

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended June 30, 2016

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

Commission File Number 001-34409

**RECON TECHNOLOGY, LTD**

(Exact name of registrant as specified in its charter)

**Cayman Islands**  
(State or other jurisdiction of  
incorporation or organization)

**Not Applicable**  
(I.R.S. employer  
identification number)

**1902 Building C, King Long International Mansion  
9 Fulin Road, Beijing 100107  
People's Republic of China**  
(Address of principal executive offices and zip code)

**+86 (10) 8494 5799**  
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:  
**Ordinary Shares, \$0.0185 par value per share** **NASDAQ Capital Market**  
Title of each class Name of each exchange on which registered

Securities registered under Section 12(g) of the Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. 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 Exchange Act 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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the ordinary shares, \$0.0185 par value per share ("Shares"), of the registrant held by non-affiliates on December 31, 2015, the last business day of the registrant's second fiscal quarter, was approximately \$5.2 million, based on the closing sales price of \$1.18 per share, as reported on the Nasdaq Capital Market, multiplied by the number of outstanding Shares held by non-affiliates on that date.

The Company is authorized to issue 100,000,000 Shares. As of September 20, 2016, the Company has issued and outstanding 5,980,792 Shares.

**RECON TECHNOLOGY, LTD**  
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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 "should," and 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. Business.

#### 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

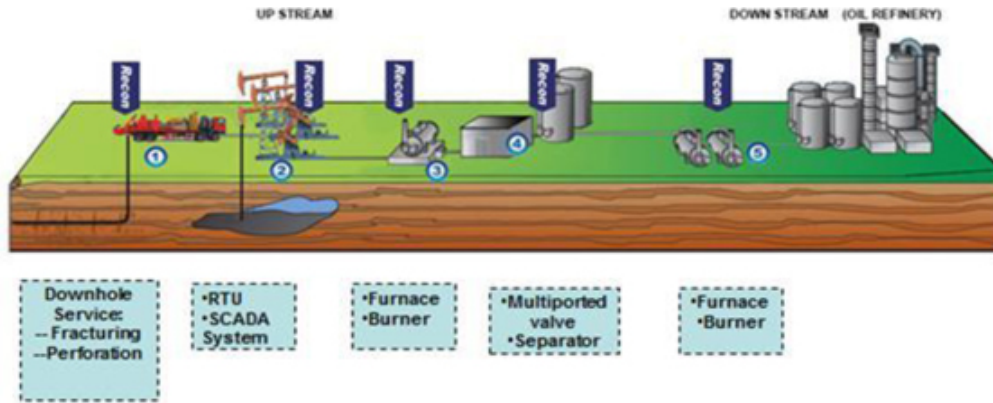
China is the world’s second-largest consumer of petroleum products, third-largest importer of petroleum and sixth-largest producer of petroleum. In the last twenty years, China’s demand for oil has more than tripled, while its production of oil has only modestly increased. China became a net importer 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 recently become involved in China’s petroleum industry; however, according to Chinese law, China’s national oil companies may 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. Major foreign oil companies operating in China include: Agip, Apache, BP, ChevronTexaco, ConocoPhillips, Eni, ExxonMobil, Husky Energy, Kerr-McGee, Mitsubishi, Royal Dutch Shell, Saudi Aramco, and Total.

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 Oil Field, 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.

## 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.



Our products and services include:

### Equipment for Oil and Gas Production and Transportation

- *High-Efficiency Heating Furnaces (as shown above by process “6”). 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.*

### **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. Most actual control of our direct and indirect clients can be traced to Sinopec and CNPC, the two major Chinese state-owned companies responsible for on-shore petroleum mining and extraction. 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:

#### ***Sinopec***

- Jiangsu Oil Field
- Shengli Oil Field
- The Northwest Division
- The Southwest Division
- Zhongyuan Oil Field
- Sichuan Oil Field
- Jiangnan Oil Field

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 8.85% and 6.82% of our revenues for the fiscal years ended June 30, 2016 and 2015, respectively, and any termination of our business relationships with Sinopec would materially harm our operations.

## **CNPC**

- Qinghai Oil Field
- Tuha Oil Field
- Daqing Oil Field
- Jidong Oil Field
- Sichuan Oil Field
- Xinjiang Oil Field
- Huabei Oil Field
- Jilin Oil Field

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 75.36% and 43.09% of our revenues in the fiscal years ended June 30, 2016 and 2015, respectively, and any termination of our business relationships with CNPC 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.*
- *Beijing Golden-Time Petroleum Measurement Technology Co., Ltd. (“BGT”). BGT develops analysis software used in oilfields but does not yet, to our knowledge, produce a substantial amount of hardware 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.*

## **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, 2016, our research and development team consisted of 38 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, 2015 and 2016, we spent approximately ¥4.2 million and ¥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 or have applied for the following trademarks:

1. Trademark of "BHD" valid from November 7, 2003 through November 6, 2023;
2. Trademark of "Recon" of the 7<sup>th</sup> classification valid from October 21, 2011 through October 20, 2021;
3. Trademark of "Recon" of the 9<sup>th</sup> classification valid from April 21, 2011 through April 20, 2021; and
4. Trademark of "Recon" of the 42<sup>nd</sup> classification valid from September 7, 2011 through September 6, 2021.

We currently own or have applied for the following 27 patents registered with the State Intellectual Property Office which cover our automated products and heating related equipment for the petroleum industry:

1. Patent of fracturing packer valid until August 5, 2018;
2. Patent of pressure phase transition furnace valid until August 5, 2018;
3. Patent of vacuum furnace phase transition heater valid until August 5, 2018;
4. Patent of high pressure natural gas water heater valid until June 30, 2019;
5. Patent of negative pressure heater valid until June 30, 2019;
6. Patent of water jacket furnace valid until June 30, 2019;

7. Patent of tube heating furnace valid until June 30, 2019;
8. Patent of automatically adjusting negative pressure burner valid until August 5, 2019;
9. Patent of wireless data instrument diagram valid until December 10, 2018;
10. Patent of hot water furnace valid until April 8, 2021;
11. Patent of multifunctional heating furnace valid until April 8, 2021;
12. Patent of efficient gas-liquid separator valid until August 15, 2021;
13. Patent of efficient oil-gas-water separator valid until October 24, 2021;
14. Patent of room pressure pipeline heater valid until October 24, 2021;
15. Patent of pneumatic control system valid until February 9, 2022;
16. Patent of firebox indirect heating furnace valid until December 14, 2022;
17. Patent of cylindrical-tubular furnace valid until December 14, 2022;
18. Patent of horizontal type furnace valid until December 14, 2022;
19. Patent of vertical type furnace valid until December 13, 2022;
20. Patent of vacuum furnace valid until December 14, 2022;
21. Patent of wireless pressure sensor valid until November 11, 2023;
22. Patent of wireless start-end module valid until November 11, 2023; and
23. Six more patent applications related to technology for wastewater treatment and furnaces have been submitted and are pending approval.

We have registered the following software products with the State Intellectual Property Office:

1. Recon automated monitoring system version 1 was published on July 30, 2011;
2. Recon automated maintenance and production-management system version 1 was published on July 10, 2011;
3. Recon SCADA field monitoring and data acquisition system software version 4 was published on January 28, 2011;
4. Recon flow control computer monitoring system software was registered and published on February 8, 2008;
5. Recon SCADA field monitoring and data acquisition system software version 2 was published on August 18, 2003, and version 3 was registered and published on April 5, 2008;
6. Recon wireless field monitoring and data acquisition system software version 2 was published on January 8, 2011, and version 1 was registered and published on September 15, 2010;
7. Recon RCNAMT version 1 was published on April 27, 2012; and

8. Recon Process Auto version 1 was published on August 25, 2012.

## **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.

## **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 in 2013 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 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).

## **Employees**

As of June 30, 2016, we had 83 employees, all of whom were based in China. Of the total, 12 were in management, 37 were in technical support and research and development, 17 were engaged in sales and marketing, 11 were in financial affairs, and 6 were in administration and procurement. We believe that our relations with our employees are good. We have never had a work stoppage, and our employees are not subject to a collective bargaining agreement.

## **Insurance**

We do not have any business interruption, litigation or natural disaster insurance coverage for our operations in China. Insurance companies in China offer limited business insurance products. While business interruption insurance is available to a limited extent in China, we have determined that the risks of interruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Therefore, we are subject to business and product liability exposure. Business or product liability claims or potential regulatory actions could materially and adversely affect our business and financial condition.

We do, however, pay certain required insurance amounts in connection with our employees' wages. The amount and types of insurance we must provide under Chinese and local requirements vary by the location of each of the Domestic Companies. The following table summarizes the types of insurance paid for each of the Domestic Companies:

### **Nanjing Recon**

Housing Fund  
Pension  
Unemployment Insurance  
Medical Insurance  
Occupational Injury Insurance  
Maternity Insurance

### **BHD**

Pension  
Unemployment Insurance  
Medical Insurance  
Occupational Injury Insurance

## **Item 1A. Risk Factors.**

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.

## **Item 1B. Unresolved Staff Comments.**

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.



**Item 2. Properties.**

We currently operate in three facilities throughout China. Our headquarters are located in Beijing.

<b>Office</b>	<b>Address</b>	<b>Rental Term</b>	<b>Space</b>
Headquarters	Room 1902, Building C King Long International Mansion, Chaoyang District Beijing, PRC	July 1, 2016 to June 30, 2017	220 square meters
Nanjing Recon	Room 310&311, No. 2 Building, Chu Qiao Cheng, Andemen Street, Yu Hua District, Nanjing City, PRC	April 1, 2016 to March 31, 2018	564.64 square meters
BHD	18 <sup>th</sup> Floor, Building C King Long International Mansion, Chaoyang District Beijing, PRC	January 1, 2016 to December 31, 2016	450 square meters
	West building, Zhengfu Street, Huo ying, Changping District, PRC	January 1, 2016 to December 31, 2016	900 square meters

**Item 3. Legal Proceedings.**

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. Nonetheless, any litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such pending or threatened legal proceedings, claims, regulatory inquiries or investigations that we believe will have a material adverse effect on our business, financial condition or operating results.

**Item 4. Mine Safety Disclosures.**

This item is inapplicable to the Company.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### (a) Market for Our Ordinary Shares

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

	<u>High</u>	<u>Low</u>
<b>Year Ended June 30, 2016</b>		
Quarter Ended September 30, 2015	\$ 5.38	\$ 3.46
Quarter Ended December 31, 2015	\$ 5.47	\$ 1.93
Quarter Ended March 31, 2016	\$ 3.20	\$ 1.27
Quarter Ended June 30, 2016	\$ 2.95	\$ 1.50
<b>Year Ended June 30, 2015</b>		
Quarter Ended September 30, 2014	\$ 5.38	\$ 3.46
Quarter Ended December 31, 2014	\$ 5.47	\$ 1.93
Quarter Ended March 31, 2015	\$ 3.20	\$ 1.27
Quarter Ended June 30, 2015	\$ 2.95	\$ 1.50

As of September 20, 2016, there were approximately seven 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 20, 2016, the last sales price of our ordinary shares as reported on the NASDAQ Capital Market was \$1.11 per ordinary share.

#### Dividend Policy

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.

(c) None.

#### **Item 6. Selected Financial Data.**

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.

#### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

*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 as variable interest entities ("VIEs") 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.

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 products, 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

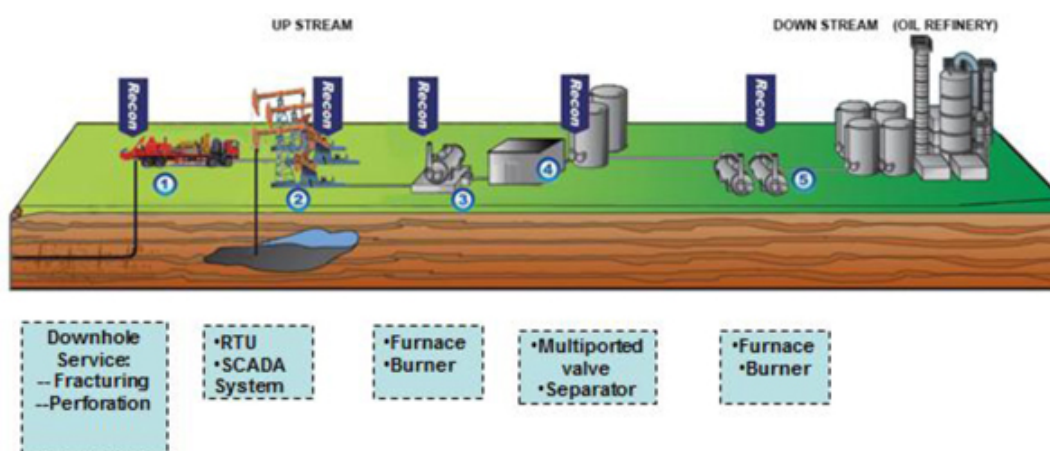
On July 23, 2016, our board of directors resolved not to proceed with the Company's plan to acquire Qinghai Huayou Downhole Technology Co., Ltd., a PR China limited liability company ("QHHY"), and, as a result, terminated the share purchase agreement and related control agreements (together, the "Agreements") between the Company, its wholly owned subsidiary Recon Hengda Technology (Beijing) Co., Ltd., QHHY and QHHY's shareholders.

As previously reported on our Form 8-K filed with the Securities and Exchange Commission on December 7, 2015, pursuant to the Agreements, Recon BJ was to acquire QHHY, a China-based oil field service provider, in exchange for \$3.60 million worth of the Company's ordinary shares and up to \$4.8 million in cash, subject to QHHY achieving certain operating goals. The Board of Directors determined that it would terminate the Agreements following the completion of an audit of QHHY for the 2014 and 2015 fiscal years and a review of the first two quarters of the 2016 fiscal year, after which time the Company determined that QHHY had not met its financial projections for fiscal 2015 and was not expected to achieve its projections for fiscal 2016. The parties attempted to renegotiate the terms of the acquisition, but were unable to reach an agreement based on the decreased valuation of QHHY. The Company faces no early termination penalties as a result of terminating the Agreements.

QHHY was founded by the Company's Chief Technology Officer and director, Chen Guangqiang. Mr. Chen sold his ownership interest in QHHY on December 15, 2014. The current shareholders of QHHY are not affiliated with the Company.

## Products and Services

We currently provide products and services to oil and gas field companies focused 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.



Our products and services include:

### *Equipment for Oil and Gas Production and Transportation*

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

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

#### *Oil and Gas Production Improvement Techniques*

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

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

Sand Prevention in Oil and Water Well. This technique processes additives that are resistant to elevated temperatures into "resin sand" which is transported to the bottom of the well via carrying fluid. The resin sand goes through the borehole, 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 set by which the water locating and plugging can be finished in one trip. The tubular column is adaptable to several oil drilling methods and is available for water locating and plugging in second and third class layers.

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

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

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

#### *Automation System and Services*

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

RTU Monitor. This monitor collects gas well pressure data.

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

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

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

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

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

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

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

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

### ***Factors Affecting Our Business***

#### **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 need to expand our core business, move into new markets and develop new businesses quickly for the coming years. Management anticipates there will be opportunities in new markets and our existing markets. We also believe that many existing wells and oilfields need to improve or renew their equipment and service to maintain production and techniques and services like ours will be needed as new oil and gas fields are developed. In the next three years, we plan to focus on the following:

***Measuring Equipment and Service.*** Digital oil field 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. . =

***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 Qinghai Oilfield and Zhongyuan Oilfield.

***New business.*** We are in the process of expanding our business through the acquisition of a downhole service company. We also have developed new products for oilfield wastewater treatment and achieved preliminary business on this segment. Our management anticipates expanding the new business more rapidly in the coming year.

## **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. Due to the remote location and difficult environments of China's oil and gas fields, historically, foreign competitors have rarely entered those areas directly.

Large domestic oil companies have historically focused on their exploration and development businesses to earn higher margins and maintain their competitive advantage. With regard to private oilfield service companies, we estimate that approximately 90% specialize in the manufacture of drilling and production equipment. Thus, the market for technical support and project service is still in its early stage. Our management is focused on providing high quality products and services in oilfields in which we have a geographical advantage. This helps us to avoid conflicts of interest with bigger suppliers of drilling equipment 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.

## **Recent Industry Developments**

Affected by the worldwide decrease in oil prices, CNPC and Sinopec, parent companies of our direct clients, cut off their capital expenditure and production activities, resulting in a declining market and intensive competition. Management will closely monitor the situation and will seek to extend our business on the industrial chain, such as through providing more integrated services and advanced products and through growing our business from a predominantly above-ground business to include some downhole services as well.

## **Factors Affecting Our Results of Operations**

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

- 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*

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

### *Consolidation of VIEs*

We recognize an entity as a VIE if it either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. We consolidate a VIE as 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.

#### *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. Revenue from software is recognized according to project contracts. Usually this is short term. Revenue is not recognized until completion of the contracts and receipt of acceptance.



## *Services*

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

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

## ***Cost of Revenues***

When the criteria for revenue recognition have been met, costs incurred are recognized as cost of revenue. Cost of revenues includes wages, materials, handling charges, the cost of purchased equipment and pipes, 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.

## ***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. Long-term receivables and borrowings approximate fair value because their interest rates charged approximate the market rates for financial instruments with similar terms. The fair value of the warrants liability was determined using the Black-Scholes Model, as Level 2 inputs. Any changes in the assumptions that are used in the Black-Scholes Model may increase or decrease the warrants liability from quarter to quarter. Any change in the estimate of the fair value of the warrants liability would be charged to operations.

## ***Receivables***

Trade receivables are carried at the original invoiced amount less a provision for any potential uncollectible amounts. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of doubtful accounts requires the use of judgment and estimates of management. Our management must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Increases in our allowance for doubtful accounts would lower our net income and earnings per share.

### **Valuation of Long-Lived Assets**

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized assets more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our assets change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change by a material amount. There were no impairments at June 30, 2015 and 2016. However, if impairments were required, our net income and earnings per share would decrease accordingly.

### **Share-Based Compensation**

The Company accounts for share-based compensation in accordance with Accounting Standards Codification (ASC) Topic 718, Share-Based Payment. Under the fair value recognition provisions of this topic, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight-line basis over the requisite service period for the entire award. The Company has elected to mainly utilize the Black-Scholes valuation model to estimate an award's fair value.

### **Recently enacted accounting pronouncements**

In April 2016, the FASB released Accounting Standards Update (ASU) 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In April 2016, FASB issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting". The amendments rescind SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force (EITF) meeting. Specifically, registrants should not rely on the following SEC Staff Observer comments upon adoption of Topic 606: (1) Revenue and Expense Recognition for Freight Services in Process, which is codified in paragraph 605-20-S99-2; (2) Accounting for Shipping and Handling Fees and Costs, which is codified in paragraph 605-45-S99-1; (3) Accounting for Consideration Given by a Vendor to a Customer (including Reseller of the Vendor's Products), which is codified in paragraph 605-50-S99-1; and (4) Accounting for Gas-Balancing Arrangements (i.e., use of the "entitlements method"), which is codified in paragraph 932-10-S99-5, which is effective upon adoption of ASU 2014-09. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients". The amendments, among other things: (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The effective date of these amendments is at the same date that Topic 606 is effective. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") which requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down. This approach is an improvement to current GAAP because an entity will be able to record reversals of credit losses (in situations in which the estimate of credit losses declines) in current period net income, which in turn should align the income statement recognition of credit losses with the reporting period in which changes occur. Current GAAP prohibits reflecting those improvements in current period earnings. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, and requires a modified retrospective approach to adoption. Early adoption is permitted for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In August 2016, the FASB has issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following eight specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned; (6) Life Insurance Policies; (7) Distributions Received from Equity Method Investees; (8) Beneficial Interests in Securitization Transactions; and Separately Identifiable Cash Flows and Application of the Predominance Principle. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

## 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.

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

### Revenue

	For the Years Ended June 30,			
	2015	2016	Increase / (Decrease)	Percentage Change
Hardware and software- non-related parties	¥ 48,980,953	¥ 41,544,925	¥ (7,436,028)	(15.2)%
Hardware and software- related parties	2,428,173	-	(2,428,173)	(100.0)%
Service	103,774	1,183,352	1,079,578	1,040.3%
Total revenues	¥ 51,512,900	¥ 42,728,277	¥ (8,784,623)	(17.1)%

Our total revenues for the year ended June 30, 2016 were approximately ¥42.7 million (\$6.4 million), a decrease of approximately ¥8.8 million or 17.1% from ¥51.5 million for the year ended June 30, 2015. The overall decrease in revenue was mainly caused by decreased revenue our hardware and software revenue, which includes revenue from automation products and embedded software, equipment and accessories. The decrease in hardware and software revenue was mainly caused by lowered requirements of equipment or furnaces for the first half of fiscal year 2016. Also, unfavorable industry trends caused by low oil prices led to intense price competition; thus, the unit price for furnaces also decreased compared to prior levels.

### Revenue – Hardware and software- non-related parties

	For the year Ended June 30			
	2015	2016	Increase / (Decrease)	Percentage Change
Automation product and software	¥ 23,434,794	¥ 26,171,906	¥ 2,737,112	11.7%
Equipment and accessories	25,546,159	13,038,562	(12,507,597)	(49.0)%
Waste water treatment products	-	2,334,457	2,334,457	100.0%
Total revenue - Hardware and software- non-related parties	¥ 48,980,953	¥ 41,544,925	¥ (7,436,028)	(15.2)%

- (1) Revenue from automation products and embedded software increased slightly by ¥2.7 million (\$0.4 million).
  - (2) As shown above, the overall decrease in revenue was mainly affected by equipment sales decreases due to lowered requirements of equipment and furnaces and consignment-sales of accessories. By far, oilfield companies prefer repairing rather than replacing equipment to save costs during periods of lower oil prices and less production activities. Management expects requirements for such equipment may still maintain at current low levels and revenue from furnaces and other equipment are unlikely to rebound in the short term.
  - (3) During fiscal year 2016, the Company expanded the new market of oilfield waste water treatment products. Even though production activities for our clients decreased, requirements for oilfield production safety and environmental production increased. Based on our long-term cooperation with clients and our reputation in oilfield operations, we developed our own chemical products and achieved major orders for this segment.
2. Service business. Service revenue for the years ended June 30, 2015 and 2016 consisted mainly of maintenance services, which were provided upon request by customers. Increase of service revenue was mainly caused by increased needs for furnace maintenance, rather than the purchase of new equipment; and
  3. Hardware and software business – related parties. After we achieved business entrance certification in the name of Recon and could cooperate with oilfield customers directly two years ago, we no longer required the services of a related party with such certification and, accordingly, revenue from related-parties decreased. As a result, there was no revenue or cost of hardware and software from related parties during 2016, since we developed business directly with oilfields, rather than cooperation with local agencies, which were our related parties.

