Recon Technology, Ltd
Form 10-K
September 28, 2012

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended June 30, 2012

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to ..

Commission File Number 001-34409

RECON TECHNOLOGY, LTD

(Exact name of registrant as specified in its charter)

Cayman Islands	Not Applicable
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

1902 Building C, King Long International Mansion

9 Fulin Road, Beijing 100107

People's Republic of China

(Address of principal executive offices and zip code)

+86 (10) 8494 5799

(Registrant’s telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Ordinary Shares, $0.0185 par value per share	NASDAQ Capital Market
Title of each class	Name of each exchange on which registered

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No £

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

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

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

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

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

The aggregate market value of the ordinary shares, $0.0185 par value per share ("Shares"), of the registrant held by non-affiliates on December 31, 2011 was approximately $565,461, based on the closing sales price of $0.301 per share, as reported on the Nasdaq Capital Market, multiplied by the number of outstanding Shares held by non-affiliates on that date (1,878,608).

The Company is authorized to issue 25,000,000 Shares. As of the date of this report, the Company has issued and outstanding 3,951,811 Shares.

DOCUMENTS INCORPORATED BY REFERENCE

This Form 10-K incorporates the registration statement filed with the Commission on August 12, 2008, as amended (file no. 333-152964) (the "Registration Statement"), and prospectus filed pursuant to Rule 424(b)(3) of the Securities Act of 1933 (the "Securities Act") on July 24, 2009 (the "IPO Prospectus"). The Registration Statement and IPO Prospectus are incorporated by reference into Parts I, II and III of this Form 10-K.

RECON TECHNOLOGY, LTD

FORM 10-K

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this annual report that constitute forward-looking statements. Forward-looking statements involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “we believe,” “we intend,” “may,” “should,” “could” and sim expressions. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances or achievements expressed or implied by the forward-looking statements.

Examples of forward-looking statements include:

- projections of revenue, earnings, capital structure and other financial items;
- statements of our plans and objectives;
- statements regarding the capabilities and capacities of our business operations;
- statements of expected future economic performance; and
- assumptions underlying statements regarding us or our business.

The ultimate correctness of these forward-looking statements depends upon a number of known and unknown risks and events. Many factors could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Consequently, you should not place undue reliance on these forward-looking statements.

The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update this forward-looking information. Nonetheless, the Company reserves the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this Report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

PART I

Item 1. Business.

General

We are a provider of hardware, software, and on-site services to companies in the petroleum mining and extraction industry in China ("PRC"). We provide services designed to automate and enhance the extraction of petroleum. To this end, we control by contract the PRC companies of Beijing BHD Petroleum Technology Co., Ltd. ("BHD"), Nanjing Recon Technology Co., Ltd. ("Nanjing Recon") and Jining ENI Energy Technology Co., Ltd. ("ENI") (only through December 15, 2010) (collectively, the "Domestic Companies"). ENI was one of our contractually controlled affiliates until December 16, 2010, when we ceased to have the power to direct its activities following a change of ownership. As a result of such change, ENI ceased to be our VIE starting December 16, 2010.

We are the center of strategic management, financial control and human resources allocation for the Domestic Companies. Through our contractual relationships with the Domestic Companies, we provide equipment, tools and other hardware related to oilfield production and management, and develop and sell our own specialized industrial automation control and information solutions. However, we do not engage in the production of petroleum or petroleum products.

We believe that one of the most important advancements in China's petroleum industry has been the automation of significant segments of the exploration and extraction process. The Domestic Companies' and our automation products and services allow petroleum mining and extraction companies to reduce their labor requirements and improve the productivity of oilfields. The Domestic Companies' and our solutions allow our customers to locate productive oilfields more easily and accurately, improve control over the extraction process, increase oil yield efficiency in tertiary stage oil recovery, and improve the transportation of crude oil.

Market Background

China is the world's second-largest consumer of petroleum products, third-largest importer of petroleum and sixth-largest producer of petroleum. In the last twenty years, China's demand for oil has more than tripled, while its production of oil has only modestly increased. China became a net importer of petroleum in 1983, and, as a result, oil production in China has been aimed at meeting domestic requirements. The oil industry in China is dominated by three state-owned holding companies: China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC). Foreign companies have also recently become involved in China's petroleum industry; however, according to Chinese law, China's national oil companies may take a majority (or minority) stake in any commercial discovery. As a result, the number of major foreign companies involved in the industry is relatively limited: Agip, Apache, BP, ChevronTexaco, ConocoPhillips, Eni, ExxonMobil, Husky Energy, Kerr-McGee, Mitsubishi, Royal Dutch Shell, Saudi Aramco, and Total.

In the past, China's petroleum companies mined for petroleum by leveraging its abundance of inexpensive labor, rather than focusing on new technologies. For example, a typical, traditional oilfield with an annual capacity of 1,000,000 tons would require between 10,000 and 20,000 laborers. By contrast, when Baker CAC products were employed to explore and automate Cainan Oil Field, a desert oilfield in Xinjiang, annual capacity for the field reached 1,500,000 tons. Moreover, only 400 employees were required to manage the oilfield. After the introduction of Baker CAC's products into China's petroleum industry, Chinese companies have also sought to provide automation solutions.

In the primary oil recovery stage, oil pressure in an oil reservoir may be high enough to force oil to the surface. Approximately 20% of oil may be harvested at this stage. The secondary oil recovery stage accounts for another 5% to 15% of oil recovery and involves such efforts as pumps to extract petroleum and the injection of water, natural gas, carbon dioxide or other gasses into the oil reservoir to force oil to the surface. Most oilfields in China have now entered into the tertiary stage of oil recovery, at which oil extraction becomes increasingly difficult and inefficient. Tertiary recovery generally focuses on decreasing oil viscosity to make extraction easier and accounts for between 5% and 15% of oil recovery. Our efforts in tertiary recovery focus on reducing water content in crude oil in order to make extraction more efficient.

Our Products

We currently provide products and services to oil and gas field companies, which focus on the development and production of oil and natural gas. Our products and services described below correlate to the numbered stages of the oilfield production system graphical expression shown below.

Our products and services include:

Equipment for Oil and Gas Production and Transportation

- High-Efficiency Heating Furnaces (as shown above by No. 6). Crude petroleum contains certain impurities that must be removed before the petroleum can be sold, including water and natural gas. To remove the impurities and to prevent solidification and blockage in transport pipes, companies employ heating furnaces. BHD researched, developed and implemented a new oilfield furnace that is advanced, highly automated, reliable, easily operable, safe and highly heat-efficient (90% efficiency).

- Burner (as shown above by No. 5). We serve as an agent for the Unigas Burner which is designed and manufactured by UNIGAS, a European burning equipment production company. The burner we provide has the following characteristics: high degree of automation; energy conservation; high turn-down ratio; high security and environmental safety.

Oil and Gas Development Tools and Equipment

- Packers of Fracturing. This utility model is used concertedly with the security joint, hydraulic anchor, and slide bushing of sand spray in the well. It is used for easy seat sealing and sand-up prevention. The utility model reduces desilting volume and prevents sand up which makes the deblocking processes easier to realize. The back flushing is sand-stick proof.

- Production Packer. According to different withdraw points, the production packer separates different oil layers, and protects the oil pipe from sand and permeability, so as to promote the recovery ratio.

- Water Injection Packer. The water injection packer injects water into different layers rather than injecting on a large scale; this can reduce cost and promote effectiveness.

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Oil and Gas Production Increasing Techniques

- Fissure Shaper. This is our proprietary product that is used along with a perforating gun to effectively increase perforation depth by between 46% and 80%, shape stratum fissures, improve stratum diversion capability and, as a result, improve our ability to locate oilfields and increase the output of oil wells.

- Sand Prevention in Oil and Water Well. This technique processes additives that are resistant to elevated temperatures into "resin sand" which will be transported to the bottom of the well via carrying fluid. The "resin sand" goes through the borehole, pilling up and compacting at the borehole and oil vacancy layer. Then an artificial borehole wall is formed, functioning as a means of sand prevention. This sand prevention technique has been adapted to more than 100 wells, including heavy oil wells, light oil wells, water wells and gas wells, with a 100% success rate and a 98% effective rate.

- Water Locating and Plugging Technique. High water cut affects the normal production of oilfields. Previously, there was no sophisticated method for water locating and tubular column plugging in China. The mechanical water locating and tubular column plugging technique we have developed resolves the problem of high water cut wells. This technique conducts a self-sealing-test during multi-stage usage and is reliable to separate different production sets effectively. The water location switch forms a complete set by which the water locating and plugging can be finished in one trip. The tubular column is adaptable to several oil drilling methods and is available for water locating and plugging in second and third class layers.

- Fracture Acidizing. We inject acid to layers under pressure which can form or expand fissures. The treatment process of the acid is defined as fracture acidizing. The technique is mainly adapted to oil and gas wells that are blocked up relatively deeply, or the ones in the low permeable zones.

- Electronic Broken-down Service. This service resolves block-up and freezing problems by generating heat from the electric resistivity of the drive pipe and utilizing a loop tank composed of an oil pipe and a drive pipe. This technique saves energy and is environment friendly. It can increase the production of oilfields that are in the middle and later periods.

Automation System and Service

- Pumping Unit Controller. Refers to process "1" above. Functions as a monitor to the pumping unit, and also collects data for load, pressure, voltage, startup and shutdown control.

- RTU Used to Monitor Natural Gas Wells. Collects gas well pressure data.

- Wireless Dynamometer and Wireless Pressure Gauge. Refers to process “1” above. These products replace wired technology with cordless displacement sensor technology. They are easy to install and significantly reduce the working load associated with cable laying.

- Electric Multi-Way Valve for Oilfield Metering Station Flow Control. Refers to process “2” above. This multi-way valve is used before the test separator to replace the existing three valve manifolds. It facilitates the electronic control of the connection of the oil lead pipeline with the separator.

- Natural Gas Flow Computer System. Flow computer system used in natural gas stations and gas distribution stations to measure flow.

- Recon SCADA Oilfield Monitor and Data Acquisition System. Recon SCADA is a system which applies to the oil well, measurement station, and the union station for supervision and data collection.

- EPC Service of Pipeline SCADA System. A service technique for pipeline monitoring and data acquisition after crude oil transmission.

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- EPC Service of Oil and Gas Wells SCADA System. A service technique for monitoring and data acquisition of oil wells and natural gas wells.

- EPC Service of Oilfield Video Surveillance and Control System. A video surveillance technique for controlling the oil and gas wellhead area and the measurement station area.

- Technique Service for "Digital Oilfield" Transformation. Includes engineering technique services such as oil and gas SCADA system, video surveillance and control system and communication systems.

ISO9000 Certification

We have received ISO9000 certifications for several of our processes. The International Organization for Standardization consists of a worldwide federation of national standards bodies for approximately 130 countries, and the ISO9000 certification represents an international consensus of these standards bodies, with the aim of creating global standards of product and service quality. We have received ISO9000 certification for the following:

- Nanjing Recon has received certification for the development and service of RSCADA.

- BHD has received certification for high efficiency heating furnaces, import burners, and manometer surrogate rendition and service.

Customers

We operate our business by cooperating with oil companies and their subsidiaries, petroleum administration bureau and local service companies. Most actual control of our direct and indirect clients can be traced to Sinopec and CNPC, the two major Chinese state-owned companies responsible for on-shore petroleum mining and extraction. We have conducted automation projects for plants in three of China's four highest producing oilfields, Daqing, Shengli and Xinjiang. We have undertaken the automation projects at the following locations, among others:

Sinopec

- Jiangsu Oil Field
- Shengli Oil Field
- The Northwest Division
- The Southwest Division
- Zhongyuan Oil Field
- Sichuan Oil Field
- Jianghan Oil Field

We provide products and services to Sinopec under a series of agreements, each of which is terminable without notice. We first began to provide services to Sinopec in 1998. Sinopec accounted for approximately 24.07% and 16.49% of our revenues in 2012 and 2011, respectively, and any termination of our business relationships with Sinopec would materially harm our operations.

CNPC

- Qinghai Oil Field
- Tuha Oil Field
- Daqing Oil Field
- Jidong Oil Field
- Sichuan Oil Field
- Xinjiang Oil Field
- Huabei Oil Field
- Jilin Oil Field

We provide products and services to CNPC under a series of agreements, each of which is terminable without notice. We first began to provide services to CNPC in 2000. CNPC accounted for approximately 54.33% and 60.20% of our revenues in the fiscal years ended June 30, 2012 and 2011, respectively, and any termination of our business relationships with CNPC would materially harm our operations.

Our Strengths

- Safety of products. The automation projects we have conducted have demonstrated that our products are reliable, safe and effective at automating the petroleum extraction process.
- Efficiency of technology. We believe our technology increases efficiency and profitability for petroleum companies by enabling them to monitor, manage and control petroleum extraction; increase the amount of petroleum extracted and reduce impurities in extracted petroleum.

- Ability to leverage our knowledge of Chinese business culture. Many of our competitors are based outside of China. As the Domestic Companies are based in China, we are in a unique position to emphasize Chinese culture and business knowledge to obtain new customers and new agreements with existing customers. We believe that many Chinese businesses, including state-owned companies like Sinopec and CNPC, would prefer to hire a Chinese company to assist in their business operations if a Chinese company exists with the ability to fulfill their needs on a timely and cost-efficient basis. In addition, our knowledge of Chinese culture allows us to anticipate and adapt to Chinese oilfield management methods. We provide our software solutions in Mandarin for the benefit of our Chinese customers, and all of our customer support is available from fluent personnel.

- Experienced, successful executive management team. Our executive management team has significant experience and success in the petroleum automation industry. They will be able to draw on their knowledge of the industry and their relationships in the industry.

- Ability to leverage China's cost structure. As a Chinese company, we believe we can operate our business more cost-effectively because all of our employees, operations and assets are located in China, resulting in lower labor, development, manufacturing and rent costs than we believe we would incur if we also maintained operations abroad. We expect these costs savings will be reflected in lower costs to our customers for comparable products.

- Ownership of our intellectual property. Because we own our intellectual property, we are able to avoid licensing fees or contravening licensing agreements.

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Our Strategies

Our goal is to help our customers improve their efficiency and profitability by providing them with software and hardware solutions and services to improve their ability to locate productive oil reservoirs, manage the oil extraction process, reduce extraction costs, and enhance recovery from extraction activities. Key elements of our strategies include:

- Increase our market share in China. We believe that as the Chinese economy and oil industry continue to develop, Chinese petroleum extraction automation companies will compete with international businesses at an increasing rate. Consequently, we believe we will have opportunities to take market share from foreign companies by developing positive business relationships in China's petroleum mining and extraction industry. We will also use strategic advertisements, predominantly in China's northeast and northwest, where China's major oilfields are located, to increase our brand awareness and market penetration. We will continue to develop new technologies designed to improve petroleum mining and extraction efficiency and profitability for our customers.

- Develop our own branded products and services and shift focus away from trading business. Our management believes in the importance of our own branded products and our services, in light of their higher profit margins and their long-term significance in establishing the status of our Company in the oil and gas industry. Moreover, the trading business relies on the major clients' in procurement policies toward agencies, any significant change of which could jeopardize our operating results. Our management therefore believes that in the long run we will need to focus our growth strategy in developing professional services for the oil and gas industry in China.

- Focus on higher-profit subsection of market. While we plan to continue to provide services to all of our clients, we believe that we may improve our profit margins by focusing a higher portion of our advertising and promotions at those sub-divisions of our industry that have traditionally held the highest profit margins.

- Offer services to foreign oilfields contracted by Chinese petroleum companies. As Sinopec and CNPC continue to invest in oilfields in other countries, we will focus on offering our services in these new locations based on our success in working with the companies in China.

- Seek opportunities with foreign companies in China. Even where oilfields in China are partially operated by foreign companies, a significant number of employees will be Chinese and will benefit from our Chinese-language services. We believe our hardware and software solutions would be beneficial to any petroleum company doing business in China and will continue to market to foreign companies entering the Chinese market.

- Provide services that generate high customer satisfaction levels. Chinese companies in our market are strongly influenced by formal and informal referrals. We believe that we have the opportunity to expand market share by providing high levels of customer satisfaction with our current customers, thereby fostering strong customer referrals to support sales activities.

Competition

We face competition from a variety of foreign and domestic companies involved in the petroleum mining automation industry. While we believe we effectively compete in our market, our competitors hold a substantial market share.

A few of our existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical, marketing and other resources than we do, which could provide them with a significant competitive advantage over us. We cannot guarantee that we will be able to compete successfully against our current or future competitors in our industry or that competition will not have a material adverse effect on our business, operating results and financial condition.

Our primary domestic competitors include the following:

- Beijing Echo Technologies Development Co., Ltd. ("BET"). BET provides a combination of software and hardware products for industrial automatic control systems in the petroleum industry. BET currently engages in research and development of software and hardware applied to industrial automatic control systems, manufacturing and installation of industrial automation instruments and integration of automatic control products.

- Beijing Golden-Time Petroleum Measurement Technology Co., Ltd. ("BGT"). BGT develops analysis software used in oilfields but does not yet, to our knowledge, produce a substantial amount of hardware products.

Our primary foreign competitors include the following:

- Schlumberger Limited ("Schlumberger"). Schlumberger is an oilfield services provider for oil and gas companies around the world. Schlumberger recently launched a family of multistage fracturing and completion services, which have integrated stimulation technologies.

- Baltur Technologie Per IL Clima ("Baltur"). Baltur designs advanced products for the high performance burner, boiler and air conditioning markets.

- Honeywell International, Inc. ("Honeywell"). Honeywell provides diversified products and services including aerospace products and services, control technologies for buildings, homes and industry, automotive products, turbochargers, and specialty materials.

- Emerson Process Management ("Emerson"). Emerson is a global supplier of products, services, and solutions that measure, analyze, control, automate, and improve process-related operations.

- Rockwell Automation, Inc. ("Rockwell"). Rockwell provides industrial automation power, control and information solutions to a wide range of industries. Rockwell provides both stand-alone, industrial components and enterprise-wide integrated systems.

