



DISCOVERING TOMORROW'S BLUE CHIPS TODAY™

VISIBILITY

RESEARCH UPDATE



China Natural Gas, Inc.  
(NasdaqGM: CHNG)

APRIL 23, 2010 | TARGET PRICE: \$19.50 | RATING: STRONG BUY

2010 EPS FORECASTED TO GROW 30%

**Construction of LNG facility progresses toward June 30 completion date.** According to management, the Company's Jingbian County liquefied natural gas (LNG) plant is set to complete construction by June 30, 2010. Test runs are scheduled to start at the beginning of 3Q10. Recently released images (taken April 17, 2010) of the plant's construction progress are shown below.

ANALYST

Clay Mahaffey, CFA

MARKET DATA

TICKER	CHNG
FISCAL YEAR	DECEMBER
SECTOR	OIL & GAS SERVICES
RECENT PRICE	\$9.40
TARGET PRICE	\$19.50
MARKET CAP	\$199.1M
52-WEEK HIGH - LOW	\$18.00 - \$5.70
PRICE/EARNINGS (TTM)	8.4X
PRICE/BOOK (MRQ)	1.4X
PRICE/SALES (TTM)	2.0X
SHARES OUTSTANDING	21.2M
FLOAT	15.4M
AVG DAILY VOLUME (3 MOS)	286,815
INSIDER OWNERSHIP	22.3%

As of April 23, 2010

FINANCIAL DATA

REVENUE (TTM)	\$81.1M
REV (TTM) PER SHARE	\$4.82
QRTL REV GRWTH YOY	17.8%
GROSS PROFIT (TTM)	\$40.2M
OPERATING MARGIN (TTM)	30.9%
EBITDA	\$30.6M
NET INCOME (TTM)	\$18.8M
DILUTED EPS (TTM)	\$1.12
QRTL EPS GRWTH (YOY)	63.6%
CASH & EQUIV (MRQ)	\$48.2M
CASH (MRQ) PER SHARE	\$2.27
TOTAL DEBT/EQUITY	37.1%
BOOK VALUE PER SHARE	\$6.80
ROE (TTM)	17.5%
ROA (TTM)	11.9%



Laying Plant Infrastructure



LNG Storage Tank



Pipeline Rack



Compressed Air / Nitrogen Station

Based on a review of the construction site photographs we believe a June 30 completion date is aggressively optimistic. Even if CHNG achieved a technical "start up" the plant would probably not be able to immediately operate on an ongoing basis. We see delays due to the absence of required cryogenic pipe which is not shown in the photos. Once delivered to the site the pipe has to be installed and welded prior to subsequent instrumentation, field testing, etc. Previously we had assumed modest LNG contribution to sales and earnings in 2010, however we prefer to be conservative in our estimates. Taking out LNG earnings has little effect on our 2010 EPS (basic EPS reduced \$0.12 to \$1.46). We believe the plant will be in full production next year and therefore retain our price target and Strong Buy recommendation.



**Additional LNG growth prospects.** The Company recently announced agreements with four cities along the Yangtze River to build LNG refueling stations. The Yangtze River is a 2,300 km river flowing from the western provinces (near China's natural gas fields) to the major cities along the eastern seaboard (Nanjing, Shanghai, etc). An estimated 130,000-150,000 vessels are in operation on any given day. A total of 58 facilities (harbor and inland LNG Fueling stations and reserve stations) were announced. The capacity and timing were not announced and therefore have not been included in our financial projections or target price calculations. The Company previously announced they were working on an engine modification to enable diesel engines to run on LNG. We believe this is a very strong announcement both from the financial considerations as well as strengthening CHNG's position strategically.

