CONSOLIDATED CLASS ACTION COMPLAINT

Lead Plaintiff Larry A. Weiser ("Lead Plaintiff") alleges the following based upon the investigation by Lead Plaintiff's counsel, which includes, among other things: a review of China Natural Gas, Inc. ("China Natural" or the "Company") public documents, media interviews and reports, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding China Natural, securities analysts' reports and advisories about the Company, and information readily available on the Internet. Lead Plaintiff believes
that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

**NATURE OF THE ACTION AND OVERVIEW**

1. This is a federal class action on behalf of purchasers (the “Class”) of the common stock of China Natural, who purchased or otherwise acquired the Company’s common stock between March 10, 2010 through September 21, 2011, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

A. Overview

2. During the Class Period, the Company’s financial statements failed to disclose a series of loans and related party transactions in violation of generally accepted accounting principles (“GAAP”) and SEC regulations.

3. On February 26, 2010, China Natural entered into a loan agreement to borrow $17.2 million from a bank.

4. On March 17, 2010, China Natural received $13.2 million under the loan.

5. The Company’s financial statements failed to disclose the $17.7 million loan agreement and the possibility of a default under existing debt covenants in its 2009 annual report issued on March 10, 2010 or in its quarterly report issued on May 7, 2010. Indeed, the Company’s financial statements were required to disclose it, as a subsequent event and as part of the Company’s balance sheet, respectively.

6. In January 2010, China Natural made two loans for the benefit of immediate family members of Chief Executive Officer (“CEO”) Qinan Ji (“Ji”) for their personal use, one for $9.9 million and another for $4.4 million.
7. Mr. Ji caused China Natural to loan his family members $14.3 million from China Natural for their personal use.

8. China Natural's financial statements were required to disclose the loans as related party transactions in its 2009 annual report filed on March 10, 2010, in its 2010 annual report filed on March 14, 2011 and in each interim quarterly report.

9. China Natural's failure to record these liabilities and related party loans in its financial statements are violations of GAAP, and SEC regulations and rendered all of China Natural’s financial statements issued during the Class Period false and misleading.

10. Ji caused China Natural to borrow $13.2 million on the Bank Loan (defined herein) in order to replenish the funds which were loaned to his family members.

11. The above ultimately caused China Natural to admit — on three separate occasions — that its financial statements were inaccurate and needed to be restated.

12. Public disclosure of the related party transactions and false and misleading financial statements led NASDAQ Global Market (“NASDAQ”) to halt all trading in the Company’s stock.

13. China Natural’s share price declined upon disclosure of the fraud and this has caused investors substantial losses.

14. This case centers upon Defendants Frazer, LLP’s (“Frazer”) and Friedman, LLP’s (“Friedman”) performance of audits and reviews in a manner which constituted a reckless departure from the standards of ordinary care. As a result, China Natural’s financial statements that were disseminated to the investing public during the Class Period were materially false and misleading as admitted through restatement of China Natural’s Form 10-K for the year ended December 31, 2009, Form 10-Q for the quarterly period ended March 31, 2010, Form 10-Q for

15. The recklessness of Frazer and Friedman’s actions are highlighted by the fact that Frazer and Friedman either knew or were reckless in disregarding that China Natural did not have personnel with a sufficient level of accounting knowledge, experience and training in the application of the accounting principles generally accepted in the United States of America and SEC requirements; which constituted material weaknesses in the Company’s internal controls. Instead of expanding the scope of their audit and review procedures due to the existence of these material weaknesses, Frazer and Friedman relied exclusively on information furnished to them and, in fact, failed to perform even the most basic of audit and review procedures. Thus, Frazer and Friedman violated the following generally accepted auditing standards:

(a) General Standard No. 1 which states: “The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor.”

(b) General Standard No. 3 which states: “Due professional care is to be exercised in the performance of the audit and the preparation of the report.”

(c) Standard of Field Work No. 1 which states: “The work is to be adequately planned and assistants, if any, are to be properly supervised.”

(d) Standard of Field Work No. 2 which states: “A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.”

(e) Standard of Field Work No. 3 which states: “Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and
confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.”

(f) Standard of Reporting No. 3 which states: “Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.”

JURISDICTION AND VENUE

16. The claims asserted herein arise under and pursuant to Sections 10(b) of the Exchange Act, (15 U.S.C. §§ 78j(b), and Rule 10b-5 promulgated under Section 10(b) of the Exchange Act (17 C.F.R. § 240.10b-5).

17. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa), and 28 U.S.C. § 1331.


19. In connection with the acts, conduct and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

20. Lead Plaintiff Larry A. Weiser purchased China Natural common stock at artificially inflated prices during the Class Period. As set forth in the certification annexed
hereto as Exhibit A, Lead Plaintiff purchased China Natural common stock on the open market
during the Class Period and suffered damages as a result of the misconduct alleged herein.

21. **Defendant Frazer, LLP (formerly known as Moore Stephens Wurth Frazer Torbet)** ("Frazer") claims to provide auditing and accounting services. Defendant Frazer offers assurance, taxation, litigation support, cost segregation, fraud prevention and detection, data analysis, risk assessment, and financial statement audit and review services. Additionally, it provides valuation services for succession planning, economic loss analysis, profit enhancement, estate gift tax planning, and acquisitions. Frazer (formerly known as Moore Stephens Wurth Frazer Torbet) purports to have been founded in 1918 and is based in Brea, California and Visalia, California.

22. **Defendant Friedman, LLP** ("Friedman") claims it has been serving the accounting, tax and business consulting needs of public and private companies since 1924. Defendant Friedman is headquartered at 1700 Broadway, New York, NY 10019.

**REGULATORY BACKGROUND ON CHINESE REVERSE MERGERS**

23. China Natural is a Chinese reverse merger company. The Company employed a device called a "reverse merger" to take advantage of the U.S. capital markets. In a reverse merger, a publicly traded shell company acquires the private company seeking to go public. In exchange, the shareholders of the former private company receive a controlling share of the public company.

24. Chinese reverse mergers have been a magnet for disreputable stock promoters, low quality auditors, and outright fraud, leading the SEC to issue warnings about investing in companies like China Natural.
25. Shielded by the geographic distance of thousands of miles and operating under a regulatory framework that is a world apart from the SEC's oversight, reverse merger companies have few incentives to provide complete and accurate disclosures to American investors. An August 28, 2010 article in Barron's by Bill Alpert and Leslie P. Norton entitled, "Beware This Chinese Export," discusses the enforcement problems that American regulators face when dealing with Chinese companies that trade on U.S. exchanges through Reverse Chinese Mergers ("RCMs"). The article states that "[t]he SEC's enforcement staff can't subpoena evidence of any fraudulent activities in China, and Chinese regulators have little incentive to monitor shares sold only in the U.S."

26. U.S. regulators have finally begun to take notice of the manipulation and fraud endemic in RCMs. The SEC has recently established a task force to investigate investors' claims regarding the impropriety and fraud of reverse mergers trading on the U.S. markets. SEC Commissioner Luis A. Aguilar (the "Commissioner") discussed Chinese reverse mergers and the process of "backdoor registration," stating:

In the world of backdoor registrations to gain entry into the U.S. public market, the use by Chinese companies has raised some unique issues, even compared to mergers by U.S. companies. Two important ones are:

- First, there appear to be *systematic concerns with the quality of the auditing and financial reporting*; and

- Second, even though these companies are registered here in the U.S., there are *limitations on the ability to enforce the securities laws, and for investors to recover their losses when disclosures are found to be untrue, or even fraudulent.*

*I am worried by the systematic concerns surrounding the quality of the financial reporting by these companies.* In particular,

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according to a recent report by the staff of the Public Company Accounting Oversight Board (PCAOB), U.S. auditing firms may be issuing audit opinions on the financials, but not engaging in any of their own work. Instead, the U.S. firm may be issuing an opinion based almost entirely on work performed by Chinese audit firms. If this is true, it could appear that the U.S. audit firms are simply selling their name and PCAOB-registered status because they are not engaging in independent activity to confirm that the work they are relying on is of high quality. This is significant for a lot of reasons, including that the PCAOB has been prevented from inspecting audit firms in China. (Emphasis added).

