Recon Technology, Ltd
Form 10-Q
May 15, 2015

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2015

¨ 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

No. 9 Fulin Road

Beijing 100107 China

(Address of principal executive offices and zip code)

+86 (10) 8494-5799

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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 Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of ordinary shares, as of the latest practicable date. The Company is authorized to issue 100,000,000 ordinary shares. As of May 11, 2015, the Company has issued and outstanding 5,022,436 shares.

RECON TECHNOLOGY, LTD

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Special Note Regarding Forward-Looking Statements

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to projected growth, trends and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond the control of the Company. Forward-looking statements typically are identified by the use of terms such as “look,” “may,” “should,” “might,” “believe,” “plan,” “expect,” “anticipate,” “estimate” and similar words, although so forward-looking statements are expressed differently. The accuracy of such statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to the following:

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

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 Financial Information

Item 1. Financial Statements.

See the unaudited condensed consolidated financial statements following the signature page of this report, which are incorporated herein by reference.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our company's financial condition and results of operations should be read in conjunction with our unaudited condensed 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 Nanjing Recon Technology Co. Ltd ("Nanjing Recon") and Beijing BHD Petroleum Technology Co, Ltd ("BHD"), our Domestic Companies. As the Company contractually is controlling the Domestic Companies, we are the center of strategic management, financial control and human resources allocation.

Nanjing Recon and BHD, 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 Variable Interest Entities ("VIEs") provide the oil and gas industry with equipment, production technologies, automation and services.

- 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.

Recent Developments

During this nine-month period, affected by decreased oil prices and CAPEX expenditures of our clients, our finished projects were maintained at a lower level compared to the same period of last year. Although management expects the volume of finished projects will recover and thus revenue increase during the balance of fiscal year ending June 30, 2015. During this period, we achieved some major accomplishment on our self-developed down-hole equipment and oversea business development.

On January 29, 2015, the shareholders of the Company approved the Second Amended and Restated Memorandum of Association and Articles of Association which, among other things, include the increase of the authorized ordinary shares from 25,000,000 to 100,000,000.

Products and Services

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)*. Crude petroleum contains certain impurities that must be removed before it 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)*. 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 Production Improvement Techniques

Packers of Fracturing. This utility model is used in concert with the security joint, hydraulic anchor, and slide brushing of sand spray in the well. It is used for easy seat sealing and sand uptake 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. At varying withdrawal points, the production packer separates different oil layers and protects the oil pipe from sand and permeation, promoting the recovery ratio.

Sand Prevention in Oil and Water Well. This technique processes additives that are resistant to elevated temperatures into “resin sand” which is 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. An artificial borehole wall is then 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.

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.

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 low permeability zones.

Electronic Break-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 environmentally friendly. It can increase the production of oilfields that are in the middle and later periods.

Automation System and Services

Pumping Unit Controller. This controller functions as a monitor to the pumping unit and also collects data for load, pressure, voltage, and startup and shutdown control.

RTU Monitor. This monitor collects gas well pressure data.

Wireless Dynamometer and Wireless Pressure Gauge. These products replace wired technology with cordless displacement sensor technology. They are easy to install and significantly reduce the work load associated with cable laying.

Electric Multi-way Valve for Oilfield Metering Station Flow Control. 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. The flow computer system is used in natural gas stations and gas distribution stations to measure flow.

Recon Supervisory Control and Data Acquisition System (“SCADA”). 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. This service technique is used for pipeline monitoring and data acquisition after crude oil transmission.

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

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

Technique Service for “Digital oilfield” Transformation. This service includes engineering technique services such as oil and gas SCADA system, video surveillance and control system and communication systems.

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Factors Affecting Our Business

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. Thus far our businesses have been involved in completion, production and construction processes. Our management still believes we need to expand our core business, move into new markets, and develop new businesses quickly for the coming years. Management anticipates opportunities both in new markets and our existing markets. We also believe that many existing wells and oilfields need to improve or renew their equipment and service to maintain production and techniques and services like ours will be needed as new oil and gas fields are developed. In the next three years, we will focus on:

Measuring Equipment and Service. "Digital oil field" and the management of oil companies are highly regarded. We believe our oilfield SCADA and related technical support services will address the needs of the oil well automation system market, for which we forecast increasing demand in short term and strong needs in the long term.

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

Fracturing service. We believe we cooperated well with Zhongyuan Oilfield in fiscal years 2013 and 2014 and expect to continue growing revenue from fracturing and related stimulation services in the coming years.

New business. 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 long test project for our customers, we have developed experience with this technology and our customers have accepted our products and services. We expect revenue from this business in the coming year.

Growth Strategy

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

Large domestic oil companies have historically focused on their exploration and development businesses to earn higher margins and keep their competitive advantage. With regard to private oilfield service companies, we estimate that approximately 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 insists on providing high quality products and service in oilfields in which we have a geographical advantage. This will allow us to avoid conflicts of interest with bigger suppliers of drilling equipment and protect our position within the market segment. Our mission is to increase the automation and safety levels of industrial petroleum production in China and improve the underdeveloped working process and management mode by using advanced technologies. At the same time, we are always looking to improve our business and to increase our earning capability.

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) As worldwide oil and gas prices decreased, development transform and strict management haven been recent subject of domestic oil companies. Technology reforms have been their first choice to achieve their goals about quality and efficiency upgrade. Furthermore, the construction of digital oilfield have also been one of oil companies' long term development strategies. Even though total capital expenditure is expected to be reduced, we believe investment in technology reform will maintain at a higher level. We believe the Company will benefit from this trend.

Management is focused on these factors and will seek to extend our business on the industrial chain, such as 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.

Factors Affecting Our Results of Operations

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

- Oil and gas price;
- 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 achieve such 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 Chinese oil and gas industry;
- the ongoing development of the oilfield service market in China; and
- inflation and other macroeconomic 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, and otherwise affect our results of operations.

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

- our revenue growth, in terms of the proportion of our business dedicated to large companies and our ability to successfully develop, introduce and market new solutions and services;
- our ability to increase our revenues from both old and new customers 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 markets and industries in the oil and gas industry in China.

Critical Accounting Policies and Estimates

Estimates and Assumptions

We prepare our unaudited condensed 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, inventory valuation, warrants liability, fair value of share based payments, 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. We perform ongoing assessments to determine whether an entity should be considered a VIE and whether an entity previous identified as a VIE continues to be a VIE and whether we continue to be the primary beneficiary.

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 customers and the customers have signed a completion and acceptance report, risk of loss has transferred to the customers, customer- acceptance-provisions have lapsed, or the Company has objective evidence that the criteria specified in customers' 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.

Fair Values of Financial Instruments

The US GAAP accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable.

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 receivables and borrowings approximate fair value because their interest rates charged approximate the market rates for financial instruments with similar terms. The fair value of the warrants liability was determined using the Black-Scholes Model, as Level 2 inputs (See Note 13). Any changes in the assumptions that are used in the Black-Scholes Model may increase or decrease the warrants liability from quarter to quarter. Any change in adjustment would be charged to operations. Long-term investment is measured at fair value on a non-recurring basis at March 31, 2015, since the Company recorded an impairment loss during the year ended June 30, 2014. The fair value was determined to be zero using Level 2 inputs.

Receivables

Trade receivables are carried at original invoiced amount less a provision for any potential uncollectible amounts. Provisions are applied to trade 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. Increase in our allowance for doubtful accounts would lower our net income and earnings per share.

Deferred Tax Estimates

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. Deferred tax accounting requires that we evaluate net deferred tax assets by jurisdiction to determine if these assets will more likely than not be realized. This analysis requires considerable judgment and is subject to change to reflect future events and changes in the tax laws. If an allowance is established against our deferred tax assets because they may not be fully realizable in the future, our net income and earnings per share would decrease.

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 mainly using the Black-Scholes valuation model estimated at the grant date based on the award's fair value.

Recently enacted accounting pronouncements

In January 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810) – Amendments to the Consolidation Analysis". The ASU concludes the FASB's project to rescind the indefinite deferral of the VIE guidance in ASU 2009-17 (FAS 1672) for reporting entities with variable interests in legal entities that have the attributes of an investment company that meet certain criteria (ASU 2010-103). The ASU also makes changes to the VOE consolidation model. The ASU does not change the general order in which the consolidation models are applied. A reporting entity that holds an economic interest in, or is otherwise involved with, another legal entity (has a "variable interest") should first determine if the VIE model applies, and if so, whether it holds a controlling financial interest under that model. If the entity being evaluated for consolidation is not a VIE, then the VOE model should be applied to determine whether the entity should be consolidated by the reporting entity. Since consolidation is only assessed for legal entities, the determination of whether there is a legal entity is important. It is often clear when the entity is incorporated, but unincorporated structures can also be legal entities and judgment may be required to make that determination. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. Management is evaluating the impact, if any, of this ASU on the Company's consolidated financial statements.

Results of Operations

The following consolidated results of operations include the results of operations of the Company and its variable interest entities ("VIEs"), BHD and Nanjing Recon.

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

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

During the three months ended March 31, 2015, we encountered a worldwide decline of oil and gas prices and decreased CAPEX expense of our major clients. As a result, our projects were slowed and/or cancelled. Our operations and revenue were affected negatively.

Revenues

	For the Three Months Ended March 31,			
	2014	**2015**	**Increase / (Decrease)**	**Percentage Change**
Hardware - non-related parties	¥17,763,602	¥17,267,740	¥(495,862)	(2.8)%
Hardware - related parties	94,446	839,542	745,096	788.9 %
Service	80,180	-	(80,180)	(100.0)%
Software - non-related parties	234,842	1,091,095	856,253	364.6 %
Software - related parties	59,400	820,513	761,113	1,281.3 %
Total revenues	¥18,232,470	¥20,018,890	¥1,786,420	9.8 %

Our total revenues increased by 9.8%, or approximately ¥1.8 million ($0.3 million), from approximately ¥18.2 million for the three months ended March 31, 2014 to ¥20.0 million ($3.3 million) for the same period of 2015. The changes in our revenues for the three-month period was due to the following factors:

(1) Hardware business - non related parties. During the three-month ended March 31, 2015, a slight decrease of ¥0.5 million ($0.1 million) in hardware revenue was mainly caused by lower sales of furnaces.

(2) Hardware – related parties. The majority of our hardware revenue with related parties of this period was from increased requirement of system upgrading and remote guidance related service.

(3) Service business - non related parties. Service revenue for three months ended March 31, 2014 consisted mainly of minor maintenance services, which were provided upon request by customers.

