Recon Technology, Ltd
Form 10-Q
February 14, 2012

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

S Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2011

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

Commission File Number 001-34409

RECON TECHNOLOGY, LTD

(Exact name of registrant as specified in its charter)

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

1902 Building C, King Long International Mansion

9 Fulin Road, Beijing 100107

People's Republic of China

(Address of principal executive offices and zip code)

+86 (10) 8494-5799

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes S 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 S 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 S

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

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

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

Our business is mainly focused on the upstream sectors of the oil and gas industry. We derive our revenues from the sales and provision of (1) hardware products, (2) software products and (3) services. Our products and services involve most of the key procedures of the extraction and production of oil and gas, and include automation systems, equipment, tools and on-site technical services. For the six months ended December 31, 2011, 88.95% of our revenues came from the sales of hardware and 11.05% from software. For the same period of 2010, 96.09% of our revenues came from the sales of hardware and 3.91% from software.

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

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

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

Products and Services

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

Equipment for Oil and Gas Production and Transportation

High-Efficiency Heating Furnaces. Crude petroleum contains certain impurities that must be removed before it can be sold, including water and natural gas. To remove the impurities and to prevent solidification and blockage in transport pipes, companies employ heating furnaces. BHD researched, implemented and developed a new oilfield furnace that is advanced, highly automated, reliable, easily operable, safe and highly heat-efficient (90% efficiency).

Burner. We serve as an agent for the Unigas Burner, which is designed and manufactured by UNIGAS, a European burning equipment production company. The burner we provide has the following characteristics: high degree of automation, energy conservation, high turn-down ratio, high security and environmental safety.

Oil and Gas Production Improvement Techniques

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

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

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

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

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

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

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

Automation System and Services

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

RTU Monitor. Collects gas well pressure data.

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

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

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

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

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

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

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

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

Factors Affecting Our Business

Business Outlook

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

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

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

New Business of Proprietary Oil/Water Separators and Horizontal Well Fracturing Technology. Among the products and services we provide to private oilfield companies, we are now offering our proprietary oil/water separators and horizontal well fracturing technology by establishing our own work team in this area. Our new business of proprietary oil/water separators and horizontal well fracturing technology has generated approximately ¥9 million revenues during the three months ended December 31, 2011.

Growth Strategy

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

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

Industry and Recent Developments

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

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

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

Factors Affecting Our Results of Operations — Generally

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

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

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

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

- our revenue growth, in terms of the proportion of our business dedicated to large companies and our ability to successfully develop, introduce and market new solutions and services;
- our ability to increase our revenues from both old and new customers in the oil and gas industry in China;
- our ability to effectively manage our operating costs and expenses; and
- our ability to effectively implement any targeted acquisitions and/or strategic alliances so as to provide efficient access to markets and industries in the oil and gas industry in China.

Critical Accounting Policies and Estimates

Estimates and Assumptions

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

Consolidation of VIEs

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

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

Revenue Recognition

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

Hardware

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

Software

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

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

Cost of Revenues

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

Fair Values of Financial Instruments

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

Allowance for Doubtful Accounts

Trade receivables are carried at original invoiced amount less a provision for any potential uncollectible amounts. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of doubtful accounts requires the use of judgment and estimates of management. Our management must make estimates of the collectability of our accounts receivable. Management specifically analyzes trade 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.

Property and Equipment

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

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

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

Valuation of Long-Lived Assets

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

Results of Operations

Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010

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

Revenues

For the Three Months Ended December 31,

	2011	2010	Increase (Decrease)	Percentage Change	Change attributable to: Deconsolidation of ENI	Operations
Hardware	¥23,127,757	¥20,533,998	¥2,593,759	12.63 %	¥(5,719,858)	¥8,313,617
Software	3,952,991	2,111,111	1,841,880	87.25 %	—	1,841,880
Hardware-related parties	3,763,481	9,538,637	(5,775,156)	(60.54)%	—	(5,775,156)
Total revenue	¥30,844,229	¥32,183,746	¥(1,339,517)	**(4.16)%**	¥(5,719,858)	¥4,380,341

