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

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended June 30, 2018

OR

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

OR

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

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

For the transition period from to

Commission file number 001-34409

RECON TECHNOLOGY, LTD
(Exact name of Registrant as specified in its charter)

Cayman Islands
(Jurisdiction of incorporation or organization)

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

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People's Republic of China

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

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

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

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

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

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

¨ Yes x No

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

¨ Yes x No

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

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

x Yes ¨ No

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

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

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

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

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

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

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

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

¨ Item 17 ¨ Item 18

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

¨ Yes x No

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

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

¨ Yes ¨ No

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable for annual reports on Form 20-F.

Item 2. Offer Statistics and Expected Timetable

Not applicable for annual reports on Form 20-F.

Item 3. Key Information

A. Selected Financial Data

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

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

Statement of operations data:

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

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Balance sheet data:

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

Exchange Rate Information

The Company's functional currency is the Chinese Yuan ("RMB") and the accompanying consolidated financial statements have been expressed in Chinese Yuan. The consolidated financial statements as of and for the year ended June 30, 2018 have been translated into United States dollars ("U.S. dollars") solely for the convenience of the readers. The translation has been made at the rate of ¥6.6198 = US$ 1.00, the approximate exchange rate prevailing on June 30, 2018. These translated U.S. dollar amounts should not be construed as representing Chinese Yuan amounts or that the Chinese Yuan amounts have been or could be converted into U.S. dollars.

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

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

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

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

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

B. Capitalization and Indebtedness

Not applicable by 20-F as an annual report.

C. Reasons for the Offer and Use of Proceeds

Not applicable by 20-F as an annual report.

D. Risk Factors

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in environmental and regulatory factors may harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Corporate Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Doing Business in China

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

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

- the higher level of government involvement;
-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Ordinary Shares

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

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

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and

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

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

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

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

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

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

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

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

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

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

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

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

Item 4. Information on the Company

A. History and Development of the Company

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

We conduct our business through the following PRC legal entities that are consolidated as variable interest entities (“VIEs”) and operate in the Chinese oilfield equipment & service industry:

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

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

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

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

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

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

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

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

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

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

BHD, one VIE, controls following subsidiaries:

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

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

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

B. Business Overview

General

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

The Company serves as the center of strategic management, financial control and human resources allocation for the Domestic Companies. Through our contractual relationships with the Domestic Companies, we provide equipment, tools and other hardware related to oilfield production and management and develop and sell our own specialized industrial automation control and information solutions. However, we do not engage in the production of petroleum or petroleum products.

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

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

Market Background

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

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

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

Products and Services

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

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

Equipment for Oil and Gas Production and Transportation

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

- *Burner (as shown above by process "5"). We serve as an agent for the Unigas Burner which is designed and manufactured by UNIGAS, a European burning equipment production company. The burner we provide has the following characteristics: high degree of automation; energy conservation; high turn-down ratio; high security and environmental safety.*

Oil and Gas Production Improvement Techniques

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

- *Production Packer. According to different withdraw points, the production packer separates different oil layers, and protects the oil pipe from sand and permeability, so as to promote the recovery ratio.*

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

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

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

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

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

Automation System and Service

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

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

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

- *Electric Multi-Way Valve for Oilfield Metering Station Flow Control. Refers to process "2" above. This multi-way valve is used before the test separator to replace the existing three valve manifolds. It facilitates the electronic control of the connection of the oil lead pipeline with the separator.*

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

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

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

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

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

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

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

Waste Water and Oil Treatment Products and Services

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

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

ISO9000 Certification

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

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

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

Customers

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

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

CNPC

- Qinghai Oilfield
- Tuha Oilfield
- Daqing Oilfield
- Jidong Oilfield
- Sichuan Oilfield
- Xinjiang Oilfield
- Huabei Oilfield
- Jilin Oilfield
- Changqing Oilfield

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

Sinopec

- Jiangsu Oilfield
- Shengli Oilfield

- The Northwest Division

- The Southwest Division

- Zhongyuan Oilfield

- Sichuan Oilfield

- Jianghan Oilfield

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

Other Customers

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

Our Strengths

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

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

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

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

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

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

Our Strategies

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

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

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

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

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

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

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

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

Competition

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

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

Our primary domestic competitors include the following:

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

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

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

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

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

Research and Development

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

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

Intellectual Property

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

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

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

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

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

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

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

1. Trademark of "BHD" valid from November 7, 2003 through November 6, 2023;

2. Trademark of "Recon" of the 7th classification valid from October 21, 2011 through October 20, 2021;

3. Trademark of "Recon" of the 9th classification valid from April 21, 2011 through April 20, 2021; and

4. Trademark of "Recon" of the 42nd classification valid from September 7, 2011 through September 6, 2021.

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

1. Patent of high pressure natural gas water heater valid until June 30, 2019;

2. Patent of negative pressure heater valid until June 30, 2019;

3. Patent of water jacket furnace valid until June 30, 2019;

4. Patent of hot water furnace valid until April 8, 2021;

5. Patent of efficient gas-liquid separator valid until August 15, 2021;

6. Patent of efficient oil-gas-water separator valid until October 24, 2021;

7. Patent of horizontal type furnace valid until December 14, 2022;

8. Patent of vertical type furnace valid until December 13, 2022;

9. Patent of vacuum furnace valid until December 14, 2022;

10. Patent of wireless pressure sensor valid until November 11, 2023;

11. Patent of wireless start-end module valid until November 11, 2023;

12. Patent of one-piece skid mount package of heating, separating, buffering and pressurizing valid until June 30, 2024;

13. Patent of oily sewage treatment equipment valid until July 8, 2025;

14. Patent of an oil-water well smart wireless pressure transmitter valid until November 17, 2026;

15. Patent of an oily sewage treatment bio-stimulants and Production Methods valid until July 11,2027; and

16. Patent of torch specialized for oilfield waste-gas burning valid until July 10, 2028.

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

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

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2. Recon SCADA field monitoring and data acquisition system software version 2.0 was published on August 18, 2003, and version 3.0 was registered and published on April 5, 2008;

3. Recon RCNAMT version 1 was published on April 27, 2012;

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

5. Recon Industrial Process Control system V2.0 was published on August 13, 2013, and V1.0 was published on December 25, 2012; and

6. Recon Oil and Gas Processing SCADA System V1.0 was published on March 2, 2016.

Environmental Matters

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

China's Intellectual Property Rights Enforcement System

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

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

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

Regulations

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

Regulation on Software Products

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

Regulation of Intellectual Property Rights

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

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

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

Regulations on Foreign Exchange

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

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

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

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

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

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

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

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

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

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

- Manufacturing of equipment for oil exploration, drilling, collection and transportation: floating drilling systems and floating production systems with an operating water depth of more than 1,500 meters and the supporting subsea oil extraction, collection and transportation equipment
- Exploration and exploitation of oil and natural gas with venture capital (limited to equity joint ventures and cooperative joint ventures);
- Development and application of new technologies that increase the recovery ratio of crude oil (limited to equity joint ventures and cooperative joint ventures);
- Development and application of new oil exploration and exploitation technologies such as geophysical exploration, drilling, well logging, and downhole operation, etc. (limited to cooperative joint ventures); and
- Exploration and development of unconventional oil resources such as oil shale, oil sands, heavy oil, and excess oil (limited to cooperative joint ventures).

C. Organizational Structure

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

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

D. Property, Plants and Equipment

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

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

			August 30, 2019		
7	Gan Su BHD	North of Dongyun Road and West of Petroleum Management Bureau Wooden Furniture Factory, Old District, Yumen City, Gansu Province, PRC	August 1, 2017 to July 31, 2067	26,235.59 square meters	Land for Plant

Previously, we did not operate any plant. Based on the customers' recent requirements, we begin to operate plants. HH BHD has rent a plant which includes the equipment. The annual rent is RMB 716,000 (approximately $108,000). It is planned to produce furnaces related products. We began to operate this plant since November 2017.

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

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

Overview

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

Through Nanjing Recon and BHD, our business is mainly focused on the upstream sectors of the oil and gas industry. We derive our revenues from the sales and provision of (1) oilfield automation products, (2) equipment for oil and gas production and transportation, (3) waste water treatment, and (4) engineering services. Our products and services involve most of the key procedures of the extraction and production of oil and gas, and include automation systems, equipment, tools and on-site technical services.