27. On June 9, 2011, the SEC issued an Investor Bulletin warning investors about investing in companies that enter U.S. markets through reverse mergers: "[t]here have been instances of fraud and other abuses involving reverse merger companies." Lori J. Schock, Director of the SEC's Office of Investor Education and Advocacy, was quoted as saying that "[g]iven the potential risks, investors should be especially careful when considering investing in the stock of reverse merger companies."

28. On May 14, 2012, the SEC filed a complaint against China Natural and Qinan Ji (the Company's chairman of the Board of Directors (the "Board") and former CEO), regarding the loans described below.

THE LOANS

A. China Natural Enters Into A Securities Purchase Agreement

29. On December 30, 2007, China Natural entered into a "Securities Purchase Agreement" with Abax Lotus Ltd. ("Abax"), which was later amended on January 29, 2008.

30. In early 2008, pursuant to the Securities Purchase Agreement, China Natural sold to Abax a total of $40,000,000 in Senior Notes (the "Senior Notes" or the "Notes"). In connection with the Notes sale, China Natural issued to Abax seven-year warrants (the
“Warrants”) to purchase up to 2,900,000 shares of China Natural common stock at an initial
exercise price of $7.3652 per share, subject to certain adjustments.

31. The Senior Notes were issued to Abax pursuant to an indenture dated January 26, 2008 ("the Indenture"). Among other things, the Indenture limited China Natural’s and its
subsidiaries’ 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.

B. The February 26, 2010 Bank Loan

32. On February 26, 2010, China Natural entered into a bank loan of $17,676,000
with Pudong Development Bank Xi’an Branch ("SPDB") (the “Bank Loan”) under which SPDB
agreed to lend $17,676,000 to the Company’s subsidiary, Jingbian Liquefied Natural Gas Co.,
Ltd. ("JBLNG"). The Company had the right to borrow amounts under the Bank Loan between
March 1, 2010 and June 30, 2010.

33. The Bank Loan was secured by certain assets of the Company’s subsidiary Xi’an
Xilan Natural Gas Co., Ltd. ("XXNGC"), namely its equipment and vehicles located within the
Peoples Republic of China ("PRC") (the “Pledge”), and XXNGC guaranteed the repayment of
the Bank Loan (the “Guarantee”).

34. On March 17, 2010, pursuant to the Bank Loan, SPDB transferred $13.2 million
to JBLNG (the “Drawdown”).

35. The defendant auditors knew or should have known that the pledge of XXNGC’s
equipment and vehicles located within the PRC and the Guarantee of repayment under the Bank
Loan were prohibited by the Indenture.

36. The agreement to enter into the Bank Loan on February 26, 2010 was a material
event subsequent to the closing of the Company’s year-end balance sheet on December 31, 2010
and was required to be disclosed as a material subsequent event in the 10-K on March 10, 2010 under GAAP. GAAP Topic 855, Subsequent Events.

37. $17.7 million is a material amount of debt, and the pledging of its assets and the giving of the guarantee by its operating subsidiary are material events. Therefore, GAAP required disclosure.

38. Due to the prohibition under the Indenture and as a result of the Company’s entering into the Bank Loan, Abax had the right to declare a default under the Indenture after written notice, subject to the Company’s right to cure the default within 30 days.

39. Pursuant to the Indenture, upon an event of default, Abax could accelerate the outstanding indebtedness, including the Senior Notes, together with all accrued interest thereon and demand immediate payment.

40. The existence of Abax’s right to accelerate the outstanding indebtedness required the Company to reclassify the Senior Notes in the amount of $27,300,000 from long term liabilities to short term liabilities.

41. Under the terms of the Warrant agreement, upon an event of default under the Indenture, the warrant holders have the right 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.

42. The warrant holders’ right to require redemption of the Warrants required the Company to reclassify the Warrants in an amount of $17,500,000 from long term liabilities to short term liabilities.
C. Related Party Loans

43. China Natural’s annual and quarterly reports filed with the SEC during the Class Period were false and misleading because they failed to disclose two illegal related party transactions required to be disclosed (the “Related Party Loans”).

44. Xi’an Demaoxing Real Estate Co., Ltd. (“Demaoxing”) was formed in November 2007 by close relatives of Ji, the Company’s Chief Executive Officer (“CEO”) and Chairman of the Board (the “Demaoxing Promoters”).

45. In January 2010, Shaanxi Xilan Natural Gas Equipment Co., Ltd. (“Shaanxi Xilan”), one of the Company’s major subsidiaries, extended a loan of $9,858,240 to Ms. Taoxiang Wang (the “Wang Loan”), who obtained a 40% ownership interest in Demaoxing on January 21, 2010.

46. Ms. Taoxiang Wang used her 40% ownership interest in Demaoxing and its assets as collateral for the Wang Loan.

47. On January 26, 2010, the Wang Loan funds were remitted by Shaanxi Xilan to an account of Demaoxing.

48. Also, in January 2010, XXNGC the variable interest entity of Shaanxi Xilan, extended another loan of $4,401,000 to Shaanxi Juntai Housing Purchase Ltd. (“Juntai”) (the “Juntai Loan”), which obtained a 30% ownership interest in Demaoxing on January 21, 2010.

49. Juntai used an individual guarantee and its 30% ownership interest in Demaoxing and its assets as collateral for the Juntai Loan.

50. XXNGC remitted the Juntai Loan funds to an account designated by Juntai on January 8, 2010 and January 11, 2010.
51. Thus, Wang and Juntai acting as strawmen for Ji’s relatives gave the funds borrowed to Demaoxing – a company owned by Ji’s close family members.

52. The Company’s Board later determined that the Demaoxing Promoters (Ji’s close family members) retained indirect beneficial interests in Demaoxing after transferring their ownership interests and thus the Wang Loan was a related party transaction.

53. The SEC later determined that failing to disclose the related party nature of the loans was a violation of GAAP, and SEC regulations.

54. The Juntai Loan was also a related party transaction because the funds used for the Juntai Loan were China Natural funds that went to benefit Demaoxing, an entity owned and controlled by Ji’s close family members.

FALSE AND MISLEADING STATEMENTS

55. Defendants were required to perform an audit of China Natural in accordance with GAAS. As discussed below, Defendants’ accounting audit practices were so deficient that they deliberately or recklessly ignored significant red flags.

A. The Company’s Annual Report For Fiscal 2009 On Form 10-K Was False And Misleading


57. The Company did not disclose the Bank Loan, the Pledge, or the Guarantee in its 2009 Form 10-K as a subsequent event in the consolidated financial statements footnotes.

58. The Company also did not disclose the Wang Loan or the Juntai Loan as material related party transactions or as material subsequent events. Under Item 13, titled “Related Transactions,” the 2009 Form 10-K listed “none.”
59. GAAP Topic 855, Subsequent Events, required the Company to disclose the Bank Loan, the Pledge, the Guarantee, the Wang Loan and the Juntai Loan in its 2009 Form 10-K as subsequent events on the consolidated financial statements footnotes.

60. In connection with China Natural’s filing with the SEC of its 2009 Form 10-K, the Company failed to disclose the $17.7 million of Bank Loan liabilities it had incurred, the Pledge of assets and the Guarantee.

61. Given the size of the Bank Loan, which was more than its total operating expenses for 2009, the Bank Loan should have been disclosed in China Natural’s financial statements.

62. The defendant auditors knew or should have known that the Bank Loan, Pledge and Guarantee may cause the Notes to be in default.

B. China Natural’s Quarterly Report For Quarter Ended March 31, 2010 Was False And Misleading


64. The Company did not disclose the Bank Loan, the Drawdown, the Pledge, or the Guarantee in its March 2010 Form 10-Q, rendering the March 2010 Form 10-Q false and misleading.

65. The Company also failed to disclose that the Wang Loan and Juntai Loan were made to benefit Ji’s close family members, making the March 2010 Form 10-Q false and misleading.

