

SECURITIES AND EXCHANGE COMMISSION

FORM SC 13D

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities

Filing Date: **2008-02-06**
SEC Accession No. **0000909518-08-000123**

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SUBJECT COMPANY

China Natural Gas, Inc.

CIK: **1120830** | IRS No.: **980231607** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **SC 13D** | Act: **34** | File No.: **005-61883** | Film No.: **08580555**
SIC: **4923** Natural gas transmission & distribution

Mailing Address

TANG XING SHU MA
BUILDING, SUITE 418
TANG XING ROAD
XIAN, SHAANXI PROVINCE F4
00000

Business Address

TANG XING SHU MA
BUILDING, SUITE 418
TANG XING ROAD
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00000
86-29-88323325

FILED BY

Abax Lotus Ltd.

CIK: **1424691** | IRS No.: **980543044** | State of Incorporation: **E9** | Fiscal Year End: **1231**
Type: **SC 13D**

Mailing Address

C/O ABAX GLOBAL CAPITAL
(HONG KONG) LTD.
S. 6708, 67/F, 2 INT'L. FIN. CTR., 8
FINANCE ST
CENTRAL K3 00000

Business Address

WALKER HOUSE
87 MARY STREET
GEORGE TOWN E9 KY1-9002
852 3602-1809

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

SCHEDULE 13D
Under the Securities Exchange Act of 1934

China Natural Gas, Inc.

(Name of Company)

Common Stock, \$0.0001 par value

(Title of class of securities)

168910107

(CUSIP number)

Jamie Tadelis, General Counsel
Abax Lotus Ltd.
c/o Abax Global Capital (Hong Kong) Limited
Suite 6708, 67/F Two International Finance Centre
8 Finance Street
Central, Hong Kong SAR
+852 3602 1800

(Name, address and telephone number of person authorized to receive notices and communications)

January 29, 2008

(Date of event which requires filing of this statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box .

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("**Act**") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act.

1.	NAME OF REPORTING PERSON:		Abax Lotus Ltd.
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:		(a) [] (b) <input checked="" type="checkbox"/>
3.	SEC USE ONLY		
4.	SOURCE OF FUNDS: W/C		
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e): <input type="checkbox"/>		
6.	CITIZENSHIP OR PLACE OF ORGANIZATION: Cayman Islands, British West Indies		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER:	0
	8.	SHARED VOTING POWER:	2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER:	0
	10.	SHARED DISPOSITIVE POWER:	2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:		2,900,000 (1)
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES:		<input type="checkbox"/>
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):		9.0% (2)
14.	TYPE OF REPORTING PERSON:		CO

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of the Company's common stock (the "**Common Stock**"). Mr. Ji Qinan ("**Mr. Ji**") owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement (as hereinafter defined). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

1.	NAME OF REPORTING PERSON:	Abax Global Opportunities Fund	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:	(a) [] (b) <input checked="" type="checkbox"/>	
3.	SEC USE ONLY		
4.	SOURCE OF FUNDS:	AF	
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e):	<input type="checkbox"/>	
6.	CITIZENSHIP OR PLACE OF ORGANIZATION:	Cayman Islands, British West Indies	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER:	0
	8.	SHARED VOTING POWER:	2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER:	0
	10.	SHARED DISPOSITIVE POWER:	2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:	2,900,000 (1)	
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES:	<input type="checkbox"/>	
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):	9.0% (2)	
14.	TYPE OF REPORTING PERSON:	CO	

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of Common Stock. Mr. Ji owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement. If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

1.	NAME OF REPORTING PERSON:		Abax Upland Fund LLC
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:		(a) [(b) <input checked="" type="checkbox"/>
3.	SEC USE ONLY		
4.	SOURCE OF FUNDS:		AF
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e):		<input type="checkbox"/>
6.	CITIZENSHIP OR PLACE OF ORGANIZATION:		Delaware
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER:	0
	8.	SHARED VOTING POWER:	2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER:	0
	10.	SHARED DISPOSITIVE POWER:	2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:		2,900,000 (1)
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES:		<input type="checkbox"/>
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):		9.0% (2)
14.	TYPE OF REPORTING PERSON:		OO

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of Common Stock. Mr. Ji owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement. If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

1.	NAME OF REPORTING PERSON:		Abax Arhat Fund
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:		(a) [] (b) <input checked="" type="checkbox"/>
3.	SEC USE ONLY		
4.	SOURCE OF FUNDS:		AF
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e):		<input type="checkbox"/>
6.	CITIZENSHIP OR PLACE OF ORGANIZATION:		Cayman Islands, British West Indies
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER:	0
	8.	SHARED VOTING POWER:	2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER:	0
	10.	SHARED DISPOSITIVE POWER:	2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:		2,900,000 (1)
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES:		<input type="checkbox"/>
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):		9.0% ⁽²⁾
14.	TYPE OF REPORTING PERSON:		OO

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of Common Stock. Mr. Ji owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement. If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

