Recon Technology, Ltd
Form 10-Q
January 31, 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, 2011

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

For the transition period from ______ to ______.

Commission File Number 001-34409

RECON TECHNOLOGY, LTD

(Exact name of registrant as specified in its charter)

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

1902 Building C, King Long International Mansion

9 Fulin Road, Beijing 100107

People's Republic of China

(Address of principal executive offices and zip code)

+86 (10) 8494-5799

(Registrant's telephone number, including area code)

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 £ 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

FORM 10-Q

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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 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 contractually controlled affiliates ("variable interest entities" or "VIEs"), Beijing BHD Petroleum Technology Co. Ltd. ("BHD") and Nanjing Recon Technology Co., Ltd. ("Nanjing Recon," and, together with BHD, the "Domestic Companies"). We are the center of strategic management, financial control and human resources allocation for the Domestic Companies. Jining ENI Energy Technology Co., Ltd. ("ENI") was previously one of our contractually controlled affiliates until December 16, 2010, when we ceased to have the power to direct its activities following a change of ownership. As a result of such change, ENI ceased to be our VIE starting December 16, 2010.

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

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. For the three months ended September 30, 2011, 100% of our revenue came from the sales of hardware. For the same period in 2010, hardware sales and services constituted 79.97% and 20.03%, respectively, of our revenues. We did not recognize any revenues from software sales during the three months ended September 30, 2010 and 2011.

Our VIEs provide the oil and gas industry with 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.

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

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

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. Our priority is the development of our well, pipeline and oilfield SCADA engineering project contracting service, oilfield video surveillance and control system, and reforming technical support service. According to conservative estimates, the potential market for our wireless indicator and remote monitoring system (SCADA) is approximately ¥5 billion.

Market Demand for Gathering and Transferring Equipment. (1) Furnace. We estimate total market demand in China for furnaces like ours at about 2,000 units per year, of which 500 are expected to come from new wells and 1,500 are expected to come from reconstruction of old wells. The potential market is estimated at ¥800 million (approximately $121 million) based on an average price of ¥400,000 (approximately $60,498) per furnace. (2) Oil/water separator. We estimate the total market demand in China at about 800 units per year, of which 300 are expected to come from new wells and 500 are expected to come from reconstruction of old wells. The potential market is about ¥400 million (approximately $60 million) based on an average price of ¥500,000 (approximately $75,622). (3) Burner. We estimate total market demand in China at about 5,000 units per year, of which 1,000 are expected to come from new wells and 4,000 are expected to come from reconstruction of old wells. The potential market is about ¥300 million (approximately $45 million) based on an average unit price of ¥60,000 (approximately $9,075).

New Business. Along with the opening of the oilfield service market to private companies, we have established our own service team equipped with specialized equipment and experienced staff. We expect the new business to start generating revenues during the quarter ended December 31, 2011.

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

Oilfield drilling and production equipment and engineering technique services are applied in the process of oil and gas extraction. Therefore, the exploration and exploitation activities of petroleum companies directly influences demand for oilfield technical services and corresponding equipment. The number of new oil and gas wells each year is a key indicator of the market and reflects the prosperity of the oilfield service industry. China is the world's second-largest petroleum producing country, with nearly 30,000 wells drilled and annual drill depths of 49,000,000 meters. In the long run, factors affecting the development of petroleum companies include prices of oil and gas, and China's national energy strategy. In the short to medium term, petroleum companies plan their development activities according to the level of demand.

Thus, the level of demand for oil and gas in the short- to medium-term affects the number of oil and gas wells. Meanwhile, well prospecting is done to ensure the supply of oil and gas in the medium to long term. At present, China is in shortage of oil and gas. The difference between supply and demand is growing. For the three state-owned petroleum companies, the top priority is to ensure the nation supply and to promote stable and increased oilfield production. The capital expenditures are determined by the national energy strategy to a large extent. Under such circumstances, despite the adverse domestic and international market conditions influencing the Chinese oil market in 2010 and 2011, the investment by petroleum companies to upstream prospecting and development continues to increase. Advanced oilfield drill equipment and technique services are in greater demand, as petroleum companies make efforts to promote effectiveness and reduce costs.

Recently, China's dependence on imported oil exceeded 50%, and an increasingly serious "gas shortage" also put stress on China's energy supply. The government has decided to invest more in the construction of gas storage and long-distance natural gas transportation pipeline. Our management believes our current product lines and experience in pipeline transportation and monitoring and development of automation products could help us grow rapidly and develop to be a leader in this segment of the oilfield service industry.

Factors Affecting Our Results of Operations — Generally

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.

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.