**Natural gas mid stream strategy.** The natural gas infrastructure and mid stream assets in China are not well developed. Gas is pumped via pipelines from the well head to consuming locations. The seasonality of consumption is increasing significantly due to winter heating loads as compared to transportation uses which have little seasonality. In fact, a cold snap in China last winter resulted in gas shortages and allocation of supply (with preference given to consumer heating) since there is little storage capacity to accommodate increased demand. However, CNPC has announced that it will build the largest natural gas storage facility in China with 12 billion cubic meters capacity. This storage facility is in the vicinity of CHNG's Jingbian LNG and provides the Company a stable long-term supply of natural gas at a "preferential cost" according to CHNG. That would even out the supply for CHNG and put the Company in a good position to become a leader in the mid stream sector. The economic returns are not clear at the moment, but reflect an aggressive strategy to build a substantial company well beyond the initial CNG refueling business.

**CNG expansion in Henan province marks formal launch of JV.** CNPC Kunlun Natural Gas Co. has announced that it has received local government approval to build one compressed natural gas (CNG) compressor station and six fueling stations in Henan Province. The development marks the formal launch of the joint venture between China Natural Gas, Inc. and CNPC in this region. This announcement also comes on the heels of CHNG's March conference call in which management stated they expect to acquire or build 40 refueling stations in 2010 which represents a 110% increase over year end 2009.

We estimate the investment in CNG fueling stations to cost roughly \$8 million with \$4 million attributable to CHNG through a 51%/49% CPNC/CHNG partnership. The CNG station expansion is expected to have a 3-4 year payback period.

CNPC is the largest oil & gas producer in China. They control much of the natural gas production in the country's western provinces as well as developing major pipelines to bring gas to the Chinese markets. CHNG gains the assurance of natural gas supply, local, regional and national government political support and preempts competition by making acquisitions of smaller facilities more probable. The announcement of CNG station expansions validates the joint venture strategy of the two companies. CHNG is clearly perceived as the industry leader which makes ongoing acquisitions of smaller CNG refueling facilities possible

**Lingbao acquisition addressed.** As we reported in our March 11 research note, CHNG has responded to questions and allegations regarding the propriety of the 2008 Lingbao acquisition with the Chairman and CEO, Mr. Qinan Ji, clearly and forcefully answering investors' questions on the fourth quarter earnings call. We now learn that Susan Wu of Frazer Frost, LLP, the auditor of CHNG, has looked closely at the transaction and determined that nothing was illegal or even an insider transaction. In addition, a recent due diligence trip by a group of funds led by a well known investment banking firm found the allegations of the "related party transaction" are false.

**OUTLOOK**

RedChip Estimates								
	FY08A	FY09A	1Q10E	2Q10E	3Q10E	4Q10E	FY10E	FY10E YoY Growth
Revenue	67.7	81.1	23.9	28	30.7	34.3	116.9	44.1%
Gross Profit	32.7	40.2	11.5	13.4	14.8	16.5	56.1	39.6%
Gross Margin	48.3%	49.6%	47.9%	48.0%	48.2%	48.1%	48.0%	-160 bp
Operating Income	21.1	25.1	7.5	9.4	10.5	12.1	39.5	57.4%
Operating Margin	31.2%	30.9%	31.4%	33.6%	34.2%	35.3%	33.8%	280 bp
Net Income	15.2	18.8	5.8	7.5	8.4	9.4	31.0	64.6%
Net Margin	22.4%	23.2%	24.4%	26.6%	27.4%	27.4%	26.5%	330 bp
EPS	\$1.04	\$1.13	\$0.28	\$0.35	\$0.40	\$0.44	\$1.46	29.2%

**INVESTMENT CONCLUSION**

CHNG currently trades at approximately 50% of our price target. Presumably, this is due to a low level of awareness, misperception of initial transactions and resulting short sales, uncertainty as to the LNG project and a high level of perceived country risk. The short sales will have to be covered at some point (refer to the March 11, 2010 research note for more information) and the perceived country risk has to be evaluated in terms of the fact that CHNG has secured a partnership with the largest oil & gas producer and supplier in China. Additionally, the LNG project will remain a small part of the Company's earnings and valuation for the next few years so concerns of a delay or slow sales, we believe is a red herring. The LNG Project is reported to be on schedule, but our model conservatively assumes it only contributes to EPS in FY11 due to the lag between start up and sales.