Cost and Margin

	For the Years Ended			
	June 30,			
	2015	2016	Increase / (Decrease)	Percentage Change
Total revenues	¥ 51,512,900	¥ 42,728,277	¥ (8,784,623)	(17.1)%
Cost of revenues	41,400,727	35,481,394	(5,919,333)	(14.3)%
Gross profit	¥ 10,112,173	¥ 7,246,883	¥ (2,865,290)	(28.3)%
Margin %	19.6%	17.0%	(2.6)%	

**Cost of Revenues.** Our cost of revenues includes raw materials and costs related to design, implementation, delivery and maintenance of products and services. All materials and components we need can be purchased or manufactured by subcontractors. Usually the prices of electronic components do not fluctuate dramatically due to market competition and will not significantly affect our cost of revenues. However, specialized equipment and incentive chemical products may be directly influenced by metal and oil price fluctuations. Additionally, the prices of some imported accessories mandated by our customers can also affect our costs. Inventory reserve for changes in price level, impairment of inventory, slow moving inventory or other similar causes will also affect our cost.

Our cost of revenues decreased from approximately ¥41.4 million in the year ended June 30, 2015 to approximately ¥35.5 million (\$5.3 million) for the same period in 2016, a decrease of approximately ¥5.9 million (\$0.9 million), or 14.3%. This decrease was mainly caused by lower revenue during the year ended June 30, 2016 compared to the same period of 2015.

**Gross Profit.** Our gross profit decreased to approximately ¥7.3 million (\$1.1 million) for the year ended June 30, 2016 from approximately ¥10.1 million for the same period in 2015. Our gross profit as a percentage of revenue decreased to 17.0% for the year ended June 30, 2016 from 19.6% for the same period in 2015. This was mainly due to lower margin pricing decision under current market pressure affected by low oil prices and decreased operation activities of clients.

In more detail:

	<b>For the Years Ended June 30,</b>			
	<b>2015</b>	<b>2016</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Total revenues- hardware and software- non related parties	¥ 48,980,953	¥ 41,544,925	¥ (7,436,028)	(15.2)%
Cost of revenues- hardware and software- non related parties	41,373,566	34,732,965	(6,640,601)	(16.1)%
Gross profit	¥ 7,607,387	¥ 6,811,960	¥ (795,427)	(10.5)%
Margin %	15.5%	16.4%	0.9%	—

Revenue from hardware and software to non-related parties decreased by approximately ¥7.4 million (\$1.1 million) mainly due to the decreased orders of furnaces as the Company is continually facing pressure from tough competition. The gross profit from hardware and software sales to non-related parties decreased ¥0.8 million (\$0.1 million) compared to the same period of last year.

	<b>For the Years Ended June 30,</b>			
	<b>2015</b>	<b>2016</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Total revenues- hardware and software- related parties	¥ 2,428,173	¥ -	¥ (2,428,173)	(100.0)%
Cost of revenues- hardware and software- related parties	27,161	-	(27,161)	(100.0)%
Gross profit	¥ 2,401,012	¥ -	¥ (2,401,012)	(100.0)%
Margin %	98.9%	0.0%	98.9%	—

After the Company achieved business entrance certification and was able to cooperate with oilfield customers directly two years ago, we no longer required the services of a related party with such certification and, accordingly, revenue from related-parties decreased. As of result, there was no revenue or cost of hardware and software from related parties during 2016, since we developed business directly with oilfields, rather than cooperation with local agencies, which were our related parties.

	<b>For the Years Ended June 30,</b>			
	<b>2015</b>	<b>2016</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Total revenues - service	¥ 103,774	¥ 1,183,352	¥ 1,079,578	1,040.3%
Cost of revenues - service	-	748,429	748,429	100.0%
Gross profit	¥ 103,774	¥ 434,923	¥ 331,149	319.1%
Margin %	100%	36.8%	(63.2)%	—

Service revenue for the year ended June 30, 2015 and 2016 consisted mainly of maintenance services, which were provided upon request by customers. Our clients required more maintenance services for this year as maintenance requests outpaced the purchase of new equipment due to industry softness, and we believe margin level is reasonable.

Operating Expenses

	For the Years Ended June 30,			
	2015	2016	Increase / (Decrease)	Percentage Change
Selling and distribution expenses	11,312,452	5,630,715	(5,681,737)	(50.2)%
% of revenue	22.0%	13.2%	(8.8%)	—
General and administrative expenses	26,894,273	20,195,701	(6,698,572)	(24.9)%
% of revenue	52.2%	47.3%	(4.9)%	—
Provision for doubtful accounts	3,252,868	14,475,074	11,222,206	345%
% of revenue	6.3%	33.9%	27.6%	—
Research and development expenses	4,168,813	6,856,522	2,687,709	64.5%
% of revenue	8.1%	16.0%	7.9%	—
Operating expenses	¥ 45,628,406	¥ 47,158,012	¥ 1,529,606	3.4%

**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 approximately ¥5.7 million for the year ended June 30, 2016 compared to the same period in 2015. This decrease was primarily due to a decrease in service fees and meal and entertainment fees. Selling expenses were 22.0% of total revenues in the year ended June 30, 2015 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, option expenses, stock based comprehensive expense and other miscellaneous expenses incurred in connection with general operations. General and administrative expenses decreased by 24.9% or ¥6.7 million (\$1.0 million), from approximately ¥26.9 million in the year ended June 30, 2015 to approximately ¥20.2 million (\$3.0 million) in the same period of 2016. General and administrative expenses were 47.3% of total revenues in the year ended June 30, 2016 and 52.2% of total revenues in the same period of 2015. The decrease in general and administrative expenses was mainly due to a decrease in consulting fee.

**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 ¥3.3 million for the year ended June 30, 2015 and ¥14.5 million (\$2.1 million) for the same period in 2016. The increase in provision of doubtful accounts was mainly caused by provision for purchase advances. During the last few years, we made various down payments for some customized products with a non-refundable requirement. As those projects were canceled or postponed due to unfavorable industry conditions, management recorded a provision for these down payments while still trying to minimize the potential losses.

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 ¥4.2 million for the year ended June 30, 2015 to approximately ¥6.9 million (\$1.0 million) for the same period of 2016. This increase was primarily due to more research and development expense spent on design of downhole automation platform systems and chemical products used for waste water treatment.

*Net Income*

	<b>For the Years Ended June 30,</b>			
	<b>2015</b>	<b>2016</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Loss from operations	¥ (35,516,233)	¥ (39,911,129)	¥ (4,394,896)	(12.4)%
Interest and other income (expense)	1,507,770	(425,603)	(1,933,373)	(128.2)%
Loss before income taxes	(34,008,463)	(40,336,732)	(6,328,269)	(18.6)%
Provision (benefit) for income taxes	(2,552,075)	545,845	3,097,920	(121.4)%
Net loss	(31,456,388)	(40,882,577)	(9,426,189)	(30.0)%
Less: Net income attributable to non-controlling interest	-	-	-	0.0%
<b>Net loss attributable to Recon Technology, Ltd</b>	<b>¥ (31,456,388)</b>	<b>¥ (40,882,577)</b>	<b>¥ (9,426,189)</b>	<b>(30.0)%</b>

Loss from operations. Loss from operations was approximately ¥39.9 million (\$6.0 million) for the year ended June 30, 2016, compared to a loss of ¥35.5 million for the same period of 2015. This increase in loss from operations was primary due to a decrease in gross profit and an increase in R&D expenses and general and administrative expenses, partially offset by a decrease in selling and distribution expenses.

Interest and other income (expense). Interest and other expense was approximately ¥0.4 million (\$0.06 million) for the year ended June 30, 2016, compared to interest and other income of ¥1.5 million for the same period of 2015. The ¥1.9 million (\$0.3 million) decrease in interest and other income was primarily due to gain from change in fair value of warrants liability while there was no such gain for the current period.

Provision (benefit) for income tax. Benefit for income tax for the year ended June 30, 2015 was approximately ¥2.6 million. Provision for income tax was ¥0.5 million (\$0.1 million) for the year ended June 30, 2016. This increase in provision for income tax was mainly due to the allowance recorded for deferred tax assets and income tax payable true-up during the year ended June 30, 2016. During this period, based on available evidence, management concluded that it was more likely than not that there would be no sufficient deductible income in future years and reevaluated the deferred tax assets and the adjustment was recorded as part of the total income tax provision.

Net loss. As a result of the factors described above, net loss was approximately ¥40.9 million (\$6.2 million) for the year ended June 30, 2016, an increase of approximately ¥9.4 million (\$1.4 million) from net loss of ¥31.5 million for the same period of 2015.

Net loss attributable to ordinary shareholders. As a result of the factors described above, net loss attributable to ordinary shareholders was approximately ¥40.9 million (\$6.2 million) for the year ended June 30, 2016, an increase of approximately ¥9.4 million (\$1.4 million) from net loss attributable to ordinary shareholders of approximately ¥31.5 million for same period of 2015.



## Liquidity and Capital Resources

As of June 30, 2016, we had cash in the amount of approximately ¥1.8 million (\$0.3 million). As of June 30, 2015, we had cash in the amount of approximately ¥12.3 million.

Indebtedness. As of June 30, 2016, except for approximately ¥12.9 million (\$1.9 million) of short-term borrowings from related parties, and ¥0.5 million (\$0.08 million) of short-term borrowings from third parties, we did not have any finance leases or purchase commitments, guarantees or other material contingent liabilities.

Holding Company Structure. We are a holding company with no operations of our own. All of our operations are conducted through our Domestic Companies. As a result, our ability to pay dividends and to finance any debt that we may incur is dependent upon the receipt of dividends and other distributions from the Domestic Companies. In addition, Chinese legal restrictions permit payment of dividends to us by our Domestic Companies only out of 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 and financing activities. As of June 30, 2016, we had total assets of approximately ¥79.5 million (\$12.0 million), which includes cash of approximately ¥1.8 million (\$0.3 million), net accounts receivable due from third parties of approximately ¥38.1 million (\$5.7 million), working capital amounted to approximately ¥44.5 million (\$6.7 million), and shareholders' equity amounted to approximately ¥41.4 million (\$6.2 million)

Cash from Operating Activities. Net cash used in operating activities was approximately ¥0.3 million (\$0.04 million) for the year ended June 30, 2016. This was a decrease of approximately ¥14.8 million (\$2.2 million) compared to net cash used in operating activities of approximately ¥15.1 million for the year ended June 30, 2015. The decrease in net cash used in operating activities for the year ended June 30, 2016 was primarily attributable to the ¥14.7 million (\$2.2 million) change in trade accounts receivable due from third parties and ¥9.6 million (\$1.4 million) change in trade accounts payable due from third parties.

Cash from Investing Activities. Net cash used in investing activities was approximately ¥0.1 million (\$18.2 thousand) for the year ended June 30, 2016, which was a decrease of approximately ¥1.6 million compared to the same period in 2015, which decrease is due to the decrease in purchase of property and equipment.

Cash from Financing Activities. Net cash used in financing activities amounted to ¥10.2 million (\$1.5 million) for the year ended June 30, 2016, as compared to net cash provided by financing activities of \$11.1 million for the same period in 2015. During the year ended June 30, 2016, we repaid ¥16.8 million (\$2.5 million) in short-term borrowings to two related parties and repaid ¥7.5 million (\$1.1 million) in short-term bank loans, and we received ¥12.9 million (\$1.9 million) from two related parties, received ¥0.5 million (\$0.1 million) in short-term bank loans and received ¥0.5 million (\$0.1 million) in short-term borrowings from one third-party.

Working Capital. Total working capital as of June 30, 2016 amounted to approximately ¥44.5 million (\$6.7 million), compared to approximately ¥72.4 million as of June 30, 2015. Total current assets as of June 30, 2016 amounted to approximately ¥74.3 million (\$11.2 million), a decrease of approximately ¥50.2 million (\$7.6 million) compared to approximately ¥124.5 million at June 30, 2015. The decrease in total current assets at June 30, 2016 compared to June 30, 2015 was mainly due to decreases in cash and purchase advances.

Current liabilities amounted to approximately ¥29.9 million (\$4.5 million) at June 30, 2016, in comparison to approximately ¥52.1 million at June 30, 2015. This decrease of liabilities was attributable mainly to a decrease in short-term borrowings-related parties, short-term bank loans and trade accounts payable.

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.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

The Company is not required to provide the information required by this Item because the Company is a smaller reporting company.

**Item 8. Financial Statements and Supplementary Data.**

The Company's financial statements and the related notes, together with the report of Friedman LLP for the years ended June 30, 2016 and 2015 are set forth following the signature pages of this report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Disclosure Controls and Procedures**

As of June 30, 2016, 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 10-K, the chief executive officer and chief financial officer concluded that our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were ineffective in timely alerting them to information required to be included in the Company's periodic U.S. Securities and Exchange Commission (the "Commission") filings.

**Changes in Internal Control over Financial Reporting**

Management continues to focus on internal control over financial reporting. As of June 30, 2016, 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.

### 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, 2016. 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, 2016, its internal control over financing reporting was not effective.

The specific material weaknesses identified by the Company's management as of June 30, 2016 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. The Company's CFO and Controller have limited experience with U.S. GAAP and are not U.S. Certified Public Accountants. 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.

We recently completed our designs of our internal controls and assessments for all of our financial reporting cycles during fiscal year 2016, 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, 2016 due to lack of monitoring of our internal controls (lack of self-testing of internal controls). Therefore, we determined that the lack of time to evaluate our design and operating effectiveness is a material weakness. 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 2017.

As a result, the Company has developed remedial actions to strengthen its accounting and financial reporting functions as well as the related disclosure controls and procedures. Such plan will require the hiring of additional resources and the deployment of other corporate resources for the accounting department in relation to the financial reporting process. Such additional resources will include the establishment of a work force dedicated to the task of correcting past financial irregularities and maintaining correct financial reporting on an on-going basis. To strengthen the Company's internal control over financial reporting, the Company 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:

- 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 2017:

- 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 and deficiencies 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.

#### **Item 9B. Other Information.**

Other than as described in this section, our corporate governance practices do not differ from those followed by domestic companies listed on the NASDAQ Capital Market. NASDAQ Listing Rule 5635 generally provides that shareholder approval is required of U.S. domestic companies listed on the NASDAQ Capital Market prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants. Notwithstanding this general requirement, NASDAQ Listing Rule 5615(a)(3)(A) permits foreign private issuers like the Company to follow their home country practice rather than these shareholder approval requirements. The Cayman Islands does not require shareholder approval prior to the foregoing sorts of transactions. The Company, therefore, is not required to obtain such shareholder approval prior to entering into such transaction. The Board of Directors of the Company has elected to follow home Cayman Islands country rule as to such transactions and will not be required to seek shareholder approval prior to entering into such a transaction.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

#### Regulation S-K Item 401:

##### *Executive Officers and Directors*

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

<b>Name</b>	<b>Age</b>	<b>Position Held</b>
Mr. Yin Shenping	47	Chief Executive Officer and Director
Ms. Liu Jia	33	Chief Financial Officer
Mr. Chen Guangqiang	53	Chief Technology Officer and Director
Mr. Zhao Shudong	70	Independent Director
Mr. Nelson N.S. Wong	54	Independent Director (Audit Committee Chair)
Mr. Hu Jijun	51	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. In 2008 Ms. Liu assisted Heilongjiang Province Jintian Group with financial due diligence, field surveys and data analysis. While in college Ms. Liu interned at Xinghua Certified Public Accountants, Ltd., Beijing Zhongweiuhahao Accountants Affairs Office, Tiantong Securities Co., Ltd. and Industrial and Commercial Bank of China, focused on the areas of auditing, accounting and data analysis. 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.

*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 Oil Field 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.

*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.

### ***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 having obtained 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, currently expiring on March 12, 2017. Such employment agreement may be terminated if the employee 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 the Company, where the employee has committed a crime or the employee's actions or inactions have resulted in a material adverse effect to us.

### ***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, 2016, 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, 2016, we have 400,000 options outstanding under this 2015 Incentive Plan. As of June 30, 2016, 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. As of June 30, 2016, we have 1,076,788 non-vested restricted stocks outstanding.

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.

### ***Board of Directors and Board Committees***

Our board of directors currently consists of five 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 face re-election at our annual general meeting of shareholders in 2015 and every three years thereafter. Class III directors face 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, and Mr. Hu are our independent directors.

Mr. Yin Shenping currently holds both the positions of Chief Executive Officer and Chairman of the Board. These two positions have not been consolidated into one position; Mr. Yin simply holds both positions at this time. We do not have a lead independent director because of the foregoing reason and also because we believe our independent directors are encouraged to freely voice their opinions on a relatively small company board. We believe this leadership structure is appropriate because we are a smaller reporting company that recently became listed on a public exchange; as such we deem it appropriate to be able to benefit from the guidance of Mr. Yin as both our principal executive officer and Chairman of the 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.

#### **Regulation S-K Item 406:**

The Company has adopted a Code of Ethics and has filed a copy of the Code of Ethics with the Commission.

#### **Regulation S-K Item 407(c)(3):**

None.

#### **Regulation S-K Item 407(d)(4) and (5):**

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). The Company has an audit committee, consisting solely of independent directors of the Company, Mr. Zhao Shudong, Mr. Nelson N.S. Wong, and Mr. Hu Jijun. Mr. Wong qualifies as the audit committee financial expert. The Company’s audit committee charter has been filed as Exhibit 99.1 to the Company’s annual report on Form 10-K for the year ended June 30, 2009 and is available on the Company’s website ([www.recon.cn](http://www.recon.cn)).

**Item 11. Executive 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, 2016 and 2015. No other employee or officer received more than \$100,000 in total compensation in 2016 or 2015.

**Summary Executive Compensation Table**

Name and principal position	Year	Salary	Bonus	Option Awards	Restricted Stock Awards	Total
Yin Shenping, Principal Executive Officer	2015	\$ 126,347	\$ 10,000	\$ —	\$ 129,239(1)(2)	\$ 265,586
	2016	\$ 125,975	\$ 10,000	\$ —	\$ 271,231(1)(2)(4)	\$ 407,206
Liu Jia Chief Financial Officer	2015	\$ 80,000	\$ 7,390-	\$ —	\$ 7,332(3)	\$ 94,722
	2016	\$ 80,000	\$ 7,525	\$ —	\$ 28,160(3)(4)	\$ 115,685
Chen Guangqiang, Chief Technology Officer	2015	\$ 117,343	\$ 10,000	\$ —	\$ 169,105(1)(2)	\$ 296,448
	2016	\$ 115,893	\$ 10,000	\$ —	\$ 311,732(1)(2)(4)	\$ 437,571

- (1) On December 13, 2013, the Company granted 95,181 restricted shares to Mr. Yin and 135,181 restricted shares to Mr. Chen 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 vest over three years with one third of the shares vesting every year from the grant date.
- (2) 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.
- (3) On January 31, 2015, the Company granted 32,000 options to Ms. Liu Jia, which 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.
- (4) On October 18, 2015, the Company granted 320,000 restricted shares to Mr. Yin, 320,000 restricted shares to Mr. Chen and 36,000 restricted shares to Ms. Liu at an aggregate value of ¥3,952,579 (\$594,880), 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.

**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. Non-employee directors are entitled to receive \$2,000 per Board of Directors meeting attended. 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 <sup>(1)</sup>	Fees earned or paid in cash	Option Awards	Total <sup>(2)</sup>
Nelson N.S. Wong	\$ 8,000	\$ 19,907	\$ 27,907
Hu Jijun	\$ 8,000	\$ 19,907	\$ 27,907
Zhao Shudong	\$ 8,000	\$ 16,058	\$ 24,058

- (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 2015.
- (3) On January 31, 2015, the Company granted 25,000 options to Mr. Nelson N.S. Wong, which 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.  
On October 18, 2015, the Company granted 30,000 restricted shares to Mr. Nelson N.S. Wong, which vests over a period of three years, one third of which vest on October 17 of each year beginning in 2016. The grant date fair value of such options was \$0.88.
- (4) On January 31, 2015, the Company granted 25,000 options to Mr. Hu Jijun, which 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.  
On October 18, 2015, the Company granted 30,000 restricted shares to Mr. Nelson N.S. Wong, which vests over a period of three years, one third of which vest on October 17 of each year beginning in 2016. The grant date fair value of such options was \$0.88.
- (5) On January 31, 2015, the Company granted 18,000 options to Mr. Hu Jijun, which 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.  
On October 18, 2015, the Company granted 30,000 restricted shares to Mr. Nelson N.S. Wong, which vests over a period of three years, one third of which vest on October 17 of each year beginning in 2016. The grant date fair value of such options was \$0.88.

### Outstanding Equity Awards At Fiscal Year-End

Name (a)	Option Awards				Shares Awards			Equity incentive plan awards: Market or payout of value of unearned shares, units or other rights that have not vested (j)
	Number of securities underlying unexercised options (#) exercisable (b)	Number of securities underlying unexercised options (#) unexercisable (c)	Weighted Option exercise price (\$) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (g)	Market value of shares of units of stock that have not vested (\$) (h)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) (i)	
Yin Shenping Principal Executive Officer	60,000	-	6.00	July 29, 2019 <sup>(2)</sup>	31,727	94,864	31,727	94,864 <sup>(4)</sup>
	32,000	16,000	2.96	March 25, 2022 <sup>(3)</sup>	50,000	82,500	100,000	165,000 <sup>(5)</sup>
<b>Total</b>	<b>92,000</b>	<b>88,000</b>	<b>4.65</b>		<b>81,727</b>	<b>177,364</b>	<b>451,727</b>	<b>541,464</b>
Chen Guangqiang Chief Technology Officer	50,000	-	6.00	July 29, 2019 <sup>(2)</sup>	45,060	134,729	45,061	134,732 <sup>(4)</sup>
	20,000	10,000	2.96	March 25, 2022 <sup>(3)</sup>	50,000	82,500	100,000	165,000 <sup>(5)</sup>
<b>Total</b>	<b>40,000</b>	<b>10,000</b>	<b>4.86</b>		<b>95,060</b>	<b>217,229</b>	<b>465,061</b>	<b>581,332</b>

- (2) Options granted on July 30, 2009, which vest at a rate of 20% per year on the anniversary of the grant date and which are exercisable for \$6.00 per share.
- (3) Options granted on March 26, 2012, which vest at a rate of 20% per year on the anniversary of the grant date and which are exercisable for \$2.96 per share.
- (4) Based on the share price of Oct. 13, 2013.
- (5) Based on the share price of Jan 31, 2015.
- (6) Based on the share price of Oct. 16, 2015.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	815,600 <sup>(1)</sup>	\$ 3.04	153,193 <sup>(2)</sup>
Equity compensation plans not approved by security holders <sup>(3)</sup>	4,000 <sup>(4)</sup>	\$ N/A	--

- (1) Options to purchase ordinary shares. We have granted in aggregate options to acquire 1,108,000 shares, of which 292,400 have been exercised, forfeited or expired.