Revenues. Our total revenues decreased by 4.16%, or ¥1,339,517 ($210,460), from ¥32,183,746 for the three months ended December 31, 2010 to ¥30,844,229 ($4,846,140) for the same period of 2011. Of the revenues from sales of hardware, sales of transportation equipment and oil-water separator equipment increased by 33.20%, sales of automation decreased by 9.02%, and sales of accessories decreased to zero, respectively. The decrease of our revenues for the three-month period was due to the following factors:

(1) The overall increase of hardware sales was mainly attributable to improved operations, despite the deconsolidation of ENI which caused a decrease of ¥5,719,858 ($898,685). In light of the ownership change of ENI on December 16, 2010, our Audit Committee concluded that ENI is no longer a VIE and we should not include ENI's operations in our operating results starting December 16, 2010. Our management believes that even though ENI's not being a VIE caused short-term loss for us, it will not have a significant impact on our long-term business development.

(2) The increase of hardware sales to unrelated parties attributable to operations amounted to ¥8,313,617 ($1,306,207). This was mainly attributable to (i) our subsidiaries' recently acquired qualifications making them eligible to take on projects with big state-owned enterprises, and (ii) development of our proprietary oil/water separator and horizontal well fracturing technology, which contributed about ¥9 million revenue during this period.

(3) The increase of software sales was ¥1,841,880 ($289,390). For accounting purposes, sales of software may be counted towards hardware sales under the category of automation systems from time to time. We record revenue as software sales if (1) the client signs a separate contract of software with us, or (2) the client accepts VAT invoices for software. Due to this accounting treatment, the amount of our revenues categorized as software sales may fluctuate, but such fluctuation does not necessarily mean significant changes in our sales of software.

(4) The decrease of hardware from related parties was mainly caused by (i) delay of certain key projects and (ii) normal fluctuation due to changing requirements by oilfield companies.

The Chinese government has attached great importance to the safety problems that exist in the Chinese energy industry by implementing numerous new projects and initiatives designed to increase safety and security in the Chinese energy industry, such as implementing digital oilfield construction to improve safety, production efficiency and oil recovery ratios in oilfields. This government-led modernization project is designed to eliminate hidden security dangers, develop key projects for saving energy and materials, and improve utilization of energy. Our management has considered these factors carefully and will focus on related automation and service businesses with an emphasis on safety and energy efficiency.

Additionally, as we have provided services to CNPC and Sinopec, they have chosen to continue to use our solutions. During the three months ended December 31, 2011, 70.45% of our revenues were generated through our business engagements with these companies' operating subsidiaries. This long-term cooperation made it possible for us to improve our service quality, products' popularity and adaptability for a very limited number of customers. Further, this long-term cooperation improves our ability to collect receivables on time.

Cost and Margin

	For the Three Months Ended December 31,					
	2011	2010	Increase (Decrease)	Percentage Change	Change attributable to: Deconsolidation of ENI	Operations
Total revenues	¥30,844,229	¥32,183,746	¥(1,339,517)	(4.16)%	¥(5,719,858)	¥4,380,341
Cost of revenues	21,728,373	20,492,176	1,236,197	6.03%	(4,239,500)	5,475,697
Gross profit	¥9,115,856	¥11,691,570	¥(2,575,714)	(22.03)%	¥(1,480,358)	¥(1,095,356)
Margin %	29.55%	36.33%	(6.77)%			

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

Our cost of revenues increased by ¥1,236,197 ($194,227), or 6.03%, from ¥20,492,176 during the three months ended December 31, 2010 to ¥21,728,373 ($3,413,888) for the same period of 2011. The increase in cost of revenues was due mainly to the deconsolidation of ENI, which resulted in a decrease of ¥4,239,500 ($660,096), offset by higher cost of operations, which amounted to ¥5,475,697 ($860,323).

As a percentage of revenues, our cost of revenues increased from 63.67% during the three months ended December 31, 2010 to 70.45% for the same period of 2011, mainly due to (1) delayed projects for which additional costs were incurred and (2) our new business of proprietary oil/water separator and horizontal well fracturing technology.