1.	NAME OF REPORTING PERSON:		Abax Claremont Ltd.
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:		(a) [] (b) <input checked="" type="checkbox"/>
3.	SEC USE ONLY		
4.	SOURCE OF FUNDS:		AF
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e):		<input type="checkbox"/>
6.	CITIZENSHIP OR PLACE OF ORGANIZATION:		Cayman Islands, British West Indies
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER:	0
	8.	SHARED VOTING POWER:	2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER:	0
	10.	SHARED DISPOSITIVE POWER:	2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:	2,900,000 (1)	
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES:		[]
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):	9.0% (2)	
14.	TYPE OF REPORTING PERSON:		CO

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of Common Stock. Mr. Ji owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement. If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

1.	NAME OF REPORTING PERSON: Abax Global Capital	
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:]	
		<input checked="" type="checkbox"/>
3.	SEC USE ONLY	
4.	SOURCE OF FUNDS: AF	
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e): <input type="checkbox"/>	
6.	CITIZENSHIP OR PLACE OF ORGANIZATION: Cayman Islands, British West Indies	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER: 0
	8.	SHARED VOTING POWER: 2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER: 0
	10.	SHARED DISPOSITIVE POWER: 2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 2,900,000 (1)	
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES: <input type="checkbox"/>	
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 9.0% (2)	
14.	TYPE OF REPORTING PERSON: CO	

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of Common Stock. Mr. Ji owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement. If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

1.	NAME OF REPORTING PERSON:	Christopher Chung-Yi Hsu
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:	(a) [] (b) <input checked="" type="checkbox"/>
3.	SEC USE ONLY	
4.	SOURCE OF FUNDS:	N/A
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e):	<input type="checkbox"/>
6.	CITIZENSHIP OR PLACE OF ORGANIZATION:	United States of America
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER: 0
	8.	SHARED VOTING POWER: 2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER: 0
	10.	SHARED DISPOSITIVE POWER: 2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:	2,900,000 (1)
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES:	[]
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):	9.0% ⁽²⁾
14.	TYPE OF REPORTING PERSON:	IN

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of Common Stock. Mr. Ji owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement. If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

1.	NAME OF REPORTING PERSON:		Xiang Dong Yang
2.	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:		(a) [] (b) <input checked="" type="checkbox"/>
3.	SEC USE ONLY		
4.	SOURCE OF FUNDS:		N/A
5.	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e): <input type="checkbox"/>		
6.	CITIZENSHIP OR PLACE OF ORGANIZATION:		Hong Kong SAR
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	SOLE VOTING POWER:	0
	8.	SHARED VOTING POWER:	2,900,000 (1)
	9.	SOLE DISPOSITIVE POWER:	0
	10.	SHARED DISPOSITIVE POWER:	2,900,000 (1)
11.	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:		2,900,000 (1)
12.	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES:		[]
13.	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):		9.0% (2)
14.	TYPE OF REPORTING PERSON:		IN

¹ The Reporting Person owns warrants to purchase up to 2,900,000 shares of Common Stock. Mr. Ji owns 5,931,596 shares of Common Stock as set forth in the Investors Rights Agreement. If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own 8,831,596 shares of Common Stock as of the date hereof. The Reporting Persons expressly disclaim beneficial ownership of the shares of Common Stock owned by Mr. Ji.

² Please refer to the disclosure of footnote (1). If Mr. Ji and the Reporting Persons were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof.

ITEM 1. SECURITY AND COMPANY

The title and class of equity securities to which this Statement on Schedule 13D relates is the common stock, par value \$0.0001 per share (“**Common Stock**”), of China Natural Gas, Inc., a Delaware corporation (the “**Company**”). The address of the Company’s principal executive offices is 19th Floor, Building B, Van Metropolis, Tang Yan Road, Hi-Tech Zone, Xian, 710065, Shaanxi Province, China.

ITEM 2. IDENTITY AND BACKGROUND.

This Statement on Schedule 13D is being filed by and on behalf of:

- i. Abax Lotus Ltd., a Cayman Island domiciled exempted company (the “**Investor**”);
- ii. Abax Global Opportunities Fund, a Cayman Island domiciled exempted company (the “**Fund**”),
- iii. Abax Arhat Fund, a Cayman Island domiciled exempted company (“**Arhat**”) and 50% owner of the Fund;
- iv. Abax Upland Fund LLC, a Delaware limited liability company (“**Upland**”) and 50% owner of the Fund;
- v. Abax Global Capital, a Cayman Island domiciled exempted company (“**Arhat Shareholder**”) and sole shareholder of Arhat;
- vi. Abax Claremont Ltd., a Cayman Island domiciled exempted company (“**Upland Managing Member**”) and managing member of Upland;
- vii. Christopher Chung-Yi Hsu, a citizen of the United States of America (“**Mr. Hsu**”); and
- viii. Xiang Dong Yang, a citizen of Hong Kong, SAR (“**Mr. Yang**”).

