Recon Technology, Ltd
Form 10-Q
May 13, 2013

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2013

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

Commission File Number 001-34409

RECON TECHNOLOGY, LTD

(Exact name of registrant as specified in its charter)

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

1902 Building C, King Long International Mansion

9 Fulin Road

Beijing 100107 China

(Address of principal executive offices and zip code)

+86 (10) 8494-5799

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of ordinary shares, as of the latest practicable date. The Company is authorized to issue 25,000,000 ordinary shares. As of the date of this report, the Company has issued and outstanding 3,951,811 shares.

RECON TECHNOLOGY, LTD

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Special Note Regarding Forward-Looking Statements

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

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

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

Part I Financial Information

Item 1. Financial Statements.

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

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

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

Overview

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

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

Our VIEs provide the oil and gas industry with equipment, production technologies, automation and services.

1.

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.

2. 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 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.

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Oil and Gas Production Improvement Techniques

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

Production Packer. At varying withdrawal points, the production packer separates different oil layers and protects the oil pipe from sand and permeation, promoting the recovery ratio.

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

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

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

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

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

Automation System and Services

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

RTU Monitor. This monitor collects gas well pressure data.

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

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

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

Recon Supervisory Control and Data Acquisition System (“SCADA”). Recon SCADA is a system used in the oil well, measurement station, and the union station for supervision and data collection.

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

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

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

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

Factors Affecting Our Business

Business Outlook

The oilfield engineering and technical service industry is generally divided into five sections: (1) exploration, (2) drilling and completion, (3) testing and logging, (4) production, and (5) oilfield construction. Thus far our businesses have only been involved in production. Our management plans to expand our core business, move into new markets, and develop new businesses. Management anticipates great opportunities both in new markets and our existing markets. We believe that many existing wells and oilfields need to improve or renew their equipment and service to maintain production and techniques and services like ours will be needed as new oil and gas fields are developed. In the next three years, we will focus on:

Measuring Equipment and Service. “Digital oil field” and the management of oil companies are highly regarded. We believe our oilfield SCADA and related technical support services will address the needs of the oil well automation system market, for which we forecast strong needs in the short term. For the coming year, we will also expand our automation business market in China’s biggest oilfield, the Da Qing oilfield. In addition, through early cooperation with CNPC in Turkmenistan, we have developed our experience in this market. Although bidding has not yet commenced, we will continue pursuing overseas business projects in the coming second phase construction, which we expect to occur in 2013.

Gathering and Transferring Equipment. With more new wells developed, our management anticipates that demand for our furnaces and burners will grow in calendar year 2013 compared to calendar year 2012, especially in the Xinjiang Oilfield and Zhongyuan oilfield.

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

New product line. Design and development of down-hole tools has always been an important technique for oilfield companies. Recently, this market has developed very rapidly. After a year test project for our customers, we have developed experience with this technology and our customers have accepted our products and services. We have begun to generate revenue from this business in fiscal year 2013.

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 have historically focused on their exploration and development businesses to earn higher margins and keep their competitive advantage. With regard to private oilfield service companies, we estimate that approximately 90% specialize in the manufacture of drilling and production equipment. Thus, the market for technical support and project service is still in its early stage. Our management insists on providing high quality products and service in the oilfield where we have a geographical advantage. This will allow us to avoid conflicts of interest with bigger suppliers of drilling equipment and protect our position within the market segment. Our mission is to increase the automation and safety levels of industrial petroleum production in China and improve the underdeveloped working process and management mode by using advanced technologies. At the same time, we are always looking to improve our business and to increase our earning capability.

Industry and Recent Developments

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

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

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

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

Factors Affecting Our Results of Operations

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

1. the amount of spending by our customers, primarily those in the oil and gas industry;
2. growing demand from large corporations for improved management and software designed to achieve such corporate performance;
3. the procurement processes of our customers, especially those in the oil and gas industry;
4. competition and related pricing pressure from other oilfield service solution providers, especially those targeting the Chinese oil and gas industry;
5. the ongoing development of the oilfield service market in China; and
6. 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:

1. 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;
2. our ability to increase our revenues from both old and new customers in the oil and gas industry in China;
3. our ability to effectively manage our operating costs and expenses; and
4. our ability to effectively implement any targeted acquisitions and/or strategic alliances so as to provide efficient access to markets and industries in the oil and gas industry in China.

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Critical Accounting Policies and Estimates

Estimates and Assumptions

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

Consolidation of VIEs

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

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

Revenue Recognition

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

Hardware

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

Services

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

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

Fair Values of Financial Instruments

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

Receivables

Trade receivables are carried at original invoiced amount less a provision for any potential uncollectible amounts. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of doubtful accounts requires the use of judgment and estimates of management. Our management must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We believe based on the current economic condition and our history of collections on accounts and notes receivable, our allowance for doubtful accounts was adequate at March 31, 2013.

Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized assets more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our assets change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change by a material amount. There were no impairments at June 30, 2012 and March 31, 2013.

Results of Operations

Our year-to-date revenues for fiscal 2013 are significantly greater than fiscal 2012. Due to timing issues, our revenue for the three months ended March 31, 2013 have decreased compared to the corresponding period in 2012. As we continue to complete our ongoing projects, we expect our full-year operating results for fiscal 2013 will be favorable.

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Revenues

	For the Three Months Ended March 31,				
			Increase /	Percentage	
	2012	2013	(Decrease)	Change	
Hardware -non-related parties	¥6,997,916	¥4,161,583	¥(2,836,333)	(40.5	)%
Service	1,990,000	62,678	(1,927,322)	(96.9	)%
Hardware - related parties	4,031,206	1,004,030	(3,027,176)	(75.1	)%
Software - related parties	-	2,273,504	2,273,504	100	%
Total revenues	¥13,019,122	¥7,501,795	¥(5,517,327)	(42.4	)%

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Revenues. Our total revenues decreased by 42.4%, or approximately ¥5.5 million ($0.9 million), from ¥13 million for the three months ended March 31, 2012 to ¥7.5 million ($1.2 million) for the same period of 2013. The changes in our revenues for the three-month period were due to the following factors:

1. Hardware business. During the three-month ended March 31, 2013, the decrease in hardware revenue was mainly caused by lower sales of automation equipment. These lower sales were a result of having a project in Sichuan province in 2012 that was not matched by a similar project in 2013.

2. Service business. Service revenue this quarter consisted mainly of minor maintenance services, which were provided upon request by customers, while service revenue of the comparing quarter mainly consisted of fracturing service. Our fracturing business is still proceeding, and we also obtained new contracts of this business. Since all projects were still under going, no revenue from fracturing service was recorded this quarter. Besides, we successfully achieved access certification of Sinopec HuaBei Oilfield branch, which means we can provide our fracturing services in this branch of Sinopec, part of our solid customer base.

3. Hardware – related parties. Sales of hardware to related parties decreased because we used to develop business on Ji Dong oilfield through some local agent companies. During the quarter ended March 31, 2013, we achieved business entrance certification in the name of Recon and could cooperate with oilfield customers directly, so revenue from related-parties decreased as these revenues shifted from related-party revenues to third-party revenues.

4. Software business- related parties. Software sales to related parties increased because we recorded software sales to related parties separately. We record revenue as software sales if (1) the customer signs a separate software contract with us, or (2) the customer accepts VAT invoices for software. The amount of our revenues categorized as software sales may fluctuate because certain software may be sold with hardware at times as a whole product and not separately priced. During this period, the software was not sold with hardware and was, therefore, categorized as software.

