

JD.com, Inc.  
Form 20-F  
April 27, 2018  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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 .....

Commission file number: 001-36450

**JD.com, Inc.**

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**20th Floor, Building A, No. 18 Kechuang 11 Street  
Yizhuang Economic and Technological Development Zone  
Daxing District, Beijing 101111  
People's Republic of China**

(Address of principal executive offices)

**Sidney Xuande Huang, Chief Financial Officer  
Telephone: +86 10 8911-8888  
Email: ir@jd.com**

**20th Floor, Building A, No. 18 Kechuang 11 Street  
Yizhuang Economic and Technological Development Zone  
Daxing District, Beijing 101111  
People's Republic of China**

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

| <b>Title of each class</b>                                                                                                           | <b>Name of each exchange on which registered</b>                 |
|--------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| American depositary shares (one American depositary share representing two Class A ordinary shares, par value US\$0.00002 per share) | The NASDAQ Stock Market LLC<br>(The NASDAQ Global Select Market) |
| Class A ordinary shares, par value US\$0.00002 per share*                                                                            | The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)    |

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\* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares.

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

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**None**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**  
(Title of Class)

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.

2,407,382,890 Class A ordinary shares (excluding the 69,963,700 Class A ordinary shares issued to the depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plan) and 461,362,309 Class B ordinary shares, par value US\$0.00002 per share, as of December 31, 2017.

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act: Yes ☐ No ☐

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

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

U.S. GAAP ☒

International Financial Reporting Standards as issued  
by the International Accounting Standards Board ☐

Other ☐

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☐ No

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**INTRODUCTION**

Unless otherwise indicated or the context otherwise requires, references in this annual report to:

- ADSs are to our American depositary shares, each of which represents two Class A ordinary shares;
- annual active customer accounts are to customer accounts that made at least one purchase during the twelve months ended on the respective dates, including both online direct sales and online marketplace, which exclude Paipai.com;
- China or the PRC are to the People's Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- GMV are to the total value of all orders for products and services placed in our online direct sales business and on our online marketplaces, regardless of whether the goods are sold or delivered or whether the goods are returned, excluding orders on Paipai.com. GMV includes the value from orders placed on our websites and mobile apps as well as orders placed on third-party websites and mobile apps that are fulfilled by us or by our third-party merchants. Our calculation of GMV includes shipping charges paid by buyers to sellers and for prudent consideration excludes certain transactions over certain amounts that are comparable to the disclosed parameters in GMV definition by our major industry peer. We believe that GMV provides a measure of the overall volume of transactions that flow through our platform in a given period and is only useful for the purposes of industry and peer comparisons. Therefore, it should not be used as a financial metric. GMV of all periods presented in this annual report is calculated based on this definition;
- ordinary shares are to our Class A and Class B ordinary shares, par value US\$0.00002 per share; and
- we, us, our company and our are to JD.com, Inc., its subsidiaries and its consolidated variable interest entities.

**FORWARD-LOOKING INFORMATION**

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This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to, among other things:

- our goals and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of the retail and online retail markets in China;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with customers, suppliers and third-party sellers;
- our plans to invest in our fulfillment infrastructure and technology platform as well as new business initiatives;

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- competition in our industry; and
- relevant government policies and regulations relating to our industry.

We would like to caution you not to place undue reliance on these forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3.D. Key Information Risk Factors. Those risks are not exhaustive. We operate in an evolving environment. New risks emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law. You should read this annual report and the documents that we reference in this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

The following table presents the selected consolidated financial information for our company. As of June 30, 2017, we deconsolidated our finance business, which we refer to as JD Finance, as a result of the reorganization of JD Finance. Accordingly, JD Finance's historical financial results for periods from January 1, 2015 to June 30, 2017 are reflected in our consolidated financial statements as discontinued operations. Please see Item 4. Information on the Company A. History and Development of the Company for further information. The selected consolidated statements of operations data for the years ended December 31, 2015, 2016 and 2017, selected consolidated balance sheets data as of

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December 31, 2016 and 2017 and selected consolidated cash flows data for the years ended December 31, 2015, 2016 and 2017 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. JD Finance is reflected as discontinued operations in these selected consolidated financial statements. The selected consolidated statements of operations data for the years ended December 31, 2013 and 2014, selected consolidated balance sheets data as of December 31, 2013, 2014 and 2015 and selected consolidated cash flows data for the years ended December 31, 2013 and 2014 have been derived from our audited consolidated financial statements not included in this annual report, and JD Finance is not reflected as discontinued operations in these selected consolidated financial statements as the impact of JD Finance was not material during these periods. 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 consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

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**Selected Consolidated  
Statements of  
Operations Data:**
**Net revenues:**

|                                                                    |               |                |                |                |                |               |
|--------------------------------------------------------------------|---------------|----------------|----------------|----------------|----------------|---------------|
| Net product revenues<br>(formerly known as online<br>direct sales) | 67,018        | 108,549        | 167,936        | 237,944        | 331,824        | 51,000        |
| Net service revenues<br>(formerly known as<br>services and others) | 2,322         | 6,453          | 13,106         | 20,346         | 30,508         | 4,689         |
| <b>Total net revenues</b>                                          | <b>69,340</b> | <b>115,002</b> | <b>181,042</b> | <b>258,290</b> | <b>362,332</b> | <b>55,689</b> |

**Operating****expenses(1)(2)(3):**

|                                                 |                 |                  |                  |                  |                  |                 |
|-------------------------------------------------|-----------------|------------------|------------------|------------------|------------------|-----------------|
| Cost of revenues                                | (62,496)        | (101,631)        | (158,960)        | (222,935)        | (311,517)        | (47,879)        |
| Fulfillment                                     | (4,109)         | (8,067)          | (12,367)         | (18,560)         | (25,865)         | (3,975)         |
| Marketing                                       | (1,590)         | (4,010)          | (7,233)          | (10,159)         | (14,918)         | (2,293)         |
| Technology and content                          | (964)           | (1,836)          | (2,902)          | (4,453)          | (6,652)          | (1,022)         |
| General and<br>administrative                   | (760)           | (5,260)          | (2,188)          | (3,436)          | (4,215)          | (648)           |
| Impairment of goodwill<br>and intangible assets |                 |                  | (2,750)          |                  |                  |                 |
| <b>Total operating expenses</b>                 | <b>(69,919)</b> | <b>(120,804)</b> | <b>(186,400)</b> | <b>(259,543)</b> | <b>(363,167)</b> | <b>(55,817)</b> |
| <b>Loss from operations</b>                     | <b>(579)</b>    | <b>(5,802)</b>   | <b>(5,358)</b>   | <b>(1,253)</b>   | <b>(835)</b>     | <b>(128)</b>    |

**Other income/(expense):**

|                                         |      |         |         |         |         |       |
|-----------------------------------------|------|---------|---------|---------|---------|-------|
| Share of results of equity<br>investees |      |         | (2,852) | (2,782) | (1,927) | (296) |
| Interest income                         | 344  | 638     | 673     | 1,227   | 2,530   | 389   |
| Interest expense                        | (8)  | (29)    | (73)    | (619)   | (964)   | (148) |
| Others, net                             | 193  | 216     | (147)   | 1,544   | 1,317   | 201   |
| Income/(loss) before tax                | (50) | (4,977) | (7,757) | (1,883) | 121     | 18    |
| Income tax<br>benefits/(expenses)       | 0    | (19)    | 15      | (166)   | (140)   | (21)  |

**Net loss from continuing  
operations**

(7,742) (2,049) (19) (3)

**Net income/(loss)  
from discontinued  
operations, net of  
tax**

|                 |             |                |                |                |             |            |
|-----------------|-------------|----------------|----------------|----------------|-------------|------------|
| <b>Net loss</b> | <b>(50)</b> | <b>(4,996)</b> | <b>(9,118)</b> | <b>(3,414)</b> | <b>(12)</b> | <b>(2)</b> |
|-----------------|-------------|----------------|----------------|----------------|-------------|------------|

**Net loss from continuing  
operations attributable to  
non-controlling interests  
shareholders**

(10) (48) (135) (21)

**Net loss from  
discontinued operations  
attributable to  
non-controlling interests  
shareholders**

(4) (5) (1)

**Net income from  
discontinued operations  
attributable to mezzanine**

445 281 43

|                                                                                    |                |                 |                |                |              |             |
|------------------------------------------------------------------------------------|----------------|-----------------|----------------|----------------|--------------|-------------|
| classified non-controlling interests shareholders                                  |                |                 |                |                |              |             |
| Preferred shares redemption value accretion                                        | (2,435)        | (7,958)         |                |                |              |             |
| Net income/(loss) from continuing operations attributable to ordinary shareholders |                |                 | (7,732)        | (2,001)        | 116          | 18          |
| Net loss from discontinued operations attributable to ordinary shareholders        |                |                 | (1,376)        | (1,806)        | (269)        | (41)        |
| <b>Net loss attributable to ordinary shareholders</b>                              | <b>(2,485)</b> | <b>(12,954)</b> | <b>(9,108)</b> | <b>(3,807)</b> | <b>(153)</b> | <b>(23)</b> |
| Net income/(loss) per share                                                        |                |                 |                |                |              |             |
| Basic                                                                              |                |                 |                |                |              |             |
| Continuing operations                                                              |                |                 | (2.83)         | (0.71)         | 0.04         | 0.01        |
| Discontinued operations                                                            |                |                 | (0.50)         | (0.64)         | (0.09)       | (0.01)      |
| Net loss per share                                                                 | (1.47)         | (5.35)          | (3.33)         | (1.36)         | (0.05)       | (0.01)      |
| Diluted                                                                            |                |                 |                |                |              |             |
| Continuing operations                                                              |                |                 | (2.83)         | (0.71)         | 0.04         | 0.01        |

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| (in millions, except for share, per share and per ADS data) |               |               |               |               |               |               |
|-------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Discontinued operations                                     |               |               | (0.50)        | (0.64)        | (0.09)        | (0.01)        |
| Net loss per share                                          | (1.47)        | (5.35)        | (3.33)        | (1.36)        | (0.05)        | (0.01)        |
| Net income/(loss) per ADS(4)                                |               |               |               |               |               |               |
| Basic                                                       |               |               |               |               |               |               |
| Continuing operations                                       |               |               | (5.65)        | (1.43)        | 0.08          | 0.01          |
| Discontinued operations                                     |               |               | (1.01)        | (1.29)        | (0.19)        | (0.03)        |
| Net loss per ADS                                            | (2.93)        | (10.71)       | (6.66)        | (2.71)        | (0.11)        | (0.02)        |
| Diluted                                                     |               |               |               |               |               |               |
| Continuing operations                                       |               |               | (5.65)        | (1.43)        | 0.08          | 0.01          |
| Discontinued operations                                     |               |               | (1.01)        | (1.29)        | (0.18)        | (0.03)        |
| Net loss per ADS                                            | (2.93)        | (10.71)       | (6.66)        | (2.71)        | (0.11)        | (0.02)        |
| Weighted average number of shares:                          |               |               |               |               |               |               |
| Basic                                                       | 1,694,495,048 | 2,419,668,247 | 2,735,034,034 | 2,804,767,889 | 2,844,826,014 | 2,844,826,014 |
| Diluted                                                     | 1,694,495,048 | 2,419,668,247 | 2,735,034,034 | 2,804,767,889 | 2,911,461,817 | 2,911,461,817 |

(1) Share-based compensation expenses are allocated in operating expense items as follows:

|                            | 2013<br>RMB | 2014<br>RMB | For the Year Ended December 31, |             | 2017<br>RMB | US\$  |
|----------------------------|-------------|-------------|---------------------------------|-------------|-------------|-------|
|                            |             |             | 2015<br>RMB                     | 2016<br>RMB |             |       |
|                            |             |             | (in millions)                   |             |             |       |
| Cost of revenues           |             |             | (8)                             | (17)        | (28)        | (4)   |
| Fulfillment                | (81)        | (129)       | (164)                           | (332)       | (426)       | (65)  |
| Marketing                  | (9)         | (24)        | (48)                            | (87)        | (136)       | (21)  |
| Technology and content     | (33)        | (79)        | (209)                           | (470)       | (671)       | (103) |
| General and administrative | (138)       | (4,018)     | (648)                           | (1,154)     | (1,520)     | (234) |

(2) Amortization of intangible assets resulting from assets and business acquisitions are allocated in operating expense items as follows. See Item 17 of Part III, Financial Statements Note 8 Business Combination for details of significant business combination transactions.

|             | 2013<br>RMB | 2014<br>RMB | For the Year Ended December 31, |             | 2017<br>RMB | US\$  |
|-------------|-------------|-------------|---------------------------------|-------------|-------------|-------|
|             |             |             | 2015<br>RMB                     | 2016<br>RMB |             |       |
|             |             |             | (in millions)                   |             |             |       |
| Fulfillment | (13)        | (21)        | (10)                            | (93)        | (164)       | (25)  |
| Marketing   |             | (925)       | (1,225)                         | (1,222)     | (1,222)     | (188) |

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|                            |       |       |       |       |      |
|----------------------------|-------|-------|-------|-------|------|
| Technology and content     | (19)  | (24)  | (46)  | (84)  | (13) |
| General and administrative | (146) | (180) | (248) | (308) | (47) |

(3) In April 2017, leveraging our advanced technology and logistics expertise, we established JD Logistics, a new business group under JD.com, to provide logistics services to businesses across a wide range of industries. As JD Logistics has changed from supporting the overall JD platform to an independently operated business unit, cost related to the logistics services provided to merchants and other third parties are reclassified from fulfillment expenses to cost of revenues. The amount of fulfillment expenses that has been reclassified to conform to the current period financial statement presentation were RMB1,664 million and RMB2,561 million for the years ended December 31, 2015 and 2016, respectively. The fulfillment expenses related to logistics services provided to merchants and other third parties for the years ended December 31, 2013 and 2014 were not reclassified to cost of revenues as the impact was not material.

(4) Each ADS represents two Class A ordinary shares.

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|                                            | 2013          | 2014          | As of December 31,                   |               | 2017          |               |
|--------------------------------------------|---------------|---------------|--------------------------------------|---------------|---------------|---------------|
|                                            | RMB           | RMB           | 2015                                 | 2016          | RMB           | US\$          |
|                                            |               |               | RMB                                  | RMB           |               |               |
|                                            |               |               | (in millions, except for share data) |               |               |               |
| Selected Consolidated Balance Sheets Data: |               |               |                                      |               |               |               |
| Cash and cash equivalents                  | 10,812        | 16,915        | 17,864                               | 15,567        | 25,688        | 3,948         |
| Restricted cash                            | 1,887         | 3,038         | 2,115                                | 2,294         | 4,110         | 632           |
| Short-term investments                     | 1,903         | 12,162        | 2,780                                | 6,548         | 8,588         | 1,320         |
| Inventories, net                           | 6,386         | 12,191        | 20,540                               | 28,909        | 41,700        | 6,409         |
| Accounts receivable, net                   | 502           | 2,301         | 8,194                                | 16,141        | 16,359        | 2,514         |
| Investment in equity investees             | 37            | 587           | 8,713                                | 14,629        | 18,551        | 2,851         |
| Total assets                               | 26,010        | 66,493        | 85,015                               | 160,374       | 184,055       | 28,289        |
| Accounts payable                           | 11,019        | 16,364        | 29,819                               | 46,036        | 74,338        | 11,425        |
| Nonrecourse securitization debt            |               |               | 3,334                                | 11,549        | 17,160        | 2,637         |
| Unsecured senior notes                     |               |               |                                      | 6,831         | 6,447         | 991           |
| Total liabilities                          | 16,770        | 28,995        | 54,294                               | 119,154       | 131,666       | 20,237        |
| Total mezzanine equity                     | 7,173         |               |                                      | 7,057         |               |               |
| Total JD.com, Inc. shareholders' equity    | 2,067         | 37,498        | 30,583                               | 33,893        | 52,041        | 7,999         |
| Number of outstanding ordinary shares      | 1,715,087,336 | 2,731,718,357 | 2,741,990,486                        | 2,836,444,397 | 2,852,663,429 | 2,852,663,429 |

|                                                                  | 2013    | 2014     | For the Year Ended December 31, |          | 2017     |         |
|------------------------------------------------------------------|---------|----------|---------------------------------|----------|----------|---------|
|                                                                  | RMB     | RMB      | 2015                            | 2016     | RMB      | US\$    |
|                                                                  |         |          | RMB                             | RMB      |          |         |
|                                                                  |         |          | (in millions)                   |          |          |         |
| Selected Consolidated Cash Flows Data:                           |         |          |                                 |          |          |         |
| Net cash provided by continuing operating activities             |         |          | 3,038                           | 9,994    | 27,307   | 4,197   |
| Net cash used in discontinued operating activities               |         |          | (1,342)                         | (1,227)  | (2,486)  | (382)   |
| Net cash provided by operating activities                        | 3,570   | 1,290    | 1,696                           | 8,767    | 24,821   | 3,815   |
| Net cash used in continuing investing activities                 |         |          | (7,809)                         | (17,758) | (21,725) | (3,339) |
| Net cash provided by/(used in) discontinued investing activities |         |          | 2,018                           | (30,511) | (15,773) | (2,424) |
| Net cash used in investing activities                            | (2,671) | (13,478) | (5,791)                         | (48,269) | (37,498) | (5,763) |
| Net cash provided by continuing financing activities             |         |          | 3,835                           | 8,649    | 5,180    | 796     |
| Net cash provided by discontinued financing activities           |         |          | 865                             | 32,050   | 14,055   | 2,160   |

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|                                                                           |        |        |        |        |        |       |
|---------------------------------------------------------------------------|--------|--------|--------|--------|--------|-------|
| Net cash provided by financing activities                                 | 2,795  | 18,392 | 4,700  | 40,699 | 19,235 | 2,956 |
| Effect of exchange rate changes on cash and cash equivalents              | (59)   | (101)  | 344    | 711    | (642)  | (99)  |
| Net increase in cash and cash equivalents                                 | 3,635  | 6,103  | 949    | 1,908  | 5,916  | 909   |
| Cash and cash equivalents at beginning of year                            | 7,177  | 10,812 | 16,915 | 17,864 | 19,772 | 3,039 |
| Cash and cash equivalents at end of year                                  | 10,812 | 16,915 | 17,864 | 19,772 | 25,688 | 3,948 |
| Less: Cash and cash equivalents of discontinued operations at end of year |        |        | 3,882  | 4,205  |        |       |
| Cash and cash equivalents of continuing operations at end of year         |        |        | 13,982 | 15,567 | 25,688 | 3,948 |

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Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current exchange rates, for the convenience of the readers. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.5063 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System as of December 29, 2017. 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. On April 20, 2018, the exchange rate was RMB6.2945 to US\$1.00.

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

| Period                         | Period-End | Exchange Rate         |        |        |
|--------------------------------|------------|-----------------------|--------|--------|
|                                |            | Average(1)            | Low    | High   |
|                                |            | (RMB per U.S. Dollar) |        |        |
| 2013                           | 6.0537     | 6.1412                | 6.2438 | 6.0537 |
| 2014                           | 6.2046     | 6.1704                | 6.2591 | 6.0402 |
| 2015                           | 6.4778     | 6.2869                | 6.4896 | 6.1870 |
| 2016                           | 6.9430     | 6.6549                | 6.9580 | 6.4480 |
| 2017                           | 6.5063     | 6.7350                | 6.9575 | 6.4773 |
| October                        | 6.6328     | 6.6254                | 6.6533 | 6.5712 |
| November                       | 6.6090     | 6.6200                | 6.6385 | 6.5967 |
| December                       | 6.5063     | 6.5932                | 6.6210 | 6.5063 |
| 2018                           |            |                       |        |        |
| January                        | 6.2841     | 6.4233                | 6.5263 | 6.2841 |
| February                       | 6.3280     | 6.3183                | 6.3471 | 6.2649 |
| March                          | 6.2726     | 6.3174                | 6.3565 | 6.2685 |
| April (through April 20, 2018) | 6.2945     | 6.2859                | 6.3045 | 6.2655 |

Source: Federal Reserve Statistical Release

(1) Annual averages are calculated using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant month.

**B. Capitalization and Indebtedness**

Not applicable.

C. **Reasons for the Offer and Use of Proceeds**

Not applicable.

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**D. Risk Factors**

**Risks Related to Our Business**

*If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.*

Our business has grown substantially in recent years, and we expect continued growth in our business, revenues and number of employees. We plan to further expand our fulfillment infrastructure and technology platform, increase our product offerings and hire more employees. For example, we plan to continue to build larger, custom-designed warehouses. We have already launched our custom-designed warehousing facilities in nine cities. In addition, we are in the process of constructing the warehousing facilities in twelve cities. We also plan to continue to establish new fulfillment facilities in additional locations across China, including smaller, less developed areas. In 2017, we recruited additional employees in connection with the expansion of our fulfillment infrastructure and additional research and development personnel in connection with the expansion of our technology platform, and we will continue to invest significant resources in training, managing and motivating our workforce. In addition, as we continued to increase our product offerings, we will need to work with a large number of new suppliers and third-party sellers efficiently and establish and maintain mutually beneficial relationships with our existing and new suppliers and third-party sellers. To support our growth, we also plan to implement a variety of new and upgraded managerial, operating, financial and human resource systems, procedures and controls. All these efforts will require significant managerial, financial and human resources. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully or that our new business initiatives will be successful. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

*We have incurred significant net losses and we may continue to experience significant losses in the future.*

We have incurred significant net losses since our inception. We had net losses from continuing operations of RMB7,742 million, RMB2,049 million and RMB19 million (US\$3 million) in 2015, 2016 and 2017, respectively. We had accumulated deficits of RMB18,421 million, RMB21,860 million and RMB22,235 million (US\$3,417 million) as of December 31, 2015, 2016 and 2017, respectively.

We cannot assure you that we will be able to generate net profits or positive cash flow from operating activities in the future. Our ability to achieve profitability depends in large part on our ability to increase our gross margin by obtaining more favorable terms from our suppliers as our business further grows in scale, managing our product mix, expanding our online marketplace and offering value-added services with higher margins. Accordingly, we intend to continue to invest heavily for the foreseeable future in our fulfillment infrastructure and technology platform to support an even larger selection of products and to offer additional value-added services. As a result of the foregoing, we believe that we may incur net losses for some time in the future.

*If we are unable to provide superior customer experience, our business and reputation may be materially and adversely affected.*

The success of our business hinges on our ability to provide superior customer experience, which in turn depends on a variety of factors. These factors include our ability to continue to offer authentic products at competitive prices, source products to respond to customer demands, maintain the quality of our products and services, and provide timely and reliable delivery, flexible payment options and superior after-sales service.

We rely primarily on our own fulfillment infrastructure, and to a lesser extent on contracted third-party couriers, to deliver our products. Interruptions or failures in our delivery services could prevent the timely or successful delivery of our products. These interruptions may be due to unforeseen events that are beyond our control or the control of our third-party couriers, such as inclement weather, natural disasters, transportation disruptions or labor unrest. If our products are not delivered on time or are delivered in a damaged state, customers may refuse to accept our products and have less confidence in our services. Furthermore, our own delivery personnel and those of contracted third-party couriers act on our behalf and interact with our customers personally. We maintain cooperation arrangements with a number of third-party couriers to deliver our products to our customers in those areas not covered by our own fulfillment infrastructure and for a portion of our bulky item deliveries, and we need to effectively manage these third-party service providers to ensure the quality of customer services. We have in the past received customer complaints from time to time regarding our delivery and return and exchange services. In addition, we have opened our fulfillment infrastructure by offering logistics services to third parties, including third-party sellers on our marketplace and merchants that do not sell products on our online marketplace. If we are not able to manage our logistics services successfully, opening these services to third parties could divert the resources available to our direct sales business and affect customer experience from direct sales. Any failure to provide high-quality delivery services to our customers may negatively impact the shopping experience of our customers, damage our reputation and cause us to lose customers.

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We operate three 24-7 customer service centers in Suqian and Yangzhou, Jiangsu Province, and Chengdu, Sichuan Province, handling all kinds of customer queries and complaints regarding our products and services. As of December 31, 2017, we had a total of 9,085 full-time customer service representatives at these three centers. There is no assurance that we will be able to provide sufficient training to new employees to meet our standards of customer service or that an influx of less experienced personnel will not dilute the quality of our customer service. If our customer service representatives fail to provide satisfactory service, or if waiting times are too long due to the high volume of calls from customers at peak times, our brand and customer loyalty may be adversely affected. In addition, any negative publicity or poor feedback regarding our customer service may harm our brand and reputation and in turn cause us to lose customers and market share.

*Any harm to our JD brand or reputation may materially and adversely affect our business and results of operations.*

We believe that the recognition and reputation of our JD ( ) brand among our customers, suppliers and third-party sellers have contributed significantly to the growth and success of our business. Maintaining and enhancing the recognition and reputation of our brand are critical to our business and competitiveness. Many factors, some of which are beyond our control, are important to maintaining and enhancing our brand. These factors include our ability to:

- provide a compelling online shopping experience to customers;
- maintain the popularity, attractiveness, diversity, quality and authenticity of the products we offer;
- maintain the efficiency, reliability and quality of our fulfillment services;
- maintain or improve customers' satisfaction with our after-sale services;
- increase brand awareness through marketing and brand promotion activities; and
- preserve our reputation and goodwill in the event of any negative publicity on customer service, internet security, product quality, price or authenticity, or other issues affecting us or other online retail businesses in China.

A public perception that non-authentic, counterfeit or defective goods are sold on our websites or that we or third-party service providers do not provide satisfactory customer service, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brand, undermine the trust and credibility we have established and have a negative impact on our ability to attract new customers or retain our current customers. If we are unable to maintain our reputation, enhance our brand recognition or increase positive awareness of our websites,

products and services, it may be difficult to maintain and grow our customer base, and our business and growth prospects may be materially and adversely affected.

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***If we are unable to offer products that attract new customers and new purchases from existing customers, our business, financial condition and results of operations may be materially and adversely affected.***

Our future growth depends on our ability to continue to attract new customers as well as new purchases from existing customers. Constantly changing consumer preferences have affected and will continue to affect the online retail industry. We must stay abreast of emerging consumer preferences and anticipate product trends that will appeal to existing and potential customers. We have been making progress in leveraging artificial intelligence technologies to generate personalized recommendations to customers for products in which they may be potentially interested. Each product page typically has recommendations of other products that are often purchased together with that product. In addition, our websites make recommendations to customers according to a comprehensive dataset compiled based on customer's behavior. Our ability to make individually tailored recommendations is dependent on our business intelligence system, which tracks, collects and analyzes our users' browsing and purchasing behavior, to provide accurate and reliable information. Our customers choose to purchase authentic and quality products on our websites due in part to the attractive prices that we offer, and they may choose to shop elsewhere if we cannot match the prices offered by other websites or by physical stores. If our customers cannot find their desired products on our websites at attractive prices, they may lose interest in us and visit our websites less frequently or even stop visiting our websites altogether, which in turn may materially and adversely affect our business, financial condition and results of operations.

***We plan to further expand our fulfillment infrastructure. If we are not able to manage such expansion successfully, our growth potential, business and results of operations may be materially and adversely affected.***

We believe that our own nationwide fulfillment infrastructure, consisting of strategically located warehouses and delivery and pickup stations, is essential to our success. As of December 31, 2017, we operated regional fulfillment centers in seven cities, front distribution centers in 27 cities and other additional warehouses in another 44 cities. Our comprehensive fulfillment facilities covered almost all counties and districts across China, and we employed 117,943 warehouse and delivery personnel as of the same date. We are constructing larger, custom-designed warehouses to increase our storage capacity and to restructure and reorganize our fulfillment workflow and processes. Furthermore, we hired additional employees in 2017 to strengthen our fulfillment capabilities. In April 2017, we also opened up our fulfillment infrastructure and established a new business group, JD Logistics, to provide integrated supply chain and logistics services to third-party businesses across a wide range of industries. JD Logistics provides these businesses with comprehensive supply chain solutions, including warehousing, transportation, delivery, after-sales service, among others. JD Logistics has experienced rapid growth since its inception. However, the increase in demand for our logistics services may result in additional challenges in operating our fulfillment infrastructure. For example, increasing volume of parcels may cause delay for our delivery services, or we may be required to make significant capital expenditure to further expand our existing fulfillment facilities to handle the increasing orders both from our online marketplace and from third-party businesses.

We also plan to continue to establish more fulfillment facilities in additional locations, including those smaller and less developed areas, to further enhance our ability to deliver products to customers directly ourselves. As we continue to add fulfillment and warehouse capability and expand our reach to those smaller, less-developed areas, our fulfillment network becomes increasingly complex and challenging to operate. We cannot assure you that we will be able to acquire land use rights and set up warehouses, or lease suitable facilities for the delivery stations, on commercially acceptable terms or at all. Moreover, the order density in those smaller, less developed areas may not be sufficient to allow us to operate our own delivery network in a cost-efficient manner. We may not be able to recruit a sufficient number of qualified employees in connection with the expansion of our fulfillment infrastructure. In addition, the expansion of our fulfillment infrastructure may strain our managerial, financial, operational and other resources. If we fail to manage such expansion successfully, our growth potential, business and results of operations may be materially and adversely affected. Even if we manage the expansion of our fulfillment infrastructure successfully, it may not give us the competitive advantage that we expect if improved third-party fulfillment services become widely available at reasonable prices to retailers in China.



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***We face intense competition. We may lose market share and customers if we fail to compete effectively.***

The online retail industry in China is intensely competitive. We compete for customers, orders, and third-party sellers. Our current or potential competitors include major e-commerce companies in China that offer a wide range of general merchandise product categories, major traditional retailers in China that are moving into online retailing, major internet companies that have commenced online retail businesses, online retail companies in China focused on specific product categories, and physical retail stores including big-box stores that also aim to offer a one-stop shopping experience. See Item 4.B. Information on the Company Business Overview Competition. In addition, new and enhanced technologies may increase the competition in the online retail industry. New competitive business models may appear, for example based on new forms of social media or social commerce.

Increased competition may reduce our margins, market share and brand recognition, or result in significant losses. When we set prices, we have to consider how competitors have set prices for the same or similar products. When they cut prices or offer additional benefits to compete with us, we may have to lower our own prices or offer additional benefits or risk losing market share, either of which could harm our financial condition and results of operations.

Some of our current or future competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases or greater financial, technical or marketing resources than we do. Those smaller companies or new entrants may be acquired by, receive investment from or enter into strategic relationships with well-established and well-financed companies or investors which would help enhance their competitive positions. Some of our competitors may be able to secure more favorable terms from suppliers, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory policies and devote substantially more resources to their websites, mobile apps and systems development than us. We cannot assure you that we will be able to compete successfully against current or future competitors, and competitive pressures may have a material and adverse effect on our business, financial condition and results of operations.

***Our expansion into new product categories and substantial increase in the number of products may expose us to new challenges and more risks.***

In recent years, we have expanded our product offerings to include a wide range of products including clothing, handbags, furniture, cosmetics, food, books, toys, fitness equipment and fresh produce. Expansion into diverse new product categories and substantially increased number of products involves new risks and challenges. Our lack of familiarity with these products and lack of relevant customer data relating to these products may make it more difficult for us to anticipate customer demand and preferences. We may misjudge customer demand, resulting in inventory buildup and possible inventory write-down. It may also make it more difficult for us to inspect and control quality and ensure proper handling, storage and delivery. We may experience higher return rates on new products, receive more customer complaints about them and face costly product liability claims as a result of selling them, which would harm our brand and reputation as well as our financial performance. Furthermore, we may not have much purchasing power in new categories of products and we may not be able to negotiate favorable terms with suppliers. We may need to price aggressively to gain market share or remain competitive in new categories. It may be difficult for us to achieve profitability in the new product categories and our profit margin, if any, may be lower than we anticipate, which would adversely affect our overall profitability and results of operations. We cannot assure you that we will be able to recoup our investments in introducing these new product categories.

***If we fail to manage our inventory effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.***

Our scale and business model require us to manage a large volume of inventory effectively. We depend on our demand forecasts for various kinds of products to make purchase decisions and to manage our inventory. Demand for products, however, can change significantly between the time inventory is ordered and the date by which we hope to sell it. Demand may be affected by seasonality, new product launches, changes in product cycles and pricing, product defects, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our customers may not order products in the quantities that we expect. In addition, when we begin selling a new product, it may be difficult to establish supplier relationships, determine appropriate product selection, and accurately forecast demand. The acquisition of certain types of inventory may require significant lead time and prepayment, and they may not be returnable.

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Our net inventories have increased significantly in recent periods, from RMB20,540 million as of December 31, 2015 to RMB28,909 million as of December 31, 2016 and further to RMB41,700 million (US\$6,409 million) as of December 31, 2017. Our annual inventory turnover days were 36.4 days in 2015, 37.6 days in 2016 and 38.1 days in 2017. Annual inventory turnover days are the quotient of average inventory over five quarter ends to total cost of revenues and then multiplied by 360 days. As we plan to continue expanding our product offerings, we expect to include more products in our inventory, which will make it more challenging for us to manage our inventory effectively and will put more pressure on our warehousing system.

If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Any of the above may materially and adversely affect our results of operations and financial condition.

On the other hand, if we underestimate demand for our products, or if our suppliers fail to supply quality products in a timely manner, we may experience inventory shortages, which might result in missed sales, diminished brand loyalty and lost revenues, any of which could harm our business and reputation.

***We may not be able to sustain our historical growth rates.***

We have experienced rapid growth since we commenced our online retail business in 2004. Our total net revenues increased from RMB69,340 million in 2013 to RMB362,332 million (US\$55,689 million) in 2017, for a four-year compound annual growth rate (CAGR) of 51.2 %. However, there is no assurance that we will be able to maintain our historical growth rates in future periods. Our revenue growth may slow or our revenues may decline for any number of possible reasons, including decreasing consumer spending, increasing competition, slowing growth of the China retail or China online retail industry, fulfillment bottlenecks, emergence of alternative business models, changes in government policies or general economic conditions. If our growth rate declines, investors' perceptions of our business and business prospects may be adversely affected and the market price of our ADSs could decline.