Research and Development

We focus our research and development efforts on improving our development efficiency and the quality of our products and services. As of June 30, 2012, our research and development team consisted of 26 experienced engineers, developers and programmers. In addition, some of our support employees regularly participate in our research and development programs.

In the fiscal years ended June 30, 2012 and 2011, respectively, we spent ¥6,533,419 ($1,033,818) and ¥3,078,391, respectively, on research and development activities.

Intellectual Property

Our success and competitive position is dependent in part upon our ability to develop and maintain the proprietary aspect of our technology. The reverse engineering, unauthorized copying, or other misappropriation of our technology could enable third parties to benefit from our technology without paying for it. We rely on a combination of trademark, trade secret, copyright law and contractual restrictions to protect the proprietary aspects of the Domestic Companies' and our technology. We seek to protect the source code to the Domestic Companies' and our software, documentation and other written materials under trade secret and copyright laws. While we actively take steps to protect the Domestic Companies' and our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of the Domestic Companies' and our intellectual property. This is particularly the case in China where the laws may not protect our proprietary rights as fully as in the United States.

We license the Domestic Companies' and our software products under signed license agreements that impose restrictions on the licensee's ability to utilize the software and do not permit the re-sale, sublicense or other transfer of the software. Finally, we seek to avoid disclosure of the Domestic Companies' and our intellectual property by requiring employees and independent consultants to execute confidentiality agreements.

Although the Domestic Companies and we develop our software products, each is based upon middleware developed by third parties. We integrate this technology, licensed by our customers from third parties in our software products. If our customers are unable to continue to license any of this third party software, or if the third party licensors do not adequately maintain or update their products, we would face delays in the releases of our software until equivalent technology can be identified, licensed or developed, and integrated into our software products. These delays, if they occur, could harm our business, operating results and financial condition.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. It is possible that in the future third parties may claim that our current or potential future software solutions infringe their intellectual property. We expect that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlap. In addition, we may find it necessary to initiate claims or litigation against third parties for infringement of our proprietary rights or to protect our trade secrets. Although the Domestic Companies and we may disclaim certain intellectual property representations to our customers, these disclaimers may not be sufficient to fully protect us against such claims. Any claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require the Domestic Companies and us to enter into royalty or license agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could have a material adverse effect on our business, operating results and financial condition.

Our standard software license agreements contain an infringement indemnity clause under which we agree to indemnify and hold harmless our customers and business partners against liability and damages arising from claims of various copyright or other intellectual property infringement by the Domestic Companies' and our products. We have never lost an infringement claim and our costs to defend such lawsuits have been insignificant. Although it is possible that in the future third parties may claim that our current or potential future software solutions or we infringe on their intellectual property, we do not currently expect a significant impact on our business, operating results, or financial condition.

We market our products under the following trademarks which are registered with the PRC Trademark Bureau under the State Administration for Industry and Commerce. We currently own or have applied for the following trademarks:

1. Trademark of "Senior" valid from May 14, 2005 through May 13, 2015;

2. Trademark of “BHD” valid from November 7, 2003 through November 6, 2013;

3. Trademark of “Recon” of the 7th classification, for drilling and mining equipment, valid from October 21, 2011 through October 20, 2021;

4. Trademark of “Recon” of the 9th classification, for internal communication equipment and digital pressure gauges, valid from April 21, 2011 through April 20, 2021; and

5. Trademark of “Recon” of the 42nd classification, for computer software design and quality control, valid from September 7, 2011 through September 6, 2021.

We currently own or have applied for the following 9 patents registered with the State Intellectual Property Office which are applied on our automated services products for the petroleum extraction industry:

1. Patent of oilfield wastewater degreasing treatment plant valid until May 15, 2013;

2. Patent of fracturing packer valid until August 5, 2018;

3. Patent of pressure phase transition furnace valid until June 3, 2019;

4. Patent of vacuum furnace phase transition valid until August 5, 2019;

5. Patent of heavy oil pipeline valid until June 17, 2015;

6. Patent of automatically adjusting negative pressure burner valid until July 22, 2019; and

7. Patent of wireless data instrument diagram valid until December 10, 2018;

8. Patent of hot water furnace valid until April 8, 2021;

9. Patent of multifunctional heating furnace valid until April 8, 2021

8. We have submitted two patent applications (firebox indirect heating furnace and fission phase change heating furnace) on August 8, 2012. The applications were accepted by the State Intellectual Property Office and are currently under review. We anticipate the approval may be granted near the end of calendar year 2012.

We have registered the following software products with the State Intellectual Property Office:

1. Recon automated monitoring system version 1 was published on July 30, 2011;

2. Recon automated maintenance and production-management system version 1 was published on July 10, 2011;

3. Recon SCADA field monitoring and data acquisition system software version 4 was published on January 28, 2011;

4. Recon flow control computer monitoring system software was registered and published on February 8, 2008;

5. Recon SCADA field monitoring and data acquisition system software version 2 was published on August 18, 2003, and version 3 was registered and published on April 5, 2008.

Litigation

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such pending or threatened legal proceedings, claims, regulatory inquiries or investigations that we believe will have a material adverse affect on our business, financial condition or operating results.

Environmental Matters

We have not incurred material expenses in connection with compliance with Chinese environmental laws and regulations. We do not anticipate expending any material amounts for such compliance purposes for the remainder of our current or succeeding fiscal year.

China’s Intellectual Property Rights Enforcement System

In 1998, China established the State Intellectual Property Office (“SIPO”) to coordinate China’s intellectual property enforcement efforts. SIPO is responsible for granting and enforcing patents, as well as coordinating intellectual property rights related to copyrights and trademarks. Protection of intellectual property in China follows a two-track system. The first track is administrative in nature, whereby a holder of intellectual property rights files a complaint at a local administrative office. Determining which intellectual property agency can be confusing, as jurisdiction of intellectual property matters is diffused throughout a number of government agencies and offices, with each typically responsible for the protection afforded by one statute or one specific area of intellectual property-related law. The second track is a judicial track, whereby complaints are filed through the Chinese court system. Since 1993, China has maintained various intellectual property tribunals. The total volume of intellectual property related litigation, however, remains small.

Although there are differences in intellectual property rights between the United States and China, of most significance to the Company is the inexperience of China in connection with the development and protection of intellectual property rights. Similar to the United States, China has chosen to protect software under copyright law rather than trade secrets, patent or contract law. As such, we will attempt to protect our most significant intellectual property pursuant to Chinese laws that have only recently been adopted. Unlike the United States, which has lengthy case law related to the interpretation and applicability of intellectual property law, China has a less developed body of relevant intellectual property case law.

Regulation on Software Products

On March 1, 2009, the Ministry of Industry and Information Technology of China issued the Administrative Measures on Software Products, or the Software Measures, which became effective as of April 10, 2009, to strengthen the regulation of software products and to encourage the development of the Chinese software industry. Under the Software Measures, a software developer must have all software products imported into or sold in China tested by a testing organization supervised by the Ministry of Industry and Information Technology. The software industry authorities in provinces, autonomous regions, municipalities and cities with independent planning are in charge of the registration, report and management of software products. Software products can be registered for five years, and the registration is renewable upon expiration. Although Nanjing Recon’s current software products were registered in 2008, there can be no guarantee that the registration will be renewed in 2013 or that the Domestic Companies’ and our future products will be registered.

Regulation of Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including trademarks and copyrights. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001.

Copyright. China adopted its first copyright law in 1990. The National People’s Congress amended the Copyright Law in 2001 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to software products, among others. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. Unlike patent and trademark registration, copyrighted works do not require registration for protection. Protection is granted to individuals from countries belonging to the copyright international conventions or bilateral agreements of which China is a member. Nanjing Recon has two copyrights for software programs.

Trademark. The Chinese Trademark Law, adopted in 1982 and revised in 1993 and 2001, protects registered trademarks. The Trademark Office under the Chinese State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. China has a “first-to-register” system that requires no evidence of prior use or ownership. The Domestic Companies and we have registered a number of product names with the Trademark Office.

Regulations on Foreign Exchange

Foreign Currency Exchange. The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (1996), as amended, and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996). Under these regulations, Renminbi are freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for most capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside China, unless the prior approval of SAFE or its local counterparts is obtained. In addition, any loans to an operating subsidiary in China that is a foreign invested enterprise, cannot, in the aggregate, exceed the difference between its respective approved total investment amount and its respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. Any increase in the amount of the total investment and registered capital must be approved by the PRC Ministry of Commerce or its local counterpart. We may not be able to obtain these government approvals or registrations on a timely basis, if at all, which could result in a delay in the process of making these loans.

The dividends paid by the subsidiary to its shareholder are deemed shareholder income and are taxable in China. Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), foreign-invested enterprises in China may purchase or remit foreign exchange, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

Regulation of Dividend Distribution. The principal regulations governing the distribution of dividends by foreign holding companies include the Foreign Investment Enterprise Law (1986), as amended, and the Administrative Rules under the Foreign Investment Enterprise Law (2001).

Under these regulations, foreign investment enterprises in China may pay dividends only out of their retained profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign investment enterprises in China are required to allocate at least 10% of their respective retained profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

Notice 75. On October 21, 2005, SAFE issued Notice 75, which became effective as of November 1, 2005. According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch. Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

PRC residents who control the Company are required to register with SAFE in connection with their investments in us. Such individuals completed this registration in 2007, and 2008, as amended. If we use our equity interest to purchase the assets or equity interest of a PRC company owned by PRC residents in the future, such PRC residents will be subject to the registration procedures described in Notice 75.

Regulations on Foreign Investment in Automation Service Industry and Oil Exploration and Extraction Industry in PRC. In accordance with the Catalogue of Industries for Guiding Foreign Investment (Revised 2007), the oil and gas automation service industries are in the catalogue of permitted industries, and thus there are no restrictions on foreign investment in such industry. In addition the following industries are encouraged for foreign investment in China:

- Manufacturing of equipment for oil prospecting, well drilling, and centralized transportation: floating well drilling system and floating production system operating at a water depth over 500m, seabed oil extraction & centralized transportation equipment operating at a water depth over 600m, deep-water oil driller with winch power over 3000KW, top driving power over 850KW and drilling pump power over, land-based oil driller & desert-based oil driller for drilling wells deeper than 9000m, 80 ton or bigger reciprocating piston compressor for use in oil refineries with a capacity of 10 million tons/year, CNC oil well measuring instrument, and oil drilling mud-hole equipment.

- Exploration and exploitation of oil and natural gas with venture capital (limited to equity joint ventures and cooperative joint ventures);

- Development and application of new technologies that increase the recovery ratio of crude oil (limited to equity joint ventures and cooperative joint ventures);

- Development and application of new oil exploration and exploitation technologies such as geophysical exploration, drilling, well logging, and downhole operation, etc. (limited to cooperative joint ventures); and

- Exploration and development of unconventional oil resources such as oil shale, oil sands, heavy oil, and excess oil (limited to cooperative joint ventures).

Employees

As of June 30, 2012, we had 80 employees, all of whom were based in China. Of the total, 8 were in management, 39 were in technical support and research and development, 14 were engaged in sales and marketing, 8 were in financial affairs, and 11 were in administration and procurement. We believe that our relations with our employees are good. We have never had a work stoppage, and our employees are not subject to a collective bargaining agreement.

Insurance

We do not have any business interruption, litigation or natural disaster insurance coverage for our operations in China. Insurance companies in China offer limited business insurance products. While business interruption insurance is available to a limited extent in China, we have determined that the risks of interruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Therefore, we are subject to business and product liability exposure. Business or product liability claims or potential regulatory actions could materially and adversely affect our business and financial condition.

We do, however, pay certain required insurance amounts in connection with our employees' wages. The amount and types of insurance we must provide under Chinese and local requirements vary by the location of each of the Domestic Companies. The following table summarizes the types of insurance paid for each of the Domestic Companies:

<u>Nanjing Recon</u>

Housing Fund

Pension

Unemployment Insurance

Medical Insurance

Occupational Injury Insurance

Maternity Insurance

<u>BHD</u>

Pension

Unemployment Insurance

Medical Insurance

Occupational Injury Insurance

<u>ENI</u> (through December 15, 2010)

Pension

Unemployment Insurance

Medical Insurance

Occupational Injury Insurance

Maternity Insurance

Item 1A. Risk Factors.

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.

Item 1B. Unresolved Staff Comments.

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.

Item 2. Properties.

We currently operate in three facilities throughout China. Our headquarters are located in Beijing.

Office	Address	Rental Term	Space
Headquarters	Room 1902, Building C King Long International Mansion, Chaoyang District Beijing, PRC	July 1, 2012 to June 30, 2013	220 square meters
	Room 4C408-1, No. 4 West building, Entrepreneurship Centre, Jining City, PRC	July 30, 2012 to December 31, 2012	40 square meters
Nanjing Recon	Yongfeng Mansion, 14th Floor No. 123 Jiqing Road Nanjing City, PRC	July 10, 2012 to July 9, 2014	440 square meters
BHD	18th Floor, Building C King Long International Mansion, Chaoyang District Beijing, PRC	January 1, 2012 to December 31, 2012	450 square meters
	West building, Zhengfu Street, Huo ying, Changping District, PRC	January 1, 2012 to December 31, 2012	900 square meters

Item 3. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such pending or threatened legal proceedings, claims, regulatory inquires or investigations that we believe will have a material adverse affect on our business, financial condition or operating results.

Item 4. Mine Safety Disclosures.

This item is inapplicable to the Company.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market for Our Ordinary Shares

We completed our initial public offering on July 29, 2009. The following table sets forth the quarterly high and low sale prices for our ordinary shares as reported on the NASDAQ Capital Market.

	High	Low
Year Ended June 30, 2013	$2.15	$1.38
Quarter Ended September 30, 2012 (through September 27, 2012)	$2.15	$1.38
Year Ended June 30, 2012	$4.58	$0.71
Quarter Ended September 30, 2011	$2.65	$0.71
Quarter Ended December 31, 2011	$1.08	$0.27
Quarter Ended March 31, 2012	$4.58	$0.30
Quarter Ended June 30, 2012	$3.29	$1.45
Year Ended June 30, 2011	$6.49	$0.88
Quarter Ended September 30, 2010	$6.10	$4.35
Quarter Ended December 31, 2010	$6.49	$3.96
Quarter Ended March 31, 2011	$4.96	$2.98
Quarter Ended June 30, 2011	$4.50	$0.88

As of June 30, 2012, there were approximately six holders of record of our ordinary shares. This excludes our ordinary shares owned by shareholders holding ordinary shares under nominee security position listings. On June 29, 2012, the last sales price of our ordinary shares as reported on the NASDAQ Capital Market was $1.84 per ordinary share.

Dividend Policy

We have never declared or paid any cash dividends on our ordinary shares. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the Board of Directors may deem relevant.

Because we are a holding company with no operations of our own and all of our operations are conducted through our Chinese subsidiary, our ability to pay dividends and to finance any debt that we may incur is dependent upon dividends and other distributions paid. In addition, Chinese legal restrictions permit payment of dividends to us by our Chinese subsidiary only out of its accumulated net profit, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, our subsidiary is required to set aside a portion (at least 10%) of its after-tax net income (after discharging all cumulated loss), if any, each year for compulsory statutory reserve until the amount of the reserve reaches 50% of our subsidiaries' registered capital. These funds may be distributed to shareholders at the time of its wind up. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Holding Company Structure."

Payments of dividends by our subsidiary in China to the Company are also subject to restrictions including primarily the restriction that foreign invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents. There are no such similar foreign exchange restrictions in the Cayman Islands.

(b) We are not required to provide any disclosure under this item, as we have applied all of the net proceeds from our initial public offering, as disclosed in our annual report on Form 10-K for the year ended June 30, 2011.

(c) None.

Item 6. Selected Financial Data.

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion and analysis of our company's financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors.

Overview

We are a company with limited liability incorporated in 2007 under the laws of the Cayman Islands. Headquartered in Beijing, we provide products and services to oil and gas companies and their affiliates through our Domestic Companies. As the company contractually controlling the Domestic Companies, we are the center of strategic management, financial control and human resources allocation.

Our business is mainly focused on the upstream sectors of the oil and gas industry. We derive our revenues from the sales and provision of (1) hardware products, (2) software products, and (3) services. Our products and services involve most of the key procedures of the extraction and production of oil and gas, and include automation systems, equipment, tools and on-site technical services.

Our VIEs provide the oil and gas industry with equipment, production technologies, automation and services to enhance our customers' efficiency.

- Nanjing Recon: Nanjing Recon is a high-tech company that specializes in automation services for oilfield companies. It mainly focuses on providing automation solutions to the oil exploration industry, including monitoring wells, automatic metering to the joint station production, process monitor, and a variety of oilfield equipment and control systems.

- BHD: BHD is a high-tech company that specializes in transportation equipment and stimulation productions and services. Possessing proprietary patents and substantial industry experience, BHD has built up stable and strong working relationships with the major oilfields in China.

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Business Outlook

The oilfield engineering and technical service industry is generally divided into five sections: (1) exploration, (2) drilling and completion, (3) testing and logging, (4) production and (5) oilfield construction. Our businesses have mainly focused on production processes. As of this year, we are also expanding our business to well completion and horizontal well down-hole service process. We still believe that many existing oil wells and oilfields are in need of renewal and improvement on their current equipment to maintain production. We also believe that as many new wells are developed, our gathering and transferring equipment will be in great need. Accordingly, in the next year, we will focus on the following areas.

Measuring Equipment and Service. "Digital oil field" and the management of oil companies are highly regarded. We believe our oilfield Supervisory Control and Data Acquisition ("SCADA") and related technical support services will address the needs of the oil well automation system market, for which we forecast strong needs in the short term. Through early cooperation with CNPC on Turkmenistan, we have developed our experience in this market. Although bidding has not yet commenced, we will continue pursuing overseas business projects in the coming second phase construction.

