, 2009 to achieve the uplisting status. By the end of the extended period, if the Company was not able to complete the uplisting, the Company would have to pay additional interest retroactively starting January 30, 2009 in accordance with the terms of the waiver. The Company was approved to be listed on Nasdaq on June 1, 2009, which passed the wavier period. In August 2009, the Company reached an agreement with ABAX that the Company was to pay additional interest accrued for the period from April 29, 2009, the expiration date of previous waiver to June 1, 2009, the date of listing. As such, the Company paid $113,214 additional interest to ABAX in August 2009.

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The indenture limits the Company's ability to incur debt and liens, make dividend payments and stock repurchases, make investments, reinvest proceeds from asset sales and enter into transactions with affiliates, among other things. The indenture also requires the Company to maintain certain financial ratios.

The Company also entered into an investor rights agreement, pursuant to which, as long as an investor holds at least 10% of the aggregate principal amount of the Senior Notes issued and outstanding or at least 3% of the Company's issued and outstanding common stock pursuant to the warrants on an as-exercised basis ("Minimum Holding"), the Company has agreed not to undertake certain corporate actions without prior Investor approval. In addition, so long as an Investor owns the Minimum Holding, such Investor shall have a right of first refusal for future debt securities offerings by the Company and the Company is subject to certain transfer restrictions on its securities and certain other properties.

From the Closing Date and as long as the Investor continues to hold more than 10% of the outstanding shares of common stock on an as-converted, fully-diluted basis, the Investor shall be entitled to appoint one of the Company's board of directors (the "Investor Director"). The Investor Director shall be entitled to serve on each committee of the board, except that, the Investor Director shall not serve on the audit committee unless it is an independent director. Mr. Ji has agreed to vote his shares for the election of the Investor Director.

The Company was required to prepare and file a registration statement covering the sales of all of the shares of common stock issuable upon exercise of the warrants or incur additional interest of 1% on the Notes. The Company's registration statement was declared effective on May 6, 2008; therefore, no penalties were incurred.

In connection with the issuance of the Securities Purchase Agreement, the Company paid $2,122,509 in debt issuance costs which is being amortized over the life of the Senior Notes. For the years ended December 31, 2009, 2008 and 2007, the Company amortized $63,940, $227,989 and $0 of the aforesaid issuance costs, net of capitalized interest.

In connection with the Securities Purchase Agreement, the Company agreed to issue to the Investor seven-year warrants exercisable for up to 1,450,000 shares of the Company's common stock at an initial exercise price equal to $14.7304 per share, subject to certain adjustments. The exercise price of the Warrants is adjusted on the first anniversary of issuance and thereafter, at every six month anniversary beginning in the fiscal year 2009 if the volume weighted average price, or VWAP, (as defined therein) for the 15 trading days prior to the applicable reset date is less than the then applicable exercise price, in which case the exercise price shall be adjusted downward to the then current VWAP; provided, however, that in no event shall the exercise price be adjusted below $7.3652 per share. The exercise price was adjusted to $7.3652 on January 29, 2009. No further adjustments of the exercise price will be required (as that is the floor price).

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The warrants granted to the Investor on January 29, 2008 are considered derivative instruments that need to be bifurcated from the original security. If the Warrants have not been exercised within the seven year period, then the Investor can have the Company purchase the Warrants for $17,500,000. This amount is shown as a debt discount and is being amortized over the term of the Senior Notes. For the years ended December 31, 2009, 2008 and 2007, the Company amortized $280,250, $1,004,677 and $0 of the aforesaid discounts, net of capitalized interest.

The warrants have been determined to be derivative liabilities instruments because there is a required redemption requirement if the holder does not exercise the Warrants. However, the warrants are not required to be valued at fair value, rather, to be at its undiscounted redemption amount of $17.5 million.