Software

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

Services

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

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

Cost of Revenues

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

Fair Values of Financial Instruments

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

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. Our allowance for trade accounts receivable to unrelated third parties was ¥2,854,583 and ¥2,522,576 ($394,041) on June 30, 2011 and September 30, 2011, respectively.

Property and Equipment

We record property and equipment at cost. We depreciate property and equipment on a straight-line basis over their estimated useful lives using the following annual rates:

Items	Useful life
Motor Vehicles	5-10 years
Office Equipment	2-5 years
Leasehold Improvements	5 years

We expense maintenance and repair expenditures as they do not improve or extend an asset's productive life. These estimates are reasonably likely to change in the future since they are based upon matters that are highly uncertain such as general economic conditions, potential changes in technology and estimated cash flows from the use of these assets.

Depreciation expense was ¥98,597 and ¥88,723 ($13,859) for the three months ended September 30, 2010 and 2011, respectively.

	June 30, 2011 RMB	September 30, 2011 RMB	September 30, 2011 U.S. Dollars
Motor vehicles	¥1,838,720	¥1,711,860	$267,403
Office equipment and fixtures	409,356	451,587	70,541
Leasehold improvement	—	—	—
Total property and equipment	2,248,076	2,163,447	337,944
Less: Accumulated depreciation	(1,115,651)	(1,037,460)	(162,058)
Fixed assets disposal	—	18,847	2,944
Property and equipment, net	¥1,132,425	¥1,144,834	$178,830

Valuation of Long-Lived Assets

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

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Results of Operations

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

Revenue

	For the Three Months Ended September 30,				Change attributable to:	
	2011	2010	Increase (Decrease)	Percentage Change	Deconsolidation of ENI	Operations
Hardware	¥3,593,772,	¥17,433,499	¥(13,839,727)	(79.39 %)	¥(8,595,799)	¥(5,243,928)
Hardware-related parties	1,348,817	4,365,812	(3,016,995)	(69.11 %)	(4,365,812)	1,348,817
Total Revenue	¥4,924,589	¥21,799,311	¥(16,856,722)	(77.33 %)	¥(12,961,611)	¥(3,895,111)

<u>Revenues</u>. Our total revenues decreased by approximately 77.33%, or ¥16,856,722 ($2,633,122), from ¥21,799,311 for the three months ended September 30, 2010 to ¥4,924,589 ($772,062) for the same period of 2011. For our sales of hardware, specifically, transportation equipment decreased by 34.94%, automation business by 68.07%, and accessories to zero, respectively. The decrease in our revenues for the three-month period was due to the following factors:

(1) The decrease of hardware sales was mainly caused by the deconsolidation of ENI, which amounted to ¥12,961,611 ($2,024,682). In light of the ownership change of ENI on December 16, 2010, the Company's Audit Committee concluded that ENI is no longer a VIE and the Company should not include ENI's operations in the Company's operating results starting December 16, 2010. Our management believe even though ENI's not being a VIE caused short-term loss for us, it will not determine our long-term business development.

(2) The decrease of automation business and transportation business, which amounted to ¥3,895,111 ($608,440), was mainly caused by delays in certain projects and reflects the seasonality of our business. We typically receive a significant percentage of our revenues in the second and third fiscal quarters, after our clients (many of which are state-owned enterprises) receive their financial allocations to purchase products and services such as ours.

We did not have revenues from software or service for the three months ended September 30, 2011. We do, however, continue to be engaged in these businesses and expect to generate revenues from software and service during the remaining quarters of 2012.

We believe the worldwide economic crisis made companies, including our clients, more cautious in their finance and encouraged those companies to seek ways to reduce costs and maximize output by investing in technological solutions that would enable them to improve revenues and reduce expenses. Because our solutions are designed to help oil companies operate more efficiently, our management is optimistic about our opportunities to target our solutions to our customers’ focus on efficiency, profitability and safety.

Specifically, the Chinese government has attached great importance to the safety problems that exist in the Chinese energy industry by implementing numerous new projects and initiatives designed to increase safety and security in the Chinese energy industry, such as implementing digital oilfield construction to improve safety, production efficiency and oil recovery ratios in oilfields. This government-led modernization project is designed to eliminate hidden security dangers and develop key projects for saving energy and materials. As a result of the new policies, the Chinese government has increased spending to replace equipment with potential safety problems. Our management has considered these factors carefully and will focus on related automation and service businesses. Additionally, as we have provided services to CNPC and Sinopec, they have chosen to continue to use our solutions. During the three months ended September 30, 2011, substantially all of our revenues were generated through our business engagements with these companies’ operating subsidiaries. This long-term cooperation made it possible for us to improve our service quality, products’ popularity and adaptability for a very limited number of customers. Further, this long-term cooperation improves our ability to collect receivables on time.