Gathering and Transferring Equipment. With more new wells developed, our management anticipates that demand for our furnaces and burners will grow more compared to last year, especially in the Tuha Oilfield and Xinjiang oilfield.

Fracturing service. We believe we cooperated well with Zhongyuan Oilfield in 2012 and expect to continue growing revenue from fracturing and related stimulation services in the coming year.

New product line. Design and development of down-hole tools has always been an important technique for oilfield companies. Recently, this market has developed very rapidly. After a year test project for our client, we have developed experience with this technology and our products and servers have been accepted by our client. We expect revenue from this business in the coming year.

In addition to our business development, our management will monitor our cash flows very closely to make sure our Company can meet our short-term obligations and to balance business development with our capital requirements.

Recent Industry Developments

Despite uncertainty in the energy industry related to such matters as fluctuating prices and future opportunities for oil companies, our management believes there are still many factors to support our long-term development:

(1) The opening of the Chinese oil industry to participation by non-state owned service providers and vendors played an increasingly important role in the high-end oilfield service segment to allow competition based on efficiency and price. As oil and gas fields are depleted, it becomes more challenging to find and convert reserves into usable energy sources. As the industry has permitted competition by private companies and oil companies have formed separate service companies, high-tech service has gradually opened up to private companies.

(2) Speeding up the development of unconventional hydrocarbon resources such as shale gas and coal bed methane will bring more requirements of related technic and service. China is rich in unconventional hydrocarbon resources, but new exploration and development technology breakthroughs are urgently needed; and

(3) Overseas assets of Chinese oilfield companies increased gradually, and they will provide more opportunity for domestic service companies to participate in foreign projects.

Management is focus on these factors and will seek to extend our business on the industrial chain, like providing more integrated services and incremental measures and growing our business from a predominantly up-ground business to include some down-hole services as well.

Growth Strategy

As a smaller local company, it is our basic strategy to focus on developing our onshore oilfield business, i.e. the upstream of the industry. Due to the remote location and difficult environment of China's oil and gas fields, foreign competitors rarely enter those fields.

Large domestic oil companies prefer to focus on their exploration and development businesses to earn higher margins and keep their competitive advantage. With regard to private oilfield service companies, 90% specialize in the manufacture of drilling and production equipment. Thus, the market for technical support and project service is still in its early stage. Our management focuses on providing high quality products and service at oilfields where we have a geographical advantage. Such strategy allows us to avoid conflicts of interest with bigger suppliers of drilling equipment and keep our leading position within the market segment. Our mission is to increase the automation and safety levels of industrial petroleum production in China, and improve its efficiency and effectiveness through advanced technologies. At the same time, we are always looking to improve our business and to increase our earning capability.

Factors Affecting Our Results of Operations

Our operating results in any period are subject to the general conditions typically affecting the Chinese oilfield service industry including:

- the amount of spending by our customers, primarily those in the oil and gas industry;
- growing demand from large corporations for improved management and software designed to enhance corporate performance;
- the procurement processes of our customers, especially those in the oil and gas industry;
-

competition and related pricing pressure from other oilfield service solution providers, especially those targeting the oil and gas industry in China;

- the ongoing development of the oilfield service market in China; and
- inflation and other factors.

Unfavorable changes in any of these general conditions could negatively affect the number and size of the projects we undertake, the number of products we sell, the amount of services we provide, the price of our products and services or otherwise affect our results of operations.

Our operating results in any period are more directly affected by company-specific factors including:

- our continued ability to lead and to control all affiliated entities;
- our revenue growth;
- the proportion of our business dedicated to large companies;
- our ability to successfully develop, introduce and market new solutions and services;

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- our ability to increase our revenues from customers both old and new in the oil and gas industry in China;
- our ability to effectively manage our operating costs and expenses; and
- our ability to effectively implement any targeted acquisitions and/or strategic alliances so as to provide efficient access to the markets in the oil and gas industry.

Critical Accounting Policies and Estimates

Estimates and Assumptions

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which require us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this quarterly report. Significant accounting estimates reflected in our Company’s consolidated financial statements include revenue recognition, allowance for doubtful accounts, and useful lives of property and equipment.

Consolidation of VIEs

We recognize an entity as a VIE if it either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. We consolidate a VIE as its primary beneficiary when we have both the power to direct the activities that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

Assets recognized as a result of consolidating VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Revenue Recognition

We recognize revenue when the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been provided; (3) the sales price is fixed or determinable; and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the client and the client has signed a completion and acceptance report, risk of loss has transferred to the client, client acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in client acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

Hardware

Revenue from hardware sales is generally recognized when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Software

The Company sells self-developed software. For software sales, the Company recognizes revenues in accordance with the provisions of Accounting Standards Codification, Topic 985-605, "Software Revenue Recognition," and related interpretations. Revenue from software is recognized according to project contracts. Contract costs are accumulated during the periods of installation and testing or commissioning. Usually this is short term. Revenue is not recognized until completion of the contracts and receipt of acceptance statements.

Services

The Company provides services to improve software functions and system requirements on separated fixed-price contracts. Revenue is recognized when services are completed and acceptance is determined by a completion report signed by the customer.

Deferred income represents unearned amounts billed to customers related to sales contracts.

Cost of Revenues

When the criteria for revenue recognition have been met, costs incurred are recognized as cost of revenue. Cost of revenues includes wages, materials, handling charges, the cost of purchased equipment and pipes, and other expenses associated with manufactured products and services provided to customers. We expect cost of revenues to grow as our revenues grow. It is possible that we could incur development costs with little revenue recognition, but based upon our past history, we expect our revenues to grow.

Fair Values of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for trade accounts receivable, other receivables, advances to suppliers, trade accounts payable, accrued liabilities, advances from customers and notes payable approximate fair value because of the immediate or short-term maturity of these financial instruments. Long-term other receivables approximate fair value because the interest rate approximates the market rate.

Allowance for Doubtful Accounts

Trade receivables and other receivable accounts are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision made for impairment of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of doubtful accounts requires the use of judgment and estimates of management. Our management must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our allowance for trade accounts receivable was ¥4,744,584 ($750,761) and ¥2,854,583 on June 30, 2012 and 2011, respectively. Specifically, allowance for trade accounts receivable - related parties on June 30, 2012 and 2011 was ¥1,362,290 ($215,563) and ¥184,728, respectively. Allowance for other receivables on June 30, 2012 and 2011 was ¥475,760 ($75,282) and ¥199,635, respectively. There was no allowance for other receivables from related parties.

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Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized software more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or the acceptance of our software change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change by a material amount.

Results of Operations

The following consolidated results of operations include the results of operations of the Company and its variable interest entities (“VIEs”), BHD, Nanjing Recon and ENI (as to ENI, from July 1, 2010 to December 15, 2010 only). The results of operations are those of the VIEs. On December 16, 2010, ENI changed its equity ownership. We ceased to have the power to direct the activities of ENI that most significantly impact its economic performance as of that date. As a result of the Company’s determination to deconsolidate ENI, ENI’s results of operations have been consolidated in the Company’s results of operations only through December 15, 2010.

Our historical reporting results are not necessarily indicative of the results to be expected for any future period.

Revenue

For the Years Ended June 30,

	2012	2011	Increase (Decrease)	Percentage Change
Hardware	¥57,603,923	¥61,577,356	¥(3,973,433)	(6.45%)
Service	13,985,465	—	13,985,465	(100.00%)
Software	3,952,991	2,111,111	1,841,880	87.25%
Total Revenues	¥75,542,379	¥63,688,467	¥11,853,912	18.61%

Revenues. Our total revenues for the year ended June 30, 2012 were ¥75,542,379 ($11,953,476), an increase of ¥11,853,912 or 18.61% from ¥63,688,467 for the year ended June 30, 2011. This was mainly caused by:

(1) *Deconsolidation of ENI*. For the year ended June 30, 2012, there was no revenue contributed by ENI while that contribution of ENI was ¥18,681,469 for the year ended June 30, 2011. In light of the ownership change of ENI on December 16, 2010, the Company's Audit Committee concluded that ENI is no longer a VIE and the Company should not include ENI's operations in the Company's operating results starting December 16, 2010. After eliminating that factor, our revenue from operations increased about ¥30,535,381, or 67.85%. When results from ENI are included in operations for the period in fiscal year 2011 before it was deconsolidated, the increase from 2011 to 2012 revenue from operations is more moderate.

(2) *Recently developed horizontal fracturing business*. During this year, Recon BHD signed several contracts with an aggregate contract value of RMB 30 million with Sinopec Zhongyuan oilfield. As of June 30, 2012, we completed about half of the contracts and recognized a corresponding percentage of revenues from the contracts;

(3) *Overseas Project*. During this year, we also entered into the overseas market by following CNPC. We won a major contract of approximately ¥16,645,000 with CNPC Sichuan Petroleum Administration Bureau to provide it with the Emerson PCS & SIS Systems in its South Yolotan Gas Field 100*108 M3/A Project located in Turkmenistan. As of June 30, 2012, we had provided that equipment and recognized approximately ¥14,717,000 of the contract amount as revenue in 2012.

Cost and Margin

	For the Years Ended June 30,			
	2012	2011	Increase (Decrease)	Percentage Change
Total Revenues	¥75,542,379	¥63,688,467	¥11,853,912	18.61%
Cost of Revenues	¥51,269,950	¥43,469,506	¥7,800,444	17.94%
Gross Profit	¥24,272,429	¥20,218,961	¥4,053,468	20.05%
Margin %	32.13%	31.75%	0.38%	——

Cost of Revenues. Our cost of revenues includes raw materials and costs related to design, implementation, delivery and maintenance of products and services. All materials and components we need can be purchased or manufactured under contracts. Usually the prices of electronic components do not fluctuate dramatically due to market competition and will not significantly affect our cost of revenues. However, specialized equipment and incentive chemical products may be directly influenced by the price moves of metal and oil. Additionally, the prices of some imported accessories mandated by our clients can also impact our cost.

Our cost of revenues increased by ¥7,800,444, or 17.94%, from ¥43,469,506 in the year ended June 30, 2011 to ¥51,269,950 ($8,112,719) for the same period in 2012.

(1) Costs of operations increased by ¥21,146,542 or 70.20%, which were mainly due to increase of new projects; and

(2) The decrease of costs was mainly due to the deconsolidation of ENI, which accounted for ¥17,632,489 ($2,727,798).

As a percentage of revenues, our cost of remained stable at 67.87% in the year ended June 30, 2012 compared to 68.25% in the fiscal year 2011. Because most of our new vendors are international companies and our clients require us to import their relatively expensive products, our cost of operations is relatively high. Oil and gas production is a dangerous process, so right now domestic oil companies prefer to use more well known mature products. They have begun to implement import substitution strategies by using more domestic self-developed products. We are cooperating with our clients on this so that we can decrease our cost in the long run.

Gross Profit. For the year ended June 30, 2012, our gross profit increased to ¥24,272,429 ($3,840,757) from ¥20,218,961 for the same period in 2011, an increase of ¥4,053,468, or 20.05%. For the year ended June 30, 2012, our gross profit as a percentage of revenue was stable at 32.13%, compared to 31.75% for the year of 2011.

Our management believes that a higher margin level is very important to secure our business. The domestic oilfield service industry in China is becoming more and more competitive. As a small company, we are now switching our role from being a primary products supplier to becoming an advanced products and services integrator so that we can make full use of our knowledge and rich experience in the oilfields production to satisfy our clients' needs. With further exploration and development of oilfields, the level of reserved crude oil gradually decreases, as does the output. A company, which can provide more effective service and safe products to help increase oil well recovery efficiency, will earn higher profit and keep greater flexibility in managing its business. Management believes that specializing in providing packaged customized solutions will increase our long-term competitiveness.

Expenses

	For the Years Ended June 30,			
	2012	2011	Increase (Decrease)	Percentage Change
Selling and distribution expenses	¥5,054,219	¥7,736,091	¥(2,681,872)	(34.67%)
% of revenue	6.69%	12.15%	(5.46%)	——
General and administrative expenses	22,755,891	32,055,652	(9,299,761)	(29.01%)
% of revenue	30.12%	50.33%	(20.21%)	——
Operating expenses	¥27,810,110	¥39,791,743	¥(11,981,633)	(30.11%)

Selling and Distribution Expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing department, sales commissions, costs of our marketing programs (such as public relations, advertising and trade shows), and an allocation of our facilities and depreciation expenses. Selling expenses decreased by ¥2,681,872, or 34.67%, from ¥7,736,091 for the year ended June 30, 2011 to ¥5,054,219 ($799,756) for the same period of 2012 as a result of focusing our selling efforts on a more limited number of clients. The percentage of selling expenses in revenue decreased from 12.15% to 6.69%. Our management believes the selling and distribution expenses are reasonable and expect selling and distribution expenses as a percentage of revenue will remain around 10% of our revenue in the long run.

General and Administrative Expenses. General and administrative expenses consist primarily of costs from our human resources organization, facilities costs, provision for bad debt, depreciation expenses, professional advisor fees, audit fees and other expenses incurred in connection with the operations. General and administrative expenses decreased by ¥9,299,761, or 29.01%, from ¥32,055,652 in the year ended June 30, 2011 to ¥22,755,891 ($3,600,787) for the same period of 2012. Of the decrease, it was mainly caused by the deconsolidation of ENI, offset by the following operational general and administrative expenses: (1) increased expenses related to research and development activities, (2) increased salaries by our VIEs to attract talent, (3) increased allowance for accounts receivable and (4) increased expenses related to SOX compliance services. General and administrative expenses were 30.12% of total revenues for the year ended June 30, 2012 and 50.33% of total revenues for the same period in 2011. Overall, this percentage is high and our management will focus on this issue and take steps to reduce these expenses.

Net Income

	For the Years ended June 30,			
	2012	2011	Increase (Decrease)	Percentage Change
Loss from operations	¥ (3,537,681)	¥ (19,572,782)	¥ 16,035,101	(81.93%)
Interest income	335,517	1,463	334,054	22,833.49%

Interest expense and foreign currency adjustments	(1,009,127)	(564,654)	(444,473)	78.72%
Other income (loss)	(78,097)	279,664	(357,761)	(127.93%)
Subsidy income	554,856	822,545	(267,689)	(32.54%)
Loss on deconsolidation	-	(8,989,614)	8,989,614	100%
Loss before income taxes	(3,734,532)	(28,023,378)	24,288,846	(86.67%)
Benefit from (provision for) income taxes	220,050	(665,146)	885,196	(133.08%)
Net income attributable to non-controlling interest	(305,653)	(347,851)	42,198	(12.13%)
Net loss attributable to ordinary shareholders	¥ (3,820,135)	¥ (29,036,375)	¥ 25,216,240	(86.84%)

Loss from Operations. Loss from operations was ¥3,537,681 ($559,786) for the year ended June 30, 2012, compared to loss from operations of ¥19,572,782 for the same period of 2011, as a result of deconsolidation of ENI, increasing revenues and reducing expenses during this year.

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Subsidy Income. We received grants of ¥822,545 and ¥554,856 ($87,798) from the local government for the years ended June 30, 2011 and 2012, respectively. These grants were given by the government in the form of income tax return to support local companies in developing advanced technologies and improving their products.

Loss on Deconsolidation. As a result of the deconsolidation of ENI, we suffered a loss of ¥8,989,614 ($1,390,720) for the year ended June 30, 2011, which amount was measured as the difference between (a) the aggregate of (i) the fair value of any consideration received, (ii) the fair value of the retained non-controlling investment in ENI at the date in which ENI was deconsolidated, and (iii) the carrying amount of any non-controlling interest in ENI; and (b) the carrying value of the net assets and liabilities of ENI as of December 15, 2010. Our management believes it was an unusual and infrequent loss and we took steps to prevent this from happening in the future by monitoring our VIEs' operation very closely.

Income Tax Expense. Income taxes are provided based upon the liability method of accounting pursuant to ASC Topic 740, "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts. A valuation allowance is recorded against deferred tax assets if it is not likely that the asset will be realized. We have not been subject to any income taxes in the United States or the Cayman Islands. Enterprises doing business in PRC are generally subject to enterprise income tax at a rate of 25%; however, Nanjing Recon and BHD were granted certifications of High Technology Enterprise and are taxed at a rate of 15% for taxable income generated. The applicable tax rate for each of our subsidiaries changed in the past few years because of their qualifications and different local policies. For calendar years 2010 and 2011, Nanjing Recon and BHD were taxed at a rate of 15% and ENI was taxed at 25%. Our effective EIT burden will vary, depending on which of our Domestic Companies generate greater revenues. Income tax expense for the years ended June 30, 2011 was ¥665,146 and income tax benefit for the year ended June 30, 2012 was ¥220,050 ($34,820), respectively. This decrease was mainly due to a decrease in taxable operating income.

Net Loss Attributable to Ordinary Shareholders. Our company has improved the operations by increasing revenue by obtaining new customers and reducing expenses by focusing on big clients (so that our selling expenses were decreased). As a result, net loss attributable to ordinary shareholders was improved by ¥25,216,240 or 86.84% for the year ended June 30, 2012, from a net loss of ¥29,036,375 for the same year ended June 30, 2011.

	For the Years Ended June 30,				
	2012	2011	Increase	Percentage	2012
Adjusted EBITDA	RMB	RMB	(Decrease)	Change	U.S. Dollars
Reconciliation of Adjusted EBITDA from Net Loss:					
Net loss	¥(3,514,482)	¥(28,688,524)	¥25,174,042	(87.75 %)	$(556,115)
Income tax expense (benefit)	(220,050)	665,146	(885,196)	(133.08 %)	(34,820)
	1,009,127	564,654	444,473	78.72 %	159,680

Interest expense and foreign currency adjustment					
Stock compensation expense	1,239,788	1,420,588	(180,800)	(12.73 %)	196,178
Depreciation and amortization	197,873	361,837	(163,964)	(45.31 %)	31,310
Loss on deconsolidation	-	8,989,614	(8,989,614)	(100%)	-
Adjusted EBITDA	¥(1,287,744)	¥(16,686,685)	¥15,398,941	(92.28 %)	$(203,767)

Adjusted EBITDA. We define adjusted EBITDA as net income (loss) before income tax expense, interest expense, non-cash stock compensation expense, and depreciation, amortization expense. We believe it is useful to an equity investor in evaluating our operating performance because (1) it is widely used by investors in our industry to measure a company's operating performance without regard to items such as interest expense, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods, the book value of assets, the capital structure and the method by which the assets were acquired; and (2) it helps investors more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating results.