Note 6 – Warrants

Following is a summary of the warrant activity:

	Warrants Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, December 31, 2007	544,242	$ 13.10	$ 376,977
Granted	1,450,000	14.74	-
Forfeited	-	-	-
Exercised	-	-	-
Outstanding, December 31, 2008	1,994,242	$ 14.28	-
Granted	-	-	-
Forfeited	(160,588)	$ 7.20	-
Exercised	-	-	-
Outstanding, December 31, 2009	1,833,654	$ 8.93	$ 4,008,434

Following is a summary of the status of warrants outstanding at December 31, 2009:

Outstanding Warrants

Exercise Price	Number	Average Remaining Contractual Life
$ 7.37	1,450,000	5.08
$ 14.86	383,654	2.59
$ 8.93	1,833,654	4.56

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Note 7 – Defined Contribution Plan

The Company is required to participate in a defined contribution plan operated by the local municipal government in accordance with Chinese law and regulations. The Company contributes 100RMB per employee per month to the plan. Starting from 2008, no minimum contribution is required but the maximum contribution cannot be more than 14% of the current salary expense. The total contribution for the above plan was $224,949, $112,233 and $122,677 for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 8 – Secondary Public Offering

On September 9, 2009, the Company completed an underwritten public offering for 5,725,000 shares of its common stock at a price of $8.75 per share. China Natural Gas also granted the underwriters a 30-day option to purchase up to an additional 858,750 shares to cover over-allotments at the public offering price.

On September 21, 2009, the Company closed the sale of an additional 858,750 shares of common stock at the public offering price of $8.75 per share, pursuant to the over-allotment option exercised in full by the underwriter in connection with its public offering that closed on September 9, 2009.

The net proceeds, after deducting underwriting discounts and commissions and the relevant expenses, is approximately $54.4 million.

The net proceeds from the offering was intended to be used for the construction of the Company's liquefied natural gas facility, the acquisition of CNG fueling stations, the purchase of CNG trucks and the establishment of a joint venture company with China National Petroleum Corporation Kunlun Natural Gas Co., Ltd., as well as for general working capital purposes.

Note 9 – Statutory Reserve

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;

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

As of December 31, 2009, the remaining reserve needed to fulfill the 50% registered capital requirement totaled $62,649,581.

Note 10 – Accounting for Stock-based Compensation

1) Options from CEO to pay for certain Company's legal expenses

On September 22, 2007, Mr. Qinan Ji, chairman and shareholder of the Company, transferred 50,000 of his personally-owned options to the Company's attorney to cover certain Company legal expenses. 30% of the options vested on September 22, 2008, 30% vest on September 22, 2009, and the remaining 40% vest on September 22, 2010. Upon termination of service to the Company, the attorney is required to return all unvested options. These options expire June 1, 2012.

The Company used the Black-Scholes Option Pricing Model to value the options at the time they were issued, based on the stock price on its grant date, the stated exercise prices and expiration dates of the instruments and using a risk-free rate of 4.10%. The estimated life is based on one half of the sum of the vesting period and the contractual life of the option. This is the same as assuming that the options are exercised at the mid-point between the vesting date and expiration date. $66,535, $66,704 and $0 of compensation expense were recorded during the years ended December 31, 2009, 2008 and 2007, respectively.

As of December 31, 2009, $66,024 of estimated expense with respect to non-vested stock-based compensation has yet to be recognized and will be recognized in expense over the optionee's remaining weighted average service period of approximately nine months.

2) 2009 stock option plan

On March 11, 2009, the board of directors approved by written consent the Company's stock option plan for its employees, directors and consultants. Pursuant to the plan, the total stock option pool will equal to 10% of the Company's total shares outstanding as of March 11, 2009. Among the option pool approved, 4% shall be awarded in 2009 and another 4% shall be awarded in 2010, and 2% reserved for future awards. For the 2009 stock option award, the CEO and CFO were granted total options of 1% and 0.6% of the common shares outstanding respectively, 50% as Non-qualified Stock Options (NSO) and 50% as Incentive Stock Awards (ISA), for a vesting period of four years. The Company granted the former CFO, Veronica Chen, options to purchase 75,000 shares of the Company's common stock, representing approximately 0.5% of the Company's outstanding shares as of March 11, 2009, which forfeited as Veronica Chen resigned as CFO. 5,000 option shares per year will be granted to each non-executive board member and 6,000 option shares per year granted to the Audit Committee Chairman. Other senior management and employees will be granted total options of 2.11% of the Company's common shares. On April 1, 2009 and May 1, 2009, the Company issued 243,850 and 75,000 stock options, respectively, pursuant to the Company's 2009 employee stock option and stock award plan. The strike price for the options was $4.90 per share. The stock option has a term of six years and vests evenly over four years starting one year from the issuance date on an annually basis.

