

Recon Technology, Ltd
Form 20-F
September 28, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

(Mark One)

**..REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
^x OF 1934**

For the fiscal year ended June 30, 2018

OR

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934**

OR

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report.....

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

(Jurisdiction of incorporation or organization)

1902 Building C, King Long International Mansion

9 Fulin Road, Beijing 100107

People's Republic of China

(Address of principal executive offices)

Jia Liu, Chief Financial Officer

Telephone: +86 (10) 8494 5799

liujia@recon.cn; Fax: +86 (10) 8494 5792

1902 Building C, King Long International Mansion

9 Fulin Road, Beijing 100107

People's Republic of China

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, \$0.0185 par value per share	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 18,480,349 Ordinary Shares (including non-vested 2,210,000 Ordinary Shares which were granted to the management in December 2016 and subject to cancellation)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or

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revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. "

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this annual report with respect to the Company's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "intend," "seek," "may," "might," "could" or words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions, judgments and beliefs in light of the information currently available to it. The Company cautions investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, including but not limited to, product and service demand and acceptance, changes in technology, economic conditions, the impact of competition and pricing, government regulation, and other risks contained in reports filed by the company with the Securities and Exchange Commission. Therefore, investors should not place undue reliance on such forward-looking statements. Actual results may differ significantly from those set forth in the forward-looking statements.

All such forward-looking statements, whether written or oral, and whether made by or on behalf of the company, are expressly qualified by the cautionary statements and any other cautionary statements which may accompany the forward-looking statements. In addition, the company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable for annual reports on Form 20-F.

Item 2. Offer Statistics and Expected Timetable

Not applicable for annual reports on Form 20-F.

Item 3. Key Information

A. Selected Financial Data

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of operations data for the three years ended June 30, 2016, 2017 and 2018 and the consolidated balance sheet data as of June 30, 2017 and 2018 have been derived from our audited consolidated financial statements set forth in “Item 18 – Financial Statements”. The selected consolidated balance sheet data for the year ended June 30, 2016 have been derived from our audited consolidated balance sheet as of June 30, 2016, which is not included in this annual report. The selected consolidated statements of operations data for the years ended June 30, 2014 and 2015 and the selected consolidated balance sheet data as of ended June 30, 2014 and 2015 have been derived from our audited consolidated financial statements for the years ended June 30, 2014 and 2015, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with Generally Accepted Accounting Principles in the United States of America, or U.S. GAAP.

(All amounts in thousands of Renminbi, except Dividend per share in U.S. dollars and Shares outstanding)

Statement of operations data:

	For the years ended June 30,				
	2018 RMB¥	2017 RMB¥	2016 RMB¥	2015 RMB¥	2014 RMB¥
Revenues	84,712,046	60,054,462	42,728,277	51,512,900	93,447,108
Income (loss) from operations	(40,924,896)	(30,611,484)	(39,911,129)	(35,516,233)	2,830,238
Income (loss) from continuing operations	(40,924,896)	(30,611,484)	(39,911,129)	(35,516,233)	2,830,238
Net income (loss)	(44,072,321)	(31,445,147)	(40,882,577)	(31,456,388)	807,188
Earnings (loss) per share					
-Basic	(3.84)	(4.90)	(7.23)	(6.45)	0.19
-Diluted	(3.84)	(4.90)	(7.23)	(6.45)	0.18
Weighted average number of ordinary shares used in computation					
-Basic	11,483,464	6,417,305	5,653,149	4,876,504	4,303,955
-Diluted	11,483,464	6,417,305	5,653,149	4,876,504	4,368,162

Balance sheet data:

	2018 RMB¥	2017 RMB¥	2016 RMB¥	2015 RMB¥	2014 RMB¥
Current assets	100,834,569	68,387,075	74,322,220	124,512,236	133,399,423
Total assets	121,807,517	71,155,045	79,450,314	134,348,887	154,530,382
Current liabilities	25,991,921	29,445,757	29,850,518	52,080,043	50,325,873
Total liabilities	34,935,755	29,445,757	29,850,518	52,080,043	50,325,873
Total stockholders' equity (net assets)	76,009,832	33,244,445	41,376,299	74,045,347	95,979,030
Shares outstanding	18,380,349	9,902,914	5,804,005	5,427,946	4,717,336

Exchange Rate Information

The Company's functional currency is the Chinese Yuan ("RMB") and the accompanying consolidated financial statements have been expressed in Chinese Yuan. The consolidated financial statements as of and for the year ended June 30, 2018 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 ¥6.6198 = US\$ 1.00, the approximate exchange rate prevailing on June 30, 2018. 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.

We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. We do not currently engage in currency hedging transactions.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated (www.oanda.com).

Period	Midpoint of Buy and Sell Prices for U.S. Dollar per RMB			
	Period-End	Average	High	Low
2013	6.1090	6.1938	6.3087	6.1084
2014	6.1484	6.1458	6.2080	6.0881
2015	6.4917	6.2288	6.4917	6.0933

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2016	6.9448	6.6441	7.0672	6.4494
2017	6.5074	6.7578	6.9535	6.4686
2018 (through September 25, 2018)				
April	6.3313	6.2988	6.3362	6.2750
May	6.4089	6.3710	6.4211	6.3350
June	6.6198	6.4642	6.6207	6.3910
July	6.8195	6.7153	6.8195	6.6193
August	6.8334	6.8462	6.9167	6.8066
September (through September 25, 2018)	6.8670	6.8506	6.8687	6.8261

As of September 25, 2018, the exchange rate is RMB 6.8670 to \$1.00.

B. Capitalization and Indebtedness

Not applicable by 20-F as an annual report.

C. Reasons for the Offer and Use of Proceeds

Not applicable by 20-F as an annual report.

D. Risk Factors

Investing in our ordinary shares involves a high degree of risk. Before deciding whether to invest in our ordinary shares, you should consider carefully the risks and uncertainties described below. There may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results. If any of these risks actually occurs, our business, business prospects, financial condition or results of operations could be seriously harmed. This could cause the trading price of our ordinary shares to decline, resulting in a loss of all or part of your investment. Please also read carefully the section below entitled “Cautionary Note Regarding Forward-Looking Statements.”

Risks Related to Our Business

We operate in a very competitive industry and may not be able to maintain our revenues and profitability.

Since the 1990s, several international companies engaged in supplying integrated automation services for the petroleum extraction industry have been qualified in China. These competitors have significantly greater financial and marketing resources and name recognition than we have. In addition, at least five domestic private competitors also compete with us, and more competitors may enter the market as Chinese petroleum companies seek to reduce oil production costs and improve efficiencies. There can be no assurance that we will be able to compete effectively in our industry.

In addition, our competitors may introduce new systems. If these new systems are more attractive to customers than the systems we currently use or may develop, our customers may switch to our competitors' services, and we may lose market share. We believe that competition may become more intense as more integrated automation service providers, including Chinese/foreign joint ventures, are qualified to conduct business. We cannot assure you that we will be able to compete successfully against any new or existing competitors, or against any new systems our competitors may implement. Any of these competitive factors could have a material adverse effect on our revenues and profitability.

We must continually research and develop new technologies and products to remain competitive.

Because our industry is so competitive, we will need to continually research, develop and refine new technologies and offer new products to compete effectively. Many factors may limit our ability to develop and refine new products, including the availability of funds to dedicate to this portion of our business and access to new products and

technologies that we can incorporate into our products, as well as marketplace resistance to new products and technologies. We believe that the Domestic Companies (defined in the following paragraph) and our products are able to compete in the marketplace based upon, among other things, our intellectual property. We cannot assure investors that applications of our and the Domestic Companies' technologies or those of third parties, if developed, will not be rendered superfluous or obsolete by research efforts and technological advances by others in these fields.

We control by contract the PRC companies of Beijing BHD Petroleum Technology Co., Ltd. ("BHD") and Nanjing Recon Technology Co., Ltd. ("Nanjing Recon"), collectively, the Domestic Companies. As new technologies are developed, the Domestic Companies and we may need to adapt and change our products and services, our method of marketing or delivery or alter our current business in ways that may adversely affect revenue and our ability to achieve our proposed business goals. Accordingly, there is a risk that the Domestic Companies' and our technology will not support a viable commercial enterprise.

Our financial performance is dependent upon the sale and implementation of petroleum mining and extraction software and hardware and related services, a single, concentrated group of products.

We derive substantially all of our revenues from the license and implementation of software applications and hardware innovations for the Chinese petroleum industry. The life cycle of our products and services is difficult to estimate due in large measure to the potential effect of new software and hardware applications and enhancements, including those we introduce, and the maturation in both the Chinese petroleum and software/hardware industries. If we are unable to continually improve our software and hardware to address the changing needs of the Chinese petroleum industry, we may experience a significant decline in the demand for the Domestic Companies' and our products and services. In such a scenario, our revenues may significantly decline.

As a technology-oriented business, our ability to operate profitably is directly related to our ability to develop and protect our proprietary technology.

We rely on a combination of trademark, trade secret, nondisclosure, copyright and patent law to protect the Domestic Companies' and our software and hardware, which may afford only limited protection.

Although the Chinese government has issued Nanjing Recon over ten copyrights on software and Nanjing Recon and BHD over forty patents on products, we cannot guarantee that competitors will be unable to develop technologies that are similar or superior to the Domestic Companies' and our technology. Despite our efforts to protect the Domestic Companies' and our proprietary rights, unauthorized parties, including customers, may attempt to reverse engineer or copy aspects of the Domestic Companies' and our products or to obtain and use information that the Domestic Companies and we regard as proprietary. Furthermore, our competitors may independently develop substantially equivalent or superior proprietary information and techniques, reverse engineer information and techniques, or otherwise gain access to our proprietary technology. In the future, we cannot guarantee that others will not use the Domestic Companies' and our technology without proper authorization. In addition, under the Chinese intellectual property law, the 50-year protection period for software copyright and 10-year patent protection period are not subject to renewal upon expiration.

The Domestic Companies and we develop our software products on third-party middleware software programs that are licensed by our customers from third parties, generally on a non-exclusive basis. The termination of any such licenses, or the failure of the third-party licensors to adequately maintain or update their products, could result in delay in our ability to develop, market or ship certain of our products while we seek to implement technology offered by alternative sources. While it may be necessary or desirable in the future to obtain other licenses, there can be no assurance that they will be able to do so on commercially reasonable terms or at all.

In addition, the Domestic Companies and we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity, scope or enforceability of our proprietary rights. Any such claims could be time consuming, result in costly litigation, cause product development or shipment delays or force the Domestic Companies or us to enter into royalty or license agreements rather than dispute the merits of such claims, thereby impairing our financial performance by requiring the Domestic Companies or us to pay additional royalties and/or license fees to third parties. There is always a risk that patents, if issued, may be subsequently invalidated, either in whole or in part and this could diminish or extinguish protection for any technology we may license. In addition, the laws of China may not protect proprietary rights to the same extent as U.S. law. Therefore, we may be unable to meaningfully protect our rights in trade secrets, technical know-how and other non-patented technology. Any failure to enforce or protect the Domestic Companies' and our rights could cause us to lose the ability to exclude others from issuing technology to develop or sell competing products.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive and negatively impact our business.

We rely on trademark, patent and trade secret law, as well as confidentiality agreements with certain of our employees to protect our proprietary rights. The product patents owned by the Company are employee service patents invented by the Company's key employees. We generally require the Domestic Companies' and our employees, consultants, advisors and collaborators to execute appropriate confidentiality agreements with, as applicable, the respective Domestic Companies and the Company. These agreements typically provide that all material and confidential information developed or made known to the individual during the course of the individual's relationship with the Company is owned by the Company and will be kept confidential and not disclosed to third parties except in specific circumstances. These agreements may be breached, and in some instances, we may not have an appropriate remedy available for breach of the agreements.

We may be accused of infringing the intellectual property rights of others.

In the future, the Domestic Companies and we may receive notices claiming that we are infringing the proprietary rights of third parties. We cannot guarantee that the Domestic Companies and we will not become the subject of infringement claims or legal proceedings by third parties with respect to the Domestic Companies' and our current programs or future software developments. Our standard software license agreements contain an infringement indemnity clause under which we agree to indemnify and hold harmless our customers and business partners against liability and damages arising from claims of various copyright or other intellectual property infringement by our products. Neither the Domestic Companies nor we have been the subject of an intellectual property claim since our formation.

Our software products may contain integration challenges, design defects or software errors that could be difficult to detect and correct.

Despite extensive testing, we may, from time to time, discover defects or errors in the Domestic Companies' and our software only after use by a customer. We may also experience delays in shipment of our software during the period required to correct such errors. In addition, we may, from time to time, experience difficulties relating to the integration of the Domestic Companies' and our software products with other hardware or software in the customer's environment that are unrelated to defects in such software products. Such defects, errors or difficulties may cause future delays in product introductions and shipments, result in increased costs and diversion of development resources, require design modifications or impair customer satisfaction with the Domestic Companies' and our software. Since these software products are used by our customers to perform mission-critical functions related to petroleum mining and extraction, design defects, software errors, misuse of these products, incorrect data from external sources or other potential problems within or out of our control that may arise from the use of the Domestic Companies' and our products could result in financial or other damages to our customers. We do not maintain product liability insurance. Although our license agreements with customers contain provisions designed to limit our exposure to potential claims as well as any liabilities arising from such claims, such provisions may not effectively protect us against such claims and the liability and costs associated therewith. To the extent we are found liable in a product liability case, we could be required to pay substantial amount of damages to an injured customer, thereby impairing our financial condition.

We are dependent on the state of the PRC's economy as the majority of our business is conducted in the PRC.

Currently, the majority of our business operations are conducted in the PRC, and most of our customers are also located in the PRC. Accordingly, any significant slowdown in the PRC economy may cause our customers to reduce expenditures or delay the building of new facilities or projects. This may in turn lead to a decline in the demand for our products and services. That would have a material adverse effect on our business, financial condition and results of operations.

Our future success depends on our ability to help our customers find, develop and acquire petroleum reserves.

To remain competitive in our industry, our products must help our customers locate and develop or acquire new crude oil reserves to replace those depleted by production. Without successful exploration or acquisition activities, our customers' reserves, production and revenues will decline rapidly. If the Domestic Companies' and our technology is less well accepted for helping our customers locate additional reserves than our competitors' technology, our customers may terminate their relationships with us, which could have a material adverse effect on our financial condition and future growth prospects.

Our customers are companies engaged in the petroleum industry, and, consequently, our financial performance is dependent upon the economic conditions of that industry.

We have derived most of our revenues to date from providing integrated automation services to Chinese petroleum companies at oilfields within China. Our customers' success is intrinsically linked to economic conditions both in China and in the petroleum industry in general and the volatility of prices of crude oil and refined products in particular. The petroleum industry, in turn, is subject to intense competitive pressures and is affected by overall economic conditions. Demand for our services could be harmed by volatility in the petroleum industry. There can be no assurance that we will be able to continue our historical revenue growth or sustain our profitability on a quarterly or annual basis or that our results of operations will not be adversely affected by continuing or future volatility in the petroleum industry.

Our revenues are highly dependent on a very limited number of customers, which subjects our business to high seasonality. Our contracts with such customers may be terminated at any time, materially and adversely affecting our business.

Historically, we derived the majority of our revenues from two customers, (i) China National Petroleum Corporation ("CNPC") and (ii) China Petroleum and Chemical Corporation ("Sinopec"). Since the fiscal year ended June 30, 2017, Sinopec accounted for less than 5% of our revenues.

We provide products and services to CNPC under a series of agreements, each of which is terminable without notice. We first began to provide services to CNPC in 2000. CNPC accounted for approximately 45%, 72% and 75% of our revenues in the fiscal years ended June 30, 2018, 2017 and 2016, respectively, and any termination of our business relationships with CNPC would materially harm our operations.

In the fiscal year ended June 30, 2018, we had a new client of chemical plants, which accounted for approximately 43.29% of our revenues. We also signed a series of contracts with Shenhua Group Corporation Limited ("Shenhua Group") and expect to receive significant revenue from it in the fiscal year 2019. Any termination of our business relationships with CNPC or any other major client would materially harm our operations.

Because we derive such a high percentage of our revenues from CNPC and a few new clients, our revenue has been subject to high seasonality. We recognize revenue when it is realized and earned. We consider revenue realized or realizable and earned when (1) we have persuasive evidence of an arrangement, (2) delivery has occurred, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Because these matters depend on reaching agreements with these clients, revenue recognition occurs, to a large extent, on their schedule. Accordingly, revenue

recognized in the first quarter is usually the smallest in proportion to that for the whole year, due to our clients' budgeting and planning schedules. If these clients were to change its budgeting or planning schedule our high and low quarters could also shift. This seasonality limits our ability to make accurate long-term predictions about our performance and makes it difficult to compare our revenues across quarters.

Changes in environmental and regulatory factors may harm our business.

The oil drilling industry in China to date has not been subject to the type and scope of regulation seen in Europe and the United States. However, the Chinese government may implement new legislation or regulations or may enforce existing laws more stringently. Either of these scenarios may have a significant impact on our customers' mining and extraction operations and may require us or our customers to significantly change operations or to incur substantial costs. We believe that the Domestic Companies' and our operations in China are in compliance with China's applicable legal and regulatory requirements. However, there can be no assurance that China's central or local governments will not impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures.

Petroleum reserve degradation and depletion may reduce our customers' and our profitability.

Our profitability depends substantially on our ability to help our customers exploit their oil reserves at competitive costs. Replacement reserves may not be available to our customers when required or, if available, may not be drilled at costs comparable to those characteristics of the depleting oilfield. The Domestic Companies' and our technology may not enable our customers to accurately assess the geological characteristics of any new reserves, which may adversely affect their decision to use the Domestic Companies' and our products in the future.

We are heavily dependent upon the services of experienced personnel who possess skills that are valuable in our industry, and we may have to actively compete for their services.

Our company is much smaller than our main foreign competitors, including Schlumberger Limited, Honeywell International, Emerson Process Management and Rockwell Automation, and we compete in large part on the basis of the quality of services we are able to provide our clients. As a result, we are heavily dependent upon our ability to attract, retain and motivate skilled personnel to serve our clients. Many of our personnel possess skills that would be valuable to all companies engaged in the integrated automation services industry. Consequently, we expect that we will have to actively compete for these employees. Some of our competitors may be able to pay our employees more than we are able to pay to retain them. Our ability to profitably operate is substantially dependent upon our ability to locate, hire, train and retain our personnel. There can be no assurance that we will be able to retain our current personnel, or that we will be able to attract or assimilate other personnel in the future. If we are unable to effectively obtain and maintain skilled personnel, the development and quality of our technological products and the effectiveness of installation and training could be materially impaired.

We are substantially dependent upon our key personnel, particularly Yin Shenping, our Chief Executive Officer, Mr. Chen Guangqiang, our Chief Technology Officer and Ms. Liu Jia, our Chief Financial Officer.

Our performance is substantially dependent on the performance of our executive officers and key employees. In particular, we rely on the services of:

- ◆ Mr. Yin Shenping, Chief Executive Officer;
- ◆ Mr. Chen Guangqiang, Chief Technology Officer; and
- ◆ Ms. Liu Jia, Chief Financial Officer.

Each of these individuals would be difficult to replace. We do not have in place “key person” life insurance policies on any of our employees. The loss of the services of any of our executive officers or other key employees could substantially impair our ability to successfully development new systems and develop new programs and enhancements. In addition, we would need to spend considerable time and other resources to seek suitable replacements, which might detract from our efforts to develop our business.

Our business is capital intensive and our growth strategy may require additional capital, which may not be available on favorable terms or at all.

We may require additional cash resources due to changed business conditions, implementation of our growth strategy or potential investments or acquisitions we may pursue. To meet our capital needs, we may sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities or other securities convertible into such equity securities could result in dilution of your holdings. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

We do not intend to pay dividends in the foreseeable future and there are certain restrictions on the payment of dividend under PRC laws.

We have not previously paid any cash dividends, and we do not anticipate paying any dividends on our ordinary shares. As we intend to remain in a growth mode, we intend to reinvest any profits in the foreseeable future to grow the business. We cannot assure you that our operations will continue to result in sufficient revenues to enable us to operate at profitable levels or to generate positive cash flows. Furthermore, there is no assurance our Board of Directors will declare dividends even if we are profitable. Dividend policy is subject to the discretion of our Board of Directors and will depend on, among other things, our earnings, financial condition, capital requirements and other factors. If we determine to pay dividends on any of our ordinary shares in the future, we will be dependent, in large part, on receipt of funds from the Domestic Companies.

We are a holding company with no operations of our own and substantially all of our operations are conducted through Nanjing Recon and BHD, hereafter referred to as our Domestic Companies, which are established as variable interest entities (“VIEs”) under the laws of the People’s Republic of China (“PRC”). Our ability to pay dividends is dependent upon dividends and other distributions from the Domestic Companies. Chinese legal restrictions permit payment of dividends to us by our Domestic Companies only out of their respective accumulated net profits, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, our Domestic Companies are required to set aside a portion (at least 10%) of their after-tax net income (after discharging all cumulated loss), if any, each year for compulsory statutory reserve until the amount of the reserve reaches 50% of our Domestic Companies’ registered capital. These funds may be distributed to shareholders at the time of each Domestic Company’s wind up. Payments of dividends by Domestic Companies to us are also subject to restrictions including primarily the restriction that foreign invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents. There are no such similar foreign exchange restrictions in the Cayman Islands.

Our certificates, permits, and license are subject to governmental control and renewal, and the failure to obtain renewal would cause all or part of our operations to be suspended and may have a material adverse effect on our financial condition.

We are subject to various PRC laws and regulations pertaining to automation services for the petroleum extraction industry. We have obtained certain certificates, permits, and licenses required for the operation of an automation services provider for the petroleum extraction industry and the manufacturing and distribution of software and hardware products in the PRC.

During the application or renewal process for our licenses and permits, we will be evaluated and re-evaluated by the appropriate governmental authorities and must comply with the prevailing standards and regulations, which may change from time to time. In the event that we are not able to obtain or renew the certificates, permits and licenses, all or part of our operations may be suspended by the government, which would have a material adverse effect on our business and financial condition. Furthermore, if escalating compliance costs associated with governmental standards and regulations restrict or prohibit any part of our operations, it may adversely affect our results of operations and profitability.

Risks Related to Our Corporate Structure

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, and the enforcement and performance of our contractual arrangements with the Domestic Companies and their shareholders.

Recon Technology, Ltd (the “Company”), Recon Technology Co., Limited (“Recon HK”), Jining Recon Technology Ltd. (“Recon JN”), Recon Investment Ltd. (“Recon IN”) and Recon Hengda Technology (Beijing) Co., Ltd. (“Recon BJ”) are considered foreign persons or foreign invested enterprises under PRC law. As a result, the Company, Recon-HK, Recon-JN, Recon-IN and Recon-BJ are subject to PRC law limitations on foreign ownership of domestic companies. Although the primary business of the Domestic Companies falls within a category in which foreign investment is currently encouraged, the uncertainty of PRC regulations and governmental policies affecting foreign ownership may result in the Company being required to hold (or, conversely, being prohibited from holding), directly or indirectly, a given percentage of the Domestic Companies’ equity interests. Our contractual arrangements with the Domestic Companies and their shareholders, which allow us to substantially control the Domestic Companies through Recon-JN, are governed by Chinese law. We cannot assure you, however, that we will be able to enforce these contracts. If we are unable to enforce these contracts, we could be required to deconsolidate such Domestic Company from our financial results.

In addition, Chinese laws and regulations limiting foreign ownership of domestic companies are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations and future growth prospects.

Although we believe we comply and will continue to comply with current PRC regulations, we cannot assure you that the PRC government would agree that these operating arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business.

The PRC government may determine that the agreements we use to control the Domestic Companies are not in compliance with applicable PRC laws, rules and regulations and are therefore unenforceable.

In the PRC, foreign invested enterprises are forbidden or restricted to engage in certain specified businesses or industries which are sensitive to the economy. The Chinese government periodically revises its list of encouraged, permitted, restricted, and forbidden industries. As we intend to centralize our management and operation in the PRC without being restricted to conduct certain business activities which are important for our current or future business but are restricted or might be restricted in the future, we believe the agreements between Recon-JN and the Domestic Companies will be essential for our business operation. In order for Recon-JN to manage and operate our business through the Domestic Companies in the PRC, these agreements were entered into under which almost all the business activities of the Domestic Companies are managed and operated by Recon-JN and almost all economic benefits and risks arising from the business of the Domestic Companies are transferred to Recon-JN.

Risks are associated with our operations under the agreements with the Domestic Companies. If the PRC government determines that these agreements used to control the Domestic Companies are unenforceable as they circumvent the PRC restrictions relating to foreign investment restrictions, the relevant regulatory authorities would have broad discretion in dealing with such breach, including:

- imposing economic penalties;
- discontinuing or restricting our operations;
- imposing conditions or requirements in respect of the agreements with the Domestic Companies with which we may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could adversely affect our business; and

revoking the business license and/or the licenses or certificates of Recon-JN, and/or voiding the agreements.

Any of these actions could have a material adverse impact on our business, future operating prospects, financial condition and results of operations.

Our contractual arrangements with the Domestic Companies and their respective shareholders may not be as effective in providing control over these entities as direct ownership.

We have no equity ownership interest in the Domestic Companies and rely on contractual arrangements to control and operate such businesses. These contractual arrangements may not be as effective in providing control over the Domestic Companies as direct ownership. For example, BHD could fail to take actions required for our business or fail to pay dividends to Recon-JN despite its contractual obligation to do so. If the Domestic Companies fail to perform under their agreements with us, we may have to rely on legal remedies under PRC law, which may not be effective. In addition, we cannot assure you that any of the Domestic Companies' shareholders would always act in our best interests.

Regulations relating to offshore investment activities by PRC residents may limit our ability to acquire PRC companies and could adversely affect our business.

In July 2014, SAFE promulgated the Circular on Issues Concerning Foreign Exchange Administration Over the Overseas Investment and Financing and Roundtrip Investment by Domestic Residents Via Special Purpose Vehicles, or Circular 37, which replaced Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, or Circular 75. Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, referred to in Circular 37 as a "special purpose vehicle" for the purpose of holding domestic or offshore assets or interests. Circular 37 further requires amendment to a PRC resident's registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease in the capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. Under these regulations, PRC residents' failure to comply with specified registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on capital inflows from the offshore entity to the PRC entity, including restrictions on its ability to contribute additional capital to its PRC subsidiaries. Further, failure to comply with the SAFE registration requirements could result in penalties under PRC law for evasion of foreign exchange regulations.

As Circular 37 is newly-issued, it is unclear how these regulations will be interpreted and implemented. In addition, different local SAFE branches may have different views and procedures as to the interpretation and implementation of the SAFE regulations, and it may be difficult for our ultimate shareholders or beneficial owners who are PRC residents to provide sufficient supporting documents required by the SAFE or to complete the required registration with the SAFE in a timely manner, or at all. Any failure by any of our shareholders who is a PRC resident, or is controlled by a PRC resident, to comply with relevant requirements under these regulations could subject us to fines or sanctions imposed by the PRC government, including restrictions on Recon-JN's ability to pay dividends or make distributions to us and on our ability to increase our investment in the Recon-JN.

Under Circular 37, if a non-listed special purpose vehicle uses its own equity or share option to grant equity incentive awards to directors, supervisors, members of senior management or employees directly employed by a domestic enterprise that is directly or indirectly controlled by such special purpose vehicle, or with which such employee has established an employment relationship, any of such directors, supervisors, members of senior management or employees who is a PRC resident should, prior to exercising their rights, file an application with the SAFE for foreign exchange registration with respect to such special purpose vehicle. However, in practice, different local SAFE branches may have different views and procedures as to the interpretation and implementation of the SAFE regulations and, since Circular 37 was the first regulation to regulate the foreign exchange registration of a non-listed special purpose vehicle's equity incentive granted to PRC residents, there remains uncertainty with respect to its implementation.

Our contractual arrangements with the Domestic Companies may result in adverse tax consequences to us.

As a result of our corporate structure and contractual arrangements between Recon-JN and the Domestic Companies, we are effectively subject to several PRC taxes on both revenues generated by Recon-JN's operations in China and revenues derived from Recon-JN's contractual arrangements with the Domestic Companies. Moreover, we would be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between Recon-JN and the Domestic Companies were not on an arm's length basis and therefore constitute a favorable transfer pricing. As a result, the PRC tax authorities could request that we adjust our taxable income upward for PRC tax purposes. If the PRC tax authorities took such action, such authorities would be able to establish in its sole discretion the amount of tax payable by Recon-JN, so we cannot predict the effect of such action on our company other than the likely effect that our profits would decrease. Such a pricing adjustment could adversely affect us by:

- increasing our tax expenses, which could subject Recon-JN to late payment fees and other penalties for under-payment of taxes; and/or

- resulting in Recon-JN's loss of preferential tax treatment.

The principal shareholders of the Domestic Companies have potential conflicts of interest with us, which may adversely affect our business.

Yin Shenping, our Chief Executive Officer, and Chen Guangqiang, our Chief Technology Officer, are significant shareholders in our company. They are also the principal shareholders of each of the Domestic Companies and collectively control the Domestic Companies. Conflicts of interests between their duties to our company and the respective Domestic Companies may arise. For example, Mr. Yin and Mr. Chen could cause a Domestic Company to fail to take actions that are in the best interests of our Company or to fail to pay dividends to Recon-JN despite its contractual obligation to do so if making such payment would harm the Domestic Company.

As Mr. Yin and Mr. Chen are also directors and executive officers of our company, they have duties of loyalty and care to us under Cayman Islands law when there are any potential conflicts of interests between our company and the Domestic Companies. Each of Mr. Yin and Mr. Chen has executed an irrevocable power of attorney to appoint the individual designated by us to be his attorney-in-fact to vote on his behalf on all matters related to the Domestic Companies requiring shareholder approval. We cannot assure you, however, that if conflicts of interest arise, they will act completely in our interests or that conflicts of interests will be resolved in our favor. In addition, Mr. Yin and Mr. Chen could violate their respective employment agreements with us or their legal duties by diverting business opportunities from us to others. If we cannot resolve any conflicts of interest between us and Mr. Yin and Mr. Chen, as applicable, we would have to rely on legal proceedings, which could result in the disruption of our business.

Any deterioration of the relationship between Recon-JN and the Domestic Companies could materially and adversely affect the overall business operation of our company.

Our relationship with our Domestic Companies is governed by their agreements with Recon-JN, which are intended to provide us, through our indirect ownership of Recon-JN, with effective control over the business operations of our Domestic Companies. However, these agreements may not be effective in providing control over the applications for and maintenance of the licenses required for our business operations. Our Domestic Companies could violate these agreements, go bankrupt, suffer from difficulties in its business or otherwise become unable to perform its obligations under these agreements and, as a result, our operations, reputation, business and stock price could be severely harmed.

If Recon-JN exercises its purchase option of the Domestic Companies' equity pursuant to the Exclusive Equity Interest Purchase Agreement, payment of the purchase price could materially and adversely affect our financial position.

Under the Exclusive Equity Interest Purchase Agreement, Recon-JN holds an option to purchase all or a portion of the equity of the Domestic Companies at a price, based on the capital paid in by the Domestic Company shareholders. If applicable PRC laws and regulations require an appraisal of the equity interest or provide other restriction on the purchase price, the purchase price shall be the lowest price permitted under the applicable PRC laws and regulations. As the Domestic Companies are already contractually controlled affiliates to our company, Recon-JN's purchase of the Domestic Companies' equity would not bring immediate benefits to our company and the exercise of the option and payment of the purchase prices could adversely affect our financial position and available working capital.

