Recon Technology, Ltd
Form 10-Q
November 15, 2012

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 September 30, 2012

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

Commission File Number 001-34409

RECON TECHNOLOGY, LTD

(Exact name of registrant as specified in its charter)

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

1902 Building C, King Long International Mansion

9 Fulin Road

Beijing 100107 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 25,000,000 ordinary shares. As of the date of this report, the Company has issued and outstanding 3,951,811 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 our Domestic Companies. As the company contractually controlling the Domestic Companies, we are the center of strategic management, financial control and human resources allocation.

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

Our VIEs provide the oil and gas industry with all the up-to-date technologies in equipment, production technologies and, 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.

Products and Services

We provide the following three types of integrated products and services for our customers.

Equipment for Oil and Gas Production and Transportation

High-Efficiency Heating Furnaces. 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. 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-up prevention. The utility model reduces desilting volume and prevents sand-up, which makes the deblocking processes easier to realize. The back flushing is sand-stick proof.

Production Packer. 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 the zones of low permeability.

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 environment friendly. It can increase the production of oilfields that are in the middle and later periods.

Automation System and Services

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

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

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

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

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

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

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 only been involved in production. Our management plans to expand our core business, move into new markets, and develop new businesses. Management anticipates great opportunities both in new markets and our existing markets. We 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 Supervisory Control and Data Acquisition (“SCADA”) and related technical support services will address the needs of the oil well automation system market, for which we forecast strong needs in the short term. For the coming year, we will also expand our automation business market in China’s biggest oilfield, the Da Qing oilfield. In addition, through early cooperation with CNPC on Turkmenistan, we have developed our experience in this market.

Although bidding has not yet commenced, we will continue pursuing overseas business projects in the coming second phase construction.

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

Fracturing service. We believe we cooperated well with Zhongyuan Oilfield in fiscal year 2012 and expect to continue growing revenue from fracturing and related stimulation services for fiscal year 2013.

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

Growth Strategy

As a smaller domestic 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 prefer to focus on their exploration and development businesses to earn higher margins and keep their competitive advantage. With regard to private oilfield service companies, 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 the oilfield where we have a geographical advantage. This allows us to avoid conflicts of interest with bigger suppliers of drilling equipment and keep 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.

Industry and Recent 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:

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.

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

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

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:

- 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.

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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, and useful lives of property and equipment.

Consolidation of VIEs

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

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

Revenue Recognition

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

Hardware

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

Services

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

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

Cost of Revenues

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

Fair Values of Financial Instruments

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

Allowance for Doubtful Accounts

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. We believe based on the current economic condition and our history of collections on accounts and notes receivable, our allowance for doubtful accounts was adequate at September 30, 2012. If the allowance is not considered adequate, we would increase it by a charge to earnings, which would increase our net loss and loss per share (or reduce net earnings and earnings per share if we have them).

Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized assets more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our assets change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change by a material amount. An impairment charge would increase our net loss and loss per share. There were no impairments at June 30, 2012 and September 30, 2012.

Results of Operations

Revenue

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	Percentage Change
Hardware	¥ 8,438,964	¥ 3,593,772,	¥ 4,845,192	134.82%
Hardware-related parties	532,051	1,348,817	(816,766)	(60.55%)
Service	83,177	-	83,177	100.00%
Total Revenue	¥ 9,054,192	¥ 4,942,589	¥ 4,111,603	83.19%

<u>Revenues</u>. Our total revenues increased by approximately 83.19%, or ¥4,111,603 ($649,132), from ¥4,942,589 for the three months ended September 30, 2011 to ¥9,054,192 ($1,492,460) for the same period of 2012. The changes in our revenues for the three-month period was due to the following factors:

(1) Sales of furnaces. During this three month period, among the increased amount of ¥4,111,603 ($649,132), ¥3,751,892 ($592,342) of that came from incremental sales of furnaces and related accessories. This was because of increased demands of our clients. As our clients exploited new oil wells or replace old equipment, we expect they will buy new furnaces and accessories. In such situations, they have generally chosen to purchase from long-term suppliers. BHD has a good reputation in this industry and our management believes we can continue to expand new market in the coming periods.

(2) Sales of hardware from related-parties decreased because one entity ceased to be a related party in 2012. In 2011, we received revenues from two related parties. In 2012, we sold to the same two parties, but one was no longer a related party. As a result, revenues from that party was included in 2012 as hardware revenue.

(3) Service business. Service revenue of this quarter consisted mainly of maintenance services, which is provided by our company upon request by customers. Operation of our fracturing service continues to be successful; however, we did not recognize any revenues in this area during this quarter. Historically, our fracturing service revenues tend to occur sporadically but in relatively large amounts when they occur, rather than evenly over the course of a year. During FY2012, Recon BHD signed several fracturing service contracts with an aggregate contract value of RMB 30 million with Sinopec Zhongyuan oilfield. As of June 30, 2012, we completed about half of the contracts and recognized a corresponding percentage of revenues from the contracts but did not recognize any revenues in the three months ended September 30, 2012. We expect revenue of this business will also be earned in the coming year.

Cost and Margin

For the Three Months Ended September 30,

	2012	2011	Increase (Decrease)	Percentage Change
Total Revenues	¥9,054,192	¥4,942,589	¥4,111,603	83.19%
Cost of Revenues	¥6,608,767	¥2,465,443	¥4,143,324	168.06%
Gross Profit	¥2,445,425	¥2,477,146	¥(31,721)	(1.28%)
Margin %	27.01%	50.12%	(23.11%)	——

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

Our cost of revenues increased from ¥2,465,443 in the three months ended September 30, 2011 to ¥6,608,767 ($1,043,380) for the same period of 2012, an increase of ¥4,143,324 ($654,140), or 168.06%. As a percentage of revenues, our cost of revenues increased from 49.88% in 2011 to 72.99% in 2012. This increase was mainly caused by (1) increased costs of furnaces, and (2) subsequent expenses related to prior projects.