***If we are unable to conduct our marketing activities cost-effectively, our results of operations and financial condition may be materially and adversely affected.***

We have incurred significant expenses on a variety of different marketing and brand promotion efforts designed to enhance our brand recognition and increase sales of our products. Our brand promotion and marketing activities may not be well received by customers and may not result in the levels of product sales that we anticipate. We incurred RMB7,233 million, RMB10,159 million and RMB14,918 million (US\$2,293 million) of marketing expenses in 2015, 2016 and 2017, respectively. Marketing approaches and tools in the consumer products market in China are evolving. This further requires us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and customer preferences. Failure to refine our existing marketing approaches or to introduce new marketing approaches in a cost-effective manner could reduce our market share, cause our net revenues to decline and negatively impact our profitability.



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***If we fail to manage and expand our relationships with suppliers, or otherwise fail to procure products at favorable terms, our business and growth prospects may suffer.***

We source products from third-party suppliers for our direct sales business. We had over 15,000 suppliers as of December 31, 2017. Our suppliers include manufacturers, distributors and resellers. Maintaining strong relationships with these suppliers is important to the growth of our business. In particular, we depend significantly on our ability to procure products from suppliers on favorable pricing terms. We typically enter into one-year framework agreements with suppliers on an annual basis, and these framework agreements do not ensure the availability of products or the continuation of particular pricing practices or payment terms beyond the end of the contractual term. In addition, our agreements with suppliers typically do not restrict the suppliers from selling products to other buyers. We cannot assure you that our current suppliers will continue to sell products to us on commercially acceptable terms, or at all, after the term of the current agreement expires. Even if we maintain good relationships with our suppliers, their ability to supply products to us in sufficient quantity and at competitive prices may be adversely affected by economic conditions, labor actions, regulatory or legal decisions, natural disasters or other causes. In the event that we are not able to purchase merchandise at favorable prices, our revenues and cost of revenues may be materially and adversely affected. In the event any distributor or reseller does not have authority from the relevant manufacturer to sell certain products to us, such distributor or reseller may cease selling such products to us at any time. In addition, our annual accounts payable turnover days for direct sales business were 44.0 days in 2015, 52.0 days in 2016 and 59.1 days in 2017. Annual accounts payable turnover days are the quotient of average accounts payable for direct sales business over five quarter ends to total cost of revenues and then multiplied by 360 days. If our suppliers cease to provide us with favorable payment terms, our requirements for working capital may increase and our operations may be materially and adversely affected. We will also need to establish new supplier relationships to ensure that we have access to a steady supply of products on favorable commercial terms. If we are unable to develop and maintain good relationships with suppliers that would allow us to obtain a sufficient amount and variety of authentic and quality merchandise on acceptable commercial terms, it may inhibit our ability to offer sufficient products sought by our customers, or to offer these products at competitive prices. Any adverse developments in our relationships with suppliers could materially and adversely affect our business and growth prospects. In addition, as part of our growth strategy, we plan to further expand our product offerings. If we fail to attract new suppliers to sell their products to us due to any reason, our business and growth prospects may be materially and adversely affected.

***Any interruption in the operation of our regional fulfillment centers, front distribution centers, other additional warehouses, delivery stations or pickup stations for an extended period may have an adverse impact on our business.***

Our ability to process and fulfill orders accurately and provide high-quality customer service depends on the smooth operation of our regional fulfillment centers, front distribution centers, other additional warehouses, and our delivery and pickup stations. Our fulfillment infrastructure may be vulnerable to damage caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, human error and other events. If any of our regional fulfillment centers were rendered incapable of operations, then we may be unable to fulfill any orders in any of the provinces that rely on that center. In addition, those events that could damage our fulfillment infrastructure, such as fire and flood, may also result in damages to our inventory stored in or delivered through our fulfillment infrastructure, and in such event, we would incur losses as a result. We do not carry business interruption insurance, and the occurrence of any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

***We may not be able to recoup the investments we make to expand and upgrade our fulfillment and technology capabilities.***

We have invested and will continue to invest significant sums in expanding our fulfillment infrastructure and upgrading our technology platform. In connection with our expansion of our fulfillment infrastructure, we had paid an aggregate of approximately RMB7.9 billion (US\$1.2 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2017. We also paid significant amounts for upgrading our technology platform during the same periods. We expect to continue to invest heavily in our fulfillment and technology capabilities for a number of years. We also intend to continue to add resources to our fulfillment infrastructure and technology platform as we focus on expanding our product selection and offering new services. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. We may not be able to recover our capital expenditures or investments, in part or in full, or the recovery of these capital expenditures or investments may take longer than expected. As a result, the carrying value of the related assets may be subject to an impairment charge, which could adversely affect our financial condition and results of operation.

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Moreover, our heavy investment in building our own fulfillment infrastructure may put us at a competitive disadvantage against those competitors who primarily rely on third-party fulfillment services and focus their investment on improving other aspects of their businesses. We have designed our own fulfillment infrastructure to satisfy our business and operation requirements and to accommodate our fast growth, but there is no guarantee that we will be successful in meeting our objectives or that our own fulfillment structure will function more effectively and efficiently than third-party solutions.

*We use third-party couriers to deliver some orders, and our third-party sellers use couriers to deliver a significant number of orders. If these couriers fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.*

We maintain cooperation arrangements with a number of third-party couriers to deliver our products to our customers in those areas not covered by our own fulfillment infrastructure, particularly in smaller and less developed areas. We may also use third-party service providers to ship products from our regional fulfillment centers or front distribution centers to delivery stations or to deliver bulky item products. Third-party sellers also use third-party couriers if they do not make use of our delivery services. Interruptions to or failures in these third parties' delivery services could prevent the timely or proper delivery of our products to customers. These interruptions may be due to events that are beyond our control or the control of these delivery companies, such as inclement weather, natural disasters, transportation disruptions or labor unrest. In addition, if our third-party couriers fail to comply with applicable rules and regulations in China, our delivery services may be materially and adversely affected. We may not be able to find alternative delivery companies to provide delivery services in a timely and reliable manner, or at all. Delivery of our products could also be affected or interrupted by the merger, acquisition, insolvency or government shut-down of the delivery companies we engage to make deliveries, especially those local companies with relatively small business scales. If our products are not delivered in proper condition or on a timely basis, our business and reputation could suffer.

*Our online marketplace is subject to risks associated with third-party sellers.*

As of December 31, 2017, there were over 170,000 third-party sellers on our online marketplace. We do not have as much control over the storage and delivery of products sold on our online marketplace as we do over the products that we sell directly ourselves. Many of our third-party sellers use their own facilities to store their products, and many of them use their own or third-party delivery systems to deliver their products to our customers, which makes it more difficult for us to ensure that our customers get the same high quality service for all products sold on our websites. If any third-party seller does not control the quality of the products that it sells on our websites, or if it does not deliver the products or delivers them late or delivers products that are materially different from its description of them, or if it sells counterfeit or unlicensed products on our websites, or if it sells certain products without licenses or permits as required by the relevant laws and regulations even though we have requested such licenses or permits in our standard form contract with the third-party seller, the reputation of our online marketplace and our JD brand may be materially and adversely affected and we could face claims that we should be held liable for any losses. In 2016, we completely closed down the website of Paipai.com. The shut-down of the Paipai C2C platform is in line with our policy to combat the marketing and sale of counterfeit products. Moreover, despite our efforts to prevent it, some products sold on our online marketplace may compete with the products we sell directly, which may cannibalize our online direct sales. In addition, the supplier relationships, customer acquisition dynamics and other requirements for our online marketplace may not be the same as those for our online direct sales operations, which may complicate the management of our business. In order for our online marketplace to be successful, we must continue to identify and attract third-party sellers, and we may not be successful in this regard.

*Failure to deal effectively with any fictitious transactions or other fraudulent conduct that take place on our online marketplace would materially and adversely affect our business, financial condition and results of operations.*

We may face risks with respect to fraudulent activities on our online marketplace. Although we have implemented various measures to detect and reduce the occurrence of fraudulent activities on our marketplace, there can be no assurance that such measures will be effective in combating fraudulent transactions or improving overall satisfaction among third-party sellers and customers. In addition to fraudulent transactions with legitimate customers, sellers may also engage in fictitious or phantom transactions with themselves or collaborators in order to artificially inflate their own ratings on our online marketplace, reputation and search results rankings. This activity may harm other sellers by enabling the perpetrating seller to be favored over legitimate sellers, and may harm our customers by deceiving them into believing that a seller is more reliable or trusted than the seller actually is. This activity may also result in inflated GMV from our online marketplace. Moreover, illegal, fraudulent or collusive activities by our employees could also subject us to liability or negative publicity. Although we have internal controls and policies with regard to the review and approval of sales activities and other relevant matters, we cannot assure you that such controls and policies will prevent fraud or illegal activity by our employees. Negative publicity and user sentiment generated as a result of actual or alleged fraudulent or deceptive conduct on our platform or by our employees would severely diminish consumer confidence in us, reduce our ability to attract new or retain current third-party sellers and customers, damage our reputation and diminish the value of our brand names, and materially and adversely affect our business, financial condition and results of operations.

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*Strategic alliances, investments or acquisitions may have a material and adverse effect on our business, reputation, results of operations and financial condition.*

We may enter into strategic alliances with various third parties to further our business purposes from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor their actions. To the extent the third parties suffer negative publicity or harm to their reputations from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

In addition, we have in the past invested in or acquired additional assets, technologies or businesses that are complementary to our existing business, such as the following:

- In February 2015, we invested a combination of US\$400 million in cash and certain resources valued at US\$497 million, as consideration for newly issued ordinary shares of Bitauto Holdings Limited, or Bitauto, an NYSE-listed provider of internet content and marketing services for China's fast-growing automotive industry, and also invested US\$100 million in newly issued series A preferred shares of Yixin Group Limited, or Yixin, an HKEx-listed company that operates a leading online automobile retail transaction platform and subsidiary of Bitauto. In June and August 2016, we, together with certain other investors, made additional investments to purchase equity securities issued by Bitauto and Yixin.
- In May 2015, we invested a combination of US\$250 million in cash and certain resources valued at US\$108 million as consideration for newly issued Class A ordinary shares of Tuniu Corporation, or Tuniu, a NASDAQ-listed and leading online leisure travel company in China.
- In April 2016, we completed the transaction with Dada Nexus Limited, or Dada, China's largest crowdsourcing delivery company, pursuant to which our O2O business, JD Daojia, became a subsidiary of Dada and we contributed certain resources and US\$200 million in cash in exchange for newly issued equity interest in Dada. In December 2017, we exercised our warrant to acquire additional equity interest in Dada and upon the exercise, we owned approximately 49.3% equity interest of Dada on a fully diluted basis.
- In June 2016, we acquired Yihaodian marketplace platform assets from Wal-Mart Stores, Inc., or Walmart, an NYSE-listed company, including the Yihaodian brand, websites and mobile apps, and entered into strategic cooperation arrangements with Walmart. Concurrently we issued approximately 5% of our then total issued and outstanding shares on a fully diluted basis to a subsidiary of Walmart.

- In August 2016, we completed our investment of RMB4.23 billion (US\$610 million) for newly issued ordinary shares of Yonghui Superstores Co., Ltd, or Yonghui, a company listed on the Shanghai Stock Exchange and a leading hypermarket and supermarket operator in China.
- In June 2017, we invested US\$397 million in cash as consideration to acquire certain newly issued preferred shares of Farfetch.com Limited, or Farfetch, the leading global e-commerce platform for the fashion industry and certain ordinary shares and preferred shares from certain existing shareholders of Farfetch.

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- In August 2017, we entered into a conditional share subscription agreement with China United Network Communications Limited, or China Unicom, a company listed on the Shanghai Stock Exchange and a Chinese telecommunications operator in relation to our investment of approximately RMB5 billion (US\$768 million) in cash to subscribe for certain privately issued shares of China Unicom. Concurrently, we, through a PRC affiliate, also entered into a strategic business cooperation agreement with China Unicom.
- In December 2017, we, along with Tencent, entered into a share subscription agreement to subscribe for newly issued Class A ordinary shares of Vipshop Holdings Limited, or Vipshop, an NYSE-listed online discount retailer for brands in China. We also purchased the ADSs of Vipshop from open market. As of December 31, 2017, we cumulatively invested approximately US\$425 million in cash as consideration for Class A ordinary shares of Vipshop (including the ADSs). In December 2017, we also entered into a business cooperation agreement with Vipshop.
- In January 2018, a PRC subsidiary of us, along with a PRC subsidiary of Tencent, entered into a strategic partnership agreement with Dalian Wanda Commercial Properties Co., Ltd., or Wanda Commercial Properties, a leading developer, owner and operator of commercial properties in China, and its major shareholder, Dalian Wanda Group Co., Ltd. Pursuant to the agreement, we will invest RMB5 billion (US\$768 million) to purchase the shares of Wanda Commercial Properties from its existing shareholders.

If we are presented with appropriate opportunities, we may continue to do so in the future. Investments or acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. The costs of identifying and consummating investments and acquisitions may be significant. We may also incur significant expenses in obtaining necessary approvals from relevant government authorities in China and elsewhere in the world. In addition, investments and acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities and exposure to potential unknown liabilities of the acquired business. The cost and duration of integrating newly acquired businesses could also materially exceed our expectations. Any such negative developments could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, our financial results could be adversely affected by our investments or acquisitions. The investments and acquired assets or businesses may not generate the financial results we expect. They could result in occurrence of significant investments and goodwill impairment charges, and amortization expenses for other intangible assets. We periodically review goodwill and investments for impairment. In November 2015, we decided to terminate the C2C business of Paipai.com acquired from Tencent, combating the marketing and sales of counterfeit products. As a result, we decided that the goodwill arising from the acquisition of the Paipai and QQ Wanggou combined platform business was fully impaired. Moreover, we share the results of the investments which we account for as equity method investments, although we have no control on the factors and risks that affect their business, results of operations and financial condition. In 2017, our share of results of equity investees was a loss of RMB1.9 billion (US\$0.3 billion), primarily attributable to losses picked up from our equity method investments. If the investments that we account for using the equity method were in a loss position, we would pick up their loss in our consolidated statement of operations. When our share of losses in the equity investees equals or exceeds our interest in the equity investees, we do not recognize further losses, unless we have incurred obligations or made payments or guarantees on behalf of the equity investees. We may continue to incur impairment charges in connection with our investments or acquisitions and pick up the losses by our equity investments, which could depress our profitability and have a material adverse impact on our financial results.



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*Uncertainties relating to the growth and profitability of the retail industry in China in general, and the online retail industry in particular, could adversely affect our revenues and business prospects.*

We generate substantially all of our revenues from online retail. While online retail has existed in China since the 1990s, only recently have certain large online retail companies become profitable. The long-term viability and prospects of various online retail business models in China remain relatively untested. Our future results of operations will depend on numerous factors affecting the development of the online retail industry in China, which may be beyond our control. These factors include:

- the growth of internet, broadband, personal computer and mobile penetration and usage in China, and the rate of any such growth;
- the trust and confidence level of online retail consumers in China, as well as changes in customer demographics and consumer tastes and preferences;
- the selection, price and popularity of products that we and our competitors offer online;
- whether alternative retail channels or business models that better address the needs of consumers emerge in China; and
- the development of fulfillment, payment and other ancillary services associated with online purchases.

A decline in the popularity of online shopping in general, or any failure by us to adapt our websites and improve the online shopping experience of our customers in response to trends and consumer requirements, may adversely affect our net revenues and business prospects.

Furthermore, the retail industry is very sensitive to macroeconomic changes, and retail purchases tend to decline during recessionary periods. Substantially all of our net revenues are derived from retail sales in China. Many factors outside of our control, including inflation and deflation, currency exchange rate fluctuation, volatility of stock and property markets, interest rates, tax rates and other government policies and unemployment rates can adversely affect consumer confidence and spending, which could in turn materially and adversely affect our growth and profitability. Unfavorable developments in domestic and international politics, including military conflicts, political turmoil and social instability, may also adversely affect consumer confidence and reduce spending, which could in turn materially and adversely affect our growth and profitability.

***Our success depends on the continuing and collaborative efforts of our management team, and our business may be severely disrupted if we lose their services.***

Our success heavily depends upon the continued services of our management. In particular, we rely on the expertise and experience of Mr. Richard Qiangdong Liu, our chairman and chief executive officer, and other executive officers. If one or more of our senior management were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all, and our business, financial condition and results of operations may be materially and adversely affected. If any of our senior management joins a competitor or forms a competing business, we may lose customers, suppliers, know-how and key professionals and staff members. Our senior management has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between our officers and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

***If we are unable to recruit, train and retain qualified personnel or sufficient workforce while controlling our labor costs, our business may be materially and adversely affected.***

We intend to hire additional qualified employees to support our business operations and planned expansion. Our future success depends, to a significant extent, on our ability to recruit, train and retain qualified personnel, particularly technical, fulfillment, marketing and other operational personnel with experience in the online retail industry. Our experienced mid-level managers are instrumental in implementing our business strategies, executing our business plans and supporting our business operations and growth. The effective operation of our managerial and operating systems, fulfillment infrastructure, customer service center and other back office functions also depends on the hard work and quality performance of our management and employees. Since our industry is characterized by high demand and intense competition for talent and labor, we can provide no assurance that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. Our fulfillment infrastructure is labor intensive and requires a substantial number of blue-collar workers, and these positions tend to have higher than average turnover. As of December 31, 2017, we employed a total of 117,943 warehouse and delivery personnel. We have observed an overall tightening of the labor market and an emerging trend of shortage of labor supply. Failure to obtain stable and dedicated warehousing, delivery and other labor support may lead to underperformance of these functions and cause disruption to our business. Labor costs in China have increased with China's economic development, particularly in the large cities where we operate our regional fulfillment centers and more generally in the urban areas where we maintain our delivery and pickup stations. Because we operate our own fulfillment infrastructure, which requires a large and rapidly growing work force, our cost structure is more vulnerable to labor costs than that of many of our competitors, which may put us at a competitive disadvantage. In addition, our ability to train and integrate new employees into our operations may also be limited and may not meet the demand for our business growth on a timely fashion, or at all, and rapid expansion may impair our ability to maintain our corporate culture.

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***We may incur liability or become subject to administrative penalties for counterfeit or unauthorized products sold on our websites, or for products sold on our websites or content posted on our websites that infringe on third-party intellectual property rights, or for other misconduct.***

We sourced our products from over 15,000 suppliers as of December 31, 2017. Third-party sellers on our online marketplace are separately responsible for sourcing the products they sell on our websites. As of December 31, 2017, we had over 170,000 third-party sellers on our online marketplace. Although we have adopted measures to verify the authenticity and authorization of products sold on our websites and avoid potential infringement of third-party intellectual property rights in the course of sourcing and selling products, we may not always be successful. As part of our cross-border e-commerce business, we source products outside of China and allow overseas brands or partners to sell their products through our online marketplace, which could make it more difficult for us to verify the authenticity and authorization of products sold.

In the event that counterfeit, unauthorized or infringing products are sold on our websites or infringing content is posted on our websites, we could face claims that we should be held liable. We have in the past received claims alleging our infringement of third parties' rights. Irrespective of the validity of such claims, we could incur significant costs and efforts in either defending against or settling such claims. If there is a successful claim against us, we might be required to pay substantial damages or refrain from further sale of the relevant products. Potential liability under PRC law if we negligently participated or assisted in infringement activities associated with counterfeit goods includes injunctions to cease infringing activities, rectification, compensation, administrative penalties and even criminal liability. Moreover, such third-party claims or administrative penalties could result in negative publicity and our reputation could be severely damaged. Any of these events could have a material and adverse effect on our business, results of operations or financial condition.

Under our standard form agreements, we require suppliers or third-party sellers to indemnify us for any losses we suffer or any costs that we incur due to any products we source from these suppliers or any products sold by these third-party sellers. However, not all of our agreements with suppliers and third-party sellers have such terms, and for those agreements that have such terms, we may not be able to successfully enforce our contractual rights and may need to initiate costly and lengthy legal proceedings in China to protect our rights. See **Risks Related to Doing Business in China**. We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related business and companies.

***We may be subject to product liability claims if people or properties are harmed by the products we sell.***

We sell products manufactured by third parties, some of which may be defectively designed or manufactured. As a result, sales of such products could expose us to product liability claims relating to personal injury or property damage and may require product recalls or other actions. Third parties subject to such injury or damage may bring claims or legal proceedings against us as the retailer of the product. Although we would have legal recourse against the manufacturer of such products under PRC law, attempting to enforce our rights against the manufacturer may be expensive, time-consuming and ultimately futile. In addition, we do not currently maintain any third-party liability insurance or product liability insurance in relation to products we sell. As a result, any material product liability claim or litigation could have a material and adverse effect on our business, financial condition and results of operations. Even unsuccessful claims could result in the expenditure of funds and managerial efforts in defending them and could have a negative impact on our reputation.



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***The proper functioning of our technology platform is essential to our business. Any failure to maintain the satisfactory performance of our websites and systems could materially and adversely affect our business and reputation.***

The satisfactory performance, reliability and availability of our technology platform are critical to our success and our ability to attract and retain customers and provide quality customer service. Almost all of our sales of products are made online through our websites and mobile apps, and the fulfillment services we provide to third-party sellers are related to sales of their products through our websites and mobile apps. Any system interruptions caused by telecommunications failures, computer viruses, hacking or other attempts to harm our systems that result in the unavailability or slowdown of our websites or reduced order fulfillment performance could reduce the volume of products sold and the attractiveness of product offerings on our websites. Our servers may also be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to system interruptions, website slowdown or unavailability, delays or errors in transaction processing, loss of data or the inability to accept and fulfill customer orders. Security breaches, computer viruses and hacking attacks have become more prevalent in our industry. Because of our brand recognition in the online retail industry in China, we believe we are a particularly attractive target for such attacks. We have experienced in the past, and may experience in the future, such attacks and unexpected interruptions. We can provide no assurance that our current security mechanisms will be sufficient to protect our IT systems from any third-party intrusions, viruses or hacker attacks, information or data theft or other similar activities. Any such future occurrences could reduce customer satisfaction, damage our reputation and result in a material decrease in our revenue.

Additionally, we must continue to upgrade and improve our technology platform to support our business growth, and failure to do so could impede our growth. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies. In particular, our systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at all. In addition, we experience surges in online traffic and orders associated with promotional activities and holiday seasons, such as June 18 and November 11, which can put additional demands on our technology platform at specific times. If our existing or future technology platform does not function properly, it could cause system disruptions and slow response times, affecting data transmission, which in turn could materially and adversely affect our business, financial condition and results of operations.

***Any deficiencies in China's internet infrastructure could impair our ability to sell products over our websites and mobile apps, which could cause us to lose customers and harm our operating results.***

Almost all of our sales of products are made online through our websites and mobile apps, and the fulfillment services we provide to third-party sellers are related to sales of their products through our websites and mobile apps. Our business depends on the performance and reliability of the internet infrastructure in China. The availability of our websites depends on telecommunications carriers and other third-party providers for communications and storage capacity, including bandwidth and server storage, among other things. If we are unable to enter into and renew agreements with these providers on acceptable terms, or if any of our existing agreements with such providers are terminated as a result of our breach or otherwise, our ability to provide our services to our customers could be adversely affected. Almost all access to the internet in China is maintained through state-owned telecommunication carriers under administrative control, and we obtain access to end-user networks operated by such telecommunications carriers and internet service providers to give customers access to our websites. We have experienced service interruptions in the past, which were typically caused by service interruptions at the underlying external telecommunications service providers, such as the internet data centers and broadband carriers from which we lease services. Service interruptions prevent consumers from accessing our websites and mobile apps and placing orders, and frequent interruptions could frustrate customers and discourage them from attempting to place orders, which could cause us to lose customers and harm our operating results.

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***If we fail to adopt new technologies or adapt our websites, mobile apps and systems to changing customer requirements or emerging industry standards, or if our efforts to invest in the development of new technologies are unsuccessful, our business may be materially and adversely affected.***

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our websites and mobile apps. The internet and the online retail industry are characterized by rapid technological evolution, changes in customer requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices, any of which could render our existing technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business, and respond to technological advances and emerging industry standards and practices, such as mobile internet, in a cost-effective and timely way. In recent years, we invested in the development of many new technologies and business initiatives, such as artificial intelligence, or AI, big data and cloud. The development of websites, mobile apps and other proprietary technologies entails significant technical and business risks. We cannot assure you that we will be able to successfully develop or effectively use new technologies, recoup the costs of developing new technologies or adapt our websites, mobile apps, proprietary technologies and systems to meet customer requirements or emerging industry standards. If we are unable to develop technologies successfully or adapt in a cost-effective and timely manner in response to changing market conditions or customer requirements, whether for technical, legal, financial or other reasons, our business, prospects, financial condition and results of operations may be materially and adversely affected.

***Customer growth and activity on mobile devices depends upon effective use of mobile operating systems, networks and standards that we do not control.***

Purchases using mobile devices by consumers generally, and by our customers specifically, have increased significantly, and we expect this trend to continue. To optimize the mobile shopping experience, we are somewhat dependent on our customers downloading our specific mobile apps for their particular devices as opposed to accessing our sites from an internet browser on their mobile device. As new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for these alternative devices and platforms, and we may need to devote significant resources to the development, support and maintenance of such applications. In addition, our future growth and our results of operations could suffer if we experience difficulties in the future in integrating our mobile apps into mobile devices or if problems arise with our relationships with providers of mobile operating systems or mobile app download stores, if our apps receive unfavorable treatment compared to competing apps on the download stores, or if we face increased costs to distribute or have customers use our mobile apps. We are further dependent on the interoperability of our sites with popular mobile operating systems that we do not control, such as iOS and Android, and any changes in such systems that degrade the functionality of our sites or give preferential treatment to competitive products could adversely affect the usage of our sites on mobile devices. In the event that it is more difficult for our customers to access and use our sites on their mobile devices, or if our customers choose not to access or to use our sites on their mobile devices or to use mobile products that do not offer access to our sites, our customer growth could be harmed and our business, financial condition and operating results may be adversely affected.

***Failure to protect confidential information of our customers and network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.***

A significant challenge to the online retail industry is the secure storage of confidential information and its secure transmission over public networks. Almost all of the orders and some of the payments for products we offer are made through our websites and our mobile apps. In addition, some online payments for our products are settled through third-party online payment services. We also share certain personal information about our customers with contracted third-party couriers, such as their names, addresses, phone numbers and transaction records. In addition, with the rapid development of our AI, big data and cloud technologies and services, we have accumulated a large volume of data, which covers customer's browsing and consumption behavior information, product manufacturing and sales information, warehousing and

distribution information, customer service information, among others. We also formed strategic partnerships with some leading mobile internet companies to leverage their powerful big data resources, massive user bases and AI-driven technologies. Maintaining complete security for the storage and transmission of confidential information on our technology platform is essential to maintaining our operating efficiency and customer confidence as well as complying with the applicable laws and standards.

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We have adopted security policies and measures, including encryption technology, to protect our proprietary data and customer information. However, advances in technology, the expertise of hackers, improper use or sharing of data, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining such confidential or private information we hold as a result of our customers' visits to our websites and use of our mobile apps. Such individuals or entities obtaining our customers' confidential or private information may further engage in various other illegal activities using such information. In addition, we have limited control or influence over the security policies or measures adopted by business partners including strategic partners or third-party providers of online payment services through which some of our customers may choose to make payment for purchases. The contracted third-party couriers we use may also violate their confidentiality obligations and disclose or use information about our customers illegally. Any negative publicity on our websites or mobile apps' safety or privacy protection mechanisms and policies, and any claims asserted against us or fines imposed upon us as a result of actual or perceived failures, could have a material and adverse effect on our public image, reputation, financial condition and results of operations. We have experienced breaches of our information security measures in the past due to external causes beyond our control, such as a leak of user account information from the China Software Developer Network (CSDN) in 2011, although none of the past breaches individually or in the aggregate was material to our business or operations. We cannot assure you that similar events will not occur in the future. If we give third parties greater access to our technology platform in the future as part of providing more technology services to third-party sellers and others, it may become more challenging for us to ensure the security of our systems. Any compromise of our information security or the information security measures of our contracted third-party couriers or third-party online payment service providers or other business partners could have a material and adverse effect on our reputation, business, prospects, financial condition and results of operations. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the internet and mobile platforms are under increased public scrutiny. As online retail industry and AI technology continue to evolve, we believe that increased regulation by the PRC government of data privacy on the internet is likely. We may become subject to new laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information that could affect how we store, process and share data with our customers, suppliers and third-party sellers. For example, the General Administration of Quality Supervision, Inspection and Quarantine and Standardization Administration jointly issued the Standard of Information Security Technology Personal Information Security Specification, which will take effect in May 2018. Pursuant to this new standard, the personal data controller refers to entities or persons who are authorized to determine the purposes and methods for using and processing personal information. The personal data controller should collect information in accordance with the principles of legality and minimization and should also obtain a consent from the information provider. We generally comply with industry standards and are subject to the terms of our own privacy policies. Compliance with any additional laws could be expensive, and may place restrictions on the conduct of our business and the manner in which we interact with our customers. Any failure to comply with applicable regulations could also result in regulatory enforcement actions against us.

Significant capital and other resources may be required to protect against information security breaches or to alleviate problems caused by such breaches or to comply with our privacy policies or privacy-related legal obligations. The resources required may increase over time as the methods used by hackers and others engaged in online criminal activities are increasingly sophisticated and constantly evolving. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us and could expose us to legal claims. Any perception by the public that online transactions or the privacy of user information are becoming increasingly unsafe or vulnerable to attacks could inhibit the growth of online retail and other online services generally, which may reduce the number of orders we receive.

***The wide variety of payment methods that we accept subjects us to third-party payment processing-related risks.***

We accept payments using a variety of methods, including payment on delivery, bank transfers, online payments through various third-party online payment platforms such as Weixin Pay, JD Pay, UnionPay, etc. For certain payment methods, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment and cash on delivery options. Although we deliver a majority of the orders directly to customers ourselves, we use contracted third-party couriers to service areas that are not directly covered by our delivery network. Given that customers place

their orders online but often choose the cash-on-delivery option, the delivery personnel of our contracted third-party couriers collect payments on our behalf, and we require the contracted third-party couriers to remit the payment collected to us on the following day. If these companies fail to remit the payment collected to us in a timely fashion or at all, if they become unwilling or unable to provide these services to us, or if their service quality deteriorates, our business could be disrupted. We are also subject to various rules, regulations and requirements, regulatory or otherwise, governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers or facilitate other types of online payments, and our business, financial condition and results of operations could be materially and adversely affected.

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***Our delivery, return and exchange policies may materially and adversely affect our results of operations.***

We have adopted shipping policies that do not necessarily pass the full cost of shipping on to our customers. We also have adopted customer-friendly return and exchange policies that make it convenient and easy for customers to change their minds after completing purchases. We may also be required by law to adopt new or amend existing return and exchange policies from time to time. For example, pursuant to the amended Consumer Protection Law, which became effective in March 2014, except for certain types of products, such as custom-made goods, fresh and perishable goods, consumers are generally entitled to return the products purchased within seven days upon receipt without giving any reasons when they purchase the products from business operators on the internet. See Item 4.B. Information on the Company Business Overview Regulation Regulations Relating to Product Quality and Consumer Protection. These policies improve customers' shopping experience and promote customer loyalty, which in turn help us acquire and retain customers. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenue. Our ability to handle a large volume of returns is unproven. If our return and exchange policy is misused by a significant number of customers, our costs may increase significantly and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our customers may be dissatisfied, which may result in loss of existing customers or failure to acquire new customers at a desirable pace, which may materially and adversely affect our results of operations.

***If JD Finance is unable to successfully manage its business or conflicts that could arise between us and JD Finance are not resolved in our favor, our business, financial condition, results of operations and prospects could be materially and adversely affected as a result.***

As of June 30, 2017, JD Finance has been deconsolidated from our company as a result of the reorganization of JD Finance. After the reorganization, we do not have legal ownership or effective control of JD Finance. Mr. Richard Qiangdong Liu, our chairman and chief executive officer, has a majority of the voting interests in JD Finance through his equity stake and voting arrangements.

JD Finance currently provides us with certain payment services on a non-exclusive basis and may provide additional services to us in the future. If after the reorganization, JD Finance were not able to successfully manage its risks such as credit risks, its ability to continue to deliver payment and other services to us may be undermined. In such event, JD Finance might seek to amend the terms of its agreements and arrangements with us, which could potentially result in a conflict of interest. Other conflicts of interest between us and JD Finance may arise relating to commercial or strategic opportunities or initiatives. Although we and JD Finance have each agreed to certain non-competition undertakings after the reorganization, we cannot assure you that JD Finance would not pursue opportunities to provide services to our competitors or other opportunities that would conflict with our interests. If JD Finance is unable to successfully manage its business or conflicts of interest that could arise between us and JD Finance are not resolved in our favor, our business, financial condition, results of operations and prospectus could be materially and adversely affected.

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In addition, after the reorganization of JD Finance, we continue to license certain of our intellectual properties, including our JD brand and related trademarks and domain names, to JD Finance in exchange for the right to receive 40% of the pre-tax profit of JD Finance, subject to certain conditions and potential proportional dilution as a result of any future equity financings and ESOP pool increases of JD Finance. While we do not control JD Finance, because of JD Finance's ability to continue to use our brand, our close association with JD Finance and overlapping user base, events that negatively affect JD Finance, for example, alleged engagement in inappropriate activities, involvement in any legal or administrative proceedings, or negative publicity, could also negatively affect customers, regulators and other third parties' perception of us and our JD brand, harm our credibility and reputation and adversely affect our business.

***We may not be able to acquire a direct equity ownership interest in JD Finance.***

The Framework Agreement we entered into with JD Finance in connection with the reorganization of JD Finance provides for future potential equity issuances of up to 40% of equity interest in JD Finance to us in the event that JD Finance applies for and receives certain PRC regulatory approvals in the future. In addition, upon a qualified IPO or other liquidity event of JD Finance, if our total ownership of equity interests in JD Finance, if any, has not reached 40%, we would be entitled, at our election, to receive a one-time payment up to 40% of the equity value, immediately prior to such qualified IPO or other liquidity event of JD Finance. If we acquire equity interests in JD Finance in an aggregate amount less than the full 40% equity interest, then the percentage of JD Finance's equity value used to calculate the liquidity event payment will be reduced proportionately. The above-mentioned maximum percentages of JD Finance's equity interest that may be issued to us and JD Finance's equity value in the form of liquidity payment to us at our election are also subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance.