Cost and Margin

	For the Three Months Ended March 31,			
	2012	2013	Increase / (Decrease)	Percentage Change
Total revenues	¥13,019,122	¥7,501,795	¥(5,517,327)	(42.4)%
Cost of revenues	6,786,052	3,346,344	(3,439,708)	(50.7)%
Gross profit	¥6,233,070	¥4,155,451	¥(2,077,619)	(33.3)%
Margin %	47.9%	55.4%	7.5%	

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

Our cost of revenues decreased from approximately ¥6.8 million in the three months ended March 31, 2012 to approximately ¥3.3 million ($0.5 million) for the same period of 2013, a decrease of approximately ¥3.4 million ($0.5 million), or 50.7%. As a percentage of revenues, our cost of revenues decreased from 52.1% in 2012 to 44.6% in 2013. This decrease was mainly caused by lower business costs associated with software revenues, which occupied a larger proportion of our revenues in 2013.

Gross profit. Our gross profit decreased to approximately ¥4.2 million ($0.7 million) for the three months ended March 31, 2013 from approximately ¥6.2 million for the same period in 2012. Our gross profit as a percentage of revenue increased to 55.4% for the three months ended March 31, 2013 from 47.9% for the same period in 2012. This was mainly because software sales had higher gross margin, which accounted for an increased percentage of our total revenue during the three months ended March 31, 2013 compared to the same period last year.

Operating Expenses

	For the Three Months Ended March 31,			
	2012	2013	Increase / (Decrease)	Percentage Change
Selling and distribution expenses	¥1,273,126	¥1,790,199	¥517,073	40.6 %
% of revenue	9.8 %	23.9 %	14.1 %	
General and administrative expenses	4,193,772	3,966,782	(226,990)	(5.4)%
% of revenue	32.2 %	52.9 %	20.7 %	
Research and development expenses	662,743	552,645	(110,098)	(16.6)%
% of revenue	5.1 %	7.4 %	2.3 %	
Operating expenses	¥6,129,641	¥6,309,626	¥179,985	2.9 %

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing organization, sales commissions, costs of our marketing programs including advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses increased by 40.6%, from approximately ¥1.3 million for the three months ended March 31, 2012 to approximately ¥1.8 million ($0.3 million) for the same period of 2013. This increase was primarily from the increased business traveling expenses, bidding fees and maintenance expenses. Selling expenses were 9.8% of total revenues in the three months ended March 31, 2012 and 23.9% of total revenues in the same period of 2013.

General and administrative expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, option expenses and other expenses incurred in connection with general operations. General and administrative expenses decreased by 5.4%, or ¥226,990 ($36,136), from approximately ¥4.2 million in the three months ended March 31, 2012 to approximately ¥4 million ($0.6 million) in the same period of 2013. General and administrative expenses were 32.2% of total revenues in 2012 and 52.9% of total revenues in 2013. The decrease in general and administrative expenses was mainly due to decrease in allowance for doubtful accounts, consulting and audit fees and offset by increase in salary expense, entertainment and conference expense and share-based compensation. This percentage increase was primarily due to the decrease in total revenues.

Research and development ("R&D") expenses. Research and development expenses consist primarily of salaries and related expenditures of our research and development projects. Research and development expenses decreased by 16.6%, from approximately ¥0.7 million for the three months ended March 31, 2012 to approximately ¥0.6 million ($0.1 million) for the same period of 2013. This decrease was primarily because we were not heavily engaged in testing our fracturing projects and our furnace research is in a design improvement period.

Net Income

	For the Three Months Ended March 31,			
	2012	2013	Increase / (Decrease)	Percentage Change
Income (loss) from operations	¥103,429	¥(2,154,175)	¥(2,257,604)	(2,182.8)%
Interest and other income	288,560	752,933	464,373	160.9%
Income (loss) before income tax	391,989	(1,401,242)	(1,793,231)	(457.5)%
Provision (benefit) for income tax	132,883	(152,382)	(285,265)	(214.7)%
Net income (loss)	259,106	(1,248,860)	(1,507,966)	(582.0)%
Less: Net income attributable to non-controlling interest	140,410	(2,127)	(142,537)	(101.5)%
Net income (loss) attributable to ordinary shareholders	¥118,696	¥(1,246,733)	¥(1,365,429)	(1,150.4)%

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Income (loss) from operations. Loss from operations was approximately ¥2.2 million ($0.3 million) for the three months ended March 31, 2013, compared to income of ¥0.1 million for the same period of 2012. This decrease in income from operations can be attributed primarily to the decreased revenue and increases in percentage of revenue for selling and distribution expenses as well as general and administrative expenses.

Interest and other income. Interest and other income was approximately ¥0.8 million ($0.1 million) for the three months ended March 31, 2013, compared to interest and other income of ¥0.3 million for the same period of 2012. The approximately ¥0.5 million ($0.1 million) increase in interest and other income was primarily due to increase in subsidy income and interest income, offset by increase in interest expenses and other expenses.

Provision for income tax. We provide for income tax 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.

Provision for income tax for the three months ended March 31, 2012 was ¥132,883 and benefit for income tax was ¥152,382 ($24,258) for the three months ended March 31, 213. This decrease of provision for income tax was mainly due to the loss from operations for the three months ended March 31, 2013.

Net income (loss). As a result of the factors described above, net loss was approximately ¥1.2 million ($0.2 million) for the three months ended March 31, 2013, a decrease of approximately ¥1.5 million ($0.2 million) from net income of ¥0.3 million for the same period of 2012.

Net income (loss) attributable to ordinary shareholders. As a result of the factors described above, net loss attributable to ordinary shareholders was approximately ¥1.2 million ($0.2 million) for the three months ended March 31, 2013, a decrease of approximately ¥1.4 million ($0.2 million) from net income attributable to ordinary shareholders of ¥0.1 million for same period of 2012.

Nine Months Ended March 31, 2013 Compared to Nine Months Ended March 31, 2012

Revenues

	For the Nine Months Ended March 31,				
	2012	2013	Increase / (Decrease)	Percentage Change	
Hardware -non-related parties	¥30,162,440	¥30,766,627	¥604,187	2.0	%
Service	5,547,005	20,567,637	15,020,632	270.8	%
Software	3,952,991	5,192,712	1,239,721	31.4	%
Software - related parties	-	2,273,504	2,273,504	100	%
Hardware - related parties	9,143,503	3,736,107	(5,407,396)	(59.1	)%
Total revenues	¥48,805,939	¥62,536,587	¥13,730,648	28.1	%

Revenues. Our total revenues increased by 28.1%, or approximately ¥13.7 million ($2.2 million), from approximately ¥48.8 million for the nine months ended March 31, 2012 to ¥62.5 million ($10 million) for the same period of 2013. The changes in our revenues for the nine-month period were due to the following factors:

1. Hardware business. During the 2013 nine-month period, increased hardware revenues came mainly from sales of furnaces and specialized oilfield accessories as a result of a recently developed new client.

2. Hardware – related parties. Sales of hardware to related-parties decreased because 1) one entity ceased to be a related party in 2013. In 2012, we generated revenues from two related parties. In 2012, we sold to the same two parties, but one was no longer a related party as a result, revenues from that party were included in hardware non-related parties revenue for nine months ended March 31, 2012 and 2013; and 2) some revenue was allocated to software revenue-related parties.

3. Service business. Most of our increased revenue of this nine-month period was from our fracturing service business. During the nine months ended March 31, 2013, Recon BHD signed several fracturing service contracts with an aggregate contract value of RMB 30 million with Sinopec Zhongyuan oilfield. As of March 31, 2013, we have completed all those contracts and recognized corresponding revenues from the contracts. We continue to perform fracturing work beyond those contracts.

4. Software business. The software sales increased approximately ¥1.2 million ($0.2 million). We record revenue as software sales if (1) the customer signs a separate software contract with us, or (2) the customer accepts VAT invoices for software. The amount of our revenues categorized as software sales may fluctuate because certain software may be sold with hardware at times as a whole product and not separately priced.