Our classified board structure may prevent a change in our control.

Our board of directors is divided into three classes of directors. The current terms of the directors expire in 2018, 2019 and 2020. Directors of each class are chosen for three-year terms upon the expiration of their current terms, and each year one class of directors is elected by the shareholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our shareholders.

Shareholder rights under Cayman Islands law may differ materially from shareholder rights in the United States, which could adversely affect the ability of us and our shareholders to protect our and their interests.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Law (2013 Revision) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders, and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the decisions of whose courts are of persuasive authority but are not binding on a court in the Cayman Islands. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate laws. Moreover, our company could be involved in a corporate combination in which dissenting shareholders would have no rights comparable to appraisal rights which would otherwise ordinarily be available to dissenting shareholders of United States corporations. However, Cayman Islands statutory law does provide a mechanism for a dissenting shareholder in a merger or consolidation to apply to the Grand Court for a determination of the fair value of the dissenter's shares if it is not possible for the dissenter and the Company to agree a fair price within the time limits prescribed. Also, our Cayman Islands counsel is not aware of a significant number of

reported derivative actions having been brought in Cayman Islands courts. Class actions are not recognized in the Cayman Islands, but groups of shareholders with identical interests may bring representative proceedings which are similar. Such actions are ordinarily available in respect of United States corporations in U.S. courts. Finally, Cayman Islands companies may not have standing to initiate shareholder derivative action before the federal courts of the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against the management, directors or our controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States, and our ability to protect our interests may be limited if we are harmed in a manner that would otherwise enable us to sue in a United States federal court.

As we are a Cayman Islands company and most of our assets are outside the United States, it will be extremely difficult to acquire jurisdiction and enforce liabilities against us and our officers, directors and assets based in China.

We are a Cayman Islands exempt company, and our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Islands Companies Law (2013 Revision) and other applicable Cayman Islands laws. Certain of our directors and officers reside outside of the United States. In addition, the Company's assets will be located outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon our directors or officers and our subsidiaries, or enforce against any of them court judgments obtained in United States' courts, including judgments relating to United States federal securities laws. In addition, there is uncertainty as to whether the courts of the Cayman Islands and of other offshore jurisdictions would recognize or enforce judgments of United States' courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof on the grounds that such provisions are penal in nature, or be competent to hear original actions brought in the Cayman Islands or other offshore jurisdictions predicated upon the securities laws of the United States or any state thereof. Our Cayman Islands' counsel has advised us that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, provided it is not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands' judgment in respect of the same matters, and was not obtained in a manner which is contrary to the public policy of the Cayman Islands. A Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere. Furthermore, because the majority of our assets are located in China, it would also be extremely difficult to access those assets to satisfy an award entered against us in United States court.

Risks Related to Doing Business in China

Adverse changes in China's political, economic or social conditions or government policies could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially adversely affect our competitive position.

We conduct substantially all of our operations and generate most of our revenues in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;

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the early stage of development of the market-oriented sector of the economy;

- the relatively rapid growth rate;
- the higher level of control over foreign exchange; and
- the allocation policies of resources.

While the PRC economy has grown significantly since the late 1970s, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on our business. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. The PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiary in the PRC, Recon-JN, which is a wholly foreign owned enterprise in China. The Company also wholly owns Recon-BJ, which was incorporated under the laws of the PRC, through Recon-IN. Recon-JN and Recon-BJ are generally subject to laws and regulations applicable to foreign invested enterprises in China and intellectual property protections. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, a series of new PRC laws and regulations have significantly enhanced the protections afforded to intellectual property rights and various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We do not have business interruption, litigation or natural disaster insurance.

The insurance industry in China is still at an early stage of development. In particular PRC insurance companies offer limited business products. As a result, we do not have any business liability or disruption insurance coverage for our operations in China. Any business interruption, litigation or natural disaster may result in our business incurring substantial costs and the diversion of resources.

We may be subject to foreign exchange controls in the PRC.

Our PRC subsidiary and affiliates are subject to PRC rules and regulations on currency conversion. In the PRC, the State Administration for Foreign Exchange (“SAFE”) regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises (“FIEs”) are required to apply to SAFE for “Foreign Exchange Registration Certificate for FIEs.” Recon-JN and Recon-BJ are FIEs. With such registration certifications (which need to be renewed annually), FIEs are allowed to open foreign currency accounts including the “recurrent account” and the “capital account.” Currently, conversion within the scope of the “recurrent account” can be effected without requiring the approval of SAFE. However, conversion of currency in the “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE. Accordingly, compliance with SAFE requirements may limit how we are able to use our funds, in ways that we would not be limited if we operated in countries other than China.

Fluctuations in exchange rates could adversely affect the value of our securities.

Changes in the value of the RMB against the U.S. dollar and other foreign currencies are affected by, among other things, changes in China’s political and economic conditions. Any significant revaluation of the RMB may have a material adverse effect on the value of, and any dividends payable on our shares in U.S. dollar terms. For example, if we decide to convert our RMB into U.S. dollars for the purpose of paying dividends on our ordinary shares or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us.

Since July 2005, the RMB is no longer pegged to the U.S. dollar. Although the People’s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. We do not plan to enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Recent PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents, if applied to us, may subject our PRC resident shareholders to personal liability and limit our ability to acquire PRC companies or to inject capital into Recon-JN, Recon-HK, Recon-IN and Recon-BJ, limit Recon-JN's, Recon-HK's, Recon-IN's and Recon-BJ's ability to distribute profits to us or otherwise materially adversely affect us.

On October 21, 2005, SAFE issued a public notice, the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, or the SAFE notice, which requires PRC residents, including both legal persons and natural persons, to register with the competent local SAFE branch before establishing or controlling any company outside of China, referred to as an “offshore special purpose company,” for the purpose of overseas equity financing involving onshore assets or equity interests held by them. In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. Moreover, if the offshore special purpose company was established and owned the onshore assets or equity interests before November 1, 2005, a retroactive SAFE registration is required to have been completed before March 31, 2006. If any PRC shareholder of any offshore special purpose company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore special purpose company (Recon-JN, Recon-HK, Recon-IN and Recon-BJ for our company) may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore special purpose company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Due to lack of official interpretation, some of the terms and provisions in the SAFE notice remain unclear and implementation by central SAFE and local SAFE branches of the SAFE notice has been inconsistent since its adoption. Because of uncertainty over how the SAFE notice will be interpreted and implemented, we cannot predict how it will affect our business operations or future strategies. For example, Recon-JN's, Recon-HK's, Recon-IN's, Recon-BJ's and any prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with the SAFE notice by our company's PRC resident beneficial holders. In addition, such PRC residents may not always be able to complete the necessary registration procedures required by the SAFE notice. We also have little control over either our present or prospective direct or indirect shareholders or the outcome of such registration procedures. A failure by our PRC resident beneficial holders or future PRC resident shareholders to comply with the SAFE notice, if SAFE requires it, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiary's ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

Under the Enterprise Income Tax Law, we may be classified as a “Resident Enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.

China passed the Enterprise Income Tax Law, or the EIT Law, and it is implementing rules, both of which became effective on January 1, 2008. Under the EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

On April 22, 2009, the State Administration of Taxation of China, or the SAT, issued the Circular Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of de facto Management Bodies, or the SAT Notice 82, further interpreting the application of the EIT Law and its implementation to offshore entities controlled by a Chinese enterprise or enterprise group. Pursuant to the SAT Notice 82, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or enterprise group will be classified as a “non-domestically incorporated resident enterprise” if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate stamps, board and shareholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management often resident in China. After SAT Notice 82, the SAT issued a bulletin, known as SAT Bulletin 45, which took effect on September 1, 2011, to provide more guidance on the implementation of SAT Notice 82 and clarify the reporting and filing obligations of such “non-domestically incorporated resident enterprise.” SAT Bulletin 45 provides procedures and administrative details for the determination of resident status and administration on post-determination matters. On January 29, 2014, the SAT issued Announcement of the State Administration of Taxation on Recognizing Resident Enterprises Based on the Criteria of de facto Management Bodies, to further clarify the reporting and filing procedure for offshore entities controlled by a Chinese enterprise or enterprise group and recognized as a resident enterprise.

The determining criteria set forth in SAT Notice 82 and SAT Bulletin 45 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, PRC enterprise groups or by PRC or foreign individuals. If the PRC tax authorities determine that Recon or its subsidiaries is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Currently, we do not have any non-China source income, as we complete our sales, including export sales, in China. Second, under the EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries would be deemed as "qualified investment income between resident enterprises" and therefore qualify as "tax-exempt income" pursuant to the clause 26 of the EIT Law. Finally, it is possible that future guidance issued with respect to the new "resident enterprise" classification could result in a situation in which the dividends we pay with respect to our ordinary shares, or the gain our non-PRC stockholders may realize from the transfer of our ordinary shares, may be treated as PRC-sourced income and may therefore be subject to a 10% PRC withholding tax. If we are required under the EIT Law and its implementing regulations to withhold PRC income tax on dividends payable to our non-PRC stockholders, or if non-PRC stockholders are required to pay PRC income tax on gains on the transfer of their shares of ordinary shares, our business could be negatively impacted and the value of your investment may be materially reduced. Further, if we were treated as a "resident enterprise" by PRC tax authorities, we would be subject to taxation in both China and such countries in which we have taxable income, and our PRC tax may not be creditable against such other taxes.

PRC regulations and potential registration requirements relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate.

On August 8, 2006, six PRC regulatory agencies, including the PRC Ministry of Commerce ("MOC"), the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission ("CSRC") and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which came into effect on September 8, 2006 and was amended on June 22, 2009. The M&A Rules significantly revised China's regulatory framework governing onshore-to-offshore restructurings and foreign acquisitions of domestic enterprises. These new rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOC as a key regulator for issues related to mergers and acquisitions in China and requiring MOC approval of a broad range of merger, acquisition and investment transactions. Further, the new rules establish reporting requirements for acquisition of control by foreigners of companies in key industries and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries.

Among other things, the M&A Rules include new provisions that purport to require that an offshore SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals must obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to

it by SPVs seeking CSRC approval of their overseas listings. However, the application of this PRC regulation remains unclear with no consensus currently existing among the leading PRC law firms regarding the scope and applicability of the CSRC approval requirement.

If the PRC regulatory authorities take the view that the VIE Agreements constitute a reverse merger acquisition or round-trip investment in related party transactions without the approval of the national offices of MOC, they could invalidate the VIE Agreements. Additionally, the PRC regulatory authorities may take the view that any public offering plan will require the prior approval of CSRC. If we cannot obtain MOC or CSRC approval in case we are required to do so, our business and financial performance will be materially adversely affected. We may also face regulatory actions or other sanctions from the MOC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds of this or any other offering into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ordinary shares.

Also, if the CSRC later requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our ordinary shares.

PRC registration requirements for stock option plans of overseas publicly-listed companies may restrict our ability to adopt equity compensation plans for our directors and employees or otherwise limit our PRC subsidiaries' ability to distribute profits to us.

In February 2012, SAFE promulgated the Notice on the Administration of Foreign Exchange Matters for Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies, or the Stock Option Notice, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by SAFE on March 28, 2007. Under the Stock Option Notice and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must collectively retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also collectively retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted stock options are subject to these regulations. Failure of our PRC stock option holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to compensate our employees and directors through equity compensation, limited our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially adversely affect our business.

The Chinese government could change its policies toward private enterprise or even nationalize or expropriate private enterprises, which could result in the total loss of our investment in that country.

Our business is subject to significant political and economic uncertainties and may be adversely affected by political, economic and social developments in China. Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activity and greater economic decentralization. The Chinese government may not continue to pursue these policies or may significantly alter them to our detriment from time to time with little, if any, prior notice.

Changes in policies, laws and regulations or in their interpretation or the imposition of confiscatory taxation, restrictions on currency conversion, restrictions or prohibitions on dividend payments to shareholders, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business. Nationalization or expropriation could even result in the total loss of our investment in China and in the total loss of your investment in us.

We may be unable to establish and maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results or prevent fraud.

The PRC historically has been deficient in western style management, governance and financial reporting concepts and practices, as well as in modern banking, and other control systems. Our current management has little experience with western style management, governance and financial reporting concepts and practices, and we may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, and especially given that we are a publicly listed company in the U.S. and subject to regulation as such, we may experience difficulty in establishing management, governance, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet western standards. We may have difficulty establishing adequate management, governance, legal and financial controls in the PRC. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002 and other applicable laws, rules and regulations. This may result in significant deficiencies or material weaknesses in our internal controls which could impact the reliability of our financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act of 2002. Any such deficiencies, weaknesses or lack of compliance could have a materially adverse effect on our business and the public announcement of such deficiencies could adversely impact our stock price.

Risks Related to Our Ordinary Shares

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;

- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and

- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of the NASDAQ Capital Market. Press releases relating to financial results and material events are also furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC is less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a U.S. domestic issuer. As a Cayman Islands company listed on the NASDAQ Capital Market, we are subject to the NASDAQ Capital Market corporate governance listing standards. However, NASDAQ Capital Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ Capital Market corporate governance listing standards. To the extent that we choose to utilize the home country exemption for corporate governance matters, our shareholders may be afforded less protection than they otherwise would under the NASDAQ Capital Market corporate governance listing standards applicable to U.S. domestic issuers. We follow home country practice with respect to annual shareholders meetings

You may experience future dilution as a result of future equity offerings.

In order to raise additional capital, we may in the future offer additional ordinary shares or other securities convertible into or exchangeable for our ordinary shares at prices that may not be the same as the price per share you paid. We may sell shares or other securities in any other offering at a price per share that is less than the price per share paid by existing investors, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional ordinary shares, or securities convertible or exchangeable into ordinary shares, in future transactions may be higher or lower than the price per share paid by existing investors.

We do not intend to pay dividends in the foreseeable future.

We have never paid cash dividends on our ordinary shares. We currently intend to retain our future earnings, if any, to finance the operation and growth of our business and currently do not plan to pay any cash dividends in the foreseeable future.

Future sales of a significant number of our ordinary shares in the public markets, or the perception that such sales could occur, could depress the market price of our ordinary shares.

Future sales of a substantial number of our ordinary shares in the public markets, or the perception that such sales could occur, could depress the market price of our ordinary shares and impair our ability to raise capital through the sale of additional equity securities. If any existing shareholder or shareholders sell a substantial amount of our ordinary shares, the prevailing market price for our ordinary shares could be adversely affected. In addition, if we pay for our future acquisitions in whole or in part with additionally issued ordinary shares, your ownership interests in our company would be diluted and this, in turn, could have a material and adverse effect on the price of our ordinary shares.

The market price for our securities may be volatile, which could result in substantial losses to investors.

The market price for our ordinary shares has been, and is likely to remain, volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in the Chinese petroleum and energy industries;
- changes in the Chinese economy;
- announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- future sales of our ordinary shares;
- period to period fluctuations in our financial results;
- low trading volume of our ordinary shares;
- additions or departures of key personnel; or
- potential litigation.

We expect that any other securities of our Company are likely to be similarly volatile. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. As a result, to the extent shareholders sell our securities in negative market fluctuation, they may not receive a price per share that is based solely upon our business performance. We cannot guarantee that shareholders will not lose some of their entire investment in our securities.

Item 4. Information on the Company

A. History and Development of the Company

Recon Technology, Ltd (the “Company”) was incorporated under the laws of the Cayman Islands on August 21, 2007 by Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (the “Founders”) as a company with limited liability. We provide oilfield specialized equipment, automation systems, tools, chemicals and field services to petroleum companies mainly in the People’s Republic of China (the “PRC”). The Company’s wholly owned subsidiary, Recon Technology Co., Limited (“Recon-HK”) was incorporated on September 6, 2007 in Hong Kong. On November 15, 2007, Recon-HK established one wholly owned subsidiary, Jining Recon Technology Ltd. (“Recon-JN”) under the laws of the PRC. Other than the equity interest in Recon-JN, Recon-HK does not own any assets or conduct any operations. On November 19, 2010, the Company established another wholly owned subsidiary, Recon Investment Ltd. (“Recon-IN”) under the laws of HK. On January 18, 2014, Recon-IN established one wholly owned subsidiary, Recon Hengda Technology (Beijing) Co., Ltd. (“Recon-BJ”) under the laws of the PRC. Other than the equity interest in Recon-BJ, Recon-IN does not own any assets or conduct any operations.

We conduct our business through the following PRC legal entities that are 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”).

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

Recon-JN also entered into Share Pledge Agreements with the Founders, who pledged all their equity interest in these entities to Recon-JN. The Share Pledge Agreements, which were entered into by each Founder, pledged each of the

Founders' equity interest in BHD and Nanjing Recon as a guarantee for the service payment under the Service Agreement.

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

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

Based on these exclusive agreements, we consolidated BHD and Nanjing Recon as VIEs as required by Accounting Standards Codification ("ASC") Topic 810, Consolidation because we were the primary beneficiary of the VIEs. Management makes ongoing reassessment of whether Recon-JN is the primary beneficiary of BHD and Nanjing Recon.

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

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

On January 29, 2015, we increased our authorized shares from 25,000,000 to 100,000,000 ordinary shares.

BHD, one VIE, controls following subsidiaries:

On December 17, 2015, Huang Hua BHD Petroleum Equipment Manufacturing Co. LTD (“HH BHD”), a fully owned subsidiary established by BHD was organized under the laws of the PRC.

On May 23, 2017, Gan Su BHD Environmental Technology Co., Ltd (“Gan Su BHD”) was established by BHD and another investor under the laws of the PRC, with registered capital of ¥50 million. It is focusing on oilfield sewage treatment and oily sludge disposal projects. As of June 30, 2018, BHD invested a total of ¥9.3 million Gan Su BHD. The paid in capital was ¥12,780,000 (\$1,930,572) as of June 30, 2018. Based on its revised chapter dated August 11, 2017, BHD owns an interest of 51% of Gan Su BHD.

On October 16, 2017, Qing Hai BHD New Energy Technology Co., Ltd. (“Qinghai BHD”) was established by BHD and a few other investors under the laws of the PRC, with registered capital of ¥50 million. It is focusing on design and production and sales of solar energy eating furnaces. As of June 30, 2018, BHD invested a total of ¥2.3 million to Qinghai BHD. The paid in capital was ¥2,450,000.00 (\$370,102) as of June 30, 2018. BHD owns an interest of 55% of Qinghai BHD.

B. Business Overview

General

Recon Technology, Ltd. (the “Company”, “we”, “us” or “our”) is a provider of hardware, software, and on-site services to companies in the petroleum mining and extraction industry in China (“PRC”). We provide services designed to automate and enhance the extraction of petroleum. To date, we control by contract the PRC companies of Beijing BHD Petroleum Technology Co., Ltd. (“BHD”) and Nanjing Recon Technology Co., Ltd. (“Nanjing Recon”). We refer to BHD and Nanjing Recon collectively as the “Domestic Companies” in this report.

The Company serves as the center of strategic management, financial control and human resources allocation for the Domestic Companies. 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.

We believe that one of the most important advancements in China’s petroleum industry has been the automation of significant segments of the exploration and extraction process. The Domestic Companies’ and our automation products and services allow petroleum mining and extraction companies to reduce their labor requirements and improve the productivity of oilfields. The Domestic Companies’ and our solutions allow our customers to locate productive oilfields more easily and accurately, improve control over the extraction process, increase oil yield efficiency in tertiary stage oil recovery, and improve the transportation of crude oil.

For the most recent few years, our capacity to provide integrated services has been a significant factor for long-term development. We treat simulation measures around fracturing as our entry point for our integrated service model. To date, we have formed new business modules through our own R&D, investment in service-team building and developed an integrated services solution for stimulation.

Market Background

China is the world's second-largest consumer of petroleum products, largest importer of petroleum and fourth-largest producer of petroleum. In the last twenty years, China's demand for oil has more than tripled, while its production of oil has only modestly increased. China became a net importer of petroleum in 1983, and, since then, oil production in China has been focused on meeting the country's domestic oil consumption requirements. The oil industry in China is dominated by three state-owned holding companies: China National Petroleum Corporation ("CNPC"), China Petroleum and Chemical Corporation ("Sinopec") and China National Offshore Oil Corporation ("CNOOC"). Foreign companies have also been deeply involved in China's petroleum industry; however, according to Chinese law, China's national oil companies still take a majority (or minority) stake in any commercial discovery. As a result, the number of major foreign companies involved in the industry is relatively limited in domestic area of China.

In the past, China's petroleum companies mined for petroleum by leveraging the country's abundance of inexpensive labor, rather than focusing on developing new technologies. For example, a typical, traditional oilfield with an annual capacity of 1,000,000 tons would require between 10,000 and 20,000 laborers. By contrast, when Baker CAC automated oil production products were employed in the mid-1990s to explore and automate Cainan Oilfield, a desert oilfield in Xinjiang, annual capacity for the field reached 1,500,000 tons, with only 400 employees needed to manage the oilfield. After the introduction of Baker CAC's products into China's petroleum industry, Chinese companies have also sought to provide automation solutions.

In the primary oil recovery stage, oil pressure in an oil reservoir may be high enough to force oil to the surface. Approximately 20% of oil may be harvested at this stage. The secondary oil recovery stage accounts for another 5% to 15% of oil recovery and involves such efforts as pumps to extract petroleum and the injection of water, natural gas, carbon dioxide or other gasses into the oil reservoir to force oil to the surface. Most oilfields in China have now entered into the tertiary stage of oil recovery, at which oil extraction becomes increasingly difficult and inefficient. Tertiary recovery generally focuses on decreasing oil viscosity to make extraction easier and accounts for between 5% and 15% of oil recovery. Our efforts in tertiary recovery focus on reducing water content in crude oil in order to make extraction more efficient and to improve the overall production of wells through advanced technologies and effective managing tools and approaches.

Products and Services

We currently provide products and services to oil and gas field companies, which focus on the development and production of oil and natural gas. Our products and services described below correlate to the numbered stages of the oilfield production system graphical expression shown below.

The following list shows our products and services. The first three items are covered by our (1) automation product and software segment and (2) equipment and accessories segment. The last item is covered by our oilfield environmental protection segment.

Equipment for Oil and Gas Production and Transportation

High-Efficiency Heating Furnaces (as shown above by process "3"). Crude petroleum contains certain impurities that must be removed before the petroleum can be sold, including water and natural gas. To remove the impurities and to prevent solidification and blockage in transport pipes, companies employ heating furnaces. BHD researched, developed and implemented a new oilfield furnace that is advanced, highly automated, reliable, easily operable, safe and highly heat-efficient (90% efficiency).

Burner (as shown above by process "5"). 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 concertedly with the security joint, hydraulic anchor, and slide bushing 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 uptake which makes the deblocking processes easier to realize. The back flushing is sand-stick proof.

Production Packer. According to different withdraw points, the production packer separates different oil layers, and protects the oil pipe from sand and permeability, so as to promote 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, piling 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 process by which the water locating and plugging can be finished in one trip. Our tubular column is adaptable to several oil drilling methods and is available for water locating and plugging in second and third class layers.

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

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

Electronic Broken-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 Service

Pumping Unit Controller. Refers to process "1" above. Functions as a monitor to the pumping unit, and also collects data for load, pressure, voltage, startup and shutdown control.

RTU Used to Monitor Natural Gas Wells. Collects gas well pressure data.

Wireless Dynamometer and Wireless Pressure Gauge. Refers to process “1” above. These products replace wired technology with cordless displacement sensor technology. They are easy to install and significantly reduce the working load associated with cable laying.

Electric Multi-Way Valve for Oilfield Metering Station Flow Control. Refers to process “2” above. 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. Flow computer system used in natural gas stations and gas distribution stations to measure flow.

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

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

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

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

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

Besides, we are also providing the following products and services beyond the oilfield industry:

Waste Water and Oil Treatment Products and Services

Oilfield sewage treatment. It is for oilfield waste water treatment solutions, related chemicals and onsite services customized to clients’ requirement. We have also developed our own designed equipment and aim to manufacture in the future.

Oily sludge disposal (planned). This planned business line will provide engineering services of oily sludge disposal in Gan Su province.

ISO9000 Certification

We have received ISO9000 certifications for several of our processes. The International Organization for Standardization consists of a worldwide federation of national standards bodies for approximately 130 countries, and the ISO9000 certification represents an international consensus of these standards bodies, with the aim of creating global standards of product and service quality. We have received ISO9000 certification for the following:

Nanjing Recon has received certification for the development and service of RSCADA.

BHD has received certification for high efficiency heating furnaces, import burners, and manometer surrogate rendition and service.

Customers

We operate our business by cooperating with oil companies and their subsidiaries, the petroleum administration bureau and local service companies. Historically, most actual control of our direct and indirect clients could be traced to Sinopec and CNPC, the two major Chinese state-owned companies responsible for on-shore petroleum mining and extraction. Since the fiscal year ended June 30, 2017, Sinopec accounted for less than 5% of our revenues.

We have conducted automation projects for plants in three of China's four highest producing oilfields, Daqing, Shengli and Xinjiang. We have undertaken the automation projects at the following locations, among others:

CNPC

Qinghai Oilfield

Tuha Oilfield

Daqing Oilfield

Jidong Oilfield

Sichuan Oilfield

Xinjiang Oilfield

Huabei Oilfield

Jilin Oilfield

Changqing Oilfield

We provide products and services to CNPC under a series of agreements, each of which is terminable without notice. We first began to provide services to CNPC in 2000. CNPC accounted for approximately 45.10%, 71.89% and 75.36% of our revenues in the fiscal years ended June 30, 2018, 2017 and 2016, respectively, and any termination of our business relationships with CNPC would materially harm our operations.

Sinopec

Jiangsu Oilfield

Shengli Oilfield

•The Northwest Division

•The Southwest Division

•Zhongyuan Oilfield

•Sichuan Oilfield

•Jiangnan Oilfield

We provide products and services to Sinopec under a series of agreements, each of which is terminable without notice. We first began to provide services to Sinopec in 1998. Sinopec accounted for approximately 2.26%, 3.75% and 8.85% of our revenues for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, and any termination of our business relationships with Sinopec would harm our operations.

Other Customers

In the fiscal year ended June 30, 2018, we had a new client of chemical plants, which accounted for approximately 43.29% of our revenues. We also signed a series of contracts with Shenhua Group and expect to receive significant revenue from it in the fiscal year 2019. Any termination of our business relationships with CNPC or any other major client would materially harm our operations.

Our Strengths

•*Safety of products. The automation projects we have conducted have demonstrated that our products are reliable, safe and effective at automating the petroleum extraction process.*

Efficiency of technology. We believe our technology increases efficiency and profitability for petroleum companies by enabling them to monitor, manage and control petroleum extraction; increase the amount of petroleum extracted and reduce impurities in extracted petroleum.

Ability to leverage our knowledge of Chinese business culture. Many of our competitors are based outside of China. As the Domestic Companies are based in China, we are in a unique position to emphasize Chinese culture and business knowledge to obtain new customers and new agreements with existing customers. We believe that many Chinese businesses, including state-owned companies like Sinopec and CNPC, would prefer to hire a Chinese company to assist in their business operations if a Chinese company exists with the ability to fulfill their needs on a timely and cost-efficient basis. In addition, our knowledge of Chinese culture allows us to anticipate and adapt to Chinese oilfield management methods. We provide our software solutions in Mandarin for the benefit of our Chinese customers, and all of our customer support is available from Mandarin-fluent personnel.

Experienced, successful executive management team. Our executive management team has significant experience and success in the petroleum automation industry. They will be able to draw on their knowledge of the industry and their relationships in the industry.

Ability to leverage China's cost structure. As a Chinese company, we believe we can operate our business more cost-effectively because all of our employees, operations and assets are located in China, resulting in lower labor, development, manufacturing and rent costs than we believe we would incur if we also maintained operations abroad. We expect these costs savings will be reflected in lower costs to our customers for comparable products.

Ownership of our intellectual property. Because we own our intellectual property, we are able to avoid licensing fees or contravening licensing agreements.

Our Strategies

Our goal is to help our customers improve their efficiency and profitability by providing them with software and hardware solutions and services to improve their ability to locate productive oil reservoirs, manage the oil extraction process, reduce extraction costs, and enhance recovery from extraction activities. Key elements of our strategies include:

Increase our market share in China. We believe that as the Chinese economy and oil industry continue to develop, Chinese petroleum extraction automation companies will compete with international businesses at an increasing rate. Consequently, we believe we will have opportunities to take market share from foreign companies by developing positive business relationships in China's petroleum mining and extraction industry. We will also use strategic advertisements, predominantly in China's northeast and northwest, where China's major oilfields are located, to increase our brand awareness and market penetration. We aim to continue developing new technologies designed to

improve petroleum mining and extraction efficiency and profitability for our customers.

Develop our own branded products and services and shift our focus away from trading business. Our management believes in the importance of our own branded products and our services, in light of their higher profit margins and their long-term significance in establishing the status of our Company in the oil and gas industry. Moreover, the trading business relies on the major clients' procurement policies toward agencies, any significant change of which could jeopardize our operating results. Our management therefore believes that in the long run we will need to focus our growth strategy in developing professional services for the oil and gas industry in China.

Focus on higher-profit subsection of market. While we plan to continue to provide services to all of our clients, we believe that we may improve our profit margins by focusing a higher portion of our advertising and promotions at those sub-divisions of our industry that have traditionally held the highest profit margins.

Offer services to foreign oilfields contracted by Chinese petroleum companies. As Sinopec and CNPC continue to invest in oilfields in other countries, we will focus on offering our services in these new locations based on our success in working with the companies in China.

Seek opportunities with foreign companies in China. Even where oilfields in China are partially operated by foreign companies, a significant number of employees will be Chinese and will benefit from our Chinese-language services. We believe our hardware and software solutions would be beneficial to any petroleum company doing business in China and plan to continue marketing to foreign companies entering the Chinese market.

Provide services that generate high customer satisfaction levels. Chinese companies in our market are strongly influenced by formal and informal referrals. We believe that we have the opportunity to expand market share by providing high levels of customer satisfaction with our current customers, thereby fostering strong customer referrals to support sales activities.

Competition

We face competition from a variety of foreign and domestic companies involved in the petroleum mining automation industry. While we believe we effectively compete in our market, our competitors hold a substantial market share.

A few of our existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical, marketing and other resources than we do, which could provide them with a significant competitive advantage over us. We cannot guarantee that we will be able to compete successfully against our current or future competitors in our industry or that competition will not have a material adverse effect on our business, operating results and financial condition.

Our primary domestic competitors include the following:

Beijing Echo Technologies Development Co., Ltd. (“BET”). BET provides a combination of software and hardware products for industrial automatic control systems in the petroleum industry. BET currently engages in research and development of software and hardware applied to industrial automatic control systems, manufacturing and installation of industrial automation instruments and integration of automatic control products.

Anton Oilfield Services Group (HKEx stock code: 3337) is a leading independent oilfield services provider offering one-stop oil and gas field technical development services to oil companies. Its services and solutions span across the drilling technology, well completion, downhole operation, and oil production phases in the development cycle. Its fast

growth benefits from the accelerated development of natural gas in China and the Group's increased presence in the overseas markets.

China Oil HBP Group (code: 002554), founded in 1998, is an international supplier committed to providing comprehensive solutions for oil and gas development and exploitation.

Jereh Environmental Management Group (code: 002353), is an international, integrated oil and gas company specializing in oil & gas EPC services, oilfield technology services and equipment manufacturing.

Research and Development

We focus our research and development efforts on improving our development efficiency and the quality of our products and services. As of June 30, 2018, our research and development team consisted of 30 experienced engineers, developers and programmers. In addition, some of our support employees regularly participate in our research and development programs.