If JD Finance does not receive the required PRC regulatory approvals mentioned above, we will not be able to acquire a direct equity ownership interest in JD Finance, and we would fail to benefit from any appreciation in its equity value beyond the date of a qualified IPO or other liquidity event of JD Finance. Our inability to reap the benefits of any appreciation in equity value of JD Finance, including in connection with a qualified IPO or other liquidity event of JD Finance, could represent a significant missed opportunity that is beyond our control. In addition, if we elect to receive a one-time payment up to 40% of the equity value of JD Finance (subject to potential proportional dilution as a result of any future financings or ESOP pool increases of JD Finance) immediately prior to a qualified IPO or other liquidity event of JD Finance, it is possible that JD Finance will not have sufficient funds to make the payment in a timely manner or on a schedule acceptable to us. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Agreements and Transactions Relating to JD Finance.

***Our use of some leased properties could be challenged by third parties or government authorities, which may cause interruptions to our business operations.***

Approximately 4% of the lessors of our leased warehouses, approximately 11% of the lessors of our leased offices, and approximately 5% of the lessors of our leased delivery stations and pickup stations have not provided us with their property ownership certificates or any other documentation proving their right to lease those properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant government authorities, our leases could be invalidated. If this occurs, we may have to renegotiate the leases with the owners or the parties who have the right to lease the properties, and the terms of the new leases may be less favorable to us. Some of the leased properties were also subject to mortgage at the time the leases were entered into. If no consent had been obtained from the mortgage holder under such circumstances, the lease may not be binding on the transferee of the property in the event that the mortgage holder forecloses on the mortgage and transfers the property to another party. In addition, a substantial portion of our leasehold interests in leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines if we fail to remediate after receiving any notice from the relevant PRC government authorities.

As of the date of this annual report, we are not aware of any material claims or actions being contemplated or initiated by government authorities, property owners or any other third parties with respect to our leasehold interests in or use of such properties. However, we cannot assure you that our use of such leased properties will not be challenged. In the event that our use of properties is successfully challenged, we may be subject to fines and forced to relocate the affected operations. In addition, we may become involved in disputes with the property owners or third parties who otherwise have rights to or interests in our leased properties. We can provide no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties' challenges on our use of such properties. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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***Failure to renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.***

We lease properties for our offices, customer service center, warehouses, sorting centers, and delivery and pickup stations. We may not be able to successfully extend or renew such leases upon expiration of the current term on commercially reasonable terms or at all, and may therefore be forced to relocate our affected operations. This could disrupt our operations and result in significant relocation expenses, which could materially and adversely affect our business, financial condition and results of operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our facilities as our business continues to grow and failure in relocating our affected operations could materially and adversely affect our business and operations.

***Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.***

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities, including the Ministry of Commerce, the Ministry of Industry and Information Technology, or MIIT, the Ministry of Transport, the State Post Bureau and the People's Bank of China, among others. Together, these government authorities promulgate and enforce regulations that cover many aspects of the operation of the online retail, courier and road freight transportation industries, including entry into these industries, the scope of permissible business activities, licenses and permits for various business activities, and foreign investment. See Item 4.B. Information on the Company Business Overview Regulation Regulations Relating to Foreign Investment and Licenses and Permits.

Under PRC law, an entity operating courier services across multiple provinces must obtain a cross-provincial Courier Service Operation Permit and conduct its courier services within the permitted scope as indicated in the permit. Furthermore, any entity engaging in road freight transportation services in China must obtain a Road Transportation Operation Permit from the relevant road transportation administrative authorities. We operate a nationwide road freight transportation and delivery network. As of the date of this annual report, we have one cross-provincial Courier Service Operation Permit that allows Jingbangda, a subsidiary of Xi'an Jingdong Xincheng, one of our consolidated variable interest entities providing logistics services, to operate an express delivery business in 31 provinces and 424 cities in China. As of December 31, 2017, Jingbangda and its 1,268 branches had obtained Courier Service Operation Permits. As of the same date, Xi'an Jingdong Xincheng and its branches, Jingbangda and its 23 branches had obtained Road Transportation Operation Permits that allow these entities to provide road freight transportation services. We are in the process of applying for extension of the coverage of our Courier Service Operation Permits to other areas of China and for additional Road Transportation Operation Permits for Xi'an Jingdong Xincheng and its 11 branches and Jingbangda's branches from the appropriate level of government authorities and obtaining necessary licenses for all of our vehicles used for transporting goods. However, we cannot assure you that we can obtain such permits and licenses in a timely manner, or at all, due to complex procedural requirements and policies.

In addition, we issue one type of prepaid cards which may be used to buy the products sold on our websites. Due to licensing requirement, currently such prepaid cards can only be used to purchase merchandises directly sold by us.

There may be some defects with respect to the process of establishing certain of our indirect subsidiaries in China. Certain subsidiaries of our wholly foreign-owned subsidiaries in China were established without obtaining the prior approval from the relevant government authorities that supervise the relevant industries, and some obtain the relevant permits from the government authority at a level lower than as required. We have not received any notice of warning or been subject to penalties or other disciplinary action from the relevant

governmental authorities with respect to these defects. However, we cannot assure you that the relevant governmental authorities would not require us to obtain the approvals, or the permits from proper level of government authorities to cure the defects, or take any other actions retrospectively in the future. If the relevant government authorities require us to cure such defects, we cannot assure you that we will be able to obtain the approvals, or the permits from proper level of government authorities, in a timely manner or at all.

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We provide payment by installments to certain qualified customers for purchasing relevant products sold on our websites. These payment services may be deemed to be providing consumer loans. If so, an approval for consumer finance company from the relevant authority is required, and we cannot assure you that we can obtain such approval in a timely manner, or at all.

If the PRC government considers that we were operating without the proper approvals, licenses or permits, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material and adverse effect on our results of operations.

The e-commerce industry, and online retail in particular, is highly regulated by the PRC government. We are required to obtain various licenses and permits from different regulatory authorities in order to distribute certain categories of products on our websites. See Item 4.B. Information on the Company Business Overview Regulation Licenses and Permits. We have made great efforts to obtain all the applicable licenses and permits, but due to the large number of products sold on our websites, we may not always be able to do so and we were penalized by governmental authorities for selling products without proper licenses. As we increase our product selection, we may also become subject to new or existing laws and regulations that did not affect us before.

As online retail is evolving rapidly in China, new laws and regulations may be adopted from time to time to require additional licenses and permits other than those we currently have, and to address new issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of PRC laws and regulations applicable to online retail businesses. If we are unable to maintain and renew one or more of our licenses and certificates when their current term expires, or obtain such renewals on commercially reasonable terms, our operations could be disrupted. For example, in May 2016, new administrative measures were promulgated to regulate the publication market in replacement of the old measures promulgated in 2011. The new measures require an entity or individual engaged in the distribution of publications via the internet or other information networks to obtain a Publication Operation Permit. Although the new measures allow foreign-invested enterprises to engage in the distribution of publications, it is uncertain how this will be implemented in practice, as the old measures provided that foreign investors may engage in the distribution of audio and video products in China only in the form of contractual joint ventures between foreign and Chinese investors. Therefore, we continue to engage in wholesale and retail of books and audio and video products and other publications through Jiangsu Yuanzhou, one of our consolidated variable interest entities. Jiangsu Yuanzhou has obtained a Publication Operation Permit, which remains valid until March 31, 2020. If the PRC government requires additional licenses or permits or provides more strict supervision requirements in the future in order for us to conduct our businesses, there is no guarantee that we would be able to obtain such licenses or permits or meet all the supervision requirements in a timely manner, or at all.

***We have granted, and may continue to grant, restricted share units and other types of awards under our Share Incentive Plan, which may result in increased share-based compensation expenses.***

We have adopted a share incentive plan to provide additional incentives to employees, directors and consultants. See Item 6.B. Directors, Senior Management and Employees Compensation Share Incentive Plan for a detailed discussion. For example, in the first quarter of 2014, we granted 93,780,970 immediately vesting restricted share units to our chairman and chief executive officer, Mr. Richard Qiangdong Liu, and we incurred share-based compensation expenses in connection with this grant to Mr. Liu in an amount of RMB3,685 million in 2014. In May 2015, our board of directors approved a 10-year compensation plan for Mr. Richard Qiangdong Liu, under which, Mr. Liu will receive RMB1.00 per year in cash salary and zero cash bonus during the 10-year period and in the meantime, Mr. Liu was granted an option to acquire a total of 26,000,000 Class A ordinary shares of the Company, at an exercise price of US\$16.70 per share or US\$33.40 per ADS, subject to a 10-year vesting schedule with 10% of the award vested on each anniversary of the grant date. We will not grant any additional equity incentive to Mr. Liu during the 10-year period. We incurred share-based compensation expenses of RMB240 million, RMB318 million and RMB227 million (US\$35 million) in connection with this grant of option to Mr. Liu in 2015, 2016 and

2017, respectively. For the years ended December 31, 2015, 2016 and 2017, we recorded an aggregate of RMB1,077 million, RMB2,061 million and RMB2,780 million (US\$427 million), respectively, in share-based compensation expenses. As of December 31, 2017, the awards that had been granted to our directors, officers, employees and consultants and remained outstanding included (i) restricted share units to receive an aggregate of 106,259,378 ordinary shares, excluding restricted share units that were forfeited, cancelled, or vested after the relevant grant date, and (ii) options to purchase an aggregate of 43,110,108 ordinary shares, excluding options that were forfeited, cancelled, or exercised after the relevant grant date. We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

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***Our results of operations are subject to seasonal fluctuations.***

We experience seasonality in our business, reflecting a combination of traditional retail seasonality patterns and new patterns associated with online retail in particular. For example, we generally experience less user traffic and purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, sales in the traditional retail industry are significantly higher in the fourth quarter of each calendar year than in the preceding three quarters. E-commerce companies in China hold special promotional campaigns on November 11 each year, and we hold a special promotional campaign in the second quarter of each year, on June 18, to celebrate the anniversary of the founding of our business, both of which can affect our results for those quarters. Overall, the historical seasonality of our business has been relatively mild due to the rapid growth we have experienced and may increase further in the future. Our financial condition and results of operations for future periods may continue to fluctuate. As a result, the trading price of our ADSs may fluctuate from time to time due to seasonality.

***We may need additional capital, and financing may not be available on terms acceptable to us, or at all.***

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any changes in our account payable policy, marketing initiatives or investments we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. For example, the unsecured senior notes we issued in April 2016 contain covenants including limitation on liens and restriction on consolidation, merger and sale of all or substantially all of our assets. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

***Our revenues and financial results may be adversely affected by any economic slowdown in China as well as globally.***

The success of our business ultimately depends on consumer spending. We derive substantially all of our revenues from China. As a result, our revenues and financial results are impacted to a significant extent by economic conditions in China and globally, as well as economic conditions specific to online retail. The global economy, markets and levels of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, political uncertainty, levels of employment, inflation or deflation, real disposable income, interest rates, taxation and currency exchange rates. The PRC government has in recent years implemented a number of measures to control the rate of economic growth, which have contributed to a slowdown of the PRC economy. The growth of the Chinese economy has slowed since 2012, and such slowdown may continue. According to the National Bureau of Statistics of China, China's gross domestic product (GDP) annual growth rate increased slightly from 6.7% in 2016 to 6.9% in 2017. Any slowdown could significantly reduce domestic commerce in China, including through the internet generally and through us. There have also been concerns about the economic effect of the tensions in the relationship between China and other countries, including the surrounding Asian countries. An economic downturn, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material adverse effect on our business, financial condition and results of operations.



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***We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.***

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-compete agreements with our employees and others, to protect our proprietary rights. Although we are not aware of any copycat websites that attempt to cause confusion or diversion of traffic from us at the moment, we may become an attractive target to such attacks in the future because of our brand recognition in the online retail industry in China. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, there can be no assurance that our patent applications will be approved, that any issued patents will adequately protect our intellectual property, or that such patents will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Further, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources, and could put our intellectual property at risk of being invalidated or narrowed in scope. We can provide no assurance that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.***

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual property that is infringed by our products, services or other aspects of our business. There could also be existing patents of which we are not aware that our products may inadvertently infringe. We cannot assure you that holders of patents purportedly relating to some aspect of our technology platform or business, if any such holders exist, would not seek to enforce such patents against us in China, the United States or any other jurisdictions. Further, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these third-party infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question. Finally, we use open source software in connection with our products and services. Companies that incorporate open source software into their products and services have, from time to time, faced claims challenging the ownership of open source software and compliance with open source license terms. As a result, we

could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our source code or pay damages for breach of contract could be harmful to our business, results of operations and financial condition.

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***We have limited insurance coverage which could expose us to significant costs and business disruption.***

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased all risk property insurance covering our inventory and fixed assets such as equipment, furniture and office facilities. We maintain public liability insurance for our business activities at ten locations. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. Additionally, we provide group accident insurance for all employees and supplementary medical insurance for all management and technology and other professional personnel. However, insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance or product liability insurance, nor do we maintain key-man life insurance. We cannot assure you that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

***Our chairman and chief executive officer, Mr. Richard Qiangdong Liu, has considerable influence over important corporate matters. Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.***

Our chairman and chief executive officer, Mr. Richard Qiangdong Liu, has considerable influence over important corporate matters. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class B ordinary shares are entitled to twenty votes per share, subject to certain exceptions. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equal number of Class A ordinary shares. Due to the disparate voting powers associated with our two classes of ordinary shares, as of February 28, 2018, Mr. Liu beneficially owned 79.5% of the aggregate voting power of our company, including the 6.7% of the aggregate voting power of our company that he may exercise on behalf of Fortune Rising Holdings Limited. Mr. Liu is the sole shareholder and the sole director of Fortune Rising Holdings Limited. Fortune Rising Holdings Limited holds 39,124,128 Class B ordinary shares, representing 6.7% of the aggregate voting power of our company, for the purpose of transferring such shares to the plan participants according to our awards under our Original Plans, which were replaced by the 2013 Plan and further by the current Share Incentive Plan, and administers the awards and acts according to our instruction. Fortune Rising Holdings Limited exercises this 6.7% of the aggregate voting power of our company following our instruction. Mr. Liu, as the representative of Fortune Rising Holdings Limited, can exercise this 6.7% of the aggregate voting power of our company on behalf of Fortune Rising Holdings Limited. See Item 6.E. Directors, Senior Management and Employees Share Ownership. As a result, Mr. Liu has considerable influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. In addition, under our current memorandum and articles of association, our board of directors will not be able to form a quorum without Mr. Liu for so long as Mr. Liu remains a director. This concentrated control will limit your ability to influence corporate matters and could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our Class A ordinary shares and our ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

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***We may be the subject of anti-competitive, harassing, or other detrimental conduct by third parties including complaints to regulatory agencies, negative blog postings, and the public dissemination of malicious assessments of our business that could harm our reputation and cause us to lose market share, customers and revenues and adversely affect the price of our ADSs.***

We may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies. Our brand name and our business may be harmed by aggressive marketing and communications strategies of our competitors. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted in internet chat-rooms or on blogs or websites by anyone, whether or not related to us, on an anonymous basis. Consumers value readily available information concerning retailers, manufacturers, and their goods and services and often act on such information without further investigation or authentication and without regard to its accuracy. The availability of information on social media platforms and devices is virtually immediate, as is its impact. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our financial performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, customers and revenues and adversely affect the price of our ADSs.

***We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.***

Our business could be materially and adversely affected by natural disasters or the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, influenza A (H1N1), Ebola or another epidemic. Any such occurrences could cause severe disruption to our daily operations, including our fulfillment infrastructure and our customer service centers, and may even require a temporary closure of our facilities. In August 2014, a severe earthquake hit part of Yunnan province in south western China, which resulted in significant casualties and property damage. While we did not suffer any loss or experience any significant increase in cost resulting from these earthquakes, if a similar disaster were to occur in the future affecting Beijing, Shanghai, Guangzhou, Wuhan, Chengdu, Shenyang or Xi'an, or any other city where we have major operations in China, our operations could be materially and adversely affected due to loss of personnel and damages to property, including our inventory and our technology systems. Our operation could also be severely disrupted if our suppliers, customers or business partners were affected by such natural disasters or health epidemics.

***If we do not appropriately maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, we may be unable to accurately report our financial results and the market price of our ADSs may be adversely affected.***

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of the company's internal control over financial reporting. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2017. See Item 15. Controls and Procedures.

However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance

level. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

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***Registered public accounting firms in China, including our independent registered public accounting firm, are not inspected by the U.S. Public Company Accounting Oversight Board, which deprives us and our investors of the benefits of such inspection.***

Auditors of companies whose shares are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards applicable to auditors. Our independent registered public accounting firm is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB, notwithstanding the requirements of U.S. law, is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, or the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. The PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges.

This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors may be deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors of our ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

***Proceedings instituted by the SEC against certain PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.***

In December 2012, the SEC brought administrative proceedings against five accounting firms in China, including our independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC. In January 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of these firms from practicing before the SEC for a period of six months. The decision was neither final nor legally effective unless and until reviewed and approved by the SEC. In February 2014, four of these PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our ordinary shares from NASDAQ or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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**Risks Related to Our Corporate Structure**

*If the PRC government deems that the contractual arrangements in relation to our variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.*

Foreign ownership of certain of our businesses including value-added telecommunication services is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (excluding e-commerce) and any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record, and foreign investors may engage in the distribution of audio and video products in China only in the form of contractual joint ventures between foreign and Chinese investors. In addition, foreign investors may engage in air freight transport agency services in China only in the form of equity or contractual joint ventures between foreign and Chinese investors.

We are a Cayman Islands company and our PRC subsidiaries Jingdong Century, Star East, Shanghai Shengdayuan and Xi'an Jingxundi are considered foreign-invested enterprises. Accordingly, none of these PRC subsidiaries is eligible to provide value-added telecommunication services or sell audio and video products in China or provide certain other restricted services related to our businesses, such as air freight transport agency services or domestic document delivery services. As a result, we conduct or will conduct such business activities through our variable interest entities in PRC, including Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng. Jingdong 360 holds our ICP license as an internet information provider. Jiangsu Yuanzhou primarily conducts the sale of books and audio and video products. Xi'an Jingdong Xincheng primarily provides courier services.

Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and all of our other variable interest entities in PRC are 45% owned by Mr. Richard Qiangdong Liu, our chairman and chief executive officer, 30% owned by Ms. Yayun Li, our employee, and 25% owned by Ms. Pang Zhang, also our employee. Mr. Liu, Ms. Li and Ms. Zhang are PRC citizens. We entered into a series of contractual arrangements with Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and other variable interest entities in China and their respective shareholders, which enable us to:

- exercise effective control over Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and other variable interest entities in China;
- receive substantially all of the economic benefits of Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and other variable interest entities in China; and
- have an exclusive option to purchase all or part of the equity interests in Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and other variable interest entities in China when and to the extent permitted by PRC law.

Because of these contractual arrangements, we are the primary beneficiary of Jingdong 360, Jiangsu Yuanzhou, Xi'an Jingdong Xincheng and other variable interest entities in China and hence consolidate their financial results as our variable interest entities. For a detailed discussion of these contractual arrangements, see Item 4.C. Information on the Company Organizational Structure.

In the opinion of Zhong Lun Law Firm, our PRC legal counsel, (i) the ownership structures of our variable interest entities in China and the PRC subsidiaries that have entered into contractual arrangements with the variable interest entities, including Jingdong Century, comply with all existing PRC laws and regulations; and (ii) the contractual arrangements between the PRC subsidiaries, including Jingdong Century, the variable interest entities and their respective shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect. However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. For example, substantial uncertainties exist as to how the draft PRC Foreign Investment Law or its implementation rules may impact the viability of our current corporate structure in the future. See Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations. It is uncertain whether any other new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of our variable interest entities are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

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- revoking the business licenses of such entities;
- discontinuing or restricting the conduct of any transactions between certain of our PRC subsidiaries and variable interest entities;
- imposing fines, confiscating the income from our variable interest entities, or imposing other requirements with which we or our variable interest entities may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our variable interest entities and deregistering the equity pledges of our variable interest entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our variable interest entities; or
- restricting or prohibiting our use of the proceeds of our initial public offering to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our variable interest entities in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of our variable interest entities or our right to receive substantially all the economic benefits and residual returns from our variable interest entities and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our variable interest entities in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

***We rely on contractual arrangements with our variable interest entities and their shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control.***

We have relied and expect to continue to rely on contractual arrangements with Jingdong 360 and its shareholders to hold our ICP license as an internet information provider, contractual arrangements with Jiangsu Yuanzhou and its shareholders to conduct the sale of books and audio and video products and contractual arrangements with other variable interest entities for the relevant restricted businesses. For a description of these contractual arrangements, see Item 4.C. Information on the Company Organizational Structure. These contractual arrangements may not be as effective as direct ownership in providing us with control over our variable interest entities.



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If we had direct ownership of our variable interest entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of those entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, we rely on the performance by our variable interest entities and their respective shareholders of their obligations under the contracts to exercise control over our variable interest entities. However, the shareholders of our variable interest entities may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with our variable interest entities. We may replace the shareholders of our variable interest entities at any time pursuant to our contractual arrangements with them and their shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See Any failure by our variable interest entities or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business. Therefore, our contractual arrangements with our variable interest entities may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

***Any failure by our variable interest entities or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.***

If our variable interest entities or their shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if the shareholders of our variable interest entities were to refuse to transfer their equity interest in the variable interest entities to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. See Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could adversely affect us. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay.

Our variable interest entities hold our necessary licenses and permits including ICP license and Aviation Transport Sales Agency Certificate and conduct our sales of books and audio and video products (including publication of e-books and online audio and video products). In the event we are unable to enforce our contractual arrangements, we may not be able to exert effective control over our variable interest entities, and our ability to conduct these businesses may be negatively affected. We generate substantially all of our revenues from products and services that are offered to customers through our websites and mobile apps and any interruption in our ability to use our websites and mobile apps may have a material and adverse effect on our financial condition and results of operations.

***The shareholders of our variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.***

Mr. Richard Qiangdong Liu, Ms. Yayun Li and Ms. Pang Zhang are the shareholders of our variable interest entities, including Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng, among others. Mr. Richard Qiangdong Liu is our chairman and chief executive officer, and Ms. Yayun Li and Ms. Pang Zhang are our employees. The shareholders of our variable interest entities may have potential conflicts of interest with us. These shareholders may breach, or cause our variable interest entities to breach, or refuse to renew, the existing contractual arrangements we have with them and our variable interest entities, which would have a material and adverse effect on our ability to effectively control our variable interest entities and receive substantially all the economic benefits from them. For example, the shareholders may be able to cause our agreements with our variable interest entities to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

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Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company. Mr. Richard Qiangdong Liu is also a director and executive officer of our company. We rely on Mr. Liu to abide by the laws of the Cayman Islands and China, which provide that directors owe a fiduciary duty to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our variable interest entities, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

***We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.***

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries like Jingdong Century for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If these subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require Jingdong Century or any other relevant PRC subsidiary to adjust its taxable income under the contractual arrangements it currently has in place with our variable interest entities in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us. See Contractual arrangements in relation to our variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC variable interest entities owe additional taxes, which could negatively affected our financial condition and the value of your investment.

Under PRC laws and regulations, our wholly foreign-owned subsidiaries in China may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion fund and staff welfare and bonus fund. The statutory reserve fund, enterprise expansion fund and staff welfare and bonus fund are not distributable as cash dividends.

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also Risks Related to Doing Business in China If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

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***PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries and consolidated variable interest entities or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and consolidated variable interest entities. We may make loans to our PRC subsidiaries and consolidated variable interest entities subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China.

Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly foreign-owned subsidiaries in China to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested company is the difference between the amount of total investment as approved by the Ministry of Commerce or its local counterpart and the amount of registered capital of such foreign-invested company. For example, the current amounts of approved total investment and registered capital of Jingdong Century are approximately US\$3,274 million and US\$1,398 million, respectively, which means Jingdong Century cannot obtain loans in excess of US\$1,876 million from our entities outside of China currently. The current statutory limit on the loans to our other wholly foreign-owned subsidiaries in China, such as Star East, Xi'an Jingxundi and Shanghai Shengdayuan, is RMB1,800 million (US\$277 million), RMB1,920 million (US\$295 million) and US\$49 million, respectively. According to a notice issued by the People's Bank of China regarding foreign debt on January 11, 2017, the maximum amount of foreign debt that each of our PRC subsidiaries or consolidated variable interest entities or other PRC domestic entities is allowed to borrow is two times of their respective net assets. Pursuant to this notice and other PRC laws and regulations regarding foreign debt, within a one-year grace period starting from January 11, 2017, the statutory limit for the total amount of foreign debt of a foreign-invested company, which is subject to its own election, is either the difference between the amount of total investment and the amount of registered capital as approved by the Ministry of Commerce or its local counterpart, or two times of their respective net assets. Although the one-year grace period has expired, the statutory limit is still subject to the notice in practice. With respect to our consolidated variable interest entities or other domestic PRC entities, the limit for the total amount of foreign debt is two times of their respective net assets pursuant to the notice.

We may also decide to finance our wholly foreign-owned subsidiaries in China by means of capital contributions. These capital contributions must be approved by or registered with the Ministry of Commerce or its local counterpart. SAFE issued SAFE Circular No. 19, which took effect on June 1, 2015. SAFE Circular No. 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC. Foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans, however, are subject to SAFE restrictions under SAFE Circular No. 19. On June 9, 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular No. 16, effective on the same day. SAFE Circular No. 16 amends the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. However, the use of RMB capital converted from foreign currency registered capital of a foreign-invested company may not be altered 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. The applicable SAFE regulations may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from offerings of our securities, to our consolidated variable interest entities and the subsidiaries of our wholly foreign-owned subsidiaries in China, and we may not be able to convert the foreign currency into RMB to invest in or establish certain other PRC companies in China.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to the subsidiaries of our wholly foreign-owned subsidiaries in China and our consolidated variable interest entities, each a PRC domestic company. Meanwhile, we are not likely to finance the activities of our consolidated variable interest entities by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our

consolidated variable interest entities.

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In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, including SAFE Circular No. 19, SAFE Circular No. 16 and other relevant rules and regulations, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or any consolidated variable interest entity or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or consolidated variable interest entities when needed. If we fail to complete such registrations or obtain such approvals, our ability to use foreign currency, including the proceeds we received from our initial public offering, and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

***Contractual arrangements in relation to our variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC variable interest entities owe additional taxes, which could negatively affect our financial condition and the value of your investment.***

Under applicable PRC laws and regulations, transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities deem the transactions between the PRC subsidiaries and our variable interest entities in China, and their respective shareholders were not entered into on an arm's-length basis and resulted in deferral or underpayment in taxes, they are entitled to make special tax adjustments which might result in the increase of the variable interest entities' tax liabilities. If the tax authorities conduct special tax adjustments, they might impose interest charges for the underpaid taxes. Our financial position could be adversely affected if our variable interest entities' tax liabilities increase or if they are required to pay interest charge.

***Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. While the Ministry of Commerce solicited public comments on this draft in January and February 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether the investment in China is made by a foreign investor or a PRC domestic investor. The draft specifically provides that an entity established in China but controlled by foreign investors will be treated as a foreign investor, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the Ministry of Commerce or its local branches, treated as a PRC domestic investor provided that the entity is controlled by PRC entities and/or citizens. In this connection, "control" is broadly defined in the draft to cover, among others, having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. If the foreign investment falls within a "negative list", to be separately issued by the State Council in the future, market entry clearance by the Ministry of Commerce or its local branches would be required. Otherwise, all foreign investors may make investments on the same terms as Chinese investors without being subject to additional approval from the government authorities as mandated by the existing foreign investment legal regime.



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The variable interest entity structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See **Risks Related to Our Corporate Structure**. If the PRC government deems that the contractual arrangements in relation to our variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. and **Item 4.C. Information on the Company Organizational Structure**. Under the draft Foreign Investment Law, if a variable interest entity is ultimately controlled by a foreign investor via contractual arrangement, it would be deemed as a foreign investment. Accordingly, for the companies with a VIE structure in an industry category that is on the negative list, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/ are of PRC nationality (either PRC individual, or PRC government and its branches or agencies). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as foreign invested enterprises and any operation in the industry category on the negative list without market entry clearance may be considered as illegal.

As of the date of this annual report, over 50% of the voting power of our issued and outstanding share capital is controlled by PRC nationals. However, the draft Foreign Investment Law has not taken a position on what actions are required to be taken with respect to the existing companies with a VIE structure, although a few possible options were proffered in the draft. Under these options, a company with VIE structures and in the business on the negative list at the time of enactment of the new Foreign Investment Law has either the option or obligation to disclose its corporate structure to the authorities, while the authorities, after reviewing the ultimate control structure of the company, may either permit the company to continue its business by maintaining the VIE structure (when the company is deemed ultimately controlled by PRC citizens), or require the company to dispose of its businesses and/or VIE structure. Moreover, it is uncertain whether the industries in which our variable interest entities operate, such as the industry of providing value-added telecommunication services or selling audio and video products, will be subject to the foreign investment restrictions or prohibitions set forth in the negative list to be issued. If the enacted version of the Foreign Investment Law and the final negative list mandate further actions, such as market entry clearance, to be completed by companies with existing VIE structure like us, or we plan to apply for determination on the PRC investor during the clearance process, we face uncertainties as to whether such clearance or ratification can be timely obtained, or at all.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable foreign invested entities.

**Risks Related to Doing Business in China**

*Changes in China's economic, political or social conditions or government policies could have a material and adverse effect on our business and operations.*

Substantially all of our operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned

by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

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While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

*Uncertainties with respect to the PRC legal system could adversely affect us.*

We conduct our business primarily through our PRC subsidiaries and consolidated variable interest entities in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. The PRC legal system is evolving rapidly, and the interpretation of many laws, regulations and rules may contain inconsistencies and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

*We are subject to consumer protection laws that could require us to modify our current business practices and incur increased costs.*

We are subject to numerous PRC laws and regulations that regulate retailers generally or govern online retailers specifically, such as the Consumer Protection Law. If these regulations were to change or if we, suppliers or third-party sellers on our marketplace were to violate them, the costs of certain products or services could increase, or we could be subject to fines or penalties or suffer reputational harm, which could reduce demand for the products or services offered on our websites and hurt our business and results of operations. For example, the amended Consumer Protection Law, which became effective in March 2014, further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on businesses that operate on the internet. Pursuant to the Consumer Protection Law, except for certain types of products, such as custom-made goods, fresh and perishable goods, consumers are generally entitled to return goods purchased within seven days upon receipt without giving any reasons if they purchased the goods over the internet. Consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from sellers or service providers. Where the operators of an online marketplace platform are unable to provide the real names, addresses and valid contact details of the sellers or service providers, the consumers may also claim damages from the operators of the online marketplace platforms. Operators of online marketplace platforms that know or should have known that sellers or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liability with the sellers or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services. Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these

requirements or their effect on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

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*We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related business and companies.*

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the internet industry include, but are not limited to, the following:

We only have control over our websites through contractual arrangements. We do not own the websites in China due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including internet information provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the Cyberspace Administration of China (with the involvement of the State Council Information Office, the MIIT, and the Ministry of Public Security). The primary role of this agency is to facilitate the policy-making and legislative development in this field to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the internet industry.

New laws and regulations may be promulgated that will regulate internet activities, including online retail. If these new laws and regulations are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations at the time they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.

The Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, issued by the MIIT in July 2006, prohibits domestic telecommunication service providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this circular, either the holder of a value-added telecommunication services operation permit or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The circular also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. If an ICP license holder fails to comply with the requirements and also fails to remedy such non-compliance within a specified period of time, the MIIT or its local counterparts have the discretion to take administrative measures against such license holder, including revoking its ICP license. Currently, Jingdong 360, our PRC consolidated variable interest entity, holds an ICP license and operates our [www.jd.com](http://www.jd.com) website. Jingdong 360 owns the relevant domain names and registered trademarks and has the necessary personnel to operate such website.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones.



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***Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.***

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. Although almost all of our PRC operating entities incorporated in various locations in China have made the required employee benefit payments, we cannot assure you that we are able to make adequate contribution in a timely manner at all time. If we are subject to late fees or fines in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

***We may be required to register our operating offices outside of our residence addresses as branch offices under PRC law.***

Under PRC law, a company setting up premises for business operations outside its residence address must register them as branch offices with the relevant local industry and commerce bureau at the place where the premises are located and obtain business licenses for them as branch offices. As of December 31, 2017, our comprehensive fulfillment facilities cover almost all counties and districts across China. We seek to register branch offices in all the locations where we have delivery stations and pickup stations. However, as of the date of this annual report, we have not been able to register branch offices in all of these locations. Furthermore, we may expand our fulfillment network in the future to additional locations in China, and we may not be able to register branch offices in a timely manner due to complex procedural requirements and relocation of branch offices from time to time. If the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including fines, confiscation of income and suspension of operation. If we become subject to these penalties, our business, results of operations, financial condition and prospects could be materially and adversely affected.

***Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and we may be liable for content that is displayed on our websites.***

China has enacted laws and regulations governing internet access and the distribution of products, services, news, information, audio-video programs and other content through the internet. In the past, the PRC government has prohibited the distribution of information through the internet that it deems to be in violation of PRC laws and regulations. In November 2016, China promulgated the Cyber Security Law, which took effective on June 1, 2017, to protect cyberspace security and order. Cyber Security Law tightens control of cyber security and sets forth various security protection obligations for network operators. If any of our internet information were deemed by the PRC government to violate any content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for any unlawful actions of our customers or users of our websites or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, and if we are found to be liable, we may be prevented from operating our websites in China.

***Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.***

The value of the RMB against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the U.S. dollar, and the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably, and in recent years the RMB has depreciated significantly against the U.S. dollar. Since October 1, 2016, the RMB has joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar during this one-year period. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the RMB will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

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Significant revaluation of the RMB may have a material and adverse effect on your investment. For example, to the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, repaying our U.S. dollar denominated notes or other payment obligations 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. In addition, appreciation or depreciation in the value of the RMB relative to U.S. dollars would affect our financial results reported in U.S. dollar terms regardless of any underlying change in our business or results of operations.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency.

***Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our company in the Cayman Islands may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our wholly foreign-owned subsidiaries in China are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by our shareholders or the ultimate shareholders of our corporate shareholders who are PRC residents. But approval from or registration with appropriate government authorities or delegated banks 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 loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

PRC regulations and rules concerning mergers and acquisitions including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds famous trademarks or PRC time-honored brands. Mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the Ministry of Commerce when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the Prior Notification Rules, issued by the State Council in August 2008 is

triggered. In addition, the security review rules issued by the Ministry of Commerce that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise national defense and security concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise national security concerns are subject to strict review by the Ministry of Commerce, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce or its local counterparts may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises national defense and security or national security concerns. However, the Ministry of Commerce or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

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***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our wholly foreign-owned subsidiaries in China to liability or penalties, limit our ability to inject capital into these subsidiaries, limit these subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.***

The Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular No. 75, requires PRC residents to register with the relevant local branch of SAFE before establishing or controlling any company outside of China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore company. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, in July 2014, which replaced the SAFE Circular No. 75. SAFE Circular No. 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 No.37 as a special purpose vehicle. The term control under SAFE Circular No. 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular No. 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or 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. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions. In February 2015, SAFE issued SAFE Circular No. 13, which took effect on June 1, 2015. SAFE Circular No. 13 has delegated to the qualified banks the authority to register all PRC residents' investment in special purpose vehicle pursuant to the SAFE Circular No. 37, except that those PRC residents who have failed to comply with the SAFE Circular No. 37 will remain to fall into the jurisdiction of the local SAFE branch and must make their supplementary registration application with the local SAFE branch.

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We have requested PRC residents who we know hold direct or indirect interest in our company to make the necessary applications, filings and amendments as required under SAFE Circular No. 37 and other related rules. Mr. Richard Qiangdong Liu, our founder and beneficial owner, has completed required registrations with SAFE in relation to our financing and restructuring and will make amendments when needed and required in accordance with SAFE Circular No. 37. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurance that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements under SAFE Circular No. 37 or other related rules. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth in these regulations may subject us to fines and legal sanctions, restrict our cross-border investment activities, limit the ability of our wholly foreign-owned subsidiaries in China to distribute dividends and the proceeds from any reduction in capital, share transfer or liquidation to us, and we may also be prohibited from injecting additional capital into these subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC law for circumventing applicable foreign exchange restrictions. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

***Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted shares, restricted share units or options are subject to these regulations. We have completed the filing procedures with respect to our employee stock incentive plan in 2017. However, we cannot assure you that we will be able to complete the relevant registration for new employees who participate in such stock incentive plan in the future in a timely manner or at all. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign-owned subsidiaries in China and limit these subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors and employees under PRC law.

***Our business benefits from certain financial incentives and discretionary policies granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations.***

In the past, local governments in China granted certain financial incentives from time to time to our PRC subsidiaries or consolidated variable interest entities as part of their efforts to encourage the development of local businesses. We received approximately RMB388 million, RMB722 million and RMB843 million (US\$130 million) in financial incentives from local governments relating to our business operations in 2015, 2016 and 2017, respectively. The timing, amount and criteria of government financial incentives are determined within the sole discretion of the local government authorities and cannot be predicted with certainty before we actually receive any financial incentive. We generally do not have the ability to influence local governments in making these decisions. Local governments may decide to reduce or eliminate incentives at any time. We cannot assure you of the continued availability of the government incentives currently enjoyed by our PRC subsidiaries or consolidated variable interest entities. Any reduction or elimination of incentives would have an adverse effect on our results of operations.

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***If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.***

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with de facto management body within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term de facto management body as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the de facto management body of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation's general position on how the de facto management body test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its de facto management body in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that none of JD.com, Inc. and its subsidiaries outside of China is a PRC resident enterprise for PRC tax purposes. See Item 10.E. Additional Information Taxation People's Republic of China Taxation. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term de facto management body. If the PRC tax authorities determine that JD.com, Inc. or any of its subsidiaries outside of China is a PRC resident enterprise for enterprise income tax purposes, they would be subject to a 25% enterprise income tax on their global income. If these entities derive income other than dividends from their wholly owned subsidiaries in the PRC, a 25% enterprise income tax on their global income may increase our tax burden. If JD.com, Inc. or any of its subsidiaries outside of China is classified as a PRC resident enterprise, dividends paid to it from its wholly owned subsidiaries in China may be regarded as tax-exempted income if such dividends are deemed to be dividends between qualified PRC resident enterprises under the PRC Enterprise Income Tax Law and its implementation rules. However, we cannot assure you that such dividends will not be subject to PRC withholding tax, as the PRC tax authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC income tax purposes.

In addition, if JD.com, Inc. is classified as a PRC resident enterprise for PRC tax purposes and unless a tax treaty or similar arrangement provides otherwise, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC withholding tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. Furthermore, gains derived by our non-PRC individual shareholders from the sale of our shares and ADSs may be subject to a 20% PRC withholding tax. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of JD.com, Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that JD.com, Inc. is treated as a PRC resident enterprise.

Under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, the dividend withholding tax rate may be reduced to 5%, if a Hong Kong resident enterprise is considered a non-PRC tax resident enterprise and holds at least 25% of the equity interests in the PRC enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong resident enterprise is not considered

to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%. In October 2009, the State Administration of Taxation issued a circular, known as Circular 601, which provides guidance on determining whether an enterprise is a beneficial owner under China's tax treaties and tax arrangements. Circular 601 provides that, in order to be a beneficial owner, an entity generally must be engaged in substantive business activities, and that a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits will not be regarded as a beneficial owner and will not qualify for treaty benefits such as preferential dividend withholding tax rates. In February 2018, the State Administration of Taxation issued a new circular on issues relating to beneficial owner in tax treaties, or Circular No. 9, which will take effect on April 1, 2018 and replace Circular 601. Circular No. 9 provides a more flexible framework in determining whether an applicant engages in substantive business activities. In addition, in the event that an enterprise does not satisfy the criteria for beneficial owner, but the person who holds 100% ownership interests in the enterprise directly or indirectly satisfies the criteria for beneficial owner and the circumstances fall under Circular No. 9, the enterprise will be deemed as a beneficial owner. If our Hong Kong subsidiaries are, in the light of Circular 601, considered to be a non-beneficial owner for purposes of the tax arrangement mentioned above, any dividends paid to them by our wholly foreign-owned PRC subsidiaries would not qualify for the preferential dividend withholding tax rate of 5%, but rather would be subject to a rate of 10%.

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***We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies, and heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.***

The State Administration of Taxation has issued several rules and notices to tighten the scrutiny over acquisition transactions in recent years, including the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued in December 2009, or SAT Circular 698, the Notice on Several Issues Regarding the Income Tax of Non-PRC Resident Enterprises promulgated issued in March 2011, or SAT Circular 24, and the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises issued in February 2015, or SAT Circular 7. Pursuant to these rules and notices, if a non-PRC resident enterprise indirectly transfers PRC taxable properties, referring to properties of an establishment or a place in the PRC, real estate properties in the PRC or equity investments in a PRC tax resident enterprise, by disposing of equity interest in an overseas holding company, excluding trading of a public overseas company's shares through stock exchanges without a reasonable commercial purpose and resulting in the avoidance of PRC enterprise income tax, such indirect transfer should be deemed as a direct transfer of PRC taxable properties and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%. SAT Circular 7 sets out several factors to be taken into consideration by tax authorities in determining whether an indirect transfer has a reasonable commercial purpose. An indirect transfer satisfying all the following criteria will be deemed to lack reasonable commercial purpose and be taxable under PRC law: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from the PRC taxable properties; (ii) at any time during the one-year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC taxable properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC taxable properties is lower than the potential PRC income tax on the direct transfer of such assets. Nevertheless, the indirect transfer falling into the safe harbor available under SAT Circular 7 may not be subject to PRC tax and the scope of the safe harbor includes qualified group restructuring as specifically set out in SAT Circular 7, public market trading and tax treaty exemptions.

In October 2017, the SAT released the Public Notice Regarding Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Public Notice 37, effective from December 2017. SAT Public Notice 37 replaced a series of important circulars, including but not limited to SAT Circular 698, and revised the rules governing the administration of withholding tax on China-source income derived by a nonresident enterprise. SAT Public Notice 37 provides for certain key changes to the current withholding regime, such as (i) the withholding obligation for a non-resident enterprise deriving dividend arises on the date on which the payment is actually made rather than on the date of the resolution that declared the dividends, (ii) non-resident enterprises are not obligated to report to the taxes authorities if their withholding agents fail to perform the withholding obligation.

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Under SAT Circular 7 and SAT Public Notice 37, the entities or individuals obligated to pay the transfer price to the transferor are the withholding agents and must withhold the PRC income tax from the transfer price if the indirect transfer is subject to the PRC enterprise income tax. If the withholding agent fails to do so, the transferor should report to and pay the tax to the PRC tax authorities. In the event that neither the withholding agent nor the transferor fulfills their obligations under SAT Circular 7 and SAT Public Notice 37, according to the applicable law, apart from imposing penalties such as late payment interest on the transferor, the tax authority may also hold the withholding agent liable and impose a penalty of 50% to 300% of the unpaid tax on the withholding agent. The penalty imposed on the withholding agent may be reduced or waived if the withholding agent has submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with SAT Circular 7.

However, as these rules and notices are relatively new and there is a lack of clear statutory interpretation, we face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under the rules and notices. As a result, we may be required to expend valuable resources to comply with these rules and notices or to request the relevant transferors from whom we purchase taxable assets to comply, or to establish that our company and other non-resident enterprises in our group should not be taxed under these rules and notices, which may have a material adverse effect on our financial condition and results of operations. There is no assurance that the tax authorities will not apply the rules and notices to our offshore restructuring transactions where non-PRC residents were involved if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-PRC resident investors may be at risk of being taxed under these rules and notices and may be required to comply with or to establish that we should not be taxed under such rules and notices, which may have a material adverse effect on our financial condition and results of operations or such non-PRC resident investors' investments in us. We have conducted acquisition transactions in the past and may conduct additional acquisition transactions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

## **Risks Related to Our ADSs**

### *The trading price of our ADSs may be volatile.*

The trading price of our ADSs ranged from US\$25.59 to US\$48.99 per ADS in 2017. The trading prices of our ADSs may be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009, the second half of 2011, mid-2015 and early 2016, which may have a material and adverse effect on the trading price of our ADSs.



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In addition to the above factors, the price and trading volume of our ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry, customers, suppliers or third-party sellers;
- announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;
- changes in the economic performance or market valuations of other online retail or e-commerce companies;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the online retail market;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs;

- sales or perceived potential sales of additional ordinary shares or ADSs; and
- proceedings instituted by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.***

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline.

***Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.***

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends subject to our memorandum and articles of association and certain restrictions under Cayman Islands law. Our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

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***Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.***

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of February 28, 2018, we had 2,868,606,683 ordinary shares outstanding, comprising of (i) 2,407,975,132 Class A ordinary shares (excluding the 70,102,216 Class A ordinary shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plan), and (ii) 460,631,551 Class B ordinary shares. Among these shares, 1,775,177,470 Class A ordinary shares are in the form of ADSs, which are freely transferable without restriction or additional registration under the Securities Act. The remaining Class A ordinary shares outstanding and the Class B ordinary shares will be available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. Certain holders of our ordinary shares may cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs in the public market could cause the price of our ADSs to decline.

***You, as holders of ADSs, may have fewer rights than holders of our ordinary shares and must act through the depositary to exercise those rights.***

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under our memorandum and articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw the ordinary shares underlying your ADSs to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if the ordinary shares underlying your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

***Except in limited circumstances, the depositary for our ADSs will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, which could adversely affect your interests.***

Under the deposit agreement for the ADSs, if you do not vote, the depositary will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;

- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or

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- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

*Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.*

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

*You may not receive cash dividends if the depositary decides it is impractical to make them available to you.*

The depositary will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our Class A ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. To the extent that there is a distribution, the depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our Class A ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

*You may be subject to limitations on transfer of your ADSs.*

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

*Certain judgments obtained against us by our shareholders may not be enforceable.*

We are an exempted company with limited liability registered by way of continuation under the laws of the Cayman Islands. We conduct our operations in China and substantially all of our assets are located in China. In addition, our directors and executive officers, and some of the experts named in this annual report, reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to effect service of process within the United States upon us or these persons, or to bring an action against us or against these persons in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

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There is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of competent jurisdiction, (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (c) is final, (d) is not in respect of taxes, a fine or a penalty, and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. courts would be enforceable in the Cayman Islands.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our director and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

***Since we are a Cayman Islands company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States.***

Under the laws of some jurisdictions in the United States, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith, and actions by controlling shareholders which are obviously unreasonable may be declared null and void. Cayman Islands law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in some U.S. jurisdictions. In addition, the circumstances in which a shareholder of a Cayman Islands company may sue the company derivatively, and the procedures and defenses that may be available to the company, may result in the rights of shareholders of a Cayman Islands company being more limited than those of shareholders of a company organized in the United States.

Furthermore, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under the laws of most U.S. jurisdictions. The directors of a Cayman Islands company, without shareholder approval, may implement a sale of any assets, property, part of the business, or securities of the company. Our ability to create and issue new classes or series of shares without shareholder approval could have the effect of delaying, deterring or preventing a change in control without any further action by our shareholders, including a tender offer to purchase our ordinary shares at a premium over then current market prices.

***Our memorandum and articles of association contains anti-takeover provisions that could discourage a third party from acquiring us and adversely affect the rights of holders of our Class A ordinary shares and ADSs.***

Our memorandum and articles of association contain certain provisions that could limit the ability of others to acquire control of our company, including a dual-class voting structure that gives disproportionate voting power to the Class B ordinary shares held by Max Smart Limited, a

company wholly owned by our chairman and chief executive officer, Mr. Richard Qiangdong Liu and of which he is the sole director, and those held by Fortune Rising Holdings Limited of which Mr. Liu is the sole shareholder and sole director. As of February 28, 2018, Mr. Liu beneficially owned 79.5% of the aggregate voting power of our company, including the 6.7% of the aggregate voting power of our company that he may exercise on behalf of Fortune Rising Holdings Limited. Fortune Rising Holdings Limited holds the shares for the purpose of transferring such shares to the plan participants according to our awards under our Share Incentive Plan, and administers the awards and acts according to our instruction, and is therefore treated as our consolidated variable interest entity under U.S. GAAP. In addition, our memorandum and articles of association also contains a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

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***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 U.S. domestic public companies.***

Because we qualify as 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 with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- 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 as press releases, distributed pursuant to the rules and regulations of NASDAQ. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be 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 that would be made available to you were you investing in a U.S. domestic issuer.

***As a Cayman Islands company, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from NASDAQ corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with NASDAQ corporate governance listing standards.***

As a Cayman Islands company listed on NASDAQ, we are subject to NASDAQ corporate governance listing standards. However, NASDAQ 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 NASDAQ corporate governance listing standards. For example, neither the Companies Law (2018 Revision) of the Cayman Islands nor our memorandum and articles of association requires a majority of our directors to be independent and we could include non-independent directors as members of our compensation committee and nominating committee, and our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2017. We will, however, hold annual shareholders meetings in the future if there are matters that require shareholders' approval. If we choose to

follow other home country practice in the future, our shareholders may be afforded less protection than they otherwise would under NASDAQ corporate governance listing standards applicable to U.S. domestic issuers.

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***We may be classified as a passive foreign investment company for United States federal income tax purposes, which could subject United States investors in the ADSs or ordinary shares to significant adverse tax consequences.***

Depending upon the value of our assets, which may be determined based, in part, on the market value of our ADSs and ordinary shares, and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes. A non-United States corporation, such as our company, will be classified as a PFIC for United States federal income tax purposes for any taxable year, if either (i) 75% or more of its gross income for such year consists of certain types of passive income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. The average percentage of a corporation's assets that produce or are held for the production of passive income generally is determined on the basis of the fair market value of the corporation's assets at the end of each quarter. This determination is based on the adjusted tax basis of the corporation's assets.

In addition, we will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock. Although the law in this regard is unclear, we treat our variable interest entities as being owned by us for United States federal income tax purposes because we control their management decisions and we are entitled to substantially all of the economic benefits, and, as a result, we consolidate their results of operations in our U.S. GAAP financial statements and treat them as being owned by us for United States federal income tax purposes. If it were determined, however, that we are not the owner of our variable interest entities for United States federal income tax purposes, we may be treated as a PFIC for our taxable year ended December 31, 2017 and in future taxable years.

Based on our current income and assets and the value of our ADSs and outstanding ordinary shares, we do not believe that we were a PFIC for our taxable year ended December 31, 2017 and we do not expect to be classified as a PFIC in the foreseeable future. Because PFIC status is a fact-intensive determination, no assurance can be given that we will not be classified as a PFIC for that year. While we do not anticipate becoming a PFIC, changes in the nature of our income or assets, or fluctuations in the market price of our ADSs or ordinary shares, may cause us to become a PFIC for future taxable years. In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our market capitalization, which may fluctuate over time. Under circumstances where revenues from activities that produce passive income significantly increase relative to our revenues from activities that produce non-passive income or where we determine not to deploy significant amounts of cash for working capital or other purposes, our risk of becoming classified as a PFIC may substantially increase.

***We incur increased costs as a result of being a public company.***

As a public company, we incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and NASDAQ, have detailed requirements concerning corporate governance practices of public companies, including Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. We expect these rules and regulations applicable to public companies to increase our accounting, legal and financial compliance costs and to make certain corporate activities more time-consuming and costly. Our management will be required to devote substantial time and attention to our public company reporting obligations and other compliance matters. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Our reporting and other compliance obligations as a public company may place a strain on our management, operational and financial resources and systems for the foreseeable future.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material and adverse effect on our financial condition and results of operations.

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**Item 4. Information on the Company**

**A. History and Development of the Company**

Our chairman and chief executive officer, Mr. Richard Qiangdong Liu, launched an online retail website in January 2004. He subsequently formed a company in Beijing and another company in Shanghai and conducted his online retail business through these two companies. In April 2007, we established a wholly owned PRC subsidiary, Beijing Jingdong Century Trade Co., Ltd., or Jingdong Century, and we acquired certain intellectual property rights from the two companies Mr. Liu had established earlier, which ceased business operations and were later liquidated and dissolved.

In November 2006, we incorporated Star Wave Investments Holdings Limited under the laws of the British Virgin Islands as our offshore holding company in order to facilitate international financing. We later changed the name of this entity to 360buy Jingdong Inc. In January 2014, 360buy Jingdong Inc. was redomiciled in the Cayman Islands as an exempted company registered under the laws of the Cayman Islands, and was renamed JD.com, Inc.

We have established additional subsidiaries inside and outside of China and assisted in establishing PRC consolidated variable interest entities to conduct our business operations.

Our significant subsidiaries that conduct business operations in China include the following:

- Jingdong Century, established in April 2007, and certain of its subsidiaries in China, which primarily engage in retail business;
- Shanghai Shengdayuan Information Technology Co., Ltd., or Shanghai Shengdayuan, which was established in April 2011 and primarily operates our online marketplace business;
- Tianjin Star East Corporation Limited, or Star East, which was established in April 2012 and provides primarily warehousing and related services; and
- Xi'an Jingxundi Supply Chain Technology Co., Ltd., or Xi'an Jingxundi, which was established in May 2017 and provides primarily courier services.

The significant consolidated variable interest entities and their subsidiaries that conduct our business operations in China include, among others, the following:

- Beijing Jingbangda Trade Co., Ltd., or Jingbangda, currently a subsidiary of Xi'an Jingdong Xincheng, which was established in August 2012 and provides primarily courier services;
- Beijing Jingdong 360 Degree E-Commerce Co., Ltd., or Jingdong 360, which was established in April 2007 and holds our ICP license as an internet information provider and operates our *www.jd.com* website;
- Jiangsu Yuanzhou E-Commerce Co., Ltd., or Jiangsu Yuanzhou, which was established in September 2010 and primarily engages in the business of selling books, audio and video products; and
- Xi'an Jingdong Xincheng Information Technology Co., Ltd., or Xi'an Jingdong Xincheng, which was established in June 2017 and provides primarily courier services.

We also rely on other consolidated variable interest entities and their subsidiaries to conduct certain of our business operations, including Jiangsu Jingdong Bangneng Investment Management Co., Ltd., or Jiangsu Jingdong Bangneng and Suqian Jingdong Sanhong Enterprise Management Center (Limited Partnership), or Suqian Sanhong.

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In March 2014, we entered into a series of agreements with Tencent and its affiliates pursuant to which we acquired 100% interests in Tencent's Paipai and QQ Wanggou online marketplace businesses, a 9.9% stake in Shanghai Ison, logistics personnel and certain other assets. We also entered into a five-year strategic cooperation agreement and an eight-year non-compete agreement with Tencent. In April 2016, we acquired the remaining equity interest in Shanghai Ison by exercising the right previously granted to us in March 2014.

On May 22, 2014, our ADSs commenced trading on NASDAQ under the symbol JD. We raised from our initial public offering approximately US\$1.5 billion in net proceeds after deducting underwriting commissions and the offering expenses payable by us. Concurrently with our initial public offering, we also raised US\$1.3 billion from Huang River Investment Limited, our existing shareholder, in a private placement.

In December 2014, we completed a secondary public offering, pursuant to which certain selling shareholders sold an aggregate of 26,003,171 ADSs, representing 52,006,342 Class A ordinary shares, for an aggregate gross proceeds of approximately US\$619 million, and we did not sell any ADSs in the offering.

In February 2015, we invested a combination of US\$400 million in cash and certain resources valued at US\$497 million, including exclusive access to the new and used car channels on our e-commerce sites including mobile apps and additional support from our key platforms, as consideration for newly issued ordinary shares of Bitauto, an NYSE-listed provider of internet content and marketing services for China's fast-growing automotive industry. In June 2016, we made an additional investment of US\$50 million in cash to purchase newly issued ordinary shares of Bitauto. In addition, we invested US\$100 million in newly issued series A preferred shares of Yixin, a subsidiary of Bitauto primarily engaged in e-commerce-related automotive financing platform business. In August 2016, we, together with Tencent, Baidu, Bitauto and other investors, entered into definitive agreements, pursuant to which we and other investors, invested an aggregate of US\$550 million in cash in Yixin. We currently hold approximately 25.3% of Bitauto's issued and outstanding shares and approximately 10.9% of Yixin's issued and outstanding shares.

In May 2015, we made further investment to acquire newly issued Class A ordinary shares of Tuniu, a NASDAQ-listed and leading online leisure travel company in China, through a combination of US\$250 million in cash and certain resources valued at US\$108 million, including exclusive rights to operate the leisure travel channel for both our [www.jd.com](http://www.jd.com) website and mobile apps, and Tuniu's being our preferred partner for hotel and air tickets booking services. Previously in December 2014, we purchased certain newly issued Class A ordinary shares of Tuniu by a cash consideration of US\$50 million. We currently hold approximately 20.6% of Tuniu's outstanding shares. Our leisure travel channel is currently operated by Tuniu.

In August 2015, we entered into definitive agreements with Yonghui, pursuant to which we subscribed for newly issued ordinary shares of Yonghui with a total consideration of RMB4.23 billion (US\$610 million). The transaction with Yonghui was completed in August 2016. As a result of the transaction, we hold approximately 10% equity interest in Yonghui. In addition, we have formed a strategic partnership with Yonghui to strengthen supply chain management capability primarily through joint procurement, and will continue to explore development opportunities in O2O initiatives and other areas of potential strategic cooperation.

In January 2016, we entered into definitive agreements with a group of investors for a RMB6.65 billion (US\$1.0 billion) financing for JD Finance. Following the closing of the financing in March 2016, we maintained a majority ownership in JD Finance. As of June 30, 2017, the reorganization of JD Finance had been completed, and we disposed of all of our 68.6% equity interest in JD Finance, as a result of which JD Finance was deconsolidated from us. Pursuant to the definitive agreements relating to the reorganization, we received approximately RMB14.3 billion (US\$2.2 billion) in cash with an economic gain of RMB14.2 billion (US\$2.2 billion). As JD Finance is under the common control of Mr. Richard Qiangdong Liu through his equity stake and voting arrangements, the gain of RMB14.2 billion was recorded

directly to additional paid-in capital in shareholders' equity. In exchange for certain licenses and services to be provided by us to JD Finance, we will receive 40% of the future pre-tax profit of JD Finance when JD Finance has a positive pre-tax income on a cumulative basis. In addition, we may be able to convert our profit-sharing right with respect to JD Finance into 40% of JD Finance's equity interest, subject to applicable regulatory approvals. The above percentage of profit sharing and maximum equity interest issuance to us is subject to potential proportional dilution as a result of any future equity financings or ESOP increases of JD Finance.

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In April 2016, we completed the transaction with Dada Nexus Limited, or Dada, China's largest crowdsourcing delivery company, pursuant to which our O2O business, JD Daojia, became a subsidiary of Dada and we contributed certain resources and US\$200 million in cash in exchange for newly issued equity interest in Dada. In December 2017, we exercised our warrant to acquire additional preferred shares of Dada and upon the exercise, we owned approximately 49.3% equity interest of Dada on a fully diluted basis.

In June 2016, we entered into a series of agreements with Walmart in relation to our strategic alliance with Walmart, pursuant to which Walmart subscribed for 144,952,250 of our newly issued Class A ordinary shares, which amounted to approximately 5% of our total issued and outstanding shares on a fully diluted basis at the time. As of December 31, 2017, Walmart held Class A ordinary shares representing 10.1% of our total issued and outstanding shares, according to Walmart's statement on an amendment to Schedule 13G with respect to our Class A ordinary shares on February 3, 2017. As part of our strategic alliance with Walmart, we acquired ownership of the Yihaodian marketplace platform assets, including the Yihaodian brand, websites and mobile apps. We have collaborated with Walmart on e-commerce, including launching Sam's Club Flagship Store and Walmart China Flagship Store on JD.com, Sam's Club Global Flagship Store, Walmart Global Flagship Store, and ASDA Flagship Store on JD Worldwide and a one-hour delivery service from Walmart Stores in select cities through the JD Daojia app, as well as leveraging one another's supply chain to increase product selection for customers across China. As part of the strategic alliance, we also entered into an eight-year non-compete arrangement with Walmart, subject to certain conditions and exceptions.

In April 2017, we established a new business group, JD Logistics, to leverage our advanced technology and logistics expertise to provide integrated supply chain and logistics services to businesses across a wide range of industries. JD Logistics provides business partners with comprehensive supply chain solutions, including warehousing, transportation, delivery, customer service, after-sales service, as well as logistics technology solutions, including cloud-based service and data analytics, among others. In February 2018, we entered into definitive agreements with third-party investors for the financing for JD Logistics. We raised a total amount of US\$2.6 billion from the third-party investors, who owned an aggregate of 19.0% stake in JD Logistics on a fully diluted basis upon the completion of the transaction and we have remained as the controlling shareholder of JD Logistics.

In June 2017, we invested US\$397 million in cash as consideration to acquire certain number of ordinary shares and preferred shares of Farfetch, the leading global e-commerce platform for the fashion industry. As part of this partnership, we became one of the largest shareholders of Farfetch. The strategic partnership between us and Farfetch leverages our leading logistics and technology capabilities and social media resources, including our partnership with Tencent, with Farfetch's leadership in global luxury, to create a frictionless and seamless brand experience.

In August 2017, we entered into a conditional share subscription agreement with China Unicom, a Chinese telecommunications operator in relation to our investment of approximately RMB5 billion (US\$768 million) in cash to subscribe for certain privately issued shares of China Unicom. Concurrently, we, through a PRC affiliate, also entered into a strategic business cooperation agreement with China Unicom.

In December 2017, we entered into a share subscription agreement along with Tencent to subscribe for newly issued Class A ordinary shares of Vipshop, an NYSE-listed online discount retailer for brands in China. We also purchased the ADSs of Vipshop from open market. As of December 31, 2017, we accumulatively invested approximately US\$425 million in cash as consideration for Class A ordinary shares of Vipshop (including the ADSs). In December 2017, we also entered into a business cooperation agreement with Vipshop, under which we granted Vipshop entries on both the main page of our mobile app and the main page of our Weixin Discovery shopping entry.

In January 2018, a PRC subsidiary of us, along with a PRC subsidiary of Tencent, entered into a strategic partnership

agreement with Wanda Commercial Properties, a leading developer, owner and operator of commercial properties in China, and its major shareholder, Dalian Wanda Group Co., Ltd. Pursuant to the agreement, we agreed to invest RMB5 billion (US\$768 million) to purchase the shares of Wanda Commercial Properties from its existing shareholders.

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**B. Business Overview**

We are a leading technology-driven e-commerce company and retail infrastructure service provider in China. We generated total net revenues of RMB181.0 billion, RMB258.3 billion and RMB362.3 billion (US\$55.7 billion) in 2015, 2016 and 2017, respectively. Our GMV increased from RMB590.6 billion in 2015 to RMB939.2 billion in 2016 and further to RMB1,294.5 billion (US\$199.0 billion) in 2017.

We believe we provide consumers an enjoyable online retail experience. Through our content-rich and user-friendly website *www.jd.com* and mobile apps, we offer a wide selection of authentic products at competitive prices which are delivered in a speedy and reliable manner. We also offer convenient online and in-person payment options and comprehensive customer services. In order to have better control over fulfillment and to ensure customer satisfaction, we have built our own nationwide fulfillment infrastructure and last-mile delivery network, staffed by our own employees, which supports both our online direct sales and our online marketplace businesses. We have established strong relationships with our suppliers as we develop our online direct sales business. Leveraging our strengths, we launched our online marketplace business in 2010, which has allowed us to significantly expand our selection of products and services.

We foster an interactive user community that discusses, rates and reviews our products and services. We believe we have the largest online product review database of any online direct sales company in China with approximately 3,259 million product reviews generated by our customers as of December 31, 2017. As a result of our superior customer experience, our business has grown rapidly. We had 155.0 million, 226.6 million and 292.5 million annual active customer accounts in 2015, 2016 and 2017, respectively.

Timely and reliable fulfillment is critical to the success of an online retail business. Given the underdevelopment of third-party fulfillment services in China in terms of both warehousing and logistics facilities and last-mile delivery services, we made a strategic decision in 2007 to build and operate our own nationwide fulfillment infrastructure. We believe we have the largest fulfillment infrastructure of any e-commerce company in China. We operated 486 warehouses with an aggregate gross floor area of approximately 10 million square meters in 78 cities as of December 31, 2017, and had 84,790 delivery personnel, 33,153 warehouse staff and 12,760 customer service personnel as of the same date. Leveraging this nationwide fulfillment infrastructure, we deliver a majority of the orders directly to customers ourselves. As of December 31, 2017, our comprehensive fulfillment facilities covered almost all counties and districts across China, and we provided same-day and next-day delivery in 1,752 counties and districts.

We are a technology-driven company and have invested heavily in developing our own highly scalable proprietary technology platform that supports our rapid growth and enables us to provide value-added technology services. In addition, our sophisticated business intelligence system enables us to refine our merchandise sourcing strategy to manage our inventory turnover and control costs and to leverage our large customer database to create customized product recommendations and cost-effective and targeted advertising.

We introduced an online marketplace to leverage our brand recognition, large and growing customer base, extensive transaction data, fulfillment infrastructure and proprietary technology platform. Our online marketplace allows us to provide customers a much greater selection of products. We attract and select third-party sellers to offer authentic products to our customers through our online marketplace. We monitor third-party sellers' performance and activities on our online marketplace closely to ensure that they meet our requirements for authentic products and high-quality customer service. In addition to basic transaction processing and billing services, we offer third-party sellers a suite of value-added fulfillment and other services.

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Furthermore, we launched a cross-border e-commerce platform, JD Worldwide, on JD.com in April 2015. JD Worldwide is committed to providing consumers in China with high-quality, authentic imported products from worldwide and to serving as a gateway for leading international brands to reach the Chinese market. Since its launch in 2015, JD Worldwide has offered products in a wide variety of categories including maternal and childcare, nutrition and healthcare, personal care and cosmetics, electronics, household and kitchenware, food, and car accessories, among others. JD Worldwide sources products from over 70 countries and regions, including the United States, Canada, South Korea, Japan, Australia, New Zealand, France, and Germany, among many others.

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**Core Philosophy**

Our core philosophy to put customers always as our top priority can be illustrated by the following:

- Our team is the foundation of our company. We have built a strong and dedicated team and made significant efforts in hiring, training and retaining our workforce.
- To support our anticipated growth, we have developed a series of comprehensive front-end and back-end systems, including customer interfaces, transaction processing, supply-chain management, merchant services, logistics, and financial systems, among others, to manage our flow of products, services, information and finances.
- Our data-driven management employs an array of key performance indicators to minimize costs and maximize efficiency in our operations.
- As a result, we are able to offer a broad selection of authentic products at competitive prices with comprehensive services. We strive to create a compelling online shopping experience that generates customer loyalty.

**Our Strategies**

We believe **Boundaryless Retail** represents the future retail trend for our industry because consumers will become ever-more involved in all aspects of a company's value chain and proactively interact with businesses. Consumers will not only continue seeking out **low cost** and **convenience**, but at the same time they will demand more personalized and diversified scenarios and participation. The interaction between these evolving consumer demands and technology advancement will further transform the retail infrastructure and experience.

Based on the knowledge we have accumulated and the capabilities we have built up throughout our years of operation, we have determined that our strategy for the next twelve years will be based on **Retail-as-a-Service**. On one hand, we will continue to expand our e-commerce businesses while striving to reduce costs, improve efficiency and enhance the customer shopping experience while proactively exploring innovative new business models. On the other hand, we will open up our established infrastructure to all our partners to empower retailers, suppliers and designers, among others, with our supply chain, logistics, technology and other capabilities. Through joint efforts with a wide range of business partners and by leveraging our well-established infrastructure, we believe we can create an even more advanced and comprehensive retail ecosystem to reach consumers wherever and whenever they shop.