5. Software business – related parties. This revenue was from Ji Dong oilfield, which is considered related party revenue because we have done business with this oilfield through Beijing Yabei Nuoda, a company of which our chief executive officer is legal representative. As mentioned above, we recorded revenue as software sales only when it satisfies specific criteria. Revenue from software related parties should be considered together with hardware sales from related parties. This increase only reflected separately recorded software revenue increase, while our automation business with Ji Dong oilfield developed well.

Cost and Margin

	For the Nine Months Ended March 31,							
	2012		2013		Increase / (Decrease)		Percentage Change	
Total revenues	¥48,805,939		¥62,536,587		¥13,730,648		28.1	%
Cost of revenues	30,979,868		41,915,938		10,936,070		35.3	%
Gross profit	¥17,826,071		¥20,620,649		¥2,794,578		15.7	%
Margin %	36.5	%	33.0	%	(3.5	)%		

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

Our cost of revenues increased from approximately ¥31 million in the nine months ended March 31, 2012 to approximately ¥41.9 million ($6.7 million) for the same period of 2013, an increase of approximately ¥10.9 million ($1.7 million) or 35.3%. As a percentage of revenues, our cost of revenues increased from 63.5% in 2012 to 67% in 2013. This increase was mainly caused by (1) increased costs of furnaces, and (2) subsequent expenses related to prior projects as our clients may require minor maintenance or updates of accepted products during the product guarantee period.

Gross profit. Our gross profit increased to approximately ¥20.6 million ($3.3 million) for the nine months ended March 31, 2013 from approximately ¥17.8 million for the same period in 2012. Our gross profit as a percentage of revenue decreased to 33% for the nine months ended March 31, 2013 from 36.5% for the same period in 2012. This was mainly because furnaces accounted for most of our revenue, and the furnaces we sold during the nine months ended March 31, 2013 carried a lower margin than those sold last year as a result of higher material and human resources costs.

Operating Expenses

	For the Nine Months Ended March 31,			
	2012	2013	Increase / (Decrease)	Percentage Change
Selling and distribution expenses	¥3,537,806	¥4,693,193	¥1,155,387	32.7 %
% of revenue	7.2 %	7.5 %	0.3 %	
General and administrative expenses	10,008,519	8,452,540	(1,555,979)	(15.5)%
% of revenue	20.5 %	13.5 %	(7.0)%	
Research and development expenses	5,318,048	6,284,834	966,786	18.2 %
% of revenue	10.9 %	10 %	(0.9)%	
Operating expenses	¥18,864,373	¥19,430,567	¥566,194	3.0 %

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing organization, sales commissions, costs of our marketing programs including advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses increased by 32.7%, from approximately ¥3.5 million for the nine months ended March 31, 2012 to approximately ¥4.7 million ($0.7 million) for the same period of 2013. This increase was primarily due to the increased expenses related to shipping charges and maintenance expenses. Selling expenses were 7.2% of total revenues in the nine months ended March 31, 2012 and 7.5% of total revenues in the same period of 2013. The percentage increased as a result of increased operating business.

General and administrative expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, option expenses and other expenses incurred in connection with general operations. General and administrative expenses decreased by 15.5%, or approximately ¥1.6 million ($0.2 million), from approximately ¥10 million in the nine months ended March 31, 2012 to approximately ¥8.5 million ($1.3 million) in the same period of 2013. General and administrative expenses were 20.5% of total revenues in 2012 and 13.5% of total revenues in 2013. The decrease in general and administrative expenses was mainly caused by lower allowance for doubtful accounts, expenditure of audit, consulting and legal fees, offset by increased salaries and entertainment fees.

Research and development (“R&D”) expenses. Research and development expenses consist primarily of salaries and related expenditures of our research and development projects. Research and development expenses increased by 18.2%, from approximately ¥5.3 million for the nine months ended March 31, 2012 to approximately ¥6.3 million ($1 million) for the same period of 2013. This increase was primarily due to the increase in R&D expenditure on our furnaces and fracturing services.

Net Income (loss)

	For the Nine Months Ended March 31,			
	2012	2013	Increase / (Decrease)	Percentage Change
Income (loss) from operations	¥(1,038,302)	¥1,190,082	¥2,228,384	214.6 %
Interest and other income (loss)	(180,442)	1,412,891	1,593,333	883.0 %
Income (Loss) before income tax	(1,218,744)	2,602,973	3,821,717	313.6 %
Provision for income tax	345,964	302,550	(43,414)	(12.5)%
Net income (loss)	(1,564,708)	2,300,423	3,865,131	247.0 %
Less: Net income attributable to non-controlling interest	325,867	602,961	277,094	85.0 %
Net income (loss) attributable to ordinary shareholders	¥(1,890,575)	¥1,697,462	¥3,588,037	189.8 %

Income (loss) from operations. Income from operations was approximately ¥1.2 million ($0.2 million) for the nine months ended March 31, 2013, compared to a loss of approximately ¥1 million for the same period of 2012. This increase in income from operations can be attributed primarily to the increased revenue and decrease in percentage of revenue for general and administrative expenses.

Interest and other income (loss). Interest and other income was approximately ¥1.4 million ($0.2 million) for the nine months ended March 31, 2013, compared to interest and other loss of ¥0.2 million for the same period of 2012. The approximately ¥1.6 million ($0.3 million) increase in interest and other income was primarily due to increase in subsidy income, interest income, gain from foreign currency transactions and other income, offset by increase in interest expenses.

Provision for income tax. Provision for income tax is 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.

Provision for income tax for the nine months ended March 31, 2012 and 2013 was ¥345,964 and ¥302,550 ($48,164), respectively. Income taxes were higher in the 2012 period notwithstanding net losses because the VIEs had higher pre-consolidation taxable income, which could not be offset by losses of the consolidated entity.

Net income (loss). As a result of the factors described above, net income was approximately ¥2.3 million ($0.4 million) for the nine months ended March 31, 2013, an improvement of approximately ¥3.9 million ($0.6 million) from net loss of approximately ¥1.6 million for the same period of 2012.

Net income (loss) attributable to ordinary shareholders. As a result of the factors described above, net income attributable to ordinary shareholders was approximately ¥1.7 million ($0.3 million) for the nine months ended March 31, 2013, an improvement of approximately ¥3.6 million ($0.6 million) from net loss attributable to ordinary shareholders of approximately ¥1.9 million for same period of 2012.

Adjusted EBITDA

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

	For the Nine Months Ended March 31,				
	2012 RMB	2013 RMB	Increase / (Decrease)	Percentage Change	2013 USD
Reconciliation of Adjusted EBITDA to Net Income (Loss)					
Net income (loss)	¥(1,564,708)	¥2,300,423	¥3,865,131	247.0 %	$366,218
Provision for income tax	345,964	302,550	(43,414)	(12.5)%	48,164
Interest expense	502,013	1,494,887	992,874	197.8 %	237,979
Stock compensation expense	784,010	1,358,726	574,716	73.3 %	216,303
Depreciation and amortization	252,842	467,914	215,072	85.1 %	74,490
Adjusted EBITDA	¥320,121	¥5,924,500	¥5,604,379	1,750.7 %	$943,154

Adjusted EBITDA improved by approximately ¥5.6 million ($0.9 million), or 1,750.7%, to approximately ¥5.9 million ($0.9 million) for the nine months ended March 31, 2013 compared to approximately ¥0.3 million for the same period in 2012 as a result of increased revenues and lower operating expenses. 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 March 31, 2013, we had cash and cash equivalents in the amount of approximately ¥6.5 million ($1 million).

Indebtedness. As of March 31, 2013, except for approximately ¥0.6 ($0.1 million) of short-term borrowings from third parties, approximately ¥5.8 million ($0.9 million) of short-term borrowings from related parties, and approximately ¥9.7 million ($1.5 million) in commercial loans from two local banks, we did not have any finance leases or purchase commitments, guarantees or other material contingent liabilities.