Cost and Margin

	For the Three Months Ended September 30,					
	2011	2010	Increase (Decrease)	Percentage Change	Change attributable to: Deconsolidation of ENI	Operations
Total Revenue	¥4,942,589	¥21,799,311	¥(16,856,722)	(77.33 %)	¥ (12,961,611)	¥(3,895,111)
Cost of Revenue	2,465,443	14,081,493	(11,616,050)	(82.49 %)	(9,106,598)	(2,509,452)
Gross Profit	¥2,477,146	¥7,717,818	¥(5,240,672)	(67.90 %)	¥ (3,855,013)	¥(1,385,659)
Margin %	50.12 %	35.40 %	14.71 %			

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

Our cost of revenues decreased from ¥14,081,493 in the three months ended September 30, 2010 to ¥2,465,443 ($386,945) for the same period of 2011, a decrease of ¥11,616,050 ($1,814,497), or 82.49%. As a percentage of revenues, our cost of revenues decreased from 64.60% in 2010 to 49.88% in 2011. Our focus on solutions with comparatively higher margins, such as our software and service solutions, allowed our cost of revenues to decrease as a percentage of revenues. We expect this trend will continue, provided we are able to continue to grow our higher-margin solution revenues.

Gross Profit. Our gross profit decreased to ¥2,477,146 ($386,945) for the three months ended September 30, 2011 from ¥7,717,818 for the same period in 2010, a decrease of ¥5,240,672 ($818,624), or approximately 67.90%. Our gross profit as a percentage of revenue increased to 50.12% for the three months ended September 30, 2011 from 35.40% for the same period in 2010. This increase was caused mainly by the deconsolidation of ENI's trading business because ENI's trading business had a lower gross profit margin than the remainder of our company.

Operating Expenses

For the Three Months Ended September 30,					
2011	2010	Increase (Decrease)	Percentage Change	Change attributable to: Deconsolidation of ENI	Operations
¥832,797	¥1,803,156	¥(970,359)	(53.81 %)	¥(665,733)	¥(304,626)

Selling and distribution expenses							
% of revenue	16.85 %	8.27 %	8.58 %	—			
General and administrative expenses	4,876,183	4,221,814	654,369	15.50	%	(1,451,051)	2,105,420
% of revenue	98.66 %	19.37 %	79.29 %	—			
Operating expenses	¥5,708,980	¥6,024,970	¥(315,990)	(5.24	%)	¥(2,116,784)	¥1,800,794

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 increased by 15.50%, or ¥654,369 ($102,216), from ¥4,221,814 in the three months ended September 30, 2010 to ¥4,876,183 ($761,689) in the same period of 2011. General and administrative expenses were 19.37% of total revenues in 2010 and 98.66% of total revenues in 2011. This percentage increase was primarily attributable to the decrease in total revenues, which caused a relatively moderate increase in absolute value to reflect a much larger increase as a percentage of revenues. More specifically,

(i) General and administrative expenses decreased by ¥1,451,051 ($226,663) because of the deconsolidation of ENI; and

(ii) General and administrative expenses for operations increased by ¥2,105,420 ($328,879), which was mainly caused by increased expenses for research and development activities and increased expenses for audit and attorney fees.

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 decreased by 53.81%, from ¥1,803,156 for three months ended September 30, 2010 to ¥832,797 ($130,088) for the same period of 2011. This decrease resulted primarily from the deconsolidation of ENI. Selling expenses were 8.27% of total revenues in the three months ended September 30, 2010 and 16.85% of total revenues in the same period of 2011. This increase was mainly caused by the decrease in total revenues. As we continued to solidify our business relationships with current clients and develop new customers, we required extensive marketing efforts and incurred additional costs. At present, we are expanding our business in Sichuan and Qinghai Provinces. In order to successfully increase the scope of our client base, we established new local offices in different regions across China. We expect that our selling expenses, as well as its percentage as against total revenues, will increase correspondingly.

Net Income

	For the Three Months Ended September 30,			
	2011	2010	Increase (Decrease)	Percentage Change
Income (loss) from operations	¥(3,231,834)	¥1,692,848	¥(4,924,682)	(290.91%)
Subsidy income	—	451,520	(451,520)	(100.00%)
Interest and other income (loss)	(64,847)	(154,451)	(89,604)	(80.00%)
Income (loss) before income tax and non-controlling interest	(3,296,681)	1,989,917	(5,286,598)	(265.67%)
Provision for income tax	(108,515)	(805,826)	697,311	(86.53%)
Net income (loss)	(3,405,196)	1,184,091	(4,589,287)	(378.41%)
Net income attributable to non-controlling interest	—	(340,330)	340,330	(100.00%)
Net income attributable to ordinary shareholders	¥(3,405,196)	¥843,761	¥(4,248,957)	(490.71%)

Income (loss) from Operations. Loss from operations was ¥3,231,834 ($504,832) for the three months ended September 30, 2011, compared to an income of ¥1,692,848 for the same period of 2010. This decrease in income from operations can be attributed primarily to the decrease in sales volume to CNPC and Sinopec and increased R&D expenses.