Gross Profit. Our gross profit decreased slightly to ¥2,445,425 ($386,080) for the three months ended September 30, 2012 from ¥2,477,146 for the same period in 2011. Our gross profit as a percentage of revenue decreased to 27.01% for the three months ended September 30, 2012 from 50.12% for the same period in 2011. This was mainly because furnaces accounted for most of our revenue, and the furnaces we sold during the three months ended September 30, 2012 carried a lower margin than those sold last year.

Operating Expenses

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	Percentage Change
Selling and distribution expenses	¥ 1,268,798	¥ 832,797	¥ 436,001	52.35%
% of revenue	14.01%	16.85%	(2.84%)	——
General and administrative expenses	3,516,440	4,876,183	(1,359,743)	(27.89%)
% of revenue	38.84%	98.66%	(59.82%)	——
Operating expenses	¥ 4,785,238	¥ 5,708,980	¥ (923,742)	(16.18%)

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 and other expenses incurred in connection with general operations. General and administrative expenses decreased by 27.89%, or ¥1,359,743 ($214,674), from ¥4,876,183 in the three months ended September 30, 2011 to ¥3,516,440 ($555,169) in the same period of 2012. General and administrative expenses were 98.66% of total revenues in 2011 and 38.84% of total revenues in 2012. This percentage increase was primarily attributable to the increase in total revenues, and decrease in expense of research and development as we moved from the more expensive research and development phase into the design phase for our furnaces products..

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 public relations, advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses increased by 52.35%, from ¥832,797 for the three months ended September 30, 2011 to ¥1,268,798 ($200,316) for the same period of 2012. This increase was primarily from the increased revenues and operating activities. Selling expenses were 16.85% of total revenues in the three months ended September 30, 2011 and 14.01% of total revenues in the same period of 2012. Revenues have increased more quickly than selling expenses because (i) some of our selling expenses like transportation associated with product sales are relatively fixed, so we can benefit by selling more expensive products, (ii) we have contained our labor expenses and leveraged existing employees to increase sales. Our management believes the selling and distribution expenses are reasonable and expects selling and distribution expenses as a percentage of revenue is likely to decrease in future periods.

Net Income

	For the Three Months Ended September 30,			
	2012	2011	Increase (Decrease)	Percentage Change
Loss from operations	¥(2,339,813)	¥(3,231,834)	¥892,021	27.60%
Interest and other income (loss)	33,153	(64,847)	98,000	151.12%
Loss before income taxes	(2,306,660)	(3,296,681)	990,021	30.03%
Provision for income tax	(31,624)	(108,515)	76,891	70.86%
Net income attributable to non-controlling interest	(5,882)	-	(5,882)	100.00%
Net loss attributable to ordinary shareholders	¥(2,344,166)	¥(3,405,196)	¥1,061,030	31.16%

Loss from Operations. Loss from operations was ¥2,339,813 ($369,405) for the three months ended September 30, 2012, compared to a loss of ¥3,231,834 for the same period of 2011. This decrease in loss from operations can be attributed primarily to the decreased R&D expenses. In addition, while we had losses as a consolidated entity, one of our VIEs had net income.

Income Tax Expense. Income taxes are provided based upon the liability method of accounting pursuant to US GAAP. Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts. A valuation allowance is recorded against deferred tax assets if it is not likely that the asset will be realized. We have not been subject to any income taxes in the United States or the Cayman Islands. Enterprises doing business in the PRC are generally subject to federal (state) enterprise income tax at a rate of 25%; however, Nanjing Recon and BHD were granted the certification of High Technology Enterprise and are taxed at a rate of 15% for taxable income generated.

Income tax expense for the three months ended September 30, 2011 and 2012 was ¥108,515 and ¥31,624 ($4,993), respectively. This decrease was mainly due to a decrease in taxable at the VIEs level. As noted above, one of our VIEs had net income and thus was required to pay income tax on that income, even though our other VIE and our company as a consolidated entity had net losses.

Net Loss. As a result of the factors described above, net loss was ¥2,338,284 ($369,164) for the quarter ended September 30, 2012, an improvement of ¥1,066,912 ($168,442) from net loss of ¥3,405,196 for the same period of 2011.

Net Loss Available for Common Shareholders. As a result of the factors described above, net loss available for common shareholders was ¥2,344,166 ($370,094) for the three months ended September 30, 2012, an improvement of ¥1,061,030 ($167,513) from net loss available for common shareholders of ¥3,405,196 for same period of 2011.