In the fiscal years ended June 30, 2018, 2017 and 2016, we spent approximately RMB 3.2 million (approximately \$0.5 million), 7.6 million (approximately \$1.1 million) and RMB 6.9 million (\$1.0 million), respectively, on research and development activities.

Intellectual Property

Our success and competitive position is dependent in part upon our ability to develop and maintain the proprietary aspect of our technology. The reverse engineering, unauthorized copying, or other misappropriation of our technology could enable third parties to benefit from our technology without paying for it. We rely on a combination of trademark, trade secret, copyright law and contractual restrictions to protect the proprietary aspects of the Domestic Companies' and our technology. We seek to protect the source code to the Domestic Companies' and our software, documentation and other written materials under trade secret and copyright laws. While we actively take steps to protect the Domestic Companies' and our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of the Domestic Companies' and our intellectual property. This is particularly the case in China where the laws may not protect our proprietary rights as fully as in the United States.

We license the Domestic Companies' and our software products under signed license agreements that impose restrictions on the licensee's ability to utilize the software and do not permit the re-sale, sublicense or other transfer of the software. Finally, we seek to avoid disclosure of the Domestic Companies' and our intellectual property by requiring employees and independent consultants to execute confidentiality agreements.

Although we develop our software products in conjunction with the Domestic Companies, each software product is based upon middleware developed by third parties. We integrate this technology, licensed by our customers from third parties in our software products. If our customers are unable to continue to license any of this third-party software, or if the third-party licensors do not adequately maintain or update their products, we would face delays in the releases of our software until equivalent technology can be identified, licensed or developed, and integrated into our software products. These delays, if they occur, could harm our business, operating results and financial condition.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. It is possible that in the future third parties may claim that our current or potential future software solutions infringe their intellectual property. We expect that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlap. In addition, we may find it necessary to initiate claims or litigation against third parties for infringement of our proprietary rights or to protect our trade secrets. Although, along with the Domestic Companies, we may disclaim certain intellectual property representations to our customers, these disclaimers may not be sufficient to fully protect us against such claims. Any claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require the Domestic Companies and us to enter into royalty or license

agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could have a material adverse effect on our business, operating results and financial condition.

Our standard software license agreements contain an infringement indemnity clause under which we agree to indemnify and hold harmless our customers and business partners against liability and damages arising from claims of various copyright or other intellectual property infringement by the Domestic Companies' and our products. We have never lost an infringement claim, and our costs to defend such lawsuits have been insignificant. Although it is possible that in the future third parties may claim that our current or potential future software solutions or we infringe on their intellectual property, we do not currently expect a significant impact on our business, operating results, or financial condition.

We market our products under the following trademarks which are registered with the PRC Trademark Bureau under the State Administration for Industry and Commerce. We currently own the following trademarks:

1. Trademark of “BHD” valid from November 7, 2003 through November 6, 2023;
2. Trademark of “Recon” of the ~~41~~7 classification valid from October 21, 2011 through October 20, 2021;
3. Trademark of “Recon” of the ~~41~~9 classification valid from April 21, 2011 through April 20, 2021; and
4. Trademark of “Recon” of the ~~42~~ classification valid from September 7, 2011 through September 6, 2021.

We currently own over 50 patents registered with the PRC State Intellectual Property Office which cover our automated products and heating related equipment for the petroleum industry. Below is a list of our selected patents:

1. Patent of high pressure natural gas water heater valid until June 30, 2019;
2. Patent of negative pressure heater valid until June 30, 2019;
3. Patent of water jacket furnace valid until June 30, 2019;
4. Patent of hot water furnace valid until April 8, 2021;
5. Patent of efficient gas-liquid separator valid until August 15, 2021;
6. Patent of efficient oil-gas-water separator valid until October 24, 2021;

7. Patent of horizontal type furnace valid until December 14, 2022;
8. Patent of vertical type furnace valid until December 13, 2022;
9. Patent of vacuum furnace valid until December 14, 2022;
10. Patent of wireless pressure sensor valid until November 11, 2023;
11. Patent of wireless start-end module valid until November 11, 2023;
12. Patent of one-piece skid mount package of heating, separating, buffering and pressurizing valid until June 30, 2024;
13. Patent of oily sewage treatment equipment valid until July 8, 2025;
14. Patent of an oil-water well smart wireless pressure transmitter valid until November 17, 2026;
15. Patent of an oily sewage treatment bio-stimulants and Production Methods valid until July 11, 2027; and
16. Patent of torch specialized for oilfield waste-gas burning valid until July 10, 2028.

We have registered 15 software products with the PRC State Intellectual Property Office. Below is a list of our selected software products:

¹ Recon automated monitoring system version II was published on August 18, 2013 and version I was published on July 30, 2011;

2. Recon SCADA field monitoring and data acquisition system software version 2.0 was published on August 18, 2003, and version 3.0 was registered and published on April 5, 2008;
3. Recon RCNAMT version 1 was published on April 27, 2012;
4. Recon Process Auto version 1 was published on August 25, 2012;
5. Recon Industrial Process Control system V2.0 was published on August 13, 2013, and V1.0 was published on December 25, 2012; and
6. Recon Oil and Gas Processing SCADA System V1.0 was published on March 2, 2016.

Environmental Matters

We have not incurred material expenses in connection with compliance with Chinese environmental laws and regulations. We do not anticipate expending any material amounts for such compliance purposes for the remainder of our current or succeeding fiscal year.

China's Intellectual Property Rights Enforcement System

In 1998, China established the State Intellectual Property Office (“SIPO”) to coordinate China’s intellectual property enforcement efforts. SIPO is responsible for granting and enforcing patents, as well as coordinating intellectual property rights related to copyrights and trademarks. Protection of intellectual property in China follows a two-track system. The first track is administrative in nature, whereby a holder of intellectual property rights files a complaint at a local administrative office. Determining which intellectual property agency can be confusing, as jurisdiction of intellectual property matters is diffused throughout a number of government agencies and offices, with each typically responsible for the protection afforded by one statute or one specific area of intellectual property-related law. The second track is a judicial track, whereby complaints are filed through the Chinese court system. Since 1993, China has maintained various intellectual property tribunals. The total volume of intellectual property related litigation, however, remains small.

Although there are differences in intellectual property rights between the United States and China, of most significance to the Company is the inexperience of China in connection with the development and protection of intellectual property rights. Similar to the United States, China has chosen to protect software under copyright law

rather than trade secrets, patent or contract law. As such, we will attempt to protect our most significant intellectual property pursuant to Chinese laws that have only recently been adopted. Unlike the United States, which has lengthy case law related to the interpretation and applicability of intellectual property law, China has a less developed body of relevant intellectual property case law.

Regulations

We are subject to a variety of PRC and foreign laws, rules and regulations across a number of aspects of our business. This section summarizes the principal PRC laws, rules and regulations relevant to our business and operations. Areas in which we are subject to laws, rules and regulations outside of the PRC include intellectual property, competition, taxation, anti-money laundering and anti-corruption.

Regulation on Software Products

On March 1, 2009, the Ministry of Industry and Information Technology of China issued the Administrative Measures on Software Products, or the Software Measures, which became effective as of April 10, 2009, to strengthen the regulation of software products and to encourage the development of the Chinese software industry. Under the Software Measures, a software developer must have all software products imported into or sold in China tested by a testing organization supervised by the Ministry of Industry and Information Technology. The software industry authorities in provinces, autonomous regions, municipalities and cities with independent planning are in charge of the registration, report and management of software products. Software products can be registered for five years, and the registration is renewable upon expiration. Although some of Nanjing Recon's current software products were registered in 2008, there can be no guarantee that the registration will be renewed timely or that the Domestic Companies' and our future products will be registered.

Regulation of Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including trademarks and copyrights. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001.

Copyright. China adopted its first copyright law in 1990. The National People's Congress amended the Copyright Law in 2001 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to software products, among others. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. Unlike patent and trademark registration, copyrighted works do not require registration for protection. Protection is granted to individuals from countries belonging to the copyright international conventions or bilateral agreements of which China is a member. Nanjing Recon has over ten copyrights for software programs.

Trademark. The Chinese Trademark Law, adopted in 1982 and revised in 1993 and 2001, protects registered trademarks. The Trademark Office under the Chinese State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. China has a "first-to-register" system that requires no evidence of prior use or ownership. The Domestic Companies and we have registered a number of product names with the Trademark Office.

Regulations on Foreign Exchange

Foreign Currency Exchange. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans or foreign currency is to be remitted into China under the capital account, such as a capital increase or foreign currency loans to our PRC subsidiaries.

SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (2008), or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under SAFE Circular 142 and Circular 45, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used.

Since SAFE Circular 142 has been in place for more than five years, SAFE decided to further reform the foreign exchange administration system in order to satisfy and facilitate the business and capital operations of foreign invested enterprises, and issued the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas on August 4, 2014. This circular suspends the application of SAFE Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas with a business scope including "investment" to use the RMB capital converted from foreign currency registered capital for equity investments within the PRC.

SAFE promulgated Circular 59 in November 2010, which tightens the regulation over settlement of net proceeds from overseas offerings, such as our initial public offering, and requires, among other things, the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents or otherwise approved by our board. Violations of these SAFE regulations may result in severe monetary or other penalties, including confiscation of earnings derived from such violation activities, a fine of up to 30% of the RMB funds converted from the foreign invested funds or in the case of a severe violation, a fine ranging from 30% to 100% of the RMB funds converted from the foreign-invested funds.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

Regulation of Dividend Distribution. The principal regulations governing the distribution of dividends by foreign holding companies include the Foreign Investment Enterprise Law (1986), as amended, and the Administrative Rules under the Foreign Investment Enterprise Law (2001).

Under these regulations, foreign investment enterprises in China may pay dividends only out of their retained profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign investment enterprises in China are required to allocate at least 10% of their respective retained profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

In July 2014, SAFE promulgated SAFE Circular 37, which replaced the former circular commonly known as “SAFE Circular 75” promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special

purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Regulations on Foreign Investment in Automation Service Industry and Oil Exploration and Extraction Industry in PRC. In accordance with the Catalogue of Industries for Guiding Foreign Investment (Revised 2007), the oil and gas automation service industries are in the catalogue of permitted industries, and thus there are no restrictions on foreign investment in the oil and gas automation industry. In addition, the following industries are encouraged for foreign investment in China:

Manufacturing of equipment for oil exploration, drilling, collection and transportation: floating drilling systems and floating production systems with an operating water depth of more than 1,500 meters and the supporting subsea oil extraction, collection and transportation equipment

Exploration and exploitation of oil and natural gas with venture capital (limited to equity joint ventures and cooperative joint ventures);

Development and application of new technologies that increase the recovery ratio of crude oil (limited to equity joint ventures and cooperative joint ventures);

Development and application of new oil exploration and exploitation technologies such as geophysical exploration, drilling, well logging, and downhole operation, etc. (limited to cooperative joint ventures); and

Exploration and development of unconventional oil resources such as oil shale, oil sands, heavy oil, and excess oil (limited to cooperative joint ventures).

C. Organizational Structure

Below is a chart representing our current corporate structure (as of June 30, 2018):

Our registered office in the Cayman Islands is at the offices of Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

D. Property, Plants and Equipment

We currently operate in three facilities throughout China. Our headquarters are located in Beijing. Following is a list of our properties. The first six properties are rentals. Gan Su BHD has received a land usage rights certificate regarding the last property and is constructing a plant on that piece of land.

No.	Tenant/Transferee	Address	Rental/Use Term	Space	Usage
1	Recon-BJ	Room 1902, Building C King Long International Mansion, Chaoyang District Beijing, PRC	July 1, 2018 to June 30, 2019	267 square meters	Headquarter office
2	Nanjing Recon	Room 310&311, No. 2 Building, Chu Qiao Cheng, Andemen Street, Yu Hua District, Nanjing City, PRC 18 th Floor, Building C	April 1, 2018 to March 31, 2020	564.64 square meters	Office
3	BHD	King Long International Mansion, Chaoyang District Beijing, PRC	January 1, 2018 to December 31, 2018	428 square meters	Office
4	BHD	West building, Zhengfu Street, Huo ying, Changping District, PRC	January 1, 2018 to December 31, 2018	420 square meters	Warehouse
5	HH BHD	No. 1767, Yin Bin South Street, Huang Hua Economic Development Zone, He Bei Province, PRC	July 1, 2017 to June 30, 2020	4,624 square meters	Plant
6	Qing Hai BHD	No. 17, Jing Chang Road, Dongchuan industrial park, economic zone, Xi Ning City, Qing Hai province, PRC	September 1, 2018 to	2,192.42 square meters	Office and Plant

August 30, 2019

7	Gan Su BHD	North of Dongyun Road and West of Petroleum Management Bureau Wooden Furniture Factory, Old District, Yumen City, Gansu Province, PRC	August 1, 2017 to July 31, 2067	26,235.59 square meters	Land for Plant
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Previously, we did not operate any plant. Based on the customers' recent requirements, we begin to operate plants. HH BHD has rent a plant which includes the equipment. The annual rent is RMB 716,000 (approximately \$108,000). It is planned to produce furnaces related products. We began to operate this plant since November 2017.

Gan Su BHD has received a land usage right certificate. The purchase price of the land usage right is RMB 1,322,300 (approximately \$200,000). Gan Su BHD's source of the payment is from investment of BHD. Gan Su BHD began to build a plant on this land since October 2017 and expect to finish it by the end of year 2018. The estimated expense of the construction is RMB 40 million (approximately \$6 million). The source of the payment is loan from major shareholders and equity financing. It is planned to produce products related to the oily sludge disposal projects of Yumen Oilfield.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

Overview

We are a company with limited liability incorporated in 2007 under the laws of the Cayman Islands. Headquartered in Beijing, we provide products and services to oil and gas companies and their affiliates through Nanjing Recon Technology Co. Ltd (“Nanjing Recon”) and Beijing BHD Petroleum Technology Co, Ltd (“BHD”), hereafter referred to as our domestic companies (the “Domestic Companies”), which are established under the laws of the People’s Republic of China (“PRC”). As the Company contractually controls the Domestic Companies, we serve as the center of strategic management, financial control and human resources allocation. Due to this contractual control and our obligation to bear the losses of the Domestic Companies, we consider them to be variable interest entities (“VIEs”) for accounting purposes and consolidate their results in our financial statements.

Through Nanjing Recon and BHD, our business is mainly focused on the upstream sectors of the oil and gas industry. We derive our revenues from the sales and provision of (1) oilfield automation products, (2) equipment for oil and gas production and transportation, (3) waste water treatment, and (4) engineering 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.

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

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

Recent Developments

On December 15, 2017, the Company signed a subscription agreement with Future Gas Station (Beijing) Technology, Ltd (“FGS”). Established in January 2016, FGS is a service company focusing on providing new technical applications and data operations to gas stations of oil companies such as PetroChina Co., Ltd. With its DT Refuel mobile application, FGS provides solutions to gas stations to improve their operations and their customers' experience. Pursuant to this agreement, the Company holds 8% equity interest of FGS. As of June 30, 2018, the Company invested ¥4,037,736 (\$609,948) in FGS as terms and conditions are achieved based on mutually-agreed payment schedule. Based on the financial results of FGS for the year ended June 30, 2018, FGS was in the loss position and has accumulated deficit in equity.

On August 21, 2018, the Company entered into a definitive investment agreement and a supplemental agreement (collectively, the “Agreement”) with FGS and the other shareholders of FGS. Following full performance under the Agreement, the Company will own 43% of FGS. As consideration for increasing its affiliates' interest in FGS from 8% to 43%, Recon will (1) pay a total of RMB 10 million in cash to FGS in five installments and (2) issue 2,435,284 restricted ordinary shares of Recon (the “Restricted Shares”) to the other shareholders of FGS within 30 days after FGS finalizes recording Recon's corresponding interest at the local governmental agency. If FGS does not reach certain performance goals, Recon has the right to cancel without further payment part or all of the Restricted Shares. The Restricted Shares are also subject to lock-up period requirements that vary for each FGS shareholder, from one year to three years following the issuance of the Restricted Shares. As of the date of this report, Recon has invested RMB 2 million to FGS per this Agreement for follow-up investment, FGS has finalized recording Recon's corresponding interest at the local governmental agency, and Recon has issued 2,435,284 Restricted Shares in total to the other shareholders of FGS.

Recent Industry Developments and Business Outlook

The oilfield engineering and technical service industry is generally divided into five sectors: (1) exploration, (2) drilling and completion, (3) testing and logging, (4) production and (5) oilfield construction. Thus far our businesses have been involved in the completion, production and construction processes. Our management still believes we should focus on our core business in traditional energy segment and enter into other parts of energy market, like power sector and new energy sector. We also shall leverage our knowledge of special equipment into more general industrial sector and even apply our products in the civilian market. Management anticipates there will be opportunities in new markets and our existing markets. In the coming three years, we plan to focus on the following:

Measuring Equipment and Service. Digital oilfield technology and the management of oil companies are highly regarded in the industry. We believe our oilfield SCADA system and assorted products, production managing expert software, and related technical support services will address the needs of the oil well automation system market, for which we believe there will be increasing demand over the short term and strong needs in the long term in oilfield industry, power industry and coal-chemical industry.

Gathering and Transferring Equipment. With more new wells developed, our management anticipates that demand for our furnaces and burners will grow as compared to last year, especially in the Chang Qing Oilfield and domestic general industrial market.

Equipment and Accessories. As we entered in the market of the civilian heating furnaces, we believe our resolutions and knowledge in heating equipment will also bring new resource of operation. We have established new subsidiaries, Qing Hai BHD and HH BHD, to focus on these practices.

Oilfield Environmental Protection Business. We have also devoted massive resource into oilfield environmental protection business through Gan Su BHD, and we believe this part will devote into operation and be a supportive branch of our environment business.

New business. As energy consumption market is open to private and foreign companies and the on-line payment technology develops rapidly, we believe there is some opportunity in downstream of oil industry, which is mainly around the scene of consumption in gas station. We invested in FGS in fiscal year 2017 and made additional investment into FGS in August 2018. We plan to develop this new market with FGS, making full use of our knowledge of energy segment and our relationship with CNPC.

Growth Strategy

As a smaller China-focused company, our basic strategy focuses on developing our onshore oilfield business in the upstream sector of the industry. We continuously focus on providing high quality products and services in oilfields in which we have a geographical advantage. This helps us avoid conflicts of interest with bigger private companies while protecting our position within this 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 used by many companies by providing advanced technologies. At the same time, we are always looking to improve our business and to increase our earning capability.

Currently, as more markets of China's energy industry are open to non-state-owned companies, we are also seeking for opportunities in other markets. We believe our experience on energy technics will always be our development foundation. By combining more technology and ideas developed in recent years, such as solar energy and Industrial Internet, we expect to create more profitable business lines.

Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since the beginning of our fiscal year 2018 that are reasonably likely to have a material effect on our net revenues, income from operations, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

Factors Affecting Our Results of Operations

Our operating results in any period are subject to general conditions typically affecting the Chinese oilfield service industry and included but are not limited to:

- oil and gas prices;
- 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

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in United States of America (“US GAAP”), which requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant accounting estimates reflected in the Company’s consolidated financial statements include allowance for doubtful accounts related to trade accounts receivable, other receivables and purchase advances, allowance for inventory, the useful lives of property and equipment, valuation allowance for deferred tax assets, impairment assessment for long-lived assets and investment and the fair value of share-based payments. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

The key assumptions underlying the Company's accounting for material arrangements and the reasonably likely material effects of resolving any uncertainties on the Company's allowance for doubtful accounts related to purchase advances. The production of the Company's products requires custom-made equipment from its suppliers. To ensure that it can secure the required customized equipment, the Company often needs to make full prepayment for its intended purchases. As a standard practice in the petroleum extraction industry, the Company generally must submit a bid in order to secure the sales contract. The bidding process generally takes between one month to one year and the timing depends on the size of the overall project, which timing and size are generally controlled by its client. In order to secure timely purchase delivery and to meet its product delivery schedule, the Company normally prepays for the purchase advances if the Company believes that it is more than likely to win the bid for the sales contract. After winning the bid and securing the sale contract, the Company normally needs to deliver its products approximately within one week to six months. Based on the Company's historical experience, the Company generally is able to realize its purchase advances on the customized equipment that it orders. If the Company does not secure the sales contract after making prepayment, it seeks to negotiate with its suppliers for them either to refund the purchase advances or issue credits for the Company to purchase similar products with similar models with its future contracts. If the Company determines that its suppliers are unlikely to refund or credit for future purchases or if it is unlikely to secure projects to use those products in the foreseeable future, the Company provides a 100% allowance on the specific advances.

Currently, only pre-contract cost under Purchase advance are under such risk of cancelation or risk mention above. As of June 30, 2018, the Company has approximately ¥1,508,491 (approximately \$227,876) of purchase advances that are still pending of securing sales contract bid, of which we estimate ¥98,500 (approximately \$14,880) will not be realizable and have accordingly provided an allowance. We haven't written off any allowance during the year ended June 30, 2018 that have aged more than two years and the Company does not expect to recover the amount in near future. The balance of ¥98,500 (approximately \$14,880) of such allowance remains outstanding at June 30, 2018 as it has not yet exceeded two years in aging or otherwise been deemed uncollectible. Please refer to Note 3 of NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for further information.

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 our 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 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 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 customer, customer acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in a customer's 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. And with ASC 606, "Revenue from Contracts with Customers" when all of the following five steps are met: (i) identify the contract(s) with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; (v) recognize revenue when (or as) each performance obligation is satisfied.

The Company applied the new revenue standard from July 1, 2018 and adopted a modified retrospective approach upon the adoption. The Company performed an analysis on each of the Company's revenue streams in accordance with the new revenue standard, based on the new revenue standard, the Company should recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service. After evaluation, the Company determined that it satisfies a performance obligation at a point in time for the product sales type arrangement, by considering indicators of the transfer of control, which include, but are not limited to, the following:

1. The entity has a present right to payment for the asset.
2. The customer has legal title to the asset.
3. The entity has transferred physical possession of the asset.
4. The customer has the significant risks and rewards of ownership of the asset.
5. The customer has accepted the asset.

The Company also performed analysis for the type of its construction arrangement. Usually the Company's construction contract includes numerous promises to transfer goods or services to the customer. These goods and services are distinct since the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Therefore, each promise in the contract should be accounted separately as an individual performance obligation. The completion of each of this individual performance obligation is usually in a short-term based on explicit requirements of customers. After evaluation, the Company determined to recognize revenue of each performance obligation under the construction arrangement at a point in time, by considering indicators of the transfer of control listed above.

Before adoption of ASU 606, the Company accrued all expensed and materials costs until the overall projects under the same contract are accepted but no revenue is recorded during the period. With adoption of this new recognition standard, the Company shall record contract revenue and corresponding cost accordingly under each individual performance obligation.

Based on the current revenue standard, revenue is recognized when the promised good or service is delivered to the customer and the customer has the significant risks and rewards of ownership of the promised good or service. The Company has substantially conducted its evaluation of the impact of the standard and the Company does not expect the adoption of the standard will have a material impact to its consolidated revenue. However, as a result of applying the new standard, there are certain components of our type of construction arrangement where the new standard generally results in earlier recognition of revenue compared to our historical policies. We expect to record a net

increase in opening retained earnings upon adoption resulting from the acceleration of revenue recognized under the new standard.

Hardware and software

Revenue from hardware and software sales is generally recognized when the product with the embedded software system is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Usually this is short term.

Services

The Company provides services to improve system operation on separated fixed-price contracts. Revenue is recognized when service has been performed and accepted by the customer.

Cost of Revenues

When the criteria for revenue recognition have been met, costs incurred are recognized as cost of revenue. Cost of revenues includes wages, materials, handling charges, the cost of purchased equipment and pipes, other expenses associated with manufactured products and services provided to customers, and inventory reserve. 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.

Purchase Advances

Purchase advances are the amounts prepaid to suppliers for purchases of customized equipment in anticipation of obtaining planned contracts for the Company's revenues or prepayment to service vender for required services. The Company has three types of purchase advances, capitalized pre-contract costs, capitalized contract costs and prepayment for others.

Pre-Contract Costs – The Company defers purchase advances made that it expects to be used in connection with the anticipated contracts, so long as recovery is considered probable, and recognized as inventory when the customized equipment is delivered and received. If it subsequently confirms that the Company is unable to secure the planned contracts with a customer after making the purchase advances, the Company evaluates the probable recoverability of the advance and charges the improbable recovery amounts as purchase advances allowances. The Company determines that the recovery of such purchase advances is improbable when the Company is unable to request that a supplier refund the purchase advances or obtain credits to change the purchase order to other customized equipment.

The Company evaluates its purchase advances on a semi-annually basis. If it expects to receive its customized equipment within one year, the purchase advances are classified as current assets. If it does not expect to utilize the purchase advances within one year, the purchase advances will be classified as long-term assets. As of June 30, 2017 and 2018, the Company expected to receive its purchased advances, net of allowance, within one year.

Contract Costs – Direct costs, such as material, labor, and subcontracting costs and indirect costs allocable to contracts include the costs of contract supervision, tools and equipment, supplies, quality control and inspection, insurance, repairs and maintenance for quality assurance purposes before clients' initial acceptance, depreciation and amortization are included in the inventory work-in-process and recognized as cost of revenues when the product is shipped and accepted. The Company uses the completed contract method for revenue recognition. Once products are delivered, installed and debugged for intended use and accepted by a client, which may last from weeks to months (this process is decided by the client's individual project construction arrangement), the Company records revenue and deferred revenue if there is any requirement of quality assurance or per contract. Deferred revenue varies from 5% to 10% of contract amount and the period after which such revenue is recognized is generally one year following installation. The Company does not confirm revenue from deferred items until the end of the whole maintenance period. Minor costs for repair during the maintenance period after initial acceptance are recorded as cost of goods sold as they are incurred. All other general and administrative costs and selling costs are charged to expenses as incurred. The Company generally ships its products approximately one week to six months after production begins and the timing depends on the size of the overall project.

Prepayments for Others - The Company has prepayment for others business activities, such as standard raw material, supplies and services.

Fair Values of Financial Instruments

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

The three levels of inputs are defined as follows:

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

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

Level 3 inputs to the valuation methodology are unobservable.

The carrying amounts reported in the consolidated balance sheets for trade accounts receivable, other receivables, advances to suppliers, trade accounts payable, accrued liabilities, advances from customers and notes payable approximate fair value because of the immediate or short-term maturity of these financial instruments. The fair value of long-term receivables is determined using a present value technique by discounting the future expected contractual cash flows using current rates at which similar instruments would be issued at the measurement date.

Trade Accounts and Other Receivables

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

Share-Based Compensation

Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight-line basis over the requisite service period for the entire award. The Company has elected to recognize compensation expenses using the Black-Scholes valuation model estimated at the grant date based on the award's fair value.

Recently enacted accounting pronouncements

In September 2017, the FASB issued ASU 2017-13, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)". The main objective of this pronouncement is to clarify the effective date of the adoption of ASC Topic 606 and ASC Topic 842 and the definition of public business entity as stipulated in ASU 2014-09 and ASU 2016-02. ASU 2014-09 provides that a public business entity adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. ASU 2016-12 requires certain other specified entities adopt ASC Topic 842 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company applied the new revenue standard from July 1, 2018 and adopted a modified retrospective approach upon the adoption. The Company performed an analysis on each of the Company's revenue streams in accordance with the new revenue standard, and the Company concluded that the adoption of this new revenue standard does not have a material impact on the Company's consolidated financial statements. Based on the current revenue standard, revenue is recognized when the promised good or service is delivered to the customer and the customer has the significant risks and rewards of ownership of the promised good or service. The time of revenue recognition of the Company is almost consistent under the old standard and new standard. However, as a result of applying the new standard, there are certain components of our type of construction arrangement where the new standard generally results in earlier recognition of revenue compared to our historical policies. We expect to record a net increase in opening retained earnings upon adoption resulting from the acceleration of revenue recognized under the new standard.

In November 2017, the FASB issued ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), which amends certain aspects of the new revenue recognition standard. This standard will be effective for fiscal years beginning after December 15, 2018. The Company expects that the adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-10, "Codification Improvements to Topic 842, Leases," which clarifies how to apply certain aspects of the new leases standard. This ASU addresses the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments. This ASU has the same effective date and transition requirements as the new leases standard, which is effective for annual periods beginning after December 15, 2018. The Company expects that the adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements" which provides a new transition method and a practical expedient for separating components of a contract. This ASU is intended to reduce costs and ease the implementation of the new leasing standard for financial statement preparers. The effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. The Company expects that the adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the consolidated financial position, statements of operations and cash flows.

Results of Operations

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

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

Year Ended June 30, 2017 Compared to Year Ended June 30, 2018

During the fiscal year ended June 30, 2018, we experienced robust growth of overall business and several financing and investing activities, realizing significant increase of both revenue and assets. Always with shareholders’ best interest in mind, our management believes we should and are capable to:

- 1) To deepen our cooperation and consolidate our dominance in oilfield environmental protection sector, we led bunch of tests of waste water and oily sludge projects and eventually invest Gan Su BHD, dedicated to provide sewage sludge treatment service. As of the date of this report, about RMB13.56 million has been devoted into the treatment projects by BHD and its cooperator;
- 2) To cope with uncertainty and diversify industry risks, we leverage our technology from oilfield service sector to other broaden energy industry, thus we made several attempts and i) successfully expand our automation business to coal chemical industry, mainly service the Shenhua Group Corporation Limited ("Shenhua Group"). As of the date of this report, we have achieved about RMB20 million orders; ii) Entered into civilian and general industrial furnaces market through our new subsidiaries of BHD; and
- 3) To follow the trend of comprehensive utilization of energy, we also expand our business and technology to new energy market. We introduced more sola technology in our current equipment to make them more efficiency and cost beneficial; we also brought our technology and experience to polycrystalline silicon production factories, of which about RMB 16 million contracts has been achieved.

While accompanying with shifting of our business structure and tempting of differences, we’re still under the initial stage of new business. To occupy markets, we accept some low-margin contracts, resulting a lower margin and more expenses of this year compared to prior year. Management believe this performance is temporary and will be

improved in the coming year.

Revenue

	For the Years Ended June 30		Increase / (Decrease)	Percentage Change	
	2017	2018			
Automation product and software	¥22,399,066	¥18,989,924	¥(3,409,142)	(15.2)%
Equipment and accessories	26,658,094	63,960,425	37,302,331	139.9	%
Oilfield environmental protection	10,997,302	1,761,697	(9,235,605)	(84.0)%
Total revenue	¥60,054,462	¥84,712,046	¥24,657,584	41.1	%

Our total revenues for the year ended June 30, 2018 were approximately ¥84.7 million (\$12.8 million), an increase of approximately ¥24.7 million or 41.1% from ¥60.1 million for the year ended June 30, 2017. The overall increase in revenue was accomplished through our expansion of new clients and development of new business.

Revenue from automation product and software decreased by ¥3.4 million or 15.2%, mainly affected by less expenditure on surface projects and postpone production activities by our clients. As of June 30, 2018, we have (1) roughly i) ¥14.3 million contracts on hand for automation business for Shenhua Group and ii) ¥4.49 million contracts of Changqing Oilfield on construction process. We expect these projects to be finished and accepted by our client by the end of calendar year 2018 and should be recorded in our revenue for the coming fiscal year.

Revenue from equipment and accessories increased by ¥37.3 million or 139.9%, the significant increase was (2) primarily due to increased equipment sales, including furnaces and related accessories in normal chemical and civil furnace markets.