Adjusted EBITDA improved by ¥15,398,941, or 92.28%, to a loss of ¥1,287,744 ($203,767) for the year ended June 30, 2012 compared to the same year ended June 30, 2011. This was mainly due to our improved operations. Compared to the 86.84% decrease in net loss attributable to ordinary shareholders, we believe EBITDA more accurately reflects our operations.

Liquidity and Capital Resources

Cash and Cash Equivalents. Cash and cash equivalents are comprised of cash on hand, demand deposits and highly liquid short-term debt investments with stated maturities of no more than six months. As of June 30, 2012, we had cash and cash equivalents in the amount of ¥3,533,283 ($559,090).

Indebtedness. As of June 30, 2012, except for ¥2,767,066 ($437,838) of short-term borrowings from third parties, ¥4,123,306 ($652,453) of short-term borrowings from related parties, and ¥23,000,000 ($3,639,413) in commercial loans from two local banks, we did not have any finance leases or purchase commitments, guarantees or other material contingent liabilities.

Holding Company Structure. We are a holding company with no operations of our own. All of our operations are conducted through the Domestic Companies. As a result, our ability to pay dividends and to finance any debt that we may incur is dependent upon the receipt of dividends and other distributions from the Domestic Companies. In addition, Chinese legal restrictions permit payment of dividends to us by our Domestic Companies only out of its accumulated net profit, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, the Domestic Companies are required to set aside a portion (at least 10%) of their after-tax net income (after discharging all cumulated loss), if any, each year for compulsory statutory reserve until the amount of the reserve reaches 50% of the Domestic Companies' registered capital. These funds may be distributed to shareholders at the time of wind-up. When we were incorporated in the Cayman Islands in August 2007, 5,000,000 ordinary shares were authorized, and 50,000 ordinary shares were issued to Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi, at a par value of $0.01 each. On December 10, 2007, our company sold 2,632 ordinary shares to an investor at an aggregate consideration of $200,000. On June 8, 2009, in connection with our initial public offering, the Board of Directors approved a 42.7840667-to-1 split of ordinary shares and redeemable ordinary shares to shareholders of record as of such date. After giving effect to the share split of our ordinary shares and the completion of our initial public offering, we had 3,951,811 ordinary shares outstanding.

On December 16, 2010, in light of the change of the ownership of ENI, we ceased to have the power to direct the activities of ENI, which as of that date most significantly impact its economic performance. As a result, ENI ceased to be our VIE starting from the same date.

Off-Balance Sheet Arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders' equity, or that are not reflected in our financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Capital Resources. To date we have financed our operations primarily through cash flows from operations and proceeds from the initial public offering. As of June 30, 2012, we had total assets of ¥152,149,277 ($24,075395), which includes cash amounting to ¥3,533,283 ($559,090), net accounts receivable from independent parties amounting to ¥61,993,942 ($9,809,634), and net accounts receivable from related parties amounting to ¥20,394,749 ($3,277,170). Working capital amounted to ¥74,161,048 ($11,734,900) and shareholders' equity amounted to ¥79,616,770 ($12,598,188). We have experienced some working capital pressures and have sought to transfer these pressures by delaying payment to our suppliers.

Cash from Operating Activities. Net cash used in operating activities was ¥21,872,623 ($3,461,024) for the year ended June 30, 2012. This was an increase of ¥15,540,991 ($2,459,134) from ¥6,331,632 for the year ended June 30, 2011. Specifically, the increase is mainly due to:

(1) Some of our new completed projects were not paid in full by the end of the year, which caused the accounts receivable to increase by approximately ¥54,681,000 ($8,591,000); and

(2) Purchase advances, including related parties, increased by approximately ¥31,690,000 ($4,919,000), mainly due to performance under new and on-going projects, offset by increases in accounts payable, including accounts payable-related parties, by approximately ¥15,672,000 ($2,463,000) due to longer payment terms for suppliers and a decrease in inventory of approximately ¥21,582,000 ($3,333,000) due to increase in sales and therefore a greater turnover in inventory.

Cash from Investing Activities. Net cash used in investing activities was ¥840,268 ($132,960) for the year ended June 30, 2012, a decrease of ¥1,589,126 from ¥2,429,394 for the same period of 2011. The foremost factor for the decrease was the loss of cash associated with the deconsolidation of ENI for approximately ¥2,556,000 ($349,057) for year 2011.

Cash from Financing Activities. Cash flows provided by financing activities amounted to ¥22,735,687 ($3,597,589) for the year ended June 30, 2012, compared to cash flows provided by financing activities of ¥341,235 for the year ended June 30, 2011. During the year ended June 30, 2012, we borrowed ¥23,000,000 ($3,639,413) from domestic commercial banks to supplement our working capital and repaid ¥5,000,000 ($791,177) on bank loans when due.

Working Capital. Total working capital as of June 30, 2012 amounted to ¥74,161,048 ($11,784,900), compared to ¥73,884,461 ($11,691,134) as of June 30, 2011. Total current assets as of June 30, 2012 amounted to ¥140,072,108 ($22,164,359), an increase of ¥39,291,669 ($6,217,331) compared to ¥100,780,439 at June 30, 2011. The increase in total current assets at June 30, 2012 compared to June 30, 2011 was mainly due to the increase in accounts receivable of ¥39,664,237 ($6,276,285). Accounts receivable increased materially as a result of increases in the total value of large projects in process by the company for a relatively limited number of clients.

Current liabilities amounted to ¥65,911,060 ($10,429,461) at June 30, 2012, in comparison to ¥26,895,978 (4,255,895) at June 30, 2011. This dramatic increase was attributable mainly to an increase of bank loans and payments to suppliers.

Recently Enacted Accounting Standards

None.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.

Item 8. Financial Statements and Supplementary Data.

The Company's financial statements and the related notes, together with the report of Friedman LLP for the years ended June 30, 2012 and 2011 are set forth following the signature pages of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As of June 30, 2012, our company carried out an evaluation, under the supervision of and with the participation of management, including our Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures. Included in this Annual Report on Form 10-K, the chief executive officer and chief financial officer concluded that our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were ineffective in timely alerting them to information required to be included in the Company's periodic U.S. Securities and Exchange Commission (the "Commission") filings.

Changes in Internal Control over Financial Reporting

Management continues to focus on internal control over financial reporting. As of June 30, 2012, the Company has completed the necessary documentation of our internal controls and implemented the following remedial initiatives:

- Improved the design and documentation related to multiple levels of review over financial statements included in our SEC filings;
- Expanded the design and assessment test work over the monitoring function of entity level controls;
- Enhanced documentation retention policies over test work related to our continuous management assessments of internal control effectiveness; and
- Expanded documentation practices and policies related to various key controls to provide support and audit trails for both internal management assessment as well as external auditor testing.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended. The Company's internal control over financial reporting is 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. The 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 Company's assets;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that the Company's receipts and expenditures are being made only in accordance with the authorization of its management and directors; 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.

The Company's management assessed the effectiveness of its internal control over financial reporting as of June 30, 2012. In making this assessment, management used the framework set forth in the report entitled *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Based on this assessment, the Company's management believes that, as of June 30, 2012, its internal control over financing reporting is not effective based on those criteria.

The specific material weaknesses identified by the Company's management as of June 30, 2012 is described as follows:

We did not have sufficient skilled accounting personnel who are either qualified as Certified Public Accountants in the U.S. or who have received education from U.S. institutions or other educational programs that would provide enough relevant education relating to U.S. GAAP. The Company's CFO and Controller have limited experience with U.S. GAAP and are not U.S. Certified Public Accountants. Further, our operating subsidiaries are based in China, and in accordance with PRC laws and regulations, are required to comply with PRC GAAP, rather than U.S. GAAP. Thus, the accounting skills and understanding necessary to fulfill the requirements of U.S. GAAP-based reporting, including the preparation of consolidated financial statements, are inadequate, and determined to be a material weakness.

Since we recently completed our designs of our internal controls and assessments for all of our financial reporting cycles in during the fiscal year 2012, we are unable to declare effectiveness of our controls due to lack of sufficient time to obtain evidence of operating effectiveness as of June 30, 2012. Therefore, we determined that the lack of time to evaluate our design and operating effectiveness is a material weakness. It should be noted, however, that (a) many actions had been undertaken to enhance the control environment during the year; and (b) there are other remedial activities that are scheduled to be take place in fiscal 2013.

As a result, the Company has developed remedial actions to strengthen its accounting and financial reporting functions as well as the related disclosure controls and procedures. Such plan will require the hiring of additional resources and the deployment of other corporate resources for the accounting department in relation to the financial reporting process. Such additional resources will include the establishment of a work force dedicated to the task of correcting past financial irregularities and maintaining correct financial reporting on an on-going basis. To strengthen the Company's internal control over financial reporting, the Company engaged outside consultants that are skilled in SEC reporting and Section 404 compliance to assist in the implementation of the following remedial actions, which have been completed as of the date of this report:

• Development and formalization of key accounting and financial reporting policies and procedures;

• Identification and documentation of key controls by business process;

• Enhancement of existing disclosures policies and procedures;

• Formalization of periodic communication between management and the audit committee;

• Implementation of policies and procedures intended to enhance management monitoring and oversight by the Audit Committee; and

In addition to the foregoing efforts, the Company expects to implement the following remedial actions during fiscal year 2013:

• Formalization of a periodic staff training program to enhance their awareness of the key internal control activities.

• Develop a comprehensive training and development plan, for our finance, accounting and internal audit personnel, including our Chief Financial Officer, Controller, and others, in the principles and rules of U.S. GAAP, SEC reporting requirements and the application thereof.

• Hire a full-time employee who possesses the requisite U.S. GAAP experience and education

Despite the material weaknesses and deficiencies reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Regulation S-K Item 401:

Executive Officers and Directors

The following table sets forth our executive officers and directors, their ages and the positions held by them:

Name	Age	Position Held
Mr. Yin Shenping	43	Chief Executive Officer and Director
Ms. Liu Jia	29	Chief Financial Officer
Mr. Chen Guangqiang	49	Chief Technology Officer and Director
Mr. Zhao Shudong	66	Independent Director
Mr. Nelson N.S. Wong	50	Independent Director
Mr. Hu Jijun	47	Independent Director

Yin Shenping. Mr. Yin is our Chief Executive Officer. In 2003, Mr. Yin founded Nanjing Recon, a Chinese company that provides services to automate and enhance the extraction of petroleum in China, and has been the Chief Executive Officer since that time. Prior to founding Nanjing Recon, Mr. Yin served as a sales manager for Fujian Haitian Network Company from 1992 through 1994. Mr. Yin has founded and operated a number of companies: Xiamen Hengda Haitian Computer Network Co., Ltd. (1994), Baotou Hengda Haitian Computer Network Co., Ltd. (1997) and Beijing Jingke Haitian Electronic Technology Development Co., Ltd. (1999), and Jingsu Huasheng Information Technology Co., Ltd. (2000). In 2000, Mr. Yin merged the former Nanjing Kingsley Software Engineering Co., Ltd. into Nanjing Recon. Mr. Yin received his bachelor’s degree in 1991 from Nanjing Agricultural University in information systems. Mr. Yin has been chosen as a director because he is one of the founders of the Company and we believe his knowledge of the Company and years of experience in our industry give him the ability to guide the Company as a director.

Liu Jia. Ms. Liu has served as our Chief Financial Officer since 2008. In 2008 Ms. Liu assisted Heilongjiang Province Jintian Group with financial due diligence, field surveys and data analysis. While in college Ms. Liu served internships in Xinghua Certified Public Accountants, Ltd., Beijing Zhongweihuahao Accountants Affairs Office, Tiantong Securities Co., Ltd. and Industrial and Commercial Bank of China, which internships focused on auditing, accounting and data analysis. Ms. Liu received her bachelor's degree in 2006 from Beijing University of Chemical Technology, School of Economics and Management and her master's degree in industrial economics in 2009 from Beijing Wuzi University.

Chen Guangqiang. Mr. Chen has served as our Chief Technology Officer since 2003. Mr. Chen was a geological engineer for the Fourth Oil Extraction Plant of Huabei Oil Field from 1985 through 1993. From 1993 through 1999, Mr. Chen was a chief engineer for Xinda Company, CNPC Development Bureau. From 1999 through 2003, Mr. Chen served as the general manager of Beijing Adar. Mr. Chen received his bachelor's degree in 1985 from Southwest Petroleum Institute. Mr. Chen has been chosen as a director because he is one of the founders of the Company and we believe we can benefit from his years of engineering experience and management experience in the oil extraction industry.

Nelson N.S. Wong. Mr. Wong joined our Board of Directors in 2008. In 1990 Mr. Wong joined the Vigers Group, a real estate company that provides services in valuation, corporate property services, investment advisory services, general practice surveying, building surveying, commercial, retail and industrial agency, and property and facilities management. Mr. Wong became the Vice Chairman and CEO of the Vigers Group in 1993. In 1995 Mr. Wong established the ACN Group, a business consulting firm, where he has worked continuously and continues to serve as the Chairman and Managing Partner. Mr. Wong received a bachelor's degree in arts from the PLA Institute of International Relations in Nanjing in 1983. Mr. Wong has been chosen as a director because we believe we can benefit from his leadership skills and management experience.

Hu Jijun. Mr. Hu joined our Board of Directors in 2008. From 1988 to 2003, Mr. Hu served in a variety of positions at our No. 2 test-drill plant, including technician of installation, assets equipment work, electrical installation, control room production dispatcher, Deputy Chief Engineer of the Technology Battalion, and Deputy Director of Production. From 2003 to 2005 he served as Head of the Integrated Battalion and he is currently the Head of the Transport Battalion, Senior Electric Engineer. Mr. Hu graduated as an automated professional from the China University of Petroleum in 1988. Mr. Hu has been chosen as a director because we believe his years of experience and knowledge gained while working at our No. 2 test-drill plant will prove beneficial to the guidance of the Company.

Zhao Shudong. Before retiring in 2006, Mr. Zhao spent over 30 years working in the oilfield industry. From 1970 to 1976, Mr. Zhao worked as a technician in the Daqing oilfield. From 1976 to 1982, Mr. Zhao served as the vice director of the Hubei Oilfield Generalized Geologic Technical Research Institute. Mr. Zhao then spent 11 years as a director and section chief at the Scientific and Technological Development Department of the Huabei Petroleum Administrative Bureau. He was subsequently appointed Chief Geologist of the bureau, a position he held from 1993 to 1999. From 1999 to 2006, Mr. Zhao served as the General Manager of the Huabei Oilfield Company of CNPC. Mr. Zhao studied at the Northeast Petroleum Institute from 1965 to 1970. Mr. Zhao has been chosen as a director nominee because of his extensive experience in the oilfield industry.

Employment Agreements

We have employment agreements with each of our Chief Executive Officer, Chief Technology Officer and Chief Financial Officer. With the exception of the employment agreement with our Chief Financial Officer, each of these employment agreements provides for an indefinite term. Such employment agreements may be terminated (1) if the employee gives written notice of his or her intention to resign, (2) the employee is absent from three consecutive meetings of the Board of Directors, without special leave of absence from the other members of the Board of Directors, and the Board of Directors passes a resolution that such employee has vacated his office, or (3) the death, bankruptcy or mental incapacity of the employee. The employment agreement for our Chief Financial Officer provides for a one-year term, currently expiring on March 12, 2012. Such employment agreement may be terminated if the employee gives thirty days’ written notice of her intention to resign, or if the Board of Directors determines she can no longer perform her duties as Chief Financial Officer and provides her with thirty days’ written notice of termination.

Under Chinese law, we may only terminate employment agreements without cause and without penalty by providing notice of non-renewal one month prior to the date on which the employment agreement is scheduled to expire. If we fail to provide this notice or if we wish to terminate an employment agreement in the absence of cause, then we are obligated to pay the employee one month’s salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without penalty to the Company, where the employee has committed a crime or the employee’s actions or inactions have resulted in a material adverse effect to us.

Share Option Pool

In connection with our initial public offering, we established a pool for share options for the Domestic Companies' and our employees. This pool contains options to purchase up to 790,362 of our ordinary shares. The options will vest at a rate of 20% per year for five years and have an exercise price of the market price of our shares on the date the options are granted. We issued 293,000 options out of our employee share option pool. We held a shareholder meeting in December 2010 and announced the resignation of three directors, as a result of which 100,000 options went back to the pool. Currently, we have 193,000 options outstanding.

Board of Directors and Board Committees

Our board of directors currently consists of seven (7) members. There are no family relationships between any of our executive officers and directors.

The directors are divided into three classes, as nearly equal in number as the then total number of directors permits. Class II directors shall face re-election at our annual general meeting of shareholders in 2012 and every three years thereafter. Class III directors shall face re-election at our annual general meeting of shareholders in 2012 and every three years thereafter. Class I directors shall face re-election at our annual general meeting of shareholders in 2013 and every three years thereafter.

If the number of directors changes, any increase or decrease will be apportioned among the classes so as to maintain the number of directors in each class as nearly as possible. Any additional directors of a class elected to fill a vacancy resulting from an increase in such class will hold office for a term that coincides with the remaining term of that class. Decreases in the number of directors will not shorten the term of any incumbent director. These board provisions could make it more difficult for third parties to gain control of the Company by making it difficult to replace members of our Board of Directors.

A director may vote in respect of any contract or transaction in which he is interested, provided, however, that the nature of the interest of any director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof that a director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting.