- (2) We have requested shareholder approval to issue options, shares or other securities as compensation for, in aggregate 3,175,155 ordinary shares. We have, to date, issued 2,206,362 ordinary shares, of which 253,574 are outstanding and the remaining 1,952,788 have not yet vested. We have also granted options to acquire 1,108,000 ordinary shares, of which 815,600 remain issued and outstanding. The 153,193 shares listed here reflect 3,175,155 plan shares, minus 2,206,362 granted shares and minus 815,600 option shares.
- (3) NASDAQ Listing Rule 5615(a)(3)(A) permits the Company, like other foreign private issuers, to follow its home country practice rather than NASDAQ shareholder approval requirements; thus, the Company, in accordance with Cayman Islands law, is not required to seek shareholder approval prior to making such issuances.
- (4) Restricted shares.

#### **PRINCIPAL 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 6,532,429 Shares, which consists of 5,980,792 Shares outstanding as of September 16, 2016 and 551,667 shares subject to options that are exercisable within 60 days after September 16, 2016. Such 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.

	<b>Amount of Beneficial Ownership</b>	<b>Percentage Ownership</b>
Yin Shenping <sup>(1)</sup>	963,427	14.75%
Chen Guangqiang <sup>(2)</sup>	972,548	14.89%
Hu Jijun <sup>(3)</sup>	33,333	1.11%
Nelson Wong <sup>(4)</sup>	36,333	*0%
Zhao Shudong <sup>(5)</sup>	34,000	*0%
Liu Jia <sup>(6)</sup>	72,667	*
Liu Hui <sup>(7)</sup>	833,681	12.76%
Chen Yiquan <sup>(7)</sup>	833,681	12.76%
<b>Total</b>	<b>2,945,989</b>	<b>45.10%</b>
Directors and Executive Officers as a Group (seven members)	2,112,308	32.34%

- (1) Includes 92,000 options to purchase ordinary shares that were exercisable and 106,667 restricted shares vested within 60 days after September 16, 2016.
- (2) Includes 70,000 options to purchase ordinary shares that were exercisable and 106,667 restricted shares vested within 60 days after September 16, 2016.
- (3) Includes 23,333 options to purchase ordinary shares and 10,000 restricted shares vested that were exercisable within 60 days after September 16, 2016.
- (4) Includes 26,333 options to purchase ordinary shares and 10,000 restricted shares vested that were exercisable within 60 days after September 16, 2016.
- (5) Includes 24,000 options that were exercisable and 10,000 restricted shares vested within 60 days after September 28, 2015 September 16, 2016.
- (6) Includes 60,667 options to purchase ordinary shares and 12,000 restricted shares vested that were exercisable within 60 days after September 16, 2016.
- (7) Includes 458,525 Shares held by Chen Yiquan and 375,156 Shares held by Liu Hui. According to a jointly filed Schedule 13D dated December 27, 2010 (Accession No. 0001144204-10-068264), Chen Yiquan and Liu Hui share beneficial ownership of and have joint voting and dispositive power over the aggregate 833,681 Shares.
- \* Less than 1%.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

***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 at 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. Below is a summary of trade accounts receivable with related parties as of June 30, 2015 and 2016, respectively.

<b>Related Party</b>	<b>June 30, 2015</b>	<b>June 30, 2016</b>	<b>June 30, 2016</b>
	<b>RMB</b>	<b>RMB</b>	<b>U.S. Dollars</b>
Beijing Langchen Construction Company	726,800	-	-
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	980,000	-	-
Xiamen Henda Hitek Computer Network Co. Ltd.	3,063,000	-	-
Total - related-parties, net	<u>¥ 4,769,800</u>	<u>¥ -</u>	<u>\$ -</u>

Sales to related parties consisted of the following as of June 30, 2015 and 2016:

	<b>For the years ended June 30,</b>		
	<b>2015</b>	<b>2016</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>	<b>U.S. Dollars</b>
Xiamen Henda Hitek Computer Network Co. Ltd	¥ 1,676,036	¥ -	\$ -
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	752,137	-	-
Revenues from related parties	<u>¥ 2,428,173</u>	<u>¥ -</u>	<u>\$ -</u>

Purchase from related parties consisted of the following as of June 30, 2015 and 2016, respectively.

	<b>For the years ended June 30,</b>		
	<b>2015</b>	<b>2016</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>	<b>U.S. Dollars</b>
Huanghua Heng Da Xiang Tong Manufacture Ltd	¥ 862,782	¥ 338,862	\$ 51,000
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	797,587	588,894	88,631
Purchase from related parties	<u>¥ 1,660,369</u>	<u>¥ 927,756</u>	<u>\$ 139,631</u>

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, 2015 and 2016, respectively.

<b>Short-term borrowings due to related parties:</b>	<b>June 30, 2015</b>	<b>June 30, 2016</b>	<b>June 30, 2016</b>
	<b>RMB</b>	<b>RMB</b>	<b>U.S. Dollars</b>
Short-term borrowing from a Founder, 7.2% annual interest, due on October 20, 2015	¥ 6,013,200	¥ -	\$ -
Short-term borrowing from a Founder, 6.06% annual interest, due on October 2, 2015	3,403,431	-	-
Short-term borrowing from a Founder, 5.13% annual interest, due on October 12, 2015	1,600,274	-	-
Short-term borrowing from a Founder's family member, no interest, due on various dates	5,700,000	-	-
Short-term borrowings from Xiamen Huasheng Haitian Computer Network Co. Ltd., no interest, due on November 14, 2015	200,000	-	-
Short-term borrowing from a Founder, 5.75% annual interest, due on September 25, 2016	-	1,807,207	271,992
Short-term borrowing from a Founder, 5.75% annual interest, due on October 10, 2016	-	2,409,610	362,657
Short-term borrowing from a Founder, 5.43% annual interest, due on November 4, 2016	-	1,805,180	271,687
Short-term borrowing from a Founder's family member, no interest, due on December 16, 2016	-	1,500,000	225,756
Short-term borrowing from a Founder's family member, no interest, due on December 28, 2016	-	400,000	60,202
Short-term borrowing from a Founder, 5.22% annual interest, due on March 10, 2017	-	2,529,795	380,745
Short-term borrowing from a Founder, 5.22% annual interest, due on May 6, 2017	-	2,490,056	374,764
<b>Total short-term borrowings due to related parties</b>	<b>¥ 16,916,905</b>	<b>¥ 12,941,848</b>	<b>\$ 1,947,803</b>

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 and Mr. Zhao are our independent directors.

#### **Item 14. Principal Accountant Fees and Services.**

Friedman LLP was appointed by the Company to serve as its independent registered public accounting firm for fiscal 2015 and 2016.

#### **Fees Paid To Independent Registered Public Accounting Firm**

##### **Audit Fees**

During fiscal years 2015 and 2016, Friedman LLP's audit fees were \$185,000 and \$190,000, respectively.

##### **Audit-Related Fees**

The Company has not paid Friedman LLP for audit-related services in fiscal years 2015 and 2016.



## **Tax Fees**

The Company has not paid Friedman LLP for tax services in fiscal years 2015 and 2016.

## **All Other Fees**

The Company has not paid Friedman LLP for any other services in fiscal years 2015 and 2016.

## **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.

## **Item 15. Exhibits, Financial Statement Schedules.**

The following documents are filed herewith:

<b>Number</b>	<b>Exhibit</b>
3.1	Second Amended and Restated Articles of Association of the Registrant <sup>(1)</sup>
3.2	Second Amended and Restated Memorandum of Association of the Registrant <sup>(1)</sup>
4.1	Specimen Share Certificate <sup>(2)</sup>
10.1	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.2	Translation of Power of Attorney for rights of Chen Guangqiang in Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.3	Translation of Power of Attorney for rights of Yin Shenping in Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.4	Translation of Power of Attorney for rights of Li Hongqi in Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.5	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.6	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.7	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.8	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.9	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>
10.10	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. <sup>(2)</sup>

- 10.11 Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.12 Translation of Power of Attorney for rights of Chen Guangqiang in Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.13 Translation of Power of Attorney for rights of Yin Shenping in Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.14 Translation of Power of Attorney for rights of Li Hongqi in Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.15 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.16 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.17 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.18 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.19 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.20 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. <sup>(2)</sup>
- 10.21 Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.22 Translation of Power of Attorney for rights of Chen Guangqiang in Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.23 Translation of Power of Attorney for rights of Yin Shenping in Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.24 Translation of Power of Attorney for rights of Li Hongqi in Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.25 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.26 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.27 Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.28 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.29 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>
- 10.30 Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. <sup>(2)</sup>

14.1	Code of Ethics of the Company. <sup>(3)</sup>
21.1	List of subsidiaries of the Company. <sup>(4)</sup>
31.1	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <sup>(4)</sup>
31.2	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. <sup>(4)</sup>
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. <sup>(4)</sup>
32.2	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. <sup>(4)</sup>
99.1	2009 Stock Incentive Plan <sup>(1)</sup>
99.2	2015 Stock Incentive Plan <sup>(4)</sup>
99.3	Press release dated September 28, 2016 regarding earnings for year ended June 30, 2016 <sup>(4)</sup>
101. INS	XBRL Instance Document <sup>(4)</sup>
101. SCH	XBRL Taxonomy Extension Schema Document <sup>(4)</sup>
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document <sup>(4)</sup>
101. DEF	XBRL Taxonomy Extension Definition Linkbase Document <sup>(4)</sup>
101. LAB	XBRL Taxonomy Extension Label Linkbase Document <sup>(4)</sup>
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document <sup>(4)</sup>

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(1) Incorporated by reference to the Company's Registration Statement on Form S-3, Registration No. 333-213702.

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

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, filed with the SEC on September 28, 2009.

(4) Filed herewith.

**SIGNATURES**

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

**RECON TECHNOLOGY, LTD**

September 28, 2016

By: /s/ Liu Jia  
Liu Jia  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Exchange Act, this report has been signed by the following persons in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Yin Shenping</u> Yin Shenping	Chief Executive Officer and Director (Principal Executive Officer)	September 28, 2016
<u>/s/ Chen Guangqiang</u> Chen Guangqiang	Chief Technology Officer and Director	September 28, 2016
<u>/s/ Zhao Shudong</u> Zhao Shudong	Director	September 28, 2016
<u>/s/ Nelson N.S. Wong</u> Nelson N.S. Wong	Director	September 28, 2016
<u>/s/ Hu Jijun</u> Hu Jijun	Director	September 28, 2016

**RECON TECHNOLOGY, LTD**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Recon Technology, Ltd.

We have audited the accompanying consolidated balance sheets of Recon Technology, Ltd. (the "Company") as of June 30, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, equity, and cash flows for each of the two years in the period ended June 30, 2016. Recon Technology, Ltd.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Recon Technology, Ltd. as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2016 in conformity with accounting principles generally accepted in the United States of America.


/s/ Friedman LLP

New York, New York  
September 28, 2016

1700 Broadway, New York, NY 10019 p 212.842.7000 f 212.842.7001

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**RECON TECHNOLOGY, LTD**  
**CONSOLIDATED BALANCE SHEETS**

	As of June 30, 2015	As of June 30, 2016	As of June 30, 2016
	RMB	RMB	U.S. Dollars
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	¥ 12,344,929	¥ 1,817,620	\$ 273,560
Notes receivable	4,205,530	4,660,177	701,377
Trade accounts receivable, net	52,186,397	38,097,626	5,733,855
Trade accounts receivable- related parties, net	4,769,800	-	-
Inventories, net	10,845,007	6,313,070	950,144
Other receivables, net	18,064,568	22,000,112	3,311,111
Other receivables- related parties	91,021	-	-
Purchase advances, net	18,622,538	1,323,305	199,163
Purchase advances- related parties	394,034	-	-
Prepaid expenses	826,314	110,310	16,602
Prepaid expenses - related parties	420,000	-	-
Deferred tax assets	1,742,098	-	-
<b>Total current assets</b>	<b>124,512,236</b>	<b>74,322,220</b>	<b>11,185,812</b>
Property and equipment, net	2,666,953	2,907,762	437,631
Long-term trade accounts receivable, net	4,440,665	2,220,332	334,169
Long-term other receivable	2,729,033	-	-
<b>Total Assets</b>	<b>¥ 134,348,887</b>	<b>¥ 79,450,314</b>	<b>\$ 11,957,612</b>
<b>Current liabilities</b>			
Short-term bank loans	¥ 7,000,000	¥ -	\$ -
Trade accounts payable	13,627,088	7,540,430	1,134,867
Trade accounts payable- related parties	3,528,705	-	-
Other payables	2,103,057	2,972,192	447,328
Other payable- related parties	4,309,702	3,680,244	553,892
Deferred revenue	2,285,529	406,681	61,207
Advances from customers	529,700	200,600	30,191
Accrued payroll and employees' welfare	246,789	381,109	57,359
Accrued expenses	199,166	261,348	39,334
Taxes payable	1,153,216	755,880	113,763
Short-term borrowings	-	530,000	79,767
Short-term borrowings - related parties	16,916,905	12,941,848	1,947,803
Deferred tax liability	180,186	180,186	27,119
<b>Total current liabilities</b>	<b>52,080,043</b>	<b>29,850,518</b>	<b>4,492,630</b>
<b>Equity</b>			
Common stock, (\$ 0.0185 U.S. dollar par value, 100,000,000 shares authorized; 5,427,946 and 5,804,005 shares issued and outstanding as of June 30, 2015 and 2016, respectively)	697,217	741,467	111,594
Additional paid-in capital	92,541,687	100,612,455	15,142,604
Statutory reserve	4,148,929	4,148,929	624,432
Accumulated deficits	(23,024,935)	(63,907,512)	(9,618,353)
Accumulated other comprehensive loss	(317,551)	(219,040)	(32,966)
<b>Total shareholders' equity</b>	<b>74,045,347</b>	<b>41,376,299</b>	<b>6,227,311</b>
<b>Non-controlling interest</b>	<b>8,223,497</b>	<b>8,223,497</b>	<b>1,237,671</b>
<b>Total equity</b>	<b>82,268,844</b>	<b>49,599,796</b>	<b>7,464,982</b>
<b>Total Liabilities and Equity</b>	<b>¥ 134,348,887</b>	<b>¥ 79,450,314</b>	<b>\$ 11,957,612</b>

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,		
	2015	2016	2016
	RMB	RMB	USD
<b>Revenues</b>			
Hardware and software	¥ 48,980,953	¥ 41,544,925	\$ 6,252,688
Service	103,774	1,183,352	178,100
Hardware and software - related parties	2,428,173	-	-
<b>Total revenues</b>	<b>51,512,900</b>	<b>42,728,277</b>	<b>6,430,788</b>
<b>Cost of revenues</b>			
Hardware and software	¥ 41,373,566	¥ 34,732,965	\$ 5,227,459
Service	-	748,429	112,642
Hardware and software - related parties	27,161	-	-
<b>Total cost of revenues</b>	<b>41,400,727</b>	<b>35,481,394</b>	<b>5,340,101</b>
<b>Gross profit</b>	<b>10,112,173</b>	<b>7,246,883</b>	<b>1,090,687</b>
Selling and distribution expenses	11,312,452	5,630,715	847,447
General and administrative expenses	26,894,273	20,195,701	3,039,539
Provision for doubtful accounts	3,252,868	14,475,074	2,178,560
Research and development expenses	4,168,813	6,856,522	1,031,936
<b>Operating expenses</b>	<b>45,628,406</b>	<b>47,158,012</b>	<b>7,097,482</b>
<b>Loss from operations</b>	<b>(35,516,233)</b>	<b>(39,911,129)</b>	<b>(6,006,795)</b>
<b>Other income (expenses)</b>			
Subsidy income	781,457	289,087	43,509
Interest income	293,499	183,553	27,626
Interest expense	(1,110,451)	(903,368)	(135,961)
Change in fair value of warrants liability	4,034,272	-	-
Income (loss) from foreign currency exchange	(19,190)	7,570	1,139
Loss from warrants redemption	(2,496,375)	-	-
Other income (expense)	24,558	(2,445)	(368)
<b>Other income (expense)</b>	<b>1,507,770</b>	<b>(425,603)</b>	<b>(64,055)</b>
<b>Loss before income tax</b>	<b>(34,008,463)</b>	<b>(40,336,732)</b>	<b>(6,070,850)</b>
Provision (benefit) for income tax	(2,552,075)	545,845	82,152
<b>Net loss</b>	<b>(31,456,388)</b>	<b>(40,882,577)</b>	<b>(6,153,002)</b>
<b>Comprehensive loss</b>			
Net loss	(31,456,388)	(40,882,577)	(6,153,002)
Foreign currency translation adjustment	(38,276)	98,511	14,826
<b>Comprehensive loss</b>	<b>(31,494,664)</b>	<b>(40,784,066)</b>	<b>(6,138,176)</b>
Less: Comprehensive loss attributable to non-controlling interest	(1,982)	-	-
<b>Comprehensive loss attributable to Recon Technology, Ltd</b>	<b>¥ (31,492,682)</b>	<b>¥ (40,784,066)</b>	<b>\$ (6,138,176)</b>
<b>Loss per common share - basic</b>	<b>¥ (6.45)</b>	<b>¥ (7.23)</b>	<b>\$ (1.09)</b>
<b>Loss per common share - diluted</b>	<b>¥ (6.45)</b>	<b>¥ (7.23)</b>	<b>\$ (1.09)</b>
<b>Weighted - average shares -basic</b>	<b>4,876,504</b>	<b>5,653,149</b>	<b>5,653,149</b>
<b>Weighted - average shares -diluted</b>	<b>4,876,504</b>	<b>5,653,149</b>	<b>5,653,149</b>

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



**RECON TECHNOLOGY, LTD**  
**CONSOLIDATED STATEMENTS OF EQUITY**

	Ordinary Shares		Additional Paid-in Capital (RMB)	Statutory Reserves (RMB)	Retained Earnings (deficits) (RMB)	Accumulated Other Comprehensive loss (RMB)	Shareholders' Equity (RMB)	Non- controlling Interest (RMB)	Total Equity (RMB)	Total Equity (USD)
	Number of Shares	Amount (RMB)								
<b>Balance, July 1, 2014</b>	<b>4,717,336</b>	<b>¥ 616,865</b>	<b>¥ 83,061,058</b>	<b>¥ 4,148,929</b>	<b>¥ 8,431,453</b>	<b>¥ (279,275)</b>	<b>¥ 95,979,030</b>	<b>¥ 8,225,479</b>	<b>¥ 104,204,509</b>	<b>\$ 15,683,225</b>
Stock issuance	297,197	33,497	2,358,530				2,392,027		2,392,027	360,010
Restricted shares issued for services	140,162	15,876	567,223				583,099		583,099	87,759
Restricted shares issued to redeem warrants	273,251	30,979	3,431,459				3,462,438		3,462,438	521,112
Stock based payment			3,123,417				3,123,417		3,123,417	470,088
Net loss for the year					(31,456,388)		(31,456,388)	-	(31,456,388)	(4,734,321)
Foreign currency translation adjustment						(38,276)	(38,276)	(1,982)	(40,258)	(6,065)
<b>Balance, June 30, 2015</b>	<b>5,427,946</b>	<b>¥ 697,217</b>	<b>¥ 92,541,687</b>	<b>¥ 4,148,929</b>	<b>¥ (23,024,935)</b>	<b>¥ (317,551)</b>	<b>¥ 74,045,347</b>	<b>¥ 8,223,497</b>	<b>¥ 82,268,844</b>	<b>\$ 12,381,808</b>
Stock issuance	15,874	1,796	156,472	-			158,268		158,268	23,820
Restricted shares issued for services	360,185	42,454	2,222,988				2,265,442		2,265,442	340,959
Stock based payment			5,691,308				5,691,308		5,691,308	856,566
Net loss for the year					(40,882,577)		(40,882,577)		(40,882,577)	(6,153,002)
Foreign currency translation adjustment						98,511	98,511	-	98,511	14,831
<b>Balance, June 30, 2016</b>	<b>5,804,005</b>	<b>¥ 741,467</b>	<b>¥ 100,612,455</b>	<b>¥ 4,148,929</b>	<b>¥ (63,907,512)</b>	<b>¥ (219,040)</b>	<b>¥ 41,376,299</b>	<b>¥ 8,223,497</b>	<b>¥ 49,599,796</b>	<b>\$ 7,464,982</b>

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,

	2015	2016	2016
	RMB	RMB	U.S. Dollars
<b>Cash flows from operating activities:</b>			
<b>Net loss</b>	¥ (31,456,388)	¥ (40,882,577)	\$ (6,153,002)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation	526,046	955,083	143,744
Gain from disposal of equipment	(193,657)	(40,688)	(6,124)
Provision for doubtful accounts	3,252,868	14,475,074	2,178,560
Provision for slow moving inventories	7,700,836	2,428,288	365,468
Share based compensation	3,123,417	5,691,308	856,566
Deferred tax (benefit) provision	(532,136)	1,742,098	262,193
Change in fair value of warrants liability	(4,034,272)	-	-
Restricted shares issued for services	1,585,462	2,287,415	344,266
Loss from warrants redemption	2,496,375	-	-
Income tax benefit	(2,111,281)	(1,196,253)	(180,041)
<b>Changes in operating assets and liabilities:</b>			
Notes receivable	(4,205,530)	(454,647)	(68,426)
Trade accounts receivable	(3,245,218)	14,658,360	2,206,146
Trade accounts receivable-related parties	4,315,755	1,090,453	164,118
Inventories	(4,209,241)	1,191,811	179,373
Other receivable, net	2,481,328	(1,775,659)	(267,244)
Other receivables-related parties, net	1,323,412	91,021	13,699
Purchase advance, net	3,271,935	4,930,479	742,058
Purchase advance-related parties, net	-	1,374,034	206,798
Prepaid expense	1,808,350	716,004	107,762
Prepaid expense - related parties, net	(190,000)	420,000	63,212
Trade accounts payable	2,213,583	(9,615,363)	(1,447,153)
Trade accounts payable-related parties	3,528,705	-	-
Other payables	337,978	869,135	130,809
Other payables-related parties	1,003,678	1,869,889	281,426
Deferred revenue	(2,134,295)	(1,878,848)	(282,775)
Advances from customers	(271,685)	(329,100)	(49,531)
Accrued payroll and employees' welfare	(170,835)	134,320	20,216
Accrued expenses	5,291	172,490	25,960
Taxes payable	(1,322,818)	790,199	118,928
<b>Net cash used in operating activities</b>	<b>(15,102,337)</b>	<b>(285,674)</b>	<b>(42,994)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(2,078,204)	(181,075)	(27,253)
Proceeds from disposal of equipment	400,400	60,000	9,030
<b>Net cash used in investing activities</b>	<b>(1,677,804)</b>	<b>(121,075)</b>	<b>(18,223)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from short-term bank loans	7,000,000	500,000	75,252
Repayments of short-term bank loans	(10,000,000)	(7,500,000)	(1,128,782)
Proceeds from short-term borrowings	-	530,000	79,767
Proceeds from short-term borrowings-related parties	18,250,000	12,895,400	1,940,813
Repayment of short-term borrowings-related parties	(6,550,000)	(16,780,765)	(2,525,577)
Proceeds from sale of common stock, net of issuance costs	2,392,027	171,919	25,874
<b>Net cash provided by (used in) financing activities</b>	<b>11,092,027</b>	<b>(10,183,446)</b>	<b>(1,532,653)</b>
<b>Effect of exchange rate fluctuation on cash and cash equivalents</b>	<b>(61,543)</b>	<b>62,886</b>	<b>9,466</b>
<b>Net decrease in cash</b>	<b>(5,749,657)</b>	<b>(10,527,309)</b>	<b>(1,584,404)</b>
<b>Cash at beginning of the year</b>	<b>18,094,586</b>	<b>12,344,929</b>	<b>1,857,964</b>
<b>Cash at end of the year</b>	<b>¥ 12,344,929</b>	<b>¥ 1,817,620</b>	<b>\$ 273,560</b>
<b>Supplemental cash flow information</b>			
<b>Cash paid during the period for interest</b>	<b>¥ 1,060,529</b>	<b>¥ 903,368</b>	<b>\$ 135,961</b>
<b>Cash paid during the period for taxes</b>	<b>¥ 881,794</b>	<b>¥ 142,477</b>	<b>\$ 21,443</b>
<b>Non-cash investing and financing activities</b>			
Issuance of common stock to redeem warrants	3,462,438	-	-
AR and short-term borrowings-related parties offset	-	200,000	30,101
Inventories used for fixed assets	-	1,025,410	154,329

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 by Messrs. Yin Shenping, Chen Guangqiang and Li Hongqi (the “Founders”) 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 our 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.