(4) Software business. The software sales to non-related parties increased approximately ¥0.9 million ($0.1 million). We record revenue as software sales when (1) the customer signs a separate software contract with us, or (2) the customer accepts VAT invoices for software. The amount of our revenues categorized as software sales may fluctuate because certain software may be sold with hardware at times as a whole product and not separately priced.

(5) Software business – related parties. The increase of software revenue was mainly due to increased demand of our clients, which were also software companies.

Cost and Margin

	For the Three Months Ended March 31,			
	2014	**2015**	**Increase / (Decrease)**	**Percentage Change**
Total revenues	¥18,232,470	¥20,018,890	¥1,786,420	9.8 %
Cost of revenues	12,987,514	13,770,051	782,537	6.0 %
Gross profit	¥5,244,956	¥6,248,839	¥1,003,883	19.1 %
Margin %	28.8 %	31.2 %	2.4 %	—

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 by subcontracts. 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 metal and oil price fluctuations. Additionally, the prices of some imported accessories mandated by our customers can also impact our cost.

Our cost of revenues increased from approximately ¥13.0 million in the three months ended March 31, 2014 to approximately ¥13.8 million ($2.3 million) for the same period of 2015, an increase of approximately ¥0.8 million ($0.1 million), or 6.0%. This increase was mainly caused by higher revenue during the three months ended March 31, 2015 compared to the same period of 2014. As a percentage of revenues, our cost of revenues decreased from 71.2% in 2014 to 68.8% in 2015, mainly due to some contracts with lower cost during period.

Gross profit. Our gross profit increased to approximately ¥1.0 million ($0.2 million) for the three months ended March 31, 2015 from approximately ¥5.2 million for the same period in 2014 to approximately ¥6.5 million ($1.0 million) for the same period of 2015. Our gross profit as a percentage of revenue increased to 31.2% for the three months ended March 31, 2015 from 28.8% for the same period in 2014. This was mainly because we seized some system updating service related contracts with higher margin.

In more detail:

	For the Three Months Ended March 31,			
	2014	**2015**	**Increase / (Decrease)**	**Percentage Change**
Total revenues-hardware and software- non related parties	¥17,998,444	¥18,358,835	¥360,391	2.0 %
Cost of revenues -hardware and software- non related parties	12,848,136	13,759,652	911,516	7.1 %
Gross profit	¥5,150,308	¥4,599,183	¥(551,125)	(10.7)%
Margin %	28.6 %	25.1 %	(3.6)%	—

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The revenue increase from hardware and software to non-related parties of ¥0.4 million was mainly due to the increase from the furnaces sales and automation business in the three months ended March 31, 2015. The gross profit from the hardware and software sales to non-related parties decreased ¥0.6 million ($0.1 million) compared to the same period of last year, because gross margin from burner business were lower compared to same period last year.

	For the Three Months Ended March 31,			
	2014	2015	Increase / (Decrease)	Percentage Change
Total revenues-hardware and software- related parties	¥153,846	¥1,660,055	¥1,506,209	979.0 %
Cost of revenues -hardware and software - related parties	97,217	10,399	(86,818)	(89.3)%
Gross profit	¥56,629	¥1,649,656	¥1,593,027	2,813.1 %
Margin %	36.8 %	99.4 %	62.6 %	—

Revenue from related parties increased mainly due to increased sales of automation metering system increased during the three months ended March 31, 2015. Cost of this kind of business was minor because there were only some software upgrading and online debugging cost, which were much lower than general hardware business sales.

	For the Three Months Ended March 31,			
	2014	2015	Increase / (Decrease)	Percentage Change
Total revenues-service	¥80,180	¥ -	¥(80,180)	(100.0)%
Cost of revenues -service	42,161	-	(42,161)	(100.0)%
Gross profit	¥38,019	¥ -	¥(38,019)	(100.0)%
Margin %	47.4 %		—	—

Service revenue for three months ended March 31, 2014 consisted mainly of minor maintenance services, which were provided upon request by customers.

Operating Expenses

	For the Three Months Ended March 31,			
	2014	2015	Increase / (Decrease)	Percentage Change
Selling and distribution expenses	1,097,549	1,109,838	12,289	1.1 %

% of revenue	6.0	%	5.5	%	(0.5	)%	—	
General and administrative expenses	3,993,342		4,191,030		197,688		5.0	%
% of revenue	21.9	%	20.9	%	(1.0	)%	—	
Research and development expenses	720,955		544,063		(176,892	)	(24.5	)%
% of revenue	4.0	%	2.7	%	(1.3	)%	—	
Operating expenses	¥5,811,846		¥5,844,931		¥33,085		0.6	%

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Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing organization, sales commissions, costs of our marketing programs including advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses remained flat at approximately ¥1.1 million for each of the three months ended March 31, 2014 and 2015. Selling expenses were 6.0% of total revenues in the three months ended March 31, 2014 and 5.5% of total revenues in the same period of 2015.

General and administrative expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, option expenses stock based comprehensive expense and other miscellaneous expenses incurred in connection with general operations. General and administrative expenses increased by 5.0% or ¥0.2 million ($32,000), from approximately ¥4.0 million in the three months ended March 31, 2014 to approximately ¥4.2 million ($0.7 million) in the same period of 2015. General and administrative expenses were 21.9% of total revenues in 2014 and 20.9% of total revenues in 2015. The increase in general and administrative expenses was mainly due to an increase in share-based compensation.

Research and development (“R&D”) expenses. Research and development expenses consist primarily of salaries and related expenditures of our research and development projects. Research and development expenses decreased from approximately ¥0.7 million for the three months ended March 31, 2014 to approximately ¥0.5 million ($0.1 million) for the same period of 2015. This decrease was primarily due to less research and development expense on furnaces. We will continue to strengthen R&D project management and control spending.

Net Income

	For the Three Months Ended March 31,			
	2014	**2015**	**Increase / (Decrease)**	**Percentage Change**
Income (loss) from operations	¥(566,890)	¥403,908	¥970,798	(171.2)%
Interest and other expense	(1,092,510)	(2,000,719)	(908,209)	83.1%
Loss before income tax	(1,659,400)	(1,596,811)	62,589	(3.8)%
Provision (benefit) for income tax	150,787	(180,927)	(331,714)	220.0%
Net loss	(1,810,187)	(1,415,884)	394,303	(21.8)%
Less: Net income attributable to non-controlling interest	120,415	111,398	(9,017)	(7.5)%
Net loss attributable to Recon Technology, Ltd	¥(1,930,602)	¥(1,527,282)	¥403,320	(20.9)%

Income (loss) from operations. Income from operations was approximately ¥0.4 million ($0.1 million) for the three months ended March 31, 2015, compared to a loss of ¥0.6 million for the same period of 2014. This increase in income from operations can be attributed primarily to the increased revenue and higher gross profit.

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Interest and other expense. Interest and other expense was approximately ¥2.0 million ($0.3 million) for the three months ended March 31, 2015, compared to interest and other expense of ¥1.1 million for the same period of 2014. The ¥0.9 million ($0.1 million) increase in interest and other expense was primarily due to a loss from warrant redemptions and an increase in interest expense.

Provision (benefit) for income tax. Provision for income tax for the three months ended March 31, 2014 was approximately ¥0.2 million. Benefit for income tax was ¥0.2 million ($30,000) for the three months ended March 31, 2015. This decrease in provision for income tax was mainly due to the pre-consolidation income from operations in subsidiaries in China on which we must pay income tax, decreased for the three months ended March 31, 2015.

Net loss. As a result of the factors described above, net loss was approximately ¥1.4 million ($0.2 million) for the three months ended March 31, 2015, a decrease of approximately ¥0.4 million ($0.1 million) from net loss of ¥1.8 million for the same period of 2014.

Net loss attributable to Recon Technology, Ltd. As a result of the factors described above, net loss attributable to ordinary shareholders was approximately ¥1.5 million ($0.2 million) for the three months ended March 31, 2015, a decrease of approximately ¥0.4 million ($0.1 million) from net loss attributable to ordinary shareholders of approximately ¥1.9 million for same period of 2014.

Nine Months Ended March 31, 2015 Compared to Nine Months Ended March 31, 2014

Revenues

	For the Nine Months Ended March 31,			
	2014	**2015**	**Increase / (Decrease)**	**Percentage Change**
Hardware - non-related parties	¥67,628,886	¥39,977,111	¥(27,651,775)	(40.9)%
Hardware - related parties	769,231	1,364,070	594,839	77.3%
Service	477,769	103,774	(373,995)	(78.3)%
Software - non-related parties	5,708,699	3,142,804	(2,565,895)	(44.9)%
Software - related parties	1,426,921	1,064,103	(362,818)	(25.4)%
Total revenues	¥76,011,506	¥45,651,862	¥(30,359,644)	(39.9)%

Our total revenues decreased by 39.9%, or approximately ¥30.4 million ($5.0 million), from approximately ¥76.0 million for the nine months ended March 31, 2014 to ¥45.7 million ($7.5 million) for the same period of 2015. The change in our revenues for the nine-month period was due to the following factors:

1) Hardware business - non related parties. During the nine-months ended March 31, 2015, the decrease in hardware revenue was mainly caused by lower sales of furnaces and automation system.

2) Hardware – related parties. After we achieved business entrance certification in the name of Recon and could cooperate with oilfield customers directly two years ago, we no longer required the services of a related party with such certification and, accordingly, revenue from related-parties would decrease. As long as the local agency still purchases automation products from Recon through our related parties, we will continue to recognize revenue from related parties, but we anticipate that such hardware and software related party revenue is likely to fluctuate from year to year. Major part of related party hardware revenue of this period was from increased requirement of system upgrading and remote guidance related service from some other related clients other than those of same period last year.

3) Service business - non related parties. Service revenue for nine months ended March 31, 2015 consisted mainly of minor maintenance services, which were provided upon request by customers.

4) Software business. The software sales to non-related parties decreased approximately ¥2.6 million ($0.4 million), mainly caused by reclassification of some company sales to non-related.

5) Software business – related parties. During the nine months ended March 31, 2014 and 2015, we recorded software revenue of ¥1.4 million and ¥1.1 million ($0.2 million) to a related party, respectively. We record revenue as software sales if (1) the customer signs a separate software contract with us, or (2) the customer accepts VAT invoices for software. The amount of our revenues categorized as software sales may fluctuate because certain software may be sold with hardware at times as a whole product and not separately priced.