Revenue from oilfield environmental protection decreased by ¥9.2 million or 84.0%. We devoted a lot of our resources on construction of oily sludge treatment processing projects this year and less waste-water projects were (3) done during this period. We expect the oily sludge treatment processing projects to be operational by the end of the calendar year 2018 and to generate annual revenue of more than RMB 50 million, assuming full capacity.

Cost of revenue

	For the Years Ended June 30		Increase / (Decrease)	Percentage Change	
	2017	2018			
Automation product and software	¥12,348,861	¥16,943,002	¥4,594,141	37.2	%
Equipment and accessories	21,886,884	62,010,361	40,123,477	183.3	%
Oilfield environmental protection	9,417,177	1,326,598	(8,090,579)	(85.9))%
Business and sales related tax	438,038	281,900	(156,138)	(35.6))%
Total cost of revenue	¥44,090,960	¥80,561,861	¥36,470,901	82.7	%

Our cost of revenues increased from ¥44.1 million for the year ended June 30, 2017 to ¥80.6 million (approximately \$12.2 million) for the same period in 2018, an increase of ¥36.5 million (approximately \$5.5 million), or 82.7%. This increase was mainly caused by significant growth in revenue generated from equipment and accessories.

For the years ended June 30, 2017 and 2018, cost of revenue from automation product and software was approximately ¥12.3 million and ¥17.0 million (\$2.6 million), respectively, representing an increase of approximately 4.6 million (\$0.7 million) or 37.2%. The increase in cost of revenue from automation product and software was primarily attributable to 1) a mass of business of Shenhua Group contracts with lower margin; and 2) some pre-contract costs devoted to Changqing Oilfield projects.

For the years ended June 30, 2017 and 2018, cost of revenue from equipment and accessories was approximately ¥21.9 million and ¥62.0 million (\$9.4 million), respectively, representing an increase of approximately ¥40.1 million (\$6.1 million) or 183.3%. The increase in cost of revenue from equipment and accessories was primarily attributable to quickly increased sales of heating related products with low margin to general industry clients.

For the years ended June 30, 2017 and 2018, cost of revenue from oilfield environmental protection was approximately ¥9.4 million and ¥1.3 million (\$0.2 million), respectively, representing a decrease of approximately ¥8.1 million (\$1.2 million) or 85.9%. The percentage of the variance in cost of revenue was mainly due to less business of waste water treatment. We expect this part will increase in the coming year as our new subsidiary Gan Su BHD runs.

Gross Profit

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	For the Years Ended		June 30		2018	Increase /	Percentage
	2017		Gross Profit	Margin %			
Automation product and software	¥9,805,637	43.8	% ¥1,953,531	10.3	% ¥(7,852,106)	(80.1)%	
Equipment and accessories	4,634,243	17.4	% 1,845,025	2.9	% (2,789,218)	(60.2)%	
Oilfield environmental protection	1,523,622	13.9	% 351,629	20.0	% (1,171,993)	(76.9)%	
Total gross profit and margin %	¥15,963,502	26.6	% ¥4,150,185	4.9	% ¥(11,813,317)	(74.0)%	

Our gross profit decreased to ¥4.2 million (approximately \$0.6 million) for the year ended June 30, 2018 from ¥16.0 million for the same period in 2017. Our gross profit as a percentage of revenue decreased to 4.9% for the year ended June 30, 2018 from 26.6% for the same period in 2017. The decrease in gross profit was primarily due to the increase in revenue, offset by the increase in cost of revenue, as discussed above.

For the years ended June 30, 2017 and 2018, gross profit from automation product and software was approximately ¥9.8 million and ¥2.0 million (\$0.3 million), respectively, representing a decrease of approximately ¥7.9 million (\$1.2 million) or 80.1%. The decrease in gross profit from automation product and software was primarily due to 1) more percentage of business from Shenhua Group with only simple treatment thus with lower margin; and 2) some cost incurred for testing projects.

For the years ended June 30, 2017 and 2018, gross profit from equipment and accessories was approximately ¥4.6 million and ¥1.8 million (\$0.3 million), respectively, representing a decrease of approximately ¥2.8 million (\$0.4 million) or 60.2%. The decrease in gross profit from equipment and accessories was primarily attributable to the increase in cost of revenue was higher than the increase in revenue, as discussed above. As currently under the new business developing stage, the Company sold a larger number of equipment and accessories with lower margin during the year ended June 30, 2018.

For the years ended June 30, 2017 and 2018, gross profit from oilfield environmental protection was approximately ¥1.5 million and ¥0.4 million (\$0.1 million), respectively, representing a decrease of approximately ¥1.2 million (\$0.2 million) or 76.9%. The decrease in gross profit from oilfield environmental protection was primarily attributable to the decrease in revenue, as discussed above.

Operating Expenses

	For the Years Ended June 30,		Increase / (Decrease)	Percentage Change	
	2017	2018			
Selling and distribution expenses	¥4,458,218	¥8,013,353	¥3,555,135	79.7	%
% of revenue	7.4	% 9.5	2.1	%	-
General and administrative expenses	32,751,142	34,687,317	1,936,175	5.9	%
% of revenue	54.5	% 40.9	(13.6)	%	-
Provision for doubtful accounts	1,766,286	(841,242)	(2,607,528)	(147.6))%
% of revenue	2.9	% (1.0)	(3.9)	%	-
Research and development expenses	7,599,340	3,215,653	(4,383,687)	(57.7))%
% of revenue	12.7	% 3.8	(8.9)	%	-

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Operating expenses	¥46,574,986	¥45,075,081	¥(1,499,905)	(3.2)%
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Selling and Distribution Expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of the Company’s sales and marketing departments, sales commissions, costs of marketing programs including traveling expenses, advertising and trade shows, and rental expense, as well as shipping charges. Selling expenses increased by ¥3.6 million (approximately \$0.5 million) for the year ended June 30, 2018 compared to the same period in 2017. This increase was primarily due to an increase in traveling expense and service and testing fees as we expanded our market to new basements of Changqing Oilfield and new industries. Selling expenses were 9.5% of total revenues for the year ended June 30, 2018 and 7.4% of total revenues in the same period of 2017.

General and Administrative Expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, stock-based compensation expense and other miscellaneous expenses incurred in connection with general operations. General and administrative expenses increased by 5.9% or ¥1.9 million (\$0.3 million), from ¥32.8 million in the year ended June 30, 2017 to ¥34.7 million (approximately \$5.2 million) in the same period of 2018. The increase in general and administrative expenses was mainly due to an increase in salaries and rent expenses, the increase was partially offset by the decrease in consulting fees. General and administrative expenses accounted 40.9% of total revenues in the year ended June 30, 2018 and 54.5% of total revenues for the same period of last year.

Provision for doubtful accounts. Provision for doubtful accounts is the estimated amount of bad debt that will arise as a result of lower collectability from accounts receivables, other receivables and purchase advances. We recorded a provision for doubtful accounts of ¥1.8 million the year ended June 30, 2017 and recorded reversal of provision for doubtful accounts of ¥0.8 million (\$0.1 million) for the same period in 2018. Management plans to continue to monitor accounts receivable to maintain the provision at a lower level.

Research and development (“R&D”) expenses. Research and development expenses consist primarily of salaries and related expenditures for research and development projects. Research and development expenses decreased from approximately ¥7.6 million for the year ended June 30, 2017 to ¥3.2 million (approximately \$0.5 million) for the same period of 2018. This decrease was primarily due to less research and development expense spent on design of chemical products used for waste water treatment and digital oilfield models and platform. The Company was focusing on the transformation of advanced R&D results into projects, which were undertaken by Gan Su BHD and Qing Hai BHD.

Net Loss

For the Years Ended June 30,		Increase / (Decrease)	Percentage Change
2017	2018		

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Loss from operations	¥(30,611,484)	¥(40,924,896)	¥(10,313,412)	33.7	%
Other expense, net	(284,417)	(4,434,108)	(4,149,691)	1,459.0	%
Loss before income taxes	(30,895,901)	(45,359,004)	(14,463,103)	46.8	%
Provision for income taxes	307,900	16,230	(291,670)	(94.7)%
Net loss	(31,203,801)	(45,375,234)	(14,171,433)	45.4	%
Less: Net income attributable to non-controlling interest	241,346	(1,302,913)	(1,544,259	(639.9)%
Net loss attributable to Recon Technology, Ltd	¥(31,445,147)	¥(44,072,321)	¥(12,627,174)	40.2	%

Loss from operations. Loss from operations was ¥40.9 million (approximately \$6.2 million) for the year ended June 30, 2018, compared to a loss of ¥30.6 million for the same period of 2017. This ¥10.3 million (\$1.6 million) increase in loss from operations was primary due to a decrease in gross profit, as well as an increase in selling and distribution expenses and general and administrative expenses and partly offset by a decrease in research and development expenses as discussed above.

Other expense. Other expense, net was ¥4.4 million (approximately \$0.7 million) for the year ended June 30, 2018, compared to other expense, net of ¥0.3 million for the same period of 2017. The ¥4.1 million (approximately \$0.7 million) increase in other expense, net was primarily due to the increased loss from investment in unconsolidated entity of ¥4.0 million (approximately \$0.6 million).

Provision for income taxes. Provision for income tax was ¥16,230 (approximately \$2,500) for the year ended June 30, 2018, compared to ¥0.3 million for the same period of 2017. The decrease in the Company's provision for income taxes was primarily due to the decreased taxable income of Nanjing Recon for the year ended June 30, 2018.

Net loss. As a result of the factors described above, net loss was ¥45.4 million (approximately \$6.9 million) for the year ended June 30, 2018, a decrease of ¥14.2 million (approximately \$2.1 million) from net loss of ¥31.2 million for the same period of 2017.

Years Ended June 30, 2016 Compared to Years Ended June 30, 2017

Revenue

	For the Years Ended June 30		Increase / (Decrease)	Percentage Change	
	2016	2017			
Automation product and software	¥26,171,906	¥22,399,066	¥(3,772,840)	(14.4)%
Equipment and accessories	14,221,914	26,658,094	12,436,180	87.4	%
Oilfield environmental protection	2,334,457	10,997,302	8,662,845	371.1	%
Total revenue	¥42,728,277	¥60,054,462	¥17,326,185	40.5	%

Our total revenues for the year ended June 30, 2017 were approximately ¥60.1 million (\$8.9 million), an increase of approximately ¥17.3 million or 40.5% from ¥42.7 million for the year ended June 30, 2016. The overall increase in revenue was accomplished through our expansion of new clients and development of new business.

Revenue from automation product and software decreased by ¥3.8 million or 14.4%. Affected by less expenditure on surface projects of our clients for the last two years, requirement of automation related projects maintained at a lower level. Revenue from this product line may fluctuate from time to time. Management believes oil companies will continue to invest in automation products and is confident on further development on this business.

As shown above, the overall increase in revenue was primarily due to the increased sales of equipment, primarily more furnaces sold to our new client, PetroChina Changqing Oilfield Company, a major subsidiary of PetroChina and the largest producing oilfield of China.

The Company invested in R&D of new products used for oilfield environmental protection throughout 2016, and the outcome has been gradually reflecting its operating results. For the year ended June 30, 2017, this new business continued to contribute revenue and margin to our operation. Management expects to win additional more business in the coming months due to our technical advantage and long-term cooperation with oilfield companies.

Cost of sales

	For the Years Ended		Increase / (Decrease)	Percentage Change	
	2016	2017			
Automation product and software	¥20,427,348	¥12,348,861	¥(8,078,487)	(39.5))%
Equipment and accessories	12,998,083	21,886,884	8,888,801	68.4	%
Oilfield environmental protection	1,788,554	9,417,177	7,628,623	426.5	%
Business and sales related tax	267,409	438,038	170,629	63.8	%
Total cost of revenue	¥35,481,394	¥44,090,960	¥8,609,566	24.3	%

Our cost of revenues increased from ¥35.5 million for the year ended June 30, 2016 to ¥44.1 million (approximately \$6.5 million) for the same period in 2017, an increase of ¥8.6 million (approximately \$1.3 million), or 24.3%. This increase was mainly caused by significant growth in revenue generated from equipment and accessories and oilfield environmental protection

For the years ended June 30, 2016 and 2017, cost of revenue from automation product and software was approximately ¥20.4 million and ¥12.3 million (\$1.8 million), respectively, representing a decrease of approximately ¥8.1 million (\$1.2 million) or 39.5%. The decrease in cost of revenue from automation product and software was primarily attributable to less revenue and higher portion of service rendered.

For the years ended June 30, 2016 and 2017, cost of revenue from equipment and accessories was approximately ¥13.0 million and ¥21.9 million (\$3.2 million), respectively, representing an increase of approximately ¥8.9 million (\$1.3 million) or 68.4%. The increase in cost of revenue from equipment and accessories was primarily attributable to increased requirement of furnaces.

For the years ended June 30, 2016 and 2017, cost of revenue from oilfield environmental protection was approximately ¥1.8 million and ¥9.4 million (\$1.4 million), respectively, representing an increase of approximately ¥7.6 million (\$1.1 million) or 426.5%. The increase in cost of revenue from oilfield environmental protection was primarily attributable to a large scale projects conducted during this period.

Gross Profit

	For the Years Ended		June 30		Increase / (Decrease)	Percentage Change	
	2016		2017				
	Gross Profit	Margin %	Gross Profit	Margin %			
Automation product and software	¥5,623,338	21.5	% ¥9,805,637	43.8	% ¥4,182,299	74.4	%
Equipment and accessories	1,095,325	7.7	% 4,634,243	17.4	% 3,538,918	323.1	%
Oilfield environmental protection	528,220	22.6	% 1,523,622	13.9	% 995,402	188.4	%
Total gross profit and margin %	¥7,246,883	17.0	% ¥15,963,502	26.6	% ¥8,716,619	120.3	%

Our gross profit increased to ¥16.0 million (approximately \$2.4 million) for the year ended June 30, 2017 from ¥7.2 million for the same period in 2016. Our gross profit as a percentage of revenue increased to 26.6% for the year ended June 30, 2017 from 17.0% for the same period in 2016. This was mainly due to higher margin equipment sales and oilfield environmental protection business during the year ended June 30, 2017 compared to the same period of 2016.

For the years ended June 30, 2016 and 2017, gross profit from automation product and software was approximately ¥5.6 million and ¥9.8 million (\$1.4 million), respectively, representing an increase of approximately ¥4.2 million (\$0.7 million) or 74.4%. The increase in gross profit from automation product and software was primarily due to the decrease in cost of revenue was higher than the decrease in revenue, as discussed above.

For the years ended June 30, 2016 and 2017, gross profit from equipment and accessories was approximately ¥1.1 million and ¥4.6 million (\$0.7 million), respectively, representing an increase of approximately ¥3.5 million (\$0.5 million) or 323.1%. The increase in gross profit from equipment and accessories was primarily attributable to the increase in revenue, partially offset by the increase in cost of revenue, as discussed above.

For the years ended June 30, 2016 and 2017, gross profit from oilfield environmental protection was approximately ¥0.5 million and ¥1.5 million (\$0.2 million), respectively, representing an increase of approximately ¥1.0 million (\$0.1 million) or 188.4%. The increase in gross profit from oilfield environmental protection was primarily attributable to the increase in revenue, partially offset by the increase in cost of revenue, as discussed above.

Operating Expenses

	For the Years Ended June 30,		Increase / (Decrease)	Percentage Change	
	2016	2017			
Selling and distribution expenses	¥5,630,715	¥4,458,218	¥(1,172,497)	(20.8)%	
% of revenue	13.2	% 7.4	(5.8)%	—	
General and administrative expenses	20,195,701	32,751,142	12,555,441	62.2	%
% of revenue	47.3	% 54.5	7.2	%	—
Provision for doubtful accounts	14,475,074	1,766,286	(12,708,788)	(87.8)%	
% of revenue	33.9	% 2.9	(31.0)%	—	
Research and development expenses	6,856,522	7,599,340	742,818	10.8	%
% of revenue	16.0	% 12.7	(3.3)%	—	
Operating expenses	¥47,158,012	¥46,574,986	¥(583,026)	(1.2)%	

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 traveling charges, advertising and trade shows, and an allocation of our facilities, depreciation expenses and rental expense, as well as shipping charges. Selling expenses decreased by ¥1.2 million (approximately \$0.2 million) for the year ended June 30, 2017 compared to the same period in 2016. This decrease was primarily due to a decrease in service fees and shipping charges, as we began working with qualified vendors located closer to our customers. Selling expenses were 7.4% of total revenues for the year ended June 30, 2017 and 13.2% of total revenues in the same period of 2016.

General and Administrative Expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, stock-based compensation expense and other miscellaneous expenses incurred in connection with general operations. General and administrative expenses increased by 62.2% or ¥12.6 million (\$1.9 million), from ¥20.2 million in the year ended June 30, 2016 to ¥32.8 million (approximately \$4.8 million) in the same period of 2017. The increase in general and administrative expenses was mainly due to an increase in salaries, consulting fees, investors relationship expenses and share based compensation. General and administrative expenses were 54.5% of total revenues in the year ended June 30, 2017 and 47.3% of total revenues in the same period of 2016.

Provision for doubtful accounts. Provision for doubtful accounts is the estimated amount of bad debt that will arise from accounts receivables, other receivables and purchase advances. We recorded a provision for doubtful accounts of ¥14.5 million for the year ended June 30, 2016 and ¥1.8 million (approximately \$0.3 million) for the same period in 2017. The decrease in provision of doubtful accounts mainly resulted from management's efforts to enhance collection of receivables.

Research and development ("R&D") expenses. Research and development expenses consist primarily of salaries and related expenditures for our research and development projects. Research and development expenses increased from approximately ¥6.9 million for the year ended June 30, 2016 to ¥7.6 million (approximately \$1.1 million) for the same period of 2017. This increase was primarily due to more research and development expense spent on design of chemical products used for waste water treatment and digital oilfield models and platform.

Net Income

	For the Years Ended		Increase / (Decrease)	Percentage Change	
	2016	2017			
Loss from operations	¥(39,911,129)	¥(30,611,484)	¥(9,299,645)	(23.3))%
Interest and other expense	(425,603)	(284,417)	(141,186)	(33.2))%
Loss before income taxes	(40,336,732)	(30,895,901)	(9,440,831)	(23.4))%
Provision for income taxes	545,845	307,900	(237,945)	(43.6))%
Net loss	(40,882,577)	(31,203,801)	(9,678,776)	(23.7))%
Less: Net income attributable to non-controlling interest	-	241,346	241,346	100.0	%
Net loss attributable to Recon Technology, Ltd	¥(40,882,577)	¥(31,445,147)	¥(9,437,430)	(23.1))%

Loss from operations. Loss from operations was ¥30.6 million (approximately \$4.5 million) for the year ended June 30, 2017, compared to a loss of ¥39.9 million for the same period of 2016. This ¥9.3 million (\$1.4 million) decrease in loss from operations was primary due to an increase in gross profit, as well as a decrease in provision for doubtful accounts and partly offset by increased general and administrative expenses as discussed above

Interest and other expense. Interest and other expense were ¥0.3 million (approximately \$42 thousand) for the year ended June 30, 2017, compared to interest and other expense of ¥0.4 million for the same period of 2016. The ¥0.1 million (\$20.8 thousand) decrease in interest and other expense was primarily due to the decreased interest expense of ¥0.4 million resulted from a decrease in short-term borrowings and partly offset by decreased subsidy income and interest income of ¥0.3 million.

Provision for income taxes. Provision for income tax was ¥0.3 million (approximately \$45.4 thousand) for the year ended June 30, 2017, compared to ¥0.5 million for the same period of 2016. This decrease in provision for income taxes was mainly due to the allowance of Nanjing Recon recorded for deferred tax assets and income tax payable true-up during the year ended June 30, 2016.

Net loss. As a result of the factors described above, net loss was ¥31.2 million (approximately \$4.6 million) for the year ended June 30, 2017, a decrease of ¥9.7 million (approximately \$1.4 million) from net loss of ¥40.9 million for the same period of 2016.

Liquidity and Capital Resources

As of June 30, 2018, we had cash in the amount of approximately ¥45.3 million (\$6.8 million). As of June 30, 2017, we had cash in the amount of approximately ¥3.8 million.

Indebtedness. As of June 30, 2018, except for approximately ¥9.0 million (\$1.4 million) of short-term borrowings from related parties, and ¥9.7 million (\$1.5 million) of long-term borrowings from a related party, except Gan Su BHD has a production line under construction in progress, based on the management's best estimation, this project needs additional cost of ¥6.93 million (\$1.05 million) and the expected completion date will be February 2019, we did not have any other finance leases or purchase commitments, guarantees or other material contingent liabilities.

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

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

Capital Resources. To date we have financed our operations primarily through cash flows from operations, short-term and long-term borrowings due to related parties. As of June 30, 2018, we had total assets of ¥121.8 million

(approximately \$18.4 million), which includes cash of ¥45.3 million (approximately \$6.8 million), net accounts receivable due from third parties of ¥28.5 million (approximately \$4.3 million), and working capital of ¥74.8 million (approximately \$11.3 million). Shareholders' equity amounted to ¥76.0 million (approximately \$11.5 million).

Cash from Operating Activities. Net cash used in operating activities was ¥21.1 million (approximately \$3.2 million) for the year ended June 30, 2018. This was an increase of approximately ¥26.8 million (\$4.0 million) compared to net cash provided by operating activities of approximately ¥5.7 million for the year ended June 30, 2017. The increase in net cash used in operating activities for the year ended June 30, 2018 was primarily attributable to the net loss available to the Company in the amount of ¥45.4 million (approximately \$6.9 million), and reconciled by restricted shares issued for management resulting in expenses of ¥14.6 million (approximately \$2.2 million), equity loss from investment in unconsolidated entity of ¥4.0 million (approximately \$0.6 million) and restricted shares issued for services resulting in expenses of ¥3.1 million (approximately \$0.5 million), and an increase in inventories, other receivables and purchase advances, partly offset by an decrease in trade account receivable and notes receivable.

Cash from Investing Activities. Net cash used in investing activities was approximately ¥16.0 million (approximately \$2.4 million) for the year ended June 30, 2018, representing an increase in cash used in investing activities of approximately ¥15.4 million (approximately \$2.3 million) compared to the same period in 2017. This increase was due to an increase in the Company's payments and prepayments for construction in progress, investment in unconsolidated entity, payments for property and equipment and payments for a land use right of 50 years.

Cash from Financing Activities. Net cash provided by financing activities amounted to ¥76.9 million (approximately \$11.6 million) for the year ended June 30, 2018, as compared to net cash used in financing activities of \$3.1 million for the same period in 2017. During the year ended June 30, 2018, we repaid ¥21.3 million (approximately \$3.2 million) in short-term borrowings to related parties, repaid ¥4.9 million (approximately \$0.7 million) in short-term borrowings to third-parties, received ¥20.2 million (approximately \$3.0 million) in short-term borrowings from related parties, received ¥4.6 million (approximately \$0.7 million) in short-term borrowings from one third-party and received ¥10.0 million (approximately \$1.5 million) in long-term borrowings from one related party. We also received ¥3.7 million (approximately \$0.6 million) capital contribution by non-controlling shareholders. Moreover, this increase in net cash provided by financing activities was due to net proceeds from issuance of ordinary shares of ¥65.0 million (approximately \$9.8 million) for the year ended June 30, 2018.

Working Capital. Total working capital as of June 30, 2018 amounted to ¥74.8 million (approximately \$11.3 million), compared to ¥38.9 million as of June 30, 2017. Total current assets as of June 30, 2018 amounted to ¥100.8 million (approximately \$15.2 million), an increase of ¥32.4 million (approximately \$4.9 million) compared to approximately ¥68.4 million at June 30, 2017. The increase in total current assets at June 30, 2018 compared to June 30, 2017 was mainly due to an increase in cash, inventories, other receivables and purchase advances, partially offset by a decrease in trade account receivable and note receivable.

Current liabilities amounted to ¥26.0 million (approximately \$3.9 million) at June 30, 2018, in comparison to ¥29.4 million at June 30, 2017. This decrease of liabilities was attributable mainly to a decrease in deferred revenue, short-term borrowings-related parties and accrued payroll and employees' welfare.

Capital Needs. With the uncertainty of the current market, our management believes it is necessary to enhance collection of outstanding accounts receivable and other receivables, and to be cautious on operational decisions and project selection. Our management believes that our current operations can satisfy our daily working capital needs. We may also raise capital through public offerings or private placements of our securities to finance our development of our business and to consummate any merger and acquisition, if necessary.

Purchase Advances. The Company has three types of purchase advances, capitalized pre-contract costs, capitalized contract costs and prepayment for others.

Capitalized pre-contract costs are the amounts paid to suppliers for purchases of customized equipment in anticipation of obtaining planned contracts for the Company's sales. These advances are considered as pre-contract costs. As of June 30, 2018, approximately ¥1.5 million (\$0.2 million) pre-contract costs were paid to our suppliers as compared to approximately ¥0.2 million at June 30, 2017. The change in purchase advances is mainly due to the change in our anticipation of securing new sales contacts and to secure the materials for our timely performance under such contracts. The production of our product required customized equipment from our suppliers. To ensure that we can

secure the required customized equipment, we would need to make full prepayment for our intended purchases. As a standard practice in the petroleum extraction industry, we generally must submit a bid to secure the sales contract. The bidding process generally takes between one month to one year and the timing depends on the size of the overall project, which timing and size are generally controlled by our client. To secure timely purchase delivery and to meet our product delivery schedule, we normally would prepay for the purchase advances if we believe that we are more than likely to win the bid for the sales contract. After winning the bid and the sale contract is secured, we normally need to deliver our products approximately within one week to six months. Based on our historical experience, we are generally able to realize our purchase advances on the customized equipment that we ordered. If we do not secure the sales contract after making prepayment, we seek to negotiate with our suppliers for them either to issue refund of the purchase advances or issue credits for us to purchase similar products with similar models with our future contracts. If we determine that our suppliers are unlikely to refund or credit for future purchases or if we are unlikely to secure projects to use those products in the foreseeable future, we provide a 100% allowance on the improbable recovery amounts.

Capitalized contract costs are the amounts paid to suppliers for purchases of customized equipment to secure our executed sale contracts. As of June 30, 2018, we paid approximately ¥4.2 million (\$0.6 million) purchase advances to our suppliers as compared to approximately ¥4.6 million at June 30, 2017. Based on our historical experience, we are generally able to realize our purchase advances on the customized equipment that we ordered, therefore, we believe this type of purchase advances has low risk.

Besides, we also have prepayment for others business activities, such as standard raw materials, supplies and services. As of June 30, 2018, we prepaid approximately ¥7.4 million (\$1.1 million) purchase advances to our suppliers as compared to approximately ¥7.1 million at June 30, 2017. Usually, this type of prepayments will be expensed when those products or services have been rendered or consumed.

Tabular Disclosure of Contractual Obligations

Below is a table setting forth all our contractual obligations as of June 30, 2018, which consists of our short-term loan agreements, loans from third parties and due to related parties:

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Short-term debt obligations	¥9,018,065	¥9,018,065	¥-	¥-	¥-
Operating lease obligations	3,956,000	2,623,077	1,332,923	-	-
Due to related parties	3,211,457	3,211,457	-	-	-
Long-term debt obligations	9,663,729	719,895	1,564,582	1,868,175	5,511,077
Total	¥25,849,251	¥15,572,494	¥2,897,505	¥1,868,175	¥5,511,077

Safe Harbor

See “SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS.”

Item 6. Directors, Senior Management and Employees**A. Directors and Senior Management***Executive Officers and Directors*

The following table sets forth our executive officers and directors, their ages and the positions held by them:

Name	Age	Position Held
Mr. Yin Shenping	48	Chief Executive Officer and Director
Ms. Liu Jia	35	Chief Financial Officer
Mr. Chen Guangqiang	55	Chief Technology Officer and Director
Mr. Bi Yongquan	40	Director and Chairman
Mr. Zhao Shudong	72	Independent Director
Mr. Nelson N.S. Wong	56	Independent Director (Audit Committee Chair)
Mr. Hu Jijun	53	Independent Director
Mr. Yan Changqing	45	Independent Director

Yin Shenping. Mr. Yin has been our Chief Executive Officer and a director since the Company's inception. In 2003, Mr. Yin founded Nanjing Recon, a Chinese company that provides services to automate and enhance the extraction of petroleum in China, and has been the Chief Executive Officer since that time. Prior to founding Nanjing Recon, Mr. Yin served as a sales manager for Fujian Haitian Network Company from 1992 through 1994. Mr. Yin has founded and operated a number of companies engaged in the IT industry including: Xiamen Hengda Haitian Computer Network Co., Ltd. (1994), Baotou Hengda Haitian Computer Network Co., Ltd. (1997) and Beijing Jingke Haitian Electronic Technology Development Co., Ltd. (1999), and Jingsu Huasheng Information Technology Co., Ltd. (2000). In 2000, Mr. Yin merged the former Nanjing Kingsley Software Engineering Co., Ltd. into Nanjing Recon. Mr. Yin received his bachelor's degree in 1991 from Nanjing Agricultural University in information systems. Mr. Yin was chosen as a director of the Company because as one of the founders of the Company, we believe his knowledge of the Company and years of experience in our industry give him the ability to guide the Company as a director.

Liu Jia. Ms. Liu has served as our Chief Financial Officer since 2008. Ms. Liu received her bachelor's degree in 2006 from Beijing University of Chemical Technology, School of Economics and Management and her master's degree in industrial economics in 2009 from Beijing Wuzi University. Ms. Liu is a certified U.S. CPA.

Chen Guangqiang. Mr. Chen has served as our Chief Technology Officer and director since our inception. Mr. Chen was a geological engineer for the Fourth Oil Extraction Plant of Huabei Oilfield from 1985 through 1993. From 1993 through 1999, Mr. Chen was a chief engineer for Xinda Company, CNPC Development Bureau. From 1999 through 2003, Mr. Chen served as the general manager of Beijing Adar. Mr. Chen received his bachelor's degree in 1985 from Southwest Petroleum Institute. Mr. Chen was appointed to the position of director because he is one of the founders of the Company and we believe we can benefit from his many years of engineering experience and management experience in the oil extraction industry.

Bi Yongquan. Mr. Bi has served as our director since January 2018. Mr. Bi founded Dalian Boqi Xinhai Group Ltd. Co. ("Boqi Group") and its subsidiaries including Dalian Boqi Agriculture Technology Development Ltd. Co. and Dalian Boqi Culture Media Ltd. Co. in July 2008. He also founded Dalian Boqi Zhengji Pharmacy Franchise Ltd. Co. in July 2008 and Boqi Finance Lease (Liaoning) Ltd. Co., another subsidiary of Boqi Group, in November 2009. He has been the Chairman of each of these companies since their incorporation. Mr. Bi entered into a securities purchase agreement with us on November 20, 2017 to purchase 3 million shares for \$4.8 million. Mr. Bi received a bachelor's degree in finance in 2000 and a master's degree in management in 2003, both from Dongbei University of Finance and Economics. Mr. Bi was appointed to the position of director and Chairman of the board because we believe we can benefit from his investment skills and management experience.

Nelson N.S. Wong. Mr. Wong joined our Board of Directors in 2008. Prior to joining our Board, in 1990 Mr. Wong joined the Vigers Group, a real estate company that provides services in valuation, corporate property services, investment advisory services, general practice surveying, building surveying, commercial, in both retail and industrial agency, and property and facilities management. Mr. Wong became the Vice Chairman and CEO of the Vigers Group in 1993. In 1995 Mr. Wong established the ACN Group, a business consulting firm, where he has worked continuously and continues to serve as the Chairman and Managing Partner. Mr. Wong received a bachelor's degree in arts from the PLA Institute of International Relations in Nanjing in 1983. Mr. Wong was appointed to the position of director because we believe we can benefit from his leadership skills and management experience.