66. The Company did not properly account for the Bank Loan or the Drawdown in its March 2010 Form 10-Q.
67. In light of the Bank Loan and the Company’s resulting default under the Indenture, the Company misclassified the Senior Notes and the fair value of the Warrants as long term liabilities rather than short term liabilities.

68. On May 7, 2010, the Company falsely and misleadingly understated restricted cash in the amount of $13.2 million and understated bank loans as a liability in the amount of $13.2 million in the consolidated balance sheet included in its March 2010 Form 10-Q.

**FRAZER AND FRIEDMAN’S LIABILITY**

**A. Frazer and Friedman’s Audit Reports**

69. On March 10, 2010, Frazer issued a report on the 2009 financial statements of China Natural which stated:

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 expressed an unqualified opinion.

70. This March 10, 2010 report on the 2009 financial statements of China Natural was presented in the Company’s 2009 Form 10-K, and it was incorporated, by reference (“These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009 . . .”), into the Company’s March 31, 2010 Form 10-Q, June 30, 2010 Form 10-Q, and September 30, 2010 Form 10-Q.

71. On April 29, 2010, Frazer issued a letter consenting to incorporating its March 10, 2010 report into a registration statement on Form S-8, which was filed with the SEC on April 30, 2010.

72. Frazer also reviewed the Company’s financial statements as of and for the quarterly period ended March 31, 2010, June 30, 2010 and September 30, 2010 as contained in the Company’s Forms 10-Q as originally filed with the SEC on May 7, 2010, August 13, 2010, and November 15, 2010, respectively.

73. Frazer resigned as the Company’s independent registered public accounting firm on December 6, 2010.
74. On December 6, 2010, the Company engaged Friedman as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010.

75. On March 14, 2011, Friedman issued a report on the 2010 financial statements of China Natural which stated:

We have audited the accompanying consolidated balance sheet of China Natural Gas, Inc. as of December 31, 2010, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the year then ended. We also have audited China Natural Gas, Inc.'s internal control over financial reporting as of December 31, 2010, 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 these consolidated financial statements, 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 Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
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.

A material weakness is a deficiency, or a 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 as of December 31, 2010:

- As previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and in Amendment No. 2 to the 2009 Form 10-K/A, 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"). Management failed to disclose the Loan, the Pledge and the Guarantee as subsequent events in the footnotes to its consolidated financial statements included in the annual
report on Form 10-K for the year ended December 31, 2009, and to file a current report on Form 8-K within four business days after entry into the Loan, the Pledge and the Guarantee;

- Management failed to disclose the Loan, the Pledge and the Guarantee in the quarterly report on Form 10Q for the quarter ended March 31, 2010, 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;

- Management incorrectly determined that the Pledge constituted a breach of the indenture (the “Indenture”) governing the Company’s 5% guaranteed senior notes issued to Abax Lotus Ltd. dated January 29, 2008 (the “Senior Notes”), which led the Company to erroneously (i) reclassify from long-term liabilities to short-term liabilities the Senior Notes and the fair value of the redeemable warrants (the “Reclassification”) and file related amendments to the Annual Report on Form 10-K for the year ended December 31, 2009 (the “Amended 10-K”) and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the “Amended 10-Q”), (ii) disclose in the Amended 10-K, Amended 10-Q and the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 that the Pledge constituted a breach of the Indenture and (iii) make the Reclassification;

- Management failed 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.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2010 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.
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. has not maintained effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Natural Gas, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

76. Friedman’s March 14, 2011 report was incorporated by reference (“These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 . . .”), into the March 31, 2011 Form 10-Q and the June 30, 2011 Form 10-Q.

77. Friedman also reviewed the Company’s financial statements as of and for the quarterly periods ended March 31, 2011 and June 30, 2011 as contained in the Company’s Forms 10-Q as originally filed with the SEC on May 10, 2011 and August 8, 2011.

78. Frazer’s March 10, 2010 report on China Natural’s 2009 financial statements and Friedman’s March 14, 2011 report on China Natural’s 2010 financial statements were materially (as discussed in SEC Staff Accounting Bulletin No. 99) false and misleading because these financial statements were not presented in accordance with GAAP, nor were they audited in accordance with GAAS as articulated in the “Codification of Statements on Auditing Standards (“AU”).
79. GAAS, as set forth in the Codification of Statements on Auditing Standards, in AU Section 411, describes “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Auditor’s Report.” It states:

The auditor’s opinion that financial statements present fairly an entity’s financial position, results of operations, and cash flows in conformity with generally accepted accounting principles should be based on his judgment as to whether (a) the accounting principles selected and applied have general acceptance; (b) the accounting principles are appropriate in the circumstances; (c) the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation . . . ; (d) the information presented in the financial statements is classified and summarized in a reasonable manner, that is, neither too detailed nor too condensed . . . ; and (e) the financial statements reflect the underlying events and transactions in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in financial statements.

80. The audited financial statements which were contained within the 2009 Form 10-K and 2010 Form 10-K and which were distributed to the investing public during the Class Period were not presented “fairly . . . in conformity with generally accepted accounting principles” because, as particularized above, the:

(a) Accounting principles selected and applied in the preparation of the Company’s 2009 and 2010 year-end financial statements, and the Company’s 2010 and 2011 interim financial statements, did not have general acceptance.

(b) Accounting principles which pervasively impacted the Company’s 2009 and 2010 year-end financial statements, and the Company’s 2010 and 2011 interim financial statements were not appropriate in the circumstances.
(c) The Company's 2009 and 2010 year-end financial statements, and the Company's 2010 and 2011 interim financial statements, including the related notes, were not informative of matters that affected their use, understanding, and interpretation.

(d) The Company's 2009 and 2010 year-end financial statements, and the Company's 2010 and 2011 interim financial statements did not reflect the underlying events and transactions in a manner that presented the financial position and the results of operations within a range of acceptable limits that were reasonable and practicable to attain in financial statements.

81. As revealed through the restatements, the Company's 2009 and 2010 year-end financial statements, and the Company's 2010 and 2011 interim financial statements materially misstated the Company's financial position and failed to disclose material facts regarding related party transactions.

82. SEC Regulation SX requires that financial statements filed with the SEC conform with GAAP. Financial statements filed with the SEC which are not prepared in conformity with GAAP are presumed to be misleading or inaccurate. [17 C.F.R. §210.401 (a)(1)]. The Company's financial statements which were disseminated to the investing public during the Class Period, which represented that the Company's financial position and results of operations were in conformity with GAAP, were false and misleading for the reasons alleged herein.

83. Frazer identified the Wang and Juntai loans during its audit of China Natural's 2009 financial statements but applied no audit procedures to validate the appropriateness of the Company's accounting for, or disclosure of, these loans. Instead, Frazer requested and received from China Natural: (i) a management representation letter which falsely stated that the two loans were for business purposes and did not involve any related parties, and (ii) a legal opinion
from its local legal counsel that the Wang and Juntai loans were not transacted with related parties.

B. Frazer's Recklessness And Extreme Departure From The Standards Of Ordinary Care

84. Frazer knew and ignored, or recklessly failed to know, that GAAS required more than a blind reliance on management's representation. Had Frazer applied even the most basic of audit procedures it would have identified the fact that:

(a) Proceeds of the $9.9 million Wang Loan did not go to the purported borrower (Wang). Instead the proceeds were wired to DMX.

(b) The bank wire advice stated that the disbursement was for "raw material expenses."

85. Given the nature of the audit issue (China Natural's recordation of a loan when the bank records reflected payment for raw materials) and the magnitude ($9.9 million) of the amount involved, Frazer should have significantly expanded the scope of its audit and the nature of its procedures in observance of GAAS (AU Section 316).

86. Had Frazer applied even the most basic of audit procedures (i.e., inspection of Company's records and review of publicly available records to assess evidence regarding the existence, fair value, and transferability of such collateral as well as China Natural's rights to the collateral (AU Section 316 and 322), it would have learned that:

(a) DMX was 100% owned by Ji's son and nephew.