Cost and Margin

	For the Nine Months Ended March 31,			
	2014	**2015**	**Increase / (Decrease)**	**Percentage Change**
Total revenues	¥76,011,506	¥45,651,862	¥(30,359,644)	(39.9)%
Cost of revenues	48,951,038	29,809,778	(19,141,260)	(39.1)%
Gross profit	¥27,060,468	¥15,842,084	¥(11,218,384)	(41.5)%
Margin %	35.6%	34.7%	(0.9)%	—

<u>Cost of revenues</u>. 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 by subcontracts. 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 metal and oil price fluctuations. Additionally, the prices of some imported accessories mandated by our customers can also impact our cost.

Our cost of revenues decreased from approximately ¥49.0 million for the nine months ended March 31, 2014 to approximately ¥29.8 million ($4.9 million) for the same period of 2015, a decrease of approximately ¥19.1 million ($3.1 million), or 39.1%. This decrease was mainly caused by lower revenue during the nine months ended March 31, 2015 compared to the same period of 2014. As a percentage of revenues, our cost of revenues changed slightly from 64.4% in 2014 to 65.3% in 2015.

Gross profit. Our gross profit decreased to approximately ¥15.8 million ($2.6 million) for the nine months ended March 31, 2015 from approximately ¥27.1 million for the same period in 2014. Our gross profit as a percentage of revenue decreased to 34.7% for the nine months ended March 31, 2015 from 35.6% for the same period in 2014. This was mainly due to decreased hardware revenue during the nine months ended March 31, 2015 as compared to the same period last year and also had higher software revenue with higher gross margins during the nine months ended March 31, 2014.

In more detail:

	For the Nine Months Ended March 31,			
	2014	2015	Increase / (Decrease)	Percentage Change
Total revenues-hardware and software- non related parties	¥73,337,585	¥43,119,915	¥(30,217,670)	(41.2)%
Cost of revenues -hardware and software- non related parties	48,447,792	29,782,617	(18,665,175)	(38.5)%
Gross profit	¥24,889,793	¥13,337,298	¥(11,552,495)	(46.4)%
Margin %	33.9%	30.9%	(3.0)%	—

The revenue from hardware and software to non-related parties decreased by approximately ¥30.2 million was mainly due to the decrease from the furnaces sales and automation business in the nine months ended March 31, 2015. The gross profit from the hardware and software sales to non-related parties decreased by approximately ¥11.6 million ($1.9 million) compared to the same period of last year.

	For the Nine Months Ended March 31,			
	2014	2015	Increase / (Decrease)	Percentage Change
Total revenues-hardware and software - related parties	¥2,196,152	¥2,428,173	¥232,021	10.6%
Cost of revenues -hardware and software - related parties	426,139	27,161	(398,978)	(93.6)%
Gross profit	¥1,770,013	¥2,401,012	¥630,999	35.6%
Margin %	80.6%	98.9%	272.0%	—

Cost of revenue from hardware and software-related parties decreased as revenue increased. Gross profit increased mainly due to most of the revenues to related parties were automation upgrad and maintaining service sales with higher gross profit.

	For the Nine Months Ended March 31,			
	2014	2015	Increase / (Decrease)	Percentage Change
Total revenues-service	¥477,769	¥103,774	¥(373,995)	(78.3)%
Cost of revenues -service	77,107	-	(77,107)	(100.0)%
Gross profit	¥400,662	¥103,774	¥(296,888)	(74.1)%
Margin %	83.9%	—	—	—

Service revenue for nine months ended March 31, 2014 and 2015 consisted mainly of minor maintenance services, which were provided upon request by customers.

Operating Expenses

	For the Nine Months Ended March 31,							
	2014		2015		Increase / (Decrease)		Percentage Change	
Selling and distribution expenses	4,701,989		3,065,098		(1,636,891)		(34.8	)%
% of revenue	6.2	%	6.7	%	0.5	%	—	
General and administrative expenses	10,450,904		11,987,761		1,536,857		14.7	%
% of revenue	13.7	%	26.3	%	12.6	%	—	
Research and development expenses	4,074,953		2,444,020		(1,630,933)		(40.0	)%
% of revenue	5.4	%	5.4	%	-		—	
Operating expenses	¥19,227,846		¥17,496,879		¥(1,730,967)		(9.0	)%

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing organization, sales commissions, costs of our marketing programs including advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses decreased by 34.8%, from approximately ¥4.7 million for the nine months ended March 31, 2014 to approximately ¥3.1 million ($0.5 million) for the same period of 2015. This decrease was primarily from decreased shipping fees, service fees and traveling expenses. Selling expenses were 6.2% of total revenues in the nine months ended March 31, 2014 and 6.7% of total revenues in the same period of 2015.

General and administrative expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, option expenses stock based comprehensive expense and other miscellaneous expenses incurred in connection with general operations. General and administrative expenses increased by 14.7%, or approximately ¥1.5 million ($0.3 million), from approximately ¥10.5 million in the nine months ended March 31, 2014 to approximately ¥12.0 million ($2.0 million) in the same period of 2015. General and administrative expenses were 13.7% of total revenues in 2014 and 26.3% of total revenues in 2015. The increase in general and administrative expenses was mainly due to an increase in consulting fees, salaries, and share-based compensation.

Research and development (“R&D”) expenses. Research and development expenses consist primarily of salaries and related expenditures of our research and development projects. Research and development expenses decreased by 40.0%, from approximately ¥4.1 million for the nine months ended March 31, 2014 to approximately ¥2.4 million ($0.4 million) for the same period of 2015. This decrease was primarily due to lower research activities on our furnaces products. We enhanced our cost/expense control this year and may continue to be strict on our R&D project selection and implementation.

Net Income

	For the Nine Months Ended March 31,			
	2014	2015	Increase / (Decrease)	Percentage Change
Income (loss) from operations	¥7,832,622	¥(1,654,795)	¥(9,487,417)	(121.1)%
Interest and other income (expense)	(1,246,737)	2,305,420	3,552,157	(284.9)%
Income before income taxes	6,585,885	650,625	(5,935,260)	(90.1)%
Provision for income taxes	1,609,976	468,005	(1,141,971)	(70.9)%
Net income	4,975,909	182,620	(4,793,289)	(96.3)%
Less: Net income attributable to non-controlling interest	1,045,396	546,071	(499,325)	(47.8)%
Net income (loss) attributable to Recon Technology, Ltd	¥3,930,513	¥(363,451)	¥(4,293,964)	(109.2)%

Income (loss) from operations. Loss from operations was approximately ¥1.7 million ($0.3 million) for the nine months ended March 31, 2015, compared to income of ¥7.8 million for the same period of 2014. This decrease in income from operations can be attributed primarily to the decreased revenue and increases in general and administrative expenses.

Interest and other income (expense). Interest and other income was approximately ¥2.3 million ($0.4 million) for the nine months ended March 31, 2015, compared to interest and other expense of ¥1.2 million for the same period of 2014. The ¥3.6 million ($0.6 million) increase in interest and other income was primarily due to changes in the fair value of our warrant liability and a decrease in loss from an investment, offset by a decrease in subsidy income and loss on warrants redemption.

Provision for income tax. Provision for income tax for the nine months ended March 31, 2014 was approximately ¥1.6 million and ¥0.5 million ($0.1 million) for the nine months ended March 31, 2015. This decrease of provision for income tax was mainly due to the pre-consolidation income from operations in subsidiaries in China on which we must pay income tax, decreased for the nine months ended March 31, 2015.

Net income . As a result of the factors described above, net income was approximately ¥0.2 million ($30,000) for the nine months ended March 31, 2015, a decrease of approximately ¥4.8 million ($0.8 million) from net income of approximately ¥5.0 million for the same period of 2014.

Net income (loss) attributable to Recon Technology, Ltd. As a result of the factors described above, net loss attributable to ordinary shareholders was approximately ¥0.4 million ($0.1 million) for the nine months ended March

31, 2015, a decrease of approximately ¥4.3 million ($0.7 million) from net income attributable to ordinary shareholders of approximately ¥3.9 million for same period of 2014.

Adjusted EBITDA

Adjusted EBITDA. We define adjusted EBITDA as net income (loss) adjusted for income tax expense, interest expense, loss from investment, non-cash stock compensation expense, depreciation and amortization. We think 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 and book value of assets, 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.

	For the Nine Months Ended March 31,				
	2014 RMB	2015 RMB	2015 USD	Increase / (Decrease)	Percentage Change
Reconciliation of Adjusted EBITDA to Net Income					
Net income	¥4,975,909	¥182,620	$29,894	¥(4,793,289)	(96.3)%
Provision for income taxes	1,609,976	468,005	76,608	(1,141,971)	(70.9)%
Interest expense and foreign currency adjustment	845,306	827,146	135,395	(18,160)	(2.1)%
Change in fair value of warrants liability	904,327	(4,068,329)	(665,946)	(4,972,656)	(100.0)%
Loss from investment	870,627	-	-	(870,627)	(100)%
Restricted shares issued for consulting services	407,972	1,204,903	197,231	796,931	195.3%
Loss from warrant redemptions	-	1,913,262	313,182	1,913,262	100.0%
Stock compensation expense	1,660,144	2,023,761	331,270	363,617	21.9%
Depreciation and amortization	457,439	369,284	60,448	(88,155)	(19.3)%
Adjusted EBITDA	¥11,731,700	¥2,920,652	$478,082	¥(8,811,049)	(75.1)%

Adjusted EBITDA decreased by approximately ¥8.8 million ($1.4 million) to income of approximately ¥2.9 million ($0.5 million) for the nine months ended March 31, 2015 compared to income of approximately ¥11.7 million income for the same period in 2014. This was mainly due to decreased revenue, non-operation income related to warrant and warrant redemptions and increased share-based expenses.

Adjusted Net Income and Adjusted Earnings (Loss) Per Share

	For the Nine Months Ended March 31,		
	2014 RMB	2015 RMB	2015 USD
Reconciliation of Net Income (loss) attributable to Recon Technology, Ltd to Adjusted Net Income (loss) attributable to Recon Technology, Ltd			
Net income (loss) attributable to Recon Technology, Ltd	¥3,930,513	¥(363,451)	$(59,493)
Noncash items [(A)]:			
Change in fair value of warrants liability	904,327	(4,068,329)	(665,946)
Loss from investment	870,627	-	-
Restricted shares issued for consulting services	407,972	1,204,903	197,231
Loss from warrants redemption	-	1,913,262	313,182
Stock compensation expense	1,660,144	2,023,761	331,270
Adjusted net income attributable to Recon Technology, Ltd	¥7,773,583	¥710,146	$116,244

Reconciliation of U.S. GAAP Earnings (Loss) Per Share to Non U.S. GAAP Adjusted Earnings Per Share

U.S. GAAP earnings (loss) per share	¥0.92	¥(0.08)	$(0.01)
Impact of noncash items on earnings per share	0.89	0.22	0.04
Non U.S. GAAP adjusted earnings per share	¥1.81	¥0.15	$0.02
Weighted - average shares -diluted	4,269,510	4,773,803	4,773,803

(A) Noncash items are certain non-cash expenses that are included in our U.S. GAAP reported results. There was no income tax benefit associated with the special items. The non-GAAP financial measures are provided to enhance investors' overall understanding of Recon's current financial performance.