Subsidy Income. We received grants from the local government. For the three months ended September 30, 2010, we received ¥451,520 subsidy income. These grants were given by the government to support local software companies' operations and research and development. Grants related to research and development projects are recognized as subsidy income in the combined and consolidated statements of operations when related expenses are recorded.

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. The applicable tax rate for each of our subsidiaries changed in the past few years because of their qualifications and different local policies. For the three months ended September 30, 2011, Nanjing Recon and BHD were taxed at a rate of 15%. Our effective EIT burden will vary, depending on which of our domestic companies generate greater revenue.

Income tax expense for the three months ended September 30, 2010 and 2011 was ¥805,826 and ¥108,515 ($16,951), respectively. This decrease was mainly due to a decrease in taxable operating income.

Income (loss). As a result of the factors described above, net loss was ¥3,405,196 ($531,913) for the quarter ended September 30, 2011, a decrease of ¥4,589,287 ($716,874) from net income of ¥1,184,091 for the same period of 2010.

Net Income Available for Common Shareholders. As a result of the factors described above, net loss available for common shareholders was ¥3,405,196 ($531,913) for the three months ended September 30, 2011, a decrease of ¥4,248,957 ($663,713) from ¥843,761 for same period of 2010.

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,				
	2011 RMB	2010 RMB	Increase (Decrease)	Percentage Change	2011 USD
Reconciliation of Adjusted EBITDA to Net Income (Loss):					
Net income (loss)	¥(3,405,196)	¥1,184,091	¥(4,589,287)	(387.58%)	$(531,913)
Income tax expense	108,515	805,826	(697,311)	(86.53%)	16,951
Interest expense	142,911	113,439	29,472	25.98%	22,323
Stock compensation expense	263,364	438,706	(175,342)	(39.97%)	41,139
Depreciation, amortization and accretion	88,723	98,597	(9,874)	(10.01%)	13,859
Adjusted EBITDA	¥(2,801,683)	¥2,640,659	¥(5,249,458)	(198.79%)	$(437,641)

Adjusted EBITDA decreased by ¥5,249,458, or 198.79%, to a loss of ¥2,801,683 ($437,641) for the three months ended September 30, 2011 compared to the same period in 2010. This was due to loss of deconsolidation, the delays in projects caused by construction delays at some of our customers, and the extra expenses associated with our audit and increased expense for R&D. These factors caused revenues during the period to decrease and our administrative expenses to increase. 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, 2011, we had cash and cash equivalents in the amount of ¥2,034,659 ($317,826).

Indebtedness. As of September 30, 2011, except for ¥2,654,685 ($414,678) of short-term borrowings and a ¥5,000,000 ($781,030) commercial loan from a local bank, we did not have any finance leases or hire 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. When we were incorporated in the Cayman Islands in August 2007, 5,000,000 ordinary shares were authorized, and 50,000 ordinary shares were issued to Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi, at a par value of $0.01 each. On December 10, 2007, our company sold 2,632 ordinary shares to an investor for an aggregate consideration of $200,000. On June 8, 2009, in connection with our initial public offering, the Board of Directors approved a 42.7840667-to-1 split of ordinary shares and redeemable ordinary shares to shareholders of record as of such date. After giving effect to the share split of our ordinary shares and the completion of our initial public offering, we had 3,951,811 ordinary shares outstanding.

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

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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 operating operations. As of September 30, 2011 we had total assets of ¥113,131,847 ($17,671,880), which included cash amounting to ¥2,034,659 ($317,826), and net accounts receivable amounting to ¥45,813,668 ($7,156,373). Working capital amounted to ¥70,742,102 ($11,050,345) and shareholders' equity amounted to ¥78,509,587 ($12,263,673).

Cash from Operating Activities. Net cash used in operating activities was ¥1,362,036 ($212,758) for the three months ended September 30, 2011, an increase of ¥1,342,723 from ¥19,313 for the same period of 2010. The increase in the use of cash in the current period was due to a net loss of ¥3,405,196 for the three months ended September 30, 2011 compared to a net income of ¥1,184,091 for the same period of 2010.

Cash from Investing Activities. Net cash used in investing activities was ¥101,131 ($15,797) for the three months ended September 30, 2011, an increase of ¥94,492 for the same period in 2010. The purchase of property and equipment was ¥6,639 for the same period of 2010.