(b) Wang did not own any DMX stock as of the date of the memorialized December 16, 2009 meeting which purported to document discussion of loan terms with Wang.
(c) Neither Wang nor Juntai owned any DMX stock at the time the loan was being negotiated.

(d) DMX had no sales (turnover), equity of no more than approximately $7.3 million, and that a Chinese credit reporting company recommended extension of only a "small amount" of credit. See https://export.writer.zoho.com/public/waldomushman/Xian-Demaoxing-Real-Estate-Col1/fullpage.

(e) Wang purportedly pledged 40% of the shares of DMX, which comprised approximately $2.9 million of DMX's total of approximately $7.3 million equity, and received a loan from China Natural of $9.9 million. Hence, the loan which China Natural granted was approximately $7 million more than the worth of the collateral that Wang purported to own.

(f) Juntai purportedly pledged certain assets and 30% of the shares of DMX, which comprised approximately $2.2 million of DMX's total of approximately $7.3 million equity, and received a loan of $4.4 million. Hence, the loan which China Natural granted was approximately $2 million more than the worth of the collateral that Wang purported to own.

(g) Neither the Wang Loan nor the Juntai Loan were approved by China Natural's Board although China Natural's policies and procedures at the time required Board approval of all related party and material transactions.

(h) Neither the Wang Loan nor the Juntai Loan were signed off by China Natural's CFO and relevant department manager although China Natural's policies and
procedures at the time required sign-off by the CFO and relevant department manager in accordance with China Natural’s contract approval policy and cash disbursement policy.

(i) There was no business purpose for the Wang and Juntai loans.

(j) The Wang and Juntai loans were related party transactions.

87. GAAS (AU Section 330) states: Confirmation is the process of obtaining and evaluating a direct communication from a third party in response to a request for information about a particular item affecting financial statement assertions.” GAAS further states that the confirmation process includes “communicating the confirmation request to the appropriate third party” and “obtaining the response from the third party.”

88. Frazer knew and ignored, or recklessly failed to know, that GAAS required this direct communication with third parties in order to maintain the integrity of the confirmation process and asked China Natural to serve as an intermediary to obtain and furnish to Frazer a legal opinion stating that the Wang and Juntai loans were not transacted with related parties.

89. Frazer placed reliance on this legal opinion without any assurance that the opinion letter was prepared by an attorney with knowledge of the relevant facts, and without knowing whether the attorney was in a position to know if Wang, Juntai, DMX, Ji and/or China Natural were related parties as defined in FASB Accounting Standards Codification 850 (“Codification 850”), formerly known as Statement of Financial Accounting Standards No. 57.

90. Frazer also failed to comply with the provisions of GAAS (AU Section 560) which requires the auditor to inquire of “officers and other executives having responsibility for financial and accounting matters” about changes in the Company’s “long-term debt, or working capital” from the balance sheet date to the date of the auditor’s report (which date is generally at or near the completion of the fieldwork -- AU Section 530).
91. If Frazer complied with GAAS, it would have identified the fact that (i) in February 2010, the Company obtained a bank loan in the amount of $17.7 million and in connection therewith caused its variable interest entity to guarantee the loan and to pledge its equipment and vehicles located within China as security for the loan; and that (ii) the Company’s 2009 year-end financial statements did not disclose this material event in a “subsequent events” note.

92. Management failed to disclose the $17.7 million loan, the Pledge and the Guarantee as a subsequent event in notes to the consolidated financial statements which were included in the annual report on Form 10-K for the year ended December 31, 2009. Because Frazer did not comply with GAAS in its audit of subsequent events, it (i) did not know that these disclosures were improperly omitted from China Natural’s 2009 year-end financial statements, and (ii) it did not issue the required qualified opinion on China Natural’s 2009 year-end financial statements (AU Section 530).

93. Management also failed to disclose the Wang and Juntai loans in a subsequent event note to China Natural’s 2009 year-end financial statements.

94. Frazer knew of these loans as evidenced by the fact that Frazer requested a management representation letter and a legal opinion letter addressing these loans. In reckless disregard of its disclosure responsibilities under GAAS (AU Sections 508 and 530), Frazer failed to issue the required qualified opinion on China Natural’s 2009 year-end financial statements (AU Section 530) due to China Natural’s failure to disclose the material loans.

95. Based upon all of the foregoing, there is no question that Frazer failed to comply with GAAS in connection with its audit of China Natural’s 2009 financial statements, and that (i) Frazer performed audit procedures in a manner which constituted a reckless departure from the
standards of ordinary care, and it (ii) recklessly failed to perform audit procedures which were appropriate and necessary under the circumstances.

96. As particularized herein, Frazer was reckless in that it failed to investigate extremely questionable transactions and made audit judgments that no reasonable auditor would have made if confronted with the same facts. In this regard, Frazer’s audit of China Natural’s 2009 financial statements was so deficient that it amounted to no audit at all.

97. During China Natural’s May 10, 2010 earnings conference call, Ji stated that the Wang and Juntai loans involved senior Chinese government officials who were in charge of the Company’s liquid natural gas project. The legal and audit implications of this statement were profound. They should have triggered the application of procedures focusing squarely on the nature of the Wang and Juntai loans in observance of GAAS (AU Section 561) which states:

When the auditor becomes aware of information which relates to financial statements previously reported on by him, but which was not known to him at the date of his report, and which is of such a nature and from such a source that he would have investigated it had it come to his attention during the course of his audit, he should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of his report.

98. Had Frazer revisited the Wang and Juntai loans as required by GAAS, it would have discovered the related party nature of these loans.

99. Frazer did not comply with GAAS (AU Section 561) and, therefore, recklessly failed to know that:

(a) DMX was 100% owned by Ji’s son and nephew;

(b) Wang did not own any DMX stock as of the date of the memorialized December 16, 2009 meeting which purported to document discussion of loan terms with Wang;
(c) Neither Wang nor Juntai owned any DMX stock at the time the loan was being negotiated;

(d) DMX had no sales (turnover), equity of no more than approximately $7.3 million, and that a Chinese credit reporting company recommended extension of only a “small amount” of credit. See https://export.writer.zoho.com/public/waldomushman/Xian-Demaoxing-Real-Estate-Col/fullpage;

(e) Wang purportedly pledged 40% of the shares of DMX, which comprised approximately $2.9 million of DMX’s total of approximately $7.3 million equity, and received a loan from China Natural of $9.9 million. Hence, the loan which China Natural granted was approximately $7 million more than the worth of the collateral that Wang purported to own;

(f) Juntai purportedly pledged certain assets plus 30% of the shares of DMX, which comprised approximately $2.2 million of DMX’s total of approximately $7.3 million equity, and received a loan of $4.4 million. Hence, the loan which China Natural granted was approximately $2 million more than the worth of the collateral that Wang purported to own;

(g) Neither the Wang loan nor the Juntai loan were approved by China Natural’s Board although China Natural’s policies and procedures at the time required Board approval of all related party and material transactions;

(h) Neither the Wang loan nor the Juntai loan were signed off by China Natural’s CFO and relevant department manager although China Natural’s policies and
procedures at the time required sign-off by the CFO and relevant department manager in accordance with China Natural’s contract approval policy and cash disbursement policy;

(i) There was no business purpose for the Wang and Juntai loans; and

(j) The Wang and Juntai loans were related party transactions.

100. Due to Frazer’s reckless disregard of GAAS, the audited financial statements that appeared in China Natural’s 2009 Form 10-K, and the financial statements that appeared in the 2010 first, second, and third quarter were materially false and misleading. As the SEC noted, “China Natural’s Forms 10-Q for the first three quarters of 2010 falsely and misleadingly described the two loans as loans to third parties, and failed to disclose the involvement of any related parties. China Natural’s Form 10-K for 2010 did not contain any required disclosure for the two related party loans . . .”