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The Company used the Black-Scholes Option Pricing Model to value the options at the time they were issued, based on the stock price on its grant date, the stated exercise prices and expiration dates of the instruments and using risk-free rates. The volatility of the Company's common stock was estimated by management based on the historical volatility of the Company's common stock, the risk free interest rate was based on Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the estimated life of the options, and the expected dividend yield was based on the current and expected dividend policy. The Company currently uses the "simplified" method to estimate the expected term for share option grants as it does not have sufficient historical experience to provide a reasonable estimate. The Company will continue to use the "simplified" method until it feels that it has sufficient historical experience to provide a reasonable estimate of expected terms. The estimated life is based on one half of the sum of the vesting period and the contractual life of the option. This is the same as assuming that the options are exercised at the mid-point between the vesting date and expiration date. $36,468 of compensation expense related to Veronica Chen's 75,000 options was reversed upon her resignation of employment on January 31, 2010. $158,517 of compensation expense was recorded during the year ended December 31, 2009.

As of December 31, 2009, $686,913 of estimated expense with respect to non-vested stock-based compensation has yet to be recognized and will be recognized in expense over the optionee's remaining weighted average service period of approximately 3.25 years.

Following is a summary of the stock option activity:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, December 31, 2007	-	$ -	$ -
Granted	-	-	-
Forfeited	-	-	-
Exercised	-	-	-
Outstanding, December 31, 2008	-	-	-
Granted	318,850	$ 4.90	$ 95,655
Forfeited	75,000	4.90	466,500
Exercised	-	-	-
Outstanding, December 31, 2009	243,850	$ 4.90	$ 1,516,747

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Following is a summary of the status of stock options outstanding at December 31, 2009:

Outstanding Options			Exercisable Options		
Exercise Price	Number	Average Remaining Contractual Life	Exercise Price	Number	Average Remaining Contractual Life
$ 4.90	243,850	5.25	-	-	-

Note 11 – Earnings per Share

Earnings per share for the years ended December 31, 2009 and 2008 is 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 FASB's accounting standard.

The following demonstrates the calculation for earnings per share for the years ended December 31, 2009 and 2008:

	For the years ended December 31, 2009	2008	2007
Basic earnings per share			
Net income	$ 18,830,787	$ 15,190,368	$ 9,116,070
Weighted shares outstanding-Basic	16,624,294	14,600,154	13,100,340
Earnings per share-Basic	$ 1.13	$ 1.04	$ 0.70
Diluted earnings per share			
Net income	$ 18,830,787	$ 15,190,368	$ 9,116,070
Weighted shares outstanding-Basic	16,624,294	14,600,154	13,100,340
Effect of diluted securities-Warrants	206,613	44,916	50,561
Weighted shares outstanding-Diluted	16,830,907	14,645,070	13,150,901
Earnings per share-Diluted	$ 1.12	$ 1.04	$ 0.69

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At December 31, 2009, 2008 and 2007, the Company had outstanding warrants of 1,833,654, 1,994,242 and 544,242, respectively. For the year ended December 31, 2009, the average stock price was greater than the exercise prices of the 1,450,000 warrants which resulted in additional weighted average common stock equivalents of 206,613; 383,654 outstanding warrants were excluded from the diluted earnings per share calculation as they are anti-dilutive. For the year ended December 31, 2008, the average stock price was greater than the exercise prices of the 160,588 warrants which resulted in additional weighted average common stock equivalents of 44,916; 1,833,654 outstanding warrants were excluded from the diluted earnings per share calculation as they are anti-dilutive. For the year ended December 31, 2007, the average stock price was greater than the exercise prices of the 160,588 warrants which resulted in additional weighted average common stock equivalents of 50,561; 383,654 outstanding warrants were excluded from the diluted earnings per share calculation as they are anti-dilutive.

Note 12 – Current Vulnerability Due to Certain Concentrations

Concentration of natural gas vendors:

	For the years ended December 31,		
	2009	2008	2007
Numbers of natural gas vendors	4	4	3
Percentage of total natural gas purchases	98%	98%	88.4%

As of December 31, 2009 and 2008, the Company has $82,146 and $206,811, respectively, payable due to its major suppliers.

The Company maintains long-term natural gas minimum purchase agreements with one of its vendors as of December 31, 2009. There are no minimum purchase requirements by the Company. Contracts are renewed on an annual basis. The Company's management reports that it does not expect any issues or difficulty in continuing to renew the supply contracts with these vendors going forward. Price points for natural gas are strictly controlled by the government and have remained stable over the past three years.

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.