Adjusted EBITDA

Adjusted EBITDA. We define adjusted EBITDA as net income (loss) adjusted to income tax expense, interest expense, non-cash stock compensation expense, depreciation, amortization and accretion expense and loss resulting from the deconsolidation of a VIE. 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 Three Months Ended September 30,				
	2012 RMB	2011 RMB	Increase (Decrease)	Percentage Change	2012 USD
Reconciliation of Adjusted EBITDA to Net Income (Loss):					
Net loss	¥(2,338,284)	¥(3,405,196)	¥1,066,912	31.33%	$(369,164)
Income tax expense	31,624	108,515	(76,891)	(70.86%)	4,993
Interest expense	329,756	142,911	186,845	130.74%	52,061
Stock compensation expense	454,805	263,364	191,441	72.69%	71,804
Depreciation, amortization and accretion	72,379	88,723	(16,344)	(18.42%)	11,427
Adjusted EBITDA	¥(1,449,720)	¥(2,801,683)	¥1,351,963	48.26%	$(228,879)

Adjusted EBITDA improved by ¥1,351,963 ($213,445), or 48.26%, to a loss of ¥1,449,720 ($228,879) for the three months ended September 30, 2012 compared to a loss of $2,801,683 for the same period in 2011. This was due to improved operation, decreased expense for R&D and higher interest costs. Compared to net income attributable to ordinary shareholders, we believe EBITDA more accurately reflects our operations.

Liquidity and Capital Resources

Cash and Cash Equivalents. Cash and cash equivalents are comprised of cash on hand, demand deposits and highly liquid short-term debt investments with stated maturities of no more than six months. As of September 30, 2012, we had cash and cash equivalents in the amount of ¥2,254,327 ($355,909).

Indebtedness. As of September 30, 2012, except for ¥1,817,883 ($287,004) of short-term borrowings from third parties, ¥920,872 ($145,386) of short-term borrowings from related parties, and ¥23,000,000 ($3,631,197) in commercial loans from two local banks, we did not have any finance leases or purchase commitments, guarantees or other material contingent liabilities.

Holding Company Structure. We are a holding company with no operations of our own. All of our operations are conducted through 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 its accumulated net profit, 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 its after-tax net income (after discharging all cumulated loss), if any, each year for compulsory statutory reserve until the amount of the reserve reaches 50% of our Domestic Companies' registered capital. These funds may be distributed to shareholders at the time of its 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. As of September 30, 2012, we had total assets of ¥147,071,481 ($23,219,370), which includes cash amounting to ¥2,254,327 ($355,909), net accounts receivable from independent parties amounting to ¥57,469,336 ($9,073,151), and net accounts receivable from related parties amounting to ¥19,856,248 ($3,134,867). Working capital amounted to ¥76,661,468 ($12,103,169), and shareholders' equity amounted to ¥77,745,688 ($12,274,343). Our management believes as we will collect substantial amount of our outstanding receivables by December 2012 and next two months of year 2013, our working capital will be sufficient to satisfy our liquidity requirement of current operations for the next 12 months.

Cash from Operating Activities. Net cash provided by operating activities was ¥235,768 ($37,221) for the three months ended September 30, 2012. This was an increase of ¥1,597,804 ($252,258) compared to net cash used in operating activities of ¥1,362,036 for the three months ended September 30, 2012. In more detail:

1) Trade account receivable increased due to business increase, which were mainly increased account receivables from Qinghai oilfield, Zhongyuan oilfield and Northwest oilfield of CNPC ;
2) Trade accounts payable decreased because of some purchase due on suppliers' demand, which were mainly our supplier of furnaces; and
3) Payment of VAT, which caused a decrease in taxes payable.

This year our management has focused on collection of our receivables, including by linking compensation for sales employees more closely with collection of receivables.

Cash from Investing Activities. Net cash used in investing activities was ¥381,406 ($60,216) for the three months ended September 30, 2012, an increase of ¥280,275 ($44,249) from ¥101,131 for the same period of 2011. The increase was used to purchase a motor vehicle.

Cash from Financing Activities. Cash flows used in financing activities amounted to ¥1,143,942 ($180,603) for the three months ended September 30, 2012, compared to cash flows used in financing activities of ¥0 for the three months ended September 30, 2011. During this period, we paid back some related-parties on their demand.

Working Capital. Total working capital as of September 30, 2012 amounted to ¥76,661,468 ($12,103,169), compared to ¥74,161,048 as of June 30, 2012. Total current assets as of September 30, 2012 amounted to ¥136,359,913 ($21,528,248), a slightly decrease of ¥3,712,195 ($586,074) compared to ¥140,072,108 at June 30, 2012. The decrease in total current assets at September 30, 2012 compared to June 30, 2012 was mainly due to use of cash and decrease of trade accounts receivable.

Current liabilities amounted to ¥59,698,445 ($9,425,079) at September 30, 2012, in comparison to ¥65,911,060 at June 30, 2012. This reduction of liabilities was attributable mainly to payment of trade accounts payable and taxes and repayment of short-term borrowings of non-related parties.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of September 30, 2012, our company carried out an evaluation, under the supervision of and with the participation of management, including our Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures. In light of the nature of the adjustments attributable to the restatement of two Forms 10-Q (for the quarters ended December 31, 2010 and March 31, 2011) and the late filing of the annual report on Form 10-K for the year ended June 30, 2011, 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

The Company, with the assistance of an independent internal controls consultant, has developed a specific plan to address our control deficiencies. Since December 31, 2011, the Company has completed the necessary documentation of our internal controls and implemented the following remedial initiatives:

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

There were no other changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affecting our 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 Jining ENI Energy Technology Co., Ltd. (1)
10.12	Translation of Power of Attorney for rights of Chen Guangqiang in Jining ENI Energy Technology Co., Ltd. (1)
10.13	Translation of Power of Attorney for rights of Yin Shenping in Jining ENI Energy Technology Co., Ltd. (1)

10.14	Translation of Power of Attorney for rights of Li Hongqi in Jining ENI Energy Technology Co., Ltd. (1)
10.15	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. (1)
10.16	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. (1)

10.17 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. (1)