To implement this strategy of developing next-generation retail, we are exploring various online and offline integration opportunities and innovative business models. Leveraging our infrastructure, we will enable our partners to achieve digitalization with improved efficiency and expanded access to sales promotions and preferred discounts, regardless of whether consumers are shopping online or in-store.

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**Our Business Model**

Since founding our company, we have focused on developing our online direct sales business as well as building our own fulfillment infrastructure, including last mile delivery capability, all based on our proprietary technology platform to support our operations. As our online direct sales business grew substantially in size, we launched our online marketplace to complement it and expand our product offerings, leverage our established fulfillment infrastructure and technology platform and ensure a superior customer experience. We believe that the combination of our online direct sales and online marketplace, and our own nationwide fulfillment infrastructure and technology platform makes us a uniquely strong player in China's online retail industry in terms of providing superior customer experience.

Leveraging the significant scale of our business, cutting-edge technologies, and our well-established retail infrastructures, we have also begun to offer comprehensive services that complement our core business and create significant value for a wide range of business partners. Ultimately this will boost business development and the overall customer experience.

***Online Direct Sales***

In our online direct sales business, we acquire products from suppliers and sell them directly to customers. We started selling computer products online in 2004 and introduced mobile handsets, consumer electronics products and auto parts and accessories by 2007. We significantly expanded our product offerings in 2008 with home appliances and a wide array of general merchandise product categories, and have been continually adding new products and categories since then. As of December 31, 2017, we offered a wide range of categories through our online direct sales business model. As a result, net revenues from electronics products, which include computers, mobile handsets and other mobile digital products, and home appliances, have declined as a percentage of our total net revenues.

***Retail Infrastructure***

*Online Marketplace.* In our online marketplace business, third-party sellers offer products to customers on our online marketplace and pay us commissions on their sales. We launched our online marketplace in October 2010, and have been bringing new products and services since then. As of December 31, 2017, there were more than 170,000 third-party sellers on our online marketplace. We provide transaction processing and billing services on all orders on our online marketplace and require third-party sellers to meet our standards for authenticity and reliability. We aim to offer customers the same high quality customer experience regardless of the source of the products they choose.

*Marketing Services.* Leveraging our artificial intelligence capabilities and the comprehensive dataset accumulated from a wide range of business scenarios along the entire value chain, we provide a variety of marketing services to suppliers, merchants and other partners in the ecosystem through our proprietary advertisement technology platform.

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In 2017, we started to offer our suppliers and merchants a new fully-automated marketing platform that could make targeted product recommendations to users on *www.jd.com* and across JD's publisher partnership network, driving new customers and repeat purchases for advertisers automatically. Powered by artificial intelligence, advertisers only need to input total budget, unit bid price and optimization goals to market to their targeted audiences on this platform, which enables advertisers to lower their operating costs and increase their returns.

In order to provide our partners with better targeted marketing and broader access to advertisement resources, in addition to our successful partnership with Tencent and Toutiao, in 2017, we also formed strategic partnerships with other leading mobile internet companies such as Baidu, Qihoo 360, NetEase, Sogou and iQIYI, with an aim to leverage these companies' powerful big data resources, massive user bases and AI-driven technologies to strengthen collaboration in precision marketing, user access points and content-driven marketing.

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*Logistics Services.* In April 2017, leveraging our advanced technology and logistics expertise, we established JD Logistics, a new business group under JD.com, to provide logistics services to businesses across a wide range of industries. We have opened up our technology-driven fulfillment infrastructure by offering comprehensive supply chain solutions to third-party sellers on our marketplace and merchants that do not sell products on our online marketplace, including warehousing, transportation, delivery, customer services, after-sale services, as well as logistics technology solutions, including cloud-based service and data analytics, or a combination of these services. Our logistics services to the third-parties have experienced rapid growth and have been well-received by major clients such as Nestle, NetEase, Gree, and others. We are dedicated to developing an effective, environmental-friendly, innovative and smart green logistics system through developing and promoting the use of innovative and environmental-friendly materials and a series of technological innovations.

*Omni-channel Initiatives.* To achieve our Boundaryless Retail vision, we are exploring a variety of omni-channel integration opportunities and innovative business models. Leveraging our well-established retail infrastructures, we believe we are well-positioned to create enhanced shopping experience for consumers as well as improved efficiency for our business partners in the ecosystem.

We believe we are well-positioned to provide online-to-offline (O2O) solutions to customers and offline retailers in select locations in China by capitalizing on our strong online presence and leveraging Dada's crowdsourced delivery system. Dada is one of our equity investees and its O2O supermarket platform JD Daojia, which was JD's assets before our transaction with Dada in April 2016, leverages the expanded delivery network, focuses on the location-based mobile commerce sector and collaborates with offline supermarkets, convenience stores and other local businesses to provide consumers with speedy premium shopping experience. As of January 31, 2018, Dada had partnered with 163 Walmart stores and 388 Yonghui stores to provide consumers with speedy premium online grocery shopping experience.

In June 2016, we entered into a series of agreements in relation to our strategic alliance with Walmart. As part of the strategic alliance, we acquired ownership of the Yihaodian marketplace platform assets, including the Yihaodian brand, websites and mobile apps. We have collaborated with Walmart on e-commerce, including launching Sam's Club Flagship Store and Walmart China Flagship Store on JD.com, Sam's Club Global Flagship Store, Walmart Global Flagship Store, and ASDA Flagship Store on JD Worldwide, and a one-hour delivery service from Walmart Stores in select cities through the JD Daojia app, as well as leveraging each other's supply chain to enhance product selection for customers across China. We also launched the first Walmart-JD Omni-channel Shopping Festival on August 8, 2017, a new initiative aimed at offering shoppers across China faster and more convenient access to high-quality products through multiple channels.

To provide customers with a more dynamic and interactive integrated omni-channel shopping experience, we have opened up hundreds of JD Home offline franchise stores in popular commercial districts in both higher tier and lower tier cities. Beginning with consumer electronics products and expanding into personal hygiene, books, cosmetics, luxury goods and other general merchandise categories, these stores are offering tens of thousands of stock keep units, or SKUs at competitive prices. Using a new digital price tag system, we are able to support our offline franchise stores with our strong supply chain capability, and we ensure customers will always have transparent prices both online and in-store. Using a variety of latest technologies such as facial recognition, product recognition, tracking system for customers' in-store activities to name just a few, we have established a closed loop to accumulate large volume of offline shopping data, and through further analysis of the integrated online and offline dataset, we can offer differentiated products in each offline franchise store that best suit potential customer demands.

In December 2017, we opened our first offline fresh food market under the 7FRESH brand and have recently launched a second one. Leveraging JD's supply chain technology and scale, this hyper-premium market is stocked with thousands of fresh products, including fruit, flowers, imported meat and quality fresh seafood. Offering food preparation, catering service and free 30-minute delivery to customers within three kilometers, 7FRESH integrates advanced supply chain management know-how and cutting-edge store technologies to deliver a unique shopping experience.

We will continue leveraging superior supply chain management know-how, strong logistics capabilities, and cutting-edge technology from our well-established retail infrastructure, to explore a variety of omni-channel opportunities and innovative business models and pursue enhanced shopping experience and improved operating efficiency.

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**Strategic Cooperation with Tencent**

On March 10, 2014, we acquired certain e-commerce businesses and assets from, and entered into a strategic cooperation agreement and formed a strategic partnership with Tencent, a leading internet company serving the largest online community in China. Tencent offers a wide variety of internet services in China including instant messaging, social networking, online games and online media. Tencent has a large mobile internet user base, as evidenced by 989 million monthly active user accounts on Tencent's mobile apps Weixin and Wechat as of December 31, 2017 based on publicly available data.

As part of the strategic partnership, Tencent agrees to offer us prominent level 1 access points in its mobile apps Weixin and Mobile QQ and provide traffic and other support from other key platforms to us. Level 1 access points refer to entries and links that Tencent users can directly access on the interfaces that will launch after one click on the home interface on Tencent's mobile apps. We launched level 1 access on Tencent's Weixin platform for selected Weixin users in Beijing and Shanghai first in May 2014 and subsequently rolled it out to all Weixin users in June 2014, and we also launched direct access on Tencent's Mobile QQ in August 2014. Our partnership with Tencent's dominant Weixin and Mobile QQ platforms has helped us generate mobile user traffic from Tencent's large mobile user base and enhance our customers' mobile shopping experience.

The two parties agree to cooperate in a number of areas including mobile-related products, social networking services, membership systems and payment solutions. The strategic cooperation agreement has a term of five years and applies within the territory of the Greater China, including Hong Kong, Macau and Taiwan. Under the strategic cooperation agreement, we are Tencent's preferred partner for all physical goods e-commerce businesses, and Tencent agrees not to engage in any direct sales or managed marketplace business model in physical goods e-commerce businesses in Greater China and a few selected international markets for a period of eight years, other than through its controlled affiliate Shanghai Icton E-Commerce Development Company Limited, or Shanghai Icton. We expect to further leverage the strategic partnership with Tencent to enhance our customers' online shopping experience, reach Tencent's large mobile and internet user base and further expand our presence on mobile commerce.

On March 10, 2014, we entered into a series of agreements with Tencent and its affiliates pursuant to which we acquired 100% interests in Tencent's Paipai and QQ Wanggou online marketplace businesses, a 9.9% stake in Shanghai Icton, logistics personnel and certain other assets. Paipai and QQ Wanggou, which we acquired from Tencent, are online marketplaces in China that bring buyers and sellers together online. Paipai was a consumer-to-consumer or C2C marketplace, whereas QQ Wanggou was a business-to-consumer or B2C marketplace. We re-launched the Paipai C2C marketplace in July 2014, but have closed it down as of the date of this annual report. In addition, we obtained the right to acquire the remaining equity of Shanghai Icton by March 10, 2017 at the higher of the then fair value of Shanghai Icton or RMB800 million (US\$123 million). In April 2016, we exercised the right paying RMB800 million (US\$123 million) and acquired the remaining equity interest in Shanghai Icton. Shanghai Icton operates a B2C e-commerce platform in China.

Concurrent with the above transactions, the execution of the strategic cooperation agreement and for US\$215 million in cash to us, we issued a total of 351,678,637 ordinary shares to Huang River Investment Limited, a wholly owned subsidiary of Tencent. We paid Tencent RMB181 million (US\$26 million) in cash as part of the consideration for the transaction during 2014. As part of the agreements, in a private placement concurrent with our initial public offering in May 2014, we issued an aggregate of 139,493,960 Class A ordinary shares to Huang River Investment Limited at the per share equivalent of the price to the public. Huang River Investment Limited is currently one of our principal shareholders and held 18.0% of our total issued and outstanding shares as of February 28, 2018.

We expect to continue to leverage our strategic partnership with Tencent to enhance our ability to increase our internet and mobile user traffic, to strengthen our direct sales and marketplace businesses on internet and mobile. We believe our continued cooperation with Tencent will raise and maintain our profile among China's fast growing and large mobile internet users, many of whom frequently use Weixin and Mobile QQ in their daily lives. We have further strengthened our team with the addition of former employees from Tencent. In October 2015, we expanded partnership with Tencent to provide merchants with innovative mobile marketing solutions. The collaboration offers businesses advanced online tools to more precisely reach their target customer groups, build brand recognition and increase return on investment on marketing by providing brands access to Tencent users. In October 2017, we and Tencent expanded our partnership with the launch of the JD-Tencent Retail Marketing Solution. The initiative integrates insights on consumer behavior from Tencent's social media platforms with online and offline shopping data from us and our brand partners to enable more precise target marketing and better understanding of consumer behavior for the brands on our platform.

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**Strategic Cooperation with Vipshop**

In December 2017, we, along with Tencent, entered into a share subscription agreement to subscribe for newly issued Class A ordinary shares of Vipshop, an NYSE-listed online discount retailer for brands in China. We also purchased the ADSs of Vipshop from open market. As of December 31, 2017, we accumulatively invested approximately US\$425 million in cash as consideration for Class A ordinary shares of Vipshop (including the ADSs). In December 2017, we also entered into a business cooperation agreement and established a cooperative relationship with Vipshop, pursuant to which we granted Vipshop entries on both the main page of our mobile app and the main page of our Weixin Discovery shopping entry. Leveraging Vipshop's strength in flash sale and apparel businesses, we believe this partnership will further extend the strong inroads that we have made with female shoppers, and will expand the breadth and reach of our fashion business.

**Customer Experience**

Our slogan is (selection, speed, quality, value), and we are committed to optimizing customer experience and achieving customer satisfaction. This commitment drives every aspect of our operations, which are focused on six core components: extensive product offerings, compelling online experience, superior customer service, competitive pricing, timely and accurate fulfillment, and convenient payment options.

***Products***

We continually seek to add more products that appeal to our target customers. The number of products we offer has grown rapidly. We offer a wide range of product categories including but not limited to:

- home appliances;
- mobile handsets and other digital products;
- computers, including desktop, laptop and other varieties, as well as printers and other office equipment;
- furniture and household goods;

- apparel;
- cosmetics and other personal care items and pet products;
- women's shoes, bags, jewelry and luxury goods;
- men's shoes, sports gears and fitness equipment;
- automobiles and accessories;
- mother and childcare products, toys and instruments;
- food, beverage and fresh produce;

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- gifts, flowers and plants;
- nutritional supplements;
- books, e-books, music, movies and other media products; and
- virtual goods, including online travel agency, attraction tickets, and prepaid phone cards and game cards.

Each of these categories is further divided into numerous subcategories to facilitate browsing.

In building up our product offerings, we focus on quality as well as quantity. Due to our nationwide reach and our efficient fulfillment system, suppliers often choose us to launch new products that they expect will be in high demand, and we often act as the preferred distributor for a period of days or weeks when a hot new product first becomes available for sale to the public.

***Online Experience***

We believe that providing a compelling online experience is critical to attracting and retaining customers. We make sales primarily through our content-rich and user-friendly website [www.jd.com](http://www.jd.com) and mobile apps. Our website not only offers a broad selection of authentic products at competitive prices but also provides easy site navigation, basic and advanced search functions, comprehensive product information and a large volume of customer reviews and ratings. These features address customers' desire to view, understand and compare products before purchasing. With the increasing popularity of mobile internet-enabled devices, we have also developed apps and features adapted to mobile internet users, and we currently offer mobile access through our mobile website [m.jd.com](http://m.jd.com) and our various iOS, Android and Windows-based mobile apps. As part of our strategic partnership with Tencent, we have launched level 1 access on Tencent's Weixin and Mobile QQ, whereby Tencent users can easily access our product offerings and have enjoyable mobile shopping experience. Approximately 86% of orders fulfilled were placed through our mobile apps in the fourth quarter of 2017, as compared to approximately 80% in the fourth quarter of 2016.

Our [www.jd.com](http://www.jd.com) website and mobile apps contain the following information and features:

*Comprehensive product information.* Each product page contains pictures, descriptions, and sometimes short videos of the product, the price, a pull-down menu to show whether the product is in stock at the customer's location, customer reviews and ratings, and whether the product will be delivered by us or by one of our third-party sellers. Depending on the type of product, there will be additional information to help the customer make a purchase decision or

recommendations to steer the customer towards additional products.

*Interactive user community.* Our websites and mobile apps contain a large volume of helpful user-generated content. For each product, customers can provide reviews and ratings that are featured prominently on the product page. We encourage participation by granting loyalty points for posting reviews and ratings. We believe that we have the largest online product review database of any online direct sales company in China, with approximately 3,259 million product reviews generated by our customers as of December 31, 2017, which benefits our customers, suppliers and third-party sellers.

*Product recommendations.* We have been making progress in leveraging artificial intelligence technologies to generate personalized recommendations to customers of products they may be potentially interested in. Each product page typically has recommendations of other products that are often purchased together with that product. In addition, our website makes recommendations to customers according to a comprehensive dataset compiled based on customer s behavior. The scale of our business enables us to collect large volume of data about customer behavior and preferences that we believe enable us to make recommendations that are more accurate and appealing to our customers.

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*Real-time order tracking.* Customers can log into their accounts to check the status of their orders. All packages in our system are given a unique identifier and their location is updated each time they are handled by one of our warehouse or delivery personnel or one of our contracted third-party couriers. Furthermore, each of our delivery personnel carries a mobile personal digital assistant, which allows customers to track their location in real time on an online map.

*Customer Service*

Providing satisfactory customer services is a high priority. Our commitment to customers is reflected in the high service levels provided by our customer service staff as well as in our product return and exchange policies.

*24-7 customer service centers.* We operate three 24-7 customer service centers in Suqian and Yangzhou of Jiangsu Province and Chengdu of Sichuan Province, handling all kinds of customer queries and complaints regarding our products and services. We obtained COPC (Customer Operation Performance Center) Certification in November 2014. Customers can make queries and file complaints via various channels such as phone calls, online written instant messengers, JD official accounts in Weixin and Weibo, and emails. As of December 31, 2017, we had a total of 9,085 full-time customer service representatives at the Suqian, Yangzhou and Chengdu centers.

*Returns and exchanges.* We accept unconditional returns or exchanges within seven days of purchase. Merchandise with defects can be returned for exchange within 15 days of purchase. For customers with good credit, we provide quick refund service, that is, the customers are refunded as soon as they submit the return requests. If customers report defects more than 15 days after receipt but still within the warranty period, we will have defective goods repaired or take other appropriate action to compensate the customer, depending on the nature of the problem. We will generally pick up defective items for return or exchange at the customer's address, provided that the return or exchange is requested within 15 days of receipt of the item and the address within the area that is serviced by our employees or by one of the third-party couriers that have agreed to provide this service for us. Alternatively, customer can also mail the merchandise to one of our regional fulfillment centers or bring the product to the nearby pickup station. The same policies apply to products sold through our online marketplace.

*Membership program.* We have established a membership program to cultivate customer loyalty and encourage our customers to make repeat purchases. In 2017, we upgraded the membership system and changed from the five-tier membership structure to Jing Xiang Zhi ( ) value system, which takes into account various kinds of indicators, such as consumer behavior, interaction, credit ratings, risk level, among others, to determine the comprehensive score for each consumer. We believe the upgraded membership system will be able to effectively enhance shopping experience and consumer engagement. In addition to our Jing Xiang Zhi ( ) membership program, we continued to promote JD Plus, a premium paid membership program. By the end of 2017, we have attracted millions of JD Plus members and continued to introduce new benefits to JD Plus members, including free shipping, extra rebates, VIP customer services, access to free e-books, free return services and exclusive prices on selected product offerings. Meanwhile, JD Plus has been integrated with other primary forms of promotions such as Super Brand Days and Lightning Deal

channel, as an effort of joint marketing.

***Pricing***

We offer competitive pricing to attract and retain customers. We make continual efforts to maintain and improve an efficient cost structure and create incentives for our suppliers to provide us with competitive prices.

*Pricing policy.* We are making continual efforts to set our prices to be competitive with those on other major online retail websites and in physical stores in China. We typically negotiate with our suppliers for prices that are comparable to or lower than those offered to retailers in other sales channels. If we reduce the price on our website before the product is delivered to the customer, then the customer generally has an opportunity to lock in the lower price. Currently, third-party sellers are free to set their own prices on our online marketplace.

*Special promotions.* We offer a selection of discounted products on special occasions, such as the anniversary sales promotional event on June 18 and China's new online shopping festival on November 11, and on important holidays such as Christmas and Chinese New Year. We also hold daily promotions for selected products for a limited period of time. Special promotions attract bargain hunters and give our customers an additional incentive to visit our website regularly.

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***Delivery***

We believe that timely and reliable fulfillment is critical to the continuing success of our business. To this end, we have incurred and will continue to incur significant expenditures in building and operating our own nationwide fulfillment infrastructure. The following are some of the advantages that derive from our nationwide fulfillment infrastructure:

*Delivery network and personnel.* We delivered products directly to customers in almost all counties and districts across China as of December 31, 2017. We deliver a majority of the orders directly to customers ourselves, and therefore our customers interact with delivery personnel more often than with any other representatives of our company. For this reason, we place great emphasis on training our delivery personnel and setting up delivery stations in more and more counties and districts. We believe that our professionally trained delivery personnel are important in helping us to shape customer experience and distinguish ourselves from our competitors.

*Flexible delivery arrangements.* We believe that timely and convenient delivery is an essential part of customer satisfaction, and we arrange our delivery schedule to suit our customers' needs. Customers can choose their preferred delivery period during a day, including evening delivery in selected areas, when they place orders. Our delivery personnel contact customers by telephone to arrange a convenient time for delivery. Customers who need to reschedule a delivery can log into their account on our websites to look up the contact information for the delivery person and contact the delivery person directly themselves, provided that the delivery will be made by our employees.

*Comprehensive speedy delivery service.* We introduced our 211 program in 2010. For goods that we have in stock at the corresponding regional fulfillment center or front distribution center, any orders received by the morning deadline (11:00 a.m. in most of the locations) will be delivered on the same day, and any orders received by the evening deadline (11:00 p.m.) will be delivered by 3:00 p.m. on the following day. Customers also can request that an order placed by 3:00 p.m. be delivered in the evening on the same day in selected cities. There is no extra charge for delivery under our 211 program for orders that satisfy the minimum size requirement, and customers can check the product page on our websites to see whether the product is in stock and thus eligible. The program does not cover delivery to addresses through third-party couriers or products shipped directly from our third-party sellers. Bulky items such as refrigerators or washing machines are also eligible for same-day or next-day delivery in selected areas. Customers can request expedited delivery within two hours by paying an extra charge in the major cities where we have regional fulfillment centers. JD Logistics also provides scheduled delivery service in selected cities, allowing customers to choose a convenient 2-hour delivery window within which to receive their goods. Besides, for luxury products, consumers in major cities can enjoy JD Luxury Express, a premium delivery services. As of December 31, 2017, our same-day and next-day delivery service covered 1,752 counties and districts across China.

*Customer pickup.* Customers who prefer to pick up their order themselves can select a pickup station when placing the order and use the tracking function to find out when the order has arrived there. We have pickup stations at convenient locations across the country and payment can be made on spot.

*Continuous expansion of delivery service.* We have established and are making continuous efforts to further expand cold-chain logistics and cross-border logistics capabilities and in other new business areas, to expand product selection while ensuring superior customer experience.

***Payment***

*Payment-on-delivery.* We accept payment-on-delivery in almost all of the counties and districts across China where we make deliveries through our own delivery personnel. Our delivery personnel carry mobile POS machines for processing debit cards and credit cards and they also accept cash. Customers chose payment-on-delivery approximately 10% of the time in 2017.

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*Online payment.* Various kinds of online payment methods are offered to customers at the time they place their orders, such as Weixin Pay, JD Pay, UnionPay, among others. Customers chose online payment approximately 90% of the time in 2017.

*Other payment options.* Customers may also choose to pay by postal money order. Enterprise customers can also make payment by wire transfer.

## **Merchandise Sourcing**

In our online direct sales business, we sourced products from over 15,000 suppliers as of December 31, 2017. Procuring products on such a massive scale requires considerable expertise, which we have built up over a number of years. We negotiate with the manufacturer or a higher-level distributor where possible in order to obtain the most favorable terms, even if we sign a contract with a lower-level distributor for operational reasons. None of our suppliers accounted for over 10% (by value) of the products we purchased in 2017. In addition, we had over 170,000 third-party sellers on our online marketplace as of December 31, 2017.

As we increase in scale in particular product categories, we expect to increase our direct purchases from manufacturers and, where appropriate, to become an authorized reseller. We believe that our ability to establish direct relationships with manufacturers will provide improved product pricing and access to hard-to-get products. We believe that manufacturers and distributors consider us an important channel in certain product categories such as computers and mobile devices, where we are one of the largest channels in China, and we are gaining significant traction in related categories like home electronics. In addition, we have created a supplier interface where our suppliers and third-party sellers access reports regarding inventory status, purchase history and customer reviews of their products. Suppliers and third-party sellers can use this information in their marketing and product development efforts and also in managing their own inventory, which helps them manage costs and makes our services more valuable to them.

We select suppliers and third-party sellers on the basis of brand, reliability, volume and price. They must be able to meet our demands for timely supply of authentic products and also provide high quality post-sale customer service. We perform background checks on each supplier and third-party seller and the products it provides before we enter into any agreement. We examine their business licenses and the qualification certificates for their products, and check their brand recognition and make investigation about the market acceptance of their products among players in the same industry. We also conduct on-site visits to assess and verify their location, scale of business, production capacity, property and equipment, human resources, research and development capability, quality control system and fulfillment capability. Our standard form contract requires suppliers and third-party sellers to represent that their goods are authentic and from lawful sources and do not infringe upon lawful rights of third parties and to pay us liquidated damages for any breach. We normally enter into one-year framework agreements with our suppliers and third-party sellers and renew them annually. We have also put stringent rules in place governing the operations of third-party sellers on our online marketplace. Third-party sellers will be subject to penalties or be asked to end their operations on our online marketplace if they violate the marketplace rules, for example by selling counterfeit products.

## **Fulfillment**

We deliver a compelling customer experience by fulfilling orders quickly and accurately. To this end, we have built our nationwide fulfillment infrastructure for the prompt receipt, storage and shipment of our products. Our fulfillment infrastructure is primarily comprised of a nationwide warehouse and delivery network that we operate ourselves, supplemented by contracted third-party couriers to service areas that are not covered by our network. To further enhance inventory accountability and security, we track our inventory at all stages of the receiving and order fulfillment process.

*Nationwide Fulfillment Infrastructure*

We have built a nationwide fulfillment infrastructure that we believe is the largest among all e-commerce companies in China.

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We had established regional fulfillment centers in seven major cities in China as of December 31, 2017: Shenyang in the northeast, Beijing in the north, Shanghai in the east, Wuhan in the center, Guangzhou in the south, Chengdu in the southwest and Xi'an in the northwest. We had also established front distribution centers in another 27 major cities stocking products that are in high demand and other additional warehouses in another 44 cities in China as of December 31, 2017. We operated a total of 486 warehouses with an aggregate gross floor area of approximately 10 million square meters in 78 cities as of December 31, 2017, and our comprehensive fulfillment facilities covered almost all counties and districts across China as of the same date.

We deliver a majority of the orders directly to customers ourselves. We maintain cooperation arrangements with a number of third-party couriers to deliver our products to our customers in those areas not covered by our own fulfillment infrastructure, particularly in smaller and less developed cities. Third-party sellers also use third-party couriers if they do not use our delivery services.

***Fulfillment Process***

The following flow chart outlines our fulfillment process:

When a customer places an order, our delivery management system automatically processes the order and matches it to the warehouse or warehouses with the appropriate inventory. Picking is done on the basis of instructions that are generated automatically by our warehouse management system. The warehouse management system also automatically generates the bar codes and shipping labels that allow our staff to match the items to the correct order in the packing process. After picking, packing, and sorting process, the order is shipped to a delivery or pickup station in the customer's city for further handling and delivery. If a customer order contains products from different warehouses, the products will be combined at the last-mile delivery station and then sent to the customer in one delivery. If the customer's address is not one to which we make deliveries ourselves, we will have a third-party courier pick up the order at our sorting center to make the delivery. In some cases we also use third-party couriers to carry orders between a sorting center and a delivery station. Once the order has been shipped, our system automatically updates the inventory level for each product in the order, ensuring that additional inventory will be ordered as needed. Our customers can track the shipping status of their orders through our websites or mobile apps at each step in the process.

We are in the process of constructing new, larger, custom-designed warehouses on land where we have obtained land use rights. As of December 31, 2017, we had already launched our custom-designed warehousing facilities in nine cities with an aggregate floor space of over one million square meters. In addition, we are in the process of constructing the warehousing facilities in twelve cities, and plan to construct additional such warehouses. We believe that building our own custom-designed warehouses will not only increase our storage capacity but also allow us to restructure and reorganize our fulfillment workflow and processes.

We also have a dedicated internal division, to explore research, development and application of smart logistics and unmanned technology, which we believe represent the future trend of the logistics industry. Through the development of a series of cutting-edge technologies such as intelligent hardware, internet of things, big data, robotics, image and vision recognition, machine learning, deep learning, and smart logistics devices, we intend to revolutionize logistics industry and transform it from automation to intelligence. We are also in the process of experimenting these technologies in a wide range of logistics business areas such as unmanned warehouses, drone delivery, self-driving vehicles, unmanned delivery stations and convenience stores, among others. We will continue to invest in smart logistics to improve the intelligence level of our logistics system and to provide consumers with an unparalleled shopping experience.

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**Technology Platform**

Technology is the key to the success of our future business development and the evolution of our ecosystem. Our proprietary technology platform supports our rapidly growing processing capacity requirements, and provides us with detailed and accurate visibility and information based on our cloud computing infrastructure, comprehensive operating data from value chain, and advanced business intelligence analytics powered by artificial intelligence technologies.

As of December 31, 2017, we employed 11,938 research and development professionals to design, develop and operate our technology platform. At the same time, we have built up a global team of artificial intelligence and supply-chain technology professionals, including many top-notch AI and supply-chain researchers and scientists.

Our security infrastructure provides encryption service using the industry standard AES algorithm to protect our proprietary data and customer information across all JD custom-designed data centers. With multiple layers of encryption, all sensitive data can only be accessed by authenticated and authorized systems, apps and services without compromising confidentiality and privacy.

Key components of our technology platform include:

***Boundaryless Retail Technology to Expand Retail Scenarios***

We are striving to leverage AI technologies to generate personalized recommendations on our retail technology platform based on the comprehensive data we accumulate daily. The vast scale of our business gives us extensive data about customers that can provide deep insights into customer interests and behavior.

Our technologies are widely used in a multitude of retail scenarios, from front-end technology that supports our main customer interface on our websites and mobile apps, to the innovative omni-channel technology to support the retail ecosystem with new customer interfaces, such as the 7FRESH offline store, Ding-Dong Smart Speaker, JD Home offline franchise stores and unmanned convenience stores, among others. Our strong retail technology platform is vital in our pursuit of an ever-improving customer experience.

***Big-Data Analytics and Smart Supply Chain to Enhance Operating Efficiency***

After years of development, we have accumulated a huge amount of data covering the longest value chain in China's e-commerce industry, including customer browsing and buying behavior, product manufacturing and sales information, warehousing and distribution information, customer service information and much more. Leveraging our technical capabilities such as batch computation, real-time computation, machine learning and deep learning, our big data platform can fulfill the computational tasks of various complex application scenarios.

With supply chain management capability quickly becoming an essential component of JD's key smart retail infrastructure, we have established a dedicated internal division to integrate cutting-edge technologies such as big data, blockchain, internet of things, or IoT, natural language processing and understanding, machine learning and deep learning, in building our demand-driven and consumer-centric smart supply-chain management capability to enhance operating efficiency and to empower the business partners in our ecosystem.

*Smart Logistics to Achieve Superior Customer Experience*

We have also established another dedicated internal division to explore the application of smart logistics and unmanned technology, which we believe represents the future of the logistics industry. Through exploration and development of a series of cutting-edge technologies such as intelligent hardware, IoT, big data, robotics, image and vision recognition, smart logistics devices and other key technologies, we intend to revolutionize the logistics industry and transform it from automation to intelligence. We are also in the process of applying these technologies in a wide range of logistics business areas such as unmanned warehouses, drone delivery, self-driving vehicles, unmanned delivery stations and convenience stores, among others. We will continue to invest in smart logistics to improve the intelligence level of our logistics system and to provide consumers with an unparalleled shopping experience.

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*Artificial Intelligence Technology to Drive Business Upgrades*

We are making continuous efforts to develop our technology strength in artificial intelligence, leveraging our massive volume of data, to explore innovative business models. In September 2017, we established the AI Platform and Research Division as a core component of our company's technological ecosystem. We have incorporated cutting-edge technologies, such as machine learning, natural language processing and related computational approaches, to continue to improve our operations. As of the date of this annual report, our applications of artificial intelligence technology include intelligent customer service assistant JIMI, intelligent SKUs selection system, and AI-driven advertisement platform, among others.

We also strive to assume greater corporate social responsibility by building an advanced public technology platform in order to better serve the community.

**Marketing**

We believe that the most effective form of marketing is to continually enhance our customer experience, as customer satisfaction engenders word-of-mouth referrals and repeat purchases. We have been able to build an extensive base of loyal customers primarily through providing superior customer experience and conducting marketing and brand promotion activities.

In addition to continuing marketing activities through traditional online and offline channels, we have also designed innovative programs and promotion activities to further enhance the brand awareness of both us and our partners, and to better reach our customers. In 2017, we successfully launched a series of Super Brand Days, Super Category Days and Super New Product Days joint marketing campaigns in cooperation with many domestic and international top brands. As part of our overall efforts to help business partners develop brand recognition in China, the customized campaigns bring brands closer to consumers through highly effective, targeted promotions based on data-driven customer insights. Additionally, we strengthened our JD Co-branding Program to jointly promote brand awareness with many of our brand partners.

With the increasing popularity of mobile internet-enabled devices, approximately 82% of our orders fulfilled were placed through our mobile apps in 2017. In order to further improve customer experience and increase user engagement on mobile internet, we are exploring cooperation opportunities with many business partners on the mobile side. In addition to our successful partnership with Tencent and Toutiao in 2017 we also formed strategic partnerships with Baidu, Qihoo 360, NetEase, Sogou and iQIYI, aimed at leveraging these companies' massive user bases to strengthen collaboration in targeted marketing, user access points and content-driven marketing. We incurred RMB7,233 million, RMB10,159 million and RMB14,918 million (US\$2,293 million) of marketing expenses in 2015, 2016 and 2017, respectively.

**Competition**

The online retail industry in China is intensely competitive. Our current or potential competitors include (i) major e-commerce companies in China that offer a wide range of general merchandise product categories, such as Alibaba Group, which operates *taobao.com* and *tmall.com*, and

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Amazon China, which operates *amazon.cn*, and (ii) major traditional retailers in China that are moving into online retailing, such as Suning Appliance Company Limited, which operates *suning.com*, and Gome Electrical Appliances Holding Limited, which operates *gome.com.cn*. We also face competition from online retail companies in China focused on specific product categories and from physical retail stores, including big-box stores that also aim to offer a one-stop shopping experience.