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 March 31, 2015, we had cash and cash equivalents in the amount of approximately ¥4.7 million ($0.8 million). As of June 30, 2014, we had cash and cash equivalents in the amount of approximately ¥18.1 million ($2.9 million).

Indebtedness. As of March 31, 2015, except for approximately ¥10.2 million ($1.7 million) of short-term borrowings from related parties, and ¥8.0 million ($1.3 million) in commercial loans from 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 our 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 their respective accumulated net profits, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, our 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 our Domestic Companies' registered capital. These funds may be distributed to shareholders at the time of each Domestic Company's wind up.

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, bank loans and short-term borrowings and loans from related parties including our Chief Technology Officer. As of March 31, 2015, we had total assets of approximately ¥161.0 million ($26.4 million), which includes cash of approximately ¥4.7 million ($0.8 million), net accounts receivable from third parties of approximately ¥56.4 million ($9.2 million), and net accounts receivable from related parties of approximately ¥4.9 million ($0.8 million). Working capital amounted to approximately ¥90.0 million ($14.7 million), and shareholders’ equity amounted to approximately ¥100.5 million ($16.4 million).

Cash from Operating Activities. Net cash used in operating activities was approximately ¥16.2 million ($2.7 million) for the nine months ended March 31, 2015. This was an increase of approximately ¥0.9 million ($0.2 million) compared to net cash used in operating activities of approximately ¥15.3 million for the nine months ended March 31, 2014. In more detail:

Net cash used in operating activities totaled approximately ¥16.2 million for the nine months ended March 31, 2015, and was primarily attributable to net income adjusted to reconcile to net cash used in operating activities of ¥0.2 million, which primarily included ¥2.0 million of share based compensation, an adjustment for a ¥4.1 million change in fair value of a warrant liability and a ¥1.9 million loss from warrant redemptions. Net cash used in changes in operating assets and liabilities resulted in a net cash used of ¥17.9 million, which was mainly due to a ¥10.4 million change in accounts receivable, a ¥4.8 million change in inventory, a ¥5.6 million change in other receivable, a ¥1.6 million change in prepaid expense, and a ¥1.6 million change in deferred income, offset by a ¥1.8 million change in purchase advance and a ¥6.0 million change in trade payable and other payable. Our net cash used in operating activities were primarily for purchases of inventories for projects in the upcoming quarters.

Cash from Investing Activities. Net cash used in investing activities was approximately ¥0.2 million ($26,000) for the nine months ended March 31, 2015, which remained flat as compared to the same period of 2014. A ¥0.3 million increase in the purchase of property and equipment was offset by the proceeds from disposal of equipment.

Cash from Financing Activities. Net cash provided by financing activities amounted to ¥3.0 million ($0.5 million) for the nine months ended March 31, 2015, as compared to cash flows provided by financing activities of approximately ¥11.9 million for the same period in 2014. During the nine-month period ended March 31, 2015, we repaid ¥2.0 million ($0.3 million) in short term bank loans and received ¥5.0 million ($0.9 million) of net proceeds from a related party.

Working Capital. Total working capital as of March 31, 2015 amounted to approximately ¥90.0 million ($14.7 million), compared to approximately ¥83.1 million as of June 30, 2014. Total current assets as of March 31, 2015 amounted to approximately ¥141.8 million ($23.2 million), an increase of approximately ¥8.4 million ($1.5 million) compared to approximately ¥133.4 million at June 30, 2014. The increase in total current assets at March 31, 2015 compared to June 30, 2014 was mainly due to an increase in trade accounts receivable, inventory and other receivables.

Current liabilities amounted to approximately ¥51.7 million ($8.5 million) at March 31, 2015, in comparison to approximately ¥50.3 million at June 30, 2014. This decrease of liabilities was attributable mainly to a decrease in warrant liability and short-term bank loans, offset by an increase in trade accounts payable and short-term borrowings – related party.

Capital Needs. Our management believes that our current operations can satisfy our daily working capital needs. We may also raise capital through public offering or private placement to finance further expansion of our business and to consummate any possible merge and acquisition, if necessary.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of March 31, 2015, the 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 under the 1992 COSO framework. Based on the foregoing, 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 Securities and Exchange Commission filings.

Changes in Internal Control over Financial Reporting

Management continues to focus on internal control over financial reporting. As of March 31, 2015, the Company has completed the necessary documentation of our internal controls and will further implement the following remedial initiatives:

· Improve the design and documentation related to multiple levels of review over financial statements included in our SEC filings;

· Expand the design and assessment test work over the monitoring function of entity level controls;

· Enhance documentation retention policies over test work related to continuous management assessments of internal control effectiveness; and

· Expand 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.

· Implement and update the internal controls to be in compliance with the 2013 COSO framework.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the three months ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as disclosed above.

Part II Other Information

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None

(b) None

(c) None

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed herewith:

Exhibit Number	**Document**
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 Nanjing Recon Technology Co., Ltd. (1)
10.12	Translation of Power of Attorney for rights of Chen Guangqiang in Nanjing Recon Technology Co., Ltd. (1)
10.13	Translation of Power of Attorney for rights of Yin Shenping in Nanjing Recon Technology Co., Ltd. (1)
10.14	Translation of Power of Attorney for rights of Li Hongqi in Nanjing Recon Technology Co., Ltd. (1)
10.15	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)
10.16	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)
10.17	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)
10.18	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)
10.19	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)
10.20	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)
10.21	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Yin Shenping (1)
10.22	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Chen Guangqiang (1)
10.23	Operating Agreement among Recon Technology (Jining) Co. Ltd., Nanjing Recon Technology Co., Ltd. and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
10.24	Operating Agreement among Recon Technology (Jining) Co. Ltd., Jining ENI Energy Technology Co., Ltd., and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
10.25	Operating Agreement among Recon Technology (Jining) Co. Ltd., Beijing BHD and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
10.26	Form of Warrant Exchange Agreement dated February 13, 2015 Incorporated by reference to Exhibit 10.36 to the Company’s Form 10-Q for quarter ended December 31, 2014 filed on February 13, 2015
10.27	Placement Agent Warrant Exchange Agreement dated April 15, 2015 (3)
21.1	Subsidiaries of the Registrant (2)

99.1	Stock Option Plan [1]
99.2	Code of Business Conduct and Ethics [1]
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. [3]
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. [3]

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32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)
101.INS	XBRL Instance Document (3)
101.SCH	XBRL Taxonomy Extension Schema Document (3)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (3)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (3)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (3)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (3)

(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 Quarterly Report on Form 10-Q/A, filed on January 31, 2012.
(3) Filed herewith.

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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	
May 15, 2015	By:	/s/ Liu Jia Liu Jia Chief Financial Officer (Principal Financial and Accounting Officer)

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	
May 15, 2015	By:	/s/ Yin Shen ping
		Yin Shen ping
		Chief Executive Officer

RECON TECHNOLOGY, LTD

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RECON TECHNOLOGY, LTD

condensed Consolidated Balance Sheets

(UNAUDITED)

	As of June 30, 2014 RMB	As of March 31, 2015 RMB	As of March 31, 2015 U.S. Dollars
ASSETS			
Current assets			
Cash and cash equivalents	¥18,094,586	¥4,665,869	$763,757
Notes receivable	-	400,000	65,476
Trade accounts receivable, net	43,553,737	56,444,463	9,239,407
Trade accounts receivable- related parties, net	7,479,298	4,860,821	795,669
Inventories, net	14,336,602	19,127,861	3,131,044
Other receivables, net	18,293,043	27,180,449	4,449,174
Other receivables- related parties	1,414,433	-	-
Purchase advances, net	25,759,065	22,870,397	3,743,660
Purchase advances- related parties	394,034	394,034	64,500
Prepaid expenses	2,634,664	4,200,662	687,608
Prepaid expenses - related parties	230,000	362,400	59,321
Deferred tax asset	1,209,961	1,260,442	206,322
Total current assets	133,399,423	141,767,398	23,205,938
Property and equipment, net	1,321,538	1,273,521	208,463
Long-term trade accounts receivable, net	-	14,545,865	2,381,016
Long-term trade accounts receivable - related parties, net	14,456,317	-	-
Long-term other receivable	5,353,104	3,394,731	555,684
Total Assets	¥154,530,382	¥160,981,515	$26,351,101
LIABILITIES AND EQUITY			
Current liabilities			
Short-term bank loans	¥10,000,000	¥8,000,000	$1,309,522
Trade accounts payable	11,413,505	17,456,282	2,857,423
Other payables	1,765,079	1,199,015	196,267
Other payable- related parties	3,306,024	3,725,403	609,812
Deferred revenue	4,419,824	2,776,485	454,483
Advances from customers	801,385	395,600	64,756
Accrued payroll and employees' welfare	417,624	309,558	50,672
Accrued expenses	203,051	356,980	58,435
Taxes payable	7,589,846	6,900,393	1,129,527
Short-term borrowings- related parties	5,207,728	10,218,308	1,672,637
Deferred tax liability	180,186	180,186	29,495
Warrants liability	5,021,621	199,179	32,604

Total current liabilities	50,325,873	51,717,389	8,465,633
Commitments and Contingency			
Equity			
Common stock, ($ 0.0185 U.S. dollar par value,25,000,000 and 100,000,000 shares authorized as of June 30,2014 and March 31, 2015, respectively; 4,717,336 and 5,022,436 shares issued and outstanding as of June 30, 2014 and March 31, 2015, respectively)	616,865	651,495	106,641
Additional paid-in capital	83,061,058	87,906,399	14,389,419
Appropriated retained earnings	4,148,929	4,725,803	773,568
Unappropriated retained earnings	8,431,453	7,491,128	1,226,224
Accumulated other comprehensive loss	(279,275)	(282,129)	(46,183)
Total shareholders’ equity	95,979,030	100,492,696	16,449,669
Non-controlling interest	8,225,479	8,771,430	1,435,799
Total equity	104,204,509	109,264,126	17,885,468
Total Liabilities and Equity	¥154,530,382	¥160,981,515	$26,351,101