Cash from Financing Activities. Cash flows provided by financing activities amounted to ¥0 ($0) for the three months ended September 30, 2011 and cash flows used in financing activities amounted to ¥2,278,285 for the three months ended September 30, 2010. The decrease in the use of cash was due to the fact that we did not pay off any short-term borrowings during this quarter.

Working Capital. As of September 30, 2011, our working capital was ¥70,742,102. Total current asset as of September 30, 2011 amounted to ¥99,015,532 ($15,466,826), a decrease of ¥1,764,907 ($275,689) from June 30, 2011. The decrease was attributable mainly to the deconsolidation of ENI.

The current ratio decreased from 3.75 at June 30, 2011 to 3.50 at September 30, 2011.

Recently Enacted Accounting Standards

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of September 30, 2011, 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 the light of the non reliance on and restatement of the quarterly reports for the quarters ended December 31, 2010 and March 30, 2011 originally filed on February 19, 2011 and May 16, 2011, respectively. 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

In the light of the non reliance on and restatement of the quarterly reports for the quarters ended December 31, 2010 and March 30, 2011 originally filed on February 19, 2011 and May 16, 2011, respectively. The Company has conducted a preliminary assessment of its accounting organization and the manner in which the accounting and financial reporting functions are being supported. Based on such assessment, the Company has developed a preliminary plan to strengthen its accounting and financial reporting functions as well as the related disclosure controls and procedures. Such plan will require the hiring of additional resources and the deployment of other corporate resources for the accounting department in relation to the financial reporting process. Such additional resources will include the establishment of a work force dedicated to the task of correcting past financial irregularities and maintaining correct financial reporting on an on-going basis. To strengthen the Company’s internal control over financial reporting, the Company has engaged outside consultants that are skilled in SEC reporting and Section 404 compliance to assist in the implementation of the following remedial actions (which are targeted to be completed by June 2012):

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

• Identification and documentation of key controls by business process;

• Enhancement of existing disclosures policies and procedures;

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

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

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

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) The section entitled “Use of Proceeds” from our registration statement filed on August 12, 2008, as amended (the “Registration Statement”) is incorporated herein by reference. The effective date of the Registration Statement is July 22, 2009, and the Commission file number assigned to the Registration Statement is 333-152964. The Registration Statement registers the offering of up to 1,700,000 ordinary shares (subject to amendment in accordance with the Securities Act of 1933 and the rules and regulations promulgated thereunder) (the Offering”). As of September 30, 2011, the Company has spent proceeds from the Offering in accordance with the following chart:

Description of Use	Proposed Expenditure Amount	Actual Expenditures through September 30, 2011
Product Research and development	$ 1,273,024	$ 857,692
Acquisition and business development in oil-field industry in China and globally	4,073,675	4,200,000
Sarbanes-Oxley compliance	424,341	0
Fixed asset purchases	442,341	0
Employee training	169,736	6,639
General working capital	2,121,706	1,610,464
Due from former VIE	—	2,600,000
Total	$ 8,504,823	$ 9,274,795

(c) None

Item 3. Defaults upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed herewith:

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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)

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)

(1) Incorporated by reference to the Company’s Registration Statement on Form S-1, Registration No. 333-152964.

(2) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q/A, filed on January 31, 2012.
(3) Filed herewith.

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SIGNATURES

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

	RECON TECHNOLOGY, LTD	
January 31, 2012	By:	/s/ Liu Jia Liu Jia Chief Financial Officer (Principal Financial and Accounting Officer)

Signature-1

RECON TECHNOLOGY, LTD

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Unaudited Condensed Consolidated Balance Sheets as of September 30, 2011 and June 30, 2011	F-2
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended September 30, 2011 and September 30, 2010	F-3
Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2011 and September 30, 2010	F-4
Notes to Unaudited Condensed Consolidated Financial Statements	F-5

RECON TECHNOLOGY, LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011 RMB	September 30, 2011 RMB	September 30, 2011 U.S. Dollars
ASSETS			
Current Assets			
Cash and cash equivalents	¥3,485,944	¥2,034,659	$317,826
Trade accounts receivable, net	22,329,705	23,687,652	3,700,155
Trade accounts receivable - related parties, net	25,983,172	22,126,016	3,456,218
Notes receivable	1,276,574	-	-
Other receivables, net	6,128,794	7,385,527	1,153,664
Other receivables- related parties	4,383,000	4,883,000	762,754
Purchase advances	12,152,896	12,469,181	1,947,762
Purchase advances- related parties	989,828	1,213,028	189,482
Prepaid expenses	1,016,299	934,433	145,964
Inventories	22,576,094	23,823,903	3,721,438
Deferred tax assets	458,133	458,133	71,563
Total Current Assets	100,780,439	99,015,532	15,466,826
Other receivables	12,971,481	12,971,481	2,026,224
Property and equipment, net	1,132,425	1,144,834	178,830
Total Assets	**¥114,884,345**	**¥113,131,847**	**$17,671,880**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade accounts payable	¥6,320,488	¥7,778,396	$1,215,033
Other payables	2,022,401	2,125,288	331,983
Deferred income	2,420,497	1,915,697	299,243
Advances from customers	782,945	705,551	110,211
Accrued payroll and employees' welfare	157,824	167,213	26,120
Accrued expenses	345,015	450,948	70,441
Taxes payable	7,192,123	7,475,652	1,167,742
Short-term bank loan	5,000,000	5,000,000	781,030
Short-term borrowings	1,743,286	1,743,286	272,312
Short-term borrowings - related parties	911,399	911,399	142,366
Total Current Liabilities	**¥26,895,978**	**¥28,273,430**	**$4,416,481**
Commitments and Contingencies			
Equity			
	¥529,979	¥529,979	$82,786