Trading at 6.2x 2010 projected EPS of \$1.46 we believe CHNG shares are very undervalued especially considering the excellent long-term growth prospects. Furthermore, our \$19.50 price target assumes no capacity increases to the Company's LNG plant beyond 150 million CM/yr, leaving even greater upside potential. We are maintaining our Strong Buy rating and \$19.50 target price as we remain bullish on the Company's CNG expansion which outweigh our concerns about the potential delay of operations of LNG plant.



### 12-MONTH PRICE CHART



### Quarterly Income Statement

All Figures in US\$ (ending in 000), except share data

FY Ending December 31,	4Q08	1Q09	2Q09	3Q09	4Q09
Total Revenue	18,403	18,528	20,743	20,125	21,671
Cost of Goods Sold	8,911	8,894	10,464	10,407	11,139
Gross Profit	9,492	9,634	10,278	9,718	10,532
Selling General & Admin Expense	3,721	4,006	3,514	3,829	3,759
Operating Income	5,772	5,628	6,764	5,889	6,772
Interest Expense, Total	(979)	582	389	68	2
Interest and Invest. Income	89	9	8	7	101
Currency Exchange Gains (Loss)	(397)	(152)	(3)	195	(142)
Other Non-Operating Inc. (Exp.)	231	195	1,334	179	394
Earnings Before Taxes	4,715	5,199	5,049	6,007	7,247
Income Tax Expense	983	997	1,187	1,001	(1,128)
Net Income	3,732	4,202	3,863	4,648	6,119
<b>Per Share Items</b>					
Basic EPS	0.26	0.29	0.27	0.30	0.28
Weighted Avg. Basic Shares Out.	14,600	14,600	14,600	15,755	21,542
Diluted EPS	0.26	0.29	0.26	0.29	0.28
Weighted Avg. Diluted Shares Out.	14,600	14,600	14,727	16,140	22,218



## Annual Income Statement

All Figures in US\$, except share data

FY Ending 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

## 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



## Quarterly Balance Sheet

All Figures in US\$ (ending in 000)

FY Ending December 31,

	4Q08	1Q09	2Q09	3Q09	4Q09
<b>Assets</b>					
Cash And Equivalents	5,854	9,058	9,701	55,932	48,178
Accounts Receivable	906	946	979	1,142	1,289
Other Receivables	61	180	153	239	710
Inventory	520	488	1,197	1,465	842
Prepaid Exp.	778	954	559	456	1,077
Loans Receivable Current	293	293	293	293	293
Other Current Assets	1,170	865	1,258	2,049	935
<b>Total Current Assets</b>	<b>9,582</b>	<b>12,604</b>	<b>13,987</b>	<b>61,336</b>	<b>53,324</b>
Gross Property, Plant & Equipment	105,553	108,501	116,927	125,547	138,609
Accumulated Depreciation	(7,463)	(8,841)	(10,178)	(11,582)	(13,000)
<b>Net Property, Plant &amp; Equipment</b>	<b>98,090</b>	<b>99,660</b>	<b>106,750</b>	<b>113,965</b>	<b>125,631</b>
Investment in Unconsolidated Joint Venture	-	-	-	-	1,467
Deferred Charges, LT	1,747	1,644	1,542	1,439	1,337
Other Long-Term Assets	8,844	9,278	9,021	13,350	15,854
<b>Total Assets</b>	<b>118,262</b>	<b>123,187</b>	<b>131,300</b>	<b>190,090</b>	<b>197,615</b>
<b>Liabilities</b>					
Accounts Payable	800	1,104	1,622	1,412	2,081
Accrued Exp.	861	531	1,238	275	786
Curr. Income Taxes Payable	1,863	1,905	2,167	1,943	1,902
Unearned Revenue, Current	944	1,139	1,969	1,742	1,814
Other Current Liabilities	124	337	197	245	81
<b>Total Current Liabilities</b>	<b>4,592</b>	<b>5,015</b>	<b>7,193</b>	<b>5,617</b>	<b>6,663</b>
Long-Term Debt	24,522	25,156	25,833	26,542	27,292
Other Non-Current Liab., Total	17,500	18,317	19,630	19,988	19,546
<b>Total Liabilities</b>	<b>46,614</b>	<b>48,488</b>	<b>52,656</b>	<b>52,147</b>	<b>53,501</b>
Common Stock	1	1	1	2	2
Additional Paid In Capital	32,115	25,271	25,357	79,813	79,851
Retained Earnings	30,871	36,632	39,899	44,010	55,546
Comprehensive Inc. and Other	8,661	8,509	8,506	8,701	8,714
<b>Total Equity</b>	<b>71,648</b>	<b>74,698</b>	<b>78,644</b>	<b>137,943</b>	<b>144,113</b>
<b>Total Liabilities And Equity</b>	<b>118,262</b>	<b>123,187</b>	<b>131,300</b>	<b>190,090</b>	<b>197,615</b>