10.18 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. (1)

10.19 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. (1)

10.20 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. (1)

10.21 Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Nanjing Recon Technology Co., Ltd. (1)

10.22 Translation of Power of Attorney for rights of Chen Guangqiang in Nanjing Recon Technology Co., Ltd. (1)

10.23 Translation of Power of Attorney for rights of Yin Shenping in Nanjing Recon Technology Co., Ltd. (1)

10.24 Translation of Power of Attorney for rights of Li Hongqi in Nanjing Recon Technology Co., Ltd. (1)

10.25 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)

10.26 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)

10.27 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)

10.28 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)

10.29 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)

10.30 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)

10.33 Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Yin Shenping (1)

10.34 Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Chen Guangqiang (1)

10.35 Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Li Hongqi (1)

10.36 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)

10.37	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]
10.38	Operating Agreement among Recon Technology (Jining) Co. Ltd., Beijing BHD and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi [1]

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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]
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 [4]
101.SCH	XBRL Taxonomy Extension Schema Document [4]
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document [4]
101.LAB	XBRL Taxonomy Extension Label Linkbase Document [4]
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document [4]
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document [4]

(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.
(4) Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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	
November 14, 2012	By:	/s/ Liu Jia Liu Jia Chief Financial Officer (Principal Financial and Accounting Officer)

RECON TECHNOLOGY, LTD

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RECON TECHNOLOGY, LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2012	As of September 30, 2012	As of September 30, 2012
ASSETS	RMB	RMB	U.S. Dollars
Current assets			
Cash and cash equivalents	¥3,533,283	¥2,254,327	$355,909
Trade accounts receivable, net	61,993,942	57,469,336	9,073,151
Trade accounts receivable- related parties, net	20,394,749	19,856,249	3,134,867
Inventories, net	24,281,300	24,097,816	3,804,518
Other receivables, net	8,074,096	10,816,095	1,707,625
Other receivables- related parties	17,729	445,494	70,334
Purchase advances, net	16,250,616	16,855,838	2,661,168
Purchase advances- related parties	1,093,534	993,534	156,857
Tax recoverable	2,790,722	1,572,640	248,286
Prepaid expenses	535,336	923,407	145,786
Deferred tax asset	1,106,801	1,075,177	169,747
Total current assets	140,072,108	136,359,913	21,528,248
Property and equipment, net	1,774,820	2,083,848	328,994
Long-term other receivable	10,302,349	8,627,720	1,362,128
Total Assets	¥152,149,277	¥147,071,481	$23,219,370
LIABILITIES AND EQUITY			
Current liabilities			
Short-term bank loan	¥23,000,000	¥23,000,000	$3,631,197
Trade accounts payable	11,905,560	9,093,488	1,435,663
Trade accounts payable- related parties	5,339,231	7,026,028	1,109,256
Other payables	2,341,826	1,659,640	262,021
Other payable- related parties	1,099,259	923,186	145,751
Deferred revenue	3,291,073	3,391,628	535,464
Advances from customers	936,124	1,286,993	203,188
Advances from customers- related parties	-	600,000	94,727
Accrued payroll and employees' welfare	949,579	1,017,375	160,621
Accrued expenses	476,416	539,742	85,213
Taxes payable	9,681,620	8,421,610	1,329,588
Short-term borrowings	2,767,066	1,817,883	287,004
Short-term borrowings- related parties	4,123,306	920,872	145,386
Total current liabilities	65,911,060	59,698,445	9,425,079
Long-term borrowings-related party	-	3,007,675	474,846
Total Liabilities	65,911,060	62,706,120	9,899,925

Commitments and Contingency

Equity			
Common shares, ($ 0.0185 U.S. dollar par value, 25,000,000 shares authorized; 3,951,811 shares issued and outstanding as of June 30, 2012 and September 30, 2012)	529,979	529,979	83,672
Additional paid-in capital	67,643,791	68,126,955	10,755,755
Appropriated retained earnings	2,378,961	2,378,961	375,586
Unappropriated retained earnings	9,354,535	7,016,251	1,107,713
Accumulated other comprehensive loss	(290,496)	(306,458)	(48,383)
Total controlling shareholders' equity	79,616,770	77,745,688	12,274,343
Non-controlling interest	6,621,447	6,619,673	1,045,102
Total equity	86,238,217	84,365,361	13,319,445
Total Liabilities and Equity	¥152,149,277	¥147,071,481	$23,219,370

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

RECON TECHNOLOGY, LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended September 30,		
	2011	2012	2012
	RMB	RMB	U.S. Dollars
Revenues			
Hardware	¥3,593,772	¥8,438,964	$1,332,329
Service	-	83,177	13,132
Hardware - related parties	1,348,817	532,051	83,999
Total revenues	4,942,589	9,054,192	1,429,460
Cost of revenues	2,465,443	6,608,767	1,043,380
Gross profit	2,477,146	2,445,425	386,080
Selling and distribution expenses	832,797	1,268,798	200,316
General and administrative expenses	4,876,183	3,516,440	555,169
Operating expenses	5,708,980	4,785,238	755,485
Loss from operations	(3,231,834)	(2,339,813)	(369,405)
Other income (expenses)			
Interest income	6,332	1,310	207
Interest expense	(142,911)	(329,756)	(52,061)
Gain from foerign currency exchange	-	266,460	42,068
Other income (expense)	71,732	95,139	15,020
Loss before income taxes	(3,296,681)	(2,306,660)	(364,171)
Provision for income taxes	(108,515)	(31,624)	(4,993)
Net loss	(3,405,196)	(2,338,284)	(369,164)
Less: Net income attributable to non-controlling interest	-	5,882	930
Net loss attributable to Recon Technology, Ltd	¥(3,405,196)	¥(2,344,166)	$(370,094)
Comprehensive Loss			
Net loss	(3,405,196)	(2,338,284)	(369,164)
Foreign currency translation adjustment	7,594	(15,962)	(2,520)
Comprehensive loss	(3,397,602)	(2,354,246)	(371,684)
Comprehensive income attributable to non-controlling interest	759	7,656	1,209