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

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

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

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

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

**Note 2. LIQUIDITY**

As reflected in the Company’s consolidated financial statements, the Company had recurring net losses for the years ended June 30, 2016 and 2015. In assessing its liquidity, management monitors and analyzes the Company’s cash on-hand, its ability to generate sufficient revenue sources in the future and its operating and capital expenditure commitments. The Company plans to fund 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 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, 2016 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 ¥6.6443 = US\$1.00, the approximate exchange rate prevailing on June 30, 2016. 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 U.S. GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant accounting estimates reflected in the Company’s consolidated financial statements include revenue recognition, allowance for doubtful accounts, allowance for inventory, deferred taxes, warrants liabilities, the useful lives of property and equipment 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.

**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.

**RECON TECHNOLOGY, LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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. It was impracticable to estimate the fair value of long-term other receivables, because this is due from the Company's former VIE and there are no comparable markets for receivables with similar terms.

The fair value of the warrants liability was determined using the Black-Scholes Model, as Level 2 inputs.

**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.

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

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

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

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

**Long-term investment** – Long-term investment in equity over which the Company has the ability to exercise significant influence but not control, and that, in general, are 20-50 percent owned, are stated at cost plus equity in undistributed net income (loss) of the investee. These investments are evaluated for impairment, in which an impairment loss would be recorded whenever a decline in the value of an equity investment below its carrying amount is determined to be “other than temporary.” In judging “other than temporary,” the Company would consider the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investment, the near-term and longer-term operating and financial prospects of the investee, and the Company's longer-term intent of retaining the investment in the investee.

**Long-Lived Assets** - The Company applies the ASC Topic 360 “Property, plant and equipment.” ASC Topic 360 requires that long-lived assets, such as property and equipment be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset. There were no impairments at June 30, 2015 and 2016.

**RECON TECHNOLOGY, LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

Hardware 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. Revenue from software is recognized according to project contracts. Usually this is short term. Revenue is not recognized until completion of the contracts and receipt of acceptance.

Service:

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

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

**Subsidy Income** - Grants are given by the government to support local software companies' operation and research and development. Grants related to research and development projects are recognized as subsidy income in the consolidated statements of operations when received. Grants in the form of value-added-tax refund for software products are recognized when received.

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

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

Under ASC Topic 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

**Loss per Share** - Basic Earnings/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 we incurred a net loss during the year ended June 30, 2015 and 2016.

**RECON TECHNOLOGY, LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

***Recently Issued Accounting Pronouncements***

In April 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In April 2016, FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting", The amendments rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force (EITF) meeting. Specifically, registrants should not rely on the following SEC Staff Observer comments upon adoption of Topic 606: 1) Revenue and Expense Recognition for Freight Services in Process, which is codified in paragraph 605-20-S99-2; 2) Accounting for Shipping and Handling Fees and Costs, which is codified in paragraph 605-45-S99-1; 3) Accounting for Consideration Given by a Vendor to a Customer (including Reseller of the Vendor's Products), which is codified in paragraph 605-50-S99-1; 4) Accounting for Gas-Balancing Arrangements (i.e., use of the "entitlements method"), which is codified in paragraph 932-10-S99-5, which is effective upon adoption of ASU 2014-09. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients". The amendments, among other things: (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The effective date of these amendments is at the same date that Topic 606 is effective. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.



**RECON TECHNOLOGY, LTD**  
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In August 2016, the FASB has issued Accounting Standards Update (ASU) No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following eight specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned; (6) Life Insurance Policies; (7) Distributions Received from Equity Method Investees; (8) Beneficial Interests in Securitization Transactions; and Separately Identifiable Cash Flows and Application of the Predominance Principle. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures

**NOTE 4. TRADE ACCOUNTS RECEIVABLE, NET**

Accounts receivable consisted of the following:

	June 30, 2015	June 30, 2016	June 30, 2016
	RMB	RMB	U.S. Dollars
<b>Third Party</b>			
Trade accounts receivable	¥ 58,049,462	¥ 42,665,499	\$ 6,421,340
Allowance for doubtful accounts	(5,863,065)	(4,567,873)	(687,485)
Total - third- party, net	¥ 52,186,397	¥ 38,097,626	\$ 5,733,855
<b>Related Party</b>			
	June 30, 2015	June 30, 2016	June 30, 2016
	RMB	RMB	U.S. Dollars
Beijing Langchen Construction Company	¥ 726,800	¥ -	\$ -
Xiamen Huangsheng Hitek Computer Network Co. Ltd.**	980,000	-	-
Xiamen Henda Hitek Computer Network Co. Ltd.***	3,063,000	-	-
Total - related-parties, net	¥ 4,769,800	¥ -	\$ -
<b>Third Party – long-term</b>			
	June 30, 2015	June 30, 2016	June 30, 2016
	RMB	RMB	U.S. Dollars
Beijing Yabei Nuoda Science and Technology Co. Ltd. *	¥ 4,934,072	¥ 2,467,036	\$ 371,299
Allowance for doubtful accounts	(493,407)	(246,704)	(37,130)
Total - long-term trade accounts receivable, net	¥ 4,440,665	¥ 2,220,332	\$ 334,169

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\*The receivable from Yabei Nuoda was recognized primarily from the sale of automation system and services based on written contracts. Based on the repayment agreement signed on September 2, 2015, the outstanding balance was to be collected in two years beginning in 2017, with each installment of ¥2,467,036 (\$371,299). During the year ended June 30, 2016, the Company received the payment on time as scheduled.

\*\* During the year ended June 30, 2016, the Company offset ¥980,000 (\$147,494) of accounts receivable and accounts payable pursuant to certain settlement agreements with Xiamen Huangsheng Hitek Computer Network Co. Ltd , a related party of the Company.

\*\*\* During the year ended June 30, 2016, the Company offset ¥2,699,347 (\$406,263) of accounts receivable with ¥2,499,347 (\$376,162) of accounts payable and ¥200,000 (\$30,101) pursuant to certain settlement agreements with Xiamen Henda Hitek Computer Network Co. Ltd., a related party of the Company.

Provision for accounts receivables due from third party was ¥19,421 and ¥1,650,745 (\$248,444) for the years ended June 30, 2015 and 2016, respectively.

Movement of allowance for doubtful accounts is as follows:

	June 30, 2015	June 30, 2016	June 30, 2016
	RMB	RMB	U.S. Dollars
Beginning balance	6,337,051	6,356,472	956,676
Charge to expense	19,421	1,650,745	248,444
Less: write-off	-	(3,192,640)	(480,505)
Ending balance	¥ 6,356,472	¥ 4,814,577	\$ 724,615

**NOTE 5. OTHER RECEIVABLES, NET**

Other receivables consisted of the following:

Third Party	June 30, 2015	June 30, 2016	June 30, 2016
Current Portion	RMB	RMB	U.S. Dollars
Due from ENI (A)	¥ 2,624,071	¥ 2,729,033	\$ 410,731
Loans to third parties (B)	11,154,344	14,168,344	2,132,396
Business advance to staff (C)	3,927,238	4,952,114	745,314
Deposits for projects	543,800	893,669	134,501
Others	637,348	534,759	80,484
Allowance for doubtful accounts	(822,233)	(1,277,807)	(192,315)
Total	¥ 18,064,568	¥ 22,000,112	\$ 3,311,111

Provision for other receivables was ¥371,217 and ¥455,574 (\$68,566) for the years ended June 30, 2015 and 2016, respectively.

Third Party	June 30, 2015	June 30, 2016	June 30, 2016
Non-Current Portion	RMB	RMB	U.S. Dollars
Due from ENI (A)	¥ 2,729,033	-	-
Total	¥ 2,729,033	-	-

(A) After ENI ceased to be a VIE of the Company, ENI in January 2012 agreed to repay the loan on a payment schedule, with interest accrued during the period at an annual rate of 4%. In accordance with the payment schedule, the principal plus accrued interest is required to be repaid over approximately three years on a quarterly basis beginning March 2012. The first four payments are RMB 1.2 million each. In March, June, September and December of 2012, the Company received RMB 4.8 million. Starting March 2013, installments for each quarter would be ¥1,777,653. The Company received the payments on time in March and June, 2013. On September 30, 2013, ENI proposed to extend the payment period and signed a new contract with the Company. According to the new arrangement, the remaining part of this loan will be repaid over four years with quarterly installments of ¥699,147, which is due by June 30, 2017. The Company has continued to receive the payments under the agreement.

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(B) 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.

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

Other receivables - related parties represent loans to related parties for working capital advances. Such advances are due-on-demand and non-interest bearing. Balances have been fully collected as of June 30, 2016.

Movement of allowance for doubtful accounts is as follows:

	June 30, 2015	June 30, 2016	June 30, 2016
	RMB	RMB	U.S. Dollars
Beginning balance	451,016	822,233	123,750
Charge to expense	371,217	455,574	68,565
Ending balance	¥ 822,233	¥ 1,277,807	\$ 192,315

**NOTE 6. PURCHASE ADVANCES**

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

	June 30, 2015	June 30, 2016	June 30, 2016
<b>Third Party</b>	RMB	RMB	U.S. Dollars
Prepayment for inventory purchase	¥ 22,845,030	¥ 17,914,552	\$ 2,696,216
Allowance for doubtful accounts	(4,222,492)	(16,591,247)	(2,497,053)
Total	¥ 18,622,538	¥ 1,323,305	\$ 199,163

Provision for purchase advances were ¥2,862,231 and ¥12,368,755 (\$1,861,550) for the years ended June 30, 2015 and 2016, respectively. The Company recorded allowance for these down payments 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.

Purchases from related parties consisted of the following:

	June 30, 2015	June 30, 2016	June 30, 2016
<b>Related Party</b>	RMB	RMB	U.S. Dollars
Xiamen Huangsheng Hitek Computer Network Co. Ltd. (A)	¥ 394,034	¥ -	\$ -
Total - related-parties, net	¥ 394,034	¥ -	\$ -

One of the Founders of the Company and his family member collectively own 57% of Xiamen Huasheng Haitian Computer Network Co. Ltd. Between August 10, 2015 and September 1, 2015, materials purchased have been delivered to the Company and this balance was settled in full.

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Movement of allowance for doubtful accounts is as follows:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Beginning balance	1,360,261	4,222,492	635,503
Charge to expense	2,862,231	12,368,755	1,861,550
Ending balance	<u>¥ 4,222,492</u>	<u>¥ 16,591,247</u>	<u>\$ 2,497,053</u>

**NOTE 7. INVENTORIES**

Inventories consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Small component parts	¥ 55,332	¥ 55,726	\$ 8,387
Purchased goods and raw materials	244,667	61,361	9,235
Work in process and goods on site	3,552,771	3,539,525	532,714
Finished goods	14,693,073	8,054,637	1,212,257
Allowance for slow moving inventory	(7,700,836)	(5,398,179)	(812,449)
Total inventories, net	<u>¥ 10,845,007</u>	<u>¥ 6,313,070</u>	<u>\$ 950,144</u>

Provisions for slow moving inventory were ¥7,700,836 and ¥2,428,290 (\$365,468) for the years ended June 30, 2015 and 2016, respectively.

Movement of provisions for slow moving inventory is as follows:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Beginning balance	-	7,700,836	1,159,009
Charge to cost of sales	7,700,836	2,428,290	365,468
Less: write-off	-	(4,730,947)	(712,028)
Ending balance	<u>¥ 7,700,836</u>	<u>¥ 5,398,179</u>	<u>\$ 812,449</u>

**NOTE 8. PROPERTY AND EQUIPMENT, NET**

Property and equipment consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Motor vehicles	¥ 3,790,474	¥ 3,871,567	\$ 582,687
Office equipment and fixtures	797,791	828,285	124,660
Production equipment	-	916,025	137,866
Total property and equipment	4,588,265	5,615,877	845,213
Less: Accumulated depreciation	(1,921,312)	(2,708,115)	(407,582)
Property and equipment, net	<u>¥ 2,666,953</u>	<u>¥ 2,907,762</u>	<u>\$ 437,631</u>

Depreciation expense was ¥526,046 and ¥955,083 (\$143,744) for the years ended June 30, 2015 and 2016, respectively.

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**NOTE 9. LONG-TERM INVESTMENT**

On April 13, 2015, BHD reached an agreement to invest RMB 80 million in Huanghua Bai Heng Da Xiang Tong Manufacture Ltd (“HHBHDXT”) for a 54.05% ownership interest. BHD’s board of Directors and shareholders approved the transaction to invest in HHBHDXT. The investment is to enhance cooperation with HHBHDXT and protect BHD’s design copyright. Based on mutual agreements, BHD shall not enjoy voting right until the payment of investment is on position. On March 18, 2016, BHD decided to terminate this investment transaction with HHBHDXT, and was no longer a shareholder of HHBHDXT. The Company didn’t make any payment as of the termination and termination of this transaction subjects to no payment or penalty.

**NOTE 10. OTHER PAYABLES**

Other payables consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
<b>Third Party</b>			
Consulting services	¥ 1,628,508	¥ 1,659,505	\$ 249,763
Distributors and employees	413,703	245,070	36,884
Funds collected on behalf of others	-	895,022	134,705
Others	60,846	172,595	25,976
<b>Total</b>	<u>¥ 2,103,057</u>	<u>¥ 2,972,192</u>	<u>\$ 447,328</u>
	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
<b>Related Party</b>			
Due to related parties (1)	¥ 2,499,347	¥ -	\$ -
Expenses paid by the major shareholders	1,558,738	3,144,263	473,225
Due to family member of one owner	-	285,000	42,894
Due to management staff for costs incurred on behalf of Recon	251,617	250,981	37,773
<b>Total</b>	<u>¥ 4,309,702</u>	<u>¥ 3,680,244</u>	<u>\$ 553,892</u>

(1) Includes an advance from Xiamen Henda Hitek Computer Network Co. Ltd. for RMB 2,499,347 to supplement the Company’s working capital. The advance is payable on demand and non-interest bearing. This debt was off set with accounts receivable on September 3, 2015 (See Note 3).

**NOTE 11. TAXES PAYABLE**

Taxes payable consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
VAT payable	¥ 23,885	¥ 739,260	\$ 111,262
Enterprise income tax payable	1,127,131	-	-
Other taxes payable	2,200	16,620	2,501
<b>Total taxes payable</b>	<u>¥ 1,153,216</u>	<u>¥ 755,880</u>	<u>\$ 113,763</u>

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**NOTE 12. SHORT-TERM BANK LOANS**

Short-term bank loans consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Industrial and Commercial Bank, floating interest rate at 6.12 %, due on June 19, 2016	¥ 7,000,000	¥ -	-
Total short-term bank loans	¥ 7,000,000	¥ -	\$ -

Interest expense for the short-term bank loan was ¥516,567 and ¥415,676 (\$62,561) for the years ended June 30, 2015 and 2016, respectively. The loan was repaid in full during the year ended June 30, 2016.

**NOTE 13. SHORT-TERM BORROWINGS**

Short-term borrowings consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
<b>Short-term borrowings due to third parties:</b>			
Short-term borrowing from a third party, without interest, due on August 15, 2016	¥ -	¥ 530,000	\$ 79,767
Total short-term borrowings due to third parties	¥ -	¥ 530,000	\$ 79,767

The Company repaid the short-term borrowing in full on August 8, 2016.

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
<b>Short-term borrowings due to related parties:</b>			
Short-term borrowing from a Founder, 7.2% annual interest, due on October 20, 2015	¥ 6,013,200	¥ -	\$ -
Short-term borrowing from a Founder, 6.06% annual interest, due on October 2, 2015	3,403,431	-	-
Short-term borrowing from a Founder, 5.13% annual interest, due on October 12, 2015	1,600,274	-	-
Short-term borrowing from a Founder's family member, no interest, due on various dates	5,700,000	-	-
Short-term borrowings from Xiamen Huasheng Haitian Computer Network Co. Ltd., no interest, due on November 14, 2015	200,000	-	-
Short-term borrowing from a Founder, 5.75% annual interest, due on September 25, 2016*	-	1,807,207	271,992
Short-term borrowing from a Founder, 5.75% annual interest, due on October 10, 2016**	-	2,409,610	362,657
Short-term borrowing from a Founder, 5.43% annual interest, due on November 4, 2016***	-	1,805,180	271,687
Short-term borrowing from a Founder's family member, no interest, due on December 16, 2016	-	1,500,000	225,756
Short-term borrowing from a Founder's family member, no interest, due on December 28, 2016	-	400,000	60,202
Short-term borrowing from a Founder, 5.22% annual interest, due on March 10, 2017	-	2,529,795	380,745
Short-term borrowing from a Founder, 5.22% annual interest, due on May 6, 2017	-	2,490,056	374,764
Total short-term borrowings due to related parties	¥ 16,916,905	¥ 12,941,848	\$ 1,947,803

\* As of September 23, ¥1,800,000 was paid back with an accumulated interest of ¥17,537 (\$2,639).

\*\* As of September 23, 2016, the Company repaid ¥1,680,000 (\$252,847) with an interest of ¥20,202 (\$3,040).

\*\*\* As of September 23, 2016, the Company repaid ¥ 540,000 (\$81,272) of short-term borrowing with an interest of ¥8,428(\$1,268).

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Interest expense for short-term borrowings due to related parties was ¥593,884 and ¥487,692 (\$73,400) for the years ended June 30, 2015 and 2016, respectively.

**NOTE 14. SHAREHOLDERS' EQUITY**

***Stock offering***

In June 2015, the Company entered into a securities purchase agreement with certain institutional investors for the sale of 297,197 ordinary shares in a registered direct offering (4,000 shares at an average of \$1.64 on June 9, 2015; 288,105 shares at an average of \$2.12 on June 10, 2015; 5,092 shares at an average of \$2.00 on June 11, 2015). The net cash proceeds received from the stock offering, after deducting ¥1,294,922 (\$212,673) underwriter commission and other associated fees, were ¥2,392,027 (approximately \$0.6 million).

During the year ended June 30, 2016, the Company offered 15,874 ordinary shares under the same purchase agreement from June 2015. The net cash proceeds received from the stock offering were ¥158,268 (\$23,820).

***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, 2015 and 2016, the balance of total statutory reserves was ¥4,148,929 and ¥4,148,929 (\$624,432), respectively.

**NOTE 15. STOCK-BASED COMPENSATION**

***Stock-Based Awards Plan***

*2009 Incentive Plan* – The Company granted options to purchase 415,000 ordinary shares to its employees and non-employee director on March 26, 2012. The options have an exercise price of \$2.96, which was equal to the share price of the Company's ordinary shares at March 26, 2012, and will vest over a period of five years, with the first 20% vesting on March 26, 2013. The options expire ten years after the date of grant, on March 26, 2022. The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥10.06 (\$1.49) per share.

*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.

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Stock price at grant date	\$	1.65
Exercise price (per share)	\$	1.65
Risk free rate of interest***		1.49%
Dividend yield		0.0%
Life of option (years)**		6.5
Volatility*		297%

\* Volatility is projected using the performance of the Company's common share performances.

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

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

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, 2014	415,600	\$ 4.37
Granted	400,000	1.65
Forfeited	-	-
Exercised	-	-
Outstanding as of June 30, 2015	815,600	\$ 3.04
Granted	-	-
Forfeited	-	-
Exercised	-	-
Outstanding as of June 30, 2016	815,600	\$ 3.04

The following is a summary of the status of options outstanding and exercisable at June 30, 2016:

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	3.08	\$ 6.00	193,000	3.08
\$ 2.96	222,600	5.74	\$ 2.96	148,400	5.74
\$ 1.65	400,000	8.59	\$ 1.65	133,333	8.59
	<u>815,600</u>				

The Share-based compensation expense recorded for stock options granted were ¥1,294,629 and ¥2,096,162 (\$315,481) for the years ended June 30, 2015 and 2016, respectively. The total unrecognized share-based compensation expense for stock options as of June 30, 2016 was approximately ¥2.8 million (\$0.43 million), which is expected to be recognized over a weighted average period of approximately 1.43 years.