Hu Jijun. Mr. Hu joined our Board of Directors in 2008. Prior to joining our Board, from 1988 to 2003, Mr. Hu served in a variety of positions at No. 2 test-drill plant, including technician of installation, assets equipment work, electrical installation, control room production dispatcher, Deputy Chief Engineer of the Technology Battalion, and Deputy Director of Production. From 2003 to 2005 he served as Head of the Integrated Battalion and he is currently the Head of the Transport Battalion, Senior Electric Engineer. Mr. Hu graduated as an automated professional from the China University of Petroleum in 1988. Mr. Hu was appointed to the position of a director because we believe his years of experience and knowledge gained while working at our No. 2 test-drill plant will prove beneficial to the guidance of the Company.

Zhao Shudong. Mr. Zhao joined our Board of Directors in 2013. Mr. Zhao spent over 30 years working in the oilfield industry prior to retiring from full-time work in 2006. From 1970 to 1976, Mr. Zhao worked as a technician in the Daqing oilfield. From 1976 to 1982, Mr. Zhao served as the vice director of the Hubei Oilfield Generalized Geologic Technical Research Institute. Mr. Zhao then spent 11 years as a director and section chief at the Scientific and Technological Development Department of the Huabei Petroleum Administrative Bureau. He was subsequently appointed Chief Geologist of the bureau, a position he held from 1993 to 1999. From 1999 to 2006, Mr. Zhao served as the General Manager of the Huabei Oilfield Company of CNPC. Mr. Zhao studied at the Northeast Petroleum Institute from 1965 to 1970. Mr. Zhao has been chosen as a director nominee because of his extensive experience in the oilfield industry.

Yan Changqing. Mr. Yan has served as our director since January 2018. Mr. Yan has been working in finance area for a long time. From June 2017, Mr. Yan has been the vice president of Shanghai Hualing Investment Co., Ltd. From June 2016 to February 2017, Mr. Yan was the secretary of the board of Ningbo Sunlight Electrical Appliance, Co. Ltd., a public company in China, and also a director of Ningbo Sunlight Electrical Appliance, Co. Ltd. and is a member of its nominating board. From July 2013 to May 2016, Mr. Yan was the capitalization consultant of Beijing Liu Jianfang Technology, Co., Ltd. From January 2011 to June 2013, Mr. Yan was the vice president of Shanghai Jinyongxin Investment Co., Ltd. Mr. Yan received his a bachelor's degree in science in 1996 and a master of law degree in 1999, both from Peking University. Mr. Yan has the lawyer's certificate. Mr. Yan was nominated as a director because of his extensive experience in capital market.

Employment Agreements

We have employment agreements with each of our Chief Executive Officer, Chief Technology Officer and Chief Financial Officer. With the exception of the employment agreement with our Chief Financial Officer, each of these employment agreements provides for an indefinite term. Such employment agreements may be terminated (1) if the employee gives written notice of his or her intention to resign, (2) the employee is absent from three consecutive meetings of the board of directors, without special leave of absence from the other members of the board of directors, and the board of directors passes a resolution that such employee has vacated his office, or (3) the death, bankruptcy or mental incapacity of the employee. The employment agreement for our Chief Financial Officer provides for a one-year term, which expired on March 12, 2017, and the parties have continued to operate under the terms of this agreement since its expiration. Such employment agreement may be terminated if Ms. Liu gives thirty days' written notice of her intention to resign, or if the board of directors determines she can no longer perform her duties as Chief Financial Officer and provides her with thirty days' written notice of termination.

Under Chinese law, we may only terminate employment agreements without cause and without penalty by providing notice of non-renewal one month prior to the date on which the employment agreement is scheduled to expire. If we fail to provide this notice or if we wish to terminate an employment agreement in the absence of cause, then we are obligated to pay the employee one month's salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without penalty to our company, where the employee has committed a crime or the employee's actions or inactions have resulted in a material adverse effect to us.

B. Compensation

The following table shows the annual compensation paid by us to Mr. Yin Shenping, our Chief Executive Officer, for the years ended June 30, 2018, 2017 and 2016. No other employee or officer received more than \$100,000 in total compensation in 2018, 2017 and 2016.

Summary Executive Compensation Table

Name and principal position	Year	Salary	Bonus	Option Awards	Restricted Stock Awards	Total
Yin Shenping, Principal Executive Officer	2018	\$120,000	\$30,212	\$ —	\$ 0	\$150,212
	2017	\$125,590	\$7,272	\$ —	\$ 2,224,575	(1)(2)(4)(5)(6) \$2,357,437
	2016	\$125,975	\$10,000	\$ —	\$ 281,600	(1)(2)(4) \$417,575
Liu Jia Chief Financial Officer	2018	\$80,000	\$22,659	\$ — (3)	\$ 0	\$102,659
	2017	\$80,000	\$4,500	\$ — (3)	\$ 478,950	(4)(5)(6) \$563,450
	2016	\$80,000	\$7,525	\$ — (3)	31,680	(4) \$119,205
Chen Guangqiang, Chief Technology Officer	2018	\$144,472	\$30,212	\$ —	\$ 0	\$174,684
	2017	\$115,000	\$5,272	\$ —	\$ 2,224,575	(1)(2)(4)(5)(6) \$2,344,847
	2016	\$115,893	\$10,000	\$ —	\$ 281,600	(1)(2)(4) \$407,493

On December 13, 2013, the Company granted 95,181 restricted shares to Mr. Yin at an aggregate grant date fair value of \$284,591 and 135,181 restricted shares to Mr. Chen at an aggregate grant date fair value of \$404,191, (1) based on the stock closing price of \$2.99 at December 13, 2013. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date. These restricted shares granted in fiscal 2014 are not reflected in the Summary Executive Compensation Table.

(2)

On January 31, 2015, the Company granted 150,000 restricted shares to Mr. Yin at an aggregate grant date fair value of \$247,500 and 150,000 restricted shares to Mr. Chen at an aggregate grant date fair value of \$247,500, based on the stock closing price of \$1.65 at January 31, 2015. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date. These restricted shares granted in fiscal 2015 are not reflected in the Summary Executive Compensation Table.

(3) On January 31, 2015, the Company granted 32,000 options to Ms. Liu Jia. These options vest over a period of three years, one third of which vest on January 31 of each year beginning in 2016. The grant date fair value of such options was \$1.65 per underlying share. These options granted in fiscal 2015 are not reflected in the Summary Executive Compensation Table.

(4) On October 18, 2015, the Company granted 320,000 restricted shares to Mr. Yin at an aggregate grant date fair value of \$281,600, 320,000 restricted shares to Mr. Chen at an aggregate grant date fair value of \$281,600, and 36,000 restricted shares to Ms. Liu at an aggregate grant date fair value of \$31,680, based on the stock closing price of \$0.88 at October 16, 2015. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date.

On July 27, 2016, the Company granted 360,000 restricted shares to Mr. Yin at an aggregate grant date fair value of \$396,000, 360,000 restricted shares to Mr. Chen at an aggregate grant date fair value of \$396,000, and 66,000 (5) restricted shares to Ms. Liu at an aggregate grant date fair value of \$72,600, based on the stock closing price of \$1.10 at July 27, 2016. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date.

On December 9, 2016, the Company approved management's new plan based on potential performance for the coming three fiscal years from fiscal 2017 to fiscal 2019. During fiscal year 2017, 3,010,000 shares were issued in front and they are forfeited and cancelled automatically in the event the company fails to meet certain operating performance goals. For more details, please see our current report in the form 6-K filed on December 9, 2016. The (6) amortized compensation for fiscal year 2017 was aggregated to ¥7,449,818 (\$1,080,000), based on the stock closing price of \$1.35 at December 9, 2016. Among the 3,010,000 shares, assuming the maximum performance will be achieved, the Company granted 1,354,500 restricted shares to Mr. Yin at an aggregate grant date fair value of \$1,828,575, 1,354,500 restricted shares to Mr. Chen at an aggregate grant date fair value of \$1,828,575 and 301,000 restricted shares to Ms. Liu at an aggregate grant date fair value of \$406,350.

Director Compensation

All directors hold office until the expiration of their respective terms and until their successors have been duly elected and qualified. There are no family relationships among our directors or executive officers. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors and non-voting observers do not receive any compensation for their services. We pay \$8,000 to each independent director annually for their service a director. In addition, non-employee directors are entitled to receive compensation for their actual travel expenses for each Board of Directors meeting attended.

Summary Director Compensation Table

Name⁽¹⁾	Fees earned or paid in cash	Option Awards	Total⁽²⁾
Nelson N.S. Wong	\$ 8,000	\$ 0	\$ 8,000
Hu Jijun	\$ 8,000	\$ 0	\$ 8,000
Zhao Shudong	\$ 8,000	\$ 0	\$ 8,000
Bi Yongquan ⁽³⁾	\$ 0	\$ 0	\$ 0
Yan Changqing ⁽⁴⁾	\$ 4,000	\$ 0	\$ 4,000

(1) Compensation for our directors Yin Shenping and Chen Guangqiang, who also serve as executive officers, is fully disclosed in the executive compensation table.

- (2) None of the directors received any ordinary share awards, nonqualified deferred compensation earnings or non-equity incentive plan compensation in fiscal year 2018.
- (3) Mr. Bi Yongquan began to serve as the Company's director and Chairman of the board since January 2018.
- (4) Mr. Yan Changqing began to serve as the Company's director since January 2018 and has been an independent director.

The following table summarizes, as of June 30, 2018, the outstanding options and restricted shares that we granted to our current directors and executive officers and to other individuals as a group.

Name	Ordinary shares underlying options		Exercise price (US\$/share)	Date of grant	Date of expiration
	awarded/Restricted	Share Units			
Yin Shenping		60,000	6.00	7/29/2009	7/28/2019
		48,000	2.96	3/26/2012	3/26/2022
		106,667	(1) —	10/18/2015	10/18/2018
		240,000	(1) —	7/26/2016	7/26/2019
		1,354,500	(1) —	12/9/2016	Filing date of the annual report for FY 2019
Jia Liu		50,000	6.00	7/29/2009	7/28/2019
		32,000	1.65	1/31/2015	1/31/2025
		12,000	(1) —	10/18/2015	10/18/2018
		44,000	(1) —	7/26/2016	7/26/2019
		301,000	—	12/9/2016	Filing date of the annual report for FY 2019
Chen Guangqiang		50,000	6.00	7/29/2009	7/28/2019
		30,000	2.96	3/26/2012	3/26/2022
		106,667	(1) —	10/18/2015	10/18/2018
		240,000	(1) —	7/26/2016	7/26/2019
		1,354,500	(1) —	12/9/2016	Filing date of the annual report for FY 2019
Bi Yongquan		—	—	—	—
Nelson N.S. Wong		18,000	6.00	7/29/2009	7/28/2019
		25,000	1.65	1/31/2015	1/31/2025
		10,000	(1) —	10/18/2015	10/18/2018
		20,000	(1) —	7/26/2016	7/26/2019
Hu Jijun		15,000	6.00	7/29/2009	7/28/2019
		25,000	1.65	1/31/2015	1/31/2025
		10,000	(1) —	10/18/2015	10/18/2018
		20,000	(1) —	7/26/2016	7/26/2019
Zhao Shudong		9,000	2.96	3/26/2012	3/26/2022
		18,000	1.65	1/31/2015	1/31/2025
		10,000	(1) —	10/18/2015	10/18/2018
		20,000	(1) —	7/26/2016	7/26/2019
Yan Changqing		—	—	—	—
Other Individuals as a Group		135,600	2.96	3/26/2012	3/26/2022
		300,000	1.65	1/31/2015	1/31/2025
		50,000	(1) —	10/18/2015	10/18/2018
		12,667	(1) —	7/26/2016	7/26/2019
		900,000	(2) —	10/13/2017	3/31/2020
Total		5,038,934			

(1) Restricted share units.

(2) Granted but not yet issued.

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C. Board Practices

Board of Directors and Board Committees

Our board of directors currently consists of seven members. There are no family relationships between any of our executive officers and directors.

The directors are divided into three classes, as nearly equal in number as the then total number of directors permits. Class I directors faced re-election at our annual general meeting of shareholders in 2014 and every three years thereafter. Class II directors faced re-election at our annual general meeting of shareholders in 2015 and every three years thereafter. Class III directors faced re-election at our annual general meeting of shareholders in 2016 and every three years thereafter.

If the number of directors changes, any increase or decrease will be apportioned among the classes so as to maintain the number of directors in each class as nearly as possible. Any additional directors of a class elected to fill a vacancy resulting from an increase in such class will hold office for a term that coincides with the remaining term of that class. Decreases in the number of directors will not shorten the term of any incumbent director. These board provisions could make it more difficult for third parties to gain control of the Company by making it difficult to replace members of our Board of Directors.

A director may vote in respect of any contract or transaction in which he is interested, provided, however, that the nature of the interest of any director in any such contract or transaction shall be disclosed by him at or prior to the Board of Directors consideration and any vote on that matter. A general notice or disclosure to the directors, or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof that a director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting.

The Board of Directors maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Stock Market Rule 4200(a)(15). Mr. Zhao, Mr. Wong, Mr. Hu and

Mr. Yan are our independent directors.

We do not have a lead independent director because of the foregoing reason because we believe our independent directors are encouraged to freely voice their opinions on a relatively small company board.

Our Board of Directors plays a significant role in our risk oversight. The Board of Directors makes all relevant Company decisions. As such, it is important for us to have our Chief Executive Officer serve on the Board as he plays a key role in the risk oversight of the Company. As a smaller reporting company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

Currently, three committees have been established under the board: the audit committee, the compensation committee and the nominating committee. All of these committees consist solely of independent directors.

The audit committee is responsible for overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company, including the appointment, compensation and oversight of the work of our independent auditors. Mr. Wong qualifies as the audit committee financial expert and serves as the chair of the audit committee.

The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies for our officers and all forms of compensation, and also administers our incentive compensation plans and equity-based plans (but our board retains the authority to interpret those plans). Mr. Hu serves as the chair of the compensation committee.

The nominating committee of the board of directors is responsible for the assessment of the performance of the board, considering and making recommendations to the board with respect to the nominations or elections of directors and other governance issues. The nominating committee considers diversity of opinion and experience when nominating directors. Mr. Zhao serves as the chair of the nominating committee.

There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to the Company to act in good faith in their dealings with or on behalf of the Company and exercise their powers and fulfill the duties of their office honestly. This duty has four essential elements:

- a duty to act in good faith in the best interests of the Company;
- a duty not to personally profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest; and
- a duty to exercise powers for the purpose for which such powers were intended.

In general, Cayman Islands law imposes various duties on directors of a company with respect to certain matters of management and administration of the Company. In addition to the remedies available under general law, the Companies Law imposes fines on directors who fail to satisfy some of these requirements. However, in many circumstances, an individual is only liable if he is knowingly guilty of the default or knowingly and willfully authorizes or permits the default. In comparison, under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders. In addition, under Delaware law, a party challenging the propriety of a decision of the directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the “business judgment rule.” If the presumption is not rebutted, the business judgment rule protects the directors and their decisions, and their business judgments will not be second guessed. If the presumption is rebutted, the directors bear the burden of demonstrating the entire fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors’ conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

Limitation of Director and Officer Liability

Pursuant to our Amended Memorandum and Articles of Association, every director or officer and the personal representatives of the same shall be indemnified and held harmless out of our assets and funds against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by him or her in or about the conduct of our business or affairs or in the execution or discharge of his or her duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by him in defending (whether successfully or otherwise) any civil proceedings concerning us or our affairs in any court whether in the Cayman Islands or elsewhere. No such director or officer will be liable for: (a) the acts, receipts, neglects, defaults or omissions of any other such Director or officer or agent; or (b) any loss on account of defect of title to any of our properties; or (c) account of the insufficiency of any security in or upon which any of our money shall be invested; or (d) any loss incurred through any bank, broker or other similar person; or (e) any loss occasioned by any negligence, default, breach of duty, breach of trust, error of judgment or oversight on his or her part; or (f) any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers authorities, or discretions of his or her office or in relation thereto, unless the same shall happen through his or her own dishonesty, gross negligence or willful default.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or has been a party to any judicial or administrative proceeding during the past ten years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities or commodities laws, any laws respecting financial institutions or insurance companies, any law or regulation prohibiting mail or wire fraud in connection with any business entity or been subject to any disciplinary sanctions or orders imposed by a stock, commodities or derivatives exchange or other self-regulatory organization, except for matters that were dismissed without sanction or settlement.

D. Employees

As of June 30, 2018, we employed a total of 90 full-time and 0 part time employees in the following functions:

Department	Number of Employees		
	June 30, 2018	June 30, 2017	June 30, 2016
Senior Management	7	7	10
Human Resource & Administration	19	7	6
Finance	10	6	11
Research & Development	30	32	37
Procurement	5	2	2
Sales & Marketing	19	17	17
Total	90	71	83

Our employees are not represented by a labor organization or covered by a collective bargaining agreement. We have not experienced any work stoppages.

We are required under PRC law to make contributions to employee benefit plans at specified percentages of our after-tax profit. In addition, we are required by PRC law to cover employees in China with various types of social insurance. In fiscal year 2018, we contributed approximately \$127,371 to the employee benefit plans and social insurance. In fiscal year 2017, we contributed approximately \$133,402 to the employee benefit plans and social insurance. In fiscal year 2016, we contributed approximately \$127,160 to the employee benefit plans and social insurance. The effect on our liquidity by the payments for these contributions is immaterial. We believe that we are in material compliance with the relevant PRC employment laws.

E. Share Ownership

For information regarding the share ownership of our directors and senior management, see “Item 7. Major Shareholders and Related Party Transactions — A. Major Shareholders.”

Share and Share Options

Share Option Pool

In connection with our initial public offering, we established a pool for share options as our 2009 Stock Incentive Plan (“2009 Incentive Plan”) for the Domestic Companies’ and our employees. This pool contains options to purchase up to 790,362 of our ordinary shares. The options will vest at a rate of 20% per year for five years and have an exercise price of the market price of our shares on the date the options are granted. To date, we issued 564,000 options and 226,362 shares out of this employee share option pool. We initially granted 293,000 options in 2009. We held a shareholder meeting in December 2010 and announced the resignation of three directors, and as a result, 100,000 options were forfeited and went back in the pool. In 2012, we granted an additional 415,000 options and 44,000 options were forfeited and went back to the pool. In the three months ended June 30, 2014, 148,400 vested options from 2012 grants were exercised. As of June 30, 2018, we have 415,600 options outstanding under the 2009 Incentive Plan.

On January 29, 2015, the Company held its 2014 annual general meeting of shareholders, during which the Company's shareholders approved the Company's 2015 Stock Incentive Plan ("2015 Incentive Plan"). Pursuant to the 2015 Incentive Plan, we were initially authorized to issue up to an aggregate of Seven Hundred Thousand (700,000) ordinary Shares. Additionally, commencing on the first business day in fiscal year ending June 30, 2016 and on the first business day of each fiscal year thereafter while the 2015 Incentive Plan is in effect, the maximum number of Ordinary Shares available for issuance under this 2015 Incentive Plan during that fiscal year shall be increased such that, as of such first business day, the maximum aggregate number of Ordinary Shares available for issuance under this 2015 Incentive Plan during that fiscal year shall be equal to Fifteen Percent (15%) of the number of total issued and outstanding Ordinary Shares of the Company as recorded by the Company's transfer agent on the last business day of the prior fiscal year. The Company granted options to purchase 400,000 Ordinary Shares to its employees and non-employee director on January 31, 2015 under the 2015 Incentive Plan. As of June 30, 2018, we have 400,000 options outstanding under this 2015 Incentive Plan.

As of June 30, 2018, we have an aggregate of 815,600 options outstanding under our incentive plans.

Executive Stock Grants

On December 13, 2013, the Company granted 95,181 restricted shares to Mr. Yin Shenping and 135,181 restricted shares to Mr. Chen Guangqiang at an aggregate value of ¥4,207,496 (\$688,782), based on the stock closing price of \$2.99 at December 13, 2013. These restricted shares will be vested over three years with one third of the shares vesting every year from the grant date. Of these 76,787 restricted shares vested and were issued to Mr. Yin and Mr. Chen on March 24, 2015, and 76,787 restricted shares were vested and issued to Mr. Yin and Chen on July 13, 2016.

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

On July 11, 2015, the Company's board approved to reserve 800,000 shares and options under the 2015 Incentive Plan. On October 18, 2015, 800,000 restricted shares were granted to staff under this plan at an aggregate value of ¥4,677,608 (\$704,000), based on the stock closing price of \$0.88 at October 16, 2015. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date.

On July 23, 2016, the Company's board approved the reservation of 876,000 shares and options. On July 27, 2016, 876,000 restricted shares were granted to staff pursuant to this authorization.

On December 9, 2016, the Company's board approved management's new plan based on future performance for the three fiscal years from 2017 to 2019. The Company also agreed on front-issuing of shares based on the optimism situation, thus non-vested 3.01 million shares were issued to management on January 23 2017. The fair value of the restricted shares was \$4,063,500 based on the closing stock price \$1.35 at December 9, 2016. Prior to the filing of the annual report for the years ending June 30, 2017, 2018 and 2019, certain number of shares granted under this plan may not be sold, transferred, hypothecated, voted or otherwise used for any purpose, and any shares that are not earned as stated above will be automatically cancelled without payment by the transfer agent of the Company.

On August 27, 2018, the Company's board approved a grant of 1,956,000 restricted stock units (the "RSUs") to certain employees and directors under the Company's 2015 Incentive Plan according to a vesting schedule as a reward and compensation to encourage as an incentive for their future dedication to the Company. Fair value of these RSUs are \$2,503,680 based on the closing price of the resolution of the board on August 27, 2018, with a vesting period of three years from the date of the grant.

As of June 30, 2018, we have 4,042,000 non-vested restricted stocks outstanding.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information with respect to beneficial ownership of our ordinary shares as of the date of this report, for each person known by us to beneficially own 5% or more of our ordinary shares, and all of our executive officers and directors individually and as a group. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. Percentage of beneficial ownership is based on 17,684,282 shares, which consists of 16,270,349 shares outstanding as of September 28, 2018, and 1,413,933 shares subject to options that are exercisable within 60 days after September 28, 2018. These shares do not include (1) the non-vested 2,210,000 shares which were granted to the management on December 9, 2016 and are subject to cancellation and (2) 2,435,284 shares which were granted to FGS individual shareholders at the end of September, 2018 and are subject to cancellation. The 1,413,933 shares subject to options are deemed to be outstanding for the purposes of computing the percentage ownership of the individual holding such shares, but are not deemed outstanding for purposes of computing the percentage for any other person shown in the table. Our major shareholders do not possess voting rights that differ from our other shareholders. The address of each of the below shareholders is c/o Recon Technology Ltd, Room 1902, Building C, King Long International Mansion, 9 Fulin Road, Beijing 100107 China.

	Amount of Beneficial Ownership	Percentage Ownership	
Yin Shenping ⁽¹⁾	2,045,011	11.6	%
Chen Guangqiang ⁽²⁾	2,042,143	11.6	%
Hu Jijun ⁽³⁾	90,000	*	%
Nelson Wong ⁽⁴⁾	93,000	*	%
Zhao Shudong ⁽⁵⁾	77,000	*	%
Liu Jia ⁽⁶⁾	242,000	1.3	
Bi Yongquan	3,000,000	16.4	%
Yan Changqing	0	-	
Directors and Executive Officers as a Group (eight members)**	7,589,154	42.9	%

(1) Includes 108,000 options to purchase ordinary shares that are exercisable and 226,667 restricted shares that are vested within 60 days after September 28, 2018.

- (2) Includes 80,000 options to purchase ordinary shares that are exercisable and 226,667 restricted shares that are vested within 60 days after September 28, 2018.

- (3) Includes 40,000 options to purchase ordinary shares that are exercisable and 20,000 restricted shares that are vested within 60 days after September 28, 2018.

- (4) Includes 35,000 options to purchase ordinary shares that are exercisable and 20,000 restricted shares that are vested within 60 days after September 28, 2018.

- (5) Includes 27,000 options that are exercisable and 34,000 restricted shares that are vested within 60 days after September 28, 2018.

(6) Includes 82,000 options to purchase ordinary shares and 44,000 restricted shares that are vested within 60 days after September 28, 2018.

* Less than 1%.

**No other 5% shareholder.

B. Related party transactions

Transactions with Related Persons

Because we do not have access certification to Jidong Oilfield, Nanjing Recon, one of our Domestic Companies, conducted transactions with Jidong Oilfield through Beijing Yabei Nuoda Science and Technology Co. Ltd. (“Yabei Nuoda”), which has access certification to the oilfield and wherein one of the Founders, Mr. Yin Shenping, was the legal representative of Yabei Nuoda before December 2013 and Chairman as of September 30, 2014. On October 30, 2014, Mr. Yin resigned from the chairman position and since that point Yabei Nuoda was no longer a related party of the Company after October 30, 2014. Mr. Yin does not have any equity interest in this company currently.

Purchase from related parties consisted of the following:

	For the years ended June 30,			
	2016	2017	2018	2018
	RMB	RMB	RMB	U.S. Dollars
Huanghua Heng Da Xiang Tong Manufacture Ltd	¥338,862	¥ -	¥ -	\$ -
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	588,894	-	-	-
Purchases from related parties	¥927,756	¥ -	¥ -	\$ -

Other payables consisted of the following:

	June 30,	June 30,	June 30,
	2017	2018	2018
	RMB	RMB	U.S. Dollars
Related Party			
Expenses paid by the major shareholders	¥3,062,709	¥2,767,349	\$ 418,041
Due to family member of one owner	-	193,143	29,177

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Due to management staff for costs incurred on behalf of Recon	251,310	250,965	37,911
Total	¥3,314,019	¥3,211,457	\$ 485,129

The Company also had short-term borrowings` from related parties. Below is a summary of the Company's short-term borrowings due to related parties as of June 30, 2017 and 2018, respectively.

Short-term borrowings due to related parties:	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Short-term borrowing from a Founder, 5.655% annual interest, due on August 24, 2017*	¥62,692	¥ -	\$ -
Short-term borrowing from a Founder, 5.655% annual interest, due on August 31, 2017*	1,260,165	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on August 31, 2017*	1,420,223	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on September 11, 2017*	722,262	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on September 16, 2017*	541,187	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on September 18, 2017*	804,530	-	-
Short-term borrowing from a Founder's family member, no interest, due on December 31, 2017*	350,000	-	-
Short-term borrowing from a Founder, 5.22% annual interest, due on May 10, 2018*	2,529,428	-	-
Short-term borrowing from a Founder, 5.22% annual interest, due on June 7, 2018*	2,477,521	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on December 15, 2018	-	5,011,782	757,090
Short-term borrowing from a Founder, 5.655% annual interest, due on March 21, 2019	-	4,006,283	605,197
Total short-term borrowings due to related parties	¥10,168,008	¥9,018,065	\$ 1,362,287

*The Company repaid the loan in full on maturity date.

The Company also had long-term borrowings` from related party. Below is a summary of the Company's long-term borrowings due to related party as of June 30, 2017 and 2018, respectively.

Long-term borrowings due to related party:	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Long-term borrowing from a Founder, monthly payments of ¥126,135 inclusive of interest at 8.90%, ten years loan, due in November 2027.	¥ -	¥ 9,663,729	\$ 1,459,822
Less: current portion	-	(719,895)	(108,749)
Total long-term borrowings due to related party	¥-	¥ 8,943,834	\$ 1,351,073

Account payable due to related parties - The Company purchased automation products and heating furnaces from Xiamen Huangsheng Hitek Computer Network Co. Ltd (Huangsheng Hitek) and Huanghua Xiang Tong. The ending balance of accounts payable due to Huangsheng Hitek as of June 30, 2017 and 2018 were both nil. On March 18, 2016, the Company terminated its equity investment in Huanghua Xiang Tong and therefore has no related-party relationship with this entity after March 18, 2016.

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 at a monthly rent of ¥140,000 with annual rental expense at ¥1.68 million (\$0.25 million). The details of leases from related parties are as below:

Lessee	Lessor	Rent Period	Monthly Rent RMB	Monthly Rent USD
Nanjing Recon	Yin Shenping	April 1, 2018 - March 31, 2020	¥ 60,000	\$ 9,064
BHD	Chen Guangqiang	January 1, 2018 - December 31, 2018	22,500	3,399
BHD	Mr Chen's family member	January 1, 2018 - December 31, 2018	47,500	7,175
Recon BJ	Yin Shenping	July 1, 2016 - June 30, 2018	10,000	1,511

Expenses paid by the owner on behalf of Recon - Shareholders of our VIEs paid certain operating expenses for the Company. As of June 30, 2017, and 2018, ¥3,062,709 and ¥2,767,349 (\$418,041) was due to them, respectively.

Other than as described herein, no transactions required to be disclosed under Item 404 of Regulation S-K have occurred since the beginning of the Company's last fiscal year.

Director Independence

The Board of Directors maintains a majority of independent directors who are deemed to be independent under the definition of independence provided by NASDAQ Stock Market Rule 4200(a)(15). Mr. Wong, Mr. Hu, Mr. Zhao and Mr. Yan are our independent directors.

C. Interests of experts and counsel

Not applicable for annual reports on Form 20-F.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Please refer to Item 18.

Legal and Administrative Proceedings

We are currently not a party to any material legal or administrative proceedings and are not aware of any pending or threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

Dividend Policy

(a) We have never declared or paid any cash dividends on our ordinary shares. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be

made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the Board of Directors may deem relevant.

Because we are a holding company with no operations of our own and all of our operations are conducted through our Chinese subsidiary, our ability to pay dividends and to finance any debt that we may incur is dependent upon dividends and other distributions paid. In addition, Chinese legal restrictions permit payment of dividends to us by our Chinese subsidiary only out of its accumulated net profit, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, our subsidiary is 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 subsidiaries' registered capital. These funds may be distributed to shareholders at the time of its wind up. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Holding Company Structure."

Payments of dividends by our subsidiary in China to the Company are also subject to restrictions including primarily the restriction that foreign invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents. There are no such similar foreign exchange restrictions in the Cayman Islands.

(b) We are not required to provide any disclosure under this item, as we have applied all of the net proceeds from our initial public offering, as disclosed in our annual report on Form 10-K for the year ended June 30, 2011. While we have filed a shelf registration statement on Form S-3 (SEC no. 333-190387, declared effective August 14, 2013), we have sold 546,500 shares under such registration statement. We also filed a shelf registration statement on Form S-3 (SEC no. 333-213702, declared effective October 7, 2016) and we have sold 3,592,500 shares under such registration statement.

(c) None.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing**A. Offer and listing details**

We completed our initial public offering on July 29, 2009. The following table sets forth the high and low sale prices for our ordinary shares as reported on the NASDAQ Capital Market.

	High	Low
Annual Highs and Lows		
Year Ended June 30, 2014	\$8.00	\$1.75
Year Ended June 30, 2015	\$5.47	\$1.27
Year Ended June 30, 2016	\$2.46	\$0.62
Year Ended June 30, 2017	\$2.22	\$0.9
Year Ended June 30, 2018	\$5.36	\$0.64
Quarterly Highs and Lows		
Quarter Ended September 30, 2016	\$2.22	\$1.05
Quarter Ended December 31, 2016	\$1.93	\$0.9
Quarter Ended March 31, 2017	\$1.67	\$1.18
Quarter Ended June 30, 2017	\$1.57	\$0.98
Quarter Ended September 30, 2017	\$1.18	\$0.64
Quarter Ended December 31, 2017	\$2.64	\$1.01
Quarter Ended March 31, 2018	\$5.36	\$1.1
Quarter Ended June 30, 2018	\$1.9	\$1.13
Monthly Highs and Lows		
April 2018	\$1.52	\$1.13
May 2018	\$1.43	\$1.23
June 2018	\$1.9	\$1.24
July 2018	\$1.75	\$1.38
August 2018	\$1.569	\$1.1695
September 2018 (through September 25, 2018)	\$1.56	\$1.1053

As of September 25, 2018, there were approximately twenty holders of record of our ordinary shares. This excludes our ordinary shares owned by shareholders holding ordinary shares under nominee security position listings. On September 25, 2018, the last sales price of our ordinary shares as reported on the NASDAQ Capital Market was \$1.2701 per ordinary share.