Comprehensive loss attributable to Recon Technology, Ltd	¥(3,398,361)	¥(2,361,902)	$(372,893)
Loss per common share - basic and diluted	¥(0.86)	¥(0.59)	$(0.09)
Weighted - average shares -basic and diluted	3,951,811	3,951,811	3,951,811

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

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RECON TECHNOLOGY, LTD

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended September 30,		
	2011	2012	2012
	RMB	RMB	U.S. Dollars
Cash flows from operating activities:			
Net loss	¥(3,405,196)	¥(2,338,284)	$(369,164)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	88,723	72,379	11,427
Recovery of doubtful accounts	-	(413,622)	(65,302)
Stock based payments	263,364	454,805	71,804
Deferred tax provision	-	31,624	4,993
Changes in operating assets and liabilities:			
Trade accounts receivable	2,499,209	5,011,902	791,270
Trade accounts receivable-related parties	-	538,500	85,017
Notes receivbale	1,276,574	-	-
Other receivable, net	(1,756,733)	(1,139,779)	(179,946)
Other receivables related parties, net	-	(427,764)	(67,535)
Purchase advance, net	(539,485)	(606,488)	(95,751)
Purchase advance-related party, net	-	100,000	15,788
Tax recorvable	-	1,218,082	192,308
Prepaid expense	81,866	(388,071)	(61,268)
Inventories	(1,247,809)	183,484	28,968
Trade accounts payable	1,457,908	(2,812,072)	(443,965)
Trade accounts payable-related parties	-	1,686,797	266,308
Other payables	102,887	(682,186)	(107,702)
Other payables-related parties	-	(176,073)	(27,798)
Deferred income	(504,800)	100,555	15,875
Advances from customers	(77,395)	950,869	150,121
Accrued payroll and employees' welfare	9,389	67,796	10,704
Accrued expenses	105,933	63,324	9,997
Taxes payable	283,529	(1,260,010)	(198,928)
Net cash provided by (used in) operating activities	(1,362,036)	235,768	37,221
Cash flows from investing activities:			
Purchase of property and equipment	(101,131)	(381,406)	(60,216)
Net cash used in investing activities	(101,131)	(381,406)	(60,216)
Cash flows from financing activities:			
Proceeds from borrowings-related parties	-	7,675	1,212

Repayment of short-term borrowings	-	(949,183)	(149,855)
Repayment of short-term borrowings-related parties	-	(202,434)	(31,960)
Net cash used in financing activities	-	(1,143,942)	(180,603)
Effect of exchange rate fluctuation on cash and cash equivalents	11,882	10,624	1,677
Net decrease in cash and cash equivalents	(1,451,285)	(1,278,956)	(201,921)
Cash and cash equivalents at beginning of period	3,485,944	3,533,283	557,830
Cash and cash equivalents at end of period	¥2,034,659	¥2,254,327	$355,909
Supplemental cash flow information			
Cash paid during the period for interest	¥134,637	¥407,215	$64,290
Cash paid during the period for taxes	¥-	¥-	$-

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

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

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

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

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

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

Recon-JN being the primary beneficiary of these Companies.

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

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

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

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

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

On January 21, 2003, ENI was organized under the laws of the PRC. On December 16, 2010 in light of the change of the ownership in ENI, the Company ceased to have the power to direct the activities of ENI which most significantly impact its economic performance as of that date. As a result, ENI ceased to be a VIE of the Company on December 16, 2010. Founders of the Company owned a controlling interest of ENI through December 15, 2010 by holding 80% ownership interest in ENI. However, since December 16, 2010, the Founders have not owned any interest in ENI. Based on ASC Topic 810, ENI was combined and consolidated with the Company from January 1, 2008, the date of the exclusive agreements, through December 15, 2010 when the Company ceased to have control over ENI.

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.

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NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying unaudited condensed consolidated financial statements include the financial statements of the Company, its subsidiaries, and VIEs for which the Company is the primary beneficiary. All inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring entries, which are necessary for a fair presentation of the results for the interim periods presented. 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, 2012. 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, 2013.

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

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

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

Currency Translation - The Company's functional currency is the Chinese Yuan ("RMB") and the accompanying consolidated financial statements have been expressed in Chinese Yuan. The statements as of and for the three months period ended September 30, 2012 have been translated into United States dollars ("U.S. dollars") solely for the convenience of the readers. The translation has been made at the rate of ¥6.3340 = US$1.00, the approximate exchange rate prevailing on September 30, 2012. For the three months period ended September 30, 2012, the average rate was 6.3340. These translated U.S. dollar amounts should not be construed as representing Chinese Yuan amounts or that the Chinese Yuan amounts have been or could be converted into U.S. dollars.

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

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

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

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

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

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

Tax Recoverable – Tax recoverable represented amounts paid for value added tax ("VAT") on purchases in the P.R.C. amounting to RMB 2,790,722 at June 30, 2012 and RMB 1,572,640 ($248,286) at September 30, 2012. These amounts can be used to offset VAT payable on sales made by the Company.