**Restricted Shares to senior management**

As of June 30, 2016, the Company has granted restricted shares of common stock to senior management as follows:



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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 vest over three years with one third of the shares vesting every year from the grant date. The two thirds were vested through June 30, 2016 and now non-restricted.

On January 31, 2015, the Company granted 150,000 restricted shares to Mr. Yin Shenping and 150,000 restricted shares to Mr. Chen Guangqiang 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 October 18, 2015, the Company agreed to issue a total of 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.

The Share-based compensation expense recorded for restricted shares granted were ¥1,828,790 and ¥3,595,146 (\$541,085) for the years ended June 30, 2015 and 2016, respectively. The total unrecognized share-based compensation expense for restricted shares granted as of June 30, 2016 was approximately ¥6.1 million (\$0.90 million), which is expected to be recognized over a weighted average period of approximately 1.88 years.

**Restricted Shares for service**

For the year ended June 30, 2016, the Company has granted restricted shares of common stock to consultants as follows:

On July 19, 2014, the Company granted 50,000 restricted shares to a non-affiliate as compensation for certain consulting service. The fair value of the restricted shares was \$190,000 based on the closing stock price \$3.8 at July 18, 2014. On January 29, 2015, 10,000 of those restricted shares were canceled based on the agreement with the consultant.

On July 19, 2014, the Company decided to cancel 40,625 restricted shares, which was issued to Expert Asia Investment Ltd. on May 8, 2014, as the services were not provided pursuant to the agreement it had with the Company.

On February 2, 2015, the Company issued 24,000 restricted shares to Maxim Group LLC (“Maxim”) for certain consulting service. The fair value of the restricted shares was \$43,440 based on the closing stock price \$1.81 at February 2, 2015.

On April 8, 2015, the Company granted 40,000 restricted shares to a non-affiliate as compensation for certain consulting service. The fair value of the restricted shares was \$62,400 based on the closing stock price \$1.56 at April 8, 2015.

On November 16, 2015, the Company agreed to issue a total of 100,000 restricted shares to two investor relations firms in exchange for services. The fair value of the restricted shares was \$108,400 based on the closing stock price of \$1.08 on November 16, 2015.

On November 19, 2015, the Company issued 260,185 restricted shares to Bei Jing Tian Hong Tong Xin Technology Co. Ltd. (“BJTH”) for certain mold and software platform development services. The fair value of the restricted shares was \$247,176 based on the closing stock price of \$0.95 on November 19, 2015.

Following is a summary of the restricted stock grants:

<b>Restricted stock grants</b>	<b>Shares</b>
Non-vested as of June 30, 2014	230,362
Granted	414,000
Cancelled	(10,000)
Vested	(180,787)
Non-vested as of June 30, 2015	453,575
Granted	1,160,185
Cancelled	-
Vested	(536,972)
Non-vested as of June 30, 2016	<u>1,076,787</u>

Among the vested shares for the year ended June 30, 2016, 176,787 shares were not issued until July 23, 2016.

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**NOTE 16. 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 took effect on January 1, 2008 and unified the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

Nanjing Recon was approved as a government-certified high –technology company on December 11, 2013 and is subject to a reduced income tax rate of 15% through December 11, 2016. Nanjing Recon reapplied for high-technology enterprise approval and has passed all relevant reviews. Thus, for the calendar years 2014 and 2015, Nanjing Recon is subject to an income tax rate of 15%.

As approved by the domestic tax authority in the PRC, BHD was recognized as a government-certified high technology company on November 25, 2009 and is subject to a reduced income tax rate of 15% through November 2015. BHD reapplied for high-technology enterprise approval and successfully got the approval on November 25, 2015. Thus, the valid date of BHD's high-technology enterprise certificate is extended to November 25, 2018.

Loss before provision for income taxes consisted of:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Cayman Island and other areas	¥ (8,872,589)	¥ (14,257,066)	\$ (2,145,749)
China	(25,135,874)	(26,079,666)	(3,925,101)
<b>Total</b>	<u>¥ (34,008,463)</u>	<u>¥ (40,336,732)</u>	<u>\$ (6,070,850)</u>

Deferred tax asset is comprised of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Allowance for doubtful receivables	¥ 1,072,279	¥ 1,958,120	\$ 294,705
Net operating loss carry forward	669,819	1,790,615	269,495
Less: Valuation allowance	-	(3,748,735)	(564,200)
Total deferred income tax assets	<u>¥ 1,742,098</u>	<u>¥ -</u>	<u>\$ -</u>

Deferred tax liability is comprised of the following:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
	<u>RMB</u>	<u>RMB</u>	<u>U.S. Dollars</u>
Income tax cost due to unpayable accounts	¥ 180,186	¥ 180,186	\$ 27,119
Total deferred income tax liability	<u>¥ 180,186</u>	<u>¥ 180,186</u>	<u>\$ 27,119</u>

**RECON TECHNOLOGY, LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

	For the year ended June 30, 2015	For the year ended June 30, 2016	For the year ended June 30, 2016
	RMB	RMB	U.S. Dollars
Income tax calculated at statutory rates	¥ (6,108,744)	¥ (6,230,384)	\$ (937,699)
Nondeductible expenses (non-taxable income)	5,335,231	1,774,956	267,138
Benefit of favorable rate for high-technology companies	385,650	2,492,154	375,080
Benefit of revenue exempted from enterprise income tax	(190,614)	(43,363)	(6,526)
Deferred income tax	137,683	3,748,735	564,200
Over-accrued tax of prior year and others	(2,111,281)	(1,196,253)	(180,041)
Provision (benefit) for income tax	<u>¥ (2,552,075)</u>	<u>¥ 545,845</u>	<u>\$ 82,152</u>

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

	For the years ended June 30,		
	2015	2016	2016
	RMB	RMB	U.S. Dollars
Current income tax provision	¥ (2,019,938)	¥ -	\$ -
Adjust over accrued tax of prior years	-	(1,196,253)	(180,041)
Deferred income taxes provision (benefit)	(532,137)	1,742,098	262,193
Provision (benefit) for income tax	<u>¥ (2,552,075)</u>	<u>¥ 545,845</u>	<u>\$ 82,152</u>

**NOTE 17. NON-CONTROLLING INTEREST**

Non-controlling interest consisted of the following:

	As of June 30, 2015			
	BHD	Nanjing		Total
	RMB	Recon	Total	Total
	RMB	RMB	RMB	U.S. Dollars
Paid-in capital	¥ 1,651,000	¥ 200,000	¥ 1,851,000	\$ 304,001
Unappropriated retained earnings	3,152,687	3,250,513	6,403,200	1,051,636
Accumulated other comprehensive loss	(18,850)	(11,853)	(30,703)	(5,043)
Total non-controlling interest	<u>¥ 4,784,837</u>	<u>¥ 3,438,660</u>	<u>¥ 8,223,497</u>	<u>\$ 1,350,594</u>

	As of June 30, 2016			
	BHD	Nanjing		Total
	RMB	Recon	Total	Total
	RMB	RMB	RMB	U.S. Dollars
Paid-in capital	¥ 1,651,000	¥ 200,000	¥ 1,851,000	\$ 278,583
Unappropriated retained earnings	3,152,687	3,250,513	6,403,200	963,709
Accumulated other comprehensive loss	(18,850)	(11,853)	(30,703)	(4,621)
Total non-controlling interest	<u>¥ 4,784,837</u>	<u>¥ 3,438,660</u>	<u>¥ 8,223,497</u>	<u>\$ 1,237,671</u>

**RECON TECHNOLOGY, LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 18. CONCENTRATIONS**

For the years ended June 30, 2015 and 2016, the two largest customers, China National Petroleum Corporation (“CNPC”) and China Petroleum & Chemical Corporation Limited (“SINOPEC”), represented approximately 43.09%, 6.82% and 75.36%, 8.85% of the Company’s revenue, respectively.

For the year ended June 30, 2015, one major supplier accounted for 18% of the company’s total purchases. For the year ended June 30, 2016, two major suppliers accounted for 49% of the company’s total purchases.

**NOTE 19. COMMITMENTS AND CONTINGENCY**

**(a) Office Leases**

The Company leases three offices in Beijing (two for BHD; one for Recon-JN) and one office in Nanjing for Nanjing Recon. Future payments under such leases are as follows as of June 30, 2016:

	<b>Twelve months ending June 30,</b>	
	<b>Office lease payment</b>	
	<b>RMB</b>	<b>U.S. Dollars</b>
2017	¥ 1,264,000	\$ 190,237
2018	540,000	81,272
<b>Total</b>	<b>¥ 1,804,000</b>	<b>\$ 271,509</b>

**(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, 2016, the Company estimated its severance payments of approximately ¥1.6 million (\$0.24 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.

**NOTE 20. RELATED PARTY TRANSACTIONS AND BALANCES**

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

	<b>For the years ended June 30,</b>		
	<b>2015</b>	<b>2016</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>	<b>U.S. Dollars</b>
Xiamen Henda Hitek Computer Network Co. Ltd	¥ 1,676,036	¥ -	\$ -
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	752,137	-	-
<b>Revenues from related parties</b>	<b>¥ 2,428,173</b>	<b>¥ -</b>	<b>\$ -</b>

**RECON TECHNOLOGY, LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

	For the years ended June 30,		
	2015	2016	2016
	RMB	RMB	U.S. Dollars
Huanghua Heng Da Xiang Tong Manufacture Ltd	¥ 862,782	¥ 338,862	\$ 51,000
Xiamen Huangsheng Hitek Computer Network Co. Ltd.	797,587	588,894	88,631
Purchase from related parties	¥ 1,660,369	¥ 927,756	\$ 139,631

*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, 2015 and 2016 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 thousand with annual rental expense at ¥1.68 million (\$0.25 million). The one-year lease agreements between Nanjing Recon and Mr. Yin and his family member started from April 1, 2016. The one-year lease agreements between BHD and Mr. Chen Guangqiang and his family member started from January 1, 2016 and the annual lease between Recon BJ and Mr. Yin started from July 1, 2016.

*Short-term borrowings from related parties* - The Company borrowed ¥16,916,905 and ¥12,941,848 (\$1,947,803) from the Founders and their family members as of June 30, 2015 and 2016, respectively. For the specific terms and interest rates of the borrowings, see Note 13.

*Expenses paid by the owner on behalf of Recon* - One owner of Nanjing Recon, Mr. Yin and the major owner of BHD, Mr. Chen paid certain operating expenses for the Company. As of June 30, 2015 and 2016, ¥1,558,738 and ¥3,144,263 (\$473,225) was due to them, respectively.

**NOTE 21. VARIABLE INTEREST ENTITIES**

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

Summary information regarding consolidated VIEs is as follows:

	June 30, 2015	June 30, 2016	June 30, 2016
	RMB	RMB	U.S. Dollars
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	¥ 7,096,901	¥ 619,430	\$ 93,227
Notes receivable	4,205,530	4,660,177	701,377
Trade accounts receivable, net	56,956,197	38,097,626	5,733,855
Purchase advances	19,016,573	1,323,305	199,163
Other assets	28,792,279	25,584,030	3,850,506
<b>Total current assets</b>	¥ 116,067,480	¥ 70,284,568	\$ 10,578,128
Non-current assets	7,088,383	5,113,193	769,557
<b>Total Assets</b>	¥ 123,155,863	¥ 75,397,761	\$ 11,347,685
<b>LIABILITIES</b>			
Trade accounts payable	¥ 17,155,793	¥ 7,540,430	\$ 1,134,867
Taxes payable	1,153,216	755,881	113,763
Other liabilities	31,386,734	19,025,594	2,863,433
<b>Total current liabilities</b>	49,695,743	27,321,905	4,112,063
<b>Total Liabilities</b>	¥ 49,695,743	¥ 27,321,905	\$ 4,112,063

**RECON TECHNOLOGY, LTD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The financial performance of VIEs reported in the consolidated statement of operations and comprehensive income for the year ended June 30, 2016 includes revenues of ¥42,728,277 (\$6,430,788), operating expenses of ¥31,590,843 (\$4,754,557), and net loss of ¥25,481,256 (\$3,835,038).

**NOTE 22. SUBSEQUENT EVENTS**

On July 23, 2016, the Board of the Company approved the termination of the acquisition of Qinghai Huayou Downhole Technology Co., Ltd. (“QHXY”), and, as a result, terminated the share purchase agreement and related control agreements.

On July 27, 2016, the Board of the Company approved the grant of 876,000 restricted shares valued at \$963,600 to management with a vesting period of 3 years.

On July 27, 2016, the Company approved the hiring of an independent company strategy consulting firm, by issuing 250,000 restricted shares as compensation with a value of \$275,000.

On July 26, 2016, the Company borrowed ¥500,000 (\$75,252) from one of the shareholder’s family member bearing no interest, due by December 31, 2016 to supplement the Company’s working capital.

On September 6, 2016, the Company borrowed ¥50,000 (\$7,525) from one of the shareholder’s family member bearing no interest, due by December 6, 2016 to supplement the Company’s working capital.

On September 9, 2016, the Company borrowed ¥968,318 (\$145,736) from one of the shareholder’s family member bearing no interest, due by December 9, 2016 to supplement the Company’s working capital.

**List of Subsidiaries**

The following are the Registrant, its subsidiaries and its variable interest entities (“VIEs”):

**Registrant (Cayman Islands):**

Recon Technology, Ltd

**Subsidiary (Hong Kong):**

Recon Technology Co., Limited

**Subsidiary (PRC):**

Recon Technology (Jining) Co., Ltd.

**VIE affiliates (PRC):**

Beijing BHD Petroleum Technology Co. Ltd.

Nanjing Recon Technology Co., Ltd.

Huang Hua BHD Petroleum Equipment Manufacturing Co. LTD,

Jining ENI Energy Technology Co., Ltd. (only through December 15, 2010; no longer a VIE of the Registrant starting December 16, 2010)

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**Certification of Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
and Securities and Exchange Commission Release 34-46427**

I, Yin Shenping, certify that:

- (1) I have reviewed this Form 10-K of Recon Technology, Ltd;
- (2) Based on my knowledge, 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;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 28, 2016

/s/ Yin Shenping

Yin Shenping

Chief Executive Officer (Principal Executive Officer)

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**Certification of Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
and Securities and Exchange Commission Release 34-46427**

I, Liu Jia, certify that:

- (1) I have reviewed this Form 10-K of Recon Technology, Ltd;
- (2) Based on my knowledge, 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;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 28, 2016

/s/ Liu Jia

Liu Jia

Chief Financial Officer (Principal Financial Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Form 10-K report of Recon Technology, Ltd for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof and pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Yin Shenping, certify that:

- (1) This report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the this period report fairly presents, in all material respects, the financial condition and results of operations of Recon Technology, Ltd.

Date: September 28, 2016

/s/ Yin Shenping  
Yin Shenping  
Chief Executive Officer (Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of a separate disclosure document.

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Form 10-K report of Recon Technology, Ltd for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof and pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Liu Jia, certify that:

- (1) This report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the this period report fairly presents, in all material respects, the financial condition and results of operations of Recon Technology, Ltd.

Date: September 28, 2016

/s/ Liu Jia

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Liu Jia

Chief Financial Officer (Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of a separate disclosure document.

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**RECON TECHNOLOGY LTD  
2015 EQUITY INCENTIVE PLAN**

1. *Purpose.* The purpose of the Recon Technology Ltd 2015 Equity Incentive Plan is to provide a means through which the Company and its Affiliates may attract and retain key personnel and to provide a means whereby directors, officers, managers, employees, consultants and advisors (and prospective directors, officers, managers, employees, consultants and advisors) of the Company and its Affiliates can acquire and maintain an equity interest in the Company, or be paid incentive compensation, which may (but need not) be measured by reference to the value of Common Shares, thereby strengthening their commitment to the welfare of the Company and its Affiliates and aligning their interests with those of the Company's stockholders.

2. *Definitions.* The following definitions shall be applicable throughout this Plan:

(a) *"Affiliate"* means (i) any person or entity that directly or indirectly controls, is controlled by or is under common control with the Company and/or (ii) to the extent provided by the Committee, any person or entity in which the Company has a significant interest as determined by the Committee in its discretion. The term "control" (including, with correlative meaning, the terms "controlled by" and "under common control with"), as applied to any person or entity, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting or other securities, by contract or otherwise.

(b) *"Award"* means, individually or collectively, any Incentive Stock Option, Nonqualified Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Stock Bonus Award and Performance Compensation Award granted under this Plan.

(c) *"Board"* means the Board of Directors of the Company.

(d) *"Business Combination"* has the meaning given such term in the definition of "Change in Control."

(e) *"Business Day"* means any day other than a Saturday, a Sunday or a day on which banking institutions in New York City are authorized or obligated by federal law or executive order to be closed.

(f) *"Cause"* means, in the case of a particular Award, unless the applicable Award agreement states otherwise, (i) the Company or an Affiliate having "cause" to terminate a Participant's employment or service, as defined in any employment or consulting agreement or similar document or policy between the Participant and the Company or an Affiliate in effect at the time of such termination or (ii) in the absence of any such employment or consulting agreement, document or policy (or the absence of any definition of "Cause" contained therein), (A) a continuing material breach or material default (including, without limitation, any material dereliction of duty) by Participant of any agreement between the Participant and the Company, except for any such breach or default which is caused by the physical disability of the Participant (as determined by a neutral physician), or a continuing failure by the Participant to follow the direction of a duly authorized representative of the Company; (B) gross negligence, willful misfeasance or breach of fiduciary duty by the Participant; (C) the commission by the Participant of an act of fraud, embezzlement, misappropriation of the Company or its Affiliate's assets or any felony or other crime of dishonesty in connection with the Participant's duties; (D) conviction of the Participant of a felony or any other crime that would materially and adversely affect: (i) the business reputation of the Company or (ii) the performance of the Participant's duties to the Company, or (E) failure by a Participant to follow the lawful directions of a superior officer or the Board. Any determination of whether Cause exists shall be made by the Committee in its sole discretion.

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(g) “Change in Control” shall, in the case of a particular Award, unless the applicable Award agreement states otherwise or contains a different definition of “Change in Control,” be deemed to occur upon:

(i) An acquisition (whether directly from the Company or otherwise) of any voting securities of the Company (the “Voting Securities”) by any “Person” (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”)), immediately after which such Person has ownership of more than fifty percent (50%) of the combined voting power of the Company’s then outstanding Voting Securities.

(ii) The individuals who constitute the members of the Board cease, by reason of a financing, merger, combination, acquisition, takeover or other non-ordinary course transaction affecting the Company, to constitute at least forty percent (40%) of the members of the Board; or

(iii) The consummation of any of the following events:

(A) A merger, consolidation or reorganization involving the Company, where either or both of the events described in clauses (i) or (ii) above would be the result;

(B) A liquidation or dissolution of or appointment of a receiver, rehabilitator, conservator or similar person for, or the filing by a third party of an involuntary bankruptcy against, the Company; provided, however, that to the extent necessary to comply with Section 409A of the Code, the occurrence of an event described in this subsection (B) shall not permit the settlement of Restricted Stock Units granted under this Plan; or

(C) An agreement for the sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a subsidiary of the Company).

(h) “Closing Price” means (A) during such time as the Common Shares are registered under Section 12 of the Exchange Act, the closing price of the Common Shares as reported by an established stock exchange or automated quotation system on the day for which such value is to be determined, or, if no sale of the Common Shares shall have been made on any such stock exchange or automated quotation system that day, on the next preceding day on which there was a sale of such Common Shares, or (B) during any such time as the Common Shares are not listed upon an established stock exchange or automated quotation system, the mean between dealer “bid” and “ask” prices of the Common Shares in the over-the-counter market on the day for which such value is to be determined, as reported by the Financial Industry Regulatory Authority, Inc., or (C) during any such time as the Common Shares cannot be valued pursuant to (A) or (B) above, the fair market value shall be as determined by the Committee considering all relevant information including, by example and not by limitation, the services of an independent appraiser.

(i) “Code” means the Internal Revenue Code of 1986, as amended, and any successor thereto. References in this Plan to any section of the Code shall be deemed to include any regulations or other interpretative guidance under such section, and any amendments or successor provisions to such section, regulations or guidance.

(j) “Committee” means a committee of at least two people as the Board may appoint to administer this Plan or, if no such committee has been appointed by the Board, the Board. Unless altered by an action of the Board, the Committee shall be the Compensation Committee of the Board.

(k) “Common Shares” means the ordinary shares, par value \$0.0185 per share, of the Company (and any stock or other securities into which such common shares may be converted or into which they may be exchanged).

(l) “Company” means Recon Technology Ltd, a Cayman Island company, together with its successors and assigns.

(m) “Date of Grant” means the date on which the granting of an Award is authorized, or such other date as may be specified in such authorization.

(n) “Disability”. As to an Incentive Stock Option, a Disability means permanent and total disability as defined in section 22 (e) (3) of the Code. As to other Awards, a Disability means a “permanent and total” disability incurred by a Participant while in the employ of the Company or an Affiliate. For this purpose, a permanent and total disability shall mean that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

(o) “Effective Date” means the date when the Plan is adopted by the Board.

(p) “Eligible Director” means a person who is (i) a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, and (ii) an “outside director” within the meaning of Section 162(m) of the Code.

(q) “Eligible Person” means any (i) individual employed by the Company or an Affiliate; *provided, however*, that no such employee covered by a collective bargaining agreement shall be an Eligible Person unless and to the extent that such eligibility is set forth in such collective bargaining agreement or in an agreement or instrument relating thereto; (ii) director of the Company or an Affiliate; (iii) consultant or advisor to the Company or an Affiliate, provided that if the Securities Act applies such persons must be eligible to be offered securities registrable on Form S-8 under the Securities Act; or (iv) prospective employees, directors, officers, consultants or advisors who have accepted offers of employment or consultancy from the Company or its Affiliates (and would satisfy the provisions of clauses (i) through (iii) above once he or she begins employment with or begins providing services to the Company or its Affiliates).

(r) “Exchange Act” has the meaning given such term in the definition of “Change in Control,” and any reference in this Plan to any section of (or rule promulgated under) the Exchange Act shall be deemed to include any rules, regulations or other interpretative guidance under such section or rule, and any amendments or successor provisions to such section, rules, regulations or guidance.

(s) “Exercise Price” has the meaning given such term in Section 7(b) of this Plan.

(t) “Fair Market Value”, unless otherwise provided by the Committee in accordance with all applicable laws, rules regulations and standards, means, on a given date, (i) if the Common Shares (A) are listed on a national securities exchange or (B) are not listed on a national securities exchange, but is quoted by the OTC Markets Group, Inc. ([www.otcmarkets.com](http://www.otcmarkets.com)) or any successor or alternative recognized over-the-counter market or another inter-dealer quotation system, on a last sale basis, the average selling price of the Common Shares reported on such national securities exchange or other inter-dealer quotation system, determined as the arithmetic mean of such selling prices over the thirty (30)-Business Day period preceding the Date of Grant, weighted based on the volume of trading of such Common Shares on each trading day during such period; or (ii) if the Common Shares are not listed on a national securities exchange or quoted in an inter-dealer quotation system on a last sale basis, the amount determined by the Committee in good faith to be the fair market value of the Common Shares.