Annual Balance Sheet			
All Figures in US\$			
FY Ending December 31,	2009	2008	2007
<b>Assets</b>			
<b>Current assets</b>			
Cash & cash equivalents	48,177,794	5,854,383	13,291,729
Short-term investments	-	-	238,554
Accounts receivable, net	1,289,116	906,042	306,179
Other receivable	709,741	60,784	292,320
Other receivable - employee advances	338,689	332,263	257,500
Inventories	841,837	519,739	231,339
Advances to suppliers	596,868	837,592	663,041
Prepaid expense and other current assets	1,076,915	777,510	109,722
Loan receivable	293,400	293,400	274,200
Total current assets	53,324,360	9,581,713	15,664,584
Investment in unconsolidated joint ventures	1,467,000	-	-
Property and equipment, net	72,713,012	76,028,272	32,291,995
Construction in progress	52,918,236	22,061,414	2,210,367
Deferred financing costs	1,336,998	1,746,830	-
Other assets	15,854,910	8,844,062	3,123,052
Total assets	197,614,516	118,262,291	53,289,998
<b>Liabilities and stockholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	2,081,261	800,013	487,710
Other payables	80,788	124,151	55,979
Unearned revenue	1,813,641	944,402	327,220
Accrued interest	786,052	861,114	-
Taxes payable	1,901,577	1,862,585	1,211,775
Total current liabilities	6,663,319	4,592,265	2,082,684
<b>Long term liabilities</b>			
Notes payable, net	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	2,082,684
<b>Stockholders' equity</b>			
Common stock	2,118	1,460	2,920
Additional paid-in capital	79,851,251	32,115,043	32,046,879
Accumulative other comprehensive gain	8,714,019	8,661,060	3,477,025
Statutory reserves	5,962,695	3,730,083	1,802,735
Retained earnings	49,583,189	27,140,775	13,877,755
Total stockholders' equity	144,113,272	71,648,421	51,207,314
Total liabilities and stockholders' equity	197,614,516	118,262,291	53,289,998



## Quarterly Cash Flow Statement

All Figures in US\$ (ending in 000)