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We anticipate that the online retail market will continually evolve and will continue to experience rapid technological change, evolving industry standards, shifting customer requirements, and frequent innovation. We must continually innovate to remain competitive. We believe that the principal competitive factors in our industry are:

- brand recognition and reputation;
- product quality and selection;
- pricing;
- fulfillment capabilities; and
- customer service.

In addition, new and enhanced technologies may increase the competition in the online retail industry. New competitive business models may appear, for example based on new forms of social media or social commerce.

We believe that we are well-positioned to effectively compete on the basis of the factors listed above. However, some of our current or future competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases or greater financial, technical or marketing resources than we do.

**Seasonality**

We experience seasonality in our business, reflecting a combination of seasonal fluctuations in customer purchases, promotional events, and traditional retail seasonality patterns. For example, we generally experience less user traffic and purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, sales in the traditional retail industry are significantly higher in the fourth quarter of each calendar year than in the preceding three quarters. E-commerce companies in China hold special promotional campaigns on November 11 each year that tend to boost sales in the fourth quarter relative to other quarters, and we hold a special promotional campaign in the second quarter of each year, on June 18, to celebrate the anniversary of the founding of our e-commerce business. Overall, the historical seasonality of our business has been relatively mild due to our rapid growth but has been increasing and may further increase in the future. Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

## Intellectual Property

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on copyright, trademark and patent law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of December 31, 2017, we owned 336 computer software copyrights in China relating to various aspects of our operations and maintained 5,719 trademark registrations inside China and 896 trademark registrations outside China. We had approximately 4,402 trademark applications inside China and 475 outside China. As of December 31, 2017, we had 838 patents granted in China, 3,622 patent applications pending in China and 236 patent applications pending outside China. As of December 31, 2017, we had registered approximately 3,662 domain names. Our registered domain names include *jd.com*, *360buy.com*, *360buy.com.cn* and *360buy.cn*, among others.

## Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased all risk property insurance covering our inventory and fixed assets such as equipment, furniture and office facilities. We maintain public liability insurance for our business activities at ten locations. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. Additionally, we provide group accident insurance for all employees and supplementary medical insurance for all management and technology and other professional personnel. We do not maintain business interruption insurance, nor do we maintain product liability insurance or key-man life insurance. We consider our insurance coverage to be sufficient for our business operations in China.

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**Enterprise Social Responsibility**

We recognize our responsibility to bring improvements to society in which we live and work, and we believe strongly that our core values, including commitment to brands, customers, our employees and broader society are the backbone that drives our decisions to build a healthy and vibrant ecosystem. Combined with an unrelenting focus on developing our technology capabilities to improve efficiency and service, we believe that we have laid the groundwork for many years of robust growth.

We are committed to leveraging our technology, logistics infrastructure and relationships with consumers and suppliers to benefit society. We believe in putting our business assets to use to build not only the future of retail, but also a better future for all stakeholders. Our social responsibilities include environment sustainability, employee welfare and benefits, poverty alleviation and more. In 2014, we established JD Foundation to manage public welfare related projects.

*Environment Sustainability.* We have always been committed to using green logistics and reducing resource consumption, environmental degradation and pollution in the process of storage, transportation and packaging. In 2017, together with brand designers, manufacturers, logistics companies, packaging companies, industry associations, among others, we launched the Green Stream Initiative, a joint green supply chain campaign with the goal of improving the utilization rate of supply chain resources and reducing carbon emissions. Additionally, as part of our commitment to sustainable energy, JD Logistics plans to gradually upgrade its nationwide fleet of direct-sale delivery trucks to new energy vehicles in the coming years. In the fourth quarter of 2017, JD Logistics distributed 100,000 recyclable Green Boxes to reduce packaging waste, and launched the JD Logistics Green Fund to drive innovation of environmental protection technology and promote green consumption.

We proactively participated in the promotion of sustainable production and consumption. In 2013, we issued the first ever digital invoice in China and as of the date of this annual report, we have already issued more than one billion digital invoices covering 30 provinces and replaced paper invoices with digital invoices for all direct sales orders. Meanwhile, we launched the Recycling Plan in many cities in China to recycle more than 1.7 million items of clothing, toys and expired medications to reduce carbon emissions and environmental pollutions through donation or professional recycling.

*Employee Welfare and Benefits.* We have always striven to provide employees with full social benefits, diversified work environment and a wide range of career development opportunities. As of December 31, 2017, we had a total of 157,831 full-time employees, and we signed formal contracts with all of our employees and provided them with social benefits. We have invested significant resources in employee career development and training opportunities. For example, we established comprehensive training programs that cover topics such as corporate culture, employee rights and responsibilities, team-building, professional conduct, job performance, management skills, leadership and executive decision-making. We have a special dedicated training facility, JD Corporate University, to further strengthen our internal training capabilities. We also sponsored selected senior and mid-level managers to participate in part-time EMBA programs. In addition, we launched the Go to college in JD program in association with well-known universities in November 2013, through which more than 1,000 employees have received their undergraduate or graduate degrees. All employees are eligible to join the program voluntarily and receive company scholarships once they obtain their undergraduate or graduate degree.

We provide all employees, including those who work on the front lines in delivery roles, with various career development opportunities. More than 80% of our mid-level management, as well as more than 70% of our senior-level management were internally promoted. In addition, to improve our employees' well-being and satisfaction, we provide a multitude of benefits such as special subsidies and gifts for front-line employees, special fund for families of employees suffering major illnesses or facing disasters, extended maternity and paternity leave, and educational resources for children of employees, among others.

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*Poverty alleviation.* Leveraging our strong supply chain, cutting-edge technology and logistics network, we participated in the poverty alleviation efforts in rural areas. We pioneered the rural e-commerce strategy, aiming to make agriculture products in rural areas available online and at the same time, allow authentic products to reach residents in rural areas. In 2017, we started a program to deliver critical medical supplies to hard-to-reach villages located in mountainous areas using self-developed drones. We also launched China's trusted online donation platform, through which our hundreds of millions of customers can donate products directly to non-profit organizations and serving groups in need across China, leveraging JD's own logistics network.

**Regulation**

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China.

***Regulations Relating to Foreign Investment***

***Industry Catalogue Relating to Foreign Investment.*** Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, or the Catalogue, which was promulgated and is amended from time to time by the Ministry of Commerce and the National Development and Reform Commission. Industries listed in the Catalogue are divided into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalogue are generally deemed as constituting a fourth permitted category. Establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to higher-level government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Catalogue are generally open to foreign investment unless specifically restricted by other PRC regulations.

Through our subsidiaries and variable interest entities, we are engaged in certain industries that are classified as restricted or prohibited under the Catalogue. Pursuant to the latest Catalogue amended in July 2017, the provision of value-added telecommunications services falls in the restricted category and the percentage of foreign ownership cannot exceed 50% (excluding e-commerce). The publication of e-books and online audio and video products and online publication are in the prohibited category.

Each of Jingdong Century and Shanghai Shengdayuan primarily engages in the online wholesale and retail of products, the development of computer network technology, technical consultancy and technical services, which are in the permitted category. Xi'an Jingxundi primarily engages in courier services that are in the permitted category and Star East primarily engages in warehousing and related services that are in the permitted category as well. Under PRC law, the establishment of a wholly foreign owned enterprise is subject to the approval of, or the requirement for record filing with, the Ministry of Commerce or its local counterparts and the wholly foreign owned enterprise must register with the competent industry and commerce bureau. We have duly obtained the approvals from the Ministry of Commerce or its local counterparts for our interest in our wholly owned PRC subsidiaries and completed the registration of these PRC subsidiaries with the competent

industry and commerce bureau.

In October 2016, the Ministry of Commerce issued the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises, or FIE Record-filing Interim Measures, which was amended in July 2017. Pursuant to FIE Record-filing Interim Measures, the establishment and change of foreign-invested enterprises are subject to record-filing procedures, instead of prior approval requirements, provided that the establishment or change does not involve special entry administration measures. If the establishment or change of FIE matters involve the Special Administrative Measures for Admission of Foreign Investments (Negative List for Admission of Foreign Investments), the approval of the Ministry of Commerce or its local counterparts is still required. The Special Administrative Measures for Admission of Foreign Investments (Negative List for Admission of Foreign Investments) are consistent with the Catalogue, setting out on a unified basis the restrictive measures for admission of foreign investments, such as the equity ownership requirements, senior management personnel requirements, etc.

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***Foreign Investment in Value-Added Telecommunications Businesses.*** The Regulations for Administration of Foreign-invested Telecommunications Enterprises promulgated by the PRC State Council in December 2001 and subsequently amended in September 2008 and February 2016 set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. These regulations prohibit a foreign entity from owning more than 50% of the total equity interest in any value-added telecommunications service business in China and require the major foreign investor in any value-added telecommunications service business in China have a good and profitable record and operating experience in this industry. Due to these regulations, we operate our [www.jd.com](http://www.jd.com) website through Jingdong 360, one of our consolidated variable interest entities.

In July 2006, the Ministry of Information Industry, the predecessor of the Ministry of Industry and Information Technology, or the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in the Operation of Value-added Telecommunications Business, pursuant to which a domestic PRC company that holds an operating license for value-added telecommunications business, which we refer to as an ICP License, is prohibited from leasing, transferring or selling the ICP License to foreign investors in any form and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct a value-added telecommunications business illegally in China. Further, the domain names and registered trademarks used by an operating company providing value-added telecommunications services must be legally owned by that company or its shareholders. In addition, the company's operational premises and equipment must comply with the approved coverage region on its ICP License, and the company must establish and improve its internal internet and information security policies and standards and emergency management procedures. If an ICP License holder fails to comply with the requirements and also fails to remedy such non-compliance within a specified period of time, the MIIT or its local counterparts have the discretion to take administrative measures against the license holder, including revoking its ICP license. Jingdong 360, the operator of our [www.jd.com](http://www.jd.com) website, owns the relevant domain names and registered trademarks and has the necessary personnel to operate the website.

***Foreign Investment in Road Transportation Businesses.*** According to the Administrative Provisions for Foreign Investment in the Road Transportation Industry promulgated in November 2001 by the Ministry of Transport and the Ministry of Foreign Trade and Economic Cooperation, the predecessor of the Ministry of Commerce, and amended in January 2014 and its supplements and implementing rules, investment in a road transportation business (including, among other things, road freight transportation, and flitting, loading, unloading and storage of road cargo) by a foreign investor is subject to the approval of the provincial counterparts of the Ministry of Transport, and the newly established foreign-invested enterprise must obtain a Road Transportation Operation Permit from the provincial-level Ministry of Transport. The incorporation of a subsidiary of a foreign-invested enterprise that intends to engage in a road transportation business is subject to the same approval procedure. Currently, Xi'an Jingdong Xincheng and Jingbangda engage in our road transportation business. Jingbangda has obtained a Road Transportation Operation Permit from the provincial-level Ministry of Transport. Xi'an Jingdong Xincheng obtained the approval from the municipal counterpart of the Ministry of Transport and each of the branches of Xi'an Jingdong Xincheng also obtained a Road Transportation Operation Permit from the county level where it is located. See Item 3.D. Key Information Risk Factors Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.

***Licenses and Permits***

We are required to hold a variety of licenses and permits in connection with various aspects of our business, including the following:

**Value-added Telecommunication License.** The Telecommunications Regulations promulgated by the State Council and its related implementation rules, including the Catalogue of Classification of Telecommunications Business issued by the MIIT, categorize various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services, and internet information services, or ICP services, are classified as value-added telecommunications businesses. Under the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an ICP License from the MIIT or its provincial level counterparts. In 2000, the State Council also issued the Administrative Measures on Internet Information Services, which was amended in 2011. According to these measures, a commercial ICP service operator must obtain an ICP License from the relevant government authorities before engaging in any commercial ICP service in China. When the ICP service involves areas of news, publication, education, medical treatment, health, pharmaceuticals and medical equipment, and if required by law or relevant regulations, specific approval from the respective regulatory authorities must be obtained prior to applying for the ICP License from the MIIT or its provincial level counterpart. In 2017, the MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licenses and replaced the Administrative Measures on Telecommunications Business Operating Licenses promulgated in 2009, which set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. Jingdong 360, as our ICP operator, holds an ICP License issued by the Beijing Telecommunications Administration for the provision of information services through the internet and also a value-added telecommunication license issued by the MIIT for the provision of information services through a mobile network, the provision of internet data center services, internet access services, and online data processing and transaction processing services.

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**Internet Publication License/Network Publication Service License.** The State Administration of Radio and Television, or SAPPRT, formerly known as the General Administration of Press and Publication, Radio, Film and Television, or the GAPPRFT, which is integrated from the State Administration of Radio, Film and Television, and the General Administration of Press and Publication, established in March 2018 as a result of institutional reform, is the government agency responsible for regulating publication activities in China. In June 2002, the MIIT and the General Administration of Press and Publication jointly promulgated the Tentative Administrative Measures on Internet Publication, which require internet publishers to obtain a license from the General Administration of Press and Publication to conduct internet publication activities. In February 2016, the SAPPRT and the MIIT jointly issued the Administrative Measures on Network Publication, which took effect in March 2016 and replaced the Tentative Administrative Measures on Internet Publication. The Administrative Measures on Network Publication further strengthened and expanded the supervision and management on the network publication service. Pursuant to the Administrative Measures on Network Publication, entities engaging in the network publication service are required to obtain a network publication service license from SAPPRT; the network publishing services refer to the activities of providing network publications to the public through information networks; and the network publications refer to the digitalized works with the publishing features such as editing, producing and processing. The Administrative Measures on Network Publication also provide the detailed qualifications and application procedures for obtaining a Network Publication Service License. Jingdong 360 holds a Network Publication Service License, which will expire in December 2021.

**Online Culture Operating Permit.** The Provisional Measures on Administration of Internet Culture, promulgated by the former Ministry of Culture in 2011, and other related rules require entities to obtain an Online Culture Operating Permit from the applicable provincial level culture administrative authority to engage in activities related to online cultural products. Cultural products include music, games, performances, performing arts, works of art, and animation features and cartoons, while online includes both products produced for the internet and products converted from offline products and disseminated over the internet. Jingdong 360 holds an Online Culture Operating Permit issued by the Beijing Municipal Bureau of Culture, which will remain valid until December 2020.

**Internet Drug Information Service Qualification Certificate.** The former State Food and Drug Administration, or the SFDA, promulgated the Administrative Measures on Internet Drug Information Service in July 2004, which was amended in November 2017, and certain implementing rules and notices thereafter. These measures set out regulations governing the classification, application, approval, content, qualifications and requirements for internet drug information services. An ICP service operator that provides information regarding drugs or medical equipment must obtain an Internet Drug Information Service Qualification Certificate from the applicable provincial level counterpart of the SFDA. Jingdong 360 holds an Internet Drug Information Service Qualification Certificate issued by the Beijing Drug Administration for the provision of internet medical information services, which will remain valid until August 2019.

**Aviation Transport Sales Agency Certificate.** The Rules on Cognizance of Qualification for Civil Aviation Transport Sales Agencies, issued by the China Aviation Transportation Association in 2006, require any entity acting as an air-ticketing sales agency to obtain an Aviation Transport Sales Agency Certificate. Supplemental rules issued in 2008 require any air-ticketing sales agency engaging in online ticket sales to obtain an ICP License and complete a commercial website registration with the local administration for industry and commerce. Jingdong 360, has obtained

an ICP License as well as Aviation Transport Sales Agency Certificate, which remains valid until October 2018, for sales of air passengers transport tickets for both domestic and international air routes. In addition, Beijing Yuanyi, a subsidiary of another consolidated variable interest entity, has obtained an Aviation Transport Sales Agency Certificate for sales of air freight transport tickets for domestic air routes, which remains valid until October 2018.

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**Courier Service Operation Permit.** Pursuant to the Administrative Measures on the Courier Service Market and the Administrative Measures on Courier Service Operation Permits, any entity engaging in courier services must obtain a Courier Service Operation Permit from the State Post Bureau or its local counterpart and is subject to their supervision and regulation. Entities applying for a permit to operate courier services in a certain province should apply to the provincial level post bureau, while an entity applying for a permit to operate courier services across multiple provinces should apply to the State Post Bureau. An entity holding a cross-provincial Courier Service Operation Permit may provide courier services in cities other than its place of registration by establishing new branches at these cities and then filing with the relevant provincial post bureau for those branches within 20 days. In addition, pursuant to the Interim Regulations of Courier which will take effect in May 2018, express delivery operators and their branches may open express delivery terminal outlets according to their business needs, and shall file with the local postal administrations in the places where such terminal outlets are located within 20 days from the date of opening such terminal outlets. Express delivery terminal outlets are not required to obtain a business license. The courier business must be operated within the permitted scope and valid term of the Courier Service Operation Permit. We have one cross-provincial Courier Service Operation Permit that allows Jingbangda, a subsidiary of Xi'an Jingdong Xincheng that provides logistics services, to operate an express delivery business in 31 provinces and 424 cities in China. As of December 31, 2017, Jingbangda and its 1,268 branches had obtained Courier Service Operation Permits. We are in the process of applying for extension of the coverage of our Courier Service Operation Permits to other areas of China. See Item 3.D. Key Information Risk Factors Risks Related to Our Business Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.

**Road Transportation Operation Permit.** Under the Regulations on Road Transportation promulgated by the State Council in April 2004 and as amended, and the Provisions on Administration of Road Transportation and Stations (Sites) issued by the Ministry of Transport in June 2005 and as amended, anyone engaging in the business of operating road transportation and stations (sites) must obtain a Road Transportation Operation Permit, and each vehicle used for shipping must have a Road Transportation Certificate. As of December 31, 2017, Jiangsu Jingdong and its 39 branches, Jingbangda and its 23 branches had obtained Road Transportation Operation Permits that allow these entities to provide road freight transportation services. We are in the process of applying for additional Road Transportation Operation Permits for Xi'an Jingdong Xincheng and its 11 branches and Jingbangda's branches from the appropriate level of government authorities and obtaining necessary licenses for all of our vehicles used for transporting goods. See Item 3.D. Key Information Risk Factors Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.

**Publication Operation Permit.** In May 2016, the Ministry of Commerce and the GAPPRT jointly promulgated the Administrative Measures for the Publication Market (2016 Version), or the Publication Market Measures (2016 Version), which replaced the Administrative Measures for the Publication Market (2011 Version), or the Publication Market Measures (2011 Version). According to the Publication Market Measures (2016 Version), where an entity or individual is engaged in the distribution of publications via the internet or other information networks, the entity or individual is required to obtain a Publication Operation Permit. Entities and individuals engaged in the wholesale or retail of publications are required to carry out the relevant activities within the scope of a Publication Operation Permit. Where an entity or individual has obtained the Publication Operation Permit and is engaged in the distribution

of publications via the internet or other information networks within the approved business scope, the entity or individual is required to complete record filing with the publication administrative department within 15 days after launching the online distribution business. Although the Publication Market Measures (2016 Version) allow foreign-invested enterprises to engage in the distribution of publications, it is uncertain how this will be implemented in practice. According to the Publication Market Measures (2011 Version), foreign investors may engage in the distribution of audio and video products in China only in the form of contractual joint ventures between foreign and Chinese investors. Due to these restrictions in practice, we engage in wholesale and retail of books and audio and video products and other publications through Jiangsu Yuanzhou, one of our consolidated variable interest entities. Jiangsu Yuanzhou has obtained a Publication Operation Permit, which remains valid until March 31, 2020.

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***Food Distribution Permit.*** China has adopted a licensing system for food supply operations under the Food Safety Law and its implementation rules. Entities or individuals that intend to engage in food production, food distribution or food service businesses must obtain licenses or permits for such businesses. Pursuant to the Administrative Measures on Food Operation Licensing issued by the SFDA in August 2015 and was amended in November 2017, an enterprise needs to obtain a Food Operation Permit from the local food and drug administration, and the permits already obtained by food business operators prior to the effective date of these new measures will remain valid for their originally approved validity period. We sell food, liquor and nutritional supplements through our websites. Our PRC subsidiaries or their branches engaging in food distribution business have obtained Food Distribution Permits.

***Medical Device Operation Enterprise Permit.*** The Regulations on Supervision and Administration of Medical Devices, issued by the State Council in 2000 and further amended in March 2014 and May 2017, divide medical devices into three types. Enterprises engaging in the sale of Type I and Type II medical devices must file with the relevant drug supervision and administration authority while those engaging in the sale of Type III medical devices must obtain a Medical Device Operation Enterprise Permit from the relevant drug supervision and administrative authority. Beijing Jingdong Century Information Technology Co., Ltd., a subsidiary of Jingdong Century, has obtained a Medical Device Operation Enterprise Permit for the sale of several types of Type III medical devices, which remains valid until October 2021.

***Permit for Production and Operation of Radio and TV Programs.*** Under the Regulations on the Administration of Production of Radio and Television Programs issued by the State Administration of Radio, Film and Television in July 2004 and amended in August 2015, any entities that engage in the production of radio and television programs are required to apply for a Permit for Production and Operation of Radio and TV Programs from the State Administration of Radio, Film and Television, now the SAPPRT, or its provincial branches. Entities with this permit must conduct their business operations in compliance with the approved scope of production and operation. Furthermore, entities other than radio and TV stations are prohibited from producing consolidated radio and TV programs regarding current political news or similar subjects. Jingdong 360 has obtained a Permit for Production and Operation of Radio and TV Programs, which remains valid until December 2019.

***Regulations Relating to E-Commerce***

China's e-commerce industry is at a relatively early stage of development and there are few PRC laws or regulations specifically regulating the e-commerce industry. In May 2010, the State Administration of Industry and Commerce adopted the Interim Measures for the Administration of Online Commodities Trading and Relevant Services, which took effective in July 2010. Under these measures, enterprises or other operators which engage in online commodities trading and other services and have been registered with the State Administration of Industry and Commerce or its local branches must make the information stated in their business license available to the public or provide a link to their business license on their website. Online distributors must adopt measures to ensure safe online transactions, protect online shoppers' rights and prevent the sale of counterfeit goods. Information on products and transactions released by online distributors must be authentic, accurate, complete and sufficient.

In January 2014, the State Administration of Industry and Commerce promulgated the Administrative Measures for Online Trading, which terminated the above interim measures and became effective in March 2014. The Administrative Measures for Online Trading further strengthen the protection of consumers and impose more stringent requirements and obligations on online business operators and third-party online marketplace operators. For example, online business operators are required to issue invoices to consumers for online products and services. Consumers are generally entitled to return products purchased from online business operators within seven days upon receipt, without giving any reason. Online business operators and third-party online marketplace operators are prohibited from collecting any information on consumers and business operators, or disclosing, selling or providing any such information to any third party, or sending commercial electronic messages to consumers, without their consent. Fictitious transactions, deletion of adverse comments and technical attacks on competitors' websites are prohibited as well. In addition, third-party online marketplace operators are required to examine and verify the identifications of the online business operators and set up and keep relevant records for at least two years. Moreover, any third-party online marketplace operator that simultaneously engages in online trading for products and services should clearly distinguish itself from other online business operators on the marketplace platform.

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In March 2016, the State Administration of Taxation, the Ministry of Finance and the General Administration of Customs jointly issued the Circular on Tax Policy for Cross-Border E-commerce Retail Imports, which took effect in April 2016. Pursuant to this circular, goods imported through the cross-border e-commerce retail are subject to tariff, import value-added tax, or VAT, and consumption tax based on the types of goods. Individuals purchasing any goods imported through cross-border e-commerce retail are taxpayers, and e-commerce companies, companies operating e-commerce transaction platforms or logistic companies are required to withhold the taxes.

We are subject to these measures as a result of our online direct sales and online marketplace.

***Regulations Relating to Internet Content and Information Security***

The Administrative Measures on Internet Information Services specify that internet information services regarding news, publications, education, medical and health care, pharmacy and medical appliances, among other things, are to be examined, approved and regulated by the relevant authorities. Internet information providers are prohibited from providing services beyond those included in the scope of their ICP licenses or filings. Furthermore, these measures clearly specify a list of prohibited content. Internet information providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the lawful rights and interests of others. Internet information providers that violate the prohibition may face criminal charges or administrative sanctions by the PRC authorities. Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the offending content immediately, keep a record of it and report to the relevant authorities.

Internet information in China is also regulated and restricted from a national security standpoint. The National People's Congress, China's national legislative body, has enacted the Decisions on Maintaining Internet Security, which may subject violators to criminal punishment in China for any effort to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak state secrets; (4) spread false commercial information; or (5) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content.

In addition, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, effective on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public order and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as owners and administrators of networks and network service providers, including, among others, complying with a series of requirements of tiered cyber protection systems; verifying users' real identity; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC; and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes. As a supporting measure, the General Administration of Quality Supervision, Inspection and Quarantine and Standardization Administration jointly issued the Standard of Information Security Technology Personal Information Security Specification, which will take effect in May 2018. Pursuant to this new standard, the entities or persons who are authorized to use and process personal information, should only collect the necessary information and also obtain a consent from the information provider.



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***Regulations Relating to Internet Privacy***

In recent years, PRC government authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. The Administrative Measures on Internet Information Services prohibit ICP service operators from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT in 2011, an ICP operator may not collect any user personal information or provide any such information to third parties without the consent of a user. An ICP service operator must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator must take immediate remedial measures and, in severe circumstances, to make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information issued by the Standing Committee of the National People's Congress in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information issued by the MIIT in July 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or providing such information to other parties. Any violation of the above decision or order may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities. Furthermore, in June 2016, the Cyberspace Administration of China issued the Administrative Provisions on Mobile Internet Applications Information Services, which became effect on August 1, 2016, to further strengthen the regulation of the mobile app information services. Pursuant to these provisions, owners or operators of mobile apps that provide information services are required to be responsible for information security management, establish and improve the protective mechanism for user information, observe the principles of legality, rightfulness and necessity, and expressly state the purpose, method and scope of, and obtain user consent to, the collection and use of users' personal information. In addition, the new Cyber Security Law also requires network operators to strictly keep confidential users' personal information that they have collected and to establish and improve user information protective mechanism. We have required our users to consent to our collecting and using their personal information, and established information security systems to protect users' privacy.

***Regulations Relating to Product Quality and Consumer Protection***

The Product Quality Law applies to all production and sale activities in China. Pursuant to this law, products offered for sale must satisfy relevant quality and safety standards. Enterprises may not produce or sell counterfeit products in any fashion, including forging brand labels or giving false information regarding a product's manufacturer. Violations of state or industrial standards for health and safety and any other related violations may result in civil liabilities and administrative penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced and sold and the proceeds from such sales. Severe violations may subject the responsible individual or enterprise to criminal liabilities. Where a defective product causes physical injury to a person or damage to another person's property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the liability, the seller has a right of recourse against the manufacturer. Similarly, if the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

The Consumer Protection Law sets out the obligations of business operators and the rights and interests of the consumers in China. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide consumers with authentic information about the commodities, and guarantee the quality, function, usage and term of validity of the commodities. Failure to comply with the Consumer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, replacement of commodities, repairing, ceasing damages, compensation, and restoring reputation, and even subject the business operators or the responsible individuals to criminal penalties when personal damages are involved or if the circumstances are severe. The Consumer Protection Law was further amended in October 2013 and became effective in March 2014. The amended Consumer Protection Law further strengthen the protection of consumers and impose more stringent requirements and obligations on business operators, especially on the business operators through the internet. For example, the consumers are entitled to return the goods (except for certain specific goods, such as custom-made goods, fresh and perishable goods, digital products (e.g. audio-visual products, computer software downloaded online or unpacked by the consumer), newspapers and periodicals delivered and other goods for which non-return of goods is confirmed by the consumer at the time of purchase based on the characteristics of the goods,) within seven days upon receipt without any reasons when they purchase the goods from business operators on the internet. The consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from sellers or service providers. Where the providers of the online marketplace platforms are unable to provide the real names, addresses and valid contact details of the sellers or service providers, the consumers may also claim damages from the providers of the online marketplace platforms. Providers of online marketplace platforms that know or should have known that sellers or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liabilities with the sellers or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services.

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We are subject to the Product Quality Law and the Consumer Protection Law as an online supplier of commodities and a provider of online marketplace platform and believe that we are currently in compliance with these regulations in all material aspects.

***Regulations Relating to Pricing***

In China, the prices of a very small number of products and services are guided or fixed by the government. According to the Pricing Law, business operators must, as required by the government departments in charge of pricing, mark the prices explicitly and indicate the name, origin of production, specifications, and other related particulars clearly. Business operators may not sell products at a premium or charge any fees that are not explicitly indicated. Business operators must not commit the specified unlawful pricing activities, such as colluding with others to manipulate the market price, using false or misleading prices to deceive consumers to transact, or conducting price discrimination against other business operators. Failure to comply with the Pricing Law may subject business operators to administrative sanctions such as warning, ceasing unlawful activities, compensation, confiscating illegal gains, fines. The business operators may be ordered to suspend business for rectification, or have their business licenses revoked if the circumstances are severe. We are subject to the Pricing Law as an online retailer and believe that our pricing activities are currently in compliance with the law in all material aspects.

***Regulations Relating to Mobile Telecommunications Resale Business***

In May 2013, the MIIT issued the Circular regarding the Pilot Work on Implementation of Mobile Telecommunications Resale Business and the Pilot Program on Mobile Telecommunications Resale Business, pursuant to which private capital is encouraged to invest in the mobile telecommunications resale business. The resale business refers to the business whereby a reseller purchases mobile telecommunications services (excluding mobile satellite telecommunications service) from a basic telecommunications service provider who owns a mobile network, repackages the services with its private brand and sells the services to end users. Under the circular and the pilot program, the mobile telecommunications resale is categorized as a Class II basic telecommunications business but managed by reference to the value-added telecommunications business. A mobile communications reseller does not build its own wireless network, core network, transmission network and other mobile telecommunications network infrastructures, but must build its customer service system and may build its own business management platform, and billing, business accounting and other business supporting systems as needed. The applicant for the mobile telecommunications resale business must be a private company of which the private capital must account for no less than 50% of the capital and the capital contributed by its largest shareholder must come from private capital. A mobile telecommunications reseller is required to enter into a commercial contract for mobile telecommunications resale business with a basic telecommunications service provider, specifying the resources for resale to mobile communications users, division of responsibilities for service quality assurance between both parties, as well as protection of users' rights and interests and user information. Resellers may pre-charge service fees for up to two years from users on the condition that they provide evidence of their measures to ensure long-term services, and must abide by the Telecommunications Regulations, the Administrative Measures on Internet Information Services and other PRC related laws and regulations. Jingdong 360 has been approved to be a pilot to conduct the mobile telecommunications resale business and has cooperated with China Telecom in 50 cities and with China Unicom in 51 cities. Although the pilot program expired on December 31, 2015, the Information and Communications Development Department of MTT issued a notice to pilot enterprises, including Jingdong 360, and basic telecommunications service providers in December 2015. Pursuant to this notice, the pilot enterprises may continue the mobile telecommunications resale business after the expiration of the pilot program.

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***Regulations Relating to Leasing***

Pursuant to the Law on Administration of Urban Real Estate, when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. If the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

According to the PRC Contract Law, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid.

Pursuant to the PRC Property Law, if a mortgagor leases the mortgaged property before the mortgage contract is executed, the previously established leasehold interest will not be affected by the subsequent mortgage; and where a mortgagor leases the mortgaged property after the creation and registration of the mortgage interest, the leasehold interest will be subordinated to the registered mortgage.

***Regulations Relating to Advertising Business***

The State Administration for Industry and Commerce is the government agency responsible for regulating advertising activities in the PRC. According to PRC laws and regulations, companies that engage in advertising activities must obtain a business license from the State Administration for Industry and Commerce or its local branches which specifically includes operating an advertising business within its business scope. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation. PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. The release or delivery of advertisements through the internet must not impair the normal use of the network by users. The advertisements released in pop-up form on a webpage and other forms must show the close flag prominently and ensure one-click close. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to eliminate the effect of illegal advertisement. In circumstances involving serious violations, the State Administration for Industry and Commerce or its local branches may revoke the violators' licenses or permits for their advertising business operations.

In July 2016, the SAIC issued the Interim Measures for the Administration of Internet Advertising to regulate internet advertising activities. According to these measures, no advertisement of any medical treatment, medicines, food for special medical purpose, medical apparatuses, pesticides, veterinary medicines, dietary supplement or other special commodities or services subject to examination by an advertising examination authority as stipulated by laws and regulations may be published unless the advertisement has passed such examination. In addition, no entity or individual may publish any advertisement of over-the-counter medicines or tobacco on the internet. An internet advertisement must be identifiable and clearly identified as an advertisement to the consumers. Paid search advertisements are required to be clearly distinguished

from natural search results. In addition, the following internet advertising activities are prohibited: providing or using any applications or hardware to intercept, filter, cover, fast forward or otherwise restrict any authorized advertisement of other persons; using network pathways, network equipment or applications to disrupt the normal data transmission of advertisements, alter or block authorized advertisements of other persons or load advertisements without authorization; or using fraudulent statistical data, transmission effect or matrices relating to online marketing performance to induce incorrect quotations, seek undue interests or harm the interests of others. Internet advertisement publishers are required to verify relevant supporting documents and check the content of the advertisement and are prohibited from publishing any advertisement with unverified content or without all the necessary qualifications. Internet information service providers that are not involved in internet advertising business activities but simply provide information services are required to block any attempt to publish an illegal advisement that they are aware of or should reasonably be aware of through their information services.

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***Regulations Relating to Intellectual Property Rights***

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

***Copyright.*** Pursuant to the Copyright Law and its implementation rules, creators of protected works enjoy personal and property rights, including, among others, the right of disseminating the works through information networks. Pursuant to the relevant PRC regulations, rules and interpretations, internet service providers will be jointly liable with the infringer if they (a) participate in, assist in or abet infringing activities committed by any other person through the internet, (b) are or should be aware of the infringing activities committed by their website users through the internet, or (c) fail to remove infringing content or take other action to eliminate infringing consequences after receiving a warning with evidence of such infringing activities from the copyright holder. In addition, where an ICP service operator is clearly aware of the infringement of certain content against another's copyright through the internet, or fails to take measures to remove relevant contents upon receipt of the copyright owner's notice, and as a result, it damages the public interest, the ICP service operator could be ordered to stop the tortious act and be subject to other administrative penalties such as confiscation of illegal income and fines. To comply with these laws and regulations, we have implemented internal procedures to monitor and review the content we have licensed from content providers before they are released on our websites and remove any infringing content promptly after we receive notice of infringement from the legitimate rights holder.