The Board of Directors maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Stock Market Rule 4200(a)(15). Mr. Zhao, Mr. Lu, Mr. Wang, Mr. Hu and Mr. Sun are our independent directors.

Mr. Yin Shenping currently holds both the positions of Chief Executive Officer and Chairman of the Board. These two positions have not been consolidated into one position; Mr. Yin simply holds both positions at this time. We do not have a lead independent director because of the foregoing reason and also because we believe our independent directors are encouraged to freely voice their opinions on a relatively small company board. We believe this leadership structure is appropriate because we are a smaller reporting company that recently became listed on a public exchange; as such we deem it appropriate to be able to benefit from the guidance of Mr. Yin as both our principal executive officer and Chairman of the Board.

Our Board of Directors plays a significant role in our risk oversight. The Board of Directors makes all relevant Company decisions. As such, it is important for us to have our Chief Executive Officer serve on the Board as he plays a key role in the risk oversight of the Company. As a smaller reporting company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

Currently, three committees have been established under the board: the audit committee, the compensation committee and the nominating committee. All of these committees consist solely of independent directors.

The audit committee is responsible for overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company, including the appointment, compensation and oversight of the work of our independent auditors. The audit committee consists solely of independent directors, Mr. Zhao Shudong, Mr. Nelson N.S. Wong, and Mr. Hu Jijun. Mr. Wong qualifies as the audit committee financial expert and serves as the chair of the audit committee.

The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies for our officers and all forms of compensation, and also administers our incentive compensation plans and equity-based plans (but our board retains the authority to interpret those plans). The compensation committee consists solely of independent directors, Mr. Hu Jijun, Mr. Nelson N.S. Wong, and Mr. Lu Jun. Mr. Hu serves as the chair of the compensation committee.

The nominating committee of the board of directors is responsible for the assessment of the performance of the board, considering and making recommendations to the board with respect to the nominations or elections of directors and other governance issues. The nominating committee considers diversity of opinion and experience when nominating directors. The nominating committee consists solely of independent directors, Mr. Zhao Shudong, Mr. Nelson N.S. Wong and Ms. Hu Jijun. Mr. Zhao serves as the chair of the nominating committee.

There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to the Company to act in good faith in their dealings with or on behalf of the Company and exercise their powers and fulfill the duties of their office honestly. This duty has four essential elements:

- a duty to act in good faith in the best interests of the Company;
- a duty not to personally profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest; and
- a duty to exercise powers for the purpose for which such powers were intended.

In general, Cayman Islands law imposes various duties on directors of a company with respect to certain matters of management and administration of the Company. In addition to the remedies available under general law, the Companies Law imposes fines on directors who fail to satisfy some of these requirements. However, in many circumstances, an individual is only liable if he is knowingly guilty of the default or knowingly and willfully authorizes or permits the default. In comparison, under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders. In addition, under Delaware law, a party challenging the propriety of a decision of the directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the “business judgment rule.” If the presumption is not rebutted, the business judgment rule protects the directors and their decisions, and their business judgments will not be second guessed. If the presumption is rebutted, the directors bear the burden of demonstrating the entire fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors’ conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

Limitation of Director and Officer Liability

Pursuant to our Memorandum and Articles of Association, every director or officer and the personal representatives of the same shall be indemnified and held harmless out of our assets and funds against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by him or her in or about the conduct of our business or affairs or in the execution or discharge of his or her duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by him in defending (whether successfully or otherwise) any civil proceedings concerning us or our affairs in any court whether in the Cayman Islands or elsewhere. No such director or officer will be liable for: (a) the acts, receipts, neglects, defaults or omissions of any other such Director or officer or agent; or (b) any loss on account of defect of title to any of our properties; or (c) account of the insufficiency of any security in or upon which any of our money shall be invested; or (d) any loss incurred through any bank, broker or other similar person; or (e) any loss occasioned by any negligence, default, breach of duty, breach of trust, error of judgment or oversight on his or her part; or (f) any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers authorities, or discretions of his or her office or in relation thereto, unless the same shall happen through his or her own dishonesty, gross negligence or willful default.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or has been a party to any judicial or administrative proceeding during the past ten years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities or commodities laws, any laws respecting financial institutions or insurance companies, any law or regulation prohibiting mail or wire fraud in connection with any business entity or been subject to any disciplinary sanctions or orders imposed by a stock, commodities or derivatives exchange or other self-regulatory organization, except for matters that were dismissed without sanction or settlement.

Regulation S-K Item 405:

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company under 17 CFR 240.16a-3(e) during its most recent fiscal year and Form 5 and amendments thereto furnished to the Company with respect to its most recent fiscal year, and any written representation referred to in paragraph (b)(1) of this section, the Company is not aware of any director, officer, beneficial owner of more than ten percent of any class of equity securities of the Company registered pursuant to Section 12 that failed to file on a timely basis, as disclosed in the above Forms, reports required by Section 16(a) during the most recent fiscal year or prior years.

Regulation S-K Item 406:

The Company has adopted a Code of Ethics and has filed a copy of the Code of Ethics with the Commission.

Regulation S-K Item 407(c)(3):

None.

Regulation S-K Item 407(d)(4) and (5):

The Board of Directors maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Stock Market Rule 4200(a)(15). The Company has an audit committee, consisting solely of independent directors of the Company, Mr. Zhao Shudong, Mr. Nelson N.S. Wong, and Mr. Hu Jijun. Mr. Wong qualifies as the audit committee financial expert. The Company's audit committee charter has been filed as Exhibit 99.1 to the Company's annual report on Form 10-K for the year ended June 30, 2009 and is available on the Company's website (www.recon.cn).

Item 11. Executive Compensation.

The following table shows the annual compensation paid by us to Mr. Yin Shenping, our Chief Executive Officer, for the years ended June 30, 2011 and 2010. No other employee or officer received more than $100,000 in total compensation in 2011 or 2012.

Summary Executive Compensation Table

Name and principal position	Year	Salary	Bonus	Option Awards		All Other Compensation		Total
Yin Shenping, Principal Executive Officer	2012	$80,000(1)	$—	$119,200	(2)	$	—	$199,200
	2011	$80,000	$—	$0	(2)	$	0	$80,000
Chen Guangqiang, Chief Technology Officer	2012	$60,000(3)	$7,911	$74,500	(4)	$	—	$142,411
	2011	$60,000	$—	$0	(4)	$	0	$60,000

(1) Mr. Yin has earned this salary and we have accrued for it; however, we have not yet paid these amounts to Mr. Yin. During fiscal 2012, Mr. Yin did not receive any salary payment.

(2) On July 30, 2009, 60,000 share options were awarded to Yin Shenping, which options vest over a period of five years, the first 20% of which vested on July 30, 2010, the second 20% on July 30, 2011 and the third 20% on July 30, 2012. The grant date fair value of such options was $4.42 per share, and the total amount of option awards was recognized in the year of grant. On March 26, 2012, 80,000 share options were awarded to Yin Shenping, which options vest over a period of five years, the first 20% of which will vest on March 26, 2013. The grant date fair value of such options was $1.49 per share, and the total amount of option awards was recognized in the year of grant.

(3) Mr. Chen has earned this salary and we have accrued for it; however, we have not yet paid these amounts to Mr. Chen. During fiscal 2012, Mr. Chen did not receive any salary payment; however, he did receive his bonus payment from the company.

(4) On July 30, 2009, 50,000 share options were awarded to Chen Guangqiang, which options vest over a period of five years, the first 20% of which vested on July 30, 2010, the second 20% on July 30, 2011 and the third 20% on July 30, 2012. The grant date fair value of such options was $4.42 per share, and the total amount of option awards was recognized in the year of grant. On March 26, 2012, 50,000 share options were awarded to Chen Guangqiang, which options vest over a period of five years, the first 20% of which will vest on March 26, 2013. The grant date fair value of such options was $1.49 per share, and the total amount of option awards was recognized in the year of grant.

Director Compensation

All directors hold office until the expiration of their respective terms and until their successors have been duly elected and qualified. There are no family relationships among our directors or executive officers. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors and non-voting observers do not receive any compensation for their services. Non-employee directors are entitled to receive $2,000 per Board of Directors meeting attended. In addition, non-employee directors are entitled to receive compensation for their actual travel expenses for each Board of Directors meeting attended.

Summary Director Compensation Table

Name(1)	Fees earned or paid in cash	Option Awards	Total(2)
Nelson N.S. Wong	$10,000	$—	$10,000
Hu Jijun	$4,000	$—	$4,000
Zhao Shudong	$4,000	$22,350(3)	$26,350
Lu Jun	$—	$—	$—
Sun Wenhui	$—	$—	$—

(1) Compensation for our directors Yin Shenping, Chen Guangqiang and Li Hongqi, who also serve as executive officers, is fully disclosed in the executive compensation table.

(2) Other than Mr. Zhao Shudong, none of the directors received any ordinary share awards, nonqualified deferred compensation earnings or non-equity incentive plan compensation in fiscal year 2012.

(3) On March 26, 2012, 15,000 share options were awarded to Zhao Shudong, which options vest over a period of five years, the first 20% of which will vest on March 26, 2013. The grant date fair value of such options was $1.49 per share.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	608,000	$ 3.925	182,362

PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to beneficial ownership of our ordinary shares as of the date of this report, for each person known by us to beneficially own 5% or more of our ordinary shares, and all of our executive officers and directors individually and as a group. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. Percentage of beneficial ownership is based on 4,029,011 Shares, which consists of 3,951,811 Shares outstanding as of September 28, 2012 and 115,800 shares subject to options that were exercisable within 60 days after September 28, 2012. Such shares subject to options are deemed to be outstanding for the purposes of computing the percentage ownership of the individual holding such shares, but are not deemed outstanding for purposes of computing the percentage of any other person shown in the table. Our major shareholders do not possess voting rights that differ from our other shareholders. The address of each of the below shareholders is c/o Recon Technology Ltd, Room 1902, Building C, King Long International Mansion, 9 Fulin Road, Beijing 100107 China.

	Amount of Beneficial Ownership	Percentage Ownership	
Yin Shenping (1)	655,761	16.44	%
Chen Guangqiang (2)	649,761	16.32	%
Hu Jijun (3)	9,000	*	
Nelson Wong (4)	10,800	*	
Zhao Shudong(5)	--	*	
Liu Hui (6)	833,681	21.10	%
Chen Yiquan (6)	833,681	21.10	%
Total	2,159,003	53.47	%(7)
Directors and Executive Officers as a Group (seven members)	1,325,322	32.82	%(7)

(1)

Includes 36,000 options to purchase ordinary shares that are exercisable within 60 days after September 28, 2012. Does not include 104,000 options that are not exercisable within 60 days after September 28, 2012.

(2) Includes 30,000 options to purchase ordinary shares that are exercisable within 60 days after September 28, 2012. Does not include 70,000 options that are not exercisable within 60 days after September 28, 2012.

(3) Includes 9,000 options to purchase ordinary shares that are exercisable within 60 days after September 28, 2012. Does not include 6,000 options that are not exercisable within 60 days after September 28, 2012.

(4) Includes 10,800 options to purchase ordinary shares that are exercisable within 60 days after September 28, 2012. Does not include 7,200 options that are not exercisable within 60 days after September 28, 2012.

(5) Does not include 15,000 options that are not exercisable within 60 days after September 28, 2012.

(6) Includes 458,525 Shares held by Chen Yiquan and 375,156 Shares held by Liu Hui. According to a jointly filed Schedule 13D dated December 27, 2010 (Accession No. 0001144204-10-068264), Chen Yiquan and Liu Hui share beneficial ownership of and have joint voting and dispositive power over the aggregate 833,681 Shares.

(7) Includes 85,800 options to purchase ordinary shares that are exercisable within 60 days after September 28, 2012 held by the officers and directors included above.

* Less than 1%.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Transactions with Related Persons

Because we do not have access certification to Jidong Oilfield, Nanjing Recon, one of our Domestic Companies, conducted transactions with Jidong Oilfield through Beijing Yabeinuoda Technology Development Co. Ltd. (“Yabeinuoda), which has access certification to the oilfield and wherein Mr. Yin is the legal representative. Mr. Yin does not have any equity interest in this company currently. In the year ended June 30, 2012, Nanjing Recon sold ¥7,909,994 ($1,251,641) of goods and services to Yabeinuoda. During the same period, Nanjing Recon has accounts receivables from Yabeinuoda in the amount of ¥21,757,039($3,442,733) as of June 30, 2012, and ¥1,290,000 ($204,124) was received as of September 28, 2012. Below is a summary of trade accounts receivable with related parties as of June 30, 2011 and 2012, respectively.

One of the owners of BHD, one of our Domestic Companies, is a 2.06% minority owner of Beijing Aerda Oil Technology Co. Ltd. (“Aerda”). The trade accounts receivable from Aerda was generated primarily from the sale of equipment for oil and gas production.

	June 30, 2011 RMB	**June 30, 2012** RMB	**June 30, 2012** U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥23,077,900	¥21,757,039	$3,442,733
Beijing Aerda Oil Technology Co. Ltd.	3,090,000	-	-
	¥26,167,900	¥21,757,039	$3,442,733
Allowance for doubtful accounts	(184,728)	(1,362,290)	(215,563)
Trade accounts receivable-related parties, net	¥25,983,172	¥20,394,749	$3,227,170

Nanjing Recon also made advance payments in the amount of ¥989,828 ($153,129) to one of its suppliers, Nanjing Youkong Information Technology Co. Ltd. (“Youkong”) for the year ended June 30, 2011. Mr. Yin is a 20% owner of Youkong. On January 9, 2012, Mr. Yin transferred his ownership interest to an unrelated party. Below is a summary of purchase advances to related parties as of June 30, 2011 and 2012, respectively. One of the owners of ENI and his wife collectively controlled Raytheon Energy (Group) Co., Ltd Co., Ltd.

	June 30, 2011	June 30, 2012	June 30, 2012
	RMB	RMB	U.S. Dollars

Nanjing Youkong Information Technology Co., Ltd	¥989,828	¥-	$-
Xiamen Huangsheng Hitek Computer Network Co. Ltd	-	1,093,534	173,036
Total purchase advances-related parties	¥989,828	¥1,093,534	$173,036

In addition, included in the Company's other receivables as of June 30, 2012 were amounts "due from ENI" which represents a working capital loan to ENI. The loan balance had been in intercompany balances and was eliminated in the Company's unaudited condensed consolidated financial statements before the deconsolidation of ENI. It was reclassified to other receivables after ENI ceased to be a VIE of the Company on December 16, 2010. In January 2012, ENI agreed to repay the loan on a determined payment schedule, and interest is accrued during the period at an annual rate of 4%. In accordance with the payment schedule, the principal plus accrued interest will be repaid over three years on a quarterly basis. The first four payments are set at RMB 1.2 million each. Accordingly, the current and non-current portion of the amount due from ENI is determined to be RMB 5,396,143 and RMB 10,302,349, respectively.

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The Company also had short-term borrowings from related parties. Below is a summary of the Company's short-term borrowings due to related parties as of June 30, 2012, respectively.

Short-term borrowings due to related parties:	**June 30, 2012** RMB	**June 30, 2012** U.S. Dollars
Due-on-demand borrowings from Founders, no interest, matures on August 4, 2013	¥46,377	$7,338
Short-term borrowing from a Founder's family member, 6% annual interest, matures on March 20, 2013	272,895	43,182
Short-term borrowing from a Founder's family member, 6% annual interest, matured on May 4, 2012	-	-
Short-term borrowing from a Founder's family member, no interest bearing, matures on November 15, 2012	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, matures on December 9, 2012	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, matures on October 21, 2012	3,000,000	474,706
Short-term borrowing from a Founder's family member, 6% annual interest, matures on March 27, 2013	200,000	31,647
Short-term borrowings from Xiamen Hengda Haitian Computer Network Co. Ltd., no interest, matures on November 14, 2012	200,000	31,647
Short-term borrowings from management, 6% annual interest, matures on December 8, 2012	404,034	63,933
Total short-term borrowings due to related parties	¥4,123,306	$652,453

Other than as described herein, no transactions required to be disclosed under Item 404 of Regulation S-K have occurred since the beginning of the Company's last fiscal year.

Director Independence

The Board of Directors maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Stock Market Rule 4200(a)(15). Messers. Wong, Hu, Zhao, Lu and Sun are our independent directors.

Item 14. Principal Accountant Fees and Services.

Friedman LLP was appointed by the Company to serve as its independent registered public accounting firm for fiscal 2011 and 2012. Audit services provided by Friedman LLP for fiscal 2012 included the examination of the consolidated financial statements of the Company; and services related to periodic filings made with the SEC. In addition, Friedman LLP provided review services relating to the Company's quarterly reports.

Fees Billed To Independent Registered Public Accounting Firm

Audit Fees

During fiscal 2012 and 2011, Friedman LLP's fees for the annual audit of our financial statements and the quarterly reviews of the financial statements included in Forms 10-Q were $180,000 and $142,000, respectively.

During fiscal 2011, MarcumBP's fees for the annual audit of our financial statements and the quarterly reviews of the financial statements were $140,000.

Audit-Related Fees

During fiscal 2012 and 2011, Friedman LLP billed the Company $0 for audit-related services.

During fiscal 2011, MarcumBP billed the Company $24,362 for audit-related services. These services consisted of advice relating to SEC matters and the filing of a registration statement.

During fiscal 2011, Hansen Barnett & Maxwell, P.C. billed the Company $14,350 for audit-related services. These services related to the filing of a registration statement.

Tax Fees

The Company was not billed by Friedman LLP for tax services in fiscal 2012 and 2011.

All Other Fees

The Company was not billed by Friedman LLP for any other services in fiscal 2012 and 2011.

Audit Committee Pre-Approval Policies

Before Friedman LLP was engaged by the Company to render audit or non-audit services, the engagement was approved by the Company's audit committee. All services rendered by Friedman LLP have been so approved.