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

RECON TECHNOLOGY, LTD

condensed Consolidated Statements of OPERATIONS and Comprehensive Income (LOSS)

(UNAUDITED)

	For the nine months ended March 31,			**For the three months ended March 31,**		
	2014 RMB	**2015 RMB**	**2015 USD**	**2014 RMB**	**2015 RMB**	**2015 USD**
Revenues						
Hardware and software	¥73,337,585	¥43,119,915	$7,058,309	¥17,998,444	¥18,358,835	$3,005,162
Service	477,769	103,774	16,987	80,180	-	-
Hardware and software - related parties	2,196,152	2,428,173	397,468	153,846	1,660,055	271,735
Total revenues	**76,011,506**	**45,651,862**	**7,472,764**	**18,232,470**	**20,018,890**	**3,276,897**
Cost of revenues						
Hardware and software	¥48,447,792	¥29,782,617	$4,875,124	¥12,848,136	¥13,759,652	$2,252,321
Service	77,107	-	-	42,161	-	-
Hardware and software - related parties	426,139	27,161	4,446	97,217	10,399	1,702
Total cost of revenues	**48,951,038**	**29,809,778**	**4,879,570**	**12,987,514**	**13,770,051**	**2,254,023**
Gross profit	**27,060,468**	**15,842,084**	**2,593,194**	**5,244,956**	**6,248,839**	**1,022,874**
Selling and distribution expenses	4,701,989	3,065,098	501,727	1,097,549	1,109,838	181,670
General and administrative expenses	10,450,904	11,987,761	1,962,279	3,993,341	4,191,030	686,031
Research and development expenses	4,074,953	2,444,020	400,062	720,956	544,063	89,058
Operating expenses	**19,227,846**	**17,496,879**	**2,864,068**	**5,811,846**	**5,844,931**	**956,759**
Income (loss) from operations	**7,832,622**	**(1,654,795)**	**(270,874)**	**(566,890)**	**403,908**	**66,115**
Other income (expenses)						
Subsidy income	1,220,024	639,473	104,675	201,711	155,155	25,397
Interest income	296,997	225,701	36,945	92,027	68,233	11,169
Interest expense	(757,226)	(808,065)	(132,272)	(277,578)	(339,109)	(55,509)
Loss from investment	(870,627)	-	-	(135,547)	-	-
Change in fair value of warrants liability	(904,327)	4,068,329	665,946	(904,883)	(9,188)	(1,504)
Loss from foreign currency exchange	(88,080)	(19,081)	(3,123)	31,312	1,799	294
Loss from warrant redemptions	-	(1,913,262)	(313,182)	-	(1,913,262)	(313,182)

Other expense	(143,498)	112,325	18,387	(99,552)	35,653	5,836
Income (loss) before income tax	**6,585,885**	**650,625**	**106,502**	**(1,659,400)**	**(1,596,811)**	**(261,384)**
Provision (benefit) for income tax	1,609,976	468,005	76,608	150,787	(180,927)	(29,616)
Net Income (loss)	**4,975,909**	**182,620**	**29,894**	**(1,810,187)**	**(1,415,884)**	**(231,768)**
Less: Net income attributable to non-controlling interest	1,045,396	546,071	89,386	120,415	111,398	18,235
Net Income (loss) attributable to Recon Technology, Ltd	**¥3,930,513**	**¥(363,451)**	**$(59,492)**	**¥(1,930,602)**	**¥(1,527,282)**	**$(250,003)**
Comprehensive income (loss)						
Net income (loss)	4,975,909	182,620	29,894	(1,810,187)	(1,415,884)	(231,768)
Foreign currency translation adjustment	(40,833)	(2,854)	(467)	(118,110)	(7,580)	(1,241)
Comprehensive income (loss)	**4,935,076**	**179,766**	**29,427**	**(1,928,297)**	**(1,423,464)**	**(233,009)**
Less: Comprehensive income attributable to non-controlling interest	1,041,313	545,952	89,367	108,604	111,032	18,175
Comprehensive income (loss) attributable to Recon Technology, Ltd	**¥3,893,763**	**¥(366,186)**	**$(59,940)**	**¥(2,036,901)**	**¥(1,534,496)**	**$(251,184)**
Earnings (loss) per common share - basic	¥0.93	¥(0.08)	$(0.01)	¥(0.43)	¥(0.32)	$(0.05)
Earnings (loss) per common share - diluted	¥0.92	¥(0.08)	$(0.01)	¥(0.43)	¥(0.32)	$(0.05)
Weighted - average shares -basic	**4,211,785**	**4,773,803**	**4,757,112**	**4,528,311**	**4,839,004**	**4,839,004**
Weighted - average shares -diluted	**4,269,510**	**4,773,803**	**4,757,112**	**4,528,311**	**4,839,004**	**4,839,004**

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

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RECON TECHNOLOGY, LTD

condensed Consolidated Statements of Cash Flows

(UNAUDITED)

	For the nine months ended		
	2014	**2015**	**2015**
	RMB	**RMB**	**U.S. Dollars**
Cash flows from operating activities:			
Net income	**¥4,975,909**	**¥182,620**	**$ 29,894**
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation	457,439	369,284	60,448
(Gain)/loss from disposal of equipment	67,587	(149,504)	(24,472)
Provision for doubtful accounts	668,610	254,622	41,679
Share based compensation	1,660,144	2,023,761	331,270
Loss from investment	870,627	-	-
Deferred tax benefit	(75,715)	(50,481)	(8,263)
Change in fair value of warrants liability	904,327	(4,068,329)	(665,946)
Restricted shares issued for services	407,972	1,204,903	197,231
Loss from warrants redemption	-	1,913,262	313,182
Changes in operating assets and liabilities:			
Notes receivable	2,578,855	(400,000)	(65,476)
Trade accounts receivable	(17,127,239)	(29,115,292)	(4,765,889)
Trade accounts receivable-related parties	1,487,501	18,681,051	3,057,906
Inventories	(8,823,683)	(4,791,259)	(784,282)
Other receivable, net	688,724	(7,022,533)	(1,149,521)
Other receivables related parties, net	77,697	1,414,433	231,529
Purchase advance, net	(5,325,269)	1,797,628	294,254
Tax recoverable	575,650	-	-
Prepaid expense	(580,144)	(1,565,998)	(256,339)
Prepaid expense - related party, net	-	(132,400)	(21,673)
Trade accounts payable	6,211,777	6,042,777	989,144
Trade accounts payable-related parties	(3,994,718)	-	-
Other payables	(191,528)	(566,064)	(92,659)
Other payables-related parties	(857,338)	419,379	68,648
Deferred revenue	945,091	(1,643,339)	(268,999)
Advances from customers	(195,100)	(405,785)	(66,423)
Accrued payroll and employees' welfare	(1,603,340)	(108,066)	(17,689)
Accrued expenses	(242,617)	185,433	30,354
Taxes payable	1,155,303	(689,453)	(112,857)
Net cash used in operating activities	**(15,283,478)**	**(16,219,350)**	**(2,654,949)**

Cash flows from investing activities:			
Purchase of property and equipment	(258,922)	(514,009)	(84,138)
Proceeds from disposal of equipment	98,000	356,247	58,314
Net cash used in investing activities	**(160,922)**	**(157,762)**	**(25,824)**
Cash flows from financing activities:			
Proceeds from short-term bank loans	18,500,000	-	-
Repayments of short-term bank loans	(12,870,000)	(2,000,000)	(327,380)
Proceeds from short-term borrowings-related parties	-	12,550,000	2,054,312
Repayment of short-term borrowings	(570,375)	-	-
Repayment of short-term borrowings-related parties	(5,303,279)	(7,550,000)	(1,235,861)
Proceeds from sale of common stock, net of issuance costs	12,132,882	-	-
Net cash provided by financing activities	**11,889,228**	**3,000,000**	**491,071**
Effect of exchange rate fluctuation on cash and cash equivalents	**68,669**	**(51,605)**	**(8,449)**
Net decrease in cash and cash equivalents	**(3,486,503)**	**(13,428,717)**	**(2,198,151)**
Cash and cash equivalents at beginning of period	**12,350,392**	**18,094,586**	**2,961,908**
Cash and cash equivalents at end of period	**¥8,863,889**	**¥4,665,869**	**$763,757**
Supplemental cash flow information			
Cash paid during the period for interest	¥952,125	¥808,065	$132,272
Cash paid during the period for taxes	¥700,268	¥616,225	$100,870
Non-cash investing and financing activities			
Cancelation of prior issuance of 40,625 shares of common stock for Advisoring services	-	(1,002,721)	(164,136)

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

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED 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 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. On November 19, 2011, the Company established one wholly owned subsidiary, Recon Investment Ltd. ("Recon-IN") under the laws of HK. Other than the equity interest in Recon-IN, The Company does not own any assets or conduct any operations.

The Company conducts 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:

1. Beijing BHD Petroleum Technology Co., Ltd. ("BHD"), and

2. Nanjing Recon Technology Co., Ltd. ("Nanjing Recon").

On January 29, 2015, the Company increased its authorized shares from 25,000,000 to 100,000,000 ordinary shares.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information pursuant to the rules of the SEC and have been consistently applied. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended June 30, 2014. The results of operations for the interim periods presented may not be indicative of the operating results to be expected for the Company's fiscal year ending June 30, 2015.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. We perform ongoing assessments to determine whether an entity should be considered a VIE and whether an entity previous identified as a VIE continues to be a VIE and whether we continue to be the primary beneficiary.

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 statements as of and for the nine months period ended March 31, 2015 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 ¥6.1091 = US$1.00, the approximate exchange rate prevailing on March 31, 2015. 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.

Estimates and assumptions- 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 estimates include revenue recognition, allowance for doubtful accounts, inventory valuation, warrants liability, 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 US GAAP accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable.

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 borrowings approximate fair value because the interest rate charged approximates the market rate. Long-term other receivables approximate fair value because interest rate approximates the market rate. Long-term investment is carried at fair value, which was value determined using level 1 inputs. (See Note 8.)

The fair value of the warrants liability was determined using the Black-Scholes Model, as Level 2 inputs (See Note 13).

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.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Trade Accounts, Notes and Other Receivables – Accounts and notes receivable are generates from products sold to or services provided to customers. 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. Accounts are written off after extensive efforts at collection. Other receivables arise from transactions with non-trade customers. Notes receivable represents trade accounts receivable due from various customers where the customers' banks have guaranteed the payments. The notes are non-interest bearing and normally paid within three to six months.