***Patent.*** The Patent Law provides for patentable inventions, utility models and designs, which must meet three conditions: novelty, inventiveness and practical applicability. The State Intellectual Property Office under the State Council is responsible for examining and approving patent applications. As of December 31, 2017, we had 838 patents granted in China, 3,622 patent applications pending in China and 236 patent applications pending outside China.

***Trademark.*** The Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of State Administration of Industry and Commerce is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a first-to-file principle with respect to trademark registration. As of December 31, 2017, we had 5,719 registered trademarks in different applicable trademark categories and had approximately 4,402 trademark applications in China.

***Domain Name.*** Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the CNNIC is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the first to file principle with respect to the registration of domain names. In November 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services, which

became effective on January 1, 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity's shareholders), or the entity's principal or senior manager. We have registered jd.com, 360buy.com, 360buy.cn, 360buy.com.cn and other domain names.

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***Regulations Relating to Employment***

The Labor Contract Law and its implementation rules provide requirements concerning employment contracts between an employer and its employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations, which significantly affects the cost of reducing workforce for employers. In addition, if an employer intends to enforce a non-compete provision with an employee in an employment contract or non-competition agreement, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or ending of the labor contract. Employers in most cases are also required to provide a severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law, an employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated deadline and be subject to a late fee. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the Regulations on Management of Housing Fund, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

***Regulations Relating to Dividend Withholding Tax***

Pursuant to the Enterprise Income Tax Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Furthermore, the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties, which became effective in November 2015, require that non-resident enterprises which satisfy the criteria for entitlement to tax treaty benefits may, at the time of tax declaration or withholding declaration through a withholding agent, enjoy the tax treaty benefits, and be subject to ongoing administration by the tax authorities. In the case where the non-resident enterprises do not apply to the withholding agent to claim the tax treaty benefits, or the materials and the information stated in the relevant reports and statements provided to the withholding agent do not satisfy the criteria for entitlement to tax treaty benefits, the withholding agent should withhold tax pursuant to the provisions of the PRC tax laws. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. Accordingly, JD.com International Limited, Jingdong E-Commerce (Logistics) Hong Kong Corporation Limited, Jingdong E-Commerce (Express) Hong Kong Co., Ltd. and Jingdong E-Commerce (Trade) Hong Kong Corporation Limited may be able to enjoy the 5% withholding tax rate for the dividends they receive from Jingdong Century, Star East, Xi'an Jingxundi and Shanghai Shengdayuan, respectively, if they satisfy the conditions prescribed under Circular 81 and other relevant tax rules and regulations, and obtain the approvals as

required. However, according to Circular 81, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

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***Regulations Relating to Foreign Exchange***

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, most recently amended in August 2008. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can 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.

In August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular No. 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. SAFE Circular No. 142 provides that 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. SAFE also strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. In March 2015, SAFE issued SAFE Circular No. 19, which took effective and replaced SAFE Circular No. 142 from June 1, 2015. Although SAFE Circular No. 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC, the restrictions continue to apply as to foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans.

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 (e.g. pre-establishment expenses account, foreign exchange capital account, guarantee account), the reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment), and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer require SAFE approval, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible before. 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.

In February 2015, SAFE promulgated the Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment, or SAFE Circular No. 13, which took effect on June 1, 2015. SAFE Circular No. 13 delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under relevant SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment.

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C. **Organizational Structure**

The following diagram illustrates our corporate structure, including our principal subsidiaries and consolidated variable interest entities as of the date of this annual report on Form 20-F:

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(1) Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng are our principal consolidated variable interest entities. Each of Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng is 45% owned by Mr. Richard Qiangdong Liu, our chairman of board of directors and chief executive officer, 30% owned by Ms. Yayun Li, our

employee, and 25% owned by Ms. Pang Zhang, also our employee. We effectively control these entities through contractual arrangements.

(2) JD.com Investment Limited has 23 subsidiaries.

(3) Jingdong Century has 32 major subsidiaries. Jingdong Century also has contractual arrangements with another principal consolidated variable interest entity, Jiangsu Jingdong Bangneng Investment Management Co. Ltd. or Jiangsu Jingdong Bangneng. Jiangsu Jingdong Bangneng is 45% owned by Mr. Richard Qiangdong Liu, 30% owned by Ms. Yayun Li, and 25% owned by Ms. Pang Zhang. Suqian Jingdong Sanhong Enterprise Management Center, is a significant subsidiary 100% owned by Jiangsu Jingdong Bangneng and its subsidiaries.

(4) Tianjin Star East Corporation Limited has 15 subsidiaries.

\* The diagram above omits our equity investees, which are insignificant individually and in the aggregate.

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**Our Consolidated Variable Interest Entities**

We obtained control over Jingdong 360 through Jingdong Century in April 2007 by entering into a series of contractual arrangements with Jingdong 360 and the shareholders of Jingdong 360, which we refer to as the Jingdong 360 Agreements. The Jingdong 360 Agreements were subsequently amended and restated, with the latest amendments and restatements in June 2016. As a result of our ownership of Jingdong Century, we became the primary beneficiary of Jingdong 360 in April 2007. We treat Jingdong 360 as our variable interest entity and have consolidated its financial results in our consolidated financial statements in accordance with U.S. GAAP.

We obtained control over Jiangsu Yuanzhou through Jingdong Century by commitments between the then shareholders of Jiangsu Yuanzhou, Jiangsu Yuanzhou and Jingdong Century at the time Jiangsu Yuanzhou was established. Jingdong Century entered into a series of contractual arrangements with Jiangsu Yuanzhou and its shareholders in April 2011, which we refer to as the Jiangsu Yuanzhou Agreements. The Jiangsu Yuanzhou Agreements were subsequently amended and restated, with the latest amendments and restatements in June 2016. We became the primary beneficiary of Jiangsu Yuanzhou in September 2010. We treat Jiangsu Yuanzhou as our variable interest entity and have consolidated its financial results in our consolidated financial statements in accordance with U.S. GAAP.

We obtained control over Xi'an Jingdong Xincheng through Xi'an Jingxundi in June 2017 by entering into a series of contractual arrangements with Xi'an Jingdong Xincheng and the shareholders of Xi'an Jingdong Xincheng, which we refer to as the Xi'an Jingdong Xincheng Agreements. As a result of our ownership of Xi'an Jingxundi, we became the primary beneficiary of Xi'an Jingdong Xincheng in June 2017. We treat Xi'an Jingdong Xincheng as our variable interest entity and have consolidated its financial results in our consolidated financial statements in accordance with U.S. GAAP.

In addition to Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng, we assisted in establishing additional consolidated variable interest entities, including Jiangsu Jingdong Bangneng and Suqian Sanhong. We have entered into a series of contractual arrangements with each of these variable interest entities and their respective shareholders. The contractual arrangements allow us to:

- exercise effective control over our variable interest entities;
- receive substantially all of the economic benefits of our variable interest entities; and
- have an exclusive option to purchase all or part of the equity interests in our variable interest entities when and to the extent permitted by PRC law.

We have consolidated the financial results of our variable interest entities in our consolidated financial statements in accordance with U.S. GAAP. Our consolidated variable interest entities collectively contributed 1.7%, 1.7% and 4.4% of our consolidated total net revenues for the

years ended December 31, 2015, 2016 and 2017, respectively.

In the opinion of Zhong Lun Law Firm, our PRC legal counsel:

- the ownership structures of our variable interest entities and the PRC subsidiaries that have entered into contractual arrangements with the variable interest entities, including Jingdong Century, will not result in any violation of PRC laws or regulations currently in effect; and
- the contractual arrangements among the PRC subsidiaries, including Jingdong Century, the variable interest entities and their respective shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect.

However, we have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC counsel that if the PRC government finds that the agreements that establish the structure for operating our online retail business do not comply with PRC government restrictions on foreign investment in e-commerce and related businesses, including but not limited to online retail businesses, we could be subject to severe penalties including being prohibited from continuing operations. See Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure If the PRC government deems that the contractual arrangements in relation to our variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. And Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could adversely affect us.

#### **Contractual Arrangements with Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng**

The following is a summary of the currently effective Jingdong 360 Agreements, Jiangsu Yuanzhou Agreements and Xi'an Jingdong Xincheng Agreements.

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*Agreements that Provide Us with Effective Control over Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng*

**Equity Pledge Agreements.** On June 15, 2016, Jingdong Century, Jingdong 360 and each of the shareholders of Jingdong 360 entered into an amended and restated equity pledge agreement in replacement of the previous equity pledge agreement. Pursuant to the amended and restated equity pledge agreement, each of the shareholders of Jingdong 360 has pledged all of his equity interest in Jingdong 360 to guarantee their and Jingdong 360's performance of his obligations under, where applicable, the amended and restated exclusive technology consulting and services agreement, loan agreement, exclusive purchase option agreement and power of attorney. If Jingdong 360 or the shareholders of Jingdong 360 breach their contractual obligations under these agreements, Jingdong Century, as pledgee, will have the right to dispose of the pledged equity interests. The shareholders of Jingdong 360 agree that, during the term of the equity pledge agreements, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests, and they also agree that Jingdong Century's rights relating to the equity pledge should not be prejudiced by the legal actions of the shareholders, their successors or their designates. During the term of the equity pledge, Jingdong Century has the right to receive all of the dividends and profits distributed on the pledged equity. The amended and restated equity pledge agreements will terminate on the second anniversary of the date when Jingdong 360 and the shareholders of Jingdong 360 have completed all their obligations under the amended and restated exclusive technology consulting and services agreement, loan agreement, exclusive purchase option agreement and powers of attorney.

On June 15, 2016, Jingdong Century, Jiangsu Yuanzhou and each of the shareholders of Jiangsu Yuanzhou entered into an amended and restated equity pledge agreement in replacement of the previous equity pledge agreements. The amended and restated equity pledge agreement between Jingdong Century and the shareholders of Jiangsu Yuanzhou contains terms substantially similar to the amended and restated equity pledge agreement relating to Jingdong 360 described above.

On June 23, 2017, Xi'an Jingxundi, Xi'an Jingdong Xincheng and each of the shareholders of Xi'an Jingdong Xincheng entered into three equity pledge agreements. The equity pledge agreements between Xi'an Jingxundi, Xi'an Jingdong Xincheng and the shareholders of Xi'an Jingdong Xincheng contain terms substantially similar to the amended and restated equity pledge agreement relating to Jingdong 360 described above.

We have completed the registration of all the equity pledge for our variable interest entities with the relevant office of the administration for industry and commerce in accordance with the PRC Property Rights Law.

**Powers of Attorney.** On June 15, 2016, each of the shareholders of Jingdong 360 granted an irrevocable power of attorney to replace the irrevocable powers of attorney previously executed. Pursuant to the irrevocable power of attorney, each of the shareholders of Jingdong 360 appointed Jingdong Century's designated person as his attorney-in-fact to exercise all shareholder rights, including but not limited to voting on their behalf on all matters of Jingdong 360 requiring shareholder approval, disposing of all or part of the shareholder's equity interest in Jingdong 360, and electing, appointing or removing directors and executive officers. The person designated by Jingdong Century is entitled to dispose of dividends and profits on the equity interest subject to the instructions of the shareholder. Each power of attorney will remain in force for so long as the shareholder remains a shareholder of

Jingdong 360. Each shareholder has waived all the rights which have been authorized to Jingdong Century's designated person under each power of attorney.

On June 15, 2016, each of the shareholders of Jiangsu Yuanzhou granted an irrevocable power of attorney in replacement of the irrevocable powers of attorney previously executed. The powers of attorney contain terms substantially similar to the powers of attorney granted by the shareholders of Jingdong 360 described above.

On June 23, 2017, each of the shareholders of Xi'an Jingdong Xincheng granted an irrevocable power of attorney. The powers of attorney contain terms substantially similar to the powers of attorney granted by the shareholders of Jingdong 360 described above.

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*Agreements that Allow Us to Receive Economic Benefits from Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng*

**Exclusive Technology Consulting and Services Agreement.** In June 2016, Jingdong Century and Jingdong 360 entered into an amended and restated exclusive technology consulting and services agreement in replacement of the previous exclusive technology consulting and services agreement. Pursuant to the amended and restated exclusive technology consulting and services agreement, Jingdong Century has the sole and exclusive right to provide specified technology consulting and services to Jingdong 360. Without the prior written consent of Jingdong Century, Jingdong 360 may not accept the same or similar technology consulting and services provided by any third party during the term of the agreement. All the benefits and interests generated from the agreement, including but not limited to intellectual property rights, know-how and trade secrets, will be Jingdong Century's sole and exclusive rights. Jingdong 360 agrees to pay service fees to Jingdong Century on a quarterly basis and the amount of the service fee is decided by Jingdong Century on the basis of the work performed and commercial value of the services, subject to annual evaluation and adjustment. The term of this agreement will expire on May 28, 2022 and may be extended unilaterally by Jingdong Century with Jingdong Century's written confirmation prior to the expiration date. Jingdong 360 cannot terminate the agreement early unless Jingdong Century commits fraud, gross negligence or illegal acts, or becomes bankrupt or winds up.

Jingdong Century and Jiangsu Yuanzhou entered into an amended and restated exclusive technology consulting and services agreement in June 2016 in replacement of the previous exclusive technology consulting and services agreement. The amended and restated exclusive technology consulting and services agreement between Jingdong Century and Jiangsu Yuanzhou contains terms substantially similar to the exclusive technology consulting and services agreement relating to Jingdong 360 described above.

Xi'an Jingxundi and Xi'an Jingdong Xincheng entered into an exclusive technology consulting and services agreement on June 23, 2017. The exclusive technology consulting and services agreement between Xi'an Jingxundi and Xi'an Jingdong Xincheng contains terms substantially similar to the exclusive technology consulting and services agreement relating to Jingdong 360 described above.

**Intellectual Property Rights License Agreement.** On December 25, 2013, Jingdong Century and certain of its subsidiaries entered into an amended and restated intellectual property rights license agreement with Jingdong 360 in replacement of the previous intellectual property rights license agreement. Pursuant to the amended and restated intellectual property rights license agreement, Jingdong Century and the subsidiaries grant Jingdong 360 a non-exclusive right to use certain of its trademarks, patents, copyrights to computer software and other copyrights. Jingdong 360 is permitted to use the intellectual property rights only within the scope of its internet information service operation and in the territory of China. Jingdong 360 agrees that at any time it will not challenge the validity of Jingdong Century's license rights and other rights with respect to the licensed intellectual property and will not take actions that would prejudice Jingdong Century's rights and the license. Jingdong 360 agrees to pay license fees to Jingdong Century annually, subject to annual evaluation and adjustment. Without Jingdong Century's written consent, Jingdong 360 cannot assign or sublicense its rights under the license agreement or transfer the economic interests arising from the license to any third party. The initial term of this agreement is 10 years and may be extended unilaterally by Jingdong Century with Jingdong Century's written confirmation prior to the expiration date.

On December 18, 2013, Jingdong Century and certain of its subsidiaries entered into an amended and restated intellectual property rights license agreement with Jiangsu Yuanzhou in replacement of the previous intellectual property rights license agreement. The amended and restated intellectual property rights license agreement with Jiangsu Yuanzhou contains terms substantially similar to the intellectual property rights license agreement with Jingdong 360 described above.

**Business Cooperation Agreement.** On May 29, 2012, Jingdong Century and Shanghai Shengdayuan entered into an amended and restated business cooperation agreement with Jingdong 360 in replacement of the previous business cooperation agreement between Jingdong Century and Jingdong 360. Pursuant to the amended and restated business cooperation agreement, Jingdong 360 agrees to provide to Jingdong Century and Shanghai Shengdayuan services, including operating our website, posting Jingdong Century's and Shanghai Shengdayuan's product and service information on the website, transmitting the users' order and transaction information to Jingdong Century and Shanghai Shengdayuan, processing user data and transactions in collaboration with banks and payment agents and other services reasonably requested by Jingdong Century and Shanghai Shengdayuan. Jingdong Century and Shanghai Shengdayuan agree to pay service fees to Jingdong 360 on a quarterly basis. The service fee should be 105% of Jingdong 360's operating costs incurred in the previous quarter. The term of this agreement will expire on May 28, 2022 and may be extended unilaterally by Jingdong Century and Shanghai Shengdayuan with their written confirmation prior to the expiration date.

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**Business Operations Agreement.** On November 20, 2017, Jingdong Century entered into an amended and restated business operations agreement with Jingdong 360 and its shareholders in replacement of the previous business operations agreement between Jingdong Century and Jingdong 360. Pursuant to the amended and restated business operations agreement, Jingdong 360's shareholders must appoint the candidates nominated by Jingdong Century to be the directors on its board of directors in accordance with applicable laws and the articles of association of Jingdong 360, and must cause the persons recommended by Jingdong Century to be appointed as its general manager, chief financial officer and other senior executives. Jingdong 360 and its shareholders also agree to accept and strictly follow the guidance provided by Jingdong Century from time to time relating to employment, termination of employment, daily operations and financial management. Moreover, Jingdong 360 and its shareholders agree that Jingdong 360 will not engage in any transactions that could materially affect its assets, business, personnel, liabilities, rights or operations, including but not limited to the incurrence of debt from any third party and the amendment of Jingdong 360's articles of association, without the prior consent of Jingdong Century's respective designees. Unless otherwise terminated early by Jingdong Century, the agreement will remain effective until Jingdong 360 is dissolved according to the PRC law.

On June 15, 2016, Jingdong Century entered into a business operations agreement with Jiangsu Yuanzhou and its shareholders. The business operations agreement with Jiangsu Yuanzhou contains terms substantially similar to the amended and restated business operations agreement with Jingdong 360 described above.

On June 23, 2017, Xi'an Jingxundi entered into a business operations agreement with Xi'an Jingdong Xincheng and its shareholders. The business operations agreement with Xi'an Jingdong Xincheng contains terms substantially similar to the amended and restated business operations agreement with Jingdong 360 described above.

***Agreements that Provide Us with the Option to Purchase the Equity Interest in Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng***

**Exclusive Purchase Option Agreements.** On June 15, 2016, Jingdong Century, Jingdong 360 and the shareholders of Jingdong 360 entered into an amended and restated exclusive purchase option agreement in replacement of the previous exclusive purchase option agreements. Pursuant to the amended and restated exclusive purchase option agreement, the shareholders of Jingdong 360 irrevocably grant Jingdong Century an exclusive option to purchase or have its designated persons to purchase at its discretion, to the extent permitted under PRC law, all or part of their equity interests in Jingdong 360. In addition, the purchase price should equal the amount that the shareholders contributed to Jingdong 360 as registered capital for the equity interest to be purchased, or be the lowest price permitted by applicable PRC law. Without the prior written consent of Jingdong Century, Jingdong 360 may not amend its articles of associate, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests, provide any loans for any third parties, enter into any material contract (except those contracts entered into in the ordinary course of business), merge with or acquire any other persons or make any investments, or distribute dividends to the shareholders. The shareholders of Jingdong 360 agree that, without the prior written consent of Jingdong Century, they will not dispose of their equity interests in Jingdong 360 or create or allow any encumbrance on the equity interests. The initial term of the amended and restated exclusive purchase option agreement is 10 years and can be

renewed for an additional 10 years on the same terms at Jingdong Century's option, for an unlimited number of times.

On June 15, 2016, Jingdong Century, Jiangsu Yuanzhou and the shareholders of Jiangsu Yuanzhou entered into an amended and restated exclusive purchase option agreement in replacement of the previous exclusive purchase option agreement. The amended and restated exclusive purchase option agreement contains terms substantially similar to the amended and restated exclusive purchase option agreement relating to Jingdong 360 described above.

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On June 23, 2017, Xi'an Jingxundi, Xi'an Jingdong Xincheng and each of the shareholders of Xi'an Jingdong Xincheng entered into an exclusive purchase option agreement. The exclusive purchase option agreement contains terms substantially similar to the amended and restated exclusive purchase option agreement relating to Jingdong 360 described above.

**Loan Agreements.** Pursuant to the amended and restated loan agreement dated November 20, 2017 between Jingdong Century and the shareholders of Jingdong 360, Jingdong Century made loans in an aggregate amount of RMB920 million (US\$141.4 million) to the shareholders of Jingdong 360 solely for the capitalization of Jingdong 360. Pursuant to the amended and restated loan agreement, the shareholders can only repay the loans by the sale of all their equity interest in Jingdong 360 to Jingdong Century or its designated person. The shareholders must sell all of their equity interests in Jingdong 360 to Jingdong Century or its designated person and pay all of the proceeds from sale of such equity interests or the maximum amount permitted under PRC law to Jingdong Century. In the event that shareholders sell their equity interests to Jingdong Century or its designated person with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to Jingdong Century as the loan interest. The maturity date of the loans is on the tenth anniversary of the date when the shareholders received the loans and paid the amount as capital contribution to Jingdong 360. The term of the loans will be extended automatically for an additional 10 years, unless Jingdong Century objects, for an unlimited number of times. The loan must be repaid immediately under certain circumstances, including, among others, (i) if the shareholders terminate their services with us, (ii) if any other third-party claims against shareholders for an amount more than RMB100,000 (US\$15,370) and Jingdong Century has reasonable ground to believe that the shareholders are unable to repay the claimed amount, (iii) if a foreign investor is permitted to hold majority or 100% equity interest in Jingdong 360 and Jingdong Century elects to exercise its exclusive equity purchase option, or (iv) if the loan agreement, relevant equity pledge agreement or exclusive purchase option agreement terminates for cause not attributable to Jingdong Century or is deemed to be invalid by a court.

Pursuant to the amended and restated loan agreement dated June 15, 2016 between Jingdong Century and the shareholders of Jiangsu Yuanzhou, Jingdong Century made loans in an aggregate amount of RMB22 million (US\$3.4 million) to the shareholders of Jiangsu Yuanzhou solely for the capitalization of Jiangsu Yuanzhou. The amended and restated loan agreement contains terms substantially similar to the amended and restated loan agreement relating to Jingdong 360 described above.

Pursuant to the loan agreement dated June 23, 2017 between Xi'an Jingxundi and the shareholders of Xi'an Jingdong Xincheng, Xi'an Jingxundi made loans in an aggregate amount of RMB1 million (US\$0.2 million) to the shareholders of Xi'an Jingdong Xincheng solely for the capitalization of Xi'an Jingdong Xincheng. The loan agreement contains terms substantially similar to the amended and restated loan agreement relating to Jingdong 360 described above.

**Additional Contractual Arrangements**

In addition to the Jingdong 360 Agreements, Jiangsu Yuanzhou Agreements and Xi'an Jingdong Xincheng Agreements, we have also entered into contractual arrangements with each of our other variable interest entities, including Jiangsu Jingdong Bangneng, and their respective shareholders, including: equity pledge agreements, powers of attorney, exclusive technology consulting and

services agreements, business operations agreements, exclusive purchase option agreements and loan agreements. Our contractual agreements with these other variable interest entities contain terms substantially similar to those in the Jingdong 360 Agreements, Jiangsu Yuanzhou Agreements and Xi'an Jingdong Xincheng Agreements.

**D. Property, Plant and Equipment**

Our national headquarters are located in Yizhuang Economic and Technological Development Zone in Beijing, where we own the office building with an aggregate floor area of approximately 280,000 square meters. We lease our other offices in Beijing and regional offices in 23 other cities with an aggregate floor area of approximately 205,000 square meters.

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We own our national customer service center and our data center in Suqian, each of which has an aggregate floor area of approximately 160,000 and 57,000 square meters, respectively. We lease our customer service centers in Chengdu and Yangzhou with an aggregate floor area of approximately 40,000 square meters.

As of December 31, 2017, we operated regional fulfillment centers in seven cities, including Beijing, Shanghai, Wuhan, Guangzhou, Chengdu, Shenyang and Xi'an, with an aggregate floor area of more than six million square meters.

In addition, we also operated front distribution centers in 27 cities with an aggregate gross floor area of more than one million square meters for stocking products that are in high demand, as well as other additional warehouses in another 44 cities with an aggregate gross floor area of approximately three million square meters, as of December 31, 2017. Our comprehensive fulfillment facilities can cover almost all counties and districts across China.

As of December 31, 2017, we had launched our custom-built warehousing facilities in nine cities with an aggregate floor space of over one million square meters, and we are in the process of constructing warehousing facilities in twelve cities. As of December 31, 2017, we had land use rights in nineteen cities to build our own warehouses. The highly automated and efficient warehouse will not only expand our ability to fulfill orders by ourselves but also support the third-party merchants on our online marketplace as well as a wide range of business partners in the ecosystem. In connection with our expansion of our fulfillment infrastructure, we had paid an aggregate of approximately RMB7.9 billion (US\$1.2 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2017.

We have acquired land use rights in Beijing to build our new headquarters. The phase one construction of the new office buildings was completed in the third quarter of 2015. As of December 31, 2017, we had paid an aggregate of approximately RMB5.8 billion (US\$0.9 billion) for the acquisition of land use rights and construction of the office buildings.

We plan to expand our nationwide fulfillment network by leasing, building, or purchasing additional facilities across China over the next several years.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F. This report contains forward-looking

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statements. See Forward-Looking Information. In evaluating our business, you should carefully consider the information provided under the caption Item 3.D. Key Information Risk Factors in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

As of June 30, 2017, we deconsolidated JD Finance as a result of the reorganization of JD Finance. Accordingly, JD Finance's historical financial results for periods prior to July 1, 2017 are reflected in our consolidated financial statements as discontinued operations. Please see Item 4. Information on the Company A. History and Development of the Company for further information.

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**A. Operating Results**

**Overview**

We are a leading technology-driven e-commerce company and retail infrastructure service provider in China. We generated total net revenues of RMB181.0 billion, RMB258.3 billion and RMB362.3 billion (US\$55.7 billion) in 2015, 2016 and 2017, respectively.

Our primary business model is online direct retail sales, where we acquire products from suppliers and sell them directly to our customers primarily through our websites and mobile apps. We also operate an online marketplace, whereby third-party sellers sell products to customers primarily through our websites and mobile apps. We also offer advertising, logistics and other value-added services.

Our business has grown substantially in recent years. The number of products we offer has grown rapidly. We had 155.0 million, 226.6 million and 292.5 million active customer accounts in 2015, 2016 and 2017, respectively. In addition to our online direct retail business, our online marketplace and other services generated net revenues of RMB13.1 billion, RMB20.3 billion and RMB30.5 billion (US\$4.7 billion) in 2015, 2016 and 2017, respectively.

Due to the PRC legal restrictions on foreign ownership of companies that engage in a value-added telecommunications service business or the distribution of media products and certain other businesses in China, we conduct the relevant parts of our operations through nine consolidated variable interest entities. We have contractual arrangements with these entities and their shareholders that enable us to effectively control and receive substantially all of the economic benefits from the entities. Accordingly, we consolidate the results of these entities in our financial statements.

**Major Factors Affecting Our Results of Operations**

Our results of operations and financial condition are affected by the general factors driving China's retail industry, including levels of per capita disposable income and consumer spending in China. In addition, they are also affected by factors driving online retail in China, such as the growing number of online shoppers, the adoption of online sales strategies by manufacturers and service providers, the availability of improved delivery services and the increasing variety of payment options. Our results of operations are also affected by general economic conditions in China. In particular, we have experienced and expect to continue to experience upward pressure on our operating expenses.

Our results of operations are also affected by PRC regulations and industry policies related to our business operations, licenses and permits and corporate structure. For example, the product quality and consumer protection laws require us to ensure the quality of the goods we sell and give customers the right to return goods within seven days of receipt with no questions asked, the labor contract law and related rules require employers to enter into written contracts with workers and to pay compensation to workers who are terminated under certain circumstances, regulations on foreign ownership and on transfer of funds into and out of China affect our corporate structure and financing, and regulations on business licenses affect our legal and compliance functions. For a summary of the principal PRC laws and regulations that affect us, see Item 3.D. Key Information Risk Factors and Item 4.B. Information on the Company Business Overview Regulation. Although we have generally

benefited from the Chinese government's policies to encourage economic growth, we are also affected by the complexity, uncertainties and changes in PRC regulations governing various aspects of our operations. For a detailed description of the PRC regulations applicable to us, see Item 4.B. Information on the Company Business Overview Regulation.

In terms of PRC regulations that may affect our results of operations, the amendments to the Consumer Protection Law that came into effect in March 2014 give consumers the right to return goods within seven days of receipt. Although we recognize revenues net of return allowances, we do not expect the amendments to the Consumer Protection Law will affect our net revenues. We have adopted shipping policies that do not necessarily pass the full cost of shipping on to our customers. We also have adopted customer-friendly return and exchange policies that make it convenient and easy for customers to change their minds after completing purchases. However, if we experience an increased volume of returns after the amendments to the Consumer Protection Law became effective, our shipping and handling costs and related personnel costs may increase significantly and our results of operations may be materially and adversely affected. If we revise our policies to pass these costs to customers, our customers may be dissatisfied, which may result in loss of existing customers or adversely affect our ability to acquire new customers, which in turn may materially and adversely affect our results of operations.

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JD.com, Inc., the holding company that is listed on NASDAQ, has no material operations of its own. We conduct our operations primarily through our subsidiaries and consolidated variable interest entities in China. As a result, JD.com, Inc.'s ability to pay dividends to our shareholders depends in part upon dividends paid by our PRC subsidiaries subject to compliance with applicable PRC regulations. Our wholly owned PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC regulations, each of our wholly owned PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our wholly owned PRC subsidiaries in China may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion fund and staff bonus and welfare fund at its discretion, which are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. As of December 31, 2017, the amount restricted, including paid-in capital and statutory reserve funds, as determined in accordance with PRC accounting standards and regulations, was approximately RMB23,083 million (US\$3,548 million). Our PRC subsidiaries have never paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

While our business is influenced by general factors affecting our industry, our operating results are more directly affected by company specific factors, including the following major factors:

- our ability to increase active customer accounts and orders from customers;
- our ability to manage our mix of product and service offerings;
- our ability to further increase and leverage our scale of business;
- our ability to effectively invest in our fulfillment infrastructure and technology platform; and
- our ability to conduct and manage strategic investments and acquisitions.

***Our Ability to Increase Active Customer Accounts and Orders from Customers***

Growth in the number of our active customer accounts and orders are key drivers of our revenue growth. Our annual active customer accounts increased from 155.0 million in 2015 to 226.6 million in 2016 and further to 292.5 million in 2017. This increase was primarily driven by our success in attracting new active customer accounts, as well as by our success in generating repeat purchases from existing customer accounts.

Our ability to attract new customer accounts and generate repeat purchases from existing customer accounts depends on our ability to provide superior customer experience. To this end, we offer a wide selection of authentic products at competitive prices on our websites and mobile apps and provide speedy and reliable delivery, convenient online and in-person payment options and comprehensive customer services. The number of products we offer has grown rapidly. We have developed a business intelligence system that enables us to increase our operating efficiency through enhanced product merchandising and supply chain management capabilities, and to drive more targeted and relevant product promotions and recommendations to our customers. We have benefited from word-of-mouth viral marketing in winning new customers, and we also conduct online and offline marketing and brand promotion activities to attract new customers. In addition, we encourage existing customers to place more orders with us through a variety of means, including granting coupons and loyalty points and holding special promotions.

We have a growing and loyal active customer base. Over the years, our customers have shown loyalty to us through their increased activity levels. For example, for the same group of customer accounts that were active in 2008, their average number of purchases increased each year thereafter, from approximately 3.7 in 2008 to 4.4 in 2009, 6.2 in 2010, 10.7 in 2011, 14.9 in 2012, 16.6 in 2013, 18.7 in 2014, 21.8 in 2015, 25.7 in 2016 and 30.2 in 2017.

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***Our Ability to Manage Our Mix of Product and Service Offerings***

Our results of operations are also affected by the mix of products and services we offer. We commenced our e-commerce business by primarily selling electronics and home appliances products. We began offering general merchandise products around the end of 2008, and we launched our online marketplace in 2010. We earn commissions and service fees from third-party sellers on our online marketplace. We offer a wide range of products and services and aim to provide one-stop shopping to maximize our wallet share. Our mix of products and services also affects our gross margin. For example, the marketplace service revenues that we earn from third-party sellers and the other services that we offer generally have higher gross margins. The split between our online direct sales business and our online marketplace business thus has a major influence on our revenue growth and our gross margins. Our online marketplace and other services revenues increased from RMB13.1 billion in 2015 to RMB20.3 billion in 2016 and further to RMB30.5 billion (US\$4.7 billion) in 2017. We intend to further expand our selection of general merchandise products, attract more third-party sellers to our online marketplace, and provide more fulfillment and other value-added services to third-party sellers and others.

***Our Ability to Further Increase and Leverage our Scale of Business***

Our results of operations are directly affected by our ability to further increase and leverage our scale of business. As our business further grows in scale, we expect to obtain more favorable terms from suppliers, including pricing terms and volume-based rebates. In addition, we aim to create value for our suppliers by providing an effective channel for selling large volumes of their products online and by offering them comprehensive information on customer preferences and market demand and ensuring the high quality of fulfillment services. We believe this value proposition also helps us obtain favorable terms from suppliers.

As of December 31, 2017, our nationwide fulfillment infrastructure employed a total of 117,943 warehouse and delivery personnel, and we also employed 11,938 IT professionals to monitor, maintain, upgrade and develop the technology platform that manages this fulfillment infrastructure and the large number of orders we receive, process and fulfill each year. Our fulfillment expenses in absolute amount increased over 2015, 2016 and 2017, while the fulfillment expenses as a percentage of our total net revenues increased from 6.8% in 2015 to 7.2% in 2016 but decreased to 7.1% in 2017. Personnel costs are the largest component of our fulfillment costs and of our technology and content costs and are likely to remain the largest component for the foreseeable future as we continue to expand our operations. We expect our fulfillment expenses to increase in absolute amount in the near future. Labor costs are rising in China and we strive to continue improving efficiency and utilization of our fulfillment and other personnel to mitigate this effect. Our fulfillment expenses and thus operational efficiency are also affected by the average size of orders placed by our customers.

