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# Recon

## RECON TECHNOLOGY, LTD Investment Profile

Nasdaq: RCON

March 9, 2010

### Recon Technology Announces Strong Q2 FY '10 Revenue and Profit Gains as China Oil Services Business Rapidly Expands. 6-Month Rev. up 46% to \$10.6M, NI up 47% to \$1.9M.



#### Company Description

For over 10 years, Recon has provided oilfield services and products to automate and enhance the extraction of petroleum in China, including well service, drilling service, production and field service. Recon's specialized proprietary software and hardware manage oil extraction process in real-time thereby reducing extraction costs.

One of the most important advancements in China's petroleum industry has been the automation of significant segments of the exploration and extraction processes. Recon's 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.

China is the world's second-largest consumer of petroleum products, third-largest importer of petroleum and sixth-largest producer of petroleum. In the last 20 years, China's demand for oil has more than tripled, while domestic production levels have increased only modestly. China has been a net importer of petroleum since 1983 creating a strong national goal of meeting as much of the

#### NASDAQ: RCON

Closing Price (3.8.10)	\$6.76
Market Cap.	\$26.7 mil.
52-Week Range	\$5.13 - \$10.85
Avg Daily Trading	26,418
FY 2009 EPS (diluted)	\$0.99
FY 2009 Revenue	\$11.1 mil.
FY 2009 Net Income	\$2.2 mil.
Total Assets (9.30.09)	\$20.6 mil
Total Liabilities (9.30.09)	\$6.6 mil.
Total Equity (9.30.09)	\$13.0 mil.
Basic Shares	3.95 mil.
Fully Diluted Shares	4.91 mil.
Est. Public Float	1.7 mil.
Insider Ownership	54%
Fiscal Year End	June 30

country's domestic oil demand as possible.

China's oil and gas industry is dominated by three state-owned holding companies. Two of them, CNPC (SEHK: 0135) and Sinopec (NYSE: SNP) are Recon's primary customers. Recon has provided services to Sinopec since 1998 and CNPC since 2000. Recon has conducted automation projects for about 80% of CNPC and Sinopec's oil and gas fields, covering three of China's four highest producing oil fields in Daqing, Shengli and Xinjiang.

Recon's technology is based on three software copyrights, eight product patents and four pending patents. Recon's R&D team consists of 27 experienced engineers, developers and programmers. Recon places a high

#### Highlights

##### 03.08.10

Recon Secures \$1.2M in New Equipment and Chemical Orders for Chinese Oil and Gas Fields

##### 02.11.10

Six Months Revenue up 46% to \$10.6M, Net Income up 47% to \$1.9M

##### 01.25.10

Recon Receives RMB 1.1 Million Grant from Chinese Government.

##### 11.13.09

RCON Q1 FY '10 Revenue up 119% to \$3.3M, Net Income \$62K

##### 09.28.09

Recon Fiscal Year 2009 Revenue Up 15% to \$11.1M, Net Income Up 31% to \$2.2M, EPS \$0.99

##### 07.30.09

Recon Technology Announces Pricing of Initial Public Offering on NASDAQ - \$6.00 per share.

priority on exploration, design and innovation. Recon also cooperates with the Oilfield Service and Geology Research Laboratory of Nanjing University.

Recon is the first Chinese non-state-owned Oil and Gas service company to be listed on Nasdaq. Recon has 96 employees, 80% of whom are college graduates.

# Investment Profile

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### Products and Services

Recon's supervisory control and data acquisition system ("RSCADA") - This industrial computerized process control system monitors, manages and controls petroleum extraction at underground, ground and above-ground levels.

Water System - As China's oil extraction has grown, most of China's oil fields are in the third stage of oil extraction characterized by decreased oil output and increased water content. Recon's technology reduces the amount of water in extracted petroleum.

Oil Field Furnaces - Crude petroleum contains impurities including water and natural gas that must be removed before the petroleum can be sold. Recon's heating furnaces remove the impurities and prevent solidification and blockage in transport pipes.