FY Ending December 31,

	4Q08	1Q09	2Q09	3Q09	4Q09
Net Income	3,732	4,202	3,863	4,648	6,119
Depreciation & Amort.	1,179	1,390	1,393	1,393	1,397
Other Amortization	531	209	60	75	-
(Gain) Loss On Sale of Assets	13	-	21	-	1
Stock-Based Compensation	15	15	86	86	(28)
Change in Acc. Receiv.	701	(41)	(33)	(161)	(153)
Change In Inventories	(73)	31	(519)	(266)	432
Change in Acc. Payable	83	305	518	(211)	(566)
Change in Unearned Rev.	549	195	831	(230)	72
Change in Inc. Taxes	(50)	45	262	(227)	(41)
Change in Other Net Operating Assets	1,525	85	363	(1,599)	316
Other Operating Activities	-	(197)	1,313	358	(375)
Cash from Ops.	8,205	6,239	8,158	3,865	7,173
Capital Expenditures	(22,821)	(2,993)	(7,512)	(12,041)	(10,983)
Sale of Property, Plant and Equipment	195	-	41	-	-
Purchase/Sale of Intangibles	(84)	(36)	(495)	7	(70)
Net Cash from Investments	1	-	-	-	(1,467)
Net (Increase)/Decrease in Loans Orig/Sold	(287)	-	-	-	-
Total Other Investing Activities	-	-	450	-	(2,439)
Cash from Investing	(22,995)	(3,028)	(7,516)	(12,035)	(14,958)
Issuance of Common Stock	-	-	-	57,608	-
Other Financing Activities	-	-	-	(3,238)	(2)
Cash from Financing	-	-	-	54,370	(2)
Foreign Exchange Rate Adj.	259	(6)	1	30	32
Net Change in Cash	(14,530)	3,204	643	46,230	(7,754)



## Annual Cash Flow Statement

All Figures in US\$

FY Ending 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

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



## Projected Income Statement

All Figures in US\$, except share data

FY Ending December 31,

	1Q10E	2Q10E	3Q10E	4Q10E	2010E
<b>Revenue</b>					
Natural gas revenue	18,326,128	21,492,986	23,604,225	26,348,836	89,772,174
Gasoline revenue	1,879,885	2,204,739	2,421,309	2,702,850	9,208,784
Installation and other	3,664,735	4,298,022	4,720,214	5,269,062	17,952,034
Total revenue	23,870,748	27,995,748	30,745,748	34,320,748	116,932,992
<b>Cost of revenue</b>					
Natural gas cost	8,945,470	10,491,298	11,521,849	12,861,567	43,820,183
Gasoline cost	1,818,661	2,132,936	2,342,453	2,614,825	8,908,875
Installation and other	1,648,658	1,933,555	2,123,487	2,370,398	8,076,097
Total cost of revenue	12,412,789	14,557,789	15,987,789	17,846,789	60,805,156
Gross profit	11,457,959	13,437,959	14,757,959	16,473,959	56,127,836
<b>Operating expenses</b>					
Selling expenses	2,604,116	2,708,281	2,816,612	2,929,277	11,058,286
General and administrative expenses	1,305,476	1,357,695	1,412,002	1,468,483	5,543,655
Total operating expenses	3,909,592	4,065,976	4,228,615	4,397,759	16,601,941
Income from operations	7,548,367	9,371,983	10,529,344	12,076,200	39,525,895
<b>Non-operating income (expense)</b>					
Interest income	105,600	104,634	91,379	84,570	386,184
Change in fair value of warrants	(487,094)	(322,450)	(314,571)	(663,416)	(1,787,531)
Total non-operating income (expense)	(381,494)	(217,816)	(223,191)	(578,846)	(1,401,348)
Income before income tax	7,166,873	9,154,167	10,306,153	11,497,354	38,124,547
Provision for income tax	1,333,038	1,702,675	1,916,944	2,138,508	7,091,166
Net income	5,833,835	7,451,492	8,389,208	9,358,846	31,033,381
<b>Weighted average shares outstanding</b>					
Basic	21,183,904	21,183,904	21,183,904	21,183,904	21,183,904
Diluted	21,569,028	21,569,028	21,569,028	21,569,028	21,569,028
<b>Earnings per share</b>					
Basic	0.28	0.35	0.40	0.44	1.46
Diluted	0.27	0.35	0.39	0.43	1.44



### Analyst Certification

The analysts contributing to this report do not hold any shares of CHNG. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. RedChip Companies Inc. certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst authoring this report.

### RedChip Visibility Research Universe

RedChip Visibility, a division of RedChip Companies Inc., covers small and micro cap companies with market caps ranging from \$5.5M to \$1.2B. Each company is typically covered for at least 12 months. New companies may be added or removed at any time.