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

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

Capital Resources. To date we have financed our operations primarily through cash flows from operations, bank loans and short-term borrowings. As of March 31, 2013, we had total assets of approximately ¥139.0 million ($22.1 million), which includes cash amounting to approximately ¥6.5 million ($1 million), net accounts receivable from third parties amounting to approximately ¥49 million ($7.8 million), and net accounts receivable from related parties amounting to approximately ¥17.7 million ($2.8 million). Working capital amounted to approximately ¥82.9 million ($13.2 million), and shareholders' equity amounted to approximately ¥82.7 million ($13.2 million). Our management believes, as most of our accounting receivables can be collected back in one year, our working capital will be sufficient to satisfy our liquidity requirement of current operations for the next 12 months.

Cash from Operating Activities. Net cash provided by operating activities was approximately ¥17.3 million ($2.8 million) for the nine months ended March 31, 2013. This was an increase of approximately ¥26.5 million ($4.2 million) compared to net cash used in operating activities of approximately ¥9.2 million for the nine months ended March 31, 2012. In more detail:

1. Collection of trade accounts receivable from third parties and related parties increased;
2. Inventory decreased due to increasing sales activities;
3. Other accounts payable increased mainly due to an increase in other accounts payable to one related party;
4. Trade accounts payable decreased because of some purchases due on suppliers' demand, which were mainly to our supplier of furnaces; and
5. Payment of VAT, which caused a decrease in taxes payable, which was offset by tax recoverable.

Cash from Investing Activities. Net cash used in investing activities was ¥515,504 ($82,066) for the nine months ended March 31, 2013, a decrease of ¥44,427 ($7,073) from ¥559,931 for the same period of 2012. The slight decrease was mainly due to approximately ¥156,000 increase in proceeds from disposal of fixed assets and offset by an increase of approximately ¥112,000 in purchase of property and equipment.

Cash from Financing Activities. Net cash used in financing activities amounted to approximately ¥14.1 million ($2.2 million) for the nine months ended March 31, 2013, compared to cash flows provided by financing activities of approximately ¥8.8 million for the nine months ended March 31, 2012. During the nine-month period ended March 31, 2013, we repaid approximately ¥21.7 million ($3.4 million) in commercial bank loans and received ¥8.35 million ($1.3 million) in loans from two banks, which were guaranteed by one of our shareholders.

Working Capital. Total working capital as of March 31, 2013 amounted to approximately ¥82.9 million ($13.2 million), compared to approximately ¥74.2 million as of June 30, 2012. Total current assets as of March 31, 2013 amounted to approximately ¥131.9 million ($21.0 million), a decrease of approximately ¥8.1 million ($1.3 million) compared to approximately ¥140.1 million at June 30, 2012. The decrease in total current assets at March 31, 2013 compared to June 30, 2012 was mainly due to decrease of trade accounts receivable and inventory.

Current liabilities amounted to approximately ¥49.0 million ($7.8 million) at March 31, 2013, in comparison to approximately ¥65.9 million at June 30, 2012. This reduction of liabilities was attributable mainly to payment of trade accounts payable and taxes and repayment of short-term bank loans and short-term borrowings of non-related parties.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of March 31, 2013, the company carried out an evaluation, under the supervision of and with the participation of management, including our Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures. Based on the foregoing, the chief executive officer and chief financial officer concluded that our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were ineffective in timely alerting them to information required to be included in the Company's periodic Securities and Exchange Commission filings.

Changes in Internal Control over Financial Reporting

The Company, with the assistance of a third party internal control consultant, has developed a specific plan to address our control deficiencies. During the nine months ended March 31, 2013, the Company has completed the necessary documentation of our internal controls and implemented the following remedial initiatives:

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

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

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

· Enhanced internal control policy implementation by hiring an experienced reporting consultant and strengthening the training of our financial staff on US GAAP matters.

However, the Company's internal control over financial reporting is not effective because of the following:

1. The Company has not completed the expanded documentation practices and policies related to various key controls to provide support and audit trails for both internal management assessment as well as external auditor testing; and

2. The Company lacks sufficient personnel with appropriate levels of accounting knowledge and experience to address complex U.S. GAAP accounting issues and to prepare and review financial statements and related disclosures under U.S. GAAP. Specifically, our controls did not operate effectively to ensure the appropriate and timely analysis of and accounting for unusual and non-routine transactions and certain financial statement accounts.

There were no other changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as disclosed above.

Part II Other Information

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

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

(a) None

(b) None

(c) None

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed herewith:

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

10.6	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. [1]
10.7	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. [1]
10.8	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. [1]
10.9	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. [1]
10.10	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. [1]
10.11	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Jining ENI Energy Technology Co., Ltd. [1]

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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)]

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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)

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)

99.1	Stock Option Plan (1)
99.2	Code of Business Conduct and Ethics (1)
99.3	Press release dated May 13, 2013 titled “Recon Technology Reports Third Quarter Fiscal 2013 Financial Results” (3)

101.INS	XBRL Instance Document (4)
101.SCH	XBRL Taxonomy Extension Schema Document (4)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (4)

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

(1) Incorporated by reference to the Company's Registration Statement on Form S-1, Registration No. 333-152964.
(2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, filed on January 31, 2012.
(3) Filed herewith.
(4) Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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SIGNATURES

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

RECON TECHNOLOGY, LTD

May 13, 2013 By: /s/ Liu Jia
Liu Jia
Chief Financial Officer
(Principal Financial and Accounting Officer)

SIGNATURES

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

	RECON TECHNOLOGY, LTD
May 13, 2013	By:/s/ Yin Shen ping
	Yin Shen ping
	Chief Executive Officer

RECON TECHNOLOGY, LTD

RECON TECHNOLOGY, LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2012 RMB	As of March 31, 2013 RMB	As of March 31, 2013 U.S. Dollars
ASSETS			
Current assets			
Cash and cash equivalents	¥3,533,283	¥6,452,691	$ 1,027,237
Trade accounts receivable, net	61,993,942	49,012,257	7,802,512
Trade accounts receivable- related parties, net	20,394,749	17,693,490	2,816,717
Inventories, net	24,281,300	14,884,099	2,369,476
Other receivables, net	8,074,096	17,858,793	2,843,033
Other receivables- related parties	17,729	1,056,696	168,221
Purchase advances, net	16,250,616	21,687,064	3,452,475
Purchase advances- related parties	1,093,534	1,394,034	221,923
Tax recoverable	2,790,722	-	-
Prepaid expenses	535,336	809,686	128,898
Deferred tax asset	1,106,801	1,094,438	174,229
Total current assets	140,072,108	131,943,248	21,004,721
Property and equipment, net	1,774,820	1,795,564	285,845
Long-term other receivable	10,302,349	5,228,053	832,280
Total Assets	¥152,149,277	¥138,966,865	$ 22,122,846
LIABILITIES AND EQUITY			
Current liabilities			
Short-term bank loans	¥23,000,000	¥9,697,048	$ 1,543,723
Trade accounts payable	11,905,560	6,262,528	996,964
Trade accounts payable- related parties	5,339,231	5,449,388	867,516
Other payables	2,341,826	2,290,687	364,666
Other payable- related parties	1,099,259	5,998,879	954,992
Deferred revenue	3,291,073	3,135,904	499,221
Advances from customers	936,124	1,181,120	188,029
Accrued payroll and employees' welfare	949,579	1,663,438	264,811
Accrued expenses	476,416	343,163	54,630
Taxes payable	9,681,620	6,693,590	1,065,587
Short-term borrowings- related parties	4,123,306	5,751,381	915,592
Short-term borrowings- other	2,767,066	570,375	90,801
Total current liabilities	65,911,060	49,037,501	7,806,532
Commitments and Contingency			
Equity			
	529,979	529,979	84,370