B. Plan of distribution

Not applicable for annual reports on Form 20-F.

C. Markets

Our Ordinary Shares are listed on the Nasdaq Capital Market under the symbol “RCON.”

D. Selling shareholders

Not applicable for annual reports on Form 20-F.

E. Dilution

Not applicable for annual reports on Form 20-F.

F. Expenses of the issue

Not applicable for annual reports on Form 20-F.

Item 10. Additional Information

A. Share capital

Not applicable for annual reports on Form 20-F.

B. Memorandum and articles of association

The information required by this item is incorporated by reference to the material headed “Description of Share Capital” in our Registration Statement on Form S-3, File no. 333- 213702, filed with the SEC on September 29, 2016.

C. Material contracts

We have not entered into any material contracts other than in the ordinary course of business and otherwise described elsewhere in this annual report.

D. Exchange controls

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans or foreign currency is to be remitted into China under the capital account, such as a capital increase or foreign currency loans to our PRC subsidiaries.

In August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under SAFE Circular 142 and Circular 45, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

We typically do not need to use our offshore foreign currency to fund our PRC operations. In the event we need to do so, we will apply to obtain the relevant approvals of SAFE and other PRC government authorities as necessary.

SAFE Circular 75

Under the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or SAFE Circular 75, issued by SAFE on October 21, 2005 and its implementation rules, a PRC resident (whether a natural or legal person) is required to complete an initial registration with its local SAFE branch before incorporating or acquiring control of an offshore special purpose vehicle, or SPV, with assets or equity interests in a PRC company, for the purpose of offshore equity financing. The PRC resident is also required to amend the registration or make a filing upon (1) the injection of any assets or equity interests in an onshore company or undertaking of offshore financing, or (2) the occurrence of a material change that may affect the capital structure of a SPV. SAFE also subsequently issued various guidance and rules regarding the implementation of SAFE Circular 75, which imposed obligations on PRC subsidiaries of offshore companies to coordinate with and supervise any PRC-resident beneficial owners of offshore entities in relation to the SAFE registration process.

Regulation of Dividend Distribution

The principal laws, rules and regulations governing dividend distribution by foreign-invested enterprises in the PRC are the Company Law of the PRC, as amended, the Wholly Foreign-owned Enterprise Law and its implementation regulations and the Equity Joint Venture Law and its implementation regulations. Under these laws, rules and regulations, foreign-invested enterprises may pay dividends only out of their accumulated profit, if any, as determined in accordance with PRC accounting standards and regulations. Both PRC domestic companies and wholly-foreign

owned PRC enterprises are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of such reserves reaches 50% of their registered capital. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

E. Taxation

The following sets forth the material Cayman Islands, Chinese and U.S. federal income tax consequences related to an investment in our Ordinary Shares. It is directed to U.S. Holders (as defined below) of our Ordinary Shares and is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This description does not deal with all possible tax consequences relating to an investment in our Ordinary Shares, such as the tax consequences under state, local and other tax laws.

The following brief description applies only to U.S. Holders (defined below) that hold Ordinary Shares as capital assets and that have the U.S. dollar as their functional currency. This brief description is based on the tax laws of the United States in effect as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The brief description below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of shares and you are, for U.S. federal income tax purposes,

• an individual who is a citizen or resident of the United States;

- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;

• an estate whose income is subject to U.S. federal income taxation regardless of its source; or

a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

WE URGE POTENTIAL PURCHASERS OF OUR SHARES TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF OUR SHARES.

People's Republic of China Enterprise Taxation

The following brief description of Chinese enterprise laws is designed to highlight the enterprise-level taxation on our earnings, which will affect the amount of dividends, if any, we are ultimately able to pay to our shareholders. See “Dividend Policy.”

We are a holding company incorporated in the Cayman Islands and we gain substantial income by way of dividends paid to us from our PRC subsidiaries. The EIT Law and its implementation rules provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its equity holders that are non-resident enterprises, will normally be subject to PRC withholding tax at a rate of 10%, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential tax rate or a tax exemption.

Under the EIT Law, an enterprise established outside of China with a “de facto management body” within China is considered a “resident enterprise,” which means that it is treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. Although the implementation rules of the EIT Law define “de facto management body” as a managing body that actually, comprehensively manage and control the production and operation, staff, accounting, property and other aspects of an enterprise, the only official guidance for this definition currently available is set forth in SAT Notice 82, which provides guidance on the determination of the tax residence status of a Chinese-controlled offshore incorporated enterprise, defined as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC enterprise or enterprise group as its primary controlling shareholder. Although Recon does not have a PRC enterprise or enterprise group as our primary controlling shareholder and is therefore not a Chinese-controlled offshore incorporated enterprise within the meaning of SAT Notice 82, in the absence of guidance specifically applicable to us, we have applied the guidance set forth in SAT Notice 82 to evaluate the tax residence status of Recon and its subsidiaries organized outside the PRC.

According to SAT Notice 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (i) the places where senior management and senior management departments that are responsible for daily production, operation and management of the enterprise perform their duties are mainly located within the territory of China; (ii) financial decisions (such as money borrowing, lending, financing and financial risk management) and personnel decisions (such as appointment, dismissal and salary and wages) are decided or need to be decided by organizations or persons located within the territory of China; (iii) main property, accounting books, corporate seal, the board of directors and files of the minutes of shareholders' meetings of the enterprise are located or preserved within the territory of China; and (iv) one half (or more) of the directors or senior management staff having the right to vote habitually reside within the territory of China.

We believe that we do not meet some of the conditions outlined in the immediately preceding paragraph. For example, as a holding company, the key assets and records of the Company, including the resolutions and meeting minutes of our board of directors and the resolutions and meeting minutes of our shareholders, are located and maintained outside the PRC. In addition, we are not aware of any offshore holding companies with a corporate structure similar to ours that has been deemed a PRC “resident enterprise” by the PRC tax authorities. Accordingly, we believe that Recon and its offshore subsidiaries should not be treated as a “resident enterprise” for PRC tax purposes if the criteria for “de facto management body” as set forth in SAT Notice 82 were deemed applicable to us. However, as the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, we will continue to monitor our tax status.

The implementation rules of the EIT Law provide that, (i) if the enterprise that distributes dividends is domiciled in the PRC or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or gains are treated as China-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered as a PRC tax resident enterprise for PRC tax purposes, any dividends we pay to our overseas shareholders which are non-resident enterprises as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

See “Risk Factors — Risks Related to Doing Business in China — Under the Enterprise Income Tax Law, we may be classified as a ‘Resident Enterprise’ of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.”

Any gain or loss recognized by you generally will be treated as United States source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax were imposed on any gain, and if you are eligible for the benefits of the tax treaty between the United States and PRC, you may elect to treat such gain as PRC source gain under such treaty and, accordingly, you may be able to credit the PRC tax against your United States federal income tax liability.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not a party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

United States Federal Income Taxation

The following does not address the tax consequences to any particular investor or to persons in special tax situations such as:

•banks;

• financial institutions;

• insurance companies;

• regulated investment companies;

• real estate investment trusts;

• broker-dealers;

• traders that elect to mark-to-market;

• U.S. expatriates;

• tax-exempt entities;

• persons liable for alternative minimum tax;

• persons holding our Ordinary Shares as part of a straddle, hedging, conversion or integrated transaction;

• persons that actually or constructively own 10% or more of our voting shares;

persons who acquired our Ordinary Shares pursuant to the exercise of any employee share option or otherwise as consideration; or

persons holding our Ordinary Shares through partnerships or other pass-through entities.

Prospective purchasers are urged to consult their own tax advisors about the application of the U.S. Federal tax rules to their particular circumstances as well as the state, local, foreign and other tax consequences to them of the purchase, ownership and disposition of our Ordinary Shares.

Taxation of Dividends and Other Distributions on our Ordinary Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of distributions made by us to you with respect to the Ordinary Shares (including the amount of any taxes withheld therefrom) will generally be includable in your gross income as dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). With respect to corporate U.S. Holders, the dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends will be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) the Ordinary Shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of an approved qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. Under U.S. Internal Revenue Service authority, Ordinary Shares are considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Capital Market. You are urged to consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our Ordinary Shares, including the effects of any change in law after the date of this annual report.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our Ordinary Shares will constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), it will be treated first as a tax-free return of your tax basis in your Ordinary Shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Taxation of Dispositions of Ordinary Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a share equal to the difference between the amount realized (in U.S. dollars) for the share and your tax basis (in U.S. dollars) in the Ordinary Shares. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the Ordinary Shares for more than one year, you will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss for foreign tax credit limitation purposes.

Passive Foreign Investment Company

A non-U.S. corporation is considered a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year if either:

• at least 75% of its gross income is passive income; or

• at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

Based on the market price of our Ordinary Shares, the value of our assets and the composition of our assets and income, we believe that we were not a PFIC for our taxable year ended December 31, 2017, 2016 or 2015. However, given the factual nature of the analyses and the lack of guidance, no assurance can be given. We do not expect to be a PFIC for our taxable year ending December 31, 2018. However, because PFIC status is a factual determination for each taxable year which cannot be made until the close of the taxable year, our actual PFIC status will not be determinable until the close of the taxable year and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year or any future taxable year.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change from year to year. In particular, because the value of our assets for purposes of the asset test will generally be determined based on the market price of our Ordinary Shares, our PFIC status will depend in large part on the market price of our Ordinary Shares. Accordingly, fluctuations in the market price of the Ordinary Shares may cause us to become a PFIC. In addition, the application of the PFIC rules is subject to uncertainty in several respects including the composition of our income and assets in a given year. If we are a PFIC for any year during which you hold Ordinary Shares, we will continue to be treated as a PFIC for all succeeding years during which you hold Ordinary Shares. However, if we cease to be a PFIC, you may avoid some of the adverse effects of the PFIC regime by making a “deemed sale” election with respect to the Ordinary Shares.

If we are a PFIC for any taxable year during which you hold Ordinary Shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the Ordinary Shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received

during the shorter of the three preceding taxable years or your holding period for the Ordinary Shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the Ordinary Shares;

- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and

- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the Ordinary Shares cannot be treated as capital, even if you hold the Ordinary Shares as capital assets.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for the Ordinary Shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the Ordinary Shares as of the close of your taxable year over your adjusted basis in such Ordinary Shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the Ordinary Shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the Ordinary Shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the Ordinary Shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the Ordinary Shares, as well as to any loss realized on the actual sale or disposition of the Ordinary Shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such Ordinary Shares. Your basis in the Ordinary Shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower applicable capital gains rate for qualified dividend income discussed above under “— Taxation of Dividends and Other Distributions on our Ordinary Shares” generally would not apply.

The mark-to-market election is available only for “marketable stock”, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market (as defined in applicable U.S. Treasury regulations), including the Nasdaq Capital Market. If the Ordinary Shares are regularly traded on the Nasdaq Capital Market and if you are a holder of Ordinary Shares, the mark-to-market election would be available to you were we to be or become a PFIC.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder who makes a valid qualified electing fund election with respect to a PFIC will generally include in gross income for a taxable year such holder’s pro rata share of the corporation’s earnings and profits for the taxable year. However, the qualified electing fund election is available only if such PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not currently intend to prepare or provide the information that would enable you to make a qualified electing fund election. If you hold Ordinary Shares in any year in which we are a PFIC, you will be required to file U.S. Internal Revenue Service Form 8621 regarding distributions received on the Ordinary Shares and any gain realized on the disposition of the Ordinary Shares.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our Ordinary Shares and the elections discussed above.

Information Reporting and Backup Withholding

Dividend payments with respect to our Ordinary Shares and proceeds from the sale, exchange or redemption of our Ordinary Shares may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification on U.S. Internal Revenue Service Form W-9 or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on U.S. Internal Revenue Service Form W-9. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information. We do not intend to withhold taxes for individual shareholders.

Under the Hiring Incentives to Restore Employment Act of 2010, certain United States Holders are required to report information relating to ordinary shares, subject to certain exceptions (including an exception for ordinary shares held in accounts maintained by certain financial institutions), by attaching a complete Internal Revenue Service Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold ordinary shares. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

F. Dividends and paying agents

Not applicable for annual reports on Form 20-F.

G. Statement by experts

Not applicable for annual reports on Form 20-F.

H. Documents on display

We are subject to the information requirements of the Exchange Act. In accordance with these requirements, the Company files reports and other information with the SEC. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at <http://www.sec.gov> that contains reports and other information regarding registrants that file electronically with the SEC.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to excess cash invested in short-term instruments with original maturities of less than a year and long-term held-to-maturity securities with maturities of greater than a year.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we have to sell securities that have declined in market value due to changes in interest rates. We have not been, and do not expect to be, exposed to material interest rate risks, and therefore have not used any derivative financial instruments to manage our interest risk exposure.

In fiscal years 2018, 2017 and 2016, we had RMB 16.60 (approximately \$2.51 million), RMB 9,818,008 (approximately \$1.45 million) and RMB 11,041,848 (approximately \$1.63 million) of weighted outstanding bank loans, with weighted average effective interest rate of 5.41%, 5.65% and 5.75% respectively.

As of June 30, 2018, if interest rates increased/decreased by 1%, with all other variables having remained constant, and assuming the amount of bank borrowings outstanding at the end of the year was outstanding for the entire year, profit attributable to equity owners of our company would have been RMB 8,975 (approximately \$1,355) lower/higher, respectively, mainly as a result of higher/lower interest expense from our short-term borrowings.

Foreign Exchange Risk

Our functional currency is the RMB, and our financial statements are presented in the RMB. Therefore, the change in the value of RMB relative to the U.S. dollar will not affect our financial results reported in the RMB.

However, any significant revaluation of RMB against U.S. dollar may materially the value of, and any dividends payable on, our Ordinary Shares in U.S. dollars in the future. See “Risk Factors — Risks Related to Doing Business in China — Fluctuations in exchange rates could adversely affect the value of our securities.”

Commodity Risk

As a provider of hardware, software, and on-site services, our Company is exposed to the risk of an increase in the price of raw materials. We historically have been able to pass on price increases to customers by virtue of pricing terms that vary with changes in steel prices, but we have not entered into any contract to hedge any specific commodity risk. Moreover, our Company does not purchase or trade on commodity instruments or positions; instead, it purchases commodities for use.

Item 12. Description of Securities Other than Equity Securities

With the exception of Items 12.D.3 and 12.D.4, this Item 12 is not applicable for annual reports on Form 20-F. As to Items 12.D.3 and 12.D.4, this Item 12 is not applicable, as the Company does not have any American Depositary Shares.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

We do not have any material defaults in the payment of principal, interest, or any installments under a sinking or purchase fund.

Item 14. Material Modifications to the Rights of Securities Holders and Use of Proceeds

Material Modifications to the Rights of Security Holders

Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” from our annual report on Form 10-K filed on September 28, 2016 is incorporated herein by reference.

Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures.

As of June 30, 2018, 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. Included in this Annual Report on Form 20-F, 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 U.S. Securities and Exchange Commission (the “Commission”) filings.

(b) Management's annual report on internal control over financial reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that the Company's receipts and expenditures are being made only in accordance with the authorization of its management and directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company's management assessed the effectiveness of its internal control over financial reporting as of June 30, 2018. In making this assessment, management used the 2013 framework set forth in the report entitled *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Our management has implemented and tested our internal control over financial reporting based on these criteria. Based on the assessment and material weakness identified, the Company's management concluded that, as of June 30, 2018, its internal control over financing reporting was not effective.

The specific material weaknesses identified by the Company's management as of June 30, 2018 are described as follows:

We did not have sufficient skilled accounting personnel who are either qualified as Certified Public Accountants in the U.S. or who have received education from U.S. institutions or other educational programs that would provide enough relevant education relating to U.S. GAAP. While our CFO is a U.S. Certified Public Accountant, our controller is not,

and they have limited experience with U.S. GAAP. Further, our operating subsidiaries are based in China, and in accordance with PRC laws and regulations, are required to comply with PRC GAAP, rather than U.S. GAAP. Thus, the accounting skills and understanding necessary to fulfill the requirements of U.S. GAAP-based reporting, including the preparation of consolidated financial statements, are inadequate, and determined to be a material weakness.

While we have developed the scope of our internal audit function, it has not yet been fully implemented as we have not been able to hire sufficient qualified resources to do so. And due to limited availability of qualified resources, we may not be able to make sufficient hiring within a short period of time.

We recently completed our designs of our internal controls, assessments for all of our financial reporting cycles and assessment of adoption of new revenue recognition standards during fiscal year 2018, and we are unable to declare effectiveness of our controls due to lack of sufficient time to obtain evidence of operating effectiveness as of June 30, 2018 due to lack of monitoring of our internal controls (lack of self-testing of internal controls) and lack of enough training and adjustment of our internal procedures to provide enough supporting documents as required. Therefore, we determined that the lack of time to evaluate our design and operating effectiveness are material weaknesses. It should be noted, however, that (a) many actions had been undertaken to enhance the control environment during the year; and (b) there are other remedial activities that are scheduled to be take place in fiscal 2019.

As a result, the Company has developed remedial actions to strengthen its accounting and financial reporting functions as well as the internal audit function. 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 and internal audit department. 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 needs to engage outside consultants that are skilled in SEC reporting and Section 404 compliance to assist in the implementation of the following remedial actions as of the date of this report:

- Continuous assessment of our internal procedure of operation as we develop new business and new subsidiaries;
- 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; and
- Implementation of policies and procedures intended to enhance management monitoring and oversight by the Audit Committee.

In addition to the foregoing efforts, the Company expects to implement the following remedial actions during fiscal year 2019:

- Formalization of a periodic staff training program to enhance their awareness of the key internal control activities.
- Develop a comprehensive training and development plan, for our finance, accounting and internal audit personnel, including our Chief Financial Officer, Controller, and others, in the principles and rules of U.S. GAAP, SEC reporting requirements and the application thereof.
- Hire a full-time employee who possesses the requisite U.S. GAAP experience and education.
- Monitoring of internal controls by performing self-testing of various key controls.

Despite the material weaknesses reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) Attestation report of the registered public accounting firm.

Not applicable.

(d) Changes in internal control over financial reporting.

Management continues to focus on internal control over financial reporting. As of June 30, 2018, the Company has completed certain documentation of our internal controls and will be implementing the following remedial initiatives:

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

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

Item 15T. Controls and Procedures

Not applicable.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

The Company's board of directors has determined that Mr. Nelson Wong qualifies as an "audit committee financial expert" in accordance with applicable Nasdaq Capital Market standards. The Company's board of directors has also determined that Mr. Wong and the other members of the Audit Committee are all "independent" in accordance with the applicable Nasdaq Capital Market standards.

Item 16B. Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's directors, officers, employees and advisors. The Code of Ethics is attached it as an exhibit to this annual report. We have also posted a copy of our code of business conduct and ethics on our website at www.recon.cn.

Item 16C. Principal Accountant Fees and Services

Friedman LLP was appointed by the Company to serve as its independent registered public accounting firm for fiscal 2018 and 2017.

Fees Paid To Independent Registered Public Accounting Firm

Audit Fees

During fiscal years 2018 and 2017, Friedman LLP's audit fees were \$195,000 and \$180,000, respectively.

Audit-Related Fees

The Company has not paid Friedman LLP for audit-related services in fiscal years 2018 and 2017.

Tax Fees

The Company has not paid Friedman LLP for tax services in fiscal years 2018 and 2017.

All Other Fees

During fiscal years 2018 and 2017, Friedman LLP's other services fees were \$8,000 and nil, respectively.

Audit Committee Pre-Approval Policies

Before Friedman LLP was engaged by the Company to render audit or non-audit services, the engagement was approved by the Company's audit committee. All services rendered by Friedman LLP have been so approved.

Percentage of Hours

The percentage of hours expended on the principal accountants' engagement to audit our consolidated financial statements for fiscal 2018 that were attributed to work performed by persons other than Friedman LLP's full-time permanent employees was less than 50%.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Neither the Company nor any affiliated purchaser has purchased any shares or other units of any class of the Company's equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act during the fiscal year ended June 30, 2018.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

We are incorporated in the Cayman Islands and our corporate governance practices are governed by applicable Cayman Islands law. In addition, because our ordinary shares are listed on The Nasdaq Capital Market, we are subject to Nasdaq's corporate governance requirements.

As noted above in the risk factor titled "We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.", The Nasdaq Capital Market allows foreign private issuers like our Company to opt to follow rules that apply in the issuer's home country instead of a given Nasdaq rule. For example, there are circumstances in which Nasdaq requires Nasdaq-listed companies to get shareholder approval prior to issuing stock, but a foreign private issuer may not need such shareholder approval if their home country does not require it.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

Our consolidated financial statements are included at the end of this annual report, beginning with page F-1.

Item 19. Exhibits

Exhibit No.	Description of Exhibit	Included	Form	Filing Date
<u>1.1.1</u>	<u>Second Amended and Restated Articles of Association of the Registrant</u>	<u>By Reference</u>	<u>S-3</u>	<u>2016-09-19</u>
<u>1.1.2</u>	<u>Second Amended and Restated Memorandum of Association of the Registrant</u>	<u>By Reference</u>	<u>S-3</u>	<u>2016-09-19</u>
<u>2.1</u>	<u>Specimen Share Certificate</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2009-07-15</u>
<u>4.1</u>	<u>2009 Stock Incentive Plan</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2009-06-10</u>
<u>4.2</u>	<u>2015 Stock Incentive Plan</u>	<u>By Reference</u>	<u>10-K</u>	<u>2016-09-28</u>
<u>4.3</u>	<u>Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Beijing BHD Petroleum Technology Co., Ltd.</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2008-08-12</u>
<u>4.4</u>	<u>Translation of Power of Attorney for rights of Chen Guangqiang in Beijing BHD Petroleum Technology Co., Ltd.</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2008-08-12</u>
<u>4.5</u>	<u>Translation of Power of Attorney for rights of Yin Shenping in Beijing BHD Petroleum Technology Co., Ltd.</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2008-08-12</u>
<u>4.6</u>	<u>Translation of Power of Attorney for rights of Li Hongqi in Beijing BHD Petroleum Technology Co., Ltd.</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2008-08-12</u>
<u>4.7</u>	<u>Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd.</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2008-08-12</u>
<u>4.8</u>	<u>Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd.</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2008-08-12</u>
<u>4.9</u>	<u>Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd.</u>	<u>By Reference</u>	<u>S-1/A</u>	<u>2008-08-12</u>
<u>4.10</u>			<u>S-1/A</u>	<u>2008-08-12</u>

Translation of Equity Interest Pledge Agreement between Recon
Technology (Jining) Co., Ltd., Chen Guangqiang and Beijing BHD
Petroleum Technology Co., Ltd.

By
Reference

4.11

Translation of Equity Interest Pledge Agreement between Recon
Technology (Jining) Co., Ltd., Yin Shenping and Beijing BHD
Petroleum Technology Co., Ltd.

By
Reference

S-1/A 2008-08-12

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4.12	<u>Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.13	<u>Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.14	<u>Translation of Power of Attorney for rights of Chen Guangqiang in Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.15	<u>Translation of Power of Attorney for rights of Yin Shenping in Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.16	<u>Translation of Power of Attorney for rights of Li Hongqi in Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.17	<u>Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.18	<u>Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.19	<u>Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.20	<u>Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.21	<u>Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.22	<u>Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd.</u>	By Reference	<u>S-1/A</u> <u>2008-08-12</u>
4.23	<u>Translation of the Investment Agreement between Recon Technology, Ltd., Future Gas Station (Beijing) Technology, Ltd. and six individuals</u>	By Reference	<u>6-KA</u> <u>2018-08-28</u>
4.24	<u>Translation of the Supplemental Agreement between Recon Technology, Ltd., Future Gas Station (Beijing) Technology, Ltd. and six individuals</u>	By Reference	<u>6-KA</u> <u>2018-08-28</u>

<u>8.1</u>	<u>List of subsidiaries of the Company</u>	<u>Herewith</u>	
<u>11.1</u>	<u>Code of Ethics of the Company</u>	<u>By Reference</u>	<u>10-K 2009-9-28</u>
<u>12.1</u>	<u>Certification of Chief Executive Officer Required by Rule 13a-14(a)</u>	<u>Herewith</u>	
<u>12.2</u>	<u>Certification of Chief Financial Officer Required by Rule 13a-14(a)</u>	<u>Herewith</u>	
<u>13.1</u>	<u>Certification of Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</u>	<u>Herewith</u>	
<u>13.2</u>	<u>Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</u>	<u>Herewith</u>	
<u>15.1</u>	<u>Press release dated September 28, 2018 regarding earnings for year ended June 30, 2018</u>	<u>Herewith</u>	

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Labels Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Recon Technology, Ltd.

By: /s/ Shenping Yin

Name: Shenping Yin

Title: Chief Executive Officer

Date: September 28, 2018

RECON TECHNOLOGY, LTD

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<u>Consolidated Statements of Operations and Comprehensive Loss for the years ended June 30, 2016, 2017 and 2018</u>	<u>F-4</u>
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Director and

Stockholders of Recon Technology, Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Recon Technology, Ltd. and Subsidiaries (collectively, the “Company”) as of June 30, 2018 and 2017, and the related consolidated statements of operations and comprehensive loss, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended June 30, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

(Continued)

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Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Friedman LLP

We have served as the Company's auditor since 2011.

New York, New York

September 28, 2018

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RECON TECHNOLOGY, LTD**CONSOLIDATED BALANCE SHEETS**

	As of June 30, 2017 RMB	As of June 30 2018 RMB	As of June 30 2018 U.S. Dollars
ASSETS			
Current assets			
Cash	¥3,809,279	¥45,340,578	\$6,849,237
Notes receivable	6,112,960	3,995,962	603,638
Trade accounts receivable, net	39,425,911	24,254,007	3,663,858
Inventories, net	2,627,974	6,758,841	1,021,004
Other receivables, net	4,106,510	7,320,953	1,105,918
Purchase advances, net	11,476,000	12,654,546	1,911,621
Prepaid expenses	828,441	509,682	76,994
Total current assets	68,387,075	100,834,569	15,232,270
Property and equipment, net	2,767,970	3,171,109	479,034
Construction in progress	-	11,779,784	1,779,477
Land use right, net	-	1,335,126	201,687
Long-term trade accounts receivable, net	-	4,212,829	636,398
Prepayments for construction in progress	-	474,100	71,618
Total Assets	¥71,155,045	¥121,807,517	\$18,400,484
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Trade accounts payable	¥8,352,870	¥8,754,347	\$1,322,449
Other payables	3,351,900	3,170,670	478,969
Other payable- related parties	3,314,019	3,211,457	485,129
Deferred revenue	1,259,725	85,140	12,861
Accrued payroll and employees' welfare	2,014,514	600,434	90,703
Taxes payable	684,721	431,913	65,246
Short-term borrowings	300,000	-	-
Short-term borrowings - related parties	10,168,008	9,018,065	1,362,287
Long-term borrowings - related party - current portion	-	719,895	108,749
Total Current Liabilities	29,445,757	25,991,921	3,926,393
Long-term borrowings - related party	-	8,943,834	1,351,073
Total Liabilities	29,445,757	34,935,755	5,277,466

Commitments and Contingencies

Equity

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Ordinary shares, (\$ 0.0185 U.S. dollar par value, 100,000,000 shares authorized; 18,380,349 shares and 9,902,914 shares issued and outstanding as of June 30, 2018 and June 30, 2017, respectively)	1,261,288	2,279,510	344,347
Additional paid-in capital	123,436,043	207,490,280	31,343,890
Statutory reserve	4,148,929	4,148,929	626,745
Accumulated deficit	(95,352,659)	(139,424,980)	(21,061,812)
Accumulated other comprehensive gain (loss)	(249,156)	1,516,093	229,024
Total stockholders' equity	33,244,445	76,009,832	11,482,194
Non-controlling interests	8,464,843	10,861,930	1,640,824
Total equity	41,709,288	86,871,762	13,123,018
Total Liabilities and Equity	¥71,155,045	¥121,807,517	\$ 18,400,484

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

RECON TECHNOLOGY, LTD**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

	For the years ended			
	June 30, 2016 RMB	2017 RMB	2018 RMB	2018 USD
Revenues	42,728,277	60,054,462	84,712,046	12,796,768
Cost of revenues and related tax	35,481,394	44,090,960	80,561,861	12,169,833
Gross profit	7,246,883	15,963,502	4,150,185	626,935
Selling and distribution expenses	5,630,715	4,458,218	8,013,353	1,210,513
General and administrative expenses	20,195,701	32,751,142	34,687,317	5,239,934
Provision for (net recovery of) doubtful accounts	14,475,074	1,766,286	(841,242)	(127,080)
Research and development expenses	6,856,522	7,599,340	3,215,653	485,763
Operating expenses	47,158,012	46,574,986	45,075,081	6,809,130
Loss from operations	(39,911,129)	(30,611,484)	(40,924,896)	(6,182,195)
Other income (expenses)				
Subsidy income	289,087	132,791	371,650	56,142
Interest income	183,553	73,990	68,028	10,276
Interest expense	(903,368)	(548,878)	(897,521)	(135,581)
Loss from investment in unconsolidated entity	-	-	(4,037,736)	(609,948)
Foreign exchange transaction gain (loss)	7,570	21,502	(4,068)	(615)
Other income (expense)	(2,445)	36,178	65,539	9,900
Other expense, net	(425,603)	(284,417)	(4,434,108)	(669,826)
Loss before income tax	(40,336,732)	(30,895,901)	(45,359,004)	(6,852,021)
Income tax expenses	545,845	307,900	16,230	2,452
Net loss	(40,882,577)	(31,203,801)	(45,375,234)	(6,854,473)
Less: Net income (loss) attributable to non-controlling interests	-	241,346	(1,302,913)	(196,821)
Net loss attributable to Recon Technology, Ltd	¥(40,882,577)	¥(31,445,147)	¥(44,072,321)	\$(6,657,652)
Comprehensive loss				
Net loss	(40,882,577)	(31,203,801)	(45,375,234)	(6,854,473)
Foreign currency translation adjustment	98,511	(30,116)	1,765,249	266,662
Comprehensive loss	(40,784,066)	(31,233,917)	(43,609,985)	(6,587,811)
Less: Comprehensive income (loss) attributable to non-controlling interests	-	241,346	(1,302,913)	(196,821)

Comprehensive loss attributable to Recon Technology, Ltd	¥(40,784,066)	¥(31,475,263)	¥(42,307,072)	\$(6,390,990)
Loss per ordinary share - basic and diluted	¥(7.23)	¥(4.90)	¥(3.84)	\$(0.58)
Weighted - average shares -basic and diluted	5,653,149	6,417,305	11,483,464	11,483,464