(u) “Immediate Family Members” shall have the meaning set forth in Section 15(b) of this Plan.

(v) “Incentive Stock Option” means an Option that is designated by the Committee as an incentive stock option as described in Section 422 of the Code and otherwise meets the requirements set forth in this Plan.

(w) “Indemnifiable Person” shall have the meaning set forth in Section 4(e) of this Plan.

(x) “Intellectual Property Products” shall have the meaning set forth in Section 15(c) of this Plan.

(y) “Mature Shares” means Common Shares owned by a Participant that are not subject to any pledge or security interest and that have been either previously acquired by the Participant on the open market or meet such other requirements, if any, as the Committee may determine are necessary in order to avoid an accounting earnings charge on account of the use of such shares to pay the Exercise Price or satisfy a withholding obligation of the Participant.

(z) “Negative Discretion” shall mean the discretion authorized by this Plan to be applied by the Committee to eliminate or reduce the size of a Performance Compensation Award consistent with Section 162(m) of the Code.

(aa) “Nonqualified Stock Option” means an Option that is not designated by the Committee as an Incentive Stock Option.

(bb) “Ordinary Share” means the ordinary share, par value \$0.0185 per share, of the Company.

(cc) “Option” means an Award granted under Section 7 of this Plan.

(dd) “Option Period” has the meaning given such term in Section 7(c) of this Plan.

(ee) “Participant” means an Eligible Person who has been selected by the Committee to participate in this Plan and to receive an Award pursuant to Section 6 of this Plan.

(ff) “Performance Compensation Award” shall mean any Award designated by the Committee as a Performance Compensation Award pursuant to Section 11 of this Plan.

(gg) “Performance Criteria” shall mean the criterion or criteria that the Committee shall select for purposes of establishing the Performance Goal(s) for a Performance Period with respect to any Performance Compensation Award under this Plan.

(hh) “Performance Formula” shall mean, for a Performance Period, the one or more objective formulae applied against the relevant Performance Goal to determine, with regard to the Performance Compensation Award of a particular Participant, whether all, some portion but less than all, or none of the Performance Compensation Award has been earned for the Performance Period.

(ii) “Performance Goals” shall mean, for a Performance Period, the one or more goals established by the Committee for the Performance Period based upon the Performance Criteria.

(jj) “Performance Period” shall mean the one or more periods of time, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to, and the payment of, a Performance Compensation Award.

(kk) “Permitted Transferee” shall have the meaning set forth in Section 15(b) of this Plan.

(ll) “Person” has the meaning given such term in the definition of “Change in Control.”

(mm) “Plan” means this Recon Technology Ltd 2015 Equity Incentive Plan, as amended from time to time.

(nn) “Retirement” means the fulfillment of each of the following conditions: (i) the Participant is good standing with the Company as determined by the Committee; (ii) the voluntary termination by a Participant of such Participant’s employment or service to the Company and (B) that at the time of such voluntary termination, the sum of: (1) the Participant’s age (calculated to the nearest month, with any resulting fraction of a year being calculated as the number of months in the year divided by 12) and (2) the Participant’s years of employment or service with the Company (calculated to the nearest month, with any resulting fraction of a year being calculated as the number of months in the year divided by 12) equals at least 62 (provided that, in any case, the foregoing shall only be applicable if, at the time of Retirement, the Participant shall be at least 55 years of age and shall have been employed by or served with the Company for no less than 5 years).

(oo) “Restricted Period” means the period of time determined by the Committee during which an Award is subject to restrictions or, as applicable, the period of time within which performance is measured for purposes of determining whether an Award has been earned.

(pp) “Restricted Stock Unit” means an unfunded and unsecured promise to deliver Common Shares, cash, other securities or other property, subject to certain restrictions (including, without limitation, a requirement that the Participant remain continuously employed or provide continuous services for a specified period of time), granted under Section 9 of this Plan.

(qq) “Restricted Stock” means Common Shares, subject to certain specified restrictions (including, without limitation, a requirement that the Participant remain continuously employed or provide continuous services for a specified period of time), granted under Section 9 of this Plan.

(rr) “SAR Period” has the meaning given such term in Section 8(c) of this Plan.



(ss) “Securities Act” means the Securities Act of 1933, as amended, and any successor thereto. Reference in this Plan to any section of the Securities Act shall be deemed to include any rules, regulations or other official interpretative guidance under such section, and any amendments or successor provisions to such section, rules, regulations or guidance.

(tt) “Stock Appreciation Right” or “SAR” means an Award granted under Section 8 of this Plan which meets all of the requirements of Section 1.409A-1(b)(5)(i)(B) of the Treasury Regulations.

(uu) “Stock Bonus Award” means an Award granted under Section 10 of this Plan.

(vv) “Strike Price” means, except as otherwise provided by the Committee in the case of Substitute Awards, (i) in the case of a SAR granted in tandem with an Option, the Exercise Price of the related Option, or (ii) in the case of a SAR granted independent of an Option, the Fair Market Value on the Date of Grant.

(ww) “Subsidiary” means, with respect to any specified Person:

(i) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Outstanding Company Voting Securities (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(ii) any partnership or limited liability company (or any comparable foreign entity) (a) the sole general partner or managing member (or functional equivalent thereof) or the managing general partner of which is such Person or Subsidiary of such Person or (b) the only general partners or managing members (or functional equivalents thereof) of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

(xx) “Substitute Award” has the meaning given such term in Section 5(e).

(yy) “Treasury Regulations” means any regulations, whether proposed, temporary or final, promulgated by the U.S. Department of Treasury under the Code, and any successor provisions.

(zz) “Voting Securities” has the meaning given such term in the definition of “Change in Control.”

3. *Effective Date; Duration.* The Plan shall be effective as of the Effective Date, but no Award shall be exercised or paid (or, in the case of a stock Award, shall be granted unless contingent on stockholder approval) unless and until this Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months after the Effective Date. The expiration date of this Plan, on and after which date no Awards may be granted hereunder, shall be the tenth anniversary of the Effective Date; *provided, however*, that such expiration shall not affect Awards then outstanding, and the terms and conditions of this Plan shall continue to apply to such Awards.

4. *Administration.*

(a) The Committee shall administer this Plan. To the extent required to comply with the provisions of Rule 16b-3 promulgated under the Exchange Act (if the Board is not acting as the Committee under this Plan) or necessary to obtain the exception for performance-based compensation under Section 162(m) of the Code, as applicable, it is intended that each member of the Committee shall, at the time he takes any action with respect to an Award under this Plan, be an Eligible Director. However, the fact that a Committee member shall fail to qualify as an Eligible Director shall not invalidate any Award granted by the Committee that is otherwise validly granted under this Plan. The acts of a majority of the members present at any meeting at which a quorum is present or acts approved in writing by a majority of the Committee shall be deemed the acts of the Committee. Whether a quorum is present shall be determined based on the Committee’s charter as approved by the Board.

(b) Subject to the provisions of this Plan and applicable law, the Board shall have the authority and may delegate its authority to the Committee, to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Common Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Common Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances the delivery of cash, Common Shares, other securities, other Awards or other property and other amounts payable with respect to an Award; (vii) interpret, administer, reconcile any inconsistency in, settle any controversy regarding, correct any defect in and/or complete any omission in this Plan and any instrument or agreement relating to, or Award granted under, this Plan; (viii) establish, amend, suspend, or waive any rules, conditions and regulations and appoint such agents as the Committee shall deem appropriate for the proper administration of this Plan; (ix) accelerate the vesting or exercisability of, payment for or lapse of restrictions on, Awards; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of this Plan.

(c) The Committee may delegate to one or more officers of the Company or any Affiliate the authority to act on behalf of the Committee with respect to any matter, right, obligation, or election that is the responsibility of or that is allocated to the Committee herein, and that may be so delegated as a matter of law, except for grants of Awards to persons (i) subject to Section 16 of the Exchange Act or (ii) who are, or who are reasonably expected to be, "covered employees" for purposes of Section 162(m) of the Code.

(d) Unless otherwise expressly provided in this Plan, all designations, determinations, interpretations, and other decisions under or with respect to this Plan or any Award or any documents evidencing Awards granted pursuant to this Plan shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon all persons or entities, including, without limitation, the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, and any stockholder of the Company.

(e) No member of the Board, the Committee, delegate of the Committee or any employee, advisor or agent of the Company or the Board or the Committee (each such person, an "Indemnifiable Person") shall be liable for any action taken or omitted to be taken or any determination made in good faith with respect to this Plan or any Award hereunder. Each Indemnifiable Person shall be indemnified and held harmless by the Company against and from (and the Company shall pay or reimburse on demand for) any loss, cost, liability, or expense (including attorneys' fees) that may be imposed upon or incurred by such Indemnifiable Person in connection with or resulting from any action, suit or proceeding to which such Indemnifiable Person may be a party or in which such Indemnifiable Person may be involved by reason of any action taken or omitted to be taken under this Plan or any Award agreement and against and from any and all amounts paid by such Indemnifiable Person with the Company's approval, in settlement thereof, or paid by such Indemnifiable Person in satisfaction of any judgment in any such action, suit or proceeding against such Indemnifiable Person, provided, that the Company shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and once the Company gives notice of its intent to assume the defense, the Company shall have sole control over such defense with counsel of the Company's choice. The foregoing right of indemnification shall not be available to an Indemnifiable Person to the extent that a final judgment or other final adjudication (in either case not subject to further appeal) binding upon such Indemnifiable Person determines that the acts or omissions of such Indemnifiable Person giving rise to the indemnification claim resulted from such Indemnifiable Person's bad faith, fraud or willful criminal act or omission or that such right of indemnification is otherwise prohibited by law or by the Company's Certificate of Incorporation or Bylaws. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such Indemnifiable Persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any other power that the Company may have to indemnify such Indemnifiable Persons or hold them harmless.

(f) Notwithstanding anything to the contrary contained in this Plan, the Board may, in its sole discretion, at any time and from time to time, grant Awards and administer this Plan with respect to such Awards. In any such case, the Board shall have all the authority granted to the Committee under this Plan.

5. *Grant of Awards; Shares Subject to this Plan; Limitations.*

(a) The Committee may, from time to time, grant Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Stock Bonus Awards and/or Performance Compensation Awards to one or more Eligible Persons.

(b) Subject to Section 3 and Section 12 of this Plan, the Committee is initially authorized to issue under this Plan, during the period ending on June 30, 2015, an aggregate of Seven Hundred Thousand (700,000) Common 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 Plan is in effect, the maximum number of Common Shares available for issuance under this Plan during that fiscal year shall be increased such that, as of such first business day, the maximum aggregate number of Common Shares available for issuance under this 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. Each Common Share subject to an Option or a Stock Appreciation Right will reduce the number of Common Shares available for issuance by one share, and each Common Share underlying an Award of Restricted Stock, Restricted Stock Units, Stock Bonus Awards and Performance Compensation Awards will reduce the number of Common Shares available for issuance by one share.

(c) Common Shares underlying Awards under this Plan that are forfeited, cancelled, expire unexercised or otherwise terminated or not being issued shall be available again for Awards under this Plan during that fiscal year. Notwithstanding the foregoing, the following Common Shares shall not be available again for Awards under the Plan: (i) shares tendered or held back upon the exercise of an Option or settlement of an Award to cover the Exercise Price of an Award; (ii) shares that are used or withheld to satisfy tax obligations of the Participant; and (iii) shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the SAR upon exercise thereof.

(d) Common Shares delivered by the Company in settlement of Awards may be authorized and unissued shares, shares held in the treasury of the Company, shares purchased on the open market or by private purchase, or a combination of the foregoing.

(e) Subject to compliance with Section 1.409A-3(f) of the Treasury Regulations, Awards may, in the sole discretion of the Committee, be granted under this Plan in assumption of, or in substitution for, outstanding awards previously granted by an entity acquired by the Company or with which the Company combines (“*Substitute Awards*”). The number of Common Shares underlying any Substitute Awards shall be counted against the aggregate number of Common Shares available for Awards under this Plan.

6. *Eligibility.* Participation shall be limited to Eligible Persons who have entered into an Award agreement or who have received written notification from the Committee, or from a person designated by the Committee, that they have been selected to participate in this Plan.

7. *Options.*

(a) *Generally.* Each Option granted under this Plan shall be evidenced by an Award agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each Option so granted shall be subject to the conditions set forth in this Section 7, and to such other conditions not inconsistent with this Plan as may be reflected in the applicable Award agreement. All Options granted under this Plan shall be Nonqualified Stock Options unless the applicable Award agreement expressly states that the Option is intended to be an Incentive Stock Option. Notwithstanding any designation of an Option, to the extent that the aggregate Fair Market Value of Common Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company or any Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonqualified Stock Options. Incentive Stock Options shall be granted only to Eligible Persons who are employees of the Company and its Affiliates, and no Incentive Stock Option shall be granted to any Eligible Person who is ineligible to receive an Incentive Stock Option under the Code. No Option shall be treated as an Incentive Stock Option unless this Plan has been approved by the stockholders of the Company in a manner intended to comply with the stockholder approval requirements of Section 422(b)(1) of the Code, provided that any Option intended to be an Incentive Stock Option shall not fail to be effective solely on account of a failure to obtain such approval, but rather such Option shall be treated as a Nonqualified Stock Option unless and until such approval is obtained. In the case of an Incentive Stock Option, the terms and conditions of such grant shall be subject to and comply with such rules as may be prescribed by Section 422 of the Code. If for any reason an Option intended to be an Incentive Stock Option (or any portion thereof) shall not qualify as an Incentive Stock Option, then, to the extent of such nonqualification, such Option or portion thereof shall be regarded as a Nonqualified Stock Option appropriately granted under this Plan.

(b) *Exercise Price.* The exercise price (“*Exercise Price*”) per Common Share for each Option shall not be less than 100% of the Fair Market Value of such share determined as of the Date of Grant; *provided, however*, that in the case of an Incentive Stock Option granted to an employee who, at the time of the grant of such Option, owns shares representing more than 10% of the voting power of all classes of shares of the Company or any Affiliate, the Exercise Price per share shall not be less than 110% of the Fair Market Value per share on the Date of Grant; *and, provided further*, that notwithstanding any provision herein to the contrary, the Exercise Price shall not be less than the par value per Common Share.

(c) *Vesting and Expiration.* Options shall vest and become exercisable in such manner and on such date or dates determined by the Committee and as set forth in the applicable Award agreement, and shall expire after such period, not to exceed ten (10) years from the Date of Grant, as may be determined by the Committee (the “*Option Period*”); *provided, however*, that the Option Period shall not exceed five (5) years from the Date of Grant in the case of an Incentive Stock Option granted to a Participant who on the Date of Grant owns shares representing more than 10% of the voting power of all classes of shares of the Company or any Affiliate; *and, provided, further*, that notwithstanding any vesting dates set by the Committee, the Committee may, in its sole discretion, accelerate the exercisability of any Option, which acceleration shall not affect the terms and conditions of such Option other than with respect to exercisability. Unless otherwise provided by the Committee in an Award agreement:

(i) an Option shall vest and become exercisable with respect to 100% of the Common Shares subject to such Option on the third (3<sup>rd</sup>) anniversary of the Date of Grant;

(ii) the unvested portion of an Option shall expire upon termination of employment or service of the Participant granted the Option, and the vested portion of such Option shall remain exercisable for:

(A) one year following termination of employment or service by reason of such Participant's death or Disability (with the determination of Disability to be made by the Committee on a case by case basis), but not later than the expiration of the Option Period;

(B) for directors, officers and employees of the Company only, for the remainder of the Option Period following termination of employment or service by reason of such Participant's Retirement (it being understood that any Incentive Stock Option held by the Participant shall be treated as a Nonqualified Stock Option if exercise is not undertaken within 90 days of the date of Retirement);

(C) 90 calendar days following termination of employment or service for any reason other than such Participant's death, Disability or Retirement, and other than such Participant's termination of employment or service for Cause, but not later than the expiration of the Option Period; and

(iii) both the unvested and the vested portion of an Option shall immediately expire upon the termination of the Participant's employment or service by the Company for Cause.

(d) Method of Exercise and Form of Payment. No Common Shares shall be delivered pursuant to any exercise of an Option until payment in full of the Exercise Price therefor is received by the Company and the Participant has paid to the Company an amount equal to any federal, state, local and non-U.S. income and employment taxes required to be withheld. Options that have become exercisable may be exercised by delivery of written or electronic notice of exercise to the Company in accordance with the terms of the Award agreement accompanied by payment of the Exercise Price. The Exercise Price shall be payable (i) in cash, check (subject to collection), or at consent of the Committee, in cash equivalent and/or Common Shares that the Participant has owned for at least six months (valued at the Closing Price at the time the Option is exercised, including, pursuant to procedures approved by the Committee, by means of attestation of ownership of a sufficient number of Common Shares in lieu of actual delivery of such shares to the Company); provided, however, that such Common Shares are not subject to any pledge or other security interest and are Mature Shares and; (ii) by such other method as the Committee may permit in accordance with applicable law, in its sole discretion, including without limitation: (A) in other property having a fair market value (as determined by the Committee in its discretion) on the date of exercise equal to the Exercise Price or (B) if there is a public market for the Common Shares at such time, by means of a broker-assisted "cashless exercise" pursuant to which the Company is delivered a copy of irrevocable instructions to a stockbroker to sell the Common Shares otherwise deliverable upon the exercise of the Option and to deliver promptly to the Company an amount equal to the Exercise Price or (C) by a "net exercise" method whereby the Company withholds from the delivery of the Common Shares for which the Option was exercised that number of Common Shares having a Closing Price equal to the aggregate Exercise Price for the Common Shares for which the Option was exercised. Any fractional Common Shares shall be settled in cash.

(e) Notification upon Disqualifying Disposition of an Incentive Stock Option. Each Participant awarded an Incentive Stock Option under this Plan shall notify the Company in writing immediately after the date he makes a disqualifying disposition of any Common Shares acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including, without limitation, any sale) of such Common Shares before the later of (A) two years after the Date of Grant of the Incentive Stock Option or (B) one year after the date of exercise of the Incentive Stock Option. The Company may, if determined by the Committee and in accordance with procedures established by the Committee, retain possession of any Common Shares acquired pursuant to the exercise of an Incentive Stock Option as agent for the applicable Participant until the end of the period described in the preceding sentence.

(f) Compliance With Laws, etc. Notwithstanding the foregoing, in no event shall a Participant be permitted to exercise an Option in a manner that the Committee determines would violate the Sarbanes-Oxley Act of 2002, if applicable, or any other applicable law or the applicable rules and regulations of the Securities and Exchange Commission or the applicable rules and regulations of any securities exchange or inter-dealer quotation system on which the securities of the Company are listed or traded.

8. Stock Appreciation Rights.

(a) Generally. Each SAR granted under this Plan shall be evidenced by an Award agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each SAR so granted shall be subject to the conditions set forth in this Section 8, and to such other conditions not inconsistent with this Plan as may be reflected in the applicable Award agreement. Any Option granted under this Plan may include tandem SARs. The Committee also may award SARs to Eligible Persons independent of any Option.

(b) Vesting and Expiration. A SAR granted in connection with an Option shall become exercisable and shall expire according to the same vesting schedule and expiration provisions as the corresponding Option. A SAR granted independent of an Option shall vest and become exercisable and shall expire in such manner and on such date or dates determined by the Committee and shall expire after such period, not to exceed ten years, as may be determined by the Committee (the "SAR Period"); *provided, however*, that notwithstanding any vesting dates set by the Committee, the Committee may, in its sole discretion, accelerate the exercisability of any SAR, which acceleration shall not affect the terms and conditions of such SAR other than with respect to exercisability. Unless otherwise provided by the Committee in an Award agreement:

(i) a SAR shall vest and become exercisable with respect to 100% of the Common Shares subject to such SAR on the third anniversary of the Date of Grant;

(ii) the unvested portion of a SAR shall expire upon termination of employment or service of the Participant granted the SAR, and the vested portion of such SAR shall remain exercisable for:

(A) one year following termination of employment or service by reason of such Participant's death or Disability (with the determination of Disability to be made by the Committee on a case by case basis), but not later than the expiration of the SAR Period;

(B) for directors, officers and employees of the Company only, for the remainder of the SAR Period following termination of employment or service by reason of such Participant's Retirement;

(C) 90 calendar days following termination of employment or service for any reason other than such Participant's death, Disability or Retirement, and other than such Participant's termination of employment or service for Cause, but not later than the expiration of the SAR Period; and

(iii) both the unvested and the vested portion of a SAR shall expire immediately upon the termination of the Participant's employment or service by the Company for Cause.

(c) Method of Exercise. SARs that have become exercisable may be exercised by delivery of written or electronic notice of exercise to the Company in accordance with the terms of the Award, specifying the number of SARs to be exercised and the date on which such SARs were awarded. Notwithstanding the foregoing, if on the last day of the Option Period (or in the case of a SAR independent of an option, the SAR Period), the Closing Price exceeds the Strike Price, the Participant has not exercised the SAR or the corresponding Option (if applicable), and neither the SAR nor the corresponding Option (if applicable) has expired, such SAR shall be deemed to have been exercised by the Participant on such last day and the Company shall make the appropriate payment therefor.

(d) Payment. Upon the exercise of a SAR, the Company shall pay to the Participant an amount equal to the number of shares subject to the SAR that are being exercised multiplied by the excess, if any, of the Closing Price of one Common Share on the exercise date over the Strike Price, less an amount equal to any federal, state, local and non-U.S. income and employment taxes required to be withheld. The Company shall pay such amount in cash, in Common Shares valued at fair market value, or any combination thereof, as determined by the Committee. Any fractional Common Share shall be settled in cash.

#### 9. Restricted Stock and Restricted Stock Units.

(a) Generally. Each grant of Restricted Stock and Restricted Stock Units shall be evidenced by an Award agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each such grant shall be subject to the conditions set forth in this Section 9, and to such other conditions not inconsistent with this Plan as may be reflected in the applicable Award agreement.