C. Friedman’s Recklessness And Extreme Departure From The Standards Of Ordinary Care

101. Friedman, like Frazer, had unrestricted access to all of China Natural’s books and records, officers, directors, and staff. Moreover, Friedman was required to audit the above discussed loan transactions because they were 2010 transactions and Friedman was auditing China Natural’s 2010 financial statements. No documents were concealed from Friedman just as no documents were concealed from Frazer as evidenced by the fact that their audit reports did not refer to any scope limitation.

102. Friedman was confronted with the same red flags (China Natural’s recordation of a $9.9 million loan when the bank records reflected payment for raw materials) as Frazer and, like Frazer, Friedman failed to perform its audit of China Natural’s 2010 financial statements in conformity with GAAS. Because Friedman’s audit deficiencies mirrored those of Frazer (as specified above), Friedman recklessly failed to detect the fact that:
(a) Proceeds of the $9.9 million Wang loan did not go to the purported borrower (Wang). Instead the proceeds were wired to DMX.

(b) The bank wire advice stated that the disbursement was for “raw material expenses.”

(c) DMX was 100% owned by Ji’s son and nephew.

(d) Wang did not own any DMX stock as of the date of the memorialized December 16, 2009 meeting which purported to document discussion of loan terms with Wang.

(e) Neither Wang nor Juntai owned any DMX stock at the time the loan was being negotiated.

(f) DMX had no sales (turnover), equity of no more than approximately $7.3 million, and that a Chinese credit reporting company recommended extension of only a “small amount” of credit. See https://export.writer.zoho.com/public/waldomushman/Xian-Demaoxing-Real-Estate-Co1/fullpage.

(g) Wang purportedly pledged 40% of the shares of DMX, which comprised approximately $2.9 million of DMX’s total of approximately $7.3 million equity, and received a loan from China Natural of $9.9 million. Hence, the loan which China Natural granted was approximately $7 million more than the worth of the collateral that Wang purported to own.

(h) Juntai purportedly pledged certain assets plus 30% of the shares of DMX, which comprised approximately $2.2 million of DMX’s total of approximately $7.3 million equity, and received a loan of $4.4 million. Hence, the loan which China Natural
granted was approximately $2 million more than the worth of the collateral that Wang purported to own.

(i) Neither the Wang loan nor the Juntai loan were approved by China Natural's Board although China Natural's policies and procedures at the time required Board approval of all related party and material transactions.

(j) Neither the Wang loan nor the Juntai loan were signed off by China Natural's CFO and relevant department manager although China Natural's policies and procedures at the time required sign-off by the CFO and relevant department manager in accordance with China Natural's contract approval policy and cash disbursement policy.

(k) There was no business purpose for the Wang and Juntai loans.

(l) The Wang and Juntai loans were related party transactions.

103. Due to Friedman's reckless disregard of GAAS, the audited financial statements that appeared in China Natural's 2010 Form 10-K, and the financial statements that appeared in the 2011 first and second quarter Form 10-Q were materially false and misleading.

D. Interim Reviews

104. On December 22, 1999, the SEC adopted new rules designed to add discipline to the quarterly financial reporting process, facilitate early identification and resolution of material accounting and reporting issues, and enhance the reliability and credibility of financial statements of public companies. Among other things, the new rules required that effective for fiscal quarters ending on or after March 15, 2000, companies' interim financial statements were to be reviewed by independent auditors before companies filed their Form 10-Q with the SEC. As stated by the SEC, (Release No. 34-42266):

We are adopting, as proposed, amendments to Rule 10-01(d) of Regulation S-X and Item 310(b) of Regulation S-B to require that
a company's interim financial statements be reviewed by an independent public accountant prior to the company filing its Form 10-Q or 10-QSB with the Commission. The amendments would require that independent auditors follow "professional standards and procedures for conducting such reviews, as established by generally accepted auditing standards, as may be modified or supplemented by the Commission." Under current auditing standards, this means that the auditors would be required to follow the procedures set forth in SAS 71, or such other auditing standards that may in time modify, supplement, or replace SAS 71.

As noted above, we believe that more discipline is needed for the quarterly financial reporting process. We believe that the reviews required will facilitate early identification and resolution of material accounting and reporting issues because the auditors will be involved earlier in the year.

Early involvement of the auditors should reduce the likelihood of restatements or other year-end adjustments and enhance the reliability of financial information. In addition, as a result of changes in the markets, companies may be experiencing increasing pressure to "manage" interim financial results. Inappropriate earnings management could be deterred by imposing more discipline on the process of preparing interim financial information before filing such information with the Commission.

105. Given the SEC's focus on auditor-involvement in improved interim financial reporting, auditors cannot be shielded from liability for failure to detect a glaringly obvious financial statement fraud simply because a review, and not an audit, was performed.

106. Frazer's reviews of the financial statements that were contained in China Natural's Forms 10-Q for the first three quarters of 2010 and Friedman's reviews of the financial statements that were contained in China Natural's Forms 10-Q for the first and second quarters of 2011 constituted a reckless departure from professional standards.

107. GAAS (AU Section 722) provides guidance on the nature, timing, and extent of procedures to be applied in conducting a review of interim financial information. It also notes that a review of interim financial information necessitates the (i) identification of the types of
potential material misstatements in the interim financial information and consideration of the likelihood of their occurrence; and (ii) the selection of the inquiries and analytical procedures that will provide the accountant with a basis for reporting whether material modifications should be made for such information to conform with generally accepted accounting principles.

108. During the performance of its review of the Company’s financial statements for the quarter ended March 31, 2010, Frazer failed to perform appropriate interim review procedures and, therefore, failed to learn that disclosures concerning the $17.7 million loan did not conform with GAAP.

109. Similarly, during the performance of its review of the Company’s financial statements for the first, second and third quarters of 2010 Frazer failed to perform appropriate interim review procedures and thus failed to learn that the Wang and Juntai loans were not properly authorized, approved and classified.

110. If a review of interim financial statements were to consist solely of identification of questionable figures followed by a blind reliance on the veracity of explanations provided by those responsible for the preparation of these financial statements, then a review would constitute nothing more than a perfunctory rubber-stamping of whatever management chose to publish and disseminate to the investing public.

111. As stated above, GAAS (AU Section 333) states that “representations from management are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion.”
112. Upon learning of the existence of the Wang and Juntai loans, Frazer was required by professional standards (as particularized above) to do more than simply ask China Natural's management whether they were related party loans.

113. Frazer was required to employ (AU Section 722) "other procedures . . . appropriate to provide the limited assurance for a review engagement" and "a basis for reporting whether material modifications should be made for such [interim financial] information to conform with generally accepted accounting principles."

114. Had Frazer performed these procedures, it could not have avoided knowing of the falsity of the Company's financial statements.

115. Friedman's reviews of China Natural's 2011 first and second quarter financial statements were not performed in compliance with professional standards for the same reasons that Frazer's reviews of China Natural's 2010 first, second, and third quarter financial statements were not performed in compliance with professional standards as specified above. Accordingly, Friedman recklessly failed to know of the falsity of the Company's financial statements.

116. Friedman assumed the duties of China Natural's independent auditor after Ji had publicly stated that the Wang and Juntai loans were made to Chinese government officials to obtain the necessary approvals for its liquid natural gas project and after an investigation, focusing on the loans, had been commenced. Friedman ultimately concluded that Wang was a related party, but that Juntai was not.

117. It is incomprehensible and reckless that Friedman could have reached this conclusion when the two loans were made at the same time, to two individuals who pledged large blocks of stock in the same privately held company.
A. The Company’s First Restatement

118. On August 13, 2010, after the close of the market, the Company filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (“June 2010 Form 10-Q”).

119. In its June 2010 Form 10-Q, the Company admitted that it had violated GAAP by not disclosing the Bank Loan and not reporting the cash from the Bank Loan and improperly classifying the Senior Notes and Warrants as long term liabilities on its balance sheet, and therefore its 2009 Form 10-K and its March 2010 Form 10-Q were false and misleading.