Common stock, ($ 0.0185 U.S. dollar par value, 25,000,000 shares authorized; 3,951,811 shares issued and outstanding as of June 30, 2012 and March 31, 2013)			
Additional paid-in capital	67,643,791	69,053,281	10,992,945
Appropriated retained earnings	2,378,961	2,378,961	378,719
Unappropriated retained earnings	9,354,535	11,051,996	1,759,424
Accumulated other comprehensive loss	(290,496)	(307,385)	(48,936)
Total controlling shareholders’ equity	79,616,770	82,706,832	13,166,522
Non-controlling interest	6,621,447	7,222,532	1,149,792
Total equity	86,238,217	89,929,364	14,316,314
Total Liabilities and Equity	¥ 152,149,277	¥ 138,966,865	$ 22,122,846

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

RECON TECHNOLOGY, LTD

UNaudited condensed Consolidated Statements of operations and Comprehensive Income (loss)

	For the nine months ended March 31,			For the three months ended March 31,		
	2012	2013	2013	2012	2013	2013
	RMB	RMB	USD	RMB	RMB	USD
Revenues						
Hardware	¥30,162,440	¥30,766,627	$4,897,897	¥6,997,916	¥4,161,583	$662,504
Service	5,547,005	20,567,637	3,274,267	1,990,000	62,678	9,978
Software	3,952,991	5,192,712	826,654	-	-	-
Software - related parties	-	2,273,504	361,931	-	2,273,504	361,931
Hardware - related parties	9,143,503	3,736,107	594,770	4,031,206	1,004,030	159,837
Total revenues	48,805,939	62,536,587	9,955,519	13,019,122	7,501,795	1,194,250
Cost of revenues	30,979,868	41,915,938	6,672,812	6,786,052	3,346,344	532,722
Gross profit	17,826,071	20,620,649	3,282,707	6,233,070	4,155,451	661,528
Selling and distribution expenses	3,537,806	4,693,193	747,133	1,273,126	1,790,199	284,991
General and administrative expenses	10,008,519	8,452,540	1,345,603	4,193,772	3,966,782	631,492
Research and development expenses	5,318,048	6,284,834	1,000,515	662,743	552,645	87,978
Operating expenses	18,864,373	19,430,567	3,093,251	6,129,641	6,309,626	1,004,461
Income (loss) from operations	(1,038,302)	1,190,082	189,456	103,429	(2,154,175)	(342,933)
Other income (expenses)						
Subsidy income	554,856	2,143,669	341,262	540,756	1,343,669	213,906
Interest income	3,089	443,391	70,586	286	137,803	21,938
Interest expense	(502,013)	(1,494,887)	(237,979)	(225,718)	(618,473)	(98,458)
Gain from foreign currency exchange	-	339,876	54,107	-	(185)	(29)
Other income (expense)	(236,374)	(19,158)	(3,050)	(26,764)	(109,881)	(17,493)
Income (loss) before income tax	(1,218,744)	2,602,973	414,382	391,989	(1,401,242)	(223,069)
Provision (benefit) for income tax	345,964	302,550	48,164	132,883	(152,382)	(24,258)
Net Income (loss)	(1,564,708)	2,300,423	366,218	259,106	(1,248,860)	(198,811)
Less: Net income attributable to non-controlling interest	325,867	602,961	95,988	140,410	(2,127)	(339)

Net Income (loss) attributable to Recon Technology, Ltd	¥(1,890,575)	¥1,697,462	$270,230	¥118,696	¥(1,246,733)	$(198,472)
Comprehensive income (loss)						
Net income (loss)	(1,564,708)	2,300,423	366,218	259,106	(1,248,860)	(198,811)
Foreign currency translation adjustment	(119,795)	(16,889)	(2,689)	(119,973)	(717)	(114)
Comprehensive income (loss)	(1,684,503)	2,283,534	363,529	139,133	(1,249,577)	(198,925)
Less: Comprehensive income attributable to non-controlling interest	313,888	601,084	95,690	128,449	(2,207)	(351)
Comprehensive income (loss) attributable to Recon Technology, Ltd	¥(1,998,391)	¥1,682,450	$267,839	¥10,684	¥(1,247,370)	$(198,574)
Earning (loss) per common share - basic and diluted	¥(0.48)	¥0.43	$0.07	¥0.03	¥(0.32)	$(0.05)
Weighted - average shares -basic and diluted	3,951,811	3,951,811	3,951,811	3,951,811	3,951,811	3,951,811

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

RECON TECHNOLOGY, LTD

unaudited condensed Consolidated Statements of Cash Flows

	For the nine months ended March 31,		
	2012	2013	2013
	RMB	RMB	U.S. Dollars
Cash flows from operating activities:			
Net income (loss)	¥(1,564,708)	¥2,300,423	$366,218
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	252,842	467,914	74,490
Loss from disposal of equipment	18,887	26,845	4,274
Provision/(recovery of) for doubtful accounts	1,695,435	(82,420)	(13,121)
Stock based compensation	784,010	1,358,726	216,303
Deferred tax (benifit)/provision	(315,125)	12,363	1,968
Changes in operating assets and liabilities:			
Trade accounts receivable	(16,718,352)	13,156,606	2,094,467
Trade accounts receivable-related parties	-	2,701,259	430,027
Notes receivable	1,276,574	-	-
Other receivable, net	2,301,650	(4,641,896)	(738,968)
Other receivables related parties, net	-	(1,038,967)	(165,398)
Purchase advance, net	(10,691,586)	(5,597,453)	(891,087)
Purchase advance-related party, net	-	(300,500)	(47,838)
Tax recoverable	-	2,790,722	444,269
Prepaid expense	(1,409,973)	(274,350)	(43,675)
Inventories	6,586,927	9,397,201	1,495,988
Trade accounts payable	6,462,714	(5,643,032)	(898,343)
Trade accounts payable-related parties	-	110,157	17,536
Other payables	2,087,020	(51,139)	(8,141)
Other payables-related parties	-	4,899,620	779,996
Deferred income	(899,460)	(155,169)	(24,702)
Advances from customers	30,705	244,996	39,002
Accrued payroll and employees' welfare	(41,042)	713,859	113,643
Accrued expenses	(34,268)	(133,253)	(21,213)
Taxes payable	934,906	(2,988,030)	(475,680)
Net cash provided by (used in) operating activities	(9,242,844)	17,274,482	2,750,015
Cash flows from investing activities:			
Purchase of property and equipment	(564,831)	(676,504)	(107,696)
Proceeds from disposal of equipment	4,900	161,000	25,630
Net cash used in investing activities	(559,931)	(515,504)	(82,066)
Cash flows from financing activities:			
Proceeds from short-term bank loans	9,000,000	8,350,000	1,329,279

Repayments of short-term bank loans	(5,000,000)	(21,652,952)	(3,447,044)
Proceeds from short-term borrowings	574,597	-	-
Proceeds from borrowings-related parties	4,198,901	3,658,102	582,352
Repayment of short-term borrowings	(500,000)	(2,275,764)	(362,290)
Repayment of short-term borrowings-related parties	-	(2,232,477)	(355,399)
Capital contribution in VIE	500,000	20,000	3,184
Net cash provided by (used in) financing activities	8,773,498	(14,133,091)	(2,249,918)
Effect of exchange rate fluctuation on cash and cash equivalents	(100,863)	293,521	46,724
Net increase (decrease in) cash and cash equivalents	(1,130,140)	2,919,408	464,755
Cash and cash equivalents at beginning of period	3,485,944	3,533,283	562,482
Cash and cash equivalents at end of period	¥2,355,804	¥6,452,691	$1,027,237
		-	-
Supplemental cash flow information			
Cash paid during the period for interest	¥334,014	¥1,356,581	$215,961
Cash paid during the period for taxes	¥481,723	¥832,028	$132,455

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

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RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

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

The Company conducts its business through the following PRC legal entities that were consolidated as variable interest entities ("VIEs") and operate in the Chinese oilfield equipment & service industry:

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

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

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

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements 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 accounts of the Company, its subsidiaries, and VIEs for which the Company is the primary beneficiary. All inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring entries, which are necessary for a fair presentation of the results for the interim periods presented. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended June 30, 2012. The results of operations for the interim periods presented may not be indicative of the operating results to be expected for the Company's fiscal year ending June 30, 2013.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Currency Translation - The Company’s functional currency is the Chinese Yuan (“RMB”) and the accompanying consolidated financial statements have been expressed in Chinese Yuan. The statements as of and for the three months and nine months period ended March 31, 2013 have been translated into United States dollars (“U.S. dollars”) solely for the convenience of the readers. The translation has been made at the rate of ¥6.2816 = US$1.00, the approximate exchange rate prevailing on March 31, 2013. These translated U.S. dollar amounts should not be construed as representing Chinese Yuan amounts or that the Chinese Yuan amounts have been or could be converted into U.S. dollars.