The entities and individuals in items (i) through (viii) above are herein sometimes referred to each as a “**Reporting Person**” and collectively as the “**Reporting Persons.**”

The address of the principal office of each of the Reporting Persons is Abax Global Capital (Hong Kong) Limited, Suite 6708, 67/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong SAR and Mr. Hsu’s and Mr. Yang’s business address is also at the foregoing address. Mr. Hsu is the Chief Executive Officer and Mr. Yang is the President of the Arhat Shareholder.

The Investor is principally involved in the business of investing in securities. The Fund is principally involved in the business of serving as the sole shareholder of the Investor and in directing the Investor’s investments in securities. The Arhat Shareholder and Upland Manager Member are principally involved in the business of providing investment advisory and investment management services to the Fund and its affiliates and, among other things, exercise all voting and other powers and privileges attributable to any securities held for the account of each of the Fund and the Investor. Mr. Hsu and Mr. Yang are principally involved in the business of serving as the controlling members of the Arhat Shareholder and Upland Managing Member.

During the last five years, none of the Reporting Persons nor, to the best of their knowledge, any of their respective officers and directors, has (i) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

The Warrants reported herein by the Reporting Persons were acquired by the Investor for no additional consideration in connection with the execution of the securities purchase agreement and the issuance of the Senior Notes described in Item 4 hereof and incorporated herein by reference.

ITEM 4. PURPOSE OF TRANSACTION.

The Reporting Persons have acquired the Warrants for investment purposes, and such purchases have been made in the Reporting Persons' ordinary course of business.

Purchase Agreement

On December 30, 2007, the Company entered into a Securities Purchase Agreement (as amended, the "**Purchase Agreement**") with the Investor. The Purchase Agreement was subsequently amended on January 29, 2008, pursuant to which the Company (i) agreed to issue to the Investor 5.00% Guaranteed Senior Notes due 2014 (the "**Senior Notes**") in aggregate principal amount of RMB145,000,000 (approximately \$20,000,000), (ii) agreed to issue to the Investor Senior Notes in aggregate principal amount of RMB145,000,000 (approximately \$20,000,000) on or before March 3, 2008 subject to the Company meeting certain closing conditions, (iii) granted the Investor an option to purchase up to RMB73,000,000 (approximately \$10,000,000) in principal amount of its Senior Notes and (iv) agreed to issue to the Investor seven-year warrants exercisable for up to 2,900,000 shares of the Company's common stock (the "**Warrants**") at an initial exercise price equal to \$7.3652 per share, subject to certain adjustments. The foregoing description of the Purchase Agreement is qualified in its entirety by the text of the agreement which is attached to this Statement as Exhibits 2 and 3 and incorporated herein by reference.

The closing of the transactions contemplated by the Purchase Agreement occurred on January 29, 2008, and in connection therewith, the Company entered into an Indenture, Information and Inspection Rights Agreement, Investor Rights Agreement, Warrant Agreement and Equity Registration Rights Agreement for the benefit of the Investor.

Indenture

On January 29, 2008, the Company entered into an Indenture with DB Trustees (Hong Kong) Limited, as Trustee, in connection with the issuance of the Senior Notes (the "**Indenture**"). The Investor is currently the holder of RMB145,000,000 in aggregate principal amount of the Senior Notes issued pursuant to the Indenture. The Company also paid the Investor an arrangement fee of \$1,600,000.

The Senior Notes will be due in January 2014 and will initially bear interest at the stated interest rate of 5.00% per annum, subject to increase in the event of certain circumstances. The

Indenture requires the Company to pay additional interest at the rate of 3.0% per annum of the Senior Notes if the Company has not obtained a listing of its common stock on the Nasdaq Global Market, the Nasdaq Capital Market or the New York Stock Exchange by January 29, 2009 and maintained such listing continuously thereafter as long as the Senior Notes are outstanding. Pursuant to the registration rights agreement (described herein), the Company has agreed to pay additional interest at the rate of 1.0% per annum of the Senior Notes principal amount outstanding for each 90-day period in which the Company has failed to comply with the registration obligations under the registration rights agreement.

The Company is required to make mandatory prepayments on the Senior Notes on the following dates and in the following amounts, expressed as a percentage of the aggregate principal amount of Notes that will be outstanding on the first such payment date:

Date	Prepayment Amount
July 30, 2011	8.3333%
January 30, 2012	8.3333%
July 30, 2012	16.6667%
January 30, 2013	16.6667%
July 30, 2013	25.0000%

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

Year	Percent of Principal
2009	108.0%
2010	106.0%
2011	104.0%
2012	102.0%
2013 and thereafter	100.0%

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

The Indenture contains covenants that limit the Company's ability to incur debt and liens, make dividend payments and stock repurchases, make investments, reinvest proceeds from asset sales and enter into transactions with affiliates, among other things. The Indenture also requires the Company to maintain certain financial ratios. In addition, the Company entered into a share pledge agreement whereby the Company granted to the Collateral Agent (on behalf of the holders of the Senior Notes) a pledge on 65% of the Company's equity interest in Shaanxi Xilan Natural Gas Equipment Co., Ltd., a PRC corporation and wholly-owned subsidiary of the Company.