Ordinary shares (U.S. $0.0185 par value, 25,000,000 shares authorized; 3,951,811 shares issued and outstanding)			
Additional paid-in capital	65,877,686	66,145,333	10,332,302
Appropriated retained earnings	2,058,429	2,058,429	321,539
Unappropriated retained earnings	13,502,105	10,096,156	1,577,080
Accumulated other comprehensive loss	(295,803)	(320,310)	(50,034)
Total Controlling Shareholders' Equity	81,672,396	78,509,587	12,263,673
Non-controlling Interest	6,315,971	6,348,830	991,726
Total Equity	87,988,367	84,858,417	13,255,399
Total Liabilities and Equity	**¥114,884,345**	**¥113,131,847**	$17,671,880

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 OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended September 30,		
	2010	2011	2011
	RMB	RMB	U.S. Dollars
Revenues			
Hardware - third-party	¥17,433,499	¥3,593,772	$561,369
Hardware - related-parties	4,365,812	1,348,817	210,693
Total revenues	21,799,311	4,942,589	772,062
Cost of revenues	14,081,493	2,465,443	385,117
Gross profit	7,717,818	2,477,146	386,945
Selling and distribution expenses	1,803,156	832,797	130,088
General and administrative expenses	4,221,814	4,876,183	761,689
Operating expenses	6,024,970	5,708,980	891,777
Income (loss) from operations	1,692,848	(3,231,834)	(504,832)
Subsidy income	451,520	-	-
Interest income	1,386	6,332	989
Interest expense	(113,439)	(142,911)	(22,324)
Other (expenses) income	(42,398)	71,732	11,205
Net income (loss) before income tax	1,989,917	(3,296,681)	(514,962)
Provision for income tax	(805,826)	(108,515)	(16,951)
Net income (loss)	1,184,091	(3,405,196)	(531,913)
Net (income) attributable to non-controlling interest	(340,330)	-	-
Net income (loss) attributable to ordinary shareholders	**¥843,761**	**¥(3,405,196)**	**$(531,913)**
Net income (loss)	**¥1,184,091**	**¥(3,405,196)**	**$(531,913)**
Other comprehensive income (loss)			
Foreign currency translation adjustment	(108,034)	7,594	1,186
Comprehensive income (loss)	1,076,057	(3,397,602)	(530,727)
Comprehensive (income) attributable to non-controlling interests	(329,527)	(759)	(119)
Comprehensive income (loss) attributable to ordinary shareholders	**¥746,530**	**¥(3,398,361)**	**$(530,846)**
Earnings (loss) per ordinary share - basic	¥0.21	¥(0.86)	$(0.13)
Earnings (loss) per ordinary share - diluted	¥0.21	¥(0.86)	$(0.13)
Weighted average shares - basic	3,951,811	3,951,811	3,951,811

Weighted average shares - 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,		
	2010	2011	2011
	RMB	RMB	**U.S. Dollars**
Cash flows from operating activities:			
Net income (loss)	**¥1,184,091**	**¥(3,405,196)**	$(531,913)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	98,597	88,723	13,859
Stock based payment	438,706	263,364	41,139
Deferred tax provision	42,554	-	-
Changes in operating assets and liabilities:			
Trade accounts receivable, net	6,976,623	2,499,209	390,392
Notes receivable	-	1,276,574	199,409
Other receivables, net	(1,384,829)	(1,756,733)	(274,412)
Purchase advances, net	8,386,615	(539,485)	(84,271)
Prepaid expenses	(70,066)	81,866	12,788
Inventories	(11,824,042)	(1,247,809)	(194,915)
Trade accounts payable	(1,655,775)	1,457,908	227,734
Other payables	254,950	102,887	16,072
Deferred income	(558,553)	(504,800)	(78,853)
Advances from customers	(272,447)	(77,395)	(12,090)
Accrued payroll and employees' welfare	(94,644)	9,389	1,467
Accrued expenses	37,191	105,933	16,547
Taxes payable	(1,578,284)	283,529	44,289
Net cash used in operating activities	(19,313)	(1,362,036)	**(212,758)**
Cash flows from investing activities:			
Purchases of property and equipment	(6,639)	(101,131)	(15,797)
Net cash used in investing activities	(6,639)	(101,131)	**(15,797)**
Cash flows from financing activities:			
Proceeds from short-term notes payable	920,000	-	-
Repayments of short-term borrowings	(1,479,155)	-	-
Repayments of short-term borrowings - related party	(1,719,130)	-	-
Net cash provided by (used in) financing activities	(2,278,285)	-	-
Effect of exchange rate fluctuation on cash and cash equivalents	(30,857)	11,882	1,855
Net decrease in cash and cash equivalents	**¥(2,335,094)**	**¥(1,451,285)**	**$(226,700)**