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

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

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

Tax Recoverable – Tax recoverable represented amounts paid for value added tax (“VAT”) on purchases in the PRC amounting to RMB 2,790,722 at June 30, 2012. The amount can be used to offset VAT payable on sales made by the Company.

Long-Lived Assets - The Company applies the ASC Topic 360 “Property, plant and equipment.” ASC Topic 360 requires that long-lived assets, such as property and equipment be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset. There were no impairments at June 30, 2012 and March 31, 2013.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Hardware:

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

Software:

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

Service:

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

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

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

Under ASC Topic 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Income tax returns for the years prior to 2009 are no longer subject to examination by tax authorities.

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

Basic net income per share is computed by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted income per share is computed by dividing net income by the weighted average number of shares of ordinary shares, ordinary shares equivalents and potentially dilutive securities outstanding during each period. Potentially dilutive ordinary shares consist of ordinary shares issuable upon the conversion of ordinary stock options and warrants (using the treasury stock method). However, the effect from options and warrants would have been anti-dilutive due to the fact that the weighted average exercise price per share of options and warrants is higher than the weighted average market price per ordinary share during the three months and nine months ended March 31, 2012 and 2013.

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. TRADE ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

	June 30, 2012	March 31, 2013	March 31, 2013
Third Party	RMB	RMB	U.S. Dollars
Trade accounts receivable	¥66,738,526	¥ 53,189,417	$ 8,467,495
Allowance for doubtful accounts	(4,744,584)	(4,177,160)	(664,983)
Total - third- party, net	¥61,993,942	¥ 49,012,257	$ 7,802,512

	June 30, 2012	March 31, 2013	March 31, 2013
Related Party	RMB	RMB	U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥21,757,039	¥ 19,448,284	$ 3,096,072
Allowance for doubtful accounts	(1,362,290)	(1,754,794)	(279,355)
Total - related-parties, net	¥20,394,749	¥ 17,693,490	$ 2,816,717

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

NOTE 4. OTHER RECEIVABLES, NET

Other receivables consisted of the following:

Third Party	June 30, 2012	March 31, 2013	March 31, 2013
Current Portion	RMB	RMB	U.S. Dollars
Due from ENI (A)	¥ 5,396,143	¥ 6,732,346	$ 1,071,757
Loans to third parties (B)	1,485,610	8,530,186	1,357,964
Business advance to staff (C)	1,139,796	2,131,964	339,398
Deposits for projects	146,903	166,186	26,456
Others	381,404	705,366	112,291
Allowance for doubtful accounts	(475,760)	(407,255)	(64,833)

Total	¥ 8,074,096	¥ 17,858,793	$ 2,843,033

Third Party Non-Current Portion	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
Due from ENI	¥ 10,302,349	¥ 5,228,053	$ 832,280
Total	¥ 10,302,349	¥ 5,228,053	$ 832,280

1. Due from ENI represents a working capital loan to the Company's former VIE. The loan balance had been an intercompany balance and was eliminated in the Company's consolidated financial statements before the deconsolidation of ENI. It was reclassified to other receivables after ENI ceased to be a VIE of the Company on December 16, 2010. In January 2012, ENI agreed to repay the loan on a payment schedule, and interest is accruing during the period at an annual rate of 4%. In accordance with the payment schedule, the principal plus accrued interest is required to be repaid over approximately three years on a quarterly basis beginning March 2012. The first four payments are RMB 1.2 million each. In March, June, September and December of 2012, the Company received an aggregate of RMB 4.8 million. Starting March 2013, installment for each quarter would be ¥1,777,653. The Company has received the payment on time in March 2013. The payments required after 1 year are RMB 5,228,053.

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

RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Related Party	June 30, 2012	March 31, 2013	March 31, 2013
Name of Related Party	RMB	RMB	U.S. Dollars
Chen Guangqiang (A)	¥ -	¥ 578,883	$ 92,155
Li Donglin (B)	-	214,799	34,196
Yin Shen ping (A)	-	176,285	28,064
Other-travel advances (C)	17,729	86,729	13,806
Total	¥ 17,729	¥ 1,056,696	$ 168,221

1. Mr. Chen Guang qiang and Mr. Yin Shen ping are shareholders of the Company.

2. Mr. Li Donglin is management and one of the Company’s minority shareholders of the Company’s VIE.

3. Other travel advances were paid to the Company’s management.

NOTE 5. PURCHASE ADVANCES

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

	June 30, 2012	March 31, 2013	March 31, 2013
Third Party	RMB	RMB	

			U.S. Dollars
Prepayment for inventory purchase	¥17,046,653	¥22,644,106	$3,604,831
Allowance for doubtful accounts	(796,037)	(957,042)	(152,356)
Total	¥16,250,616	¥21,687,064	$3,452,475

Below is a summary of purchase advances to related party.

Related Party	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	¥ 1,093,534	¥ 1,394,034	$ 221,923
Total	¥ 1,093,534	¥ 1,394,034	$ 221,923

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

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RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INVENTORIES

Inventories consisted of the following:

	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
Small component parts	¥ 43,107	¥ 44,956	$ 7,157
Purchased goods and raw materials	398,596	-	-
Work in process	1,256,273	2,984,109	475,056
Finished goods	22,583,324	11,855,034	1,887,263
Total inventories	¥ 24,281,300	¥ 14,884,099	$ 2,369,476

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
Motor vehicles	¥ 2,620,560	¥ 2,982,383	$ 474,781
Office equipment and fixtures	467,784	229,602	36,552
Total property and equipment	3,088,344	3,211,985	511,333
Less: Accumulated depreciation	(1,313,524)	(1,416,421)	(225,487)
Property and equipment, net	¥ 1,774,820	¥ 1,795,564	$ 285,845

Depreciation expenses were ¥86,685 and ¥152,757 ($24,592) for the three months ended March 31, 2012 and 2013, respectively. Depreciation expenses were ¥252,842 and ¥467,914 ($74,490) for the nine months ended March 31, 2012 and 2013, respectively.

NOTE 8. OTHER PAYABLES

Other payables consisted of the following:

Third Party	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
Consulting services	¥ 1,770,811	¥ 648,305	$ 103,207
Due to ENI	148,000	148,000	23,561
Expenses paid by third-parties	416,165	601,694	95,787
Others	6,850	892,688	142,111
Total	¥ 2,341,826	¥ 2,290,687	$ 364,666

Other payables to related parties consisted of the following:

Related Party	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
Due to related parties (A)	¥ 61,477	5,360,824	$ 853,418
Expenses paid by the major shareholders	308,316	292,419	46,552
Due to family member of one owner on behalf on Recon	525,000	150,000	23,879
Due to management staff on behalf of Recon	204,466	195,636	31,143
Total	¥ 1,099,259	¥ 5,998,879	$ 954,992

1. Includes an advance from Yabei Nuoda for RMB 60,000 and an advance from Xiamen Henda Haitek for RMB 5,299,347 to supplement the Company’s working capital. The advances are payable on demand and non-interest bearing.