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.

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.

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. There were no impairments at June 30, 2014 and March 31, 2015.

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 customers and the customers have signed a completion and acceptance report, risk of loss has transferred to the customers, customers acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in customers' 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.

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.

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Subsidy Income - Grants are given 1) by the government to support local software companies' operation and research and development and 2) by some local government to support development of selected middle and small-sized enterprises. 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 mainly using the Black-Scholes 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 years prior to 2010 are no longer subject to examination by tax authorities.

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

Potentially dilutive ordinary shares consist of ordinary shares issuable upon the conversion of ordinary stock options, restricted shares and warrants (using the treasury stock method). For the nine months ended March 31, 2014, there were 57,725 restricted shares included in the weighted average dilutive shares calculation. The effect from options, restricted shares and warrants would have been anti-dilutive due to the fact that we incurred a net loss during the nine months ended March 31, 2015 and three months ended March 31, 2014 and 2015.

Recently Issued Accounting Pronouncements -

In January 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810) – Amendments to the Consolidation Analysis". The ASU concludes the FASB’s project to rescind the indefinite deferral of the VIE guidance in ASU 2009-17 for reporting entities with variable interests in legal entities that have the attributes of an investment company that meet certain criteria (ASU 2010-103). The ASU also makes changes to the VOE consolidation model. The ASU does not change the general order in which the consolidation models are applied. A reporting entity that holds an economic interest in, or is otherwise involved with, another legal entity (has a “variable interest”) should first determine if the VIE model applies, and if so, whether it holds a controlling financial interest under that model. If the entity being evaluated for consolidation is not a VIE, then the VOE model should be applied to determine whether the entity should be consolidated by the reporting entity. Since consolidation is only assessed for legal entities, the determination of whether there is a legal entity is important. It is often clear when the entity is incorporated, but unincorporated structures can also be legal entities and judgment may be required to make that determination. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. Management is evaluating the significant impact, if any, on the Company’s consolidated financial statements.

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NOTE 3. TRADE ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

Third Party	June 30, 2014 RMB	March 31, 2015 RMB	March 31, 2015 U.S. Dollars
Trade accounts receivable	¥ 48,284,531	¥ 61,237,751	$ 10,024,022
Allowance for doubtful accounts	(4,730,794)	(4,793,288)	(784,615)
Total - third- party, net	¥ 43,553,737	¥ 56,444,463	$ 9,239,407

Third Party – Long-term	June 30, 2014 RMB	March 31, 2015 RMB	March 31, 2015 U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd *.	¥ -	¥ 16,162,072	$ 2,645,573
Allowance for doubtful accounts	-	(1,616,207)	(264,557)
Total - long-term trade accounts receivable, net	¥ -	¥ 14,545,865	$ 2,381,016

The receivable from Yabei Nuoda was recognized primarily from the sale of automation system and services based on written contracts. Based on the repayment agreement signed on August 27, 2014, the outstanding balance will be collected in four years beginning 2016, with each installment of ¥4,015,644.

* One of the Founders, Mr. Yin Shenping, was the legal representative of Beijing Yabei Nuoda Science and Technology Co. Ltd (“Yabei Nuoda”) before December 2013 and Chairman as of September 30, 2014. On October 30, 2014, Mr. Yin resigned from the chairman position and thus Yabei Nuoda is not a related party of the Company after October 30, 2014.

Mr. Yin does not have any equity interest in this company currently.

Related Party	June 30, 2014 RMB	March 31, 2015 RMB	March 31, 2015 U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd. *	¥ 5,441,498	¥ -	$ -

Beijing Langchen Construction Company	726,800	817,821	133,869
Xiamen Huangsheng Hitek Computer Network Co.Ltd.	100,000	980,000	160,417
Xiamen Henda Hitek Computer Network Co. Ltd.	1,211,000	3,063,000	501,383
Total - related-parties, net	¥ 7,479,298	¥ 4,860,821	$ 795,669

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Third Party – Long-term	**June 30, 2014 RMB**	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Beijing Yabei Nuoda Science and Technology Co. Ltd .	¥ 16,062,574	¥ -	$ -
Allowance for doubtful accounts	(1,606,257)	-	-
Total - long-term trade accounts receivable, net	¥ 14,456,317	¥ -	$ -

NOTE 4. OTHER RECEIVABLES, NET

Other receivables consisted of the following:

Third Party Current Portion	**June 30, 2014 RMB**	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Due from ENI (A)	¥ 2,523,145	¥ 3,297,614	$ 539,787
Loans to third parties (B)	8,979,408	14,137,270	2,314,133
Business advance to staff (C)	6,371,923	8,609,900	1,409,357
Deposits for projects	495,961	613,130	100,363
Others	373,622	1,067,050	174,666
Allowance for doubtful accounts	(451,016)	(544,515)	(89,132)
Total	¥ 18,293,043	¥ 27,180,449	$ 4,449,174

Third Party Non-Current Portion	**June 30, 2014 RMB**	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Due from ENI (A)	¥ 5,353,104	¥ 3,394,731	$ 555,684
Total	¥ 5,353,104	¥ 3,394,731	$ 555,684

(A) After ENI ceased to be a VIE of the Company, ENI in January 2012 agreed to repay the loan on a payment schedule, with interest 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, June, September and December of 2012, the Company received RMB 4.8 million. Starting March 2013, installments for each quarter would be ¥1,777,653. The Company received the payments on time in March and June, 2013. On September 30, 2013, ENI proposed to extend the payment period and signed a new contract with the Company. According to the new arrangement, the remaining part of this loan will be repaid over four years with quarterly installments of

¥699,147. The Company has continued to receive the payments under the agreement. The payment due on March 30, 2015 was received on April 08, 2015.

(B) Loans to third parties are mainly used for short-term funding 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.

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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 Party **Name of Related Party**	**June 30, 2014** **RMB**	**March 31, 2015** **RMB**	**March 31, 2015** **U.S. Dollars**
Beijing Yabei Nuoda Science and Technology Co. Ltd. *	¥ 500,000	-	$ -
Beijing Langchen Construction Company	913,780	-	-
Other-business advances	653	-	-
Total	¥ 1,414,433	¥ -	$ -

* Not a related party after October 31, 2014.

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:

Third Party	**June 30, 2014** **RMB**	**March 31, 2015** **RMB**	**March 31, 2015** **U.S. Dollars**
Prepayment for inventory purchase	¥ 27,119,326	¥ 24,319,337	$ 3,980,838
Allowance for doubtful accounts	(1,360,261)	(1,448,940)	(237,178)
Total	¥ 25,759,065	¥ 22,870,397	$ 3,743,660

Below is a summary of purchase advances to related party.

	June 30, 2014	**March 31, 2015**	**March 31, 2015**

Related Party	**RMB**	**RMB**	**U.S. Dollars**
Xiamen Huasheng Hitek Computer Network Co. Ltd. (A)	¥ 394,034	¥ 394,034	$ 64,500
Total	¥ 394,034	¥ 394,034	$ 64,500

The Company entered into a purchase agreement with Xiamen Huasheng Hitek in September, 2014 and planned to offset the purchase advance. At September 30, 2014, remaining amount to be paid was ¥797,585, which was included in accounts payable-related party. In October, 2014, the Company didn't offset the advance payment and paid the whole contract amount in cash.

(A) One of the Founders and a family member collectively own 57% of Xiamen Huasheng Hitek Computer Network Co. Ltd. Current ending balance of the purchase advances to Xiamen Huasheng Hitek is expect to be settled before year end.

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NOTE 6. INVENTORIES

Inventories consisted of the following:

	June 30, 2014 RMB	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Small component parts	¥ 55,262	¥ 55,232	$ 9,041
Purchased goods and raw materials	272,416	636,368	104,167
Work in process	1,665,447	2,457,649	402,293
Finished goods	12,343,477	15,978,612	2,615,543
Total inventories	¥ 14,336,602	¥ 19,127,861	$ 3,131,044

There was no inventory obsolescence reserve at June 30, 2014 and March 31, 2015.

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2014 RMB	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Motor vehicles	¥ 2,314,296	¥ 2,244,148	$ 367,345
Office equipment and fixtures	709,165	793,923	129,957
Total property and equipment	3,023,461	3,038,071	497,302
Less: Accumulated depreciation	(1,701,923)	(1,764,550)	(288,839)
Property and equipment, net	¥ 1,321,538	¥ 1,273,521	$ 208,463

Depreciation expense was ¥156,098 and ¥94,773 ($15,513) for the three months ended March 31, 2014 and 2015, respectively.

Depreciation expense was ¥457,439 and ¥369,284 ($60,448) for the nine months ended March 31, 2014 and 2015, respectively.

NOTE 8. LONG-TERM INVESTMENT

On June 28, 2013, the Company purchased 2,800,000 restricted shares of Avalon Oil and Gas, Inc. ("Avalon") for $0.089 per share, or approximately ¥1.5 million ($250,000). Since the restriction for the shares is for two years, the Company was able to acquire the shares at 50% of the market value. The investment was accounted for using the equity method and no gain or loss from equity investment was recorded for the year ended June 30, 2013 due to immateriality. As of June 30, 2014 and March 31, 2015, Recon owned 24.02% and 23.61 % of Avalon's outstanding shares, respectively. Avalon is an independent US domestic oil and natural gas producer listed on the OTCBB under the ticker symbol AOGN. Avalon is building a portfolio of oil and gas producing properties to generate asset growth. However, the stock is not actively traded and, based on available information and discussion with the management team of Avalon, we believe Avalon's operating loss would not be recovered in the foreseeable future, therefore, the Company considered the investment to be impaired and recorded an investment loss of ¥1,535,250 ($250,000) for the year ended June 30, 2014 to write its investment down to zero.

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NOTE 9. OTHER PAYABLES

Other payables consisted of the following:

Third Party	**June 30, 2014 RMB**	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Consulting services	¥ 777,863	¥ 774,927	$ 126,848
Distributors and employees	973,707	411,607	67,376
Others	13,509	12,481	2,043
Total	¥ 1,765,079	¥ 1,199,015	$ 196,267

Related Party	**June 30, 2014 RMB**	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Due to related parties (1)	¥ 2,560,648	¥ 2,499,347	$ 409,119
Expenses paid by the major shareholders	439,071	974,964	159,592
Due to family member of one owner on behalf on Recon	50,000	-	-
Due to management staff on behalf of Recon	256,305	251,092	41,101
Total	¥ 3,306,024	¥ 3,725,403	$ 609,812

(1) Includes an advance from Xiamen Henda Haitek for RMB 2,499,347 to supplement the Company’s working capital. The advances are payable on demand and non-interest bearing.