Gross Profit. Our gross profit decreased by ¥2,575,714 ($404,687), or 22.03%, from ¥11,691,570 for the three months ended December 31, 2010 to ¥9,115,856 ($1,432,252) for the same period of 2011. Our gross profit as a percentage of revenue decreased from 36.33% for the three months ended December 31, 2010 to 29.55% for the same period of 2011. This decrease was caused mainly by the lower margin of our new business of proprietary oil/water separator and horizontal well fracturing technology. These new product offerings have acquired certifications and are now qualified to take up projects for large state-owned enterprise clients. Our management expects to be able to develop such new business during the following one-year period, at which time our profit margin as a whole will improve. Our management also plans to adjust our business structure by focusing more on our automation business and our own branded products and services, which provide higher margins, while shifting our focus away from agency sales, which provide lower margins.

Operating Expenses

	For the Three Months Ended December 31,					
	2011	2010	Increase (Decrease)	Percentage Change	Change attributable to: Deconsolidation of ENI	Operations
Selling and distribution	¥1,431,883	¥3,272,318	¥(1,840,435)	(56.24)%	¥(585,023)	¥(1,255,412)
% of revenues	4.64%	10.17%	(5.53)%			—
General and administrative	5,593,869	19,082,366	(13,488,497)	(70.69)%	(14,298,155)	809,658
% of revenues	18.14%	59.29%	(41.15)%			—
Operating expenses	¥7,025,752	¥22,354,684	¥(15,328,932)	(68.57)%	¥(14,883,178)	¥(445,754)

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Selling and Distribution Expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing organization, sales commissions, costs of our marketing programs including public relations, advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses decreased by 56.24%, from ¥3,272,318 for three months ended December 31, 2010 to ¥1,431,883 ($224,973) for the same period of 2011. Selling expenses as a percentage of total revenues also decreased, from 10.17% in the three months ended December 31, 2010 to 4.64% in the same period of 2011. This decrease was mainly attributable to our long-term relationship with CNPC and Sinopec, as a result of the lower expenses associated with existing business maintenance. However, as we continue to solidify our business relationships with current clients and develop new customers, we may make extensive marketing efforts and incur additional costs. At present, we are expanding our business in Sichuan and Hebei Provinces. In order to successfully increase the scope of our client base, we will continue to establish new local offices in different regions across China. We expect that our selling expenses, as well as its percentage as against total revenues, may increase correspondingly.

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 our general operations. General and administrative expenses decreased by ¥13,488,497 ($2,119,267), or 70.69%, from ¥19,082,366 in three months ended December 31, 2010 to ¥5,593,869 ($878,890) in the same period of 2011. General and administrative expenses as a percentage of total revenues also decreased substantially, from 59.29% during the three months ended December 31, 2010 to 18.14% during the same period of 2011. Such decrease is mainly attributable to (1) the deconsolidation of ENI, which accounted for ¥14,298,155 ($2,246,477), and (2) increased expenses for research and development activities and for audit and attorney fees, which accounted for ¥809,658 ($127,211).

Net Income (Loss)

	For the Three Months Ended December 31,			
	2011	2010	Change	Percentage Change
Income (loss) from operations	¥2,090,104	¥(10,663,114)	¥12,753,218	119.60 %
Subsidy income	14,100	—	14,100	100.00 %
Interest and other expenses, net	(418,255)	(165,552)	(252,703)	(152.64)%
Loss on deconsolidation	—	(8,989,614)	8,989,614	100.00 %
Net income (loss) before income tax	1,685,949	(19,818,280)	21,504,229	108.51 %
Provision for income tax	(104,566)	(198,259)	(93,693)	(47.26)%
Net income (loss)	1,581,383	(20,016,539)	21,597,922	107.90 %
Net income attributable to non-controlling interest	(185,457)	(660,913)	(475,456)	(71.94)%
Net income (loss) attributable to ordinary shareholders	¥1,395,926	¥(20,677,452)	¥22,073,378	106.75 %

Income (Loss) from Operations. Income from operations was ¥2,090,104 ($328,389) for the three months ended December 31, 2011, an increase of ¥12,753,218, or 119.60%, from a loss of ¥10,663,114 for the same period of 2010. This increase in income from operations is attributed primarily to lower operating expenses.

