

China Natural Gas, Inc.
Form 10-Q
November 15, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number: 001-31539

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 No.)

19th Floor, Building B, Van Metropolis
35 Tang Yan Road, Hi-Tech Zone
Xi'an, 710065, Shaanxi Province, China
+86-29-8832-7391

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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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 No

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

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the registrant's common stock as of November 10, 2010 was 21,321,904.

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CHINA NATURAL GAS, INC.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

CHINA NATURAL GAS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash & cash equivalents	\$ 36,340,993	\$ 48,177,794
Accounts receivable, net of allowance for doubtful accounts of \$298,069 and \$163,280 as of September 30, 2010 and December 31, 2009, respectively	1,388,340	1,289,116
Other receivables	152,828	709,741
Other receivable - employee advances	304,257	338,689
Inventories	942,683	841,837
Advances to suppliers	2,637,902	596,868
Prepaid expense and other current assets	4,011,747	1,076,915
Loans receivable	-	293,400
Total current assets	45,778,750	53,324,360
INVESTMENT IN UNCONSOLIDATED JOINT VENTURES	1,497,000	1,467,000
PROPERTY AND EQUIPMENT, NET	81,451,064	72,713,012
CONSTRUCTION IN PROGRESS	90,032,715	52,918,236
DEFERRED FINANCING COSTS	1,029,624	1,336,998
OTHER ASSETS	17,512,159	15,854,910
TOTAL ASSETS	\$ 237,301,312	\$ 197,614,516
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 3,832,686	\$ 2,081,261
Other payables	109,981	80,788
Other payable - related party	1,347,300	-
Unearned revenue	2,220,352	1,813,641
Accrued interest	135,415	786,052
Taxes payable	1,870,183	1,901,577
Notes payable - current maturities, net of discount \$856,949 and \$0 as of September 30, 2010 and December 31, 2009, respectively	2,476,384	-
Total current liabilities	11,992,301	6,663,319

LONG TERM LIABILITIES:

Notes payable, net of discount \$9,426,443 and \$12,707,713 as of September 30, 2010 and December 31, 2009, respectively	27,240,224	27,292,287
Derivative liabilities - warrants	18,037,635	19,545,638
Long term debt	17,964,000	-
Total long term liabilities	63,241,859	46,837,925
Total liabilities	75,234,160	53,501,244

COMMITMENTS AND CONTINGENCIES**STOCKHOLDERS' EQUITY:**

Preferred stock, \$0.0001 per share; 5,000,000 shares authorized; none issued;	-	-
Common stock, \$0.0001 per share; 45,000,000 shares authorized, 21,321,904 and 21,183,904 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively	2,132	2,118
Additional paid-in capital	81,602,751	79,851,251
Cumulative other comprehensive gain	12,775,770	8,714,019
Statutory reserves	7,326,855	5,962,695
Retained earnings	60,359,644	49,583,189
Total stockholders' equity	162,067,152	144,113,272
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 237,301,312	\$ 197,614,516

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

CHINA NATURAL GAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues				
Natural gas revenue	\$ 17,836,178	\$ 15,454,386	\$ 49,540,810	\$ 46,140,884
Gasoline revenue	1,904,357	1,633,478	5,407,013	4,440,892
Installation and others	2,585,939	3,037,320	7,881,073	8,813,594
Total revenues	22,326,474	20,125,184	62,828,896	59,395,370
Cost of revenues				
Natural gas cost	9,904,265	7,536,188	26,126,909	21,773,635
Gasoline cost	1,798,825	1,534,806	5,076,397	4,194,615
Installation and others	1,234,189	1,336,498	3,525,895	3,797,586
Total cost of revenues	12,937,279	10,407,492	34,729,201	29,765,836
Gross profit	9,389,195	9,717,692	28,099,695	29,629,534
Operating expenses				
Selling expenses	3,663,654	2,668,175	9,610,436	7,845,784
General and administrative expenses	1,732,058	1,160,587	5,463,580	3,503,265
Total operating expenses	5,395,712	3,828,762	15,074,016	11,349,049
Income from operations	3,993,483	5,888,930	13,025,679	18,280,485
Non-operating income (expense):				
Interest income	49,403	7,248	398,790	23,940
Interest expense	-	(68,407)	-	(745,064)
Other income (expense), net	(18,914)	178,728	24,624	(137,954)
Change in fair value of warrants	449,820	(357,979)	1,508,003	(1,473,762)
Foreign currency exchange gain (loss)	(54,167)	280	(96,942)	(50,527)
Total non-operating income (expense)	426,142	(240,130)	1,834,475	(2,383,367)
Income before income tax	4,419,625	5,648,800	14,860,154	15,897,118
Provision for income tax	834,783	1,001,281	2,719,539	3,185,220
Net income	3,584,842	4,647,519	12,140,615	12,711,898
Other comprehensive income				
Foreign currency translation gain	3,302,747	195,040	4,061,751	39,928
Comprehensive income	\$ 6,887,589	\$ 4,842,559	\$ 16,202,366	\$ 12,751,826
Weighted average shares outstanding				
Basic	21,321,904	15,754,696	21,251,882	14,985,001

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Diluted	21,422,527	16,139,820	21,532,612	15,035,172
Earnings per share				
Basic	\$ 0.17	\$ 0.29	\$ 0.57	\$ 0.85
Diluted	\$ 0.17	\$ 0.29	\$ 0.56	\$ 0.85

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

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

	Common Stock		Additional	Accumulative Other	Retained Earnings	Total	
	Shares	Amount	Paid-in Capital	Comprehensive Gain	Statutory Reserve	Unrestricted	Stockholders' Equity
Balance as of December 31, 2008	14,600,154	\$ 1,460	\$ 32,115,043	\$ 8,661,060	\$ 3,730,083	\$ 27,140,775	\$ 71,648,421
Cumulative effect of reclassification of warrants			(6,858,54)			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			44,526				44,526
Stock Based Compensation			142,146				142,146
Cumulative translation adjustment				39,928			39,928
Net Income						12,711,898	12,711,898
Transfer to statutory reserve					1,687,330	(1,687,330)	-
Balance as of September 30, 2009 (Unaudited)	21,183,904	\$ 2,118	\$ 79,812,871	\$ 8,700,988	\$ 5,417,413	\$ 44,009,582	\$ 137,942,972
Options issued for services			22,008				22,008
Stock Based Compensation			16,371				16,371
Cumulative translation adjustment				13,031			13,031
Net Income						6,118,889	6,118,889
Transfer to statutory reserve					545,282	(545,282)	-