Proprietary Multipurpose Fissure Shaper - This process improves the ability to locate productive oil fields and increase output of oil wells.

Acoustic Pipeline Monitoring System - Recon is one of the few acoustic system providers in the world. Recon's system is widely used by Sinopec to prevent oil/gas leakage in transport pipes. Recon is also cooperating with Sinopec to implement solutions in imports instrumentation, the introduction of equipment and oilfield chemical additives.

### The Outlook

Recon's growth is driven by a number of factors:

- 79% of net growth in world oil demand for the next two decades will come from China and Asia.
- The automation of China's petroleum industry is still in initial stages.
- China's oil reserves and production yield are negatively correlated. U.S. proven crude oil

reserves are 2.45 times China's, however, U.S. production yield is 3.3 times China's.

- There is a growing need for high-tech and precise instruments in the oilfield service market, because of the surging oil demand and declining oil resources.
- Industry trends favor integrated service providers.
- China is currently diversifying its energy sources with liquefied natural gas, which also employs Recon's automation system.
- Compared with foreign competitors, Recon is able to leverage its knowledge of Chinese business culture.

In the short-term, Recon continues its R&D on improved automated systems to maximize extraction at a lower cost. Recon continues to extend its market share by acquiring new projects in CNPC and Sinopec's overseas subsidiaries and other Chinese petroleum companies.

For the longer term, Recon expects to become a leading non-government-owned service provider to the oilfield exploitation industry in China, Russia, Southeast Asia and other low technology oil producing countries.

Revenue for Q2 FY '10 increased 27% to \$7.3 million from \$5.8 million in Q2 FY '09. This was attributed to Recon's reputation for operational success built over the past 10 years, its continued strong business relationship with customers, a focus on high-volume transactions and increasing demand of automation products and high value-added oilfield services..

Gross profit increased 44% to \$3.6M for Q2 FY '10 from \$2.5M in Q2 FY '09. Net income was \$1.8M with EPS \$0.45, an increase of 31% over \$1.4 million in Q2 FY '09.

Revenue for the first six months FY '10 increased 46% to \$10.6M from \$7.3M for the six months ended December 31, 2008. Gross profit increased 67% to \$4.6 million vs. \$2.7 million for the same period in 2008. Net income increased 47% to \$1.9 million with EPS \$ 0.51, compared to \$1.3million for the first six months of FY '09.

Cash balance on December 31, 2009 was approximately \$6.6 million.

Management believes Chinese oilfields are likely to need software solutions to the problems they face.

As a result the company is increasing its focus on providing software services and expects that software services revenue will continue to grow as a percentage of the company's revenue stream.

Management also believes the development and sale of software products can facilitate future hardware sales. The Recon solutions are helping the Chinese oil companies change from manual to mechanized production methods.

Management believes the larger Chinese oil companies are becoming more sophisticated in managing and implementing their information systems. This is creating an increased demand for customized software solutions.

### Use of IPO Proceeds

Recon received proceeds of \$10.2M from the 1.7M shares offered at its IPO on July 30, 2009.

Description of Use	%Net Proceeds
Acquisition and Biz development	48%
General working capital	25%
Product R & D	15%
Sarbanes-Oxley compliance	5%
Fixed asset purchases	5%
Employee training	2%

### Management

**Mr. Yin Shenping**, CEO & Director

**Ms. Liu Jia**, CFO

**Mr. Chen Guangqiang**, CTO & Director

**Mr. Li Hongqi**, CMO & Director

### Website Information

Press releases, Level II price quotes, SEC filings, Java stock charts and other information for investors may be found at:

[www.recon.cn](http://www.recon.cn)

[www.hawkassociates.com](http://www.hawkassociates.com)

### Risk Factors

- Limited history as a public company
- Limited acquisition of new crude oil reserves by customers
- Volatility of the petroleum industry
- China's competitive environment