RedChip Visibility Coverage Universe		
Rating	Number of Covered Companies	Percentage of Universe
Strong Buy	2	11.1%
Buy	12	66.7%
Speculative Buy	4	22.2%
Hold	0	0.0%
Sell	0	0.0%

### RedChip Rating System

#### STRONG BUY

The current price reflects a substantial discount from the market and from its peers, and the company does not possess significant financial risk within its risk category. Future growth potential is undervalued relative to the company's stock price. The analyst believes the stock at current levels represents a compelling opportunity for capital gains over the time period to its target price.

#### BUY

The current price reflects a discount from the market and from its peers, and the company does not possess significant financial risk within its risk category. The analyst believes the stock at current levels will provide an opportunity for capital gains over the period of its target price. Several factors can indicate an undervaluation of the company's shares.

#### SPECULATIVE BUY

The current price appears to offer potential gains though risk is considerably higher given its risk category. There may be insufficient historical data or clear-cut prospects to warrant a "Buy," but the analyst believes that the long run prospects of the Company are positive. The analyst believes its risk reward ratio advocates purchase of the stock. In the short term, the stock may be subject to high volatility and continue to trade at a discount to its market.

#### HOLD

The analyst is unable to assign a buy rating due to a number of specified factors noted in the report. These include the stock being fairly valued relative to its peers and the market, or the company may have risks that make it potentially unsuitable for investment within its risk category. Similarly there are no currently known compelling factors that would warrant selling. The analyst will remain neutral pending developments.

#### SELL

The analyst believes that the Company is overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward given its risk category. An investment in the company may produce below market returns and/or deficits.

### About RedChip

RedChip Companies is an international, small-cap research and financial public relations firm headquartered in Orlando, Florida; with affiliate offices in Qingdao, China; Paris and San Diego. RedChip delivers concrete, measurable results for its clients through its extensive national and international network of small-cap institutional and retail investors. RedChip has developed the most comprehensive platform of products and services for small-cap companies, including: RedChip Visibility Research™, Traditional Investor Relations, Digital Investor Relations, Institutional and Retail Conferences, RedChip Small-Cap TV(TM), Shareholder Intelligence, Social Media and Blogging Services, Webcasts and RedChip Radio(TM). RedChip is not a FINRA member or registered broker/dealer.

None of the profiles issued by RedChip Companies, Inc., constitutes a recommendation for any investor to purchase or sell any particular security or that any security is suitable for any investor. Any investor should determine whether a particular security is suitable based on the investor's objectives, other securities holdings, financial situation needs, and tax status. China Natural Gas, Inc. ("CHNG") is a client of RedChip Companies, Inc. and of RedChip Visibility, a division of RedChip Companies. CHNG agreed to pay RedChip Companies, Inc. a monthly fee of \$10,000 in cash for twelve (12) months of RedChip Visibility Program services, which includes the preparation of the equity research report(s) and investor awareness services. The equity research report(s) are prepared for informational purposes only and are paid for by the company portrayed in the report. The equity research report(s) are not a recommendation of a solicitation to purchase or sell any security, nor do they constitute investment advice. Investor awareness services and programs are designed to help small-cap companies communicate their investment characteristics. These services may include investor conferences, digital and print distribution of CHNG investor-related materials and radio programming. RedChip Companies, Inc., employees and affiliates may have positions and affect transactions in the securities or options of the issuers mentioned herein.

Additional information about the subject security, analyst, or RedChip Companies Inc. is available upon request. To learn more about RedChip's products and services, visit <http://www.redchip.com/visibility/productsandservices.asp>, call 1-800-RedChip (733-2447), or email at [info@redchip.com](mailto:info@redchip.com)

#### Company Contact Info:

19th Floor, Building B, Van Metropolis  
Tang Yan Road, Hi-Tech Zone  
Xi'an 710065, Shaanxi Province, China  
Phone: 86-29-88323325 ext. 992  
Email: [ir.chng@naturalgaschina.com](mailto:ir.chng@naturalgaschina.com)