Subsidy Income. We occasionally receive grants from the local government. For the three months ended December 31, 2011, we received ¥14,100 ($2,215) subsidy income. The grant was given by the government in support of local software companies' operations and research and development in the form of EIT tax return for high-tech companies. Grants related to research and development projects are recognized as subsidy income in the combined and consolidated statements of operations when related expenses are recorded.

Income Tax Expense. Income taxes are provided based upon the liability method of accounting pursuant to US GAAP. Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts. A valuation allowance is recorded against deferred tax assets if it is not likely that the asset will be realized. We have not been subject to any income taxes in the United States or the Cayman Islands. Enterprises doing business in the PRC are generally subject to federal (state) enterprise income tax at a rate of 25%; however, Nanjing Recon and BHD were granted the certification of High Technology Enterprise and are taxed at a rate of 15% for taxable income generated. The applicable tax rate for each of our subsidiaries changed in the past few years because of their qualifications and different local policies. For the three months ended December 31, 2011, Nanjing Recon and BHD were taxed at a rate of 15%. Our effective EIT burden will vary, depending on which of our domestic companies generate greater revenue.

Income tax expense for the three months ended December 31, 2010 and 2011 was ¥198,259 and ¥104,566 ($16,249), respectively. This decrease was mainly due to a decrease in taxable operating income.

Net Income (Loss). As a result of the factors described above, net income was ¥1,581,383 ($248,460) for the three months ended December 31, 2011, an increase of ¥21,597,922 ($3,393,392) from a net loss of ¥20,016,539 for the same period of 2010.

Net Income (Loss) Attributable to Ordinary Shareholders. As a result of the factors described above, net income attributable to ordinary shareholders was ¥1,395,926 ($219,322) for the three months ended December 31, 2011, an increase of ¥22,073,378 ($3,648,094), or 106.75%, from a loss of ¥20,677,452 for same period of 2010.

Adjusted EBITDA

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

	For the Three Months Ended December 31,				
	2011 RMB	2010 RMB	Change	Percentage Change	2011 USD
Reconciliation of adjusted EBITDA to net income (loss):					
Net income (loss)	¥1,581,383	¥(20,016,539)	¥21,597,922	107.90 %	$248,460
Income tax expense	104,566	198,259	(93,693)	(47.26)%	16,429
Interest expense	133,384	213,009	(79,625)	(37.38)%	20,957
Stock compensation expense	261,483	431,378	(169,895)	(39.38)%	41,083
Depreciation, amortization and accretion	77,434	102,635	(25,201)	(24.55)%	12,166
Loss on deconsolidation	—	8,989,614	(8,989,614)	(100.00)%	—
Adjusted EBITDA	¥2,158,250	¥(10,081,644)	¥12,239,894	121.41 %	$339,095

Adjusted EBITDA increased by ¥12,239,894, or 121.41%, from a loss of ¥10,081,644 for the three months ended December 31, 2010 to an income of ¥2,158,250 ($339,095) for the same period of 2011, mainly due to lower operating expenses and no deconsolidation loss. Compared to net income attributable to ordinary shareholders, we believe EBITDA more accurately reflects our operations.

Six Months Ended December 31, 2011 Compared to Six Months Ended December 31, 2010

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

Revenues

	For the Six Months Ended December 31,				Change attributable to:	
	2011	2010	Increase (Decrease)	Percentage Change	Deconsolidation of ENI	Operations
Hardware	¥26,721,529	¥35,856,386	¥(9,134,857)	(25.48)%	¥(14,315,657)	¥5,180,800
Software	3,952,992	2,111,111	1,841,881	87.25 %	—	1,841,881
Hardware-related parties	5,112,297	16,015,560	(10,903,263)	(68.08)%	(4,365,812)	(6,537,451)
Total revenues	¥35,786,818	¥53,983,057	¥(18,196,239)	(33.71)%	¥(18,681,469)	¥485,230

Revenues. Our total revenues were ¥35,786,818 ($5,622,703) for the six months ended December 31, 2011, a decrease of 33.71% from ¥53,983,057 for the same period of 2010. During the six-month period, our automation business decreased by 16.07%, sales of transportation equipment increased by 10.19% and our accessory sales business decreased to zero. This decrease was mainly attributable to the deconsolidation of ENI's operating results.