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Note 13 – Commitments and Contingencies

(a) Lease Commitments

The Company recognizes lease expense on a straight-line basis over the term of the lease in accordance to FASB's accounting standard regarding leases. The Company entered into a series of long-term lease agreements with outside parties to lease land use rights to the self-built Natural Gas filing stations located in the PRC. The agreements have terms ranging from 10 to 30 years. The Company makes annual prepayments for most lease agreements. The Company also entered into two office leases in Xi'an, PRC, one office lease in Jingbian, PRC, one office lease in Wuhan, PRC and one office lease in New York, NY. The minimum future payment for leasing land use rights and offices is as follows:

Year ending December 31, 2010	$	1,582,822
Year ending December 31, 2011		1,701,475
Year ending December 31, 2012		1,516,221
Year ending December 31, 2013		1,404,794
Year ending December 31, 2014		1,771,514
Thereafter		24,326,313
Total	$	32,303,139

For the years ended December 31, 2009, 2008 and 2007, the land use right and office lease expenses were $1,623,127, $1,127,558 and $ 433,755, respectively.

(b) Property and Equipment Purchase Commitments

The Company has purchase commitments for materials, supplies, services and property and equipment for constructing the LNG plant and other CIP projects. The Company has future commitments as followings:

Year ending December 31, 2010	$	11,535,240
Year ending December 31, 2011		2,143,287
Thereafter		-
Total	$	13,678,527

(c) Natural Gas Purchase Commitments

The Company has existing long-term natural gas purchase agreements with its major suppliers. However, none of those agreements stipulate any specific purchase amount or quota each year, thus giving the Company enough flexibility to constantly look for lower-cost sources of supply. Therefore, the Company is not legally bound in purchase commitments by those agreements.

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(d) Legal Proceedings

A former member of the board of directors filed a lawsuit against the Company in the New York State Supreme Court, Nassau County, in which he has sought, among other things to recover a portion of his monthly compensation plus 20,000 options that he alleges are due to him pursuant to a written agreement. After the plaintiff rejected an offer by the Company that included the options that the plaintiff alleged were due to him, the Company moved to dismiss the complaint. The judge ordered the Company to issue the 20,000 options to the plaintiff subject to any restrictions required by applicable securities laws, which was essentially what the Company had previously offered, and dismissed all of the plaintiff's remaining claims against the Company. The current board of directors has complied with the court's decision by tendering an options agreement to the plaintiff consistent with the court's decision, but the plaintiff has refused to execute the agreement, and instead has filed an appeal. Regardless of the outcome of the appeal, the Company believes that any liability it would incur will not have a materially adverse effect on its financial condition or its results of operations, and, accordingly, this matter has not been reflected on the Company's consolidated financial statements.

(e) Registered capital commitments

On September 8, 2009, SXNGE increased its registered capital from $53,929,260 to $79,929,260. CHNG contributed $10,000,000 registered capital of the total $26,000,000 to SXNGE on September 29, 2009. The remaining registered capital of $16,000,000 is required to be contributed by CHNG by October 10, 2011, two years after the new business license was obtained on October 10, 2009

Note 14 – Quarterly Financial Information (Unaudited)

For the fiscal year ended December 31, 2009, the Company has unaudited quarterly financial data information as following:

Year Ended December 31, 2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	$ 18,527,666	$ 20,742,520	$ 20,125,184	$ 21,670,748	$ 81,066,118
Gross profit	9,633,652	10,278,190	9,717,692	10,531,545	40,161,079
Net income	4,201,623	3,862,756	4,647,519	6,118,889	18,830,787
Basic EPS	0.29	0.26	0.29	0.29	1.13
Diluted EPS	0.29	0.26	0.29	0.28	1.12

Note 15 – Subsequent Event (Restated)

On February 26, 2010, the Company through its subsidiary, JBLNG, entered into a fixed assets loan contract with Shanghai Pudong Development Bank Xi'an Branch ("SPDB"), pursuant to which SPDB agreed to lend the Company up to $17,676,000 at the annual interest rate of 5.76% (the "Loan"). The Company was entitled to borrow amounts under the loan between March 1, 2010 and June 30, 2010.

In addition, in connection with the Loan, XXNGC, the variable interest entity of the Company, entered into a pledge agreement with SPDB, pursuant to which XXNGC's equipment and vehicles located within the PRC were pledged to secure the repayment of the Loan. XXNGC also entered into a guaranty with SPDB to guarantee the repayment of the Loan.

The Company has performed an evaluation of subsequent events through March 10, 2010, which is the date the financial statements were issued, and did not identify major events that have a material impact on the Company's financial statements.

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