120. The Company admitted in its June 2010 Form 10-Q the following:

(a) The Bank Loan of $17.7 million was not disclosed in the Company’s 2009 Form 10-K as a subsequent event in the consolidated financial statements footnotes in violation of GAAP;

(b) Immediately after the filing of the Company’s June 2010 Form 10-Q, the Company will amend its Annual Report on Form 10-K and restate its financial statements for the year ended December 31, 2009 to disclose the Bank Loan of $17.7 million as a material subsequent event;

(c) The Company understated its restricted cash in the amount of $17.7 million and did not report the Bank loan of $17.7 million as a liability in its consolidated balance sheet as of March 31, 2010;

(d) Immediately after the filing of the Company’s June 2010 Form 10-Q, the Company would amend its Quarterly Report on Form 10-Q for the three months ended March 31, 2010 to restate its financial statements to properly account for the restricted cash;
(e) The Company had improperly classified as long term liabilities the senior notes payable and the fair value of redeemable warrants in the amount of $45.6 million on China Natural’s balance sheet; and

(f) The Company would amend its Quarterly Report on Form 10-Q for the three months ended March 31, 2010 to restate its financial statements and reclassify as short term liabilities the senior notes payable and fair value of the redeemable warrants in the amount of $45.6 million in China Natural’s consolidated balance sheet as of March 31, 2010.

B. China Natural’s Quarterly Report for Quarter Ended June 30, 2010 was False and Misleading

121. The Company also failed to disclose that the Wang Loan and the Juntai Loan were made for the benefit of Ji’s close family members, making the June 2010 Form 10-Q false and misleading.

122. On August 19, 2010, the Company filed a Form 8-K with the SEC, which stated as follows:

Item 4.02. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

On August 13, 2010, the Board of Directors of China Natural Gas, Inc. (the “Company”), in consultation with management and its Audit Committee, determined that the previously issued financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 can no longer be relied upon because of the errors discussed below in those financial statements, and that the Company will restate these financial statements to make the necessary accounting corrections. Our independent auditors have informed us that their reports originally issued related to the financial statements for the year ended December 31, 2009 and to the effectiveness of our internal
control over financial reporting for the related periods also should not be relied upon.

As previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, the management and the Board of Directors identified a material weakness in internal control over financial reporting for failure to disclose a bank loan in the amount of $17.7 million entered into on February 26, 2010 (the "Bank Loan"). This weakness resulted in the Company's understating its restricted cash by the amount of the Bank Loan.

In addition, in connection with the Bank 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 Bank Loan (the "Pledge") and guaranteed the repayment of the Bank Loan. The Pledge is prohibited by the Indenture for the 5% Guaranteed Senior Note issued to Abax Lotus Ltd. ("Abax") dated January 26, 2008 (the "Senior Notes"). As a result, Abax has the right to declare a default under the Indenture after written notice and the Company's 30 days right to cure. Upon an event of default, Abax may accelerate the outstanding indebtedness together with all accrued interest thereon and demand immediate repayment. As of the date of this report, the Company has not received a notice of default from Abax.

Also 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.

Due to the potential event of default, the Company is required to reclassify from long term liabilities to short term liabilities for the Senior Notes and the fair value of the redeemable warrants in the amount of $45.6 million in its consolidated balance sheet as of March 31, 2010. The Company will amend its Annual Report on Form 10-K for the year ended December 31, 2009 to reclassify the liabilities for the Senior Notes and the fair value of the redeemable warrants and to disclose the Bank Loan as a subsequent event on the consolidated financial statements footnotes. In addition, the Company will also amend its Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 to reclassify the liabilities for the
Senior Notes and the fair value of the redeemable warrants. The Audit Committee of the Company’s Board of Directors has discussed the forgoing matters with the Company’s Chief Financial Officer and its independent registered public accounting firm and our independent auditor, Frazer Frost, LLP expressed agreement with the Company’s determination to amend the above referenced reports.

123. On August 20, 2010, the Company filed an Amendment No. 1 on Form 10-K/A in which it restated its annual consolidated financial statements as of December 31, 2009.

124. The Company’s restatement resulted in the reclassification of the Senior Notes and the fair value of the redeemable warrants from long term liabilities to short term liabilities in light of the Bank Loan and resulting default under the Indenture.

125. In its 2009 Form 10-K, the Company originally reported total current liabilities of $6,663,319. As restated, the Company reported total current liabilities of $51,455,606, representing a difference of $44,792,287 or an increase of over 700% in short term liabilities.

126. In its March 2010 Form 10-Q, the Company originally reported total current liabilities of $7,344,135. As restated, the Company reported total current liabilities of $52,897,627, representing a difference of $45,553,492 or an increase of over 600% in short term liabilities.

127. As a result of these adverse disclosures concerning the Bank Loan, Pledge, and Guaranty, the default on the Senior Notes and the need to restate China Natural’s financial statements, the closing price for China Natural shares declined markedly on elevated volume from a closing price of $6.64 on August 13, 2010, to a closing price on August 24, 2010 of $5.29 per share, representing a 20% decline from the closing price on August 13, 2010.
128. China Natural stock dropped 3.5% ($0.23 per share) on August 16, 2010 (the next trading day following the August 13 press release), and it dropped 4.2% and 2.6% on the next two days.

129. The drop resulted from the negative news in the August 13, 2010 8-K disclosing the Bank Loan, Pledge, and Guarantee, and the need for a restatement and that “Key executives” had entered into the Bank Loan, Wang Loan and Juntai Loan transactions without Board approval.

130. On August 19, 2010, China Natural’s share price dropped 6.2% ($0.37 per share) and on August 20, another 3.4% ($0.19 per share) and continued falling to reach $5.29 per share on August 24, 2010 as a result of the negative news that the Bank Loan, Pledge, and Guaranty, had caused a default of the Senior Notes and that Roth Capital had consequently cut its rating on China Natural to sell.

C. The Company’s Second Restatement

131. On September 15, 2010, the Company announced that its amended Form 10-K/A for the year ended December 31, 2009 and its amended Form 10-Q/A for the quarter ended March 31, 2010 could no longer be relied upon.

132. In other words, China Natural was going to restate once again the financial statements it had just weeks earlier restated.

133. On September 16, 2010, the Company filed a current report on Form 8-K that stated in part: “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, management approached the law firm DLA Piper, which had not previously advised the
Company or management on these matters, to review and confirm the Company’s analysis. The Company then engaged DLA Piper as its regular outside counsel for SEC reporting and other public company matters in early September 2010.”

134. On news of the second restatement demonstrating that China Natural’s financial statements were unreliable, the price for China Natural shares closed at $5.81 per share on September 16, 2010, dropping 3.5% ($0.21 per share). Shares again closed lower on September 17, 2010, dropping an additional 9.5% to close at $5.26 per share ($0.55 per share).


136. The Company also amended its June 2010 Form 10-Q, filing Amendment No. 1.

137. In the amended 10-Q and 10-K, the Company reversed the accounting changes it had previously made, again changing the classification of its liabilities, this time from short-term back to long-term.

138. Importantly, the Company did not reverse its admission that it had violated GAAP by failing to report the Bank Loan, Pledge and Guarantee as a subsequent events in the 2009 Form 10-K. The Company also did not reverse its admission that the Bank Loan must be reported as a liability and the related restricted cash as an asset in the March 2010 Form 10-Q.

D. China Natural’s Quarterly Report For Quarter Ended Sept. 30, 2010 Was False And Misleading

139. On November 15, 2010, the Company filed its third quarter Form 10-Q for the period ended September 30, 2010 (“September 2010 Form 10-Q”).

140. The Company omitted to disclose the Wang Loan and Juntai Loan, making the September 2010 Form 10-Q false and misleading as it violated GAAP and SEC regulations described above.
E. China Natural’s Auditor Frazer And CFO Terminated

141. On December 6, 2010, Frazer resigned as the Company’s auditor and the Company hired Friedman to serve as the Company’s independent auditor that same day.

142. The Company’s CFO, She, resigned on December 8, 2010.

143. On December 20, 2010, the Company hired Bode Xu as CFO and Principal Financial and Accounting Officer (“Xu”), replacing She.