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Cost and Margin

	For the Six Months Ended December 31,					
			Increase	Percentage	Change attributable to:	
	2011	2010	(Decrease)	Change	Deconsolidation of ENI	Operations
Total revenues	¥35,786,818	¥53,983,057	¥(18,196,239)	(33.71)%	¥(18,681,469)	¥485,230
Cost of revenues	24,193,816	34,573,669	(10,379,853)	(30.02)%	(13,346,098)	2,966,245
Gross profit	¥11,593,002	¥19,409,388	¥(7,816,386)	(40.27)%	¥(5,335,371)	¥(2,481,015)
Margin %	32.39%	35.95%	(3.56)%			

<u>Cost of Revenues</u>. Our cost of revenues decreased by ¥10,379,853 ($1,630,847), or 30.02%, from ¥34,573,669 for the six months ended December 31, 2010 to ¥24,193,816 ($3,801,250) for the same period of 2011. Our cost as a percentage of revenues increased from 64.05% for the six months ended December 31, 2010 to 67.61% for the same period of 2011. This increase was a result of (1) price increase for our raw materials, and (2) delays in certain key projects.

<u>Gross Profit</u>. Our gross profit decreased by ¥7,816,386 ($1,228,084), or 40.27%, from ¥19,409,388 for the six months ended December 31, 2010 to ¥11,593,002 ($1,821,453) for the same period in 2011. Our gross profit as a percentage of revenue decreased from 35.95% for the six months ended December 31, 2010 to 32.39% for the same period of 2011. Our management believes it is necessary to adjust our business structure to maintain a higher profit margin. We plan to accomplish this by focusing more on our automation business and our own branded products and services, while shifting our focus away from agency sales, which provide a lower margin.

Operating Expenses

	For the Six Months Ended December 31,					
			Increase	Percentage	Change attributable to:	
	2011	2010	(Decrease)	Change	Deconsolidation of ENI	Operations
Selling and distribution	¥2,264,680	¥5,075,471	¥(2,810,791)	(55.38)%	¥(1,250,756)	¥(1,560,035)
% of revenues	6.33%	9.40%	(3.07)%			
General and administrative	¥10,470,052	¥23,304,180	¥(12,834,128)	(55.07)%	¥(15,083,473)	¥2,249,345
% of revenues	29.26%	43.17%	(13.91)%			
Operating expenses	¥12,734,732	¥28,379,651	¥(15,644,919)	(55.13)%	¥(16,334,229)	¥689,310

Selling and Distribution Expenses. Selling expenses decreased by 55.38%, from ¥5,075,471 for the six months ended December 31, 2010 to ¥2,264,680 ($355,819) for the same period of 2011. This decrease is mainly attributable to (1) our stable long-term relationship with CNPC and Sinopec, as a result of the lower expenses associated with existing business maintenance and (2) the deconsolidation of ENI.

General and Administrative Expenses. General and administrative expenses decreased by ¥12,834,128, or 55.07%, from ¥23,304,180 for the six months ended December 31, 2010 to ¥10,470,052 ($1,645,019) for the same period of 2011. General and administrative expenses as a percentage of total revenues also decreased, from 43.17% for the six months ended December 31, 2010 to 29.26% for the same period of 2011. This percentage decrease was primarily attributable to the deconsolidation of ENI, slightly offset by the increase attributable to operations. The increase of general and administrative expenses attributable to operations were mainly due to (1) additional expenses of audit and attorney fees related to the preparation and filing of quarterly and annual reports, (2) increased expenses for research and development activities, and (3) expenses for financial consulting.