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed herewith:

Number	Exhibit
3.1	Amended and Restated Articles of Association of the Registrant (1)
3.2	Amended and Restated Memorandum of Association of the Registrant (1)
4.1	Specimen Share Certificate (1)
10.1	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.2	Translation of Power of Attorney for rights of Chen Guangqiang in Beijing BHD Petroleum Technology Co., Ltd. (1)
10.3	Translation of Power of Attorney for rights of Yin Shenping in Beijing BHD Petroleum Technology Co., Ltd. (1)
10.4	Translation of Power of Attorney for rights of Li Hongqi in Beijing BHD Petroleum Technology Co., Ltd. (1)
10.5	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. (1)

10.6	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.7	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.8	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.9	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.10	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.11	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Jining ENI Energy Technology Co., Ltd. (1)
10.12	Translation of Power of Attorney for rights of Chen Guangqiang in Jining ENI Energy Technology Co., Ltd. (1)
10.13	Translation of Power of Attorney for rights of Yin Shenping in Jining ENI Energy Technology Co., Ltd. (1)
10.14	Translation of Power of Attorney for rights of Li Hongqi in Jining ENI Energy Technology Co., Ltd. (1)
10.15	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. (1)
10.16	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. (1)
10.17	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. (1)
10.18	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. (1)
10.19	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. (1)
10.20	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. (1)
10.21	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Nanjing Recon Technology Co., Ltd. (1)
10.22	Translation of Power of Attorney for rights of Chen Guangqiang in Nanjing Recon Technology Co., Ltd. (1)
10.23	Translation of Power of Attorney for rights of Yin Shenping in Nanjing Recon Technology Co., Ltd. (1)

10.24	Translation of Power of Attorney for rights of Li Hongqi in Nanjing Recon Technology Co., Ltd. (1)
10.25	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)

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10.26	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)
10.27	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)
10.28	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)
10.29	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)
10.30	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)
14.1	Code of Ethics of the Company. (2)
21.1	List of subsidiaries of the Company. (3)
31.1	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (4)
31.2	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (4)
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (4)
32.2	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (4)
99.1	Audit Committee Charter (2)

(1) Incorporated by reference to the Company’s Registration Statement on Form S-1, Registration No. 333-152964.
(2) Incorporated by reference to the Company’s Annual Report of Form 10-K for the fiscal year ended June 30, 2009, filed with the SEC on September 28, 2009.
(3) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q/A, filed on January 31, 2012.
(4) Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		RECON TECHNOLOGY, LTD
September 28, 2012	By:	/s/ Liu Jia Liu Jia Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Exchange Act, this report has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Yin Shenping Yin Shenping	Chief Executive Officer and Director (Principal Executive Officer)	September 28, 2012
/s/ Chen Guangqiang Chen Guangqiang	Chief Technology Officer and Director	September 28, 2012
/s/ Zhao Shudong Zhao Shudong	Director	September 28, 2012
/s/ Nelson N.S. Wong Nelson N.S. Wong	Director	September 28, 2012
/s/ Hu Jijun Hu Jijun	Director	September 28, 2012

RECON TECHNOLOGY, LTD

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Recon Technology, Ltd.

We have audited the accompanying consolidated balance sheets of Recon Technology, Ltd. as of June 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive loss, cash flows and changes in equity for the years then ended. Recon Technology, Ltd.'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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial position of Recon Technology, Ltd. as of June 30, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York

September 28, 2012

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RECON TECHNOLOGY, LTD

Consolidated Balance Sheets

	As of June 30, 2011 RMB	As of June 30, 2012 RMB	As of June 30, 2012 U.S. Dollars
ASSETS			
Current assets			
Cash and cash equivalents	¥3,485,944	¥3,533,283	$ 559,090
Notes receivable	1,276,574	-	-
Trade accounts receivable, net	22,329,705	61,993,942	9,809,634
Trade accounts receivable- related parties, net	25,983,172	20,394,749	3,227,170
Inventories, net	22,576,094	24,281,300	3,842,160
Other receivables, net	6,128,794	8,074,096	1,277,608
Other receivables- related parties	4,383,000	17,729	2,805
Purchase advances, net	12,152,896	16,250,616	2,571,422
Purchase advances- related parties	989,828	1,093,534	173,036
Tax recoverable	-	2,790,722	441,591
Prepaid expenses	1,016,299	535,336	84,709
Deferred tax asset	458,133	1,106,801	175,135
Total current assets	**100,780,439**	**140,072,108**	**22,164,360**
Property and equipment, net	1,132,425	1,774,820	280,839
Long-term other receivable	12,971,481	10,302,349	1,630,196
Total Assets	**¥114,884,345**	**¥152,149,277**	**$ 24,075,395**
LIABILITIES AND EQUITY			
Current liabilities			
Short-term bank loan	¥5,000,000	¥23,000,000	$ 3,639,413
Trade accounts payable	6,320,488	11,905,560	1,883,881
Trade accounts payable- related parties	-	5,339,231	844,855
Other payables	1,960,924	2,341,826	370,560
Other payable- related parties	61,477	1,099,259	173,942
Deferred revenue	2,420,497	3,291,073	520,764
Advances from customers	782,945	936,124	148,128
Accrued payroll and employees' welfare	157,824	949,579	150,257
Accrued expenses	345,015	476,416	75,384
Taxes payable	7,192,123	9,681,620	1,531,975
Short-term borrowings	1,743,286	2,767,066	437,848
Short-term borrowings- related parties	911,399	4,123,306	652,453
Total current liabilities	**26,895,978**	**65,911,060**	**10,429,460**
Total Liabilities	**26,895,978**	**65,911,060**	**10,429,460**

Commitments and Contingency			
Equity			
Common shares, ($ 0.0185 U.S. dollar par value, 25,000,000 shares authorized; 3,951,811 shares issued and outstanding as of June 30, 2011 and 2012)	529,979	529,979	83,861
Additional paid-in capital	65,877,686	67,643,791	10,703,640
Appropriated retained earnings	2,058,429	2,378,961	376,436
Unappropriated retained earnings	13,495,199	9,354,535	1,480,218
Accumulated other comprehensive loss	(288,897)	(290,496)	(45,967)
Total controlling shareholders' equity	**81,672,396**	**79,616,770**	**12,598,188**
Non-controlling interest	**6,315,971**	**6,621,447**	**1,047,747**
Total equity	**87,988,367**	**86,238,217**	**13,645,935**
Total Liabilities and Equity	**¥114,884,345**	**¥152,149,277**	**$ 24,075,395**

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

RECON TECHNOLOGY, LTD

Consolidated Statements of operations and Comprehensive loss

	For the year ended June 30,		
	2011	**2012**	**2012**
	RMB	**RMB**	**U.S. Dollars**
Revenues			
Hardware	¥41,677,918	¥49,693,929	$7,863,337
Service	-	13,985,465	2,212,995
Software	2,111,111	3,952,991	625,503
Hardware - related parties	19,899,438	7,909,994	1,251,641
Total revenues	**63,688,467**	**75,542,379**	**11,953,476**
Cost of revenues	43,469,506	51,269,950	8,112,719
Gross margin	**20,218,961**	**24,272,429**	**3,840,757**
Selling and distribution expenses	7,736,091	5,054,219	799,756
General and administrative expenses	32,055,652	22,755,891	3,600,787
Operating expenses	**39,791,743**	**27,810,110**	**4,400,543**
Loss from operations	**(19,572,782)**	**(3,537,681)**	**(559,786)**
Other income (expenses)			
Subsidy income	822,545	554,856	87,798
Interest income	1,463	335,517	53,091
Interest expense	(600,500)	(962,824)	(152,353)
Gain or loss from currency exchange	35,846	(46,303)	(7,327)
Other income (expense)	279,664	(78,097)	(12,358)
Loss on deconsolidation	(8,989,614)	-	-
Loss before income taxes	**(28,023,378)**	**(3,734,532)**	**(590,935)**
Benefit (provision) for income taxes	(665,146)	220,050	34,820
Net loss	**(28,688,524)**	**(3,514,482)**	**(556,115)**
Less: Net income attributable to non-controlling interest	347,851	305,653	48,365
Net loss attributable to Recon Technology, Ltd	**¥(29,036,375)**	**¥(3,820,135)**	**$(604,480)**
Comprehensive Loss			
Net loss	(28,688,524)	(3,514,482)	(556,115)
Foreign currency translation adjustment	(211,900)	(1,599)	(253)
Comprehensive loss	**(28,900,424)**	**(3,516,081)**	**(556,368)**
Comprehensive income attributable to non-controlling interest	324,307	305,830	48,393
Comprehensive loss attributable to Recon Technology, Ltd	**¥(29,224,731)**	**¥(3,821,911)**	**$(604,761)**
Loss per common share - basic and diluted	¥(7.35)	¥(0.97)	$(0.15)
Weighted - average shares -basic and diluted	**3,951,811**	**3,951,811**	**3,951,811**

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

RECON TECHNOLOGY, LTD

Consolidated Statements of CHANGES IN equity

	Ordinary Shares		**Additional Paid-in Capital**	**Statutory Reserves**	**Retained Earnings**	**Accumulated Other Comprehensive loss**	**Controlling Shareholders' Equity**	**Non-controlling Interest**
	Number of Shares	**Amount (RMB)**	**(RMB)**	**(RMB)**	**(RMB)**	**(RMB)**	**(RMB)**	**(RMB)**
Balance, July 1, 2010	**3,951,811**	**¥529,979**	**¥69,257,098**	**¥3,755,503**	**¥36,034,500**	**¥(76,997)**	**¥109,500,083**	**¥9,583,841**
Effect of deconsolidating a VIE			(4,800,000)	(2,048,669)	6,848,669	-	-	(3,592,17
Stock based payment	-	-	1,420,588	-	-	-	1,420,588	-
Net income (loss) for the year	-	-	-	-	(29,036,375)	-	(29,036,375)	347,851
Appropriation of statutory reserves	-	-	-	351,595	(351,595)	-	-	
Foreign currency translation adjustment	-	-	-	-	-	(211,900)	(211,900)	(23,544
Balance, June 30, 2011	**3,951,811**	**¥529,979**	**¥65,877,686**	**¥2,058,429**	**¥13,495,199**	**¥(288,897)**	**¥81,672,396**	**¥6,315,971**
Capital contribution in VIE			500,000				500,000	
Stock based payment			1,266,105				1,266,105	
Net income (loss) for the year					(3,820,132)		(3,820,132)	305,653
Appropriation of statutory reserves				320,532	(320,532)		-	
Foreign currency translation adjustment						(1,599)	(1,599)	(177

Balance, June 30, 2012	**3,951,811**	**¥529,979**	**¥67,643,791**	**¥2,378,961**	**¥9,354,535**	**¥(290,496)**	**¥79,616,770**	**¥6,621,447**

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

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RECON TECHNOLOGY, LTD

Consolidated Statements of Cash flows

	For the year ended June 30,		
	2011	2012	2012
	RMB	RMB	U.S. Dollars
Cash flows from operating activities:			
Net loss	**¥(28,688,524)**	**¥(3,514,482)**	**$(556,115)**
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on deconsolidation	8,989,614	-	-
Depreciation	361,837	197,873	31,310
Provision for doubtful accounts		3,919,052	620,133
Stock based payments	1,420,588	1,239,788	196,178
Deferred tax benefit	(182,173)	(648,668)	(102,642)
Changes in operating assets and liabilities:			
Trade accounts receivable	7,406,206	(42,916,527)	(6,790,912)
Trade accounts receivable-related parties	9,947,112	5,588,423	884,286
Notes receivbale	(1,276,574)	1,276,574	201,999
Other receivable, net	3,987,998	447,706	70,843
Other receivables related parties, net	(1,226,488)	4,365,271	690,740
Purchase advance, net	18,150,896	(4,488,357)	(710,217)
Purchase advance-related party, net	8,947,200	(103,706)	(16,410)
Tax recorvable	-	(2,790,722)	(441,591)
Prepaid expense	(269,661)	480,963	76,105
Inventories	(23,287,337)	(1,705,206)	(269,824)
Trade accounts payable	(4,747,743)	5,585,072	883,756
Trade accounts payable-related parties	-	5,339,231	844,855
Other payables	(1,183,142)	380,902	60,272
Other payables-related parties	133,206	1,037,782	164,214
Deferred income	(1,795,986)	870,576	137,756
Advances from customers	334,678	153,179	24,238
Accrued payroll and employees' welfare	(176,235)	791,755	125,284
Accrued expenses	54,212	131,401	20,792
Taxes payable	(3,231,315)	2,489,497	393,926
Net cash used in operating activities	**(6,331,632)**	**(21,872,623)**	**(3,461,024)**
Cash flows from investing activities:			
Purchase of property and equipment	(173,089)	(840,268)	(132,960)
Cash effect of deconsolidating VIE	(2,256,305)	-	-
Net cash used in investing activities	**(2,429,394)**	**(840,268)**	**(132,960)**
Cash flows from financing activities:			
Proceeds from short-term bank loan	5,000,000	23,000,000	3,639,413
Repayments of short-term bank loan	-	(5,000,000)	(791,177)

Proceeds from other receivables-loans	3,216,000	-	-
Proceeds from short-term borrowings	168,317	2,153,780	340,804
Proceeds from short-term borrowings-related party	-	4,991,907	789,896
Repayments of short-term borrowings	(5,343,082)	(1,130,000)	(178,806)
Repayments of short-term borrowings-related party	(2,700,000)	(1,780,000)	(281,659)
Capital contribution in VIE	-	500,000	79,118
Net cash provided by financing activities	**341,235**	**22,735,687**	**3,597,589**
Effect of exchange rate fluctuation on cash and cash equivalents	**(237,222)**	**24,543**	**3,884**
Net increase (decrease) in cash and cash equivalent	**(8,657,013)**	**47,340**	**7,490**
Cash and cash equivalents at beginning of year	**12,142,957**	**3,485,944**	**551,600**
Cash and cash equivalents at end of year	**¥3,485,944**	**¥3,533,284**	**$559,090**
Supplemental cash flow information			
Cash paid during the year for interest	**¥401,529**	**¥442,719**	**$70,054**
Cash paid during the year for taxes	**¥3,700,671**	**¥494,087**	**$78,182**

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

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RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Organization – Recon Technology, Ltd (the "Company") was incorporated under the laws of the Cayman Islands on August 21, 2007 by Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (the "Founders") as a company with limited liability. The Company provides oilfield specialized equipment, automation systems, tools, chemicals and field services to petroleum companies in the People's Republic of China (the "PRC"). Its wholly owned subsidiary, Recon Technology Co., Limited ("Recon-HK") was incorporated on September 6, 2007 in Hong Kong. Other than the equity interest in Recon-HK, the Company does not own any assets or conduct any operations. On November 15, 2007, Recon-HK established one wholly owned subsidiary, Jining Recon Technology Ltd. ("Recon-JN") under the laws of the PRC. Other than the equity interest in Recon-JN, Recon-HK does not own any assets or conduct any operations.

Through December 15, 2010, the Company conducted its business through the following PRC legal entities that were consolidated as variable interest entities ("VIEs") and operate in the Chinese oilfield equipment & service industry:

- Beijing BHD Petroleum Technology Co., Ltd. ("BHD"),
- Nanjing Recon Technology Co., Ltd. ("Nanjing Recon"), and
- Jining ENI Energy Technology Co., Ltd. ("ENI")

On December 16, 2010, ENI was deconsolidated from the Company and ceased to be a VIE of the Company after the Company's Audit Committee concluded that, in light of a December 16, 2010 change in the equity ownership of ENI, the Company ceased to have the power to direct the activities of ENI. From December 16, 2010 onward, therefore, the Company conducted its business through, and only consolidated as variable interest entities, the two entities of BHD and Nanjing Recon.

Chinese laws and regulations currently do not prohibit or restrict foreign ownership in petroleum businesses. However, Chinese laws and regulations do prevent direct foreign investment in certain industries. On January 1, 2008, to protect the Company's shareholders from possible future foreign ownership restrictions, the Founders, who also held the controlling interest of BHD, Nanjing Recon and ENI, reorganized the corporate and shareholding structure of these entities by entering into certain exclusive agreements with Recon-JN, which entitles Recon-JN to receive a majority of the residual returns. On May 29, 2009 Recon-JN and BHD, Nanjing Recon, and ENI entered into an operating agreement to provide full guarantee for the performance of such contracts, agreements or transactions entered into by BHD, Nanjing Recon, and ENI. As a result of the new agreement, Recon-JN absorbs 100% of the expected losses and receives 90% of the expected gains of BHD, Nanjing Recon, and ENI, which resulted in

Recon-JN being the primary beneficiary of these Companies.

Recon-JN also entered into Share Pledge Agreements with the Founders, who pledged all their equity interest in these entities to Recon-JN. The Share Pledge Agreements, which were entered into by each Founder, pledged each of the Founders' equity interest in BHD, Nanjing Recon, and ENI as a guarantee for the service payment under the Service Agreement.

The Service Agreement, entered into on January 1, 2008, between Recon-JN and BHD, Nanjing Recon, and ENI, states that Recon-JN will provide technical consulting services to BHD, Nanjing Recon, and ENI in exchange for 90% of their annual net profits as a service fee, which is to be paid quarterly.

In addition, Recon-HK entered into Option Agreements to allow Recon-HK to acquire the Founders' interest in these entities if or when permitted by the PRC laws.

Based on these exclusive agreements, the Company consolidated BHD, Nanjing Recon and ENI (through December 15, 2010 only) as VIEs as required by Accounting Standards Codification ("ASC") Topic 810, *Consolidation* because the Company was the primary beneficiary of the VIEs. Following the deconsolidation of ENI on December 2010, management makes ongoing reassessment of whether Recon-JN is the primary beneficiary of BHD and Nanjing Recon.