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

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

Long-Lived Assets - The Company applies the ASC Topic 360 “Property, plant and equipment.” ASC Topic 360 requires that long-lived assets, such as property and equipment be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset. There were no impairments at June 30, 2012 and September 30, 2012.

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

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

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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.

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

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

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

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

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

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

NOTE 3. TRADE ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

Third Party	June 30, 2012 RMB	September 30, 2012 RMB	September 30, 2012 U.S. Dollars
Trade accounts receivable	¥66,738,526	¥61,855,624	$9,765,650
Allowance for doubtful accounts	(4,744,584)	(4,386,288)	(692,499)
Total – third-party, net	¥61,993,942	¥57,469,336	$9,073,151

Related Parties	June 30, 2012 RMB	September 30, 2012 RMB	September 30, 2012 U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥21,757,039	¥21,089,539	$3,329,577
Allowance for doubtful accounts	(1,362,290)	(1,233,290)	(194,710)
Total - related parties, net	¥20,394,749	¥19,856,249	$3,134,867

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

NOTE 4. OTHER RECEIVABLES, NET

Other receivables consisted of the following:

Third Party	June 30,2012	September 30, 2012	September 30, 2012
Current Portion	RMB	RMB	U.S. Dollars
Due from ENI (A)	¥5,396,143	¥6,027,758	$951,651
Loans to third-parties (B)	1,485,610	2,763,728	436,332
Business advance to staff (C)	1,139,796	1,670,448	263,727
Deposits for projects	146,903	313,733	49,532
Others	381,404	588,596	92,927
Allowance for doubtful accounts	(475,760)	(548,168)	(86,544)
Total	¥8,074,096	¥10,816,095	$1,707,625

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Third Party	June 30,2012	September 30,2012	September 30,2012
Non-Current Portion	RMB	RMB	U.S. Dollars
Due from ENI	¥10,302,349	¥8,627,720	$1,362,128
Total	¥10,302,349	¥8,627,720	$1,362,128

(A) Due from ENI represents a working capital loan to ENI. The loan balance had been an intercompany balance and was eliminated in the Company's consolidated financial statements before the deconsolidation of ENI. It was reclassified to other receivables after ENI ceased to be a VIE of the Company on December 16, 2010. In January 2012, ENI agreed to repay the loan on a payment schedule, and interest is accruing 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 and September of 2012, the Company received an aggregate of RMB 3.6 million. The payments after FY2013 are RMB 8,627,720.

(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.

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:

	June 30,2012	September 30,2012	September 30,2012
Related Parties	RMB	RMB	U.S. Dollars
Other-travel advances	¥17,729	¥445,494	$ 70,334
Total	¥17,729	¥445,494	$ 70,334

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, 2012 RMB	September 30, 2012 RMB	September 30,2012 U.S. Dollars
Prepayment for inventory purchase	¥17,046,653	¥17,653,141	$2,787,045
Allowance for doubtful accounts	(796,037)	(797,303)	(125,877)
Total	¥16,250,616	¥16,855,838	$2,661,168

Below is a summary of purchase advances to related party.

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Related Party	June 30,2012 RMB	September 30,2012 RMB	September 30,2012 U.S. Dollars
Xiamen Huangsheng Hitek Computer Network Co. Ltd	¥1,093,534	¥993,534	$156,857
Total	¥1,093,534	¥993,534	$156,857

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

NOTE 6. INVENTORIES

Inventories consisted of the following:

	June 30,2012 RMB	September 30,2012 RMB	September 30,2012 U.S. Dollars
Small component parts	¥43,107	¥44,680	$7,054
Purchased goods and raw materials	398,596	-	-
Work in process	1,256,273	2,163,949	341,640
Finished goods	22,583,324	21,889,187	3,455,824
Total inventories	¥24,281,300	¥24,097,816	$3,804,518

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2012 RMB	September 30, 2012 RMB	September 30, 2012 U.S. Dollars
Motor vehicles	¥2,620,560	¥2,992,661	$472,476
Office equipment and fixtures	467,784	477,090	75,321
Total property and equipment	3,088,344	3,469,751	547,797
Less: accumulated depreciation	(1,313,524)	(1,385,903)	(218,803)
Property and equipment, net	¥1,774,820	¥2,083,848	$328,994

Depreciation expense was ¥88,723 and ¥72,379 ($11,427) for the three months ended September 30, 2011 and 2012, respectively.

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NOTE 8. OTHER PAYABLES

Other payables consisted of the following:

	June 30, 2012	September 30, 2012	September 30, 2012
	RMB	RMB	U.S. Dollars
Consulting services	¥1,770,810	¥1,286,191	$203,061
Due to ENI	148,000	148,000	23,366
Due to related party (A)	61,477	61,477	9,706
Expenses paid by third-parties on behalf of Recon	416,165	219,631	34,675
Due to the major shareholders on behalf of Recon	308,316	292,419	46,167
Due to family member of one owner on behalf of Recon	525,000	375,000	59,204
Due to the management staff on behalf of Recon	204,467	194,291	30,674
Others	6,850	5,817	919
Total other payables	¥3,441,085	¥2,582,826	$407,772

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

NOTE 9. TAXES PAYABLE

Taxes payable consisted of the following:

	June 30, 2012	September 30, 2012	September 30, 2012
	RMB	RMB	U.S. Dollars
VAT payable	¥4,704,738	¥3,479,768	$549,379
Business tax payable	430,106	402,383	63,527
Enterprise income tax payable	4,352,802	4,352,904	687,228
Other taxes payable	193,974	186,555	29,454
Total taxes payable	¥9,681,620	¥8,421,610	$1,329,588