NOTE 10. TAXES PAYABLE

Taxes payable consisted of the following:

	June 30, 2014 RMB	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
VAT payable	¥ 3,412,759	¥ 2,768,996	$ 453,258
Enterprise income tax payable	4,134,210	4,084,853	668,651
Other taxes payable	42,877	46,544	7,618

Total taxes payable	¥ 7,589,846	¥ 6,900,393	$ 1,129,527

NOTE 11. SHORT-TERM BANK LOANS

Short-term bank loans consisted of the following:

	June 30, 2014 RMB	March 31, 2015 RMB	March 31, 2015 U.S. Dollars
Industrial and commercial bank, floating interest rate at 5.6%, due on December 24, 2014	¥ 2,000,000	¥ -	-
Industrial and commercial bank, floating interest rate at 6.0%, due on June 24, 2015	8,000,000	8,000,000	1,309,522
Total short-term bank loans	¥ 10,000,000	¥ 8,000,000	$ 1,309,522

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Interest expense was ¥277,445 and ¥162,000 ($26,518) for the three months ended March 31, 2014 and 2015, respectively.

Interest expense was ¥754,202 and ¥400,178 ($65,505) for the nine months ended March 31, 2014 and 2015, respectively.

NOTE 12. SHORT-TERM BORROWINGS DUE TO RELATED PARTIES

Short-term borrowings due to related parties are generally extended upon maturity and consisted of the following:

Short-term borrowings due to related parties:	**June 30, 2014 RMB**	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Short-term borrowing from a Founder, 6.6% annual interest, due on December 25, 2014	¥ 5,007,728	¥ -	-
Short-term borrowing from a Founder, 7.0% annual interest, due on October 22, 2015		6,014,400	984,499
Short-term borrowing from a Founder, 6.0% annual interest, due on October 2, 2015		3,402,658	556,982
Short-term borrowing from a Founder, 6.2% annual interest, due on October 12, 2015		601,250	98,418
Short-term borrowings from Xiamen Huasheng Haitian Computer Network Co. Ltd., no interest, due on November 14, 2015	200,000	200,000	32,738
Total short-term borrowings due to related parties	¥ 5,207,728	¥ 10,218,308	$ 1,627,637

Interest expense for short-term borrowings due to related parties was none and ¥177,109 ($28,991) for the three months ended March 31, 2014 and 2015, respectively.

Interest expense for short-term borrowings due to related parties was ¥1,441 and ¥407,887 ($66,767) for the nine months ended March 31, 2014 and 2015, respectively.

Note 13 –WARRANT LIABILITY

In connection with the stock offering in November 2013, the Company issued warrants to certain institutional investors and placement agent to purchase 218,600 ordinary shares at exercise price of $5.38.

On February 13, 2015, the Company redeemed 163,950 warrants by issuing 204,938 ordinary shares (1.25 shares of ordinary shares to exchange one warrant) to institutional investors. Based on the stock price of $2.11 and fair value of warrants liability on February 23, 2015, the Company recorded a loss on warrant redemption of ¥1,913,262 ($313,182) for the three and nine months ended March 31, 2015.

According to ASC 815-40, if the strike price of the warrants is denominated in a currency other than the Company's functional currency, the warrants are not considered indexed to the entity's own stock. The Company's functional currency is RMB and the strike price of the warrants is denominated in USD, as a result, the warrants are classified as liabilities with all future changes in the fair value of these warrants recognized in earnings until such time as the warrants are exercised or expired.

These common stock purchase warrants do not trade in an active securities market, and as such, their fair value is estimated by using the Black–Scholes Option Pricing Model using the following assumptions:

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	March 31, 2015	June 30, 2014
Annual dividend yield	-	-
Exercised price	5.38	5.38
Underlying stock price at valuation date	1.80	3.86
Expected life (years)	1.67	2.42
Risk-free interest rate	0.56 %	0.88 %
Expected volatility	122 %	220 %

Expected volatility is based on the historical volatility of the Company's common stock. The Company has no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants. The expected dividend yield was based on the Company's current and expected dividend policy.

The following table sets forth by level within the fair value hierarchy the warrants liability that was accounted at fair value on a recurring basis.

	Fair Value Measurement at June 30, 2014			**Carrying Value at June 30, 2014**	**Carrying Value at June 30, 2014**
	Level 1	**Level 2**	**Level 3**	**RMB**	**USD**
Warrants liability	¥ -	¥ 5,021,621	¥ -	¥ 5,021,621	$ 815,834

	Fair Value Measurement at March 31, 2015			**Carrying Value at March 31, 2015**	**Carrying Value at March 31, 2015**
	Level 1	**Level 2**	**Level 3**	**RMB**	**USD**
Warrants liability	¥ -	¥ 199,179	¥ -	¥ 199,179	$ 32,604

The following is a reconciliation of the beginning and ending balance of the warrant liability measured at fair value on a recurring basis for nine months ended March 31, 2015:

	Change of warrants liability	
	RMB	**USD**
Beginning balance - June 30, 2014	¥5,021,621	$815,834
Warrant redemption	(754,113)	(117,284)
Change of warrant liability	(4,068,329)	(665,946)
Ending balance -March 31, 2015	¥199,179	$32,604

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The following is the warrant activities:

Warrants	**Shares**	**Weighted Average Exercise Price Per Share**
Outstanding as of June 30, 2014	388,600	$ 6.18
Warrants redemption	(163,950)	5.38
Outstanding as of March 31, 2015	224,650	$ 6.76

NOTE 14. SHAREHOLDERS' EQUITY

Stock offering – On November 25, 2013, the Company entered into a securities purchase agreement ("Purchase Agreement") with certain institutional investors for the sale of 546,500 ordinary shares in a registered direct offering at the price of $4.81 per ordinary share (amended to $4.30 per ordinary share on November 29, 2013). The net cash proceeds received from the stock offering, after deducting underwriter commission and other associated fees, were ¥12,132,882 (approximately $2.0 million). In addition, warrants to purchase 163,950 ordinary shares in the aggregate were issued to the investors. The warrants will be exercisable immediately as of the date of issuance at an exercise price of $6.01 per ordinary share (amended to $5.38 per ordinary share on November 29, 2013) and expire three years from the date of issuance. On February 13, 2015, the Company redeemed 163,950 warrants by issuing 204,938 ordinary shares (1.25 shares of ordinary shares to exchange one warrant) to institutional investors. The Company also issued warrants to purchase 54,650 ordinary shares to the placement agent ("Placement Agent Warrant"). The Placement Agent Warrants are on substantially the same terms as the warrants issued pursuant to the Purchase Agreement, except that these warrants are not exercisable for a period of six months and will expire three years from the initial exercise date.

In addition to the above warrants issued to the placement agent, the Company granted warrants for 170,000 shares in connection with its IPO offering, and none of these warrants was exercised during this period.

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, 2014 and March 31, 2015, the balance of total statutory reserves was ¥4,148,929 and ¥4,725,803 ($773,568).

NOTE 15. STOCK-BASED COMPENSATION

<u>Stock-Based Awards Plan</u>

2009 Options Plan - The Company granted options to purchase 293,000 ordinary shares under the Stock Incentive 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:

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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.

2012 Options Plan – 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, which was 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 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 ¥10.06 ($1.49) per share.

2015 Options Plan – The Company granted options to purchase 400,000 ordinary shares to its employees and non-employee director on January 31, 2015. The options have an excise price of $1.65, which was equal to the share price of the Company's ordinary shares at January 31, 2015, and will vest over a period of three years, with the one third vesting on January 31, 2016. The options expire ten years after the date of grant, on January 31, 2025.

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 ¥10.13 ($1.65) per share.

The following is a summary of the stock options activity:

Stock Options	Shares	Weighted Average Exercise Price Per Share	
Outstanding as of July 1, 2014	415,600	$	4.37
Granted	400,000		1.65
Forfeited	-		-
Exercised	-		-
Outstanding as of March 31, 2015	815,600	$	3.04

The following is a summary of the status of options outstanding and exercisable at March 31, 2015:

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	4.33	$6.00	193,000	4.33
$2.96	222,600	6.99	$2.96	74,200	6.99
$1.65	400,000	9.85	-	-	-
	815,600				

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During the nine months ending March 31, 2015, the Company granted restricted shares of common stock to consultants and executive officers as follows:

On July 19, 2014, the Company granted 50,000 restricted shares to a non-affiliate as compensation for certain consulting service. The fair value of the restricted shares was $190,000 based on the closing stock price $3.8 at July 18, 2014. On January 29, 2015, 10,000 restricted shares were canceled based on the agreement with the consultant.

On July 19, 2014, the Company decided to cancel 40,625 restricted shares, which was issued to Expert Asia Investment Ltd. on May 8, 2014, as the services were not provided pursuant to the agreement it had with the Company.

On December 13, 2013, the Company granted 95,181 restricted shares to Mr. Yin Shenping and 135,181 restricted shares to Mr. Chen Guangqiang at an aggregate value of ¥4,207,496 ($688,782), based on the stock closing price of $2.99 at December 13, 2013. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date. The first one third was vested on December 13, 2014 and are now non-restricted.

On January 31, 2015, the Company granted 150,000 restricted shares to Mr. Yin Shenping and 150,000 restricted shares to Mr. Chen Guangqiang at an aggregate value of ¥3,038,558($495,000), based on the stock closing price of $1.65 at January 31, 2015. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date.

On February 2, 2015, the Company issued 24,000 restricted shares to Maxim Group LLC ("Maxim") for certain consulting service. The fair value of the restricted shares was $43,440 based on the closing stock price $1.81 at February 2, 2015.

Following is a summary of the non-vested restricted stock grants to executive officers:

Non-vested restricted stock grants   Shares

Non-vested as of June 30, 2014	230,362
Granted	374,000
Non-vested adjustment	40,625
Cancelled	(50,625)
Vested	(116,787)
Non-vested as of March 31, 2015	477,575

The Share-based compensation expense recorded for restricted shares granted was ¥418,553 and ¥1,226,745 ($199,696) for the nine months ended March 31, 2014 and 2015, respectively. Total unrecognized share-based compensation expense for these shares as of March 31, 2015 was approximately ¥5.2 million ($0.9 million), which is expected to be recognized over a weighted average period of approximately 2.32 years.