Net Loss

	For the Six Months Ended December 31,			
	2011	2010	Change	Percentage Change
Loss from operations	¥(1,141,730)	¥(8,970,263)	¥(7,828,533)	(87.27)%
Subsidy income	14,100	451,520	437,420	96.88 %
Interest and other expenses, net	(483,102)	(320,003)	163,099	50.97 %
Loss on deconsolidation	—	(8,989,614)	(8,989,614)	(100.00)%
Net loss before income tax	(1,610,732)	(17,828,361)	(16,217,629)	(90.97)%
Provision for income tax	(213,081)	(1,004,085)	(791,004)	(78.78)%
Net loss	(1,823,813)	(18,832,446)	(17,008,633)	(90.32)%
Net income attributable to non-controlling interest	(185,457)	(1,001,243)	(815,786)	(81.48)%
Net loss attributable to ordinary shareholders	¥(2,009,270)	¥(19,833,689)	¥(17,824,419)	(89.87)%

Loss from Operations. Loss from operations for the six months ended December 31, 2011 was ¥1,141,730 ($179,385), a decrease of ¥7,828,533 from a loss of ¥8,970,263 for the same period of 2010. The reduction in loss from operations was mainly due to lower operating expenses.

Subsidy Income. We received grants of ¥451,520 and ¥14,100 ($2,215) from the local government for the six months ended December 31, 2010 and 2011, respectively. These grants were given by the government in the form of income tax return to support local companies to develop advanced technology and improve their products.

Income Tax Expense. Income tax expense for the six months ended December 31, 2010 and 2011 was ¥1,004,085 and ¥213,081 ($33,480), respectively. The decrease was mainly due to a decrease in taxable operating income and lower effective tax rates.

Net Loss Attributable to Ordinary Shareholders. As a result of the factors described above, there was a net loss attributable to ordinary shareholders in the amount of ¥2,009,270 ($315,691) for the six months ended December 31, 2011, a decrease of 89.87% from a net loss of ¥19,833,689 for the same period of 2010.

Adjusted EBITDA

	For the Six Months Ended December 31,				
	2011 RMB	2010 RMB	Change	Percentage Change	2011 USD
Reconciliation of adjusted EBITDA to net (loss):					
Net (loss)	¥(1,823,813)	¥(18,832,446)	¥(17,008,633)	(90.32)%	$(286,551)
Income tax expense	213,081	1,004,085	791,004	78.78 %	33,479
Interest expense	276,295	325,469	49,174	15.11 %	43,411
Stock compensation expense	524,847	870,084	345,237	39.68 %	82,462
Depreciation, amortization and accretion	166,157	201,232	35,075	17.43 %	26,106
Loss on deconsolidation	—	8,989,614	8,989,614	100.00 %	—
Adjusted EBITDA	¥(643,432)	¥(7,441,962)	¥(6,798,528)	(91.35)%	$(101,094)

Adjusted EBITDA. Adjusted EBITDA recovered by ¥6,798,528, from a loss of ¥7,441,962 for the six months ended December 31, 2010 to a loss of ¥643,432 for the same period of 2011. This was due to the lower operating expenses and zero deconsolidation loss. Compared to the net loss attributable to ordinary shareholders, we believe adjusted 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 December 31, 2011, we had cash and cash equivalents in the amount of ¥1,087,967 ($170,938).

Indebtedness. As of December 31, 2011, except for ¥2,328,633 ($365,867) of short-term borrowings and ¥4,648,030 ($730,283) of short-term borrowings from related parties, we did not have any finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

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

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

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

Capital Resources. To date we have financed our operations primarily through cash flows from operating operations. As of December 31, 2011 we had total assets of ¥124,861,815 ($19,617,862), which includes cash amounting to ¥1,087,967 ($170,938), and net accounts receivable amounting to ¥65,448,867 ($10,283,103). Working capital amounted to ¥73,193,511 ($11,499,914) and shareholders' equity amounted to ¥87,707,195 ($12,680,439).

Cash from Operating Activities. Net cash used in operating activities was ¥2,023,589 ($317,940) for the six months ended December 31, 2011, a decrease of ¥3,167,736 from ¥5,191,325 for the same period of 2010. The decrease in the use of cash in the current period was due to an increase in trade accounts receivable partially offset by an increase in trade accounts payable and reduction in inventories. During this period, increase in our trade accounts receivable was mainly caused by increase in revenues attributable to operations. The majority of inventories used in this period were purchased last year, so we conducted our business without the need for additional purchases. We also reserved some equipment for upcoming projects, resulting in increased purchase advance and trade accounts payable.