The foregoing description of the Indenture is qualified in its entirety by the text of the agreement which is attached to this Statement as Exhibit 4 and incorporated herein by reference.

Investor Rights Agreement

On January 29, 2008, the Company and Mr. Ji entered into an investor rights agreement with the Investor (the “**Investor Rights Agreement**”). Mr. Ji is the beneficial owner of, in the aggregate, approximately 20.3% of the shares of Common Stock. Pursuant to the Investor Rights Agreement, as long as the Investor holds at least 10% of the aggregate principal amount of the Senior Notes issued and outstanding or at least 3% of the Company’s issued and outstanding common stock pursuant to the warrants on an as-exercised basis (the “**Minimum Holding**”), the Company has agreed not to undertake certain corporate actions without prior Investor approval. In addition, so long as the Investor owns the Minimum Holding, the Investor shall have a right of first refusal for future debt securities offerings by the Company and the Company is subject to certain transfer restrictions on its securities and certain other properties.

From January 29, 2008 and as long as the Investor continues to hold more than 10% of the outstanding shares of common stock on an as-converted, fully-diluted basis, the Investor shall be entitled to appoint one of the Company’s board of directors (the “**Investor Director**”). The Investor Director shall be entitled to serve on each committee of the board, except that, the Investor Director shall not serve on the audit committee unless such person is an independent director. Mr. Ji has agreed to vote his shares for the election of the Investor Director. As of the date of this Statement, the Investor has not currently exercised this right.

The foregoing description of the Investor’s Rights Agreement above is qualified in its entirety by the text of the agreement which is attached to this Statement as Exhibit 5 and incorporated herein by reference.

Warrant

The Warrants were issued pursuant to a warrant agreement by and among the Company, Deutsche Bank AG, Hong Kong Branch, as the warrant agent and Deutsche Bank Luxembourg S.A. as warrant registrar. The exercise price of the Warrants is adjusted on the first anniversary of issuance and thereafter, at every six month anniversary beginning in the fiscal year 2009 if the volume weighted average price, or VWAP (as defined therein), for the 15 trading days prior to the applicable reset date is less than the then applicable exercise price, in which case the exercise price shall be adjusted downward to the then current VWAP; provided, however, that in no event shall the exercise price be adjusted below \$3.6826 per share.

If the Company’s consolidated net profit after tax does not reach the stated level for 2007 or 2008, the exercise price of the warrants shall be adjusted by multiplying the current exercise price by a fraction, the numerator of which is the sum of (i) the number of shares of the Company’s common stock outstanding immediately prior to such adjustment and (ii) 87,000, and the denominator of which is the number of shares of the Company’s common stock outstanding immediately prior to such adjustment. Pursuant to the terms of the warrant agreement, a holder cannot exercise the Warrants to the extent that the number of shares of Common Stock beneficially owned by the holder would, following such exercise, exceed 9.9% of the outstanding shares of common stock at the time of exercise.

The foregoing description of the Warrants above is qualified in its entirety by the text of the warrant agreement which is attached to this Statement as Exhibit 6 and incorporated herein by reference.

Equity Registration Rights Agreement

On January 29, 2008, the Company entered into an Equity Registration Rights Agreement with the Investor, under which the Company has agreed to file with the SEC and maintain the effectiveness of a registration statement for the shares of Common Stock to be issued upon the exercise of the Warrants, subject to any limitation required by Rule 415 of the SEC pursuant to the Securities Act of 1933 and to have the registration statement declared effective by June 27, 2008. In the event that the registration statement has not been declared effective by the SEC on or before June 27, 2008 or if effectiveness of the registration statement is suspended at any time other than pursuant to a suspension notice, for each 90-day period during which the registration default remains uncured, the Company shall be required to pay additional interest at the rate of one percent (1%) of the Senior Notes.

The foregoing description of the Equity Registration Rights Agreement is qualified in its entirety by the text of the agreement which is attached to this Statement as Exhibit 7 and incorporated herein by reference.

Non-Competition Agreement

On January 29, 2008, Mr. Ji entered into a non-competition agreement (the “**Non-Competition Agreement**”) with the Investor limiting Mr. Ji’s ability to compete with the Company. The foregoing description is qualified in its entirety by the text of the agreement which is attached to this Statement as Exhibit 8, and incorporated herein by reference.

Information Rights Agreement

The Company also entered into an information rights agreement (the “**Information Rights Agreement**”) that grants the Investor, subject to applicable law, the right to receive certain information regarding the Company.

The foregoing description of the Information Rights Agreement is qualified in its entirety by the text of the agreement which is attached to this Statement as Exhibit 8 and incorporated herein by reference.

In pursuing their investment purposes, the Reporting Persons may, subject to applicable law and the agreements disclosed in this Statement on Schedule 13D, further purchase, hold, vote, trade, dispose or otherwise deal in the securities of the Company at times, and in such manner, as they deem advisable to benefit from changes in market prices of such securities, changes in the Company’s operations, business strategy or prospects, or from a sale or merger of the Company. To evaluate such alternatives, the Reporting Persons will routinely monitor the Company’s operations, prospects, business development, management, competitive and strategic matters, capital structure, and prevailing market conditions, as well as alternative investment opportunities, liquidity requirements of the Reporting Persons and other investment considerations.