F. China Natural’s Annual Report For Fiscal 2010 On Form 10-K Was False And Misleading

144. On March 14, 2011, China Natural filed its 2010 Form 10-K.

145. The Company failed to disclose the Wang Loan and the Juntai Loans were for the benefit of related parties, making the 2010 Form 10-K false and misleading as it violated GAAP and SEC regulations described above.

G. China Natural’s Quarterly Report For Quarter Ended March 31, 2011 Was False And Misleading

146. On May 10, 2011, the Company filed its periodic report on Form 10-Q for the period ended March 31, 2011.

147. The March 31, 2011 Form 10-Q was materially false and misleading because it failed to disclose that the Wang Loan and the Juntai Loan were made for the benefit of CEO Ji’s close family members.

II. The Company’s Third Restatement

148. On June 14, 2011, China Natural filed its financial statements on Form 10-K/A for the fiscal year ended December 31, 2009 (“Amendment No. 3”). This filing was the third time the Company amended its 2009 Form 10-K.
149. The purpose of Amendment No. 3 was to disclose (i) that China Natural did not maintain personnel with a sufficient level of accounting knowledge, experience and training in the application of GAAP and SEC requirements, which constitutes a material weakness in its internal control over financial reporting (in addition to the material weaknesses previously disclosed in Amendment No. 2); and (ii) Amendment No. 3 also described China Natural’s management’s remediation initiatives undertaken with respect to the lack of internal controls.

150. On June 30, 2011, in a letter, the staff of the SEC again urged Ji to be certain that China Natural’s Form 10-K for the fiscal year ended December 31, 2009 included the information the Exchange Act and all applicable rules required.

I. China Natural’s Quarterly Report For Quarter Ended June 30, 2011 Was False And Misleading

151. On August 8, 2011, China Natural filed with the SEC its report for the quarterly period ended June 30, 2011 on Form 10-Q.

152. The Form 10-Q failed to disclose the related party nature of the Wang Loan and the Juntai Loan, making the June 30, 2011 Form 10-Q false and misleading.

RELATED-PARTY LOANS DISCLOSED

A. Illegal Related-Party Loans Are Disclosed

153. On September 21, 2011, the Company filed a current report on Form 8-K revealing that it had engaged in undisclosed related-party transactions in violation of GAAP and SEC regulations. The press release stated in pertinent part:

The Company’s Board of Directors has concluded that the Company’s unaudited interim financial statements for the three months ended March 31, 2010 (included in the Company’s Quarterly Report on Form 10-Q/A filed with the Securities and Exchange Commission (the “SEC”) on October 1, 2010), unaudited interim financial statements for the six months ended June 30, 2010 (included in the Company’s Quarterly Report on
Form 10-Q/A filed with the SEC on October 1, 2010), unaudited interim financial statements for the nine months ended September 30, 2010 (included in the Company’s Quarterly Report on Form 10-Q filed with the SEC on November 15, 2010), and audited financial statements for the fiscal year ended December 31, 2010 (included in the Company’s Annual Report on Form 10-K/A filed with the SEC on June 14, 2011) (collectively, the “Subject Financial Statements”), should no longer be relied upon due to a failure to correctly disclose as a related party transaction the Wang Loan (defined below) previously disclosed in the Subject Financial Statements. The Company’s Board of Directors has concluded that the Wang Loan was made to parties related to the Company’s Chief Executive Officer and Chairman of the Company’s Board of Directors, Mr. Qinan Ji, or to benefit those related parties, and that the nature of the Wang Loan had not been properly disclosed to the Company’s Board of Directors and Audit Committee, its Independent Registered Public Accounting Firm, Frazer Frost, LLP at the time the Wang Loan was made, and its current Independent Registered Public Accounting Firm, Friedman LLP at the time they were engaged as the Company’s new Independent Registered Public Accounting Firm in December 2010. Furthermore, neither of the Loans (defined below) were reported to or approved by the Company’s Board of Directors.

154. The September 21, 2011, press release stated that the Board of Directors was demanding the replacement of Ji as CEO and the resignation of certain employees involved in the related party nature of the Wang Loan.

155. Also on September 21, 2011, in response to the negative news concerning the related party nature of the Wang Loan and the Juntai Loan and the termination of Ji, NASDAQ halted trading in China Natural stock at approximately $1.60 per share.

156. NASDAQ stated that trading in China Natural shares will remain halted “until China Natural Gas, Inc. has fully complied with Nasdaq’s request for additional information.”

157. On March 8, 2012, the Company’s common stock started to trade again at a price of $1.15. As of the filing of this complaint, China Natural common stock trades at approximately $1.05.
PERTINENT GAAP GUIDELINES

158. GAAP constitutes those standards recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practices at a particular time.

159. GAAP are the common set of accounting principles, standards, and procedures that companies in the United States use to compile their financial statements.

160. The SEC has the statutory authority for the promulgation of GAAP for public companies and has delegated that authority to the Financial Accounting Standards Board (the “FASB”).

161. The financial statements included in China Natural’s 2009 and 2010 10-Ks falsely purport to be prepared in conformity with GAAP.

162. SEC and NASDAQ rules and regulations require that publicly traded companies such as China Natural include financial statements that comply with GAAP in their annual and quarterly reports filed with the SEC. See Section 13 of the Exchange Act; Rule 10-01(d) of Regulation SX.

163. SEC Rule 4-01(a) of Regulation S-X states that “[f]inancial statements filed with the Commission which are not prepared in accordance with generally accepted accounting principles will be presumed to be misleading or inaccurate.” 17 C.F.R. § 210.4-01(a)(1) (emphasis added).

164. GAAP Statement of Financial Accounting Standards (“SFAS”) and SEC regulation S-K required the Company to disclose all material related party transactions.

165. SFAS No. 57 and No. 850 provide that a public company’s “[f]inancial statements shall include disclosures of material related party transactions.” SFAS No. 57 ¶ 2; 850-10-50-1.
166. "Related party transactions" include those between “an enterprise and its principal owners, management, or members of their immediate families” and those between a company and its “affiliates.” SFAS No. 57 ¶ 1; 850-10-05-3. “Affiliate” includes any company that is under common control or management with the public company. SFAS No. 57 ¶ 24(a, b); 850-10-20.

167. Disclosures of related party transactions shall include (a) the nature of the relationship involved; (b) a description of the transactions for each period for which income statements are presented and such other information necessary to an understanding of the effects of the transactions on the financial statements; (c) the dollar amount of transactions for each of the periods for which income statements are presented; and (d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement. SFAS No. 57 ¶ 2; 850-10-50-1.

168. China Natural admitted in a form 8-K filed with the SEC on September 21, 2011 that GAAP required the Wang Loan be disclosed in China Natural’s financial statements. China Natural admitted in the 8-K that the failure to disclose the Wang Loan was a violation of GAAP requiring China Natural to restate its financial statements.

SEC REGULATIONS MANDATE DISCLOSURE

169. SEC Regulation S-K (“Reg. S-K”) (together with the General Rules and Regulations under the Securities Act of 1933 [“Securities Act”] and the Exchange Act and the forms under these Acts) states the requirements applicable to the content of the non-financial statement portions of the annual reports on form 10-K, quarterly reports on form 10-Q and proxy statements on from 14A. See Reg. S-K, § 229.10.
170. Reg. S-K at Section 229.404, Item 404, required, at all times during the Class Period, that the Company “describe any transaction, since the beginning of the registrant’s last fiscal year, or any currently proposed transaction, in which the registrant was or is to be a participant and the amount involved exceeds $120,000, and in which any related person had or will have a direct or indirect material interest.”

171. Reg. S-K required the disclosure of detailed information concerning related party transactions exceeding $120,000, including the names of the “related person” or entity participating in the transaction, and the amounts of the transaction.

172. Reg. S-K Section 229.303, Item 404 (b)(1)(6) also mandates disclosure of any other relationships that the registrant is aware of between the nominee or director and the registrant that are substantially similar in nature and scope to those relationships listed in paragraphs (b)(1) through (5).