Cash and cash equivalents at beginning of period	**12,142,957**	**3,485,944**	**544,526**
Cash and cash equivalents at end of period	**¥9,807,863**	**¥2,034,659**	**$317,826**
Supplemental cash flow information			
Cash paid during the period for interest	¥18,000	¥134,637	$21,031
Cash paid during the period for taxes	¥1,625,822	¥-	$-

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

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Organization – Recon Technology, Ltd (the "Company") was incorporated under the laws of the Cayman Islands on August 21, 2007 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 ("VIEs"), 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.

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 September 30, 2011, Messers. Yin Shenping and Chen Guangqiang held 79.99% 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 September30, 2011, 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 minority interest are the remaining amount (10%).

On January 21, 2003, ENI was organized under the laws of the PRC. On December 16, 2010 in light of the change of the ownership in ENI, the Company ceased to have the power to direct the activities of ENI which most significantly impact its economic performance as of that date. As a result, ENI ceased to be a VIE of the Company on December 16, 2010. Founders of the Company owned a controlling interest of ENI through December 15, 2010 by holding 80% ownership interest in ENI. However, from December 16, 2010 to September30, 2011,the Founders did not own any interest in ENI. Based on ASC Topic 810, ENI was combined and consolidated with the Company from January 1, 2008, the date of the exclusive agreements, through December 15, 2010 when the Company ceased to have control over ENI. From January 1, 2008 through December 15, 2010, the Company allocated profits and losses 90% and 100%, respectively, based upon the control agreements. Profits allocated to the minority interest were the remaining amount (10%).

Nature of Operations – The Company engaged in (1) providing equipment, tools and other hardware related to oilfield production and management, including simple installations in connection with some projects, and (2) 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.

Oil Field Water Finding/Blocking Technology - The Company developed this technology designed to find and block water content in petroleum.

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 above-ground activities of the petroleum extraction industry. This system can help to manage the oil extraction process in real-time to reduce the costs associated with extraction.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited 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, 2011. The results of operations for the interim periods presented are not indicative of the operating results to be expected for the Company's fiscal year ending June 30, 2012.

***Reclassifications* -** Certain amounts from the prior period have been reclassified to conform to the current period presentation.

***Principles of Consolidation* -** The unaudited condensed consolidated financial statements include the financial statements 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 unaudited condensed consolidated financial statements have been expressed in Chinese Yuan. The unaudited condensed consolidated financial statements as of and for the year ended September 30, 2011 have been translated into United States dollars ("U.S. dollars") solely for the convenience of the readers and are unaudited. The translation has been made at the rate of ¥6.4018= US$1.00, the approximate exchange rate prevailing on September 30, 2011. 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 unaudited condensed 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, and useful lives of property and equipment. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

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 when the final amount is paid to the suppliers and the inventory is delivered.

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

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

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 360-10 “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 future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset.

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

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

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 are not recognized until completion of the contracts and receipt of acceptance statements.

Services:

The Company provides services to improve software functions and system requirements on separated fixed-price contracts. Revenue is recognized on the completed contract method when 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 - Cost of revenues include wages, materials, handling charges, the cost of purchased equipment and pipes and other expenses associated with manufactured products and service provided to customers.

Subsidy Income - The Company received grants of ¥451,520 and ¥0 ($0) from the local government for the three months ended September 30, 2010 and 2011, respectively. Grants given by the government were to support local software companies' operation and research and development. Grants related to research and development projects are recognized as subsidy income in the consolidated statements of operations when received. Grants in form of value-added-tax refund for software products are recognized when received.

Advertising Expenses - Advertising expenses, which generally represent the cost of promotions to create or stimulate a positive image of the Company or a desire to buy the Company's products and services, are expensed as incurred. The Company incurred no advertising expenses in each of the periods presented.

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.