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

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RECON TECHNOLOGY, LTD

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Ordinary Shares		Additional Paid-in Capital	Statutory Reserve	Accumulated deficit	Accumulated Other Comprehensive income (loss)	Stockholders' Equity	Non-cont Interest
	Number of Shares	Amount (RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
Balance, June 30, 2015	5,427,946	¥697,217	¥92,541,687	¥4,148,929	¥(23,024,935)	¥(317,551)	¥74,045,347	¥8,223,490
Stock issuance	15,874	1,796	156,472	-			158,268	
Restricted shares issued for services	360,185	42,454	2,222,988				2,265,442	
Stock based payment			5,691,308				5,691,308	
Net loss for the year					(40,882,577)		(40,882,577)	
Foreign currency translation adjustment						98,511	98,511	
Balance, June 30, 2016	5,804,005	¥741,467	¥100,612,455	¥4,148,929	¥(63,907,512)	¥(219,040)	¥41,376,299	¥8,223,490
Restricted shares issued for services	580,000	72,335	8,326,905				8,399,240	
Restricted shares issued for management	3,518,909	447,486	12,457,237				12,904,723	
Stock based payment			2,039,446				2,039,446	
Net loss for the year					(31,445,147)		(31,445,147)	241,346
						(30,116)	(30,116)	

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Foreign currency translation adjustment Balance, June 30, 2017	9,902,914	¥1,261,288	¥123,436,043	¥4,148,929	¥(95,352,659)	¥(249,156)	¥33,244,445	¥8,464,8
Capital contribution in NCI								3,700,00
Restricted shares issued for services	900,000	112,321	2,938,575				3,050,896	
Issuance of ordinary shares, net of issuance costs	6,592,500	785,871	64,218,660				65,004,531	
Shares issued for unpaid salary to management	221,268	27,137	1,527,771				1,554,908	
Restricted shares issued for management	763,667	92,893	14,528,945				14,621,838	
Stock based payment			840,286				840,286	
Net loss for the year					(44,072,321)		(44,072,321)	(1,302,9
Foreign currency translation adjustment Balance, June 30, 2018	18,380,349	¥2,279,510	¥207,490,280	¥4,148,929	¥(139,424,980)	¥1,516,093	¥76,009,832	¥10,861,9

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

RECON TECHNOLOGY, LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended June 30,			
	2016	2017	2018	2018
	RMB	RMB	RMB	U.S. Dollars
Cash flows from operating activities:				
Net loss	¥(40,882,577)	¥(31,203,801)	¥(45,375,234)	\$(6,854,473)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	955,083	856,735	1,119,049	169,046
Gain from disposal of equipment	(40,688)	(35,919)	(78,285)	(11,826)
Provision for (net recovery of) doubtful accounts	14,475,074	1,766,286	(841,242)	(127,080)
Provision for slow moving inventories	2,428,288	-	65,245	9,856
Share based compensation	2,096,162	2,039,446	840,286	126,935
Restricted shares issued for management	3,595,146	12,904,723	14,621,838	2,208,804
Loss from investment in unconsolidated entity	-	-	4,037,736	609,948
Deferred tax provision	1,742,098	-	-	-
Restricted shares issued for services	2,287,415	8,399,240	3,050,896	460,874
Income tax benefit	(1,196,253)	-	-	-
Changes in operating assets and liabilities:				
Notes receivable	(454,647)	(1,452,783)	2,116,998	319,798
Trade accounts receivable, net	14,658,360	(245,190)	11,972,175	1,808,540
Trade accounts receivable-related parties, net	1,090,453	-	-	-
Inventories, net	1,191,811	3,597,832	(4,196,110)	(633,873)
Other receivable, net	(1,775,659)	17,632,104	(3,241,846)	(489,720)
Other receivables-related parties, net	91,021	-	-	-
Purchase advance, net	4,930,479	(10,534,132)	(1,241,102)	(187,483)
Purchase advance-related parties, net	1,374,034	-	-	-
Prepaid expense	716,004	(718,130)	318,759	48,152
Prepaid expense - related parties, net	420,000	-	-	-
Trade accounts payable	(9,615,363)	812,440	(2,706,304)	(408,820)
Other payables	712,525	(189,302)	(151,751)	(22,924)
Other payables-related parties	1,869,889	(366,225)	(102,563)	(15,493)
Deferred revenue	(1,878,848)	853,044	(1,174,585)	(177,435)
Accrued payroll and employees' welfare	134,320	1,633,405	140,828	21,274
Taxes payable	790,199	(78,700)	(269,358)	(40,690)
Net cash provided by (used in) operating activities	(285,674)	5,671,073	(21,094,570)	(3,186,590)
Cash flows from investing activities:				
Investment in unconsolidated entity	-	-	(4,037,736)	(609,948)
Purchases of property and equipment	(181,075)	(638,119)	(1,503,410)	(227,108)
Proceeds from disposal of equipment	60,000	51,900	32,000	4,834

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Payments for land use right	-	-	(1,361,969)	(205,742)
Payments and prepayments for construction in progress	-	-	(9,157,103)	(1,383,290)
Net cash used in investing activities	(121,075)	(586,219)	(16,028,218)	(2,421,254)
Cash flows from financing activities:				
Proceeds from short-term bank loans	500,000	-	45,000	6,798
Repayments of short-term bank loans	(7,500,000)	-	(45,000)	(6,798)
Proceeds from short-term borrowings	530,000	1,100,000	4,600,000	694,885
Repayments of short-term borrowings	-	(1,330,000)	(4,900,000)	(740,204)
Proceeds from short-term borrowings-related parties	12,895,400	13,103,718	20,188,318	3,049,687
Repayments of short-term borrowings-related parties	(16,780,765)	(15,950,682)	(21,332,036)	(3,222,459)
Proceeds from long-term borrowings-related party	-	-	10,000,000	1,510,620
Repayments of long-term borrowings-related party	-	-	(371,975)	(56,191)
Proceeds from sale of ordinary shares, net of issuance costs	171,919	-	65,004,531	9,819,712
Capital contribution by noncontrolling shareholders	-	-	3,700,000	558,929
Net cash provided by (used in) financing activities	(10,183,446)	(3,076,964)	76,888,838	11,614,979
Effect of exchange rate fluctuation on cash	62,886	(16,231)	1,765,249	266,662
Net increase (decrease) in cash	(10,527,309)	1,991,659	41,531,299	6,273,797
Cash at beginning of year	12,344,929	1,817,620	3,809,279	575,437
Cash at end of year	¥1,817,620	¥3,809,279	¥45,340,578	\$6,849,234
Supplemental cash flow information				
Cash paid during the year for interest	¥903,368	¥571,037	¥868,042	\$131,128
Cash paid (received) during the year for taxes	¥142,477	¥284,487	¥(22,671)	\$(3,425)
Non-cash investing and financing activities				
Shares issued to settle salary payable	¥-	¥-	¥1,554,908	\$234,887
AR and short-term borrowings-related parties offset	¥200,000	¥-	¥-	\$-
Inventories used for fixed assets	¥1,025,410	¥-	¥-	\$-
Payable for Construction in Progress	¥-	¥-	¥3,096,781	\$467,806
Non-cash payment for property and equipment purchase	¥-	¥87,265	¥-	\$-
Issuance of unvested ordinary shares to senior managers	¥-	¥55,685	¥-	\$-
Receivable for disposal of property and equipment	¥-	¥-	¥81,900	\$12,372

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

RECON TECHNOLOGY, LTD

Notes to THE 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 limited liability company. The Company provides specialized oilfield equipment, automation systems, tools, chemicals and field services to petroleum companies mainly in the People’s Republic of China (the “PRC”).

The Company, along with its wholly-owned subsidiaries, Recon Technology Co., Limited (“Recon HK”), Jining Recon Technology Ltd. (“Recon JN”), Recon Investment Ltd. (“Recon IN”) and Recon Hengda Technology (Beijing) Co., Ltd. (“Recon BJ”), conducts its business through the following PRC legal entities (“Domestic Companies”) that are consolidated as variable interest entities (“VIEs”) and operate in the Chinese oilfield equipment & service industry:

1. Beijing BHD Petroleum Technology Co., Ltd. (“BHD”),
2. Nanjing Recon Technology Co., Ltd. (“Nanjing Recon”).

The Company has signed Exclusive Technical Consulting Service Agreements with each of the Domestic Companies, which are its VIEs, and Equity Interest Pledge Agreements and Exclusive Equity Interest Purchase Agreements with their shareholders. Through these contractual arrangements, the Company has the ability to substantially influence each of the Domestic Companies’ daily operations and financial affairs, appoint their senior executives and approve all matters requiring shareholder approval. As a result of these contractual arrangements, which enable the Company to control the Domestic Companies, the Company is considered as the primary beneficiary of each Domestic Company. Thus, the Company is able to absorb 90% of net interest or 100% of net loss of those VIEs.

On December 17, 2015, Huang Hua BHD Petroleum Equipment Manufacturing Co. LTD, a fully owned subsidiary established by BHD was organized under the laws of the PRC.

As of this report, BHD invested a total of ¥9.3 million in Gan Su BHD Environmental Technology Co., Ltd (“Gan Su BHD”). Gan Su BHD was established on May 23, 2017, with registered capital of ¥50 million. The paid in capital was ¥12,780,000 (\$1,930,572) as of June 30, 2018. Based on its revised chapter dated August 11, 2017, BHD owns an

interest of 51% of Gan Su BHD, which is focusing on oilfield sewage treatment and oily sludge disposal projects.

As of this report, BHD invested a total of ¥2.3 million in Qing Hai BHD New Energy Technology Co., Ltd. (“Qinghai BHD”). Qinghai BHD was established on October 16, 2017, with registered capital of ¥50 million. The paid in capital was ¥2,450,000 (\$370,102) including ¥2,250,000 (\$339,889) contributed by BHD as of June 30, 2018. The remaining paid in capital should be contributed by BHD and other two individuals is ¥25,250,000 (\$3,814,315) and ¥22,300,000 (\$3,368,682), respectively. Based on its chapter dated September 29, 2017, the remaining paid in capital will be injected before September 29, 2036. The BHD owns an interest of 55% of Qinghai BHD, which is focusing on design and production and sales of solar energy eating furnaces.

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, (3) developing and selling its own specialized industrial automation control and information solutions, and (4) design, test and implement solution of sewage and oily sludge treatment, production and sales of related integrated equipment and project services.

NOTE 2. LIQUIDITY

As reflected in the Company’s consolidated financial statements, the Company had recurring net losses for the years ended June 30, 2016, 2017 and 2018. In assessing its liquidity, management monitors and analyzes the Company’s cash on-hand and its ability to generate sufficient revenue sources in the future to support its operating and capital expenditure commitments. The Company plans to fund its continuing operations through identifying new prospective joint venture and strategic alliance opportunities for new revenue sources, financial supports by major shareholders and reducing costs to improve profitability and to replenish working capital. Management believes that the foregoing measures collectively will provide sufficient liquidity for the Company to meet its future liquidity and capital obligations.

RECON TECHNOLOGY, LTD

NOTes to THE consolidated financial statements

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) and have been consistently applied.

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

Variable Interest Entities - A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The Company performs 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 the Company continues 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 consolidated financial statements as of and for the year ended June 30, 2018 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 ¥6.6198 = US\$1.00, the approximate exchange rate prevailing on June 30, 2018. These translated U.S. dollar amounts should not be construed as representing Chinese Yuan amounts or that the Chinese Yuan amounts have been or could be converted into U.S. dollars.

Estimates and assumptions - The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in United States of America (“US GAAP”), which requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant accounting estimates reflected in the Company’s consolidated financial statements include allowance for doubtful accounts related to trade accounts receivable, other receivables and purchase advances, allowance for inventory, the useful lives of property and equipment, valuation allowance for deferred tax assets, impairment assessment for long-lived assets and investment and the fair value of share- based payments. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

The key assumptions underlying the Company’s accounting for material arrangements and the reasonably likely material effects of resolving any uncertainties on the Company’s allowance for doubtful accounts related to purchase advances. The production of the Company’s products requires custom-made equipment from its suppliers. To ensure that it can secure the required customized equipment, the Company often needs to make full prepayment for its intended purchases. As a standard practice in the petroleum extraction industry, the Company generally must submit a bid in order to secure the sales contract. The bidding process generally takes between one month to one year and the timing depends on the size of the overall project, which timing and size are generally controlled by its client. In order to secure timely purchase delivery and to meet its product delivery schedule, the Company normally prepays for the purchase advances if the Company believes that it is more than likely to win the bid for the sales contract. After winning the bid and securing the sale contract, the Company normally needs to deliver its products approximately within one week to six months. Based on the Company’s historical experience, the Company generally is able to realize its purchase advances on the customized equipment that it orders. If the Company does not secure the sales contract after making prepayment, it seeks to negotiate with its suppliers for them either to refund the purchase advances or issue credits for the Company to purchase similar products with similar models with its future contracts. If the Company determines that its suppliers are unlikely to refund or credit for future purchases or if it is unlikely to secure projects to use those products in the foreseeable future, the Company provides a 100% allowance on the specific advances. Currently, only pre-contract cost under Purchase advance are under such risk of cancellation or risk mentioned above. As of June 30, 2018, the Company has approximately ¥1,508,491 (\$227,876) of purchase advances that are still pending of securing sales contract bid, of which the Company estimates ¥98,500 (\$14,880) will not be realizable and have accordingly provided an allowance. The Company has not written off any allowance during the year ended June 30, 2018 that have aged more than two years and the Company does not expect to recover the amount in near future. The balance of ¥98,500 (\$14,880) of such allowance remains outstanding at June 30, 2018 as it has not yet exceeded two years in aging or otherwise been deemed uncollectible.

RECON TECHNOLOGY, LTD

NOTes to THE consolidated financial statements

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

The three levels of inputs are defined as follows:

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

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

Level 3 inputs to the valuation methodology are unobservable.

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

The fair value of long-term receivables is determined using a present value technique by discounting the future expected contractual cash flows using current rates at which similar instruments would be issued at the measurement date.

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

Notes Receivable - Notes receivable represent short-term notes receivables issued by reputable financial institutions that entitle the Company to receive the full-face amount from the financial institutions at maturity, which generally range from three to six months from the date of issuance.

Purchase Advances - Purchase advances are the amounts prepaid to suppliers for purchases of customized equipment in anticipation of obtaining planned contracts for the Company's hardware and software revenues and these advances are considered as pre-contract costs.

Pre-Contract Costs – The Company defers purchase advances made that it expects to be used in connection with the anticipated contracts, so long as recovery is considered probable, and recognized as inventory when the customized equipment is delivered and received. If it subsequently confirms that the Company is unable to secure the planned -contracts with a customer after making the purchase advances, the Company evaluates the probable recoverability of the advance and charges the improbable recovery amounts as purchase advances allowances. The Company determines that the recovery of such purchase advances is improbable when the Company is unable to request that a supplier refund the purchase advances or obtain credits to change the purchase order to other customized equipment.

The Company evaluates its purchase advances on a semi-annually basis. If it expects to receive its customized equipment within one year, the purchase advances are classified as current assets. If it does not expect to utilize the purchase advances within one year, the purchase advances will be classified as long-term assets. As of June 30, 2017, and 2018, the Company expected to receive its purchased advances, net of allowance, within one year.

Contract Costs - Direct costs, such as material, labor, and subcontracting costs and indirect costs allocable to contracts include the costs of contract supervision, tools and equipment, supplies, quality control and inspection, insurance, repairs and maintenance for quality assurance purposes before clients' initial acceptance, depreciation and amortization are included in the inventory work-in-process and recognized as cost of revenues when the product is shipped and accepted. The Company uses the completed contract method for revenue recognition. Once products are delivered, installed and debugged for intended use and accepted by a client, which may last from weeks to months (this process is decided by the client's individual project construction arrangement), the Company records revenue and deferred revenue if there is any requirement of quality assurance or per contract. Deferred revenue varies from 5% to 10% of contract amount and the period after which such revenue is recognized is generally one year following installation. The Company does not confirm revenue from deferred items until the end of the whole maintenance period. Minor costs for repair during the maintenance period after initial acceptance are recorded as cost of goods sold as they are incurred. All other general and administrative costs and selling costs are charged to expenses as incurred. The Company generally ships its products approximately one week to six months after production begins and the timing depends on the size of the overall project.

RECON TECHNOLOGY, LTD

NOTes to THE consolidated financial statements

Prepayments for Others - The Company has prepayment for others business activities, such as standard raw material, supplies and services.

The Company has three types of purchase advances, capitalized pre-contract costs, capitalized contract costs and prepayment for others.

Capitalized pre-contract costs are the amounts paid to suppliers for purchases of customized equipment in anticipation of obtaining planned contracts for the Company's sales and these advances are considered as pre-contract costs. As of June 30, 2018, approximately ¥1.5 million (\$0.2 million) pre-contract costs were paid to the Company's suppliers as compared to approximately ¥0.2 million at June 30, 2017. The change in purchase advances is mainly due to the change in the Company's anticipation of securing new sales contacts and to secure the materials for its timely performance under such contracts. The production of the Company's product required customized equipment from suppliers. To ensure the Company can secure the required customized equipment, the Company would need to make full prepayment for the intended purchases. As a standard practice in the petroleum extraction industry, the Company generally must submit a bid to secure the sales contract. The bidding process generally takes between one month to one year and the timing depends on the size of the overall project, which timing and size are generally controlled by the Company's client. To secure timely purchase delivery and to meet the product delivery schedule, the Company normally would prepay for the purchase advances if the Company believes that it is more than likely to win the bid for the sales contract. After winning the bid and the sale contract is secured, the Company normally needs to its products approximately within one week to six months. Based on historical experience, the Company is generally able to realize its purchase advances on the customized equipment that it ordered. If the Company does not secure the sales contract after making prepayment, it seeks to negotiate with its suppliers for them either to issue refund of the purchase advances or issue credits for it to purchase similar products with similar models with its future contracts. If the Company determines that its suppliers are unlikely to refund or credit for future purchases or if it is unlikely to secure projects to use those products in the foreseeable future, it provides a 100% allowance on the improbable recovery amounts.

Capitalized contract costs are the amounts paid to the suppliers for purchases of customized equipment to secure the Company's executed sale contracts. As of June 30, 2018, the Company paid approximately ¥4.2 million (\$0.6 million) purchase advances to the Company's suppliers as compared to approximately ¥4.6 million at June 30, 2017. Based on the Company's historical experience, it is generally able to realize and not reserve its purchase advances on the customized equipment that it ordered.

Besides, the Company also has prepayment for others business activities, such as standard raw materials, supplies and services. As of June 30, 2018, the Company prepaid approximately ¥7.4 million (\$1.1 million) purchase advances to its suppliers as compared to approximately ¥7.1 million at June 30, 2017. Usually, this type of

prepayments will be expensed when those products or services have been rendered or consumed. While in some rare circumstances, the prepayment may also under some uncertainties when its initial requirements change. The Company will try to negotiate with vendors to collect the fund back or make new arrangement to avoid major loss.

Inventories - Inventories are stated at the lower of cost or net realizable value, on a first-in-first-out basis. 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 is lower than the cost.

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

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

Land Use Rights - According to the Chinese laws and regulations regarding land use rights, land in urban districts is owned by the State, while land in the rural areas and suburban areas, except otherwise provided for by the State, is collectively owned by individuals designated as resident farmers by the State. In accordance with the legal principle that land ownership is separate from the right to the use of the land, the government grants individuals and companies the rights to use parcels of land for a specified period of time. Land use rights which are usually prepaid, are stated at cost less accumulated amortization. Amortization is provided over the life of the land use rights, using the straight-line method. The estimated useful life is 50 years, based on the term of the land use rights.

RECON TECHNOLOGY, LTD

Notes to THE consolidated financial statements

Long-Lived Assets - Long-lived assets are 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, 2017 and 2018.

Long-term investments - Cost method investment - For an investee over which the Company does not have significant influence and a controlling interest, the Company carries the investment at cost and recognizes income for any dividend received from the distribution of the investee's earnings.

The Company reviews its cost method investment for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. The Company considers available quantitative and qualitative evidence in evaluating potential impairment of its cost method investment. An impairment charge is recorded if the carrying amount of an investment exceeds its fair value and such excess is determined to be other-than temporary. The Company recorded approximately ¥4.0 million (\$0.61 million) impairment loss on its cost method investment in unconsolidated entity during the year ended June 30, 2018.

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. And with ASC 606, "Revenue from Contracts with Customers" when all of the following five steps are met: (i) identify the contract(s) with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; (v) recognize revenue when (or as) each performance obligation is satisfied. The Company applied the new revenue standard from July 1, 2018 and adopted a modified retrospective approach upon the adoption. The Company performed an analysis on each of the Company's revenue streams in accordance with the new revenue standard, based on the new revenue standard, the Company should recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service. After evaluation, the Company determined that it satisfies a performance obligation at a point in time for the product sales

type arrangement, by considering indicators of the transfer of control, which include, but are not limited to, the following:

1. The entity has a present right to payment for the asset.
2. The customer has legal title to the asset.
3. The entity has transferred physical possession of the asset.
4. The customer has the significant risks and rewards of ownership of the asset.
5. The customer has accepted the asset.

The Company also performed analysis for the type of its construction arrangement. Usually the Company's construction contract includes numerous promises to transfer goods or services to the customer. These goods and services are distinct since the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Therefore, each promise in the contract should be accounted separately as an individual performance obligation. The completion of each of this individual performance obligation is usually in a short-term based on explicit requirements of customers. After evaluation, the Company determined to recognize revenue of each performance obligation under the construction arrangement at a point in time, by considering indicators of the transfer of control listed above. Before adoption of ASU 606, the Company accrued all expensed and materials costs until the overall projects under the same contract are accepted but no revenue is recorded during the period. With adoption of this new recognition standard, the Company shall record contract revenue and corresponding cost accordingly under each individual performance obligation.

Based on the current revenue standard, revenue is recognized when the promised good or service is delivered to the customer and the customer has the significant risks and rewards of ownership of the promised good or service. The Company has substantially conducted its evaluation of the impact of the standard and the Company does not expect the adoption of the standard will have a material impact to its consolidated revenue. However, as a result of applying the new standard, there are certain components of its type of construction arrangement where the new standard generally results in earlier recognition of revenue compared to its historical policies. The Company expects to record a net increase in opening retained earnings upon adoption resulting from the acceleration of revenue recognized under the new standard.

Hardware and software:

Revenue from hardware and software sales is generally recognized when the product with the embedded software system is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Usually this is short term in nature.

Service:

The Company provides services to improve system operation on separated fixed-price contracts. Revenue is recognized when service has been performed and accepted by the customer.

Share-Based Compensation - Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight-line basis over the requisite service period for the entire award. The Company has elected to recognize compensation expenses using the Black-Scholes valuation model estimated at the grant date based on the award's fair value.

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RECON TECHNOLOGY, LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Research and Development Expenses - Research and development expenses relating to improving development efficiency and the quality of the Company's products and services, including s design of downhole automation platform systems and chemical products used for waste water treatment, are expensed as incurred.

Shipping and Handling Costs - Shipping and handling cost incurred to ship products to customers are included in selling and distribution expenses. Shipping and handling expenses were ¥1,167,117, ¥752,656 and ¥1,170,358 (\$176,797) for the years ended June 30, 2016, 2017 and 2018, respectively.

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.

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. The Company has no uncertain tax position as of June 30, 2018, 2017 and 2016.

As of June 30, 2018, the tax years ended December 31, 2013 through December 31, 2017 for the Company's People's Republic of China ("PRC") subsidiaries remain open for statutory examination by PRC tax authorities.

Loss per Share - Loss Per Share ("**EPS**") is computed by dividing net loss by the weighted average number of ordinary shares outstanding. Diluted EPS are computed by dividing net loss by the weighted-average number of ordinary shares and dilutive potential ordinary share equivalents outstanding.

Potentially dilutive ordinary shares consist of ordinary shares issuable upon the conversion of ordinary stock options, restricted shares and warrants (using the treasury stock method). The effect from options, restricted shares and

warrants would have been anti-dilutive due to the fact that the Company incurred a net loss for the years ended June 30, 2016, 2017 and 2018.

Reclassification - Certain prior year amounts had been reclassified to conform to the current period presentation. These reclassifications have no effect on the results of operations and cash flows previously reported.

Recently Issued Accounting Pronouncements

In September 2017, the FASB issued ASU 2017-13, “Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)”. The main objective of this pronouncement is to clarify the effective date of the adoption of ASC Topic 606 and ASC Topic 842 and the definition of public business entity as stipulated in ASU 2014-09 and ASU 2016-02. ASU 2014-09 provides that a public business entity adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. ASU 2016-12 requires certain other specified entities adopt ASC Topic 842 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company applied the new revenue standard from July 1, 2018 and adopted a modified retrospective approach upon the adoption. The Company performed an analysis on each of the Company’s revenue streams in accordance with the new revenue standard, and the Company concluded that the adoption of this new revenue standard does not have a material impact on the Company’s consolidated financial statements. Based on the current revenue standard, revenue is recognized when the promised good or service is delivered to the customer and the customer has the significant risks and rewards of ownership of the promised good or service. The time of revenue recognition of the Company is almost consistent under the old standard and new standard. However, as a result of applying the new standard, there are certain components of the Company’s type of construction arrangement where the new standard generally results in earlier recognition of revenue compared to the Company’s historical policies. The Company expects to record a net increase in opening retained earnings upon adoption resulting from the acceleration of revenue recognized under the new standard.

In November 2017, the FASB issued ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), which amends certain aspects of the new revenue recognition standard. This standard will be effective for fiscal years beginning after December 15, 2018. The Company expects that the adoption of this ASU will not have a material impact on the Company’s consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases,” which clarifies how to apply certain aspects of the new leases standard. This ASU addresses the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments. This ASU has the same effective date and transition requirements as the new leases standard, which is effective for annual periods beginning after December 15, 2018. The Company expects that the adoption of this ASU will not have a material impact on the Company’s consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements” which provides a new transition method and a practical expedient for separating components of a contract. This ASU is intended to reduce costs and ease the implementation of the new leasing standard for financial statement preparers. The effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. The Company expects that the adoption of this ASU will not have a material impact on the Company’s consolidated financial statements.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the consolidated financial position, statements of operations and cash flows.

NOTE 4. TRADE ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	June 30, 2017	June 30, 2018	June 30, 2018
Third Party	RMB	RMB	U.S. Dollars
Trade accounts receivable	¥43,691,416	¥27,319,241	\$ 4,126,898
Allowance for doubtful accounts	(4,265,505)	(3,065,234)	(463,040)
Total - third-party, net	¥39,425,911	¥24,254,007	\$ 3,663,858

RECON TECHNOLOGY, LTD**NOTes to THE consolidated financial statements**

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2017 U.S. Dollars
Third Party – long-term			
Beijing Yabei Nuoda Science and Technology Co. Ltd. *	¥ -	¥4,400,000	\$ 664,673
Allowance for doubtful accounts	-	(187,171)	(28,275)
Total - long-term trade accounts receivable, net	¥ -	¥4,212,829	\$ 636,398

*The receivable from Beijing Yabei Nuoda was recognized primarily from the sale of automation system and services based on written contracts. Based on the repayment agreement signed in August, 2018, the outstanding balance was to be collected in five installments during the period from December 2018 to December 2020. Based on the repayment agreement, the Company expects to collect ¥1,954,978 (\$295,323) before June 30, 2019, ¥3,100,000 (\$468,292) before June 30, 2020 and ¥1,300,000 (\$196,380) before December 31, 2020, respectively. No interest is required per the settlement agreement.

Provision made for doubtful accounts of accounts receivables due from third party was ¥1,650,745 and ¥1,137,238 for the years ended June 30, 2016 and 2017, respectively, and net recovery of provision made for doubtful accounts of accounts receivables due to third party was ¥1,013,100 (\$153,041) for the years ended June 30, 2018.

Movement of allowance for doubtful accounts is as follows:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Beginning balance	¥4,814,577	¥4,265,505	\$ 644,356
Charge to (reversal of) expense	1,137,238	(1,013,100)	(153,041)
Less: write-off	(1,686,310)	-	-
Ending balance	¥4,265,505	¥3,252,405	\$ 491,315

NOTE 5. NOTES RECEIVABLE

Notes receivables represented the non-interest bearing commercial bills the Company received from the customers for the purpose of collection of sales amount, which ranged from three to six months from the date of issuance. As of June 30, 2017 and 2018, notes receivable was ¥6,112,960 and ¥3,995,962 (\$603,638), respectively, As of June 30, 2018, no notes receivable was guaranteed or collateralized.

NOTE 6. OTHER RECEIVABLES, NET

Other receivables, net consisted of the following:

Third Party	June 30, 2017	June 30, 2018	June 30, 2018
Current Portion	RMB	RMB	U.S. Dollars
Loans to third parties (A)	1,115,720	2,640,469	398,875
Business advances to officers and staffs (B)	2,999,761	1,787,866	270,079
Deposits for projects	1,189,329	1,665,002	251,518
VAT recoverable	-	1,438,949	217,370
Others	307,119	690,597	104,323
Allowance for doubtful accounts	(1,505,419)	(901,930)	(136,247)
Total	¥4,106,510	¥7,320,953	\$ 1,105,918

Provision for doubtful accounts of other receivables was ¥455,574, ¥247,612 and ¥109,302 (\$16,511) for the years ended June 30, 2016, 2017 and 2018, respectively.

(A) Loans to third-parties are mainly used for short-term funding to support the Company’s external business partners. These loans are due on demand bearing no interest.

(B) Business advances to officers and staffs represent advances for business travel and sundry expenses related to oilfield or on-site installation and inspection of products through customer approval and acceptance.

RECON TECHNOLOGY, LTD**Notes to THE consolidated financial statements**

Movement of allowance for doubtful accounts is as follows:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Beginning balance	¥1,277,807	¥1,505,419	\$ 227,412
Charge to expense	247,612	109,302	16,511
Less: write-off	(20,000)	(712,791)	(107,676)
Ending balance	¥1,505,419	¥901,930	\$ 136,247

NOTE 7. PURCHASE ADVANCES, NET

The Company purchased products and services from third parties during the normal course of business. Purchase advances, net consisted of the following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Third Party			
Capitalized pre-contract costs	¥151,545	¥1,508,491	\$ 227,876
Capitalized contract costs	4,634,689	4,221,942	637,775
Prepayment for others	7,091,556	7,376,745	1,114,345
Allowance for doubtful accounts	(401,790)	(452,632)	(68,375)
Total	¥11,476,000	¥12,654,546	\$ 1,911,621

Provision for doubtful accounts of purchase advances were ¥12,368,755, ¥381,436 and ¥62,556 (\$9,450) for the years ended June 30, 2016, 2017 and 2018, respectively. The Company recorded allowance for these advances and will continue to try to collect or get inventories delivered. These payments were advanced for certain customized equipment of the planned projects. As those projects were delayed or canceled or there is rare chance to be profitable, the Company decided to suspend those projects and recorded allowances related to advanced payments for those projects as the Company may not be able to receive those funds back. Management is still making efforts to collect partially or negotiate with vendors for some other alternative solutions to minimize the Company's loss.

Movement of allowance for doubtful accounts is as follows:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Beginning balance	¥16,591,247	¥401,790	\$ 60,695
Charge to expense	381,436	62,556	9,450
Less: write-off	(16,570,893)	(11,714)	(1,770)
Ending balance	¥401,790	¥452,632	\$ 68,375

NOTE 8. INVENTORIES

Inventories consisted of the following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Small component parts	¥55,726	¥55,726	\$ 8,418
Purchased goods and raw materials	51,617	59,328	8,962
Work in process and goods on site	1,842,411	5,155,215	778,758
Finished goods	4,702,883	2,888,096	436,281
Allowance for slow moving inventory	(4,024,663)	(1,399,524)	(211,415)
Total inventories, net	¥2,627,974	¥6,758,841	\$ 1,021,004

RECON TECHNOLOGY, LTD**NOTes to THE consolidated financial statements**

Provisions for slow moving inventory were ¥2,428,290, ¥Nil and ¥65,245 (\$9,856) for the years ended June 30, 2016, 2017 and 2018, respectively.