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

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

Recent Developments

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

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

Recent Industry Developments and Business Outlook

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

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

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

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

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

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

Growth Strategy

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

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

Trend Information

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

Factors Affecting Our Results of Operations

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

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

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

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

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

Critical Accounting Policies and Estimates

Estimates and Assumptions

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

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

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

Consolidation of VIEs

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

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

represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Revenue Recognition

We recognize revenue when the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been provided, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the customers and the customers have signed a completion and acceptance report, risk of loss has transferred to the customer, customer acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in a customer's acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. And with ASC 606, "Revenue from Contracts with Customers" when all of the following five steps are met: (i) identify the contract(s) with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; (v) recognize revenue when (or as) each performance obligation is satisfied.

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

1. The entity has a present right to payment for the asset.

2. The customer has legal title to the asset.

3. The entity has transferred physical possession of the asset.

4. The customer has the significant risks and rewards of ownership of the asset.

5. The customer has accepted the asset.

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

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

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

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

Hardware and software

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

Services

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

Cost of Revenues

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

Purchase Advances

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

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

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

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

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

Fair Values of Financial Instruments

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

The three levels of inputs are defined as follows:

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

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

Level 3 inputs to the valuation methodology are unobservable.

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

Trade Accounts and Other Receivables

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

Share-Based Compensation

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

Recently enacted accounting pronouncements

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

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

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

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

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

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Results of Operations

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

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

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

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

1) To deepen our cooperation and consolidate our dominance in oilfield environmental protection sector, we led bunch of tests of waste water and oily sludge projects and eventually invest Gan Su BHD, dedicated to provide sewage sludge treatment service. As of the date of this report, about RMB13.56 million has been devoted into the treatment projects by BHD and its cooperator;

2) To cope with uncertainty and diversify industry risks, we leverage our technology from oilfield service sector to other broaden energy industry, thus we made several attempts and i) successfully expand our automation business to coal chemical industry, mainly service the Shenhua Group Corporation Limited ("Shenhua Group"). As of the date of this report, we have achieved about RMB20 million orders; ii) Entered into civilian and general industrial furnaces market through our new subsidiaries of BHD; and

3) To follow the trend of comprehensive utilization of energy, we also expand our business and technology to new energy market. We introduced more sola technology in our current equipment to make them more efficiency and cost beneficial; we also brought our technology and experience to polycrystalline silicon production factories, of which about RMB 16 million contracts has been achieved.

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

improved in the coming year.

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Revenue

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

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

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

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

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

Cost of revenue

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

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

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

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

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

Gross Profit

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

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

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

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

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

Operating Expenses

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

Operating expenses	¥46,574,986	¥45,075,081	¥(1,499,905)	(3.2)%

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

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

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

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

Net Loss

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

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

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

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

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

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

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

Revenue

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

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

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

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

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

Cost of sales

	For the Years Ended June 30			
	2016	**2017**	**Increase / (Decrease)**	**Percentage Change**
Automation product and software	¥20,427,348	¥12,348,861	¥(8,078,487)	(39.5)%
Equipment and accessories	12,998,083	21,886,884	8,888,801	68.4%
Oilfield environmental protection	1,788,554	9,417,177	7,628,623	426.5%
Business and sales related tax	267,409	438,038	170,629	63.8%
Total cost of revenue	¥35,481,394	¥44,090,960	¥8,609,566	24.3%

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

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

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

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

Gross Profit

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

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

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

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

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

Operating Expenses

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

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

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

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

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

Net Income

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tabular Disclosure of Contractual Obligations

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

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

Safe Harbor

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

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Executive Officers and Directors

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

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

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

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

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

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

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

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

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

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

Employment Agreements

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

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

B. Compensation

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

Summary Executive Compensation Table

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

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

(2)

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

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

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

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

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

Director Compensation

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

Summary Director Compensation Table

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

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

(2) None of the directors received any ordinary share awards, nonqualified deferred compensation earnings or non-equity incentive plan compensation in fiscal year 2018.

(3) Mr. Bi Yongquan began to serve as the Company's director and Chairman of the board since January 2018.

(4) Mr. Yan Changqing began to serve as the Company's director since January 2018 and has been an independent director.

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

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

(1) Restricted share units.
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