Cash from Investing Activities. Net cash used in investing activities was ¥96,231 ($15,119) for the six months ended December 31, 2011, a decrease of ¥2,184,923 from ¥2,281,154 for the same period of 2010. The decrease was mainly caused by a loss on cash due to the deconsolidation of ENI amounting to ¥2,256,305, while there was no such loss for the same period of 2011.

Cash from Financing Activities. Net cash used in financing activities was ¥178,021 ($27,970) for the six months ended December 31, 2011, compared to net cash provided by financing activities amounting to ¥3,141,602 for the same period of 2010. The decrease in net cash provided by financing activities was mainly due to the payment of bank loans and decrease in short-term borrowings.

Working Capital. As of December 31, 2011, our working capital was ¥73,193,511 ($11,499,914). Total current asset as of December 31, 2011 amounted to ¥110,846,721 ($17,415,858), an increase of ¥10,066,282 ($1,581,580) compared to June 30, 2011. The increase was mainly attributable to an increase in trade accounts receivable as a result of our business development.

The current ratio decreased from 3.75 at June 30, 2011 to 2.94 at December 31, 2011. This was mainly caused by the increase in trade accounts payable and short-term borrowings.

Recently Enacted Accounting Standards

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of December 31, 2011, our company carried out an evaluation, under the supervision of and with the participation of management, including our Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures. In light of the nature of the adjustments attributable to the restatement of two Forms 10-Q (for the quarters ended December 31, 2010 and March 30, 2011) and the late filing of the annual report on Form 10-K for the year ended June 30, 2011, the chief executive officer and chief financial officer concluded that our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were ineffective in timely alerting them to information required to be included in the Company's periodic Securities and Exchange Commission filings.

Changes in Internal Control over Financial Reporting

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

- Development and formalization of key accounting and financial reporting policies and procedures;
- Identification and documentation of key controls by business process;
- Enhancement of existing disclosures policies and procedures;
- Formalization of periodic communication between management and the audit committee;
- Implementation of policies and procedures intended to enhance management monitoring and oversight by the Audit Committee; and
- Formalization of a periodic staff training program to enhance their awareness of the key internal control activities.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

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

(a)	None
(b)	None
(c)	None

Item 3. Defaults upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed herewith:

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

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

10.27	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)
10.28	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)
10.29	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)
10.30	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)

10.33	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Yin Shenping (1)
10.34	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Chen Guangqiang (1)
10.35	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Li Hongqi (1)
10.36	Operating Agreement among Recon Technology (Jining) Co. Ltd., Nanjing Recon Technology Co., Ltd. and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
10.37	Operating Agreement among Recon Technology (Jining) Co. Ltd., Jining ENI Energy Technology Co., Ltd., and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
10.38	Operating Agreement among Recon Technology (Jining) Co. Ltd., Beijing BHD and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
21.1	Subsidiaries of the Registrant (2)
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)
32.2	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)
EX-101.INS	XBRL Instance Document (4)
EX-101.SCH	XBRL Taxonomy Extension Schema Document (4)
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (4)
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (4)
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase Document (4)
EX-101.PRE	XBRL Taxonomy Extension Presentation 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.