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RECON TECHNOLOGY, LTD

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. TAXES PAYABLE

Taxes payable consisted of the following:

	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
VAT payable	¥ 4,704,738	¥ 2,653,815	$ 422,474
Business tax payable	430,106	37,933	6,039
Enterprise income tax payable	4,352,802	3,964,791	631,175
Other taxes payable	193,974	37,051	5,899
Total taxes payable	¥ 9,681,620	¥ 6,693,590	$ 1,065,587

NOTE 10. SHORT-TERM BANK LOANS

Short-term bank loans consisted of the following:

	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
CCB bank, 6.44% annual interest, paid off on December 11, 2012	¥ 12,000,000	¥ -	$ -
Beijing Bank, 7.87% annual interest, paid off on February 28, 2013	6,000,000	-	-
Beijing Bank, 7.11% annual interest, paid off on March 8, 2013	1,500,000	-	-
Beijing Bank, 6.56% annual interest, paid off on March 29, 2013	1,500,000	-	-
Beijing Bank, 6.56% annual interest, paid off on April 5, 2013	500,000	297,048	47,289
Beijing Bank, 6.56% annual interest, paid off on May 7, 2013	1,500,000	1,050,000	167,155
Communication Bank, 6.6% annual interest, due on October 25, 2013		3,090,000	491,912
Communication Bank, 6.6% annual interest, due on November 15, 2013	-	1,910,000	304,063
Beijing Bank, 6% annual interest, due on January 21, 2014	-	450,000	71,638
Beijing Bank, 5.75% annual interest, due on February 25, 2014	-	1,200,000	191,034
Beijing Bank, 5.75% annual interest, due on February 27, 2014	-	600,000	95,517
Beijing Bank, 5.75% annual interest, due on March 8, 2014	-	1,100,000	175,115
Total short-term bank loans	¥ 23,000,000	¥ 9,697,048	$ 1,543,723

Interest expense for short-term bank loans was ¥30,721 and ¥437,436 ($69,638) for the three months ended March 31, 2012 and 2013, respectively.

Interest expense for short-term bank loans was ¥196,784 and ¥1,183,845 ($188,462) for the nine months ended March 31, 2012 and 2013, respectively.

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NOTE 11. SHORT-TERM BORROWINGS

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

	June 30, 2012	March 31, 2013	March 31, 2013
Short-term borrowings due to non-related parties:	RMB	RMB	U.S. Dollars
Short-term borrowing, 6% annual interest, due on November 9, 2013	¥ 1,078,656	¥ 70,375	$ 11,203
Short-term borrowing, 6% annual interest, paid in full in March 2013	239,227	-	-
Short-term borrowing with no interest, paid in full in August 2012	949,183	-	-
Short-term borrowings with no interest, beginning April 22,2013, due on April 21, 2014	500,000	500,000	79,598
Total short-term borrowings due to non-related parties	¥ 2,767,066	¥ 570,375	$ 90,801

Interest expense for short-term borrowings due to non-related parties was ¥28,519 and ¥16,754 ($2,667) for the three months ended March 31, 2012 and 2013, respectively.

Interest expense for short-term borrowings due to non-related parties was ¥96,153 and ¥56,890 ($9,057) for the nine months ended March 31, 2012 and 2013, respectively.

	June 30, 2012	March 31, 2013	March 31, 2013
Short-term borrowings due to related parties:	RMB	RMB	U.S. Dollars
Due-on-demand borrowings from Founders, no interest (A)	¥ 46,377	¥ 6,377	$ 1,015
Due-on-demand borrowings from Founder's family member, no interest	-	150,000	23,879
Short-term borrowing from a Founder's family member, 6% annual interest, due and paid on March 20, 2013 (B)	272,895	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, due and paid on October 21, 2012 (B)	3,000,000	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, due and paid on March 27, 2013 (B)	200,000	-	-
Short-term borrowing from a Founder's family member, 6% annual interest, due on December 21, 2013 (C)	-	3,751,397	597,204

Short-term borrowing from a Founder's family member, 6% annual interest, due on November 29, 2013	-	1,610,000	256,304
Short-term borrowings fromXiamen Huasheng Haitian Computer Network Co. Ltd., no interest, due on November 14, 2013	200,000	200,000	31,839
Short-term borrowings from management, 6% annual interest, due on December 7, 2013	404,034	33,607	5,351
Total short-term borrowings due to related parties	¥ 4,123,306	¥ 5,751,381	$ 915,592

1. ¥40,000 of this borrowing was paid in cash on October 22, 2012.

2. Borrowings aggregating ¥3,751,397 were refinanced on December 21, 2012 with (C).

Interest expense for short-term borrowings due to related parties was ¥17,297 and ¥151,742 ($24,157) for the three months ended March 31, 2012 and 2013, respectively.

Interest expense for short-term borrowings due to related parties are ¥59,895 and ¥265,649 ($42,290) for the nine months ended March 31, 2012 and 2013, respectively.

NOTE 12. SHAREHOLDERS' EQUITY

Appropriated Retained Earnings - According to the Memorandum and Articles of Association, the Company is required to transfer a certain portion of its net profit, as determined under PRC accounting regulations, from current net income to the statutory reserve fund. In accordance with the PRC Company Law, companies are required to transfer 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations, to the statutory reserves until such reserves reach 50% of the registered capital or paid-in capital of the companies. As of June 30, 2012 and March 31, 2013, the balance of total statutory reserves was ¥2,378,961 and ¥2,378,961 ($378,719), respectively.

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NOTE 13. STOCK-BASED COMPENSATION

Stock-Based Awards Plan

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

Stock price at grant date	$6.00	
Exercise price (per share)	$6.00	
Risk free rate of interest***	4.6118	%
Dividend yield	0.0	%
Life of option (years)**	10	
Volatility*	78	%
Forfeiture rate****	0	%

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

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

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

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

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

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

The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥10.06 ($1.59) per share.

The following is a summary of the stock options activity:

Stock Options	Shares	Weighted Average Exercise Price Per Share	
Outstanding as of July 1, 2012	608,000	$	3.93
Granted	-		-
Forfeited	-		-
Exercised	-		-
Outstanding as of March 31, 2013	608,000	$	3.93

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The following is a summary of the status of options outstanding and exercisable at March 31, 2013:

Outstanding Options			Exercisable Options		
Average Exercise Price	Number	Average Remaining Contractual life (Years)	Average Exercise Price	Number	Average Remaining Contractual life (Years)
$6.00	193,000	6.33	$6.00	115,800	6.33
$2.96	415,000	8.99	$2.96	-	8.99

The total share-based compensation expenses recorded for stock options granted were ¥259,163 and ¥451,573 ($71,888) for the three months ended March 31, 2012 and 2013, respectively. The total share-based compensation expenses recorded for stock options granted were ¥784,010 and ¥1,358,726 ($216,303) for the nine months ended March 31, 2012 and 2013, respectively. The total unrecognized share-based compensation expense as of March 31, 2013 was approximately ¥4,751,241($756,374), which is expected to be recognized over a weighted average period of approximately 3.17 years.

Placement Agent Warrants

The Company had 170,000 of granted placement agent warrants as of March 31, 2013 and no warrants were exercised during this period.

NOTE 14. INCOME TAX

The Company is not subject to any income taxes in the United States or the Cayman Islands and had minimal operations in jurisdictions other than the PRC. BHD and Nanjing Recon are subject to PRC's income taxes as PRC domestic companies. For the calendar years 2012 and 2013, Nanjing Recon is subject to an income tax rate of 15%.

As approved by the domestic tax authority in the PRC, BHD was recognized as a government-certified high technology company on November 25, 2009 and is subject to an income tax rate of 15% for calendar year 2010 and 2011. This qualification certificate will stay effective through November 2015.