(b) Restricted Accounts; Escrow or Similar Arrangement. Upon the grant of Restricted Stock, a book entry in a restricted account shall be established in the Participant's name at the Company's transfer agent and, if the Committee determines that the Restricted Stock shall be held by the Company or in escrow rather than held in such restricted account pending the release of the applicable restrictions, the Committee may require the Participant to additionally execute and deliver to the Company (i) an escrow agreement satisfactory to the Committee, if applicable, and (ii) the appropriate share power (endorsed in blank) with respect to the Restricted Stock covered by such agreement. If a Participant shall fail to execute an agreement evidencing an Award of Restricted Stock and, if applicable, an escrow agreement and blank share power within the amount of time specified by the Committee, the Award shall be null and void *ab initio*. Subject to the restrictions set forth in this Section 9 and the applicable Award agreement, the Participant generally shall have the rights and privileges of a stockholder as to such Restricted Stock, including without limitation the right to vote such Restricted Stock and the right to receive dividends, if applicable. To the extent shares of Restricted Stock are forfeited, any share certificates issued to the Participant evidencing such shares shall be returned to the Company, and all rights of the Participant to such shares and as a stockholder with respect thereto shall terminate without further obligation on the part of the Company.

(c) Vesting; Acceleration of Lapse of Restrictions. Unless otherwise provided by the Committee in an Award agreement, the unvested portion of Restricted Stock and Restricted Stock Units shall terminate and be forfeited upon termination of employment or service of the Participant granted the applicable Award.

(d) Delivery of Restricted Stock and Settlement of Restricted Stock Units. (i) Upon the expiration of the Restricted Period with respect to any shares of Restricted Stock, the restrictions set forth in the applicable certificate shall be of no further force or effect with respect to such shares, except as set forth in the applicable Award agreement. If an escrow arrangement is used, upon such expiration, the Company shall deliver to the Participant, or his beneficiary, without charge, the share certificate evidencing the shares of Restricted Stock that have not then been forfeited and with respect to which the Restricted Period has expired (rounded down to the nearest full share). Dividends, if any, that may have been withheld by the Committee and attributable to any particular share of Restricted Stock shall be distributed to the Participant in cash or, at the sole discretion of the Committee, in Common Shares having a Closing Price equal to the amount of such dividends, upon the release of restrictions on such share and, if such share is forfeited, the Participant shall have no right to such dividends (except as otherwise set forth by the Committee in the applicable Award agreement).

(ii) Unless otherwise provided by the Committee in an Award agreement, upon the expiration of the Restricted Period with respect to any outstanding Restricted Stock Units, the Company shall deliver to the Participant, or his beneficiary, without charge, one Common Share for each such outstanding Restricted Stock Unit; provided, however, that the Committee may, in its sole discretion and subject to the requirements of Section 409A of the Code, elect to (i) pay cash or part cash and part Common Share in lieu of delivering only Common Shares in respect of such Restricted Stock Units or (ii) defer the delivery of Common Shares (or cash or part Common Shares and part cash, as the case may be) beyond the expiration of the Restricted Period if such delivery would result in a violation of applicable law until such time as is no longer the case. If a cash payment is made in lieu of delivering Common Shares, the amount of such payment shall be equal to the Closing Price of the Common Shares as of the date on which the Restricted Period lapsed with respect to such Restricted Stock Units, less an amount equal to any federal, state, local and non-U.S. income and employment taxes required to be withheld.

10. Stock Bonus Awards. The Committee may issue unrestricted Common Shares, or other Awards denominated in Common Shares, under this Plan to Eligible Persons, either alone or in tandem with other awards, in such amounts as the Committee shall from time to time in its sole discretion determine. Each Stock Bonus Award granted under this Plan shall be evidenced by an Award agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each Stock Bonus Award so granted shall be subject to such conditions not inconsistent with this Plan as may be reflected in the applicable Award agreement.



11. *Performance Compensation Awards.*

(a) *Generally.* The Committee shall have the authority, at the time of grant of any Award described in Sections 7 through 10 of this Plan, to designate such Award as a Performance Compensation Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code. The Committee shall have the authority to make an award of a cash bonus to any Participant and designate such Award as a Performance Compensation Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code.

(b) *Discretion of Committee with Respect to Performance Compensation Awards.* With regard to a particular Performance Period, the Committee shall have sole discretion to select the length of such Performance Period, the type(s) of Performance Compensation Awards to be issued, the Performance Criteria that will be used to establish the Performance Goal(s), the kind(s) and/or level(s) of the Performance Goals(s) that is (are) to apply and the Performance Formula. Within the first 90 calendar days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code, if applicable), the Committee shall, with regard to the Performance Compensation Awards to be issued for such Performance Period, exercise its discretion with respect to each of the matters enumerated in the immediately preceding sentence and record the same in writing.

(c) *Performance Criteria.* The Performance Criteria that will be used to establish the Performance Goal(s) shall be based on the attainment of specific levels of performance of the Company and/or one or more Affiliates, divisions or operational units, or any combination of the foregoing, as determined by the Committee. Any one or more of the Performance Criteria adopted by the Committee may be used on an absolute or relative basis to measure the performance of the Company and/or one or more Affiliates as a whole or any business unit(s) of the Company and/or one or more Affiliates or any combination thereof, as the Committee may deem appropriate, or any of the above Performance Criteria may be compared to the performance of a selected group of comparison companies, or a published or special index that the Committee, in its sole discretion, deems appropriate, or as compared to various stock market indices. The Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of Performance Goals pursuant to the Performance Criteria specified in this paragraph. To the extent required under Section 162(m) of the Code, the Committee shall, within the first 90 calendar days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period and thereafter promptly communicate such Performance Criteria to the Participant.

(d) *Modification of Performance Goal(s).* In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing Performance Criteria without obtaining stockholder approval of such alterations, the Committee shall have sole discretion to make such alterations without obtaining stockholder approval. The Committee is authorized at any time during the first 90 calendar days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code, if applicable), or at any time thereafter to the extent the exercise of such authority at such time would not cause the Performance Compensation Awards granted to any Participant for such Performance Period to fail to qualify as “performance-based compensation” under Section 162(m) of the Code, in its sole discretion, to adjust or modify the calculation of a Performance Goal for such Performance Period, based on and in order to appropriately reflect the following events: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 (or any successor pronouncement thereto) and/or in management’s discussion and analysis of financial condition and results of operations appearing in the Company’s annual report to stockholders for the applicable year; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company’s fiscal year.

(e) Payment of Performance Compensation Awards.

(i) Condition to Receipt of Payment. Unless otherwise provided in the applicable Award agreement, a Participant must be employed by the Company on the last day of a Performance Period to be eligible for payment in respect of a Performance Compensation Award for such Performance Period.

(ii) Limitation. A Participant shall be eligible to receive payment in respect of a Performance Compensation Award only to the extent that: (A) the Performance Goals for such period are achieved; and (B) all or some of the portion of such Participant's Performance Compensation Award has been earned for the Performance Period based on the application of the Performance Formula to such achieved Performance Goals.

(iii) Certification. Following the completion of a Performance Period, the Committee shall review and certify in writing whether, and to what extent, the Performance Goals for the Performance Period have been achieved and, if so, calculate and certify in writing that amount of the Performance Compensation Awards earned for the period based upon the Performance Formula. The Committee shall then determine the amount of each Participant's Performance Compensation Award actually payable for the Performance Period and, in so doing, may apply Negative Discretion.

(iv) Use of Negative Discretion. In determining the actual amount of an individual Participant's Performance Compensation Award for a Performance Period, the Committee may reduce or eliminate the amount of the Performance Compensation Award earned under the Performance Formula in the Performance Period through the use of Negative Discretion if, in its sole judgment, such reduction or elimination is appropriate. The Committee shall not have the discretion, except as is otherwise provided in this Plan, to (A) grant or provide payment in respect of Performance Compensation Awards for a Performance Period if the Performance Goals for such Performance Period have not been attained; or (B) increase a Performance Compensation Award above the applicable limitations set forth in Section 5 of this Plan.

(f) Timing of Award Payments. Performance Compensation Awards granted for a Performance Period shall be paid to Participants as soon as administratively practicable following completion of the certifications required by this Section 11, but in no event later than two-and-one-half months following the end of the fiscal year during which the Performance Period is completed in order to comply with the short-term deferral rules under Section 1.409A-1(b)(4) of the Treasury Regulations. Notwithstanding the foregoing, payment of a Performance Compensation Award may be delayed, as permitted by Section 1.409A-2(b)(7)(i) of the Treasury Regulations, to the extent that the Company reasonably anticipates that if such payment were made as scheduled, the Company's tax deduction with respect to such payment would not be permitted due to the application of Section 162(m) of the Code.

12. Changes in Capital Structure and Similar Events. In the event of (a) any dividend or other distribution (whether in the form of cash, Common Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, amalgamation, consolidation, split-up, split-off, combination, repurchase or exchange of Common Shares or other securities of the Company, issuance of warrants or other rights to acquire Common Shares or other securities of the Company, or other similar corporate transaction or event (including, without limitation, a Change in Control) that affects the Common Shares, or (b) unusual or nonrecurring events (including, without limitation, a Change in Control) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or changes in applicable rules, rulings, regulations or other requirements of any governmental body or securities exchange or inter-dealer quotation system, accounting principles or law, such that in either case an adjustment is determined by the Committee in its sole discretion to be necessary or appropriate, then the Committee shall make any such adjustments that are equitable, including without limitation any or all of the following:

(i) adjusting any or all of (A) the number of Common Shares or other securities of the Company (or number and kind of other securities or other property) that may be delivered in respect of Awards or with respect to which Awards may be granted under this Plan (including, without limitation, adjusting any or all of the limitations under Section 5 of this Plan) and (B) the terms of any outstanding Award, including, without limitation, (1) the number of Common Shares or other securities of the Company (or number and kind of other securities or other property) subject to outstanding Awards or to which outstanding Awards relate, (2) the Exercise Price or Strike Price with respect to any Award or (3) any applicable performance measures (including, without limitation, Performance Criteria and Performance Goals);

(ii) providing for a substitution or assumption of Awards, accelerating the exercisability of, lapse of restrictions on, or termination of, Awards or providing for a period of time for exercise prior to the occurrence of such event; and

(iii) subject to the requirements of Section 409A of the Code, canceling any one or more outstanding Awards and causing to be paid to the holders thereof, in cash, Common Shares, other securities or other property, or any combination thereof, the value of such Awards, if any, as determined by the Committee (which if applicable may be based upon the price per Common Share received or to be received by other stockholders of the Company in such event), including without limitation, in the case of an outstanding Option or SAR, a cash payment in an amount equal to the excess, if any, of the fair market value (as of a date specified by the Committee) of the Common Shares subject to such Option or SAR over the aggregate Exercise Price or Strike Price of such Option or SAR, respectively (it being understood that, in such event, any Option or SAR having a per share Exercise Price or Strike Price equal to, or in excess of, the fair market value of a Common Share subject thereto may be canceled and terminated without any payment or consideration therefor);

*provided, however*, that in the case of any “equity restructuring” (within the meaning of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) or ASC Topic 718, or any successor thereto), the Committee shall make an equitable or proportionate adjustment to outstanding Awards to reflect such equity restructuring. Any adjustment in Incentive Stock Options under this Section 12 (other than any cancellation of Incentive Stock Options) shall be made only to the extent not constituting a “modification” within the meaning of Section 424(h)(3) of the Code, and any adjustments under this Section 12 shall be made in a manner that does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. The Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

13. *Effect of Change in Control.* Except to the extent otherwise provided in an Award agreement or as determined by the Committee in its sole discretion, in the event of a Change in Control, notwithstanding any provision of this Plan to the contrary, with respect to all or any portion of a particular outstanding Award or Awards:

(a) all of the then outstanding Options and SARs may immediately vest and may become immediately exercisable as of a time prior to the Change in Control;

(b) the Restricted Period may expire as of a time prior to the Change in Control (including without limitation a waiver of any applicable Performance Goals);

(c) Performance Periods in effect on the date the Change in Control occurs may end on such date, and the Committee (i) shall determine the extent to which Performance Goals with respect to each such Performance Period have been met based upon such audited or unaudited financial information or other information then available as it deems relevant and (ii) may cause the Participant to receive partial or full payment of Awards for each such Performance Period based upon the Committee's determination of the degree of attainment of the Performance Goals, or assuming that the applicable "target" levels of performance have been attained or on such other basis determined by the Committee.

To the extent practicable, any actions taken by the Committee under the immediately preceding clauses (a) through (c) shall occur in a manner and at a time which allows affected Participants the ability to participate in the Change in Control transactions with respect to the Common Shares subject to their Awards. In the event no action is taken by the Committee to allow for the changes set forth in immediately preceding clauses (a) through (c), then no changes to the Award shall be effected.

14. *Amendments and Termination.*

(a) Amendment and Termination of this Plan. The Board may amend, alter, suspend, discontinue, or terminate this Plan or any portion thereof at any time; provided, that (i) no amendment to the definition of Eligible Employee in Section 2, Section 5(b), Section 11(c) or Section 14(b) (to the extent required by the proviso in such Section 14(b)) shall be made without stockholder approval and (ii) no such amendment, alteration, suspension, discontinuation or termination shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to this Plan (including, without limitation, as necessary to comply with any rules or requirements of any securities exchange or inter-dealer quotation system on which the Common Shares may be listed or quoted or to prevent the Company from being denied a tax deduction under Section 162(m) of the Code); and, provided, further, that any such amendment, alteration, suspension, discontinuance or termination that would materially and adversely affect the rights of any Participant or any holder or beneficiary of any Award theretofore granted shall not to that extent be effective without the prior written consent of the affected Participant, holder or beneficiary.

(c) Amendment of Award Agreements. The Committee may, to the extent consistent with the terms of any applicable Award agreement, waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, any Award theretofore granted or the associated Award agreement, prospectively or retroactively; provided, however that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would materially and adversely affect the rights of any Participant with respect to any Award theretofore granted shall not to that extent be effective without the consent of the affected Participant; and, provided, further, that without stockholder approval, except as otherwise permitted under Section 12 of this Plan, (i) no amendment or modification may reduce the Exercise Price of any Option or the Strike Price of any SAR, (ii) the Committee may not cancel any outstanding Option or SAR and replace it with a new Option or SAR, another Award or cash or take any action that would have the effect of treating such Award as a new Award for tax or accounting purposes and (iii) the Committee may not take any other action that is considered a "repricing" for purposes of the stockholder approval rules of the applicable securities exchange or inter-dealer quotation system on which the Common Shares are listed or quoted.

15. *General.*

(a) Award Agreements. Each Award under this Plan shall be evidenced by an Award agreement, which shall be delivered to the Participant (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)) and shall specify the terms and conditions of the Award and any rules applicable thereto, including without limitation, the effect on such Award of the death, Disability or termination of employment or service of a Participant, or of such other events as may be determined by the Committee. The Company's failure to specify any term of any Award in any particular Award agreement shall not invalidate such term, provided such terms was duly adopted by the Board or the Committee.

(b) Nontransferability; Trading Restrictions.

(i) Each Award shall be exercisable only by a Participant during the Participant's lifetime, or, if permissible under applicable law, by the Participant's legal guardian or representative. No Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant other than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or an Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

(ii) Notwithstanding the foregoing, the Committee may, in its sole discretion, permit Awards (other than Incentive Stock Options) to be transferred by a Participant, with or without consideration, subject to such rules as the Committee may adopt consistent with any applicable Award agreement to preserve the purposes of this Plan, to: (A) any person who is a "family member" of the Participant, as such term is used in the instructions to Form S-8 under the Securities Act (collectively, the "Immediate Family Members"); (B) a trust solely for the benefit of the Participant and his or her Immediate Family Members; or (C) a partnership or limited liability company whose only partners or stockholders are the Participant and his or her Immediate Family Members; or (D) any other transferee as may be approved either (I) by the Board or the Committee in its sole discretion, or (II) as provided in the applicable Award agreement (each transferee described in clauses (A), (B) (C) and (D) above is hereinafter referred to as a "Permitted Transferee"); provided, that the Participant gives the Committee advance written notice describing the terms and conditions of the proposed transfer and the Committee notifies the Participant in writing that such a transfer would comply with the requirements of this Plan.

(iii) The terms of any Award transferred in accordance with the immediately preceding sentence shall apply to the Permitted Transferee and any reference in this Plan, or in any applicable Award agreement, to a Participant shall be deemed to refer to the Permitted Transferee, except that (A) Permitted Transferees shall not be entitled to transfer any Award, other than by will or the laws of descent and distribution; (B) Permitted Transferees shall not be entitled to exercise any transferred Option unless there shall be in effect a registration statement on an appropriate form covering the Common Shares to be acquired pursuant to the exercise of such Option if the Committee determines, consistent with any applicable Award agreement, that such a registration statement is necessary or appropriate; (C) the Committee or the Company shall not be required to provide any notice to a Permitted Transferee, whether or not such notice is or would otherwise have been required to be given to the Participant under this Plan or otherwise; and (D) the consequences of the termination of the Participant's employment by, or services to, the Company or an Affiliate under the terms of this Plan and the applicable Award agreement shall continue to be applied with respect to the Participant, including, without limitation, that an Option shall be exercisable by the Permitted Transferee only to the extent, and for the periods, specified in this Plan and the applicable Award agreement.

(iv) The Committee shall have the right, either on an Award-by-Award basis or as a matter of policy for all Awards or one or more classes of Awards, to condition the delivery of vested Common Shares received in connection with such Award on the Participant's agreement to such restrictions as the Committee may determine.

(c) Tax Withholding.

(i) A Participant shall be required to pay to the Company or any Affiliate, or the Company or any Affiliate shall have the right and is hereby authorized to withhold, from any cash, Common Shares, other securities or other property deliverable under any Award or from any compensation or other amounts owing to a Participant, the amount (in cash, Common Shares, other securities or other property) of any required withholding taxes in respect of an Award, its exercise, or any payment or transfer under an Award or under this Plan and to take such other action as may be necessary in the opinion of the Committee or the Company to satisfy all obligations for the payment of such withholding and taxes.

(ii) Without limiting the generality of clause (i) above, the Committee may, in its sole discretion, permit a Participant to satisfy, in whole or in part, the foregoing withholding liability by (A) the delivery of Common Shares (which are not subject to any pledge or other security interest and are Mature Shares) owned by the Participant having a fair market value equal to such withholding liability or (B) having the Company withhold from the number of Common Shares otherwise issuable or deliverable pursuant to the exercise or settlement of the Award a number of shares with a fair market value equal to such withholding liability (but no more than the minimum required statutory withholding liability).

(d) No Claim to Awards; No Rights to Continued Employment; Waiver. No employee of the Company or an Affiliate, or other person, shall have any claim or right to be granted an Award under this Plan or, having been selected for the grant of an Award, to be selected for a grant of any other Award. There is no obligation for uniformity of treatment of Participants or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant and may be made selectively among Participants, whether or not such Participants are similarly situated. Neither this Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ or service of the Company or an Affiliate, nor shall it be construed as giving any Participant any rights to continued service on the Board. The Company or any of its Affiliates may at any time dismiss a Participant from employment or discontinue any consulting relationship, free from any liability or any claim under this Plan, unless otherwise expressly provided in this Plan or any Award agreement. By accepting an Award under this Plan, a Participant shall thereby be deemed to have waived any claim to continued exercise or vesting of an Award or to damages or severance entitlement related to non-continuation of the Award beyond the period provided under this Plan or any Award agreement, notwithstanding any provision to the contrary in any written employment contract or other agreement between the Company and its Affiliates and the Participant, whether any such agreement is executed before, on or after the Date of Grant.

(e) International Participants. With respect to Participants who reside or work outside of the United States of America and who are not (and who are not expected to be) "covered employees" within the meaning of Section 162(m) of the Code, the Committee may in its sole discretion amend the terms of this Plan or outstanding Awards (or establish a sub-plan) with respect to such Participants in order to conform such terms with the requirements of local law or to obtain more favorable tax or other treatment for a Participant, the Company or its Affiliates.

(f) Designation and Change of Beneficiary. Each Participant may file with the Committee a written designation of one or more persons as the beneficiary(ies) who shall be entitled to receive the amounts payable with respect to an Award, if any, due under this Plan upon his or her death. A Participant may, from time to time, revoke or change his or her beneficiary designation without the consent of any prior beneficiary by filing a new designation with the Committee. The last such designation filed with the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by a Participant, the beneficiary shall be deemed to be his or her spouse or, if the Participant is unmarried at the time of death, his or her estate. Upon the occurrence of a Participant's divorce (as evidenced by a final order or decree of divorce), any spousal designation previously given by such Participant shall automatically terminate.

(g) Termination of Employment/Service. Unless determined otherwise by the Committee at any point following such event:

(i) neither a temporary absence from employment or service due to illness, vacation or leave of absence nor a transfer from employment or service with the Company to employment or service with an Affiliate (or vice-versa) shall be considered a termination of employment or service with the Company or an Affiliate; and (ii) if a Participant's employment with the Company and its Affiliates terminates, but such Participant continues to provide services to the Company and its Affiliates in a non-employee capacity (or vice-versa), such change in status shall not be considered a termination of employment with the Company or an Affiliate.

(h) No Rights as a Stockholder. Except as otherwise specifically provided in this Plan or any Award agreement, no person shall be

entitled to the privileges of ownership in respect of Common Shares that are subject to Awards hereunder until such shares have been issued or delivered to that person.

(i) Government and Other Regulations.

(i) The obligation of the Company to settle Awards in Common Shares or other consideration shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any Award to the contrary, the Company shall be under no obligation to offer to sell or to sell, and shall be prohibited from offering to sell or selling, any Common Shares pursuant to an Award unless such shares have been properly registered for sale pursuant to the Securities Act with the Securities and Exchange Commission or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale under the Securities Act any of the Common Shares to be offered or sold under this Plan. The Committee shall have the authority to provide that all certificates for Common Shares or other securities of the Company or any Affiliate delivered under this Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under this Plan, the applicable Award agreement, the federal securities laws, or the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or inter-dealer quotation system upon which such shares or other securities are then listed or quoted and any other applicable federal, state, local or non-U.S. laws, and, without limiting the generality of Section 9 of this Plan, the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. Notwithstanding any provision in this Plan to the contrary, the Committee reserves the right to add any additional terms or provisions to any Award granted under this Plan that it in its sole discretion deems necessary or advisable in order that such Award complies with the legal requirements of any governmental entity to whose jurisdiction the Award is subject.