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

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

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RECON TECHNOLOGY, LTD

RECON TECHNOLOGY, LTD

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011 RMB	**December 31, 2011 RMB**	**December 31, 2011 U.S. Dollars**
ASSETS			
Current Assets			
Cash and cash equivalents	¥ 3,485,944	¥ 1,087,967	$ 170,938
Trade accounts receivable, net	22,329,705	43,186,965	6,785,389
Trade accounts receivable - related parties, net	25,983,172	22,261,902	3,497,714
Notes receivable	1,276,574	-	-
Other receivables, net	6,128,794	7,975,843	1,253,137
Other receivables- related parties	4,383,000	4,309,414	677,080
Purchase advances, net	12,152,896	14,127,636	2,219,686
Purchase advances- related party	989,828	532,288	83,631
Prepaid expenses	1,016,299	229,708	36,091
Inventories	22,576,094	16,617,196	2,610,837
Deferred tax assets	458,133	517,802	81,355
Total Current Assets	100,780,439	110,846,721	17,415,858
Other receivables	12,971,481	12,971,481	2,038,035
Property and equipment, net	1,132,425	1,043,613	163,969
Total Assets	¥ 114,884,345	¥ 124,861,815	$ 19,617,862
LIABILITIES AND EQUITY			
Current Liabilities			
Trade accounts payable	¥ 6,320,488	¥ 16,099,885	$ 2,529,559
Other payables	2,022,401	3,073,837	482,951
Deferred income	2,420,497	1,927,387	302,824
Advances from customers	782,945	760,730	119,523
Accrued payroll and employees' welfare	157,824	90,220	14,175
Accrued expenses	345,015	278,451	43,749
Taxes payable	7,192,123	8,446,037	1,327,013
Short-term bank loan	5,000,000	-	-
Short-term borrowings	1,743,286	2,328,633	365,867
Short-term borrowings - related parties	911,399	4,648,030	730,283
Total Current Liabilities	¥ 26,895,978	¥ 37,653,210	$ 5,915,944
Commitments and Contingencies			

Equity			
Ordinary shares (U.S. $0.0185 par value, 25,000,000 shares authorized; 3,951,811 shares issued and outstanding)	¥529,979	¥529,979	$83,268
Additional paid-in capital	65,877,686	66,912,980	10,513,140
Appropriated retained earnings	2,058,429	2,264,492	355,789
Unappropriated retained earnings	13,502,105	11,295,724	1,774,745
Accumulated other comprehensive loss	(295,803)	(295,980)	(46,503)
Total Controlling Shareholders' Equity	81,672,396	80,707,195	12,680,439
Non-controlling Interest	6,315,971	6,501,410	1,021,479
Total Equity	87,988,367	87,208,605	13,701,918
Total Liabilities and Equity	¥114,884,345	¥124,861,815	$19,617,862

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

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RECON TECHNOLOGY, LTD.
UNAUDITED CONDNESED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	For the Six Months Ended December 31,			For the Three Months Ended December 31,		
	2010	2011	2011	2010	2011	2011
	RMB	RMB	U.S. Dollars	RMB	RMB	U.S. Dollars
Revenues						
Hardware - third-party	¥ 35,856,386	¥ 26,721,529	$ 4,198,396	¥ 20,533,998	¥ 23,127,757	$ 3,633,754
Hardware - related-parties	16,015,560	5,112,297	803,227	9,538,637	3,763,481	591,305
Software	2,111,111	3,952,992	621,080	2,111,111	3,952,991	621,081
Total revenues	53,983,057	35,786,818	5,622,703	32,183,746	30,844,229	4,846,140
Cost of revenues	34,573,669	24,193,816	3,801,250	20,492,176	21,728,373	3,413,888
Gross profit	19,409,388	11,593,002	1,821,453	11,691,570	9,115,856	1,432,252
Selling and distribution expenses	5,075,471	2,264,680	355,819	3,272,318	1,431,883	224,973
General and administrative expenses	23,304,180	10,470,052	1,645,019	19,082,366	5,593,869	878,890
Operating expenses	28,379,651	12,734,732	2,000,838	22,354,684	7,025,752	1,103,863
Income (loss) from operations	(8,970,263)	(1,141,730)	(179,385)	(10,663,114)	2,090,104	328,389
Subsidy income	451,520	14,100	2,215	-	14,100	2,215
Interest income	407	2,803	440	-	-	-
Interest expense	(325,469)	(276,295)	(43,411)	(213,009)	(133,384)	(20,957)
Other (expenses) income	5,059	(209,610)	(32,933)	47,457	(284,871)	(44,758)
Loss on deconsolidation	(8,989,614)	-	-	(8,989,614)	-	-
				(19,818,280)	1,685,949	

Net income (loss) before income tax	(17,828,361)	(1,610,732)	(253,074)			264,889
Provision for income tax	(1,004,085)	(213,081)	(33,479)	(198,259)	(104,566)	(16,429)
Net income (loss)	(18,832,446)	(1,823,813)	(286,553)	(20,016,539)	1,581,383	248,460
Net (income) attributable to non-controlling interest	(1,001,243)	(185,457)	&			