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NOTE 10. SHORT-TERM BANK LOANS

Short-term bank loans consisted of the following:

	June 30, 2012	September 30, 2012	September 30, 2012
	RMB	RMB	U.S. Dollars
Beijing Bank, 7.87% annual interest, matures on February 28, 2013, guaranteed by a third party	¥6,000,000	¥6,000,000	$947,269
Beijing Bank, 8.528% annual interest, matures on March 8, 2013	1,500,000	1,500,000	236,817
Beijing Bank, 7.87% annual interest, matures on March 30, 2013	1,500,000	1,500,000	236,817
Beijing Bank, 7.87 % annual interest, matures on May 7, 2013	1,500,000	1,500,000	236,817
Beijing Bank, 7.87 % annual interest, matures on April 5, 2013	500,000	500,000	78,939
CCB bank, 6.435% annual interest, matures on June 13, 2013, secured by accounts receivable pledge of ¥19,131,954	12,000,000	12,000,000	1,894,537
Total short-term bank loan	¥23,000,000	¥23,000,000	$3,631,197

The interest expense for the short-term bank loan was ¥83,221 and ¥474,125 ($74,854) for the three months ended September 30, 2011 and 2012, respectively.

NOTE 11. SHORT-TERM AND LONG-TERM BORROWINGS

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

	June 30, 2012	September 30, 2012	September 30, 2012
Short-term borrowings due to non-related parties:	RMB	RMB	U.S. Dollars
Short-term borrowing, 6% annual interest, matures on November 9, 2012	¥1,078,656	¥1,078,656	$170,296
Short-term borrowing, 6% annual interest, matures on December 10, 2012	239,227	239,227	37,769

Short-term borrowing, no interest, paid in full by August 31, 2012	949,183	-	-
Short-term borrowings, interest at 1.2% per month through April, 2012 and from April 22, 2012 on, free of interest, matures on April 21, 2013	500,000	500,000	78,939
Total short-term borrowings due to non-related parties	¥2,767,066	¥1,817,883	$287,004

Interest expense for short-term borrowings due to non-related parties are ¥39,028 and ¥19,768 ($3,121) for the three months ended September 30, 2011 and 2012, respectively.

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Short-term borrowings due to related parties:	June 30, 2012 RMB	September 30, 2012 RMB	September 30, 2012 U.S. Dollars
Due-on-demand borrowings from Founders, no interest, matures on August 4, 2013	¥46,377	¥46,377	$7,322
Short-term borrowing from a Founder's family member, 6% annual interest, matures on March 20, 2013	272,895	272,895	43,084
Short-term borrowing from a Founder's family member, 6% annual interest, matures on October 21, 2012 (A)	3,000,000	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, matures on March 27, 2013	200,000	200,000	31,576
Short-term borrowings from Xiamen Hengda Haitian Computer Network Co. Ltd., no interest, matures on November 14, 2012	200,000	200,000	31,576
Short-term borrowings from management, 6% annual interest, matures on December 8, 2012	404,034	201,600	31,828
Total short-term borrowings due to related parties	¥4,123,306	¥920,872	$145,386

Long-term borrowings due to related party:	June 30, 2012 RMB	September 30, 2012 RMB	September 30, 2012 U.S. Dollars
Long-term borrowing from a Founder's family member, 6% annual interest, matures on October 21, 2013 (A)	¥ -	¥3,007,675	$474,846
Total long-term borrowings due to related parties	¥ -	¥3,007,675	$474,846

(A) This loan was extended on October 21, 2012 to October 21, 2013.

Interest expense for short-term borrowings due to related parties are ¥20,661and ¥55,117 ($8,702) for the three months ended September 30, 2011 and 2012, respectively.

NOTE 12. SHAREHOLDERS' EQUITY

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, 2012 and September 30, 2012, the balance of total statutory reserves was ¥2,378,961 and ¥2,378,961 ($375,586), respectively.

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

NOTE 13. STOCK-BASED COMPENSATION

Stock-based Payments - 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:

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	%
Forteiture rate****	0	%

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

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

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

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

The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥30.17 ($4.42) per share.

Compensation expense recorded was ¥263,364 and ¥259,599 ($41,003) for the three months ended September 30, 2011 and 2012, respectively.

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

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

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

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

The 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 ($1.59) per share. Compensation expense recorded was ¥0 and ¥195,206 ($30,819) for the three months ended September 30, 2011 and 2012, respectively.

The following is a summary of the stock option activity:

Stock Options	Shares	Weighted Average Exercise Price Per Share
Outstanding as of July 1, 2012	608,000	$ 3.93
Granted	-	-
Forfeited	-	-
Exercised	-	-
Outstanding as of September 30, 2012	608,000	$ 3.93

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

Outstanding Options			Exercisable Options		
Average Exercise Price	Number	Average Remaining Contractual life (Years)	Average Exercise Price	Number	Average Remaining Contractual life (Years)
$6.00	193,000	1.83	$6.00	115,800	1.83
$2.96	415,000	4.50	$2.96	-	4.50

NOTE 14. INCOME TAX

The Company is not subject to any income taxes in the United States or the Cayman Islands and had minimal operations in jurisdictions other than the PRC. BHD and Nanjing Recon are subject to PRC's income taxes as PRC domestic companies. For the calendar years 2011 and 2012, Nanjing Recon is subject to an income tax rate of 15%.