Consistent with their investment purpose, the Reporting Persons may, subject to applicable law and the terms of any confidentiality agreement with the Company, engage in communications regarding such matters with members of management and the Board of Directors of the Company, other current or prospective shareholders, industry analysts, existing or potential strategic partners or competitors, investment and financing professionals, sources of credit and other investors. Such factors and discussions may materially affect, and result in, the Reporting Persons, subject to applicable law, modifying their ownership of securities of the Company, exchanging information with the Company, proposing changes in the Company’s operations, governance or capitalization, or in

proposing one or more of the other actions described in subsections (a) through (j) of Item 4 of Schedule 13D.

In addition, the Reporting Persons reserve the right to formulate other plans and/or make other proposals, and take such actions with respect to their investment in the Company, including any or all of the actions set forth in paragraphs (a) through (j) of Item 4 of Schedule 13D, or acquire additional securities of the Company or dispose of all the securities of the Company beneficially owned by them, in public market or privately negotiated transactions. The Reporting Persons may at any time reconsider and change their plans or proposals relating to the foregoing.

ITEM 5. INTEREST IN SECURITIES OF THE COMPANY.

(a) – (b) The responses of the Reporting Persons to Rows (7) through (13) of the cover pages of this Statement on Schedule 13D are incorporated herein by reference.³

As of the date of this Statement, the Investor directly owns an aggregate of 2,900,000 warrants to purchase shares of Common Stock, representing, if exercised in full and on a fully diluted basis, approximately 9.0% of the outstanding shares of Common Stock.

The Warrants are beneficially owned, in the aggregate, by the Investor, the Fund, Arhat, Upland, Arhat Shareholder, Upland Managing Member, Mr. Hsu and Mr. Yang.

The Fund, as the sole shareholder of the Investor; Arhat, as a 50% shareholder of the Fund; Upland, as the other 50% shareholder of the Fund; Arhat Shareholder, as the sole shareholder of Arhat; Upland Managing Member, as the managing member of Upland; and Mr. Hsu and Mr. Yang as the controlling persons of Arhat Shareholder and Upland Managing Member, may be deemed to own beneficially (as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934) all shares of Common Stock (including the Warrant Shares) that are owned beneficially and directly by the Investor. Each of Arhat, Upland, Arhat Shareholder, Upland Managing Member, Mr. Hsu and Mr. Yang disclaims beneficial ownership of such shares for all other purposes.

All percentages set forth in this paragraph are based on 29,200,304 shares of Common Stock outstanding as of November 13, 2007, as set forth in the Company's Quarterly Report on Form 10-QSB for the period ended September 30, 2007.

(c) Other than as set forth herein, no Reporting Person has effected any transaction in shares of Common Stock during the sixty (60) days preceding the date of this Statement.

(d) Not applicable.

(e) Not applicable.

³ If Mr. Ji and the Controlling Shareholders were deemed to be a group by virtue of the arrangements described in Items 4 and 6 of this Statement, such group would be deemed to beneficially own approximately 27.5% of the Common Stock as of the date hereof. The Reporting Person expressly disclaim beneficial ownership of the shares of Common Stock owned by the Controlling Shareholders.

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE COMPANY.

The responses of the Reporting Persons under Item 4 hereof are incorporated herein by reference.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

- Exhibit 1 Agreement as to Joint Filing of Schedule 13D, dated February 6, 2008 by and among the Investor, the Fund, Arhat, Upland, Arhat Shareholder, Upland Managing Member, Mr. Hsu and Mr. Yang (filed herewith)
- Exhibit 2 Securities Purchase Agreement, dated December 30, 2007 (filed as Exhibit 99.1 to the Company's Report on Form 8-K filed January 31, 2008 and hereby incorporated by reference)
- Exhibit 3 Amendment to the Securities Purchase Agreement, dated January 29, 2008, by and among the Company, its subsidiaries and Abax Lotus Ltd. (filed as Exhibit 99.2 to the Company's Report on Form 8-K filed January 31, 2008 and hereby incorporated by reference)
- Exhibit 4 Indenture, dated January 29, 2008, by and among the Company and DB Trustees (Hong Kong) Limited, as trustee, relating to the 5.00% Guaranteed Senior Notes due 2014 (filed as Exhibit 99.3 to the Company's Report on Form 8-K filed January 31, 2008 and hereby incorporated by reference)
- Exhibit 5 Investor Rights Agreement, dated January 29, 2008, by and among the Company, its subsidiaries, Mr. Qinan Ji, and Abax Lotus Ltd. (filed as Exhibit 99.6 to the Company's Report on Form 8-K filed January 31, 2008 and hereby incorporated by reference)
- Exhibit 6 Warrant Agreement, dated January 29, 2008, by and among the Company, Mr. Qinan Ji, Deutsche Bank AG, Hong Kong Branch as Warrant Agent and Deutsche Bank Luxembourg S.A. as Warrant Agent (filed as Exhibit 99.4 to the Company's Report on Form 8-K filed January 31, 2008 and hereby incorporated by reference)
- Exhibit 7 Equity Registration Rights Agreement, dated January 29, 2008, by and between the Company and Abax Lotus Ltd. (filed as Exhibit 99.5 to the Company's Report on Form 8-K filed January 31, 2008 and hereby incorporated by reference)
- Exhibit 8 Non-Competition Agreement dated January 11, 2008 by and between the Investor and Mr. Ji (filed herewith)
- Exhibit 9 Information Rights Agreement, dated January 29, 2008 from the Company to Abax Lotus Ltd. (filed as Exhibit 99.7 to the Company's Report on Form 8-K filed January 31, 2008 and hereby incorporated by reference)