Deferred tax asset is comprised of the following:

	June 30, 2012	March 31, 2013	March 31, 2013
	RMB	RMB	U.S. Dollars
Allowances for doubtful receivables	¥ 1,106,801	¥ 1,094,438	$ 174,229
Total deferred income tax assets	¥ 1,106,801	¥ 1,094,438	$ 174,229

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

	For the three months ended March 31,		
	2012	2013	2013
	RMB	RMB	U.S. Dollars
Current income tax provision/(benefit)	¥ 388,339	¥ (158,721)	$ (25,267)
Deferred income tax (benefit)/provision	(255,456)	6,339	1,009
Provision (benefit) for income tax	¥ 132,883	¥ (152,382)	$ (24,258)

	For the nine months ended March 31,		
	2012	2013	2013
	RMB	RMB	U.S. Dollars
Current income tax provision	¥ 661,089	¥ 290,187	$ 46,196
Deferred income tax (benefit)/provision	(315,125)	12,363	1,968
Provision for income tax	¥ 345,964	¥ 302,550	$ 48,164

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NOTE 15. NON-CONTROLLING INTEREST

Non-controlling interest consisted of the following:

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

	As of March 31, 2013			
	BHD RMB	Nanjing Recon RMB	Total RMB	Total U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥1,851,000	$294,670
Unappropriated retained earnings	2,693,445	2,712,240	5,405,685	860,559
Accumulated other comprehensive loss	(19,576)	(14,578)	(34,154)	(5,437)
Total non-controlling interest	¥4,324,869	¥2,897,662	¥7,222,531	$1,149,792

NOTE 16. CONCENTRATIONS

For the three months ended March 31, 2012 and 2013, the two largest customers, China National Petroleum Corporation (“CNPC”) and China Petroleum & Chemical Corporation Limited (“SINOPEC”), represented 0%, 25.05% and 53.35%, 13.80% of the Company’s revenue, respectively.

For the nine months ended March 31, 2012 and 2013, the two largest customers, China National Petroleum Corporation (“CNPC”) and China Petroleum & Chemical Corporation Limited (“SINOPEC”), represented 8.34%, 27.86% and 22.38%, 46.62% of the Company’s revenue, respectively.

For the three months and nine months ended March 31, 2013, one supplier, Hebei Huanghua Xiangtong Technical Co. Ltd, accounted for 15.31% and 24.90% of the company's total purchases.

NOTE 17. COMMITMENTS AND CONTINGENCY

1. Office Leases

The Company leased three offices in Beijing (two for BHD; one for Recon-JN), one office in Jining for Recon-JN and one office in Nanjing for Nanjing Recon. Future payments under such leases are as follows as of March 31, 2013:

	Twelve months ending March 31,	
	Office lease payment	
	RMB	U.S. Dollars
2014	¥ 756,400	$ 120,415
2015	45,000	7,164
Total	¥ 801,400	$ 127,579

(b) Contingency

The Labor Contract Law of the PRC requires employers to assure the liability of severance payments if employees are terminated and have been working for the employers for at least two years prior to January 1, 2008. The employers will be liable for one month of severance pay for each year of the service provided by the employees. As of March 31, 2013, the Company estimated its severance payments of approximately ¥1.2 million ($0.2 million) which has not been reflected in its unaudited condensed consolidated financial statements because the Company has determined that the likelihood to make these payments is remote.

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NOTE 18. RELATED PARTY TRANSACTIONS AND BALANCES

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

	For the three months ended March 31,		
	2012	2013	2013
	RMB	RMB	U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥3,251,206	¥3,277,534	$ 521,768
Beijing Adaer Oil Technology Co., Ltd.	780,000	-	-
Revenues from related parties	¥4,031,206	¥3,277,534	$ 521,768

	For the nine months ended March 31,		
	2012	2013	2013
	RMB	RMB	U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥6,395,564	¥5,454,055	$ 868,259
Beijing Adaer Oil Technology Co., Ltd.	2,747,938	-	-
Xiamen Henda Haitian computer network Inc	-	555,556	88,442
Revenues from related parties	¥9,143,503	¥6,009,611	$ 956,701

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

	For the three months ended March 31,		
	2012	2013	2013
	RMB	RMB	U.S. Dollars
Huanghua Xiang Tong Manufacture	¥ -	¥ 766,372	$ 122,003
Nanjing Youkong Information Technology Co., Ltd	315,260	-	-
Purchase from related parties	¥ 315,260	¥ 766,372	$ 122,003

	For the nine months ended March 31,		
	2012	2013	2013
	RMB	RMB	U.S. Dollars
Huanghua Xiang Tong Manufacture	¥1,666,303	¥8,097,725	$ 1,289,118
Beijing Yabei Nuoda Science and Technology Co. Ltd.	205,128	-	-
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	-	597,863	95,177

Nanjing Youkong Information Technology Co., Ltd	1,175,260	-	-
Purchase from related parties	¥3,046,691	¥8,695,588	$1,384,295

Leases from related parties - The Company has various agreements for the lease of office space owned by the Founders and their family members. The terms of the agreement state that the Company will continue to lease the property through July 2014 at a monthly rent of ¥84,333 with the annual rental expense at ¥1,012,000 ($161,105).

Short-term borrowings from related parties - The Company borrowed ¥4,123,306 and ¥5,751,381 ($915,592) from the Founders, their family members and senior officers as of June 30, 2012 and March 31, 2013, respectively. For the specific terms and interest rates of the borrowings, please see Note 11.

Trade accounts payable to related parties - The Company owed ¥5,339,231and ¥5,449,388 ($867,516) to one related party as of June 30, 2012 and March 31, 2013. As of March 31, 2013, BHD held a 6.8% equity interest of this company.

Other payable to related parties - The Company owed ¥0 and ¥5, 299,347 ($843,630) to an affiliate as of June 30, 2012 and March 31, 2013. One of the Founders and his family member collectively own 57% of this affiliate. The Company owed ¥61,477 and ¥61,477 ($23,879) to another affiliate as of June 30, 2012 and March 31, 2013, for which one of our shareholders is legal representative. The Company owed ¥1,037,782 and ¥638,055 ($101,574) to its management staff as of June 30, 2012 and March 31, 2013.

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NOTE 19. Variable Interest Entities

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

Summary information regarding consolidated VIEs is as follows:

	June 30, 2012 RMB	March 31, 2013 RMB	March 31, 2013 U.S. Dollars
ASSETS			
Current Assets			
Cash and cash equivalents	¥2,182,179	¥4,793,332	$ 763,075
Trade accounts receivable, net	82,388,691	66,705,747	10,619,229
Purchase advances	17,319,150	22,506,098	3,582,861
Other assets	31,322,790	28,110,680	4,475,083
Total current assets	¥133,212,810	¥122,115,857	$ 19,440,248
Non-current assets	1,768,588	1,791,077	285,131
Total Assets	¥134,981,398	¥123,906,934	$ 19,725,379
LIABILITIES			
Trade accounts payable	¥17,244,791	¥11,711,916	$ 1,864,480
Taxes payable	9,681,620	6,693,590	1,065,587
Other liabilities	35,613,109	27,707,936	4,410,968
Total current liabilities	62,539,520	46,113,442	7,341,035
Total Liabilities	¥62,539,520	¥46,113,442	$ 7,341,035

The financial performance of VIEs reported in the condensed consolidated statement of operations and comprehensive income (loss) for the three months ended March 31, 2013 includes revenues of ¥7,501,795 ($1,194,250), operating expenses of ¥4,950,298 ($788,063), other expenses of ¥109,881 ($17,492) and a net loss of ¥21,270($3,386).

The financial performance of VIEs reported in the condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended March 31, 2013 includes revenues of ¥62,536,588 ($9,955,519), operating expenses of ¥15,279,023 ($2,432,346), other expenses of ¥118,297 ($18,832) and a net income of ¥6,029,613

($959,885).