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On August 28, 2000, a Founder of the Company purchased a controlling interest in BHD which was organized under the laws of the PRC on June 29, 1999. Through December 15, 2010, the Founders held 67.5% ownership in BHD. From December 16, 2010 to June 30, 2012, Messers. Yin Shenping and Chen Guangqiang held 86.24% ownership interest of BHD. BHD is combined with the Company through the date of the exclusive agreements, and is consolidated following January 1, 2008, the date of the agreements based on ASC Topic 810. The Company allocates profits and losses 90% and 100%, respectively, based upon the control agreements. Profits allocated to the minority interest are the remaining amount (10%).

On July 4, 2003, Nanjing Recon was organized under the laws of the PRC. On August 27, 2007, the Founders of the Company purchased a majority ownership of Nanjing Recon from a related party who was a majority owner of Nanjing Recon. Through December 15, 2010, the Founders held 80% ownership interest in Nanjing Recon. From December 16, 2010 to June 30, 2012, Messers. Yin Shenping and Chen Guangqiang held 80% ownership interest of Nanjing Recon. Nanjing Recon is combined with the Company through the date of the exclusive agreements, and is consolidated following January 1, 2008, the date of the agreements based on ASC Topic 810. The Company allocates profits and losses 90% and 100%, respectively, based upon the control agreements. Profits allocated to the non-controlling interest are the remaining amount (10%).

On January 21, 2003, ENI was organized under the laws of the PRC. On December 16, 2010 in light of the change of the ownership in ENI, the Company ceased to have the power to direct the activities of ENI which most significantly impact its economic performance as of that date. As a result, ENI ceased to be a VIE of the Company on December 16, 2010. Founders of the Company owned a controlling interest of ENI through December 15, 2010 by holding 80% ownership interest in ENI. However, from December 16, 2010 to June 30, 2012, the Founders did not own any interest in ENI. Based on ASC Topic 810, ENI was combined and consolidated with the Company from January 1, 2008, the date of the exclusive agreements, through December 15, 2010 when the Company ceased to have control over ENI. From January 1, 2008 through December 15, 2010, the Company allocated profits and losses 90% and 100%, respectively, based upon the control agreements. Profits allocated to the non-controlling interest were the remaining amount (10%).

Nature of Operations – The Company engaged in (1) providing equipment, tools and other hardware related to oilfield production and management, including simple installations in connection with some projects; (2) service to improve production and efficiency of exploited oil wells, and (3) developing and selling its own specialized industrial automation control and information solutions. The products and services provided by the Company include:

High-Efficiency Heating Furnaces - High-Efficiency Heating Furnaces are designed to remove the impurities and to prevent solidification blockage in transport pipes carrying crude petroleum. Crude petroleum contains certain impurities including water and natural gas, which must be removed before the petroleum can be sold.

Multi-Purpose Fissure Shaper - Multipurpose fissure shapers improve the extractors' ability to test for and extract petroleum which requires perforation into the earth before any petroleum extractor can test for the presence of oil.

Horizontal Multistage Fracturing related Service - The Company mainly uses Baker Hughes FracPoint™ system and provides related service to oilfield companies. The Baker Hughes FracPoint™ system provided a completion method using packers to isolate sections of the wellbore (stages) and frac sleeves to direct the frac treatment to the desired stage. The use of this type of completion eliminated the need for cementing the liner, coiled tubing operations, and wireline operations, while significantly reducing overall pumping time.

Supervisory Control and Data Acquisition System ("SCADA") - SCADA is an industrial computerized process control system for monitoring, managing and controlling petroleum extraction. SCADA integrates underground and aboveground activities of the petroleum extraction industry. This system can help to manage the oil extraction process in real-time to reduce the costs associated with extraction.

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of the Company, all the subsidiaries and VIEs of the Company. All transactions and balances between the Company and its subsidiaries and VIEs have been eliminated upon consolidation.

Variable Interest Entities - A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

Assets recognized as a result of consolidating VIEs do not represent additional assets that could be used to satisfy claims against the Company’s general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company’s general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Currency Translation - The Company’s functional currency is the Chinese Yuan (“RMB”) and the accompanying consolidated financial statements have been expressed in Chinese Yuan. The consolidated financial statements as of and for the year ended June 30, 2012 have been translated into United States dollars (“U.S. dollars”) solely for the convenience of the readers. The translation has been made at the rate of ¥6.3197 = US$1.00, the approximate exchange rate prevailing on June 30, 2012. For the year ended June 30, 2012, the average rate was 6.3630. These translated U.S. dollar amounts should not be construed as representing Chinese Yuan amounts or that the Chinese Yuan amounts have been or could be converted into U.S. dollars.

Accounting Estimates - The preparation of the consolidated financial statements in conformity with U.S. GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant accounting estimates reflected in the Company’s consolidated financial statements include revenue recognition, allowance for doubtful accounts, the useful lives of property and equipment and the fair value of stock based payments. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

Fair Values of Financial Instruments - The carrying amounts reported in the consolidated balance sheets for trade accounts receivable, other receivables, purchase advances, trade accounts payable, accrued liabilities, advances from customers, short-term bank loan and short-term borrowings approximate fair value because of the immediate or short-term maturity of these financial instruments. Long-term other receivables approximate fair value because the interest rate approximates the market rate.

Cash and Cash Equivalents - Cash and cash equivalents are comprised of cash on hand, demand deposits and highly liquid short-term debt investments with stated original maturities of no more than three months. Since a majority of the bank accounts are located in the PRC, those bank balances are uninsured.

Trade Accounts and Other Receivables - Accounts receivable are carried at original invoiced amount less a provision for any potential uncollectible amounts. Accounts are considered past due when the related receivables are more than a year old. Provision is made against trade accounts and other receivables to the extent they are considered to be doubtful. Other receivables arise from transactions with non-trade customers.

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Purchase Advances - Purchase advances are the amounts prepaid to suppliers for purchases of inventory and are recognized as inventory when the final amount is paid to the suppliers and the inventory is delivered.

Inventories - Inventories are stated at the lower of cost or market value, on a weighted average basis for BHD. Inventories are stated at the lower of cost or market value, on a first-in-first-out basis for Nanjing Recon and ENI. The methods of determining inventory costs are used consistently from year to year. Allowance for inventory obsolescence is provided when the market value of certain inventory items are lower than the cost.

Tax Recoverable – Tax recoverable represented amounts paid for value added tax ("VAT") on purchases in the P.R.C. amounting to RMB 2,790,722 ($441,591) at June 30, 2012. These amounts can be used to offset VAT payable on sales made by the Company. There was no tax recoverable at June 30, 2011.

Property and Equipment - Property and equipment are stated at cost. Depreciation on motor vehicles and office equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from two to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets

Items	Useful life
Motor vehicles	5-10 years
Office equipment	2-5 years
Leasehold improvement	5 years

Long-Lived Assets - The Company applies the ASC Topic 360 "Property, plant and equipment." ASC Topic 360 requires that long-lived assets, such as property and equipment be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset.

Advances from Customers - The Company, as is common practice in the PRC, will often receive advance payments from its customers for its products or services. The advances are shown as current liabilities and are recognized as revenue when the products are delivered or service is provided.

Revenue Recognition - The Company recognizes revenue when the following four criteria are met: (1) persuasive evidence of an arrangement, (2) delivery has occurred or services have been provided, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the client and the client has signed a completion and acceptance report, risk of loss has transferred to the client, client acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in client acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

Hardware:

Revenue from hardware sales is generally recognized when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Software:

The Company sells self-developed software. For software sales, the Company recognizes revenues in accordance with ASC Topic 985 - 605 "Software Revenue Recognition". Revenue from software is recognized according to project contracts. Contract costs are accumulated during the periods of installation and testing or commissioning. Usually this is short term. Revenue is not recognized until completion of the contracts and receipt of acceptance statements.

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Service:

The Company provides services to improve software function and system operation on separated fixed-price contracts. Revenue is recognized on the completed contract method when acceptance is determined by a completion report signed by the customer.

Deferred revenue represents unearned amounts billed to customers related to sales contracts.

Cost of Revenues - Cost of revenues include wages, materials, handling charges, the cost of purchased equipment and pipes and other expenses associated with manufactured products and service provided to customers.

Subsidy Income - Grants are given by the government to support local software companies' operation and research and development. Grants related to research and development projects are recognized as subsidy income in the unaudited condensed consolidated statements of operations when received. Grants in the form of value-added-tax refund for software products are recognized when received.

***Share-Based Compensation* -** The Company accounts for share-based compensation in accordance with ASC Topic 718, *Share-Based Payment*. Under the fair value recognition provisions of this topic, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight–line basis over the requisite service period for the entire award. The Company has elected to recognize compensation expenses using the Binomial Lattice valuation model estimated at the grant date based on the award's fair value.

Income Taxes - Income taxes are provided based upon the liability method of accounting pursuant to ASC Topic 740, *Accounting for Income Taxes*. Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes. Deferred taxes are provided on differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, and tax carry forwards. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company has not been subject to any income taxes in the United States or the Cayman Islands.

Under ASC Topic 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Income tax returns for the year prior to 2008 are no longer subject to examination by tax authorities.

Earnings (loss) per Share ("EPS") - Basic EPS is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding. Diluted EPS are computed by dividing net income (loss) attributable to ordinary shareholders by the weighted-average number of ordinary shares and dilutive potential ordinary share equivalents outstanding.

ASC 260 "Earnings Per Share" requires dual presentation of basic and diluted EPS with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares or resulted in the issuance of ordinary shares that then shared in the earnings of the entity.

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basic net income per share is computed by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted income per share is computed by dividing net income by the weighted average number of shares of ordinary shares, ordinary shares equivalents and potentially dilutive securities outstanding during each period. Potentially dilutive ordinary shares consist of ordinary shares issuable upon the conversion of ordinary stock options and warrants (using the treasury stock method). However, the effect from options and warrants would have been anti-dilutive due to the fact that the weighted average exercise price per share of options and warrants is higher than the weighted average market price per ordinary share during the years ended June 30, 2012 and 2011.

NOTE 3. TRADE ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

Third Party	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Trade accounts receivable	¥25,184,288	¥66,738,526	$10,560,395
Allowance for doubtful accounts	(2,854,583)	(4,744,584)	(750,761)
Total – third-party, net	¥22,329,705	¥61,993,942	$9,809,634

Related Parties	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥23,077,900	¥21,757,039	$3,442,733
Beijing Adaer Oil Technology Co. Ltd.	3,090,000	-	-
	26,167,900	21,757,039	3,442,733
Allowance for doubtful accounts	(184,728)	(1,362,290)	(215,563)
Total - related parties, net	¥25,983,172	¥20,394,749	$3,227,170

One of the Founders, Mr. Yin Shen ping, is the legal representative of Beijing Yabei Nuoda Science and Technology Co. Ltd (“Yabei Nuoda”). The founder does not have any equity interest in this company currently. The receivable from Yabei Nuoda was generated primarily from the sale of automation system and services based on written contracts.

One of the owners of BHD, a VIE of the Company, is a 2.06% minority owner of Beijing Adaer Oil Technology Co. Ltd. (“Adaer”). The receivable from Adaer was generated primarily from the sale of equipment for oil and gas production based on written contracts.

For the period from July 1, 2012 thereafter September 27, 2012, ¥1,290,000 ($204,124) was received from Beijing Yabei Nuoda Science and Technology Co. Ltd.

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. OTHER RECEIVABLES, NET

Other receivables consisted of the following:

Third Party Current Portion	June 30, 2011 RMB	June 30,2012 RMB	June 30,2012 U.S. Dollars
Due from ENI (A)	¥ 4,800,000	¥ 5,396,143	$ 853,861
Loans to third-parties (B)	255,730	1,485,610	235,076
Business advance to staff (C)	1,141,279	1,139,796	180,356
Deposits for projects	99,600	146,903	23,245
Others	31,820	381,404	60,352
Allowance for doubtful accounts	(199,635)	(475,760)	(75,282)
Total	¥ 6,128,794	¥ 8,074,096	$ 1,277,608

Third Party Non-Current Portion	June 30, 2011 RMB	June 30,2012 RMB	June 30,2012 U.S. Dollars
Due from ENI	¥ 12,971,481	¥ 10,302,349	$ 1,630,196
Total	¥ 12,971,481	¥ 10,302,349	$ 1,630,196

(A) Due from ENI represents a working capital loan to ENI. The loan balance had been an intercompany balance and was eliminated in the Company’s consolidated financial statements before the deconsolidation of ENI. It was reclassified to other receivables after ENI ceased to be a VIE of the Company on December 16, 2010. In January 2012, ENI agreed to repay the loan on a payment schedule, and interest is accrued during the period at an annual rate of 4%. In accordance with the payment schedule, the principal plus accrued interest is required to be repaid over approximately three years on a quarterly basis beginning March 2012. The first four payments are RMB 1.2 million each. In March and June of 2012, the Company received RMB 2.4 million. The payments after FY2013 are RMB10,302,349.

(B) Loans to third-parties are mainly used for short-term fund to support cooperative companies. These loans are due on demand bearing no interest.

(C) Business advance to staff represents advances for business travel and sundry expenses related to oilfield or on-site installation and inspection of products through customer approval and acceptance.

Other receivables - related parties represent loans to related parties for working capital advances to related entities. Such advances are due-on-demand and non-interest bearing.

Below is a summary of other receivables - related parties which consisted of the following:

Related Parties	June 30,2011 RMB	June 30,2012 RMB	June 30,2012 U.S. Dollars
Beijing Aerda Oil Technology Co. Ltd.	¥3,692,600	¥ -	$ -
Beijing Yabei Nuoda Science and Technology Co. Ltd.	620,000	-	-
Xiamen Huasheng Haitian Computer Network Co. Ltd.	70,400	-	-
Other-travel advances	-	17,729	2,805
Total	¥4,383,000	¥ 17,729	$ 2,805

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

One of the Founders and his family member collectively own 57% of Xiamen Huasheng Haitian Computer Network Co. Ltd.

NOTE 5. PURCHASE ADVANCES

The Company purchased products and services from a third-party and a related party during the normal course of business. Purchase advances consisted of the following at June 30, 2011 and 2012:

	June 30,2011	June 30, 2012	June 30,2012
Third Party	RMB	RMB	U.S. Dollars
Prepayment for inventory purchase	¥12,558,296	¥17,046,653	$ 2,687,383
Allowance for doubtful accounts	(405,400)	(796,037)	(125,961)
Total	¥12,152,896	¥16,250,616	$ 2,571,422

Below is a summary of purchase advances to related party.

	June 30,2011	June 30,2012	June 30,2012
Related Party	RMB	RMB	U.S. Dollars
Nanjing Youkong Information Technology Co., Ltd	¥ 989,828	¥ -	$ -
Xiamen Huangsheng Hitek Computer Network Co. Ltd	-	1,093,534	173,036
Total	¥ 989,828	¥ 1,093,534	$ 173,036

One of the Founders of the Company had a 20% ownership interest in Nanjing Youkong Information Technology Co. Ltd. On January 9, 2012, the Founder transferred his ownership interest to an unrelated party.

One of the Founders and his family member collectively own 57% of Xiamen Huasheng Haitian Computer Network Co. Ltd.

NOTE 6. INVENTORIES

Inventories consisted of the following:

	June 30,2011 RMB	June 30,2012 RMB	June 30,2012 U.S. Dollars
Small component parts	¥40,716	¥43,107	$ 6,821
Purchased goods and raw materials		398,596	63,072
Work in process	6,913,528	1,256,273	198,787
Finished goods	15,621,850	22,583,324	3,573,480
Total inventories	¥22,576,094	¥24,281,300	$ 3,842,160

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Motor vehicles	¥ 1,838,720	¥ 2,620,560	$ 414,665
Office equipment and fixtures	409,356	467,784	74,019
Total property and equipment	2,248,076	3,088,344	488,684
Less: accumulated depreciation	(1,115,651)	(1,313,524)	(207,845)
Property and equipment, net	¥ 1,132,425	¥ 1,774,820	$ 280,839

Depreciation expense was ¥361,837 and ¥197,873 ($31,310) for the years ended June 30, 2011 and 2012, respectively.

NOTE 8. OTHER PAYABLES

Other payables consisted of the following:

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Consulting services	¥ 1,239,968	¥ 1,770,810	$ 280,205
Freight	421,743	-	-
Due to ENI	148,000	148,000	23,419
Due to related party (A)	61,477	61,477	9,728
Expenses paid by third-parties on behalf of Recon	18,007	416,165	65,852
Due to the major shareholders on behalf of Recon	133,206	308,316	48,787
Due to family member of one owner on behalf of Recon	-	525,000	83,074
Due to the management staff on behalf of Recon	-	204,467	32,354
Others	-	6,850	1,084
Total other payables	¥ 2,022,401	¥ 3,441,085	$ 544,501

(A) Primarily an advance from Yabei Nuoda for RMB 60,000 to supplement the Company's working capital. The advance is payable on demand and non-interest bearing.

NOTE 9. TAXES PAYABLE

Taxes payable consisted of the following:

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
VAT payable	¥ 2,565,888	¥ 4,704,738	$ 744,456
Business tax payable	41,866	430,106	68,058
Enterprise income tax payable	4,406,009	4,352,802	688,767
Other taxes payable	178,360	193,974	30,694
Total taxes payable	¥ 7,192,123	¥ 9,681,620	$ 1,531,975

RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. SHORT-TERM BANK LOAN

Short-term bank loans consisted of the following:

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Beijing Bank, with a floating interest rate (CHIBOR) from 5.56 to 6.06 annually (repaid on December 22, 2011)	¥ 5,000,000	¥ -	$ —
Beijing Bank, 7.87% annual interest, matures on February 28, 2013, guaranteed by a third party	-	6,000,000	949,412
Beijing Bank, 8.528% annual interest, matures on March 8, 2013	-	1,500,000	237,353
Beijing Bank, 7.87% annual interest, matures on March 30, 2013	-	1,500,000	237,353
Beijing Bank, 7.87 % annual interest, matures on May 7, 2013		1,500,000	237,353
Beijing Bank, 7.87 % annual interest, matures on April 5, 2013		500,000	79,118
CCB bank, 6.435% annual interest, matures on June 13, 2013, secured by accounts receivable pledge of ¥19,131,954		12,000,000	1,898,824
Total short-term bank loan	¥ 5,000,000	¥ 23,000,000	$ 3,639,413

The interest expense for the short-term bank loan was ¥143,698 and ¥416,651 ($65,929) for the years ended June 30, 2011 and 2012.