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: February 6, 2008

ABAX LOTUS LTD.

By: /s/ Jamie Tadelis
Name: Jamie Tadelis
Title: General Counsel

ABAX GLOBAL OPPORTUNITIES FUND

By: /s/ Jamie Tadelis
Name: Jamie Tadelis
Title: General Counsel

ABAX ARHAT FUND

By: /s/ Jamie Tadelis
Name: Jamie Tadelis
Title: General Counsel

ABAX UPLAND FUND, LLC

By: /s/ Jamie Tadelis
Name: Jamie Tadelis
Title: General Counsel

ABAX GLOBAL CAPITAL

By: /s/ Jamie Tadelis
Name: Jamie Tadelis
Title: General Counsel

ABAX CLAREMONT LTD.

By: /s/ Jamie Tadelis
Name: Jamie Tadelis
Title: General Counsel

/s/ Christopher Chung-Yi Hsu
Christopher Chung-Yi Hsu

/s/ Xiang Dong Yang
Xiang Dong Yang

AGREEMENT AS TO JOINT FILING OF SCHEDULE 13D

Dated February 6, 2008

The undersigned acknowledge and agree that the foregoing statement on Schedule 13D is filed on behalf of each of the undersigned and that all subsequent amendments to this statement shall be filed on behalf of each of the undersigned without the necessity of filing additional joint filing agreements. The undersigned acknowledge that each shall be responsible for the timely filing of such amendments, and for the completeness and accuracy of the information concerning it contained therein, but shall not be responsible for the completeness and accuracy of the information concerning the others, except to the extent that it knows or has reason to believe that such information is inaccurate.

This Agreement may be executed in counterparts and each of such counterparts taken together shall constitute one and the same instrument.

ABAX LOTUS LTD.

By: /s/ Jamie Tadelis

Name: Jamie Tadelis

Title: General Counsel

ABAX GLOBAL OPPORTUNITIES FUND

By: /s/ Jamie Tadelis

Name: Jamie Tadelis

Title: General Counsel

ABAX ARHAT FUND

By: /s/ Jamie Tadelis

Name: Jamie Tadelis

Title: General Counsel

ABAX UPLAND FUND, LLC

By: /s/ Jamie Tadelis

Name: Jamie Tadelis

Title: General Counsel

ABAX GLOBAL CAPITAL

By: /s/ Jamie Tadelis

Name: Jamie Tadelis

Title: General Counsel

ABAX CLAREMONT LTD.

By: /s/ Jamie Tadelis

Name: Jamie Tadelis

Title: General Counsel

/s/ Christopher Chung-Yi Hsu

Christopher Chung-Yi Hsu

/s/ Xiang Dong Yang

Xiang Dong Yang

EXECUTION VERSION

NON COMPETITION COVENANT AND AGREEMENT

THIS NON COMPETITION COVENANT AND AGREEMENT (this “**Agreement**”) is made and entered into as of this January 29, 2008, by Mr. Ji Qinan an individual residing in the city of Xi’an, in Shaanxi Province in the People’s Republic of China (the “**PRC**”), (PRC ID No. 612125195706230432) (“**Executive**”) for the benefit of the party listed in Schedule I attached hereto (the “**Purchaser**”).

RECITALS

WHEREAS, Executive serves as the chief executive officer and director of China Natural Gas, Inc. (the “**Company**”), a company established and existing under the laws of the State of Delaware, the United States;

WHEREAS, Executive is also a direct or indirect shareholder of the Company;

WHEREAS, pursuant to the securities purchase agreement dated as of December 30, 2007 by and among the Company (as may be amended, restated or supplemented, the “**Purchase Agreement**”), the other Group Companies as defined thereunder and the Purchaser respectively, and other related documents pertaining to such purchase (collectively, the “**Transaction Documents**”), the Company shall issue and sell to Purchaser, and Purchaser shall purchase the Company’s 5.0% Guaranteed Senior Notes due 2014 (the “**Notes**”), and the Company shall issue and sell to the Purchaser warrants (the “**Warrants**”) representing the right to purchase a certain number of the Company’s common stock;

WHEREAS, to induce the Purchaser to consummate the transactions under the Transaction Documents and to preserve for the Purchaser the valuable rights procured by Purchaser pursuant to the Transaction Documents related to the transaction as contemplated thereunder, the Executive agreed to certain covenants to be made by Executive for the benefit of the Purchaser regarding certain future activities and actions by Executive;

AGREEMENT

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in accordance with the *General Principles of Civil Law of the PRC*, *Contract Law of the PRC*, and other applicable laws and regulations, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. Definitions. Capitalized terms used in this Agreement shall have the meanings set forth below.