Movement of allowance for slow-moving inventories is as follows:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Beginning balance	¥5,398,179	¥4,024,663	\$ 607,974
Charge to cost of sales	-	65,245	9,856
Less: write-off	(1,373,516)	(2,690,384)	(406,415)
Ending balance	¥4,024,663	¥1,399,524	\$ 211,415

NOTE 9. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Motor vehicles	¥4,116,847	¥4,456,156	\$ 673,156
Office equipment and fixtures	1,139,587	1,239,914	187,304
Production equipment	916,026	1,609,500	243,134
Total property and equipment	6,172,460	7,305,570	1,103,594
Less: Accumulated depreciation	(3,404,490)	(4,134,461)	(624,560)
Property and equipment, net	¥2,767,970	¥3,171,109	\$ 479,034
Construction in progress	¥-	¥11,779,784	\$ 1,779,477

On August 4, 2017, Gan Su BHD purchased the land use right of state-owned construction land in Yumen, Gan Su, in the amount of ¥1,361,969 (\$205,742). The land use right was intended to establish production line of the oily sludge disposal projects. As of June 30, 2018, the total cost incurred in the project was ¥11,779,784 (\$1,779,477), based on

the management's best estimation, this project needs additional cost of ¥6.93 million (\$1.05 million) and the expected completion date will be February 2019.

Depreciation expenses were ¥955,083, ¥856,735 and ¥1,092,206 (\$164,991) for the years ended June 30, 2016, 2017 and 2018, respectively.

Gain from property and equipment disposal was ¥40,688, ¥35,919 and ¥78,285 (\$11,826) for the years ended June 30, 2016, 2017 and 2018, respectively.

NOTE 10 - LAND USE RIGHTS

Land use rights as of June 30, 2018 are as following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Land use rights	-	1,361,969	205,742
Less: accumulated amortization	-	(26,843)	(4,055)
Land use rights, net	¥ -	¥1,335,126	\$ 201,687

As of June 30, 2018, no land use rights are collateralized or pledged.

Amortization expenses were ¥Nil, ¥Nil and ¥26,843 (\$4,055) for the years ended June 30, 2016, 2017 and 2018, respectively.

RECON TECHNOLOGY, LTD**Notes to THE consolidated financial statements**

The estimated future amortization expenses are as follows:

Twelve months ending June 30,	RMB	U.S. Dollars
2019	¥27,239	\$ 4,115
2020	27,239	4,115
2021	27,239	4,115
2022	27,239	4,115
2023	27,239	4,115
Thereafter	1,198,931	181,112
Total	¥1,335,126	\$ 201,687

NOTE 11 – INVESTMENT IN UNCONSOLIDATED ENTITY

On December 15, 2017, the Company signed a subscription agreement with Future Gas Station (Beijing) Technology, Ltd (“FGS”). Established in January 2016, FGS is a service company focusing on providing new technical applications and data operations to gas stations of oil companies such as PetroChina Co., Ltd. With its DT Refuel mobile application, FGS provides solutions to gas stations to improve their operations and their customers' experience. Pursuant to the subscription agreement, Recon held 8% equity interest of FGS. As of June 30, 2018, Recon has invested ¥4,037,736 (\$609,948) in FGS as terms and conditions are achieved based on mutually-agreed payment schedule. Based on the financial results of FGS for the year ended June 30, 2018, FGS was in the loss position and has accumulated deficit in equity. Based on the management's assessment, the Company does not expect to recover the investment in the near future. Therefore, the Company considered that there was other than temporary impairment and recorded a full impairment of the investment. As a result, the Company recorded ¥4,037,736 (\$609,948) impairment loss during the year ended June 30, 2018.

On August 21, 2018, the Company entered into a definitive investment agreement and a supplemental agreement (collectively, the “Agreement”) with FGS and the other shareholders of FGS. Following full performance under the Agreement, Recon will own 43% of FGS. As consideration for increasing its affiliates' interest in FGS from 8% to 43%, the Company will (1) pay a total of RMB 10 million in cash to FGS in five installments and (2) issue 2,435,284 restricted ordinary shares of the Company (the “Restricted Shares”) to the other shareholders of FGS within 30 days after FGS finalizes recording the Company's corresponding interest at the local governmental agency. If FGS does not reach certain performance goals, the Company has the right to cancel without further payment part or all of the Restricted Shares. The Restricted Shares are also subject to lock-up period requirements that vary for each FGS shareholder, from one year to three years following issuance of the Restricted Shares. As of the date of this report, the

Company has invested RMB 2 million to FGS per this Agreement for follow-up investment, FGS has finalized recording Recon's corresponding interest at the local governmental agency, and Recon has issued 2,435,284 Restricted Shares in total to the other shareholders of FGS.

NOTE 12. OTHER PAYABLES

Other payables consisted of the following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Third Party Service	¥1,518,033	¥1,356,676	\$ 204,944
Distributors and employees	207,005	90,130	13,615
Funds collected on behalf of others	895,022	895,022	135,204
Advances from customers	130,100	157,856	23,846
Accrued expenses	193,274	411,898	62,222
Others	408,466	259,088	39,138
Total	¥3,351,900	¥3,170,670	\$ 478,969

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Related Party Expenses paid by the major shareholders	¥3,062,709	¥2,767,349	\$ 418,041
Due to family member of the owner of BHD	-	193,143	29,177
Due to management staff for costs incurred on behalf of the Company	251,310	250,965	37,911
Total	¥3,314,019	¥3,211,457	\$ 485,129

RECON TECHNOLOGY, LTD**NOtes to THE consolidated financial statements****NOTE 13. TAXES PAYABLE**

Taxes payable consisted of the following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
VAT payable	¥632,831	¥382,361	\$ 57,760
Income tax payable	43,556	43,556	6,580
Other taxes payable	8,334	5,996	906
Total taxes payable	¥684,721	¥431,913	\$ 65,246

NOTE 14. SHORT-TERM BORROWINGS DUE TO RELATED PARTIES

Short-term borrowings due to related parties consisted of the following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Short-term borrowings due to related parties:			
Short-term borrowing from a Founder, 5.655% annual interest, due on August 24, 2017*	¥62,692	¥-	\$-
Short-term borrowing from a Founder, 5.655% annual interest, due on August 31, 2017*	1,260,165	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on August 31, 2017*	1,420,223	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on September 11, 2017*	722,262	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on September 16, 2017*	541,187	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on September 18, 2017*	804,530	-	-
	350,000	-	-

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Short-term borrowing from a Founder's family member, no interest, due on December 31, 2017*			
Short-term borrowing from a Founder, 5.22% annual interest, due on May 10, 2018*	2,529,428	-	-
Short-term borrowing from a Founder, 5.22% annual interest, due on June 7, 2018*	2,477,521	-	-
Short-term borrowing from a Founder, 5.655% annual interest, due on December 15, 2018	-	5,011,782	757,090
Short-term borrowing from a Founder, 5.655% annual interest, due on March 21, 2019	-	4,006,283	605,197
Total short-term borrowings due to related parties	¥10,168,008	¥9,018,065	\$ 1,362,287

No short-term borrowings due to related parties were guaranteed or collateralized at June 30, 2017 and 2018.

Interest expense for short-term borrowings due to related parties was ¥487,692, ¥548,878 and ¥325,185 (\$49,123) for the years ended June 30, 2016, 2017 and 2018, respectively.

* The Company repaid the loan in full on maturity date.

RECON TECHNOLOGY, LTD**Notes to THE consolidated financial statements****NOTE 15. LONG-TERM BORROWINGS DUE TO RELATED PARTY**

Long-term borrowings due to related party consisted of the following:

	June 30, 2017	June 30, 2018	June 30, 2018
	RMB	RMB	U.S. Dollars
Long-term borrowings due to related party:			
Long-term borrowing from a Founder, monthly payments of ¥126,135 inclusive of interest at 8.90%, ten years loan, due in November 2027.	¥ -	¥9,663,729	¥1,459,822
Less: current portion	-	(719,895)	(108,749)
Total long-term borrowings due to related party	¥ -	¥8,943,834	\$ 1,351,073

No short-term borrowings due to related parties were guaranteed or collateralized at June 30, 2017 and 2018.

Interest expense for long-term borrowings due to related party was ¥Nil, ¥Nil and ¥546,676 (\$82,582) for the years ended June 30, 2016, 2017 and 2018, respectively.

The future maturities of long-term borrowings due to related party at June 30, 2018 are as follows:

Twelve months ending June 30,	RMB	U.S. Dollars
2019	¥719,895	\$ 108,749
2020	747,630	112,938
2021	816,952	123,410
2022	892,701	134,853
2023	975,474	147,357
Thereafter	5,511,077	832,515
Total	¥9,663,729	\$ 1,459,822

NOTE 16. ORDINARY SHARES

Stock offering

On November 20, 2017, the Company entered into a securities purchase agreement (the “Agreement”) with Yongquan Bi (“Mr. Bi.”), currently acting as the Chairman of board of the Company, pursuant to which Mr. Bi agreed to purchase an aggregate of 3 million unregistered restricted shares for gross proceeds of \$4.8 million, a per-share purchase price of \$1.60. After deducting the placement agent’s commission and other estimated offering expenses payable by the Company, the net proceeds to the Company were approximately \$4.5 million. The purchase price was paid in two installments of \$2.4 million each. The first installment was paid on November 20, 2017, and the second installment was paid on January 19, 2018. Mr. Bi used his own personal funds to pay the purchase price amount. Mr. Bi designated Xinhaixin International Holdings Limited (“Xinhaixin”) to receive the shares. On January 19, 2018, the Company issued the 3 million shares to Xinhaixin, the wholly owned company of Mr. Bi.

On January 22, 2018, The Company and certain institutional investors entered into a securities purchase agreement in connection with an offering, pursuant to which the Company agreed to sell an aggregate of 3,592,500 ordinary shares. The purchase price was \$1.66 per ordinary share and all shares were issued on January 24, 2018. The aggregate gross proceeds was \$5,963,550. After deducting the placement agent’s commission and other estimated offering expenses payable by the Company, the net proceeds to the Company were approximately \$5.3 million. The Company intends to use the net proceeds of the offering for general corporate purposes and working capital.

On November 11, 2017, The Company issued 221,268 shares for unpaid management’s salary of ¥1,554,908 (\$234,888) based on the stock closing price of \$1.06 on the same day.

RECON TECHNOLOGY, LTD**NOTes to THE consolidated financial statements**

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, 2017 and 2018, the balance of total statutory reserves was ¥4,148,929 and ¥4,148,929 (\$626,745), respectively.

NOTE 17. STOCK-BASED COMPENSATION**Stock-Based Awards Plan**

2015 Incentive Plan – The Company granted options to purchase 400,000 ordinary shares to its employees and non-employee director on January 31, 2015. The options have an exercise price of \$1.65, which was equal to the share price of the Company's ordinary shares at January 31, 2015, and will vest equally over a period of three years, with one third vesting on January 31, 2016. The options expire ten years after the date of grant, on January 31, 2025. The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥10.13 (\$1.65) per share.

The following is a summary of the stock options activity:

Stock Options	Shares	Weighted Average Exercise Price Per Share
Outstanding as of June 30, 2016	815,600	\$ 3.04
Granted	-	-
Forfeited	-	-
Exercised	-	-
Outstanding as of June 30, 2017	815,600	\$ 3.04
Granted	-	-

Forfeited	-	-
Exercised	-	-
Outstanding as of June 30, 2018	815,600	\$ 3.04

The following is a summary of the status of options outstanding and exercisable at June 30, 2018:

Outstanding Options			Exercisable Options		
Average Exercise Price	Number	Average Remaining Contractual life (Years)	Average Exercise Price	Number	Average Remaining Contractual life (Years)
\$6.00	193,000	1.08	\$6.00	193,000	1.08
\$2.96	222,600	3.74	\$2.96	222,600	3.74
\$1.65	400,000	6.59	\$1.65	400,000	6.59
	815,600				

The Share-based compensation expense recorded for stock options granted were ¥2,096,162, ¥2,039,446 and ¥840,286 (\$126,935) for the years ended June 30, 2016, 2017 and 2018, respectively. No unrecognized share-based compensation for stock options as of June 30, 2018.

Restricted Shares to senior manager

As of June 30, 2018, the Company has granted restricted ordinary shares to senior management as follows:

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On January 31, 2015, the Company granted 150,000 restricted shares to the CEO and 150,000 restricted shares to the CTO at an aggregate value of \$495,000, based on the stock closing price of \$1.65 at January 31, 2015. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date. All granted shares under this plan are fully vested on January 31, 2018.

On October 18, 2015, the Company granted 800,000 restricted shares to its employees and non-employee director as compensation cost for awards. The fair value of the restricted shares was \$704,000 based on the closing stock price \$0.88 at October 18, 2015. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date. As of June 30, 2017, 19,000 shares were forfeited and went back to the incentive pool due to some staffs' resignation and 520,667 shares were vested. 260,332 shares under this plan will not be vested until October 18, 2018.

On July 27, 2016, the Company granted 876,000 restricted shares to its employees and non-employee director as compensation cost for awards. The fair value of the restricted shares was \$963,600 based on the closing stock price \$1.10 at July 27, 2016. The Company also re-granted the previously forfeited 19,000 to its employees. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date. The first one third with 298,333 shares was vested on July 27, 2017. 596,667 shares will not be vested until July 27, 2018 and 2019, respectively.

On December 9, 2016, the Company approved management's new plan based on future performance for the three fiscal years from 2017 to 2019. The Company also agreed on front-issuing of shares based on the optimism situation, thus non-vested 3.01 million shares were issued to management on January 23 2017. The fair value of the restricted shares was \$4,063,500 based on the closing stock price \$1.35 at December 9, 2016. 800,000 shares was vested during the year ended June 30, 2018 based on the financial results for the year ended June 30, 2017. Prior to the filing of the annual report for the years ending June 30, 2018 and 2019, the remaining shares of 2,210,000 under this plan may not be sold, transferred, hypothecated, voted or otherwise used for any purpose, and any shares that are not earned as stated above will be automatically cancelled without payment by the transfer agent of the Company.

On October 13, 2017, the Company granted 900,000 restricted shares to its employees as compensation cost for awards. The fair value of the restricted shares was \$919,800 based on the closing stock price \$1.02 at October 13, 2017. These restricted shares will vest over three years with one third of the shares vesting every year from the grant date. The above-mentioned shares will not be vested until October 13, 2018, 2019 and 2020, respectively.

508,909 and 1,563,667 restricted shares were issued and outstanding for the year ended June 30, 2017 and 2018, respectively, for all the plans mentioned above.

The share-based compensation expense recorded for restricted shares issued for management were ¥3,595,146, ¥12,904,723 and ¥14,621,838 (\$2,208,804) for the years ended June 30, 2016, 2017 and 2018, respectively. The total unrecognized share-based compensation expense of restricted shares issued for management as of June 30, 2018 was approximately ¥18.57 million (\$2.80 million), which is expected to be recognized over a weighted average period of approximately 1.31 years.

Restricted Shares for service

For the year ended June 30, 2018, the Company has granted restricted ordinary shares to consultants as follows:

On July 27, 2016, the Company approved the grant of 250,000 restricted shares with a value of \$275,000 based on the closing stock price of \$1.10 on July 27, 2016 to designees of an independent consulting firm as compensation for advisory services. The vesting period of these shares was one year from the date of contract. 250,000 shares were issued under this plan on October 27, 2016.

On November 10, 2016, the Company approved the grant of 330,000 restricted shares with a value of \$300,993 based on the closing stock price of \$0.9121 on November 10, 2016 to a company as payment for development of software and models. The vesting period of these shares was three-month from the date of contract. Those restricted shares were issued on January 23, 2017.

On March 31, 2017, the Company approved the grant of 200,000 restricted shares with a value of \$256,020 based on the closing stock price of \$1.2801 on March 31, 2017 to designees of an independent consulting firm as payment for accounting management and consulting service. The vesting period of these shares was two-year from the date of contract. 125,000 restricted shares were vested and 100,000 shares were issued under this plan on November 17, 2017.

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On April 5, 2017, the Company approved the grant of 300,000 restricted shares with a value of \$390,000 based on the closing stock price of \$1.30 on April 5, 2017 to a company as payment for promotion PR/IR service. The vesting period of these shares was one year from the date of contract. 300,000 restricted shares were vested and no shares were issued as of date of this report.

On April 24, 2017, the Company approved the grant of 500,000 restricted shares with a value of \$555,050 to a company to prepare research report for online gas selling platform. The fair value of those restricted shares was based on the closing stock price of \$1.101 on June 15, 2017 when the service was fully rendered to the Company. All granted shares under this plan are fully vested by June 15, 2017 and issued on November 17, 2017.

The Share-based compensation expense recorded for restricted shares issued for service were ¥2,287,415, ¥8,399,240 and ¥3,050,896 (\$460,874) for the years ended June 30, 2016, 2017 and 2018, respectively. The total unrecognized share-based compensation expense of restricted shares issued for service as of June 30, 2018 was approximately ¥0.66 million (\$0.10 million), which is expected to be recognized over a weighted average period of approximately 0.75 years.

Following is a summary of the restricted shares granted:

Restricted stock grants	Shares
Non-vested as of June 30, 2016	1,076,788
Granted	5,466,000
Vested	(1,617,121)
Non-vested as of June 30, 2017	4,925,667
Granted	900,000
Vested	(1,783,667)
Non-vested as of June 30, 2018	4,042,000

The following is a summary of the status of restricted stock at June 30, 2018:

Outstanding Restricted Shares

Fair Value per Share	Number	Average Remaining Amortization Period (Years)
\$ 0.88	260,333	0.30
\$ 1.10	596,667	1.07
\$ 1.02	900,000	2.29
\$ 1.35	2,210,000	1.00
\$ 1.28	75,000	0.75
	4,042,000	

NOTE 18. 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. The Company follows Implementing Rules for the Enterprise Income Tax Law ("Implementing Rules") which uses a tax rate of 25%.

Nanjing Recon was approved as a government-certified high –technology company and is subject to a reduced income tax rate of 15% through November 30, 2019.

As approved by the domestic tax authority in the PRC, BHD was recognized as a government-certified high technology company and is subject to a reduced income tax rate of 15% through November 25, 2018.

Loss before provision for income taxes consisted of:

	June 30, 2016 RMB	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Outside China areas	¥(14,257,066)	¥(28,079,918)	¥(21,599,806)	\$(3,262,908)
China	(26,079,666)	(2,815,983)	(23,759,198)	(3,589,113)
Total	¥(40,336,732)	¥(30,895,901)	¥(45,359,004)	\$(6,852,021)

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Deferred tax asset, net is comprised of the following:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Allowance for doubtful receivables	¥925,907	¥703,545	\$ 106,279
Loss from investment in unconsolidated entity	-	605,660	91,492
Net operating loss carryforwards	3,425,411	6,911,270	1,044,030
Less: Valuation allowance	(4,351,318)	(8,220,475)	(1,241,801)
Deferred income tax assets, net	¥-	¥-	\$-

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

	For the years ended June 30,			
	2016 RMB	2017 RMB	2018 RMB	2018 U.S. Dollars
Income tax benefits calculated at statutory rates	¥(6,230,384)	¥(580,551)	¥(5,679,505)	\$ (857,957)
Nondeductible expenses and others	1,774,956	93,709	(65,427)	(9,884)
Benefit of favorable rate for high-technology companies	2,492,154	232,221	2,009,486	303,557
Benefit of revenue exempted from enterprise income tax	(43,363)	(19,919)	(55,748)	(8,421)
Change in valuation allowances	3,748,735	602,583	3,869,157	584,482
Tax refund	(1,196,253)	(20,143)	(61,733)	(9,325)
Provision for income tax	¥545,845	¥307,900	¥16,230	\$ 2,452

The Company's tax expense is comprised of the following:

	For the years ended June 30,			
	2016 RMB	2017 RMB	2018 RMB	2018 U.S. Dollars
Current income tax provision	¥-	¥307,900	¥16,230	\$ 2,452
Adjust over accrued tax of prior years	(1,196,253)	-	-	-
Deferred income taxes provision	1,742,098	-	-	-
Expense for income tax	¥545,845	¥307,900	¥16,230	\$ 2,452

NOTE 19. NON-CONTROLLING INTEREST

Non-controlling interest consisted of the following:

	As of June 30, 2017			
	BHD RMB	Nanjing Recon RMB	Total RMB	Total U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥1,851,000	\$ 273,113
Unappropriated retained earnings	3,152,687	3,491,859	6,644,546	980,395
Accumulated other comprehensive loss	(18,850)	(11,853)	(30,703)	(4,531)
Total non-controlling interest	¥4,784,837	¥3,680,006	¥8,464,843	\$ 1,248,977

	As of June 30, 2018					
	BHD RMB	Nanjing Recon RMB	Gan Su BHD RMB	Qinghai BHD RMB	Total RMB	Total U.S. Dollars
Paid-in capital	¥1,651,000	¥200,000	¥3,500,000	¥200,000	¥5,551,000	\$ 838,544
Unappropriated retained earnings	3,152,687	3,491,859	(548,899)	(754,014)	5,341,633	806,918
Accumulated other comprehensive loss	(18,850)	(11,853)	-	-	(30,703)	(4,638)
Total non-controlling interest	¥4,784,837	¥3,680,006	¥2,951,101	¥(554,014)	¥10,861,930	\$ 1,640,824

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NOTE 20. CONCENTRATIONS

For the year ended June 30, 2016, China National Petroleum Corporation ("CNPC") represented approximately 75% of the Company's revenue. At June 30, 2016, CNPC accounted for 59% and another customer accounted for 22% of the Company's trade accounts receivable, net, respectively.

For the year ended June 30, 2017, CNPC represented approximately 72% and another customer represented approximately 10% of the Company's revenue, respectively. At June 30, 2017, CNPC accounted for 42% and another two customers accounted for 22% and 16% of the Company's trade accounts receivable, net, respectively.

For the year ended June 30, 2018, CNPC represented approximately 45% and another customer represented approximately 43% of the Company's revenue, respectively. At June 30, 2018, CNPC accounted for 29% and another two customers accounted for 22% and 14% of the Company's trade accounts receivable, net, respectively.

For the year ended June 30, 2016, two major suppliers accounted for 49% of the company's total purchases. At June 30, 2016, three suppliers accounted for 67% of the Company's trade accounts payable.

For the year ended June 30, 2017, three major suppliers accounted for 43% of the company's total purchases. At June 30, 2017, three suppliers accounted for 61% of the Company's trade accounts payable.

For the year ended June 30, 2018, two major suppliers accounted for 58% of the company's total purchases. At June 30, 2018, three suppliers accounted for 60% of the Company's trade accounts payable.

NOTE 21. COMMITMENTS AND CONTINGENCY

(a) Office Leases

The Company entered into six non-cancellable operating lease agreements for office spaces and factories. Future payments under such leases are as follows as of June 30, 2018:

Twelve months ending June 30,	RMB	U.S. Dollars
2019	¥2,623,077	\$396,247
2020	1,332,923	201,354
Total	¥3,956,000	\$597,601

Rent expense for the years ended June 30, 2016, 2017 and 2018 were ¥1,323,170, ¥1,664,128 and ¥2,8596,809 (\$432,008), respectively.

(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 June 30, 2018, the Company estimated its severance payments of approximately ¥2.0 million (\$0.3 million) which has not been reflected in its consolidated financial statements, because management cannot predict what the actual payment, if any, will be in the future.

RECON TECHNOLOGY, LTD**NOTes to THE consolidated financial statements****NOTE 22. RELATED PARTY TRANSACTIONS AND BALANCES**

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

	For the years ended June 30,			
	2016	2017	2018	2018
	RMB	RMB	RMB	U.S. Dollars
Huanghua Heng Da Xiang Tong Manufacture Ltd	¥ 338,862	¥ -	¥ -	\$ -
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	588,894	-	-	-
Purchases from related parties	¥ 927,756	¥ -	¥ -	\$ -

Account payable due to related parties - The Company purchased automation products and heating furnaces from Xiamen Huangsheng Hitek Computer Network Co. Ltd (Huangsheng Hitek) and Huanghua Xiang Tong. The ending balance of accounts payable due to Huangsheng Hitek as of June 30, 2017 and 2018 were both nil. On March 18, 2016, the Company terminated its equity investment in Huanghua Xiang Tong and therefore has no related-party relationship with this entity after March 18, 2016.

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 at a monthly rent of ¥140,000 with annual rental expense at ¥1.68 million (\$0.25 million). The details of leases from related parties are as below:

Lessee	Lessor	Rent Period	Monthly Rent RMB	Monthly Rent USD
Nanjing Recon	Yin Shenping	April 1, 2018 - March 31, 2020	¥ 60,000	\$ 9,064
BHD	Chen Guangqiang	January 1, 2018 - December 31, 2018	22,500	3,399
BHD	Mr Chen's family member	January 1, 2018 - December 31, 2018	47,500	7,175
Recon-BJ	Yin Shenping	July 1, 2016 - June 30, 2018	10,000	1,511

Short-term borrowings from related parties - The Company borrowed ¥10,168,008 and ¥9,018,065 (\$1,362,287) from the Founders and their family members as of June 30, 2017 and 2018, respectively. For the specific terms and

interest rates of the borrowings, see Note 14.

Long-term borrowings from related parties - The Company borrowed ¥nil and ¥9,663,729 (\$1,459,822) from the Founder as of June 30, 2017 and 2018, respectively. For the specific terms and interest rates of the borrowings, see Note 15.

Expenses paid by the owner on behalf of Recon – Shareholders of the Company’s VIEs paid certain operating expenses for the Company. As of June 30, 2017, and 2018, ¥3,062,709 and ¥2,767,349 (\$418,041) was due to them, respectively. See Note 12.

NOTE 23. Variable Interest Entities

VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs and their subsidiaries with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

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Summary information regarding consolidated VIEs is as follows:

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
ASSETS			
Current Assets			
Cash and cash equivalents	¥3,506,540	¥7,336,672	\$ 1,108,292
Notes receivable	6,112,960	3,995,962	603,638
Trade accounts receivable, net	39,425,911	24,254,007	3,663,858
Purchase advances, net	11,476,000	12,654,546	1,911,621
Other assets	7,450,483	14,281,461	2,157,386
Total current assets	¥67,971,894	¥62,522,648	\$ 9,444,795
Non-current assets	2,757,404	20,966,716	3,167,273
Total Assets	¥70,729,298	¥83,489,364	\$ 12,612,068
LIABILITIES			
Trade accounts payable	¥8,352,870	¥8,754,347	\$ 1,322,449
Taxes payable	684,721	278,184	42,023
Other liabilities	16,372,863	14,730,356	2,225,197
Total current liabilities	25,410,454	23,762,887	3,589,669
Non-current liabilities	-	8,943,834	1,351,073
Total Liabilities	¥25,410,454	¥32,706,721	\$ 4,940,742

The financial performance of VIEs reported in the consolidated statement of operations and comprehensive loss for the year ended June 30, 2016 includes revenues of ¥42,728,277, operating expenses of ¥31,590,843, and net loss of ¥25,481,256. The financial performance of VIEs reported in the consolidated statement of operations and comprehensive loss for the year ended June 30, 2017 includes revenues of ¥60,054,462, operating expenses of ¥18,074,743, and net loss of ¥2,757,013. The financial performance of VIEs reported in the consolidated statement of operations and comprehensive loss for the year ended June 30, 2018 includes revenues of ¥84,712,046 (\$12,796,768), operating expenses of ¥22,441,733 (\$3,390,092), and net loss of ¥22,734,249 (\$3,434,280).

NOTE 24. SEGMENT REPORTING

ASC 280, “Segment Reporting,” establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company’s business segments. The Company uses the “management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. Management, including the chief operating decision maker, reviews operation results by the revenue of different products. Based on management’s assessment, the Company has determined that it has three operating segments: automation product and software, equipment and accessories and oilfield environmental protection.

The following tables present summary information by segment for the years ended June 30, 2016, 2017 and 2018, respectively:

	For the years ended June 30,			
	2016	2017	2018	2018
	RMB	RMB	RMB	U.S. Dollars
Automation product and software	¥26,171,906	¥22,399,066	¥18,989,924	\$2,868,655
Equipment and accessories	14,221,914	26,658,094	63,960,425	9,661,988
Oilfield environmental protection	2,334,457	10,997,302	1,761,697	266,125
Total revenue	¥42,728,277	¥60,054,462	¥84,712,046	\$12,796,768

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All the Company's revenue was generated from its business operation in China.

	For the years ended June 30, 2018			
	Automation product and software RMB	Equipment and accessories RMB	Oilfield environmental protection RMB	Total RMB
Revenue	¥18,989,924	¥63,960,425	¥ 1,761,697	¥84,712,046
Cost of revenue and related tax	17,036,393	62,115,400	1,410,068	80,561,861
Gross profit	¥1,953,531	¥1,845,025	¥ 351,629	¥4,150,185
Depreciation and amortization	¥48,127	¥1,044,079	¥ 26,843	¥1,119,049
Total capital expenditures	¥100,327	¥1,403,083	¥ 10,519,072	¥12,022,482

	For the years ended June 30, 2017			
	Automation product and software RMB	Equipment and accessories RMB	Oilfield environmental protection RMB	Total RMB
Revenue	¥22,399,066	¥26,658,094	¥ 10,997,302	¥60,054,462
Cost of revenue and related tax	12,593,429	22,023,851	9,473,680	44,090,960
Gross profit	¥9,805,637	¥4,634,243	¥ 1,523,622	¥15,963,502
Depreciation and amortization	¥39,846	¥816,889	¥ -	¥856,735
Total capital expenditures	¥75,809	¥562,310	¥ -	¥638,119

	For the years ended June 30, 2016			
	Automation product and software RMB	Equipment and accessories RMB	Oilfield environmental protection RMB	Total RMB
Revenue	¥26,171,906	¥14,221,914	¥ 2,334,457	¥42,728,277
Cost of revenue and related tax	20,548,568	13,126,589	1,806,237	35,481,394
Gross profit	¥5,623,338	¥1,095,325	¥ 528,220	¥7,246,883
Depreciation and amortization	¥67,091	¥887,992	¥ -	¥955,083
Total capital expenditures	¥6,477	¥174,598	¥ -	¥181,075

	June 30, 2017 RMB	June 30, 2018 RMB	June 30, 2018 U.S. Dollars
Total assets:			
Automation product and software	¥35,865,376	¥53,284,643	\$ 8,049,284
Equipment and accessories	35,289,669	40,365,472	6,097,688
Oilfield environmental protection	-	28,157,402	4,253,512
Total Assets	¥71,155,045	¥121,807,517	\$ 18,400,484

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NOTE 25. SUBSEQUENT EVENTS

On August 27, 2018, the board of the Company approved the issuance of 25,000 restricted shares to Ascent Investor Relations LLC (“Ascent”). The Company entered into an investor relations letter agreement on August 1, 2018, pursuant to which Ascent agrees to provide certain consulting services to the Company (the “IR Agreement”). Fair value of the shares granted is \$1.28 per share based on the closing price of the resolution of the board on August 27, 2018 with a vesting period of a year from the date of the agreement. Fair value of these shares is \$32,000.

On August 27, 2018, the board of the company approved a grant of 1,956,000 restricted stock units (the “RSUs”) to certain employees and directors under the Company’s 2015 Equity Incentive Plan (the “Plan”) according to a vesting schedule as a reward and compensation to encourage as an incentive for their future dedication to the Company. Fair value of these RSUs are \$2,503,680 based on the closing price of the resolution of the board on August 27, 2018, with a vesting period of three years from the date of the grant.