NOTE 11. SHORT-TERM BORROWINGS

Short-term borrowings are generally extended upon maturity and consisted of the following:

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Short-term borrowings due to non-related parties:			
Short-term borrowing, 6% annual interest, matures on November 10, 2012	¥1,017,600	¥1,078,656	$ 170,682
Short-term borrowing, 6% annual interest, matures on December 10, 2012	225,686	239,227	37,854

Short-term borrowing, no interest, matures on December 10, 2012	-	949,183	150,194
Short-term borrowings, interest at 1.2% per month through April, 2012 and from April 22, 2012 on, free of interest, matures on April 21, 2013	500,000	500,000	79,118
Total short-term borrowings due to non-related parties	¥1,743,286	¥2,767,066	$ 437,848

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Interest expense for short-term borrowings due to non-related parties are ¥138,567 and ¥115,921 ($18,343) for the year ended June 30, 2011 and 2012, respectively.

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Short-term borrowings due to related parties:			
Due-on-demand borrowings from Founders, no interest, matures on August 4, 2013	¥46,377	¥46,377	$ 7,338
Short-term borrowing from a Founder's family member, 6% annual interest, matures on March 20, 2013	-	272,895	43,182
Short-term borrowing from a Founder's family member, 6% annual interest, matured on May 4, 2012	216,765	-	-
Short-term borrowing from a Founder's family member, no interest bearing, matures on November 15, 2012	50,000	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, matures on December 9, 2012	47,281	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, matures on October 21, 2012	-	3,000,000	474,706
Short-term borrowing from a Founder's family member, 6% annual interest, matures on March 27, 2013	-	200,000	31,647
Short-term borrowings from Xiamen Hengda Haitian Computer Network Co. Ltd., no interest, matures on November 14, 2012	-	200,000	31,647
Short-term borrowings from management, 6% annual interest, matures on December 8, 2012	550,976	404,034	63,933
Total short-term borrowings due to related parties	¥911,399	¥4,123,306	$ 652,453

Interest expense for short-term borrowings due to related parties are ¥131,758 and ¥163,519 ($25,874) for the years ended June 30, 2011 and 2012, respectively.

NOTE 12. SHAREHOLDERS' EQUITY

Ordinary Shares - When the Company was incorporated in the Cayman Islands on August 21, 2007, 25,000,000 ordinary shares were authorized, and 2,139,203 ordinary shares were issued to the Founders, at a par value of $0.0185 each. On July 29, 2009, the Company completed its initial public offering (the "IPO") by offering 1,700,000 ordinary shares at $6.00 per share. In connection with the IPO, all 112,608 redeemable ordinary shares outstanding were automatically converted into non-redeemable ordinary shares pursuant to an agreement. On July 31, 2009, ordinary shares of the Company commenced trading on NASDAQ Stock Exchange.

Appropriated Retained Earnings - According to the Memorandum and Articles of Association, the Company is required to transfer a certain portion of its net profit, as determined under PRC accounting regulations, from current net income to the statutory reserve fund. In accordance with the PRC Company Law, companies are required to transfer 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations, to the statutory reserves until such reserves reach 50% of the registered capital or paid-in capital of the companies. As of June 30, 2011 and 2012, the balance of total statutory reserves was ¥2,058,429 and ¥2,378,961 ($376,436), respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Stock-Based Awards Plan - In June 2009, the Board of Directors and the shareholders of the Company adopted the 2009 Stock Incentive Plan (the “2009 Plan”). The 2009 Plan provides for the grant of stock options and restricted ordinary shares to employees, non-employee directors and consultants of the Company. Options granted under the 2009 Plan may be Incentive Stock Options or Non-statutory Stock Options. Non-employee directors and Consultants are not eligible to receive the award of an Incentive Stock Option. The Compensation Committee of the Board of Director is entitled to establish the term, vesting conditions and exercise price of the options as well as the vesting conditions and transferability of restricted shares. Under the 2009 Plan, 790,362 unissued ordinary shares have been reserved for issuance. As discussed in Note 12, under the 2009 Plan, the Company granted options to purchase 293,000 of ordinary shares to its employees and non-employee directors on July 29, 2009 and 170,000 warrants to placement agent.

On December 31, 2010, the Company held the annual board meeting and accepted the resignation of certain directors. Based on the Company’s stock incentive plan, no options may be exercised more than 3 months after termination of employment. Since those directors left at the time of the annual meeting in December 2010, their options had expired as of February 29, 2011. Thus, 100,000 options were forfeited and reallocated back into the Company’s option pool.

On March 26, 2012, the Company held the annual board meeting and determined to grant key employees stock options. Under this plan, the Company granted key employees and a non-employee director options to purchase 415,000 of ordinary shares at an exercise price of $2.96 per share (see Note 13).

NOTE 13. STOCK-BASED COMPENSATION

Stock-based Payments - As discussed in Note 12, the Company granted options to purchase 293,000 ordinary shares under the 2009 Plan to its employees and non-employee directors on July 29, 2009. The options have an excise price of $6.00, equal to the IPO price of the Company’s ordinary shares, and will vest over a period of five years, with the first 20% vesting on July 29, 2010. The options expire ten years after the date of grant, on July 29, 2019. The fair value was estimated on July 29, 2009 using the Binomial Lattice valuation model, with the following weighted-average assumptions:

Stock price at grant date	$6.00
Exercise price (per share)	$6.00
Risk free rate of interest***	4.6118%

Dividend yield	0.0	%
Life of option (years)**	10	
Volatility*	78	%
Forfeiture rate****	0	%

* Volatility is projected using the performance of PHLX Oil Service Sector index.

** The life of options represents the period the option is expected to be outstanding.

*** The risk-free interest rate is based on the Chinese international bond denominated in U.S. dollar, with a maturity that approximates the life of the option.

**** Forfeiture rate is the estimated percentage of options forfeited by employees by leaving or being terminated before vesting.

The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥30.17 ($4.42) per share. Compensation expense recorded was ¥1,420,588 and ¥1,043,608 ($165,136) for the year ended June 30, 2011 and 2012, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2012, 100,000 options were forfeited and reallocated to incentive pool (see Note 12); options to purchase 193,000 of ordinary shares were outstanding, 58,600 of which are vested under the 2009 Plan and no granted stock options were exercised.

Placement Agent Warrants - As discussed in Note 12, the Company completed its IPO on July 29, 2009, and the gross proceeds received by the Company for the offering were $10,200,000 (1,700,000 ordinary shares at $6.00 per share) before the cash offering costs of ¥9,651,771 ($1,412,896).

In connection with the offering, the Company sold the placement agent warrants to purchase 170,000 ordinary shares at $7.20 per share for a nominal amount. These warrants are exercisable for a period of five years. The Company has agreed to file, during the five year period at its cost, at the request of the holders of a majority of the placement agents warrants and the underlying ordinary shares, and to use its best efforts to cause to become effective a registration statement under the Securities Act of 1933, as amended, as required to permit the public sale of ordinary shares issued or issuable upon exercise of the placement agent's warrants. The Company accounted for the warrants as an additional offering cost with an estimated value of $627,341 which was a deduction of the gross proceeds mentioned above. The following table presents the assumptions used in the Black-Scholes valuation model to estimate the fair value of the placement agent warrants sold:

Stock price at grant date	$6.00	
Exercise price (per share)	$7.20	
Risk free rate of interest	3.7679	%
Dividend yield	0	%
Expected volatility	78	%
Expected life (in years)	5	

The Company had 170,000 of granted placement agent warrants as of June 30, 2012 and no warrants were exercised during this year.

Employee Stock options – As discussed in Note 12, the Company granted options to purchase 415,000 ordinary shares to its employees and non-employee director on March 26, 2012. The options have an excise price of $2.96, equal to the share price of the Company's ordinary shares at March 26, 2012, and will vest over a period of five years, with the first 20% vesting on March 26, 2013. The options expire ten years after the date of grant, on March 26, 2022. The fair value was estimated on March 26, 2012 using the Binomial Lattice valuation model, with the following weighted-average assumptions:

Stock price at grant date	$2.96
Exercise price (per share)	$2.96
Risk free rate of interest	1.56%
Dividend yield	0 %
Expected volatility	46 %
Expected life (in years)	7.5

* Volatility is projected using the performance of PHLX Oil Service Sector index over past five years.

** The life of options represents the period the option is expected to be outstanding.

*** The risk-free interest rate is based on the U.S. government bond, with a maturity that approximates the life of the option.

**** Forfeiture rate is the estimated percentage of options forfeited by employees by leaving or being terminated before vesting.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥9.43 ($1.49) per share. Compensation expense recorded was ¥0 and ¥196,180 ($31,043) for the years ended June 30, 2011 and 2012, respectively.

The following is a summary of the stock option activity:

Stock Options	Shares	Weighted Average Exercise Price Per Share
Outstanding as of July 1, 2010	293,000	$ 6.00
Granted	-	-
Forfeited	(100,000)	$ 6.00
Exercised	-	-
Outstanding as of June 30, 2011	193,000	$ 6.00

Stock Options	Shares	Weighted Average Exercise Price Per Share
Outstanding as of July 1, 2011	193,000	$ 6.00
Granted	415,000	$ 2.96
Forfeited	-	-
Exercised	-	-
Outstanding as of June 30, 2012	608,000	$ 3.93

The following is a summary of the status of options outstanding and exercisable at June 30, 2012:

Outstanding Options			Exercisable Options		
Average Exercise Price	Number	Average Remaining Contractual life (Years)	Average Exercise Price	Number	Average Remaining Contractual life (Years)
$6.00	193,000	2.08	$6.00	77,200	2.08
$2.96	415,000	4.75	$2.96	-	4.75

NOTE 14. INCOME TAX

The Company is not subject to any income taxes in the United States or the Cayman Islands and had minimal operations in jurisdictions other than the PRC. BHD and Nanjing Recon are subject to PRC's income taxes as PRC domestic companies. The Company follows Implementing Rules for the Enterprise Income Tax Law ("Implementing Rules"), which took effect on January 1, 2008 and unified the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

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For calendar year 2009, Nanjing Recon is subject to an income tax rate of 25%. For calendar year 2010, the Company reapplied for high-technology enterprise approval and has passed all relevant reviews. Thus, for the calendar years 2011 and 2012, Nanjing Recon is subject to an income tax rate of 15%.

As approved by the domestic tax authority in the PRC, BHD was recognized as a government-certified high technology company on November 25, 2009 and is subject to an income tax rate of 15% for calendar year 2010 and 2011. This qualification certificate will stay effective until the certificate expires in November 2012.

Deferred tax asset is comprised of the following:

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
Allowance for doubtful receivables	¥ 458,133	¥ 1,106,801	$ 175,135
Total deferred tax asset	¥ 458,133	¥ 1,106,801	$ 175,135

Following is a reconciliation of income tax at the effective rate to income tax at the calculated statutory rates:

	For the year ended June 30, 2011 RMB	For the year ended June 30, 2012 RMB	For the year ended June 30, 2012 U.S. Dollars
Income tax calculated at statutory rates	¥ 945,266	¥ 901,687	$ 142,679
Nondeductible expenses	403,542	905,429	143,270
Benefit of favorable rate for high-technology companies	(378,107)	(245,205)	(38,800)
Benefit of revenue exempted from enterprise income tax	(123,382)	(1,194,103)	(188,949)
Deferred income tax	(182,173)	(587,858)	(93,020)
Provision (benefit) for income tax	¥ 665,146	¥ (220,050)	$ (34,820)

	For the year ended June 30, 2011 RMB	For the year ended June 30, 2012 RMB	For the year ended June 30, 2012 U.S. Dollars

Current income tax	¥ 847,319	¥ 367,808	$ 58,200
Deferred income tax	(182,173)	(587,858)	(93,020)
Provision (benefit) for income tax	¥ 665,146	¥ (220,050)	$ (34,820)

NOTE 15. NON-CONTROLLING INTEREST

Non-controlling interest consisted of the following:

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	As of June 30, 2011			
	BHD RMB	Nanjing Recon RMB	Total RMB	Total U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥1,851,000	$ 286,355
Unappropriated retained earnings	2,272,903	2,224,168	4,497,071	695,710
Accumulated other comprehensive loss	(18,551)	(13,549)	(32,100)	(4,966)
Total non-controlling interest	¥3,905,352	¥2,410,619	¥6,315,971	$ 977,099

	As of June 30, 2012			
	BHD RMB	Nanjing Recon RMB	Total RMB	Total U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥1,851,000	$292,894
Unappropriated retained earnings	2,439,197	2,363,527	4,802,724	759,961
Accumulated other comprehensive loss	(18,641)	(13,636)	(32,277)	(5,107)
Total non-controlling interest	¥4,071,556	¥2,549,891	¥6,621,447	$1,047,748

NOTE 16. CONCENTRATIONS

For the year ended June 30, 2011 and 2012, the two largest customers, China National Petroleum Corporation (“CNPC”) and China Petroleum & Chemical Corporation Limited (“SINOPEC”), represented approximately 60.2%, 54.33% and 16.49%, 24.07% of the Company’s revenue, respectively.

For the year ended June 30, 2012, the top three suppliers, Emerson Process, Ltd, Baker Hughes and Hebei Huanghua Xiangtong Technical Co. Ltd, accounted for 61.42% of its total purchases. For the year ended June 30, 2011, no suppliers accounted for more than 10% of its total purchase.

NOTE 17. COMMITMENTS AND CONTINGENCY

(a) Office Leases

The Company leased three offices in Beijing (two for BHD; one for Recon-JN) and one office in Nanjing for Nanjing Recon. Future payments under such leases are as follows as of June 30, 2012:

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	Twelve months ended June 30, Office lease payment RMB	U.S. Dollars
2013	¥ 649,360	$ 102,752
2014	180,000	28,482
2015	15,000	2,374
Total	¥ 844,360	$ 133,608

(b) Contingency

The Labor Contract Law of the PRC requires employers to assure the liability of severance payments if employees are terminated and have been working for the employers for at least two years prior to January 1, 2008. The employers will be liable for one month of severance pay for each year of the service provided by the employees. As of June 30, 2012, the Company estimated its severance payments of approximately ¥1,019,971 ($161,395) which has not been reflected in its consolidated financial statements, because management cannot predict what the actual payment, if any will be in the future.

NOTE 18. RELATED PARTY TRANSACTIONS AND BALANCES

Sales to related parties – sales to related parties consisted of the following:

	For the year ended June 30, 2011 RMB	2012 RMB	2012 U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥12,682,471	¥7,909,994	$ 1,251,641
Beijing Aerda Oil Technology Co. Ltd.	2,851,155	-	-
Zhongjiyan Technology (Beijing) Co. Ltd	4,365,812	-	-
Revenues from related parties	¥19,899,438	¥7,909,994	$ 1,251,641

Purchases from related parties – purchases from related parties consisted of the following:

	For the year ended June 30,		
	2011	2012	2012
	RMB	RMB	U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥-	¥205,128	$ 32,459
Nanjing Youkong Information Technology Co., Ltd	1,185,200	1,178,800	186,528
Purchase from related parties	¥1,185,200	¥1,383,928	$ 218,987

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Leases from related parties - The Company entered into various agreements for the lease of office space owned by the Founders and their family members. The terms of the agreement state that the Company will lease the property for one or two years at a monthly rent of ¥84,893 with the annual rental expense at ¥1,018,720 ($161,198).

Short-term borrowings from related parties - The Company borrowed ¥911,399 and ¥4,123,306 ($652,453) from the Founders, their family members and senior officers as of June 30, 2011 and 2012, respectively. For the specific terms and interest rates of the borrowings, please see Note 10.

Trade accounts payable to related parties - The Company owed RMB5,339,231 ($844,855) to one related party. As of June 30, 2012, BHD held 6.8% equity interest of this company.

Expenses paid by the owner on behalf of Recon - One owner of Nanjing Recon, Mr. Yin, paid ¥133,206 and ¥292,419 ($46,271) on behalf of Recon for operating purposes as of June 30, 2011 and 2012, respectively.

NOTE 19. Variable Interest Entities

The Company reports its VIEs' portion of consolidated net income and stockholders' equity as non-controlling interests in the consolidated financial statements. For ENI which was consolidated only through December 15, 2010, after which it ceased being a VIE. The Company reports results only through the date of deconsolidation.

Summary information regarding consolidated VIEs is as follows:

	June 30, 2011 RMB	June 30, 2012 RMB	June 30, 2012 U.S. Dollars
ASSETS			
Current Assets			
Cash and cash equivalents	¥ 1,847,606	¥ 2,182,179	$ 345,298
Trade accounts receivable, net	48,312,877	82,388,691	13,036,804

Notes receivable	1,276,574	-	-
Purchase advances, net	13,142,724	17,319,150	2,740,502
Other assets	30,155,839	31,322,790	4,956,373
Total Current Assets	**¥94,735,620**	**¥133,212,810**	**$21,078,977**
Non-current assets	1,582,000	1,768,588	279,853
Total Assets	**¥96,317,620**	**¥134,981,398**	**$21,358,830**
LIABILITIES			
Trade accounts payable	¥6,320,488	¥17,244,791	$2,728,737
Taxes payable	7,038,394	9,681,620	1,531,975
Other liabilities	41,679,162	35,613,109	5,635,253
Total current liabilities	55,038,044	62,539,521	9,895,965
Total Liabilities	¥55,038,044	**¥62,539,521**	**$9,895,965**

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RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The financial performance of VIEs reported in the consolidated statement of operations and comprehensive income (loss) for the year ended June 30, 2012 includes revenues of ¥75,542,379 ($11,953,475), operating expenses of ¥20,609,831 ($3,261,204), other expenses of ¥609,189 ($96,395) and net profit of ¥3,377,062 ($534,371).