Earnings 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.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. TRADE ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following at June 30, 2011 and September 30, 2011:

Third Party	June 30, 2011 RMB	September 30, 2011 RMB	September 30, 2011 U.S. Dollars
Trade accounts receivable	¥25,184,288	¥26,210,228	$4,094,196
Allowance for doubtful accounts	(2,854,583)	(2,522,576)	(394,041)
Trade accounts receivable, net	¥22,329,705	¥23,687,652	$3,700,155

Related Party	June 30, 2011 RMB	September 30, 2011 RMB	September 30, 2011 U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥23,077,900	¥21,857,900	$3,414,337
Beijing Aerda Oil Technology Co. Ltd.	3,090,000	268,116	41,881
Total	26,167,900	22,126,016	3,456,218
Allowance for doubtful accounts	(184,728)	-	-
Trade accounts receivables- related parties, net	¥25,983,172	¥22,126,016	$3,456,218

One of the Founders is a 14% minority owner of Beijing Yabei Nuoda Science and Technology Co. Ltd. (translated name, known herein as “Yabei Nuoda”). Such ownership in Yabei Nuoda was subsequently reduced to zero on November 29, 2011. The receivable from Yabei Nuoda was generated primarily from the sale of automation system and services based on written contracts.

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

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RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. OTHER RECEIVABLES, NET

Other receivables consisted of the following at June 30, 2011 and September 30, 2011:

Third Party	June 30, 2011	September 30, 2011	September 30, 2011
Current Portion	RMB	RMB	U.S. Dollars
Due from ENI	¥4,800,000	¥4,800,000	$749,789
Loans to third-parties	255,730	1,656,912	258,820
Business advance to staff	1,141,279	746,529	116,612
Deposits for projects	99,600	357,119	55,784
Others	31,820	51,333	8,019
Allowance for doubtful accounts	(199,635)	(226,366)	(35,360)
Total	¥6,128,794	¥7,385,527	$1,153,664

	June 30, 2011	September 30, 2011	September 30, 2011
Non-Current Portion	RMB	RMB	U.S. Dollars
Due from ENI	¥12,971,481	¥12,971,481	$2,026,224
Total	¥12,971,481	¥12,971,481	$2,026,224

Due from ENI represents a working capital loan to ENI. The loan balance had been in intercompany balances and was eliminated in the Company's unaudited condensed consolidated financial statements before the deconsolidation of ENI. It was reclassified to other receivables after ENI ceased to be a VIE of the Company on December 16, 2010. In January 2012, ENI agreed to repay the loan on a determined payment schedule, and interest is accrued during the period at an annual rate of 4%. In accordance with the payment schedule, the principal plus accrued interest will be repaid over three years on a quarterly basis. The first four payments are set at RMB 1.2 million each. Accordingly, the current and non-current portion of the amount due from ENI is determined to be RMB 4.8 million and RMB 12,971,481, respectively.

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

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: They represent loans to related parties for working capital advances to entities under common control. Such advances are due-on-demand and non-interest bearing.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Below is a summary of advances to related parties as of June 30, 2011 and September 30, 2011.

Related Party	June 30, 2011 RMB	September 30, 2011 RMB	September 30, 2011 U.S. Dollars
Beijing Aerda Oil Technology Co. Ltd.	¥3,692,600	¥4,192,600	$654,910
Beijing Yabei Nuoda Science and Technology Co. Ltd.	620,000	620,000	96,847
Xiamen Huasheng Haitian Computer Network Co. Ltd.	70,400	70,400	10,997
Total	¥4,383,000	¥4,883,000	$762,754

One of the Founders is a 14% minority owner of Beijing Yabei Nuoda Science and Technology Co. Ltd. (translated name, known herein as “Yabei Nuoda”). Such ownership in Yabei Nuoda was subsequently reduced to zero on November 29, 2011.

One of the owners of BHD, a VIE of the Company, is a 2.06% minority owner of Beijing Aerda Oil Technology Co. Ltd (translated name).

One of the Founders and his family member collectively owns 57% of Xiamen Huasheng Haitian Computer Co. Ltd (translated name).

NOTE 5. PURCHASE ADVANCES

The Company purchased products and services from third-party and related parties during the normal course of business.

Purchase advances consisted of the following at June 30, 2011 and September 30, 2011:

Third Party	June 30, 2011 RMB	September 30, 2011 RMB	September 30, 2011 U.S. Dollars
Prepayment for inventory purchase	¥12,558,296	¥13,122,210	$2,049,769
Allowance for doubtful accounts	(405,400)	(653,029)	(102,007)
Purchase advances	¥12,152,896	¥12,469,181	$1,947,762

Below is a summary of purchase advances to related parties.

June 30, 2011	September 30, 2011