As approved by the domestic tax authority in the PRC, BHD was recognized as a government-certified high technology company on November 25, 2009 and is subject to an income tax rate of 15% for calendar year 2010 and 2011. This qualification certificate will stay effective until the certificate expires in November 2012. The Company has received the preliminary approval from Beijing government to extend this certificate to November 2015 and is waiting for the final approval.

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Deferred tax asset is comprised of the following:

	June 30, 2012	September 30, 2012	September 30, 2012
	RMB	RMB	U.S. Dollars
Allowance for doubtful accounts and other receivable	¥1,106,801	¥1,075,177	$ 169,747
Total deferred tax asset	¥1,106,801	¥1,075,177	$ 169,747

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

	For the three months ended September 30, 2011	For the three months ended September 30, 2012	For the three months ended September 30, 2012
	RMB	RMB	U.S. Dollars
Current income tax	¥ 108,515	¥ -	$ -
Deferred income tax	-	31,624	4,993
Provision (benefit) for income tax	¥ 108,515	¥ 31,624	$ 4,993

NOTE 15. NON-CONTROLLING INTEREST

Non-controlling interest consisted of the following:

As of June 30, 2012

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

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	As of September 30, 2012			
	BHD	Nanjing Recon	Total	Total
	RMB	RMB	RMB	U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥1,851,000	$292,232
Unappropriated retained earnings	2,439,197	2,363,527	4,802,724	758,245
Accumulated other comprehensive loss	(19,542)	(14,509)	(34,051)	(5,375)
Total non-controlling interest	¥4,070,655	¥2,549,018	¥6,619,673	$1,045,102

NOTE 16. CONCENTRATIONS

For the three months ended September 30, 2011 and 2012, the two largest customers, China National Petroleum Corporation ("CNPC") and China Petroleum & Chemical Corporation Limited ("SINOPEC"), represented approximately 63.56% and 56.89% and 9.08% and 13.23% of the Company's revenue, respectively.

For the three months ended September 30, 2012, only one supplier, Hebei Huanghua Xiangtong Technical Co. Ltd, accounted for 30.54% of the company's total purchases. No other suppliers accounted for more than 10% of its purchase

NOTE 17. COMMITMENTS AND CONTINGENCY

(a) Office Leases

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

	Twelve months ended September 30,	
	Office lease payment	
	RMB	U.S. Dollars
2013	¥439,680	$69,416
2014	135,000	21,314
Total	¥574,680	$90,730

(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 September 30, 2012, the Company estimated its severance payments of approximately ¥1,118,850 ($176,642) which has not been reflected in its condensed consolidated financial statements.

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NOTE 18. RELATED PARTY TRANSACTIONS AND BALANCES

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

	For the three months ended September 30,		
	2011	2012	2012
	RMB	RMB	U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥-	¥532,051	$83,999
Beijing Aerda Oil Technology Co. Ltd.	1,348,817	-	-
Revenues from related parties	¥1,348,817	¥532,051	$83,999

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

	For the three months ended September 30,		
	2011	2012	2012
	RMB	RMB	U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥205,128	¥-	$-
Huanghua Xiang Tong Manufacture	1,666,303	2,919,320	460,897
Purchase from related parties	¥1,871,431	¥2,919,320	$460,897

Leases from related parties - The Company entered into various agreements for the lease of office space owned by the Founders and their family members. The terms of the agreement state that the Company will lease the property for one or two years at a monthly rent of ¥84,893 with the annual rental expense at ¥1,018,720 ($160,834).

Short-term borrowings from related parties - The Company borrowed ¥4,123,306 and ¥3,928,547 ($620,232) from the Founders, their family members and senior officers as of June 30, 2012 and September 30, 2012, respectively. For the specific terms and interest rates of the borrowings, please see Note 10.

Trade accounts payable to related parties - The Company owed ¥6,726,681 ($1,061,996) to one related party. As of September 30, 2012, BHD held a 6.8% equity interest of this company.

The Company owed ¥299,347 ($47,260) to another related party as of September 30, 2012. One of the Founders and his family member collectively own 57% of this company.

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NOTE 19. Variable Interest Entities

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

Summary information regarding consolidated VIEs is as follows:

	June 30, 2012	September 30, 2012	September 30, 2012
	RMB	RMB	U.S. Dollars
ASSETS			
Current Assets			
Cash and cash equivalents	¥2,182,179	¥1,337,724	$211,197
Trade accounts receivable, net	82,388,691	77,325,585	12,208,018
Purchase advances, net	17,319,150	17,824,372	2,814,078
Other assets	31,322,790	32,148,501	5,075,545
Total Current Assets	¥133,212,810	¥128,636,181	$20,308,838
			-
Non-current assets	1,768,588	2,078,197	328,102
Total Assets	¥134,981,398	¥130,714,379	$20,636,940
LIABILITIES			
Trade accounts payable	¥17,244,791	¥16,119,516	$2,544,919
Taxes payable	9,681,620	8,421,610	1,329,588
Other liabilities	35,613,109	35,065,639	5,536,097
Total current liabilities	62,539,521	59,606,765	9,410,604
Total Liabilities	¥62,539,521	¥59,606,765	$9,410,604

The financial performance of VIEs reported in the condensed consolidated statement of operations and comprehensive income (loss) for the three months ended September 30, 2012 includes revenues of ¥9,054,193 ($1,429,460), operating expenses of ¥3,887,357 ($613,729), other expenses of ¥1,799 ($284) and a net loss of ¥927,265($146,395).