(ii) The Committee may cancel an Award or any portion thereof if it determines, in its sole discretion, that legal or contractual restrictions and/or blockage and/or other market considerations would make the Company's acquisition of Common Shares from the public markets, the Company's issuance of Common Shares to the Participant, the Participant's acquisition of Common Shares from the Company and/or the Participant's sale of Common Shares to the public markets, illegal, impracticable or inadvisable. If the Committee determines to cancel all or any portion of an Award in accordance with the foregoing, unless doing so would violate Section 409A of the Code, the Company shall pay to the Participant an amount equal to the excess of (A) the aggregate fair market value of the Common Shares subject to such Award or portion thereof canceled (determined as of the applicable exercise date, or the date that the shares would have been vested or delivered, as applicable), over (B) the aggregate Exercise Price or Strike Price (in the case of an Option or SAR, respectively) or any amount payable as a condition of delivery of Common Shares (in the case of any other Award). Such amount shall be delivered to the Participant as soon as practicable following the cancellation of such Award or portion thereof. The Committee shall have the discretion to consider and take action to mitigate the tax consequence to the Participant in cancelling an Award in accordance with this clause.

(j) Payments to Persons Other Than Participants. If the Committee shall find that any person to whom any amount is payable under this Plan is unable to care for his affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or his estate (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so directs the Company, be paid to his spouse, child, relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Company therefor.

(k) Nonexclusivity of this Plan. Neither the adoption of this Plan by the Board nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options or other equity-based awards otherwise than under this Plan, and such arrangements may be either applicable generally or only in specific cases.

(l) No Trust or Fund Created. Neither this Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate, on the one hand, and a Participant or other person or entity, on the other hand. No provision of this Plan or any Award shall require the Company, for the purpose of satisfying any obligations under this Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Participants shall have no rights under this Plan other than as general unsecured creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law.

(m) Reliance on Reports. Each member of the Committee and each member of the Board shall be fully justified in acting or failing to act, as the case may be, and shall not be liable for having so acted or failed to act in good faith, in reliance upon any report made by the independent public accountant of the Company and its Affiliates and/or any other information furnished in connection with this Plan by any agent of the Company or the Committee or the Board, other than himself.



(n) Relationship to Other Benefits. No payment under this Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company except as otherwise specifically provided in such other plan.

(o) Governing Law. The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to the conflict of laws provisions.

(p) Severability. If any provision of this Plan or any Award or Award agreement is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or entity or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws in the manner that most closely reflects the original intent of the Award or the Plan, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of this Plan or the Award, such provision shall be construed or deemed stricken as to such jurisdiction, person or entity or Award and the remainder of this Plan and any such Award shall remain in full force and effect.

(q) Obligations Binding on Successors. The obligations of the Company under this Plan shall be binding upon any successor corporation or organization resulting from the merger, amalgamation, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company.

(r) Code Section 162(m) Approval. If so determined by the Committee, the provisions of this Plan regarding Performance Compensation Awards shall be disclosed and reapproved by stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders previously approved such provisions, in each case in order for certain Awards granted after such time to be exempt from the deduction limitations of Section 162(m) of the Code. Nothing in this clause, however, shall affect the validity of Awards granted after such time if such stockholder approval has not been obtained.

(s) Expenses; Gender; Titles and Headings. The expenses of administering this Plan shall be borne by the Company and its Affiliates. Masculine pronouns and other words of masculine gender shall refer to both men and women. The titles and headings of the sections in this Plan are for convenience of reference only, and in the event of any conflict, the text of this Plan, rather than such titles or headings shall control.

(t) Other Agreements. Notwithstanding the above, the Committee may require, as a condition to the grant of and/or the receipt of Common Shares under an Award, that the Participant execute lock-up, stockholder or other agreements, as it may determine in its sole and absolute discretion.

(u) Section 409A. The Plan and all Awards granted hereunder are intended to comply with, or otherwise be exempt from, the requirements of Section 409A of the Code. The Plan and all Awards granted under this Plan shall be administered, interpreted, and construed in a manner consistent with Section 409A of the Code to the extent necessary to avoid the imposition of additional taxes under Section 409A(a)(1)(B) of the Code. Notwithstanding anything in this Plan to the contrary, in no event shall the Committee exercise its discretion to accelerate the payment or settlement of an Award where such payment or settlement constitutes deferred compensation within the meaning of Section 409A of the Code unless, and solely to the extent that, such accelerated payment or settlement is permissible under Section 1.409A-3(j)(4) of the Treasury Regulations. If a Participant is a "specified employee" (within the meaning of Section 1.409A-1(i) of the Treasury Regulations) at any time during the twelve (12)-month period ending on the date of his termination of employment, and any Award hereunder subject to the requirements of Section 409A of the Code is to be satisfied on account of the Participant's termination of employment, satisfaction of such Award shall be suspended until the date that is six (6) months after the date of such termination of employment.

(v) Payments. Participants shall be required to pay, to the extent required by applicable law, any amounts required to receive Common Shares under any Award made under this Plan.

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## Recon Technology Reports its Operation Results for Fiscal Year 2016

BEIJING, Sept. 28, 2016 /PRNewswire/ -- Recon Technology, Ltd. (NASDAQ: RCON), ("Recon" or the "Company"), a leading independent oilfield services provider operating primarily in China, today announced its financial results for fiscal year ended June 30, 2016.

### Fiscal Year 2016 Highlights:

- Revenues were approximately RMB42.7 million (\$6.4 million) for the year ended June 30, 2016, a decrease of 17.1% from RMB51.5 million from the previous fiscal year.
- During fiscal year 2016, the Company expanded the new market of oilfield waste water treatment, with revenue of RMB2.3 million.
- Gross profit was approximately RMB7.2 million (\$1.1 million) for the year ended June 30, 2016, compared to approximately RMB10.1 million for the same period in 2015.
- Operating loss was RMB39.9 million (\$6.0 million) for FY2016, compared to operating loss of RMB35.5 million for FY2015.
- Net loss attributable to Recon for FY2016 was RMB40.9 million (\$6.2 million), or RMB7.23 (\$1.09) per diluted share, compared to net loss attributable to Recon of RMB31.5 million, or RMB6.45 per diluted share, for FY2015.

Although total revenue for the year ended June 30, 2016 decreased RMB8.8 million or 17.1% from the previous fiscal year, our service business increased 1,040% to RMB1.2 million from fiscal year of 2015 and we expanded the new market of oilfield waste water treatment in fiscal year 2016.

Mr. Shenping Yin, Chairman and CEO of Recon stated, "We are facing a tough economic environment, however we expect to expand to new markets and develop more opportunities in the following year to better prepare for the eventual recovery of the oil and gas industry."

### FY2016 Financial Results

#### Revenues

(thousands)	2015 RMB	2016 RMB	% Change
Revenues	51,513	42,728	-17.1%
Hardware and software	48,981	41,544	-15.2%
Service	104	1,183	1040.3%
Hardware and software - related parties	2,428	-	-100%
Gross margin	19.6%	17.0%	-2.6%
Operating (loss) margin	-68.9%	-93.4%	24.5%
Net income (loss) attributable to RCON	-31,456	-40,883	29.97%
Diluted earnings (loss) per share	-6.45	-7.23	12.09%

Total revenues for the year ended June 30, 2016 were approximately RMB42.7 million (\$6.4 million), a decrease of approximately RMB8.8 million or 17.1% from RMB51.5 million for the year ended June 30, 2015. Revenues from non-related party hardware and software sales decreased 15.2% to RMB41.5 million mainly caused by weak equipment requirements for furnaces for the first half of fiscal year 2016. There was no revenue or cost of hardware and software from related parties since the company developed business directly with oilfield during 2016. Revenues from service increased by RMB1.1 million, or 1040.3%, to RMB1.18 million for the twelve months ended June 30, 2016, compared to RMB0.1 million for the same period of last fiscal year.

### **Gross profit and gross margin**

Gross profit decreased to approximately RMB7.2 million (\$1.1 million) for the year ended June 30, 2016 from approximately RMB10.1 million for the same period in 2015. Gross margin was 17.0% for the year ended June 30, 2016, compared to 19.6% for last fiscal year.

### **Operating income (loss) and operating (loss) margin**

Selling and distribution expenses decreased approximately RMB5.7 million to RMB5.6 million for the year ended June 30, 2016 compared to the same period in 2015. General and administrative expenses decreased by 24.9% or RMB6.7 million (\$1.0 million), from approximately RMB26.9 million in the year ended June 30, 2015 to approximately RMB20.2 million (\$3.0 million) in the same period of 2016. Research and development expenses increased from approximately RMB4.2 million for the year ended June 30, 2015 to approximately RMB6.9 million (\$1.0 million) for the same period of 2016. Total operating expenses increased by RMB1.5 million, or 3.4%, to RMB47.2 million for the year ended June 30, 2016 from RMB45.6 million for last fiscal year.

Operating loss was approximately RMB39.9 million (\$6.0 million) for the year ended June 30, 2016, compared to a loss of RMB35.5 million for the same period of 2015. Operating loss margin was 93.4% for the year ended June 30, 2016, compared to operating margin of 68.9% for last fiscal year.

### **Net income (loss)**

Net loss was approximately RMB40.9 million (\$6.2 million) for the year ended June 30, 2016, an increase of approximately RMB9.4 million (\$1.4 million) from net loss of RMB31.5 million for last fiscal year.

### **Financial Position**

As of June 30, 2016, we had cash in the amount of approximately RMB1.8 million (\$0.3 million), compared to approximately RMB12.3 million at June 20, 2015. Working capital as of June 30, 2016 was RMB44.5 million (\$6.7 million) as compared to RMB72.4 million at June 30, 2015. Net cash used in operating activities was RMB0.3 million (\$0.04 million) for the year ended June 30, 2016, compared to RMB15.1 million for the last fiscal year. Net cash used in investing activities was approximately RMB0.1 million (\$18.2 thousand) for the year ended June 30, 2016, a decrease of approximately RMB1.6 million compared to last fiscal year. Net cash used in financing activities amounted to RMB10.2 million (\$1.5 million) for the year ended June 30, 2016, as compared to net cash provided by financing activities of \$11.1 million for the same period ended June 30, 2015. During the year ended June 30, 2016, we repaid RMB16.8 million (\$2.5 million) short-term borrowings to two related parties and repaid RMB7.5 million (\$1.1 million) short-term bank loans, and we received RMB12.9 million (\$1.9 million) from two related parties, received RMB0.5 million (\$0.1 million) in short-term bank loans and received RMB0.5 million (\$0.1 million) in short-term borrowings from one third-party.

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## **Recent Development**

On July 23, 2016, our board of directors resolved not to proceed with the Company's plan to acquire Qinghai Huayou Downhole Technology Co., Ltd., a PR China limited liability company ("QHHY"), and, as a result, terminated the share purchase agreement and related control agreements (together, the "Agreements") between the Company, its wholly owned subsidiary Recon Hengda Technology (Beijing) Co., Ltd., QHHY and QHHY's shareholders.

As previously reported on our Form 8-K filed with the Securities and Exchange Commission on December 7, 2015, pursuant to the Agreements, Recon BJ was to acquire QHHY, a China-based oil field service provider, in exchange for \$3.60 million worth of the Company's ordinary shares and up to \$4.8 million in cash, subject to QHHY achieving certain operating goals. The Board of Directors determined that it would terminate the Agreements following the completion of an audit of QHHY for the 2014 and 2015 fiscal years and a review of the first two quarters of the 2016 fiscal year, after which time the Company determined that QHHY had not met its financial projections for fiscal 2015 and was not expected to achieve its projections for fiscal 2016. The parties attempted to renegotiate the terms of the acquisition, but were unable to reach an agreement based on the decreased valuation of QHHY. The Company faces no early termination penalties as a result of terminating the Agreements.

## **About Recon**

Recon Technology, Ltd. is China's first listed non-state owned oil and gas field service company on Nasdaq (RCON). Recon supplies China's largest oil exploration companies, Sinopec and CNPC, with advanced automated technologies, efficient gathering and transportation equipment and reservoir stimulation measure for increasing petroleum extraction levels, reducing impurities and lowering production costs. Through the years, RCON has taken leading positions on several segmented markets of the oil and gas field service industry. RCON also has developed stable long-term cooperation relationship with its major clients, and its products and service are also well accepted by clients. For additional information please visit us at [www.recon.cn](http://www.recon.cn).

## **Company Contact**

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**RECON TECHNOLOGY, LTD**  
**CONSOLIDATED BALANCE SHEETS**

	As of June 30, 2015 RMB	As of June 30, 2016 RMB	As of June 30, 2016 U.S. Dollars
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	12,344,929	1,817,620	\$ 273,560
Notes receivable	4,205,530	4,660,177	701,377
Trade accounts receivable, net	52,186,397	38,097,626	5,733,855
Trade accounts receivable- related parties, net	4,769,800	-	-
Inventories, net	10,845,007	6,313,070	950,144
Other receivables, net	18,064,568	22,000,112	3,311,111
Other receivables- related parties	91,021	-	-
Purchase advances, net	18,622,538	1,323,305	199,163
Purchase advances- related parties	394,034	-	-
Prepaid expenses	826,314	110,310	16,602
Prepaid expenses - related parties	420,000	-	-
Deferred tax assets	1,742,098	-	-
<b>Total current assets</b>	<b>124,512,236</b>	<b>74,322,220</b>	<b>11,185,812</b>
Property and equipment, net	2,666,953	2,907,762	437,631
Long-term trade accounts receivable, net	4,440,665	2,220,332	334,169
Long-term other receivable	2,729,033	-	-
<b>Total Assets</b>	<b>134,348,887</b>	<b>79,450,314</b>	<b>\$ 11,957,612</b>
<b>Current liabilities</b>			
Short-term bank loans	7,000,000	-	\$ -
Trade accounts payable	13,627,088	7,540,430	1,134,867
Trade accounts payable- related parties	3,528,705	-	-
Other payables	2,103,057	2,972,192	447,328
Other payable- related parties	4,309,702	3,680,244	553,892
Deferred revenue	2,285,529	406,681	61,207
Advances from customers	529,700	200,600	30,191
Accrued payroll and employees' welfare	246,789	381,109	57,359
Accrued expenses	199,166	261,348	39,334
Taxes payable	1,153,216	755,880	113,763
Short-term borrowings	-	530,000	79,767
Short-term borrowings - related parties	16,916,905	12,941,848	1,947,803
Deferred tax liability	180,186	180,186	27,119
<b>Total current liabilities</b>	<b>52,080,043</b>	<b>29,850,518</b>	<b>4,492,630</b>
<b>Equity</b>			
Common stock, (\$ 0.0185 U.S. dollar par value, 100,000,000 shares authorized; 5,427,946 and 5,804,005 shares issued and outstanding as of June 30, 2015 and 2016, respectively)	697,217	741,467	111,594
Additional paid-in capital	92,541,687	100,612,455	15,142,604
Statutory reserve	4,148,929	4,148,929	624,432
Accumulated deficits	(23,024,935)	(63,907,512)	(9,618,353)
Accumulated other comprehensive loss	(317,551)	(219,040)	(32,966)
<b>Total shareholders' equity</b>	<b>74,045,347</b>	<b>41,376,299</b>	<b>6,227,311</b>
<b>Non-controlling interest</b>	<b>8,223,497</b>	<b>8,223,497</b>	<b>1,237,671</b>
<b>Total equity</b>	<b>82,268,844</b>	<b>49,599,796</b>	<b>7,464,982</b>
<b>Total Liabilities and Equity</b>	<b>134,348,887</b>	<b>79,450,314</b>	<b>\$ 11,957,612</b>

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,		
	2015	2016	2016
	RMB	RMB	USD
<b>Revenues</b>			
Hardware and software	48,980,953	41,544,925	\$ 6,252,688
Service	103,774	1,183,352	178,100
Hardware and software - related parties	2,428,173	-	-
<b>Total revenues</b>	<b>51,512,900</b>	<b>42,728,277</b>	<b>6,430,788</b>
<b>Cost of revenues</b>			
Hardware and software	41,373,566	34,732,965	\$ 5,227,459
Service	-	748,429	112,642
Hardware and software - related parties	27,161	-	-
<b>Total cost of revenues</b>	<b>41,400,727</b>	<b>35,481,394</b>	<b>5,340,101</b>
<b>Gross profit</b>	<b>10,112,173</b>	<b>7,246,883</b>	<b>1,090,687</b>
Selling and distribution expenses	11,312,452	5,630,715	847,447
General and administrative expenses	26,894,273	20,195,701	3,039,539
Provision for doubtful accounts	3,252,868	14,475,074	2,178,560
Research and development expenses	4,168,813	6,856,522	1,031,936
<b>Operating expenses</b>	<b>45,628,406</b>	<b>47,158,012</b>	<b>7,097,482</b>
<b>Loss from operations</b>	<b>(35,516,233)</b>	<b>(39,911,129)</b>	<b>(6,006,795)</b>
<b>Other income (expenses)</b>			
Subsidy income	781,457	289,087	43,509
Interest income	293,499	183,553	27,626
Interest expense	(1,110,451)	(903,368)	(135,961)
Change in fair value of warrants liability	4,034,272	-	-
Income (loss) from foreign currency exchange	(19,190)	7,570	1,139
Loss from warrants redemption	(2,496,375)	-	-
Other income (expense)	24,558	(2,445)	(368)
<b>Other income (expense)</b>	<b>1,507,770</b>	<b>(425,603)</b>	<b>(64,055)</b>
<b>Loss before income tax</b>	<b>(34,008,463)</b>	<b>(40,336,732)</b>	<b>(6,070,850)</b>
Provision (benefit) for income tax	(2,552,075)	545,845	82,152
<b>Net loss</b>	<b>(31,456,388)</b>	<b>(40,882,577)</b>	<b>(6,153,002)</b>
<b>Comprehensive loss</b>			
Net loss	(31,456,388)	(40,882,577)	(6,153,002)
Foreign currency translation adjustment	(38,276)	98,511	14,826
<b>Comprehensive loss</b>	<b>(31,494,664)</b>	<b>(40,784,066)</b>	<b>(6,138,176)</b>
Less: Comprehensive loss attributable to non-controlling interest	(1,982)	-	-
<b>Comprehensive loss attributable to Recon Technology, Ltd</b>	<b>(31,492,682)</b>	<b>(40,784,066)</b>	<b>\$ (6,138,176)</b>
<b>Loss per common share - basic</b>	<b>(6.45)</b>	<b>(7.23)</b>	<b>\$ (1.09)</b>
<b>Loss per common share - diluted</b>	<b>(6.45)</b>	<b>(7.23)</b>	<b>\$ (1.09)</b>
<b>Weighted - average shares -basic</b>	<b>4,876,504</b>	<b>5,653,149</b>	<b>5,653,149</b>
<b>Weighted - average shares -diluted</b>	<b>4,876,504</b>	<b>5,653,149</b>	<b>5,653,149</b>

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,		
	2015	2016	2016
	RMB	RMB	U.S. Dollars
<b>Cash flows from operating activities:</b>			
Net loss	(31,456,388)	(40,882,577)	\$ (6,153,002)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation	526,046	955,083	143,744
Gain from disposal of equipment	(193,657)	(40,688)	(6,124)
Provision for doubtful accounts	3,252,868	14,475,074	2,178,560
Provision for slow moving inventories	7,700,836	2,428,288	365,468
Share based compensation	3,123,417	5,691,308	856,566
Deferred tax (benefit) provision	(532,136)	1,742,098	262,193
Change in fair value of warrants liability	(4,034,272)	-	-
Restricted shares issued for services	1,585,462	2,287,415	344,266
Loss from warrants redemption	2,496,375	-	-
Income tax benefit	(2,111,281)	(1,196,253)	(180,041)
<b>Changes in operating assets and liabilities:</b>			
Notes receivable	(4,205,530)	(454,647)	(68,426)
Trade accounts receivable	(3,245,218)	14,658,360	2,206,146
Trade accounts receivable-related parties	4,315,755	1,090,453	164,118
Inventories	(4,209,241)	1,191,811	179,373
Other receivable, net	2,481,328	(1,775,659)	(267,244)
Other receivables-related parties, net	1,323,412	91,021	13,699
Purchase advance, net	3,271,935	4,930,479	742,058
Purchase advance-related parties, net	-	1,374,034	206,798
Prepaid expense	1,808,350	716,004	107,762
Prepaid expense - related parties, net	(190,000)	420,000	63,212
Trade accounts payable	2,213,583	(9,615,363)	(1,447,153)
Trade accounts payable-related parties	3,528,705	-	-
Other payables	337,978	869,135	130,809
Other payables-related parties	1,003,678	1,869,889	281,426
Deferred revenue	(2,134,295)	(1,878,848)	(282,775)
Advances from customers	(271,685)	(329,100)	(49,531)
Accrued payroll and employees' welfare	(170,835)	134,320	20,216
Accrued expenses	5,291	172,490	25,960
Taxes payable	(1,322,818)	790,199	118,928
<b>Net cash used in operating activities</b>	<b>(15,102,337)</b>	<b>(285,674)</b>	<b>(42,994)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	(2,078,204)	(181,075)	(27,253)
Proceeds from disposal of equipment	400,400	60,000	9,030
<b>Net cash used in investing activities</b>	<b>(1,677,804)</b>	<b>(121,075)</b>	<b>(18,223)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from short-term bank loans	7,000,000	500,000	75,252
Repayments of short-term bank loans	(10,000,000)	(7,500,000)	(1,128,782)
Proceeds from short-term borrowings	-	530,000	79,767
Proceeds from short-term borrowings-related parties	18,250,000	12,895,400	1,940,813
Repayment of short-term borrowings-related parties	(6,550,000)	(16,780,765)	(2,525,577)
Proceeds from sale of common stock, net of issuance costs	2,392,027	171,919	25,874
<b>Net cash provided by (used in) financing activities</b>	<b>11,092,027</b>	<b>(10,183,446)</b>	<b>(1,532,653)</b>
<b>Effect of exchange rate fluctuation on cash and cash equivalents</b>	<b>(61,543)</b>	<b>62,886</b>	<b>9,466</b>
<b>Net decrease in cash</b>	<b>(5,749,657)</b>	<b>(10,527,309)</b>	<b>(1,584,404)</b>
<b>Cash at beginning of the year</b>	<b>18,094,586</b>	<b>12,344,929</b>	<b>1,857,964</b>
<b>Cash at end of the year</b>	<b>12,344,929</b>	<b>1,817,620</b>	<b>\$ 273,560</b>
<b>Supplemental cash flow information</b>			
<b>Cash paid during the period for interest</b>	<b>1,060,529</b>	<b>903,368</b>	<b>\$ 135,961</b>
<b>Cash paid during the period for taxes</b>	<b>881,794</b>	<b>142,477</b>	<b>\$ 21,443</b>
<b>Non-cash investing and financing activities</b>			
Issuance of common stock to redeem warrants	3,462,438	-	-
AR and short-term borrowings-related parties offset	-	200,000	30,101
Inventories used for fixed assets	-	1,025,410	154,329



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

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