173. A “related person” is defined by Reg. S-K as including any director or executive officer of the Company, any nominee for director, or any immediate family member of a director or executive officer of the registrant, or of any nominee for director or any 5% or greater shareholder.

**LEAD PLAINTIFF’S CLASS ACTION ALLEGATIONS**

174. Lead Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired China Natural’s securities between March 10, 2010 through September 21, 2011, inclusive, seeking to pursue remedies under the Exchange Act.

175. The members of the Class are so numerous that joinder of all members is impracticable. As of March 23, 2012, there were 21,458,654 shares of China Natural’s common stock outstanding. While the exact number of Class members is unknown to Lead Plaintiff at
this time and can only be ascertained through appropriate discovery, Lead Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by China Natural or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

176. Lead Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

177. Lead Plaintiff will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

178. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether Defendants' audit of the Company's financials during the Class Period were reckless; and

(c) whether the members of the Class have sustained damages and, if so, the proper measure of damages.

179. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually
redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

**LOSS CAUSATION**

180. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Lead Plaintiff and the Class.

181. During the Class Period, Lead Plaintiff and the Class purchased common stock of China Natural at artificially inflated prices and were damaged thereby. The price of China Natural's common stock significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

**SCIEN TER ALLEGATIONS**

182. Defendants audits were reckless because they: (i) knew or were reckless in not knowing that the public statements issued or disseminated by the Company were materially false and misleading; (ii) knew that such statements would be issued or disseminated to the investing public; and (iii) knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.

**APPLICABILITY OF PRESUMPTION OF RELIANCE: AFFILIATED UTE**

183. Neither Lead Plaintiff nor the Class (defined herein) need prove reliance -- either individually or as a class -- because under the circumstances of this case, which involve omissions of material fact as described above, positive proof of reliance is not a prerequisite to recovery, pursuant to the ruling of the United States Supreme Court in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128; 92 S. Ct. 1456; 31 L. Ed. 2d 741; 1972 U.S. LEXIS 163; Fed. Sec. (1972). All that is necessary is that the facts withheld be material in the sense that a
reasonable investor might have considered the omitted information important in deciding whether to buy or sell the subject security.

**APPLICABILITY OF PRESUMPTION OF RELIANCE:**

**FRAUD ON THE MARKET DOCTRINE**

184. At all relevant times, the market for China Natural's securities was an efficient market for the following reasons, among others:

(a) China Natural's stock was traded on the OTC Bulletin Boards with trading volume in the hundreds of thousands of shares or more throughout the Class Period;

(b) As a regulated issuer, China Natural filed periodic public reports with the SEC;

(c) China Natural regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) China Natural was followed by several securities analysts during the Class Period which analyses were publicly available and/or entered the public marketplace.

185. As a result of the foregoing, the market for China Natural's common stock promptly digested current information regarding China Natural from all publicly-available sources and reflected such information in China Natural's stock price. Under these circumstances, all purchasers of China Natural's common stock during the Class Period suffered similar injury through their purchase of China Natural's common stock at artificially inflated prices and a presumption of reliance applies.
FIRST CLAIM

Violation of Section 10(b) Of The Exchange Act And Rule 10b-5
Promulgated Thereunder Against Defendants

186. Lead Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

187. During the Class Period, Defendants: (a) knowingly and/or recklessly deceived the investing public, including Lead Plaintiff, as alleged herein; (b) artificially inflated the market price of China Natural’s common stock; and (c) caused Lead Plaintiff and the Class to purchase or otherwise acquire China Natural common stock at artificially-inflated prices.

188. Defendants, in violation of Section 10(b) of the Exchange Act and Rule 10b-5(b), omitted to state material facts necessary to make the statements made by the Company not misleading, and/or substantially participated in the creation of the alleged misrepresentations, which operated as a fraud and deceit upon Lead Plaintiff and the Class, in an effort to maintain the artificially inflated price of China Natural’s common stock during the Class Period.

189. Defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with applicable laws and regulations.

190. Defendants, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, made or substantially participated in the creation/dissemination of, untrue statements of material fact as set forth herein, or with recklessness failed to ascertain and disclose truthful facts, even though such facts were available to them.

191. The facts alleged herein give rise to a strong inference that Defendants acted with scienter and/or with recklessness.
192. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of China Natural common stock was artificially inflated throughout the Class Period.

193. As a direct and proximate result of Defendants' wrongful conduct, Lead Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of China Natural common stock during the Class Period, when the inflation in the price of China Natural's common stock was gradually removed as the truth regarding Defendants' conduct was revealed causing the price of China Natural's common stock to decline and thereby resulting in economic losses to Lead Plaintiff and the Class.

194. By reason of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5(b) promulgated thereunder, and are liable to Lead Plaintiff and the Class for damages suffered in connection with their transactions in China Natural's common stock during the Class Period.

WHEREFORE, Lead Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding damages in favor of Lead Plaintiff and the other Class members against all Defendants for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Lead Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Lead Plaintiff hereby demands a trial by jury.
Dated: June 26, 2012

GAINEY & McKENNA

By: [Signature]

Thomas J. McKenna
Gregory M. Egleston (Of Counsel)
440 Park Avenue South, 5th Floor
New York, NY 10016
Telephone: 212-983-1300
Facsimile: 212-983-0380
Email: tjmckenna@gayneandmckenna.com
Email: egleston@gme-law.com

Lead Counsel for Plaintiff and the Class
CERTIFICATION OF NAMED PLAINTIFF

1. LARRY A. WESSLER ("Plaintiff") hereby retain counsel to pursue my claims on a
   contingent fee basis and for counsel to advance the costs of the case, with no attorneys' fees owing except as may
   be awarded by the court at the conclusion of the matter and paid out of any recovery obtained and I also hereby
   declare the following as to the claims asserted under the law that:

   Plaintiff did not purchase the security that is the subject of this action at the direction of Plaintiff's
   counsel or in order to participate in this private action.

   Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony
   at deposition and trial, if necessary.

   Plaintiff's transactions in China Natural Gas, Inc. security that is subject of this action during the Class
   Period are as follows:

<table>
<thead>
<tr>
<th>No. of Shares</th>
<th>Stock Symbol</th>
<th>Buy/Sell</th>
<th>Date</th>
<th>Price Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,000</td>
<td>CHN6</td>
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<td>5/13/11</td>
<td>4.5895</td>
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</tbody>
</table>

   Please list other transactions on a separate sheet of paper, if necessary.

   Plaintiff has sought to serve as a class representative in the following cases within
   the last three years: (No)

   Plaintiff will not accept any payment serving as a representative party on behalf of
   the class beyond Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including
   lost wages) directly relating to the representation of the class as ordered or approved by the court.

   I declare under penalty of perjury that the foregoing is true and correct.

   Executed this 7 day of MAY, 2012

   Signature: ________________________

   LARRY A. WESSLER

   Print Name (if applicable)
CERTIFICATION OF NAMED PLAINTIFF

1. **Larry A. Wesser** ("Plaintiff") hereby retain counsel to pursue my claims on a contingent fee basis and for counsel to advance the costs of the case, with no attorneys fee owing except as may be awarded by the court at the conclusion of the matter and paid out of any recovery obtained and I also hereby declare the following as to the claims asserted under the law that:

   Plaintiff did not purchase the security that is the subject of this action at the direction of Plaintiff's counsel or in order to participate in this private action.

   Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

   Plaintiff's transactions in China Natural Gas, Inc. security that is subject of this action during the Class Period are as follows:

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<th>Date</th>
<th>Price Per Share</th>
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<td>4.60</td>
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</tbody>
</table>

   Please list other transactions on a separate sheet of paper, if necessary.

   Plaintiff has sought to serve as a class representative in the following cases within the last three years: [No]

   Plaintiff will not accept any payment serving as a representative party on behalf of the class beyond Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

   I declare under penalty of perjury that the foregoing is true and correct.

   Executed this 7 day of May, 2012

   [Signature]

   [Print Name (& Title if applicable)]

   Larry A. Wesser