The Share-based compensation expense recorded for stock options granted were ¥1,241,591 and ¥797,016 ($129,742) for the nine months ended March 31, 2014 and 2015, respectively. The total unrecognized share-based compensation expense for stock options as of March 31, 2015 was approximately ¥5.5 million ($0.9 million), which is expected to be recognized over a weighted average period of approximately 2.58 years.

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On January 28, 2015, the Company signed the "At-The-Market" offering agreement with Maxim Group LLC ("Maxim"). Maxim will serve as the exclusive agent for the Company in connection with the Company's an at-the-market offering program for up to $10,000,000 of its registered common stock.

NOTE 16. 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 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%.

The Company reapplied for high-technology enterprise approval and has passed all relevant reviews. Thus, for the calendar years 2013 and 2014, 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% through November 2015.

Deferred tax assets are comprised of the following:

	June 30, 2014 RMB	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
Allowance for doubtful receivables	¥ 1,209,961	¥ 1,260,442	$ 206,322
Total deferred income tax assets	¥ 1,209,961	¥ 1,260,442	$ 206,322

Deferred tax liability is comprised of the following:

	June 30, 2014	**March 31, 2015**	**March 31, 2015**

	RMB	RMB	U.S. Dollars
Income tax cost due to unpayable accounts	¥ 180,186	¥ 180,186	$ 29,495
Total deferred income tax liability	¥ 180,186	¥ 180,186	$ 29,495

The Company’s tax provision (benefit) is comprised of the following:

	For the three months ended March 31,		
	2014	2015	2015
	RMB	RMB	U.S. Dollars
Current income tax provision (benefit)	¥194,291	¥(158,423)	$(25,932)
Deferred income taxes benefit	(43,504)	(22,504)	(3,684)
Provision (benefit) for income tax	¥150,787	¥(180,927)	$(29,616)

	For the nine months ended March 31,		
	2014	2015	2015
	RMB	RMB	U.S. Dollars
Current income taxes	¥1,685,691	¥518,486	$84,871
Deferred income taxes benefit	(75,715)	(50,481)	(8,263)
Provision for income tax	¥1,609,976	¥468,005	$76,608

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NOTE 17. NON-CONTROLLING INTEREST

Non-controlling interest consisted of the following:

	As of June 30, 2014			
	BHD	Nanjing Recon	Total	Total
	RMB	RMB	RMB	U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥1,851,000	$299,118
Unappropriated retained earnings	3,152,687	3,250,513	6,403,200	869,812
Accumulated other comprehensive loss	(16,868)	(11,853)	(28,721)	(5,265)
Total non-controlling interest	¥4,786,819	¥3,438,660	¥8,225,479	$1,163,665

	As of March 31, 2015			
	BHD	Nanjing Recon	Total	Total
	RMB	RMB	RMB	U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥1,851,000	$302,991
Unappropriated retained earnings	3,414,997	3,534,273	6,949,270	1,137,528
Accumulated other comprehensive loss	(16,987)	(11,853)	(28,840)	(4,720)
Total non-controlling interest	¥5,049,010	¥3,722,420	¥8,771,430	$1,435,799

NOTE 18. CONCENTRATIONS

For the three months ended March 31, 2014 and 2015, our two largest customers, China National Petroleum Corporation (“CNPC”) and China Petroleum & Chemical Corporation Limited (“SINOPEC”), represented 13.80%, and 24.80% and 29.65%, and 6.18% of the Company’s revenue, respectively.

For the nine months ended March 31, 2014 and 2015, our two largest customers, China National Petroleum Corporation ("CNPC") and China Petroleum & Chemical Corporation Limited ("SINOPEC"), represented 46.62%, and 19.64% and 44.89%, and 7.70% of the Company's revenue, respectively.

For the three months ended March 31, 2014, three major suppliers accounted for 66.4% of the company's total purchases. For the three months ended March 31, 2015, one major supplier accounted for 56% of the company's total purchases.

For the nine months ended March 31, 2014, two major suppliers accounted for 33.7% of the company's total purchases. For the nine months ended March 31, 2015, one major supplier accounted for 21% of the company's total purchases.

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NOTE 19. 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 March 31, 2015:

Twelve months ending March 31,	Office lease payment	
	RMB	U.S. Dollars
2015	¥1,145,833	$187,562
2016	70,000	11,458
Total	**¥1,215,833**	$199,020

In January 2015, BHD renewed its lease agreements which amounted to ¥840,000 ($136,841) for one more year.

(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 March 31, 2015, the Company estimated its severance payments of approximately ¥1.6 million ($0.3 million) which has not been reflected in its unaudited condensed consolidated financial statements because the Company has determined that the likelihood to make these payments is remote.

NOTE 20. RELATED PARTY TRANSACTIONS AND BALANCES

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

	For the three months ended March 31,		
	2014	**2015**	**2015**
	RMB	**RMB**	**U.S. Dollars**
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥68,376	¥-	$-
Xiamen Henda Haitian computer network Inc	-	907,918	148,619
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	85,470	752,137	123,116
Revenues from related parties	¥153,846	¥1,660,055	$271,735

	For the nine months ended March 31,		
	2014	**2015**	**2015**
	RMB	**RMB**	**U.S. Dollars**
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥1,426,922	¥-	$-
Xiamen Henda Haitian computer network Inc	683,760	1,676,036	274,352
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	85,470	752,137	123,116
Revenues from related parties	¥2,196,152	¥2,428,173	$397,468

* Not a related party after October 31, 2014, (See Note 3).

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

	For the nine months ended March 31,		
	2013	2014	2014
	RMB	RMB	U.S. Dollars
Xiamen Hengda Hitek Computer Network Co. Ltd.	¥-	¥797,585	$130,557
Purchase from related parties	¥-	¥797,585	$130,557

There was no purchases from related parties for the three months ended March 31, 2014 and 2015.

Leases from related parties - The Company has 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 continue to lease the property for two years at a monthly rent of ¥95,000 with the annual rental expense at approximately ¥1.1 million ($0.2 million). The two-year lease agreements between Nanjing Recon and Mr. Yin and his family member started from July 10, 2014, the one-year lease agreements between BHD and Mr. Chen Guangqiang and his family member started from January 1, 2015 and the annual lease between the Company and Mr. Chen Guangqiang's family member started from July 1, 2014.

Short-term borrowings from related parties - The Company borrowed ¥5,207,728 and ¥10,218,308 ($1,672,637) from the Founders, their family members and senior officers as of June 30, 2014 and March 31, 2015, respectively. For the specific terms and interest rates of the borrowings, please see Note 12.

Expenses paid by the owner on behalf of Recon - One owner of Nanjing Recon, Mr. Yin and the major owner of BHD, Mr. Chen paid certain operating expenses for the Company. As of June 30, 2014 and March 31, 2015, ¥284,370 and ¥974,964 ($159,592) was due to them, respectively.

NOTE 21. Variable Interest Entities

The Company reports its VIEs' portion of consolidated net income and stockholders' equity as non-controlling interests in the condensed consolidated financial statements.

Summary information regarding consolidated VIEs is as follows:

	June 30, 2014 RMB	**March 31, 2015 RMB**	**March 31, 2015 U.S. Dollars**
ASSETS			
Current Assets			
Cash and cash equivalents	¥14,021,653	¥2,863,037	$ 468,651
Trade accounts receivable, net	51,033,035	61,305,284	10,035,076
Purchase advances	24,600,379	23,264,431	3,808,160
Other assets	34,097,774	48,131,388	7,878,638
Total current assets	¥123,752,841	¥135,564,140	$ 22,190,525
Non-current assets	15,758,115	15,802,996	2,586,796
Total Assets	¥139,510,956	¥151,367,136	$ 24,777,321
LIABILITIES			
Trade accounts payable	¥11,413,505	¥17,456,282	$ 2,857,423
Taxes payable	7,589,846	6,900,394	1,129,527
Other liabilities	21,878,699	25,629,857	4,195,357
Total current liabilities	40,882,050	49,986,533	8,182,307
Total Liabilities	¥40,882,050	¥49,986,533	$ 8,182,307

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The financial performance of VIEs reported in the unaudited condensed consolidated statement of operations and comprehensive income (loss) for the three months ended March 31, 2015 includes revenues of ¥20,018890 ($3,276,897), gross profit of ¥6,248,840 ($1,022,874), operating expenses of ¥3,156,785 ($516,735), other expense of ¥142,664($23,353) and a net income of ¥3,130,319($512,403).

The financial performance of VIEs reported in the unaudited condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended March 31, 2015 includes revenues of ¥45,651,862 ($7,472,764), gross profit of ¥15,842,084 ($2,593,194), operating expenses of ¥9,281,759 ($1,519,333), other expense of ¥54,739($8,960) and a net income of ¥6,037,582 ($988,293).

NOTE 22. SUBSEQUENT EVENTS

On April 2, 2015, the Company borrowed ¥1.0 million ($163,690) from its Chief Technology Officer to supplement the Company's working capital. This loan is due on October 12, 2015 with an annual interest rate of 6.16%.

On April 8, 2015, the Company entered into a service agreement with an investor relations firm with a consideration of 40,000 restricted shares for a one-year period of consulting services.

On April 15, 2015, the Company entered into certain warrant exchange agreements with a certain holder (the "Holder") of warrants to purchase 54,650 ordinary shares of the Company (the "Warrants") issued in the Company's November 2013 registered offering for the Holder's underwriting service. The Holder agreed to exchange the Warrants for 68,313 ordinary shares (the "Exchange Shares"), which equal one hundred and twenty five percent (125%) of the shares issuable upon exercise of the Warrants. The Exchange Shares will be issued to the Holder in exchange for the Warrant and without the payment of any other consideration by the Holder. Upon completion of the transaction contemplated in the Exchange Agreement on May 13, 2015, the Warrants have been automatically canceled and terminated. Based on the stock price of $1.94 and fair value of warrants liability on April 15, 2015, the Company recorded a one-time loss on warrant redemption of ¥585,276 ($95,804) on April 15, 2015.

On May 13, 2015, the Company entered into an Equity Distribution Agreement with Maxim Group LLC to create an at-the-market equity program (the "ATM Offering") under which it may sell up to $10,000,000 worth of its ordinary shares (the "Shares") from time to time through Maxim Group LLC, as sales agent. Shares will be issued pursuant to a base prospectus dated August 6, 2013 included in a previously filed and effective Registration Statement on Form S-3. On May 13, 2015, the Company filed a Prospectus Supplement relating to the ATM Offering with the Securities and Exchange Commission.

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