1.1 “**Agreement**” is defined in the Preamble.

1.2 “**Business**” shall mean the distribution and sale of CNG for vehicular fuel through Company-owned filling stations, (ii) distribution and sale of CNG for vehicular fuel to third party-owned filling stations; (iii) distribution and sale of natural gas to residential, commercial and industrial customers through Company-owned pipelines, in each case to commercial, industrial and residential customers in the Xian area, including Lantian County and the districts of Lintong and Baqiao, in Shaanxi Province of the PRC; (iv) the operation of the LNG Project and any related filling stations in the PRC and (v) the business of any entity that the proceeds of the Notes are, directly or indirectly, used to acquire.

1.3 “**CNG**” means compressed natural gas.

1.4 “**Company**” is defined in the Recitals.

1.5 “**Company Affiliate**” shall mean any entity engaged in the Business which is controlled, directly or indirectly, by the Company (including without limitation the Group Companies as defined under the Purchase Agreement).

1.6 “**Competitive Business**” shall mean any business that (i) is in the Business and (ii) competes, directly or indirectly, with the Company or any Company Affiliate.

1.7 “**Executive**” is defined in the Preamble.

1.8 “**LNG Project**” means the liquefied natural gas processing and distribution plant to be constructed in Jinbiang, Shaanxi province, PRC.

1.9 “**Notes**” is defined in the Recitals.

1.10 “**PRC**” is defined in the Preamble.

1.11 “**Purchaser**” is defined in the Preamble.

1.12 “**Term**” is defined in Section 2.1.

1.13 “**Trade Secret**” shall mean any information, including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, actual or future services, or lists of actual or potential customers or suppliers that (i) are not generally known to, and not readily ascertainable by proper means by, other persons who can obtain economic value from their disclosure or use and (2) are the subject of efforts that are reasonable under the circumstances to maintain their secrecy.

inventions, discoveries and improvements, and other intellectual property rights, in any documentation, programming, technology, or other work that relates to the business and interests of the Company and that was or is conceived or developed by Executive, or delivered by Executive to the Company at any time during the term of Executive's employment with the Company.

Section 2. Covenants.

2.1 Noncompetition and Nonsolicitation. During the period commencing as of the date hereof and until the earlier of the sixth anniversary of the issuance date of the Notes or the date when the Purchaser or any of their assignees does not beneficially own any Notes (such period, the "**Term**"), Executive hereby agrees that Executive (including his spouse, infant children, siblings, any company or undertaking in which he holds a controlling interest, or any person related by marriage or consanguinity) will not, directly or indirectly, engage in, or have any interest in, any person, firm, corporation, or business (whether as an executive, officer, director, agent, security holder, employee, consultant, investor or similar position) that engages in or render services to a Competitive Business, or otherwise interfere with the business of the Company or Company Affiliates, including without limitation:

(a) either on his own behalf or on behalf of any other person, solicit business similar to the Business from any customer, supplier, distributor of, or a person in a similar commercial relationship with, the Company or Company Affiliates; and

(b) either on his own behalf or on behalf of any other person, solicit, employ or otherwise engage as an employee, independent contractor, or otherwise any person who is and was, at any time during one year prior to such solicitation, employment or engagement, an employee of the Company or Company Affiliates, or in any manner induce any employee of the Company or Company Affiliates to terminate his or her employment therewith.

Notwithstanding the foregoing paragraphs of this Section 2.1:

(i) Executive may own, directly or indirectly, as an investor, securities of any company engaging in a Competitive Business, so long as Executive's aggregate holdings in each such corporation shall not constitute more than three percent (3%) of such corporation's voting stock;

(ii) Executive represents that the entities identified in Schedule II represent the pre-existing relationships disclosed by the Company pursuant to the Purchase Agreement which form part of the Transaction Documents and do not engage in a Competitive Business and for the foregoing reason, the Executive may continue his involvement as a shareholder, officer or director of such entities so long as such entities do not engage in a Competitive Business during such involvement; and

(iii) Executive may serve as a shareholder, director or officer of any entity that is not engaged in a Competitive Business.

2.2 Confidentiality and Other Covenants. Executive agrees that:

(a) he shall keep confidential any information, including Trade Secrets, relating to the Company, Company Affiliates, and the Business (unless such disclosure is permitted in writing by the Company, required under law or by order of any governmental or regulatory authority, or relates to information already in the public domain, or to a third party who has rightfully obtained such Trade Secrets without breach of any confidentiality obligation);

(b) all Work Product of Executive conceived (whether solely or jointly with others) within the scope of his employment with the Company belongs to the Company and any and all of his rights to such Work Product, to the extent not yet assigned, are hereby assigned to the Company;

(c) upon the termination of his employment with the Company, at the request of the Company, he shall return to the Company all of the Company's proprietary items in his possession or under his control and shall not retain any copies or other physical embodiment of any of such items; and

(d) upon the termination of his employment with the Company, he shall not hold himself out as an employee, agent or representative of the Company.

2.3 Termination. The parties agree that this Agreement shall be deemed terminated and of no further effect, without necessity of further action by Executive or the Purchaser, upon the expiration of the Term.

2.4 Specific Enforcement. Upon a breach by Executive of Section 2.1 or 2.2, in addition to such damages as the Purchaser can show they have sustained, directly or indirectly, by reason of said breach and in addition to any other remedies to which Purchaser may be entitled under the laws of the PRC, the Purchaser shall be entitled to injunctive relief against Executive if such relief is applicable and available, as monetary compensation alone would be inadequate and insufficient. Nothing in this Agreement shall be construed as limiting the Purchaser's remedies in any way.

Section 3. Miscellaneous.

3.1 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, in each case, to the extent permitted by applicable law, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or

restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable, to the extent permitted by applicable law.

3.2 Counterparts. This may be executed in counterparts, each of which shall be deemed to be an original, and all such counterparts together shall constitute but one and the same instrument.

3.3 Governing Law; Arbitrations. **THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF PEOPLE'S REPUBLIC OF CHINA.** Any dispute, controversy or claim arising out of or in connection with this Agreement shall be settled through negotiation between the parties; if the parties fail to resolve such dispute within sixty (60) days after the date such negotiation was first requested in writing by either party, it shall be settled by arbitration at the Hong Kong International Arbitration Center (the "**HKIAC**") under the UNCITRAL Arbitration Rule. In the case of any conflict between the terms of this Agreement and the International Chamber of Commerce International Arbitration Rules ("**ICC Rules**"), the terms of this Agreement shall prevail. The arbitral tribunal shall consist of three arbitrators, with one appointed by the Executive, one appointed by the Purchaser and a third neutral arbitrator to be appointed by the other two party-appointed arbitrators, who shall not be a citizen of the PRC and who shall act as the chairman of the tribunal. The parties agree to the appointment of arbitrators who are not on HKIAC's Panel of Arbitrators. If either party fails to appoint an arbitrator within the time specified in the ICC Rules or if the two party-appointed arbitrators fail to jointly appoint the third neutral arbitrator within the time specified in the ICC Rules, the Chairman of HKIAC shall make such an appointment. The arbitration shall be conducted on a confidential basis. All arbitration proceedings shall be held in English. Any arbitration award made by the arbitration panel shall be final and binding on the parties and may be entered and enforced in any court of competent jurisdiction. The parties shall submit to the jurisdiction of any such court for purposes of the enforcement of any such award. Notwithstanding the foregoing agreement to arbitrate, the parties expressly reserve the right to seek provisional relief from any court of competent jurisdiction to preserve their respective rights pending arbitration.

3.4 Assignment. Executive agrees that this Agreement shall inure to the benefits of all holders of the Notes or Warrants, whether or not the Purchaser.

3.5 Notice. Any notices to be given hereunder by either party to the other may be effectuated either by personal delivery in writing or by mail, postage prepaid, with return receipt requested. Notices shall be addressed to the parties as follows:

If to the Purchaser:

The address of the Purchaser as indicated in Schedule I

If to Executive:

Mr. Ji Qinan
19th Floor, Building B, Van Metropolis
No. 35 Tanyan Road
Xi'an 710065, Shaanxi Province
P.R. China
Tel: +86 29 8832 3325

or to such other address as either the parties may designate by written notice to each other. Notices delivered personally shall be deemed duly given on the date of actual receipt; mailed notices shall be deemed duly given as of the fifth day after the date so mailed. Notices hereunder may be delivered by electronic facsimile transmission (fax) if confirmation by sender is made within three business days by mail or personal delivery.

3.6 Third Party Beneficiary Rights. This Agreement has been made and is made solely for the benefit of, and shall be binding upon, the Purchaser (and their respective successors and assigns, including the holders of the Notes or Warrants) and Executive, and no other person shall acquire or have any rights under or by virtue of this Agreement.

3.7 Attorney's Fees. If any party shall bring a procedure to enforce this Agreement, unless otherwise decided by the arbitration tribunal, the prevailing party shall be entitled to recover the reasonable attorneys' fees and costs incurred by such party from the unsuccessful party.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Non Competition Covenant and Agreement as of the date first set forth above.

EXECUTIVE:

/s/ Qin Anji _____
Ji Qinan

Accepted by:

PURCHASER:

ABAX LOTUS LTD.

By /s/ Xiangdong Yang _____

Name: Xiangdong Yang

Title: Director

Schedule I

Purchaser and Notice Address

Abax Lotus Ltd.
c/o Abax Global Capital (Hong Kong) Limited
Suite 6708, 67/F Two International Finance Centre
8 Finance Street
Central, Hong Kong SAR
Attn: Chairman of the Board
Fax: +852 3602 1700

Schedule II

Pre-Existing Relationships

None.