***Our Ability to Effectively Invest in Our Fulfillment Infrastructure and Technology Platform***

Our results of operations depend in part on our ability to invest in our fulfillment infrastructure and technology platform to cost-effectively meet the demands of our anticipated growth. Our nationwide fulfillment infrastructure covered almost all counties and districts across China as of December 31, 2017, which included a warehousing network of 486 warehouses with an aggregate gross floor area of approximately 10 million square meters in 78 cities. We have acquired land use rights to over 5.6 million square meters of land in 21 cities in China. We plan to continue to build large scale, custom-designed warehouse facilities with optimized configurations on these sites to improve our fulfillment efficiency, minimize order splitting, accommodate greater product selection and fulfill the anticipated sales of our own products as well as sales by third-party sellers using our fulfillment services. We had paid an aggregate of approximately RMB7.9 billion (US\$1.2 billion) for the acquisition of land use rights, building of warehouses and purchase of warehousing equipment as of December 31, 2017. In selecting locations for our pickup and delivery stations, order density, a parameter we use to measure the frequency and number of orders generated from a geographical

area, is an important criterion. To efficiently deploy our delivery network, we have established delivery stations and pickup stations in areas where we expect order density to increase to the extent where operating our own delivery network will be more cost efficient than using third-party couriers. We also paid significant amounts for upgrading our technology platform during the same periods. To further transform our current business through improved efficiency and better user experience, laying the groundwork for future areas of growth, we intend to further invest in technologies including artificial intelligence, big data and other industry-leading technologies. Our focus on superior technologies will be the key to further extending our industry leadership.

Table of Contents***Our Ability to Conduct and Manage Strategic Investments and Acquisitions***

We have made, and may continue to make, strategic investments and acquisitions to add assets or businesses that are complementary to our existing business. Our financial results could be adversely affected by our investments or acquisitions. The investments and acquired assets or businesses may not generate the financial results we expect. They could result in occurrence of significant investments and goodwill impairment charges, and amortization expenses for other intangible assets. For example, in November 2015, we decided to terminate the C2C business of Paipai.com acquired from Tencent, combating the marketing and sales of counterfeit products. As a result, we decided that the goodwill arising from the acquisition of the Paipai and QQ Wanggou combined platform business was fully impaired and an impairment charge of RMB2.6 billion (US\$0.4 billion) was recorded in the fourth quarter of 2015. In addition, the remaining balance of the intangible assets arising from the acquisition, which amounted to RMB0.2 billion (US\$0.02 billion) as of December 31, 2015, was also impaired. Moreover, we share the results of the investments which we account for as equity method investments. In 2017, our share of results of equity investees was a loss of RMB1.9 billion (US\$0.3 billion), primarily attributable to losses picked up from our equity method investments. We may continue to incur impairment charges in connection with our investments or acquisitions and pick up the losses of our equity method investments, which could depress our profitability and have a material adverse impact on our financial results.

**Selected Statements of Operations Items*****Net Revenues***

Net revenues include net product revenues and net service revenues. Product sales is further divided into sales of electronics and home appliances products and general merchandise products. Net revenues from electronics and home appliances products include revenues from sales of computer, communication and consumer electronics products as well as home appliances. The following table breaks down our total net revenues by these categories, by amounts and as percentages of total net revenues:

|                                                               | 2015    |       | For the Year Ended December 31,<br>2016      |       |         | 2017   |       |
|---------------------------------------------------------------|---------|-------|----------------------------------------------|-------|---------|--------|-------|
|                                                               | RMB     | %     | RMB<br>(in millions, except for percentages) | %     | RMB     | US \$  | %     |
| Net product revenues (formerly known as online direct sales): |         |       |                                              |       |         |        |       |
| Electronics and home appliances products                      | 134,519 | 74.3  | 179,822                                      | 69.6  | 236,269 | 36,314 | 65.2  |
| General merchandise products                                  | 33,417  | 18.5  | 58,122                                       | 22.5  | 95,555  | 14,686 | 26.4  |
| Total                                                         | 167,936 | 92.8  | 237,944                                      | 92.1  | 331,824 | 51,000 | 91.6  |
| Net service revenues (formerly known as services and others)  | 13,106  | 7.2   | 20,346                                       | 7.9   | 30,508  | 4,689  | 8.4   |
| Total                                                         | 181,042 | 100.0 | 258,290                                      | 100.0 | 362,332 | 55,689 | 100.0 |

We expect net revenues from all categories to continue to increase in the foreseeable future. Sales of electronics and home appliances products may decrease as a percentage of our total net revenues and sales from services and others may increase as a percentage of our total net revenues.

Net service revenues primarily consist of commissions earned from third-party sellers for sales made through our online marketplace and service fees we charge them for value-added fulfillment or other services we provide upon their request. Currently, we recognize revenues from the third-party sellers on a net basis as we may not always be the primary obligor, we do not have general inventory risk and we do not have latitude to establish prices for them. In addition, net service revenues also include fees we earn by selling advertisements on our websites and fees we earn by providing logistics services to third-party sellers on our online marketplace and merchants that do not sell products on our online marketplace.

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We record revenue net of discounts, return allowances, price protection allowances, value-added taxes, or VAT, and business taxes and surcharges.

**Operating Expenses**

Operating expenses consist primarily of cost of revenues, fulfillment expenses, marketing expenses, technology and content expenses, and general and administrative expenses. The following table breaks down our total operating expenses by these categories, by amounts and as percentages of total net revenues for each of the periods presented:

|                                              | 2015                                  |       | For the Year Ended December 31,<br>2016 |       |         | 2017   |       |
|----------------------------------------------|---------------------------------------|-------|-----------------------------------------|-------|---------|--------|-------|
|                                              | RMB                                   | %     | RMB                                     | %     | RMB     | US\$   | %     |
|                                              | (in millions, except for percentages) |       |                                         |       |         |        |       |
| Cost of revenues(1)                          | 158,960                               | 87.8  | 222,935                                 | 86.3  | 311,517 | 47,879 | 86.0  |
| Fulfillment                                  | 12,367                                | 6.8   | 18,560                                  | 7.2   | 25,865  | 3,975  | 7.1   |
| Marketing                                    | 7,233                                 | 4.0   | 10,159                                  | 3.9   | 14,918  | 2,293  | 4.1   |
| Technology and content                       | 2,902                                 | 1.6   | 4,453                                   | 1.7   | 6,652   | 1,022  | 1.8   |
| General and administrative                   | 2,188                                 | 1.2   | 3,436                                   | 1.3   | 4,215   | 648    | 1.2   |
| Impairment of goodwill and intangible assets | 2,750                                 | 1.5   |                                         |       |         |        |       |
| Total                                        | 186,400                               | 102.9 | 259,543                                 | 100.4 | 363,167 | 55,817 | 100.2 |

(1) In April 2017, leveraging our advanced technology and logistics expertise, we established JD Logistics, a new business group under JD.com, to provide logistics services to businesses across a wide range of industries. As JD Logistics has changed from supporting the overall JD platform to an independently operated business unit, cost related to the logistics services provided to merchants and other third parties are reclassified from fulfillment expenses to cost of revenues. The amount of fulfillment expenses that has been reclassified to conform to the current period financial statement presentation were RMB1,664 million and RMB2,561 million for the years ended December 31, 2015 and 2016, respectively.

Cost of revenues primarily consists of our cost for acquiring the products that we sell directly and the related inbound shipping charges, inventory write-downs, traffic acquisition costs related to online marketing services, and cost related to logistics services provided to third parties. The rebates and subsidies we receive from suppliers are accounted as a reduction to the purchase price, and will be recorded as a reduction of cost of revenues when the product is sold.

Our fulfillment expenses primarily consist of (i) expenses incurred in operating our fulfillment and customer service centers, including personnel cost and expenses attributable to buying, receiving, inspecting and warehousing inventories, picking, packaging, and preparing customer orders for shipment, processing payment and related transaction costs, (ii) expenses charged by third-party couriers for dispatching and delivering our products and (iii) rental expenses of leased warehouses, delivery and pickup stations. We expect our fulfillment expenses to increase in absolute amount in the near run, as we invest in new businesses, hire additional fulfillment personnel, build and lease new warehouses and establish more delivery stations to penetrate lower tier cities and to meet our anticipated growth in sales volume and ensure satisfactory customer experience.

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We plan to make our fulfillment operations more efficient by setting up large customized warehouse facilities to make full use of the available space, improve the pick-and-pack workflow efficiency, accommodate greater product selection and minimize order splitting.

Our marketing expenses consist primarily of expenses for online and offline marketing and brand promotion activities. We plan to continue to conduct brand promotion and marketing activities to enhance our brand recognition and attract new purchases from new and existing customers.

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Our technology and content expenses consist primarily of payroll and related expenses for IT professionals involved in developing and maintaining our technology platform and websites, server and other equipment depreciation, bandwidth and data center costs, and rental expenses. We expect spending in technology and content to increase over time as we add more experienced IT professionals and continue to invest in our technology platform to enhance customer experience and provide value-added services to suppliers and third-party sellers.

Our general and administrative expenses consist primarily of payroll and related expenses for our management and other employees involved in general corporate functions. As we hire additional management talents and invest in new businesses, our general and administrative expenses are expected to increase in absolute amount.

**Taxation**

*Cayman Islands*

We are not subject to income or capital gains tax under the current laws of the Cayman Islands. The Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

*Hong Kong*

Our subsidiaries incorporated in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%. Hong Kong does not impose a withholding tax on dividends.

*China*

Generally, our subsidiaries and consolidated variable interest entities in China are subject to enterprise income tax on their taxable income in China at a rate of 25%, except that a few entities in our group benefit from a preferential tax rate of 15% as they conduct business in certain encouraged sectors or areas, and the entity that qualified as a software enterprise has been entitled to an exemption from income tax for the first two years and 50% reduction for the next three years from its first profitable year. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

We are subject to VAT at a rate of 13% prior to July 1, 2017 and 11% since July 1, 2017 on sales of books, audio and video products, 17% on sales of other products, 6% or 11% on logistics services and 6% on advertising and other services, in each case less any deductible VAT we have already paid or borne. Since January 1, 2014, we have been exempted from VAT on sales of books. We are also subject to surcharges on VAT payments in accordance with PRC law. VAT has been phased in since January 1, 2012, to replace the business tax, and has been implemented in

all industries since May 1, 2016.

Dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding companies in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If the relevant Hong Kong entity satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong entity would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. See Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

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If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a resident enterprise under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See Item 3.D. Key Information Risk Factors Risks Related to Doing Business in China If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

**Results of Operations**

The following table summarizes our consolidated results of operations in absolute amount and as a percentage of our total net revenues for the periods indicated. Our business has grown rapidly in recent years. Period-to-period comparisons of historical results of operations should not be relied upon as indicative of future performance.

|                                                              | 2015                                  |         | For the Year Ended December 31,<br>2016 |         |           | 2017     |         |
|--------------------------------------------------------------|---------------------------------------|---------|-----------------------------------------|---------|-----------|----------|---------|
|                                                              | RMB                                   | %       | RMB                                     | %       | RMB       | US\$     | %       |
|                                                              | (in millions, except for percentages) |         |                                         |         |           |          |         |
| Net revenues:                                                |                                       |         |                                         |         |           |          |         |
| Net product revenues (formerly known as online direct sales) | 167,936                               | 92.8    | 237,944                                 | 92.1    | 331,824   | 51,000   | 91.6    |
| Net service revenues (formerly known as services and others) | 13,106                                | 7.2     | 20,346                                  | 7.9     | 30,508    | 4,689    | 8.4     |
| Total net revenues                                           | 181,042                               | 100.0   | 258,290                                 | 100.0   | 362,332   | 55,689   | 100.0   |
| Operating expenses(1)                                        |                                       |         |                                         |         |           |          |         |
| Cost of revenues                                             | (158,960)                             | (87.8)  | (222,935)                               | (86.3)  | (311,517) | (47,879) | (86.0)  |
| Fulfillment                                                  | (12,367)                              | (6.8)   | (18,560)                                | (7.2)   | (25,865)  | (3,975)  | (7.1)   |
| Marketing                                                    | (7,233)                               | (4.0)   | (10,159)                                | (3.9)   | (14,918)  | (2,293)  | (4.1)   |
| Technology and content                                       | (2,902)                               | (1.6)   | (4,453)                                 | (1.7)   | (6,652)   | (1,022)  | (1.8)   |
| General and administrative                                   | (2,188)                               | (1.2)   | (3,436)                                 | (1.3)   | (4,215)   | (648)    | (1.2)   |
| Impairment of goodwill and intangible assets                 | (2,750)                               | (1.5)   |                                         |         |           |          |         |
| Total operating expenses                                     | (186,400)                             | (102.9) | (259,543)                               | (100.4) | (363,167) | (55,817) | (100.2) |
| Loss from operations                                         | (5,358)                               | (2.9)   | (1,253)                                 | (0.4)   | (835)     | (128)    | (0.2)   |
| Other income/(expense):                                      |                                       |         |                                         |         |           |          |         |
| Share of results of equity investees                         | (2,852)                               | (1.6)   | (2,782)                                 | (1.1)   | (1,927)   | (296)    | (0.5)   |
| Interest income                                              | 673                                   | 0.4     | 1,227                                   | 0.5     | 2,530     | 389      | 0.7     |
| Interest expense                                             | (73)                                  | (0.0)   | (619)                                   | (0.2)   | (964)     | (148)    | (0.3)   |
| Others, net                                                  | (147)                                 | (0.1)   | 1,544                                   | 0.5     | 1,317     | 201      | 0.4     |
| Loss before tax                                              | (7,757)                               | (4.2)   | (1,883)                                 | (0.7)   | 121       | 18       | 0.0     |
| Income tax benefits/(expenses)                               | 15                                    | 0.0     | (166)                                   | (0.1)   | (140)     | (21)     | 0.0     |
| Net loss from continuing operations                          | (7,742)                               | (4.2)   | (2,049)                                 | (0.8)   | (19)      | (3)      | 0.0     |
| Net income/(loss) from discontinued operations, net of tax   | (1,376)                               | (0.8)   | (1,365)                                 | (0.5)   | 7         | 1        | 0.0     |
| Net Loss                                                     | (9,118)                               | (5.0)   | (3,414)                                 | (1.3)   | (12)      | (2)      | 0.0     |

(1) Share-based compensation expenses are allocated in operating expenses items as follows:



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|                            | 2015  | For the Year Ended December 31, |               | 2017 |       |
|----------------------------|-------|---------------------------------|---------------|------|-------|
|                            | RMB   | 2016                            | RMB           |      | US\$  |
|                            |       | RMB                             | (in millions) |      |       |
| Cost of revenues           | (8)   | (17)                            | (28)          |      | (4)   |
| Fulfillment                | (164) | (332)                           | (426)         |      | (65)  |
| Marketing                  | (48)  | (87)                            | (136)         |      | (21)  |
| Technology and content     | (209) | (470)                           | (671)         |      | (103) |
| General and administrative | (648) | (1,154)                         | (1,520)       |      | (234) |

**Segment Information**

We historically had only one single reporting segment. With the development of the new business initiatives, we changed our reporting segments in 2016. Currently, we have two operating segments, namely JD Mall and New Businesses. JD Mall represents our core e-commerce business, and New Businesses include logistics services provided to third parties, technology services, overseas business, insurance and O2O, which has been deconsolidated since its merger with Dada in April 2016. New Businesses also include the impact of Paipai.com for the year ended December 31, 2015. JD Finance was previously included in New Businesses, but was deconsolidated from our financial statements since June 30, 2017 as a result of its reorganization. Accordingly, we updated the presentation of segment information for prior years to conform to the current year's presentation.

The table below provides a summary of our operating segment results for the years ended December 31, 2015, 2016 and 2017:

|                                       | 2015    | For the year ended December 31, |               | 2017 |        |
|---------------------------------------|---------|---------------------------------|---------------|------|--------|
|                                       | RMB     | 2016                            | RMB           |      | US\$   |
|                                       |         | RMB                             | (in millions) |      |        |
| Net revenues:                         |         |                                 |               |      |        |
| JD Mall                               | 178,273 | 254,397                         | 356,020       |      | 54,718 |
| New Businesses                        | 2,363   | 3,297                           | 6,022         |      | 926    |
| Inter-segment*                        | (98)    | (223)                           | (547)         |      | (84)   |
| Total segment net revenues            | 180,538 | 257,471                         | 361,495       |      | 55,560 |
| Unallocated items**                   | 504     | 819                             | 837           |      | 129    |
| Total consolidated net revenues       | 181,042 | 258,290                         | 362,332       |      | 55,689 |
| Operating income/(loss):              |         |                                 |               |      |        |
| JD Mall                               | 152     | 2,269                           | 4,956         |      | 762    |
| New Businesses                        | (749)   | (670)                           | (2,070)       |      | (318)  |
| Total segment operating income/(loss) | (597)   | 1,599                           | 2,886         |      | 444    |
| Unallocated items**                   | (4,761) | (2,852)                         | (3,721)       |      | (572)  |
| Total consolidated operating loss     | (5,358) | (1,253)                         | (835)         |      | (128)  |

\* The inter-segment eliminations mainly consist of revenues from services provided by JD Mall to overseas business, and services provided by JD Logistics to the vendors of JD Mall, which were recorded as a deduction of cost of revenues at the consolidated level.

\*\* Unallocated items include revenue from business cooperation arrangements with equity investees, share-based compensation, amortization of intangible assets resulting from assets and business acquisitions, and impairment of goodwill and intangible assets, which are not allocated to segments.

Operating expenses (excluding cost of revenues) before unallocated items as a percentage of net revenues for JD Mall were 11.7%, 12.6% and 12.9% for the years ended December 31, 2015, 2016 and 2017, respectively, which were lower than our major offline industry peers due to our high operating efficiency.

*Years Ended December 31, 2017 and 2016*

**Net Revenues.** Our total net revenues increased by 40.3 % from RMB258,290 million in 2016 to RMB362,332 million (US\$ 55,689 million) in 2017, with increases in both categories of net revenues. Revenues from online marketplace and other services increased by 49.9% from RMB20,346 million in 2016 to RMB30,508 million (US\$4,689 million) in 2017.

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The increase in our total net revenues was primarily due to the growing and loyal active customer base. Our annual active customer accounts increased from 226.6 million in 2016 to 292.5 million in 2017. Over the years, our customers have shown loyalty to us through their increased activity levels. For example, the same group of customer accounts that were active in 2008 increased their average number of purchases each year thereafter, from approximately 3.7 in 2008 to 4.4 in 2009, 6.2 in 2010, 10.7 in 2011, 14.9 in 2012, 16.6 in 2013, 18.7 in 2014, 21.8 in 2015, 25.7 in 2016 and 30.2 in 2017.

**Operating Expenses.** Our total operating expenses increased by 39.9% from RMB259,543 million in 2016 to RMB363,167 million (US\$55,817 million) in 2017. This increase was due to increases in our cost of revenues, fulfillment expenses, marketing expenses, technology and content expenses and general and administrative expenses.

- **Cost of revenues.** Our cost of revenues increased by 39.7% from RMB222,935 million in 2016 to RMB311,517 million (US\$47,879 million) in 2017. This increase reflects the increase in our volume of product sales, the increased traffic acquisition costs directly related to the online marketing services provided to merchants and suppliers, and costs associated with our third party logistics services.

- **Fulfillment expenses.** Our fulfillment expenses increased by 39.4% from RMB18,560 million in 2016 to RMB25,865 million (US\$3,975 million) in 2017. This increase was primarily due to an increase in compensation costs from RMB9,059 million in 2016 to RMB12,233 million (US\$1,880 million) in 2017 as the number of our fulfillment employees increased from 98,988 as of December 31, 2016 to 136,088 as of December 31, 2017, as well as higher average compensation expenses. The increase in our fulfillment expenses was also attributable to (i) increased shipping charges from contracted third-party shipping companies and couriers from RMB2,913 million in 2016 to RMB4,395 million (US\$675 million) in 2017 as our sales volume increased, even as our use of contracted third-party couriers has declined as a percentage of all orders fulfilled, (ii) an increase in payment processing charges from RMB1,502 million in 2016 to RMB2,504 million (US\$385 million) in 2017, which was primarily due to the increase in our sales volume, and (iii) an increase in the rental expenses for our fulfillment infrastructure from RMB1,789 million in 2016 to RMB2,359 million (US\$363 million) in 2017, which was primarily due to the increase in the aggregate gross floor area leased in 2017. Fulfillment expenses as a percentage of net revenues was 7.1% in 2017, compared to 7.2% in 2016.

- **Marketing expenses.** Our marketing expenses increased by 46.9% from RMB10,159 million in 2016 to RMB14,918 million (US\$2,293 million) in 2017. This increase was primarily due to an increase in our advertising expenditures on both online and offline channels, from RMB7,790 million in 2016 to RMB12,376 million (US\$1,902 million) in 2017 as we continued to enhance our brand recognition and to promote our new business initiatives.

- **Technology and content expenses.** Our technology and content expenses increased by 49.4% from RMB4,453 million in 2016 to RMB6,652 million (US\$1,022 million) in 2017. This increase was primarily due to the increase in the headcount of our technology employees from 7,502 as of December 31, 2016 to 11,938 as of December 31, 2017, which involved the addition of research and development talent and the hiring of additional

senior and experienced technology employees to execute our technology-related strategies of continuously improving our mobile, AI, big data and cloud computing technologies.

- *General and administrative expenses.* Our general and administrative expenses increased by 22.7% from RMB3,436 million in 2016 to RMB4,215 million (US\$648 million) in 2017. This increase was primarily due to an increase in share-based compensation expenses from RMB1,154 million in 2016 to RMB1,520 million (US\$ 234 million) in 2017. The increase was also attributable to an increase in staff costs.
- *Impairment of goodwill and intangible assets.* There was no impairment of goodwill and intangible assets in 2017 or in 2016.

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**Share of results of equity investees.** Share of results of equity investees was RMB1,927 loss (US\$296 million) in 2017, compared to RMB2,782 million loss in 2016. In 2017, our share of results of equity investees was primarily attributable to losses picked up from our equity method investments in Bitauto, Tuniu and Dada.

**Interest Income.** Our interest income increased from RMB1,227 million in 2016 to RMB2,530 million (US\$389 million) in 2017, primarily due to the increase of loans provided to JD Finance and the larger cash balance we held in 2017, which was primarily attributable to the increase in net cash provided by our operating activities.

**Others, Net.** Others, net was RMB1,544 million income in 2016 and RMB1,317 million (US\$201 million) income in 2017. This decrease was primarily attributable to the disposition gain recognized in relation to the transaction with Dada in 2016.

**Net Loss.** As a result of the foregoing, we had a net loss from continuing operations of RMB19 million (US\$3 million) in 2017, as compared to a net loss from continuing operations of RMB2,049 million in 2016.

**Gain from Disposition of JD Finance.** As of June 30, 2017, the reorganization of JD Finance had been completed, and we disposed all of our equity interest in JD Finance. As part of the transaction, we received approximately RMB14.3 billion (US\$2.2 billion) in cash with an economic gain of RMB14.2 billion (US\$2.2 billion) in 2017. As JD Finance is under the common control of Mr. Richard Qiangdong Liu through his equity stake and voting arrangements, the gain of RMB14.2 billion was recorded directly to additional paid-in capital in shareholders' equity. We also retain the right to receive 40% of future pre-tax profit of JD Finance when JD Finance has a positive pre-tax income on a cumulative basis.

***Years Ended December 31, 2016 and 2015***

**Net Revenues.** Our total net revenues increased by 42.7% from RMB181,042 million in 2015 to RMB258,290 million in 2016, with increases in both categories of net revenues. Revenues from online marketplace and other services increased by 55.2% from RMB13,106 million in 2015 to RMB20,346 million in 2016.

The increase in our total net revenues was primarily due to the growing and loyal active customer base. Our annual active customer accounts increased from 155.0 million in 2015 to 226.6 million in 2016. Over the years, our customers have shown loyalty to us through their increased activity levels. For example, the same group of customer accounts that were active in 2008 increased their average number of purchases each year thereafter, from approximately 3.7 in 2008 to 4.4 in 2009, 6.2 in 2010, 10.7 in 2011, 14.9 in 2012, 16.6 in 2013, 18.7 in 2014, 21.8 in 2015, and 25.7 in 2016.

**Operating Expenses.** Our total operating expenses increased by 39.2% from RMB186,400 million in 2015 to RMB259,543 million in 2016. This increase was due to increases in our cost of revenues, fulfillment expenses, marketing expenses, technology and content expenses and general and administrative expenses.

- *Cost of revenues.* Our cost of revenues increased by 40.2% from RMB158,960 million in 2015 to RMB222,935 million in 2016. This increase reflects the increase in our volume of product sales and the increased traffic acquisition costs directly related to the online marketing services provided to merchants and suppliers, as well as costs related to the logistics services provided to merchants and other partners.

- *Fulfillment expenses.* Our fulfillment expenses increased by 50.1% from RMB12,367 million in 2015 to RMB18,560 million in 2016. This increase was primarily due to the expansion of delivery services provided to merchants on our marketplace and an increase in compensation costs relating to fulfillment expenses from RMB6,149 million in 2015 to RMB9,059 million in 2016, which was due in turn to the increase in the number of our fulfillment employees from 88,534 as of December 31, 2015 to 98,988 as of December 31, 2016, as well as higher average compensation expenses. The increase in our fulfillment expenses was also attributable to (i) increased shipping charges from contracted third-party shipping companies and couriers from RMB1,742 million in 2015 to RMB2,913 million in 2016 as our sales volume increased, even as our use of contracted third-party couriers has declined as a percentage of all orders fulfilled, and (ii) an increase in the rental expenses for our fulfillment infrastructure from RMB1,142 million in 2015 to RMB1,789 million in 2016, which was primarily due to the increase in the aggregate gross floor area leased in 2016.

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- *Marketing expenses.* Our marketing expenses increased by 40.5% from RMB7,233 million in 2015 to RMB10,159 million in 2016. This increase was primarily due to an increase in our advertising expenditures on both online and offline channels, from RMB5,282 million in 2015 to RMB7,790 million in 2016 as we continued to enhance our brand recognition and to promote our new business initiatives.
  
- *Technology and content expenses.* Our technology and content expenses increased by 53.4% from RMB2,902 million in 2015 to RMB4,453 million in 2016. This increase was primarily due to the increase in the headcount of our technology employees from 6,030 as of December 31, 2015 to 7,502 as of December 31, 2016, which involved the addition of research and development talent and the hiring of additional senior and experienced technology employees to execute our technology-related strategies of continuously improving our mobile, big data and cloud computing technologies.
  
- *General and administrative expenses.* Our general and administrative expenses increased by 57.0% from RMB2,188 million in 2015 to RMB3,436 million in 2016. This increase was primarily due to an increase in share-based compensation expenses from RMB648 million in 2015 to RMB1,154 million in 2016 and an increase in compensation costs from RMB822 million in 2015 to RMB1,167 million in 2016. The increase was also attributable to an increase in headcount of general and administrative employees from 3,959 as of December 31, 2015 to 4,722 as of December 31, 2016.
  
- *Impairment of goodwill and intangible assets.* Our impairment of goodwill and intangible assets was nil in 2016, compared to RMB2,750 million in 2015.
  

*Share of results of equity investees.* Share of results of equity investees was RMB2,782 million loss in 2016, compared to RMB2,852 million loss in 2015. In 2016, our share of results of equity investees was primarily attributable to impairment of investment in Bitauto and Tuniu and losses picked up from our equity method investments.

  

*Interest Income.* Our interest income increased from RMB673 million in 2015 to RMB1,227 million in 2016, primarily due to the increase of loans provided to JD Finance and the larger cash balance we held in 2016, which was primarily attributable to the increase in net cash provided by our operating activities.

  

*Others, Net.* Others, net was RMB147 million loss in 2015 and RMB1,544 million income in 2016. This income was primarily attributable to the disposition gain recognized in relation to the transaction with Dada in 2016.

**Net Loss.** As a result of the foregoing, we had a net loss from continuing operations of RMB2,049 million in 2016, as compared to a net loss from continuing operations of RMB7,742 million in 2015.

#### **Critical Accounting Policies**

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

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The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

***Consolidation of Affiliated Entities***

Foreign ownership of internet-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates internet access, the distribution of online information and the conduct of online commerce through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership in PRC companies that provide internet content distribution services.

To comply with PRC laws and regulations, we conduct our operations in China through a series of contractual arrangements entered into between our PRC subsidiaries, including Jingdong Century, and our affiliated PRC entities, including, among others, Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng, and their respective shareholders. As a result of these contractual arrangements, we have the ability to direct the activities of these PRC affiliates that most significantly impact their economic performance, and to obtain a majority of the residual returns of these entities. We are considered the primary beneficiary of these entities, and accordingly these entities are our variable interest entities under U.S. GAAP and we consolidate their results in our consolidated financial statements. Any changes in PRC laws and regulations that affect our ability to control these entities might preclude us from consolidating these entities in the future.

***Non-Controlling Interests***

For our consolidated subsidiaries, variable interest entities and the subsidiaries of our variable interest entities, non-controlling interests are recognized to reflect the portion of their equity that is not attributable, directly or indirectly, to us as the controlling shareholder. Non-controlling interests are classified as a separate line item in the equity section of our consolidated balance sheets and have been separately disclosed in our consolidated statements of operations and comprehensive loss to distinguish the interests from our interests.

***Foreign Currency Translation***

Our reporting currency is Renminbi ( RMB ). The functional currency of our entities incorporated in Cayman Islands, British Virgin Islands, Hong Kong, Singapore and the United States of America is the United States dollars. The functional currency of our entities incorporated in The Republic of Indonesia is the Indonesian rupiah. The functional currency of our entities incorporated in Japan is the Japanese yen. The functional currency of our entities incorporated in France is the Euro. Our PRC subsidiaries, variable interest entities and the subsidiaries of our variable interest entities determined their functional currency to be RMB. The determination of the respective functional currency is based on the criteria of ASC 830, *Foreign Currency Matters*.

Transactions denominated in currencies other than functional currency are translated into functional currency at the exchange rates quoted by authoritative banks prevailing at the dates of the transactions. Exchange gains and losses resulting from those foreign currency transactions denominated in a currency other than the functional currency are recorded as a component of others, net in our consolidated statements of operations and comprehensive loss.

Our financial statements are translated from the functional currency into RMB. Assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated into RMB at the appropriate historical rates. Revenues, expenses, gains and losses are translated into RMB using the periodic average exchange rates.

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***Investment in Equity Investees***

Investment in equity investees represents our investments in privately held companies and publicly traded companies. We apply the equity method of accounting to account for an equity investment, in common stock or in-substance common stock, according to ASC 323

Investment Equity Method and Joint Ventures, over which it has significant influence but does not own a majority equity interest or otherwise control.

An investment in in-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to that entity's common stock. We consider subordination, risks and rewards of ownership and obligation to transfer value when determining whether an investment in an entity is substantially similar to an investment in that entity's common stock.

For other equity investments that are not considered as debt securities or equity securities that have readily determinable fair values and over which we have neither significant influence nor control through investments in common stock or in-substance common stock, the cost method of accounting is used.

Under the equity method, our share of the post-acquisition profits or losses of the equity investees are recorded in our share of results of equity investees in our consolidated statements of operations and comprehensive loss and our share of post-acquisition movements are recorded in accumulated other comprehensive income or loss as a component of shareholders' equity. We record our share of the results of equity investments in publicly listed companies one quarter in arrears. The excess of the carrying amount of the investment over the underlying equity in net assets of the equity investee represents goodwill and intangible assets acquired. When our share of losses in the equity investee equals or exceeds our interest in the equity investee, we do not recognize further losses, unless we have incurred obligations or made payments or guarantees on behalf of the equity investee.

Under the cost method, we carry the investment at cost and recognize income to the extent of dividends received from the distribution of the equity investee's post-acquisition profits.

We continually review our investment in equity investees to determine whether a decline in fair value to below the carrying value is other-than-temporary. The primary factors we consider in our determination are the duration and severity of the decline in fair value; the financial condition, operating performance and the prospects of the equity investee; and other company specific information such as recent rounds of financing. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investee is written down to fair value.

***Accounts Receivable, Net***

Accounts receivable, net mainly represent amounts due from customers and online payment channels and are recorded net of allowance for doubtful accounts.

When the consumer financing services are provided to the qualified customers in the online direct sales business, such consumer financing receivables are recorded as accounts receivable. Due to the legacy contractual arrangements in relation to the consumer financing business, we remain as the legal owner of the consumer finance receivables, where JD Finance performs the related credit assessment.

JD Finance agreed to purchase the consumer financing receivables past due over certain agreed period of time from us at carrying values to absorb the risks, and no allowance for doubtful accounts in relation to accounts receivable arising from the consumer financing business was provided. We periodically securitize consumer financing receivables through the transfer of those assets to securitization vehicles. Please refer to Item 5.A Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Non-recourse Securitization Debt and Transfer of Financial Assets for further information.

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Other than the accounts receivable arising from the consumer financing business, we consider many factors in assessing the collectability of our accounts receivable, such as the age of the amounts due, the payment history, creditworthiness and financial conditions of the customers and industry trend, to determine the allowance percentage for the overdue balances by age. We adjust the allowance percentage periodically when there are significant differences between estimated bad debts and actual bad debts. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. We also make specific allowance if there is strong evidence indicating that the accounts receivable are likely to be unrecoverable. Accounts receivable balances are written off after all collection efforts have been exhausted. The accounts receivables with the collection period over one year are classified into other non-current assets in our consolidated balance sheets.

### ***Loan Receivables, Net***

Loan receivables represent the consumer financing services provided to qualified individual customers by JD Finance. Due to the legacy contractual arrangements in relation to consumer financing business, we remain as the legal owner of the consumer finance receivables, including such loan receivables, where JD Finance performs the related credit assessment. The loan periods extended by us to the individual customers mainly range from one month to twenty-four months. The loan receivables are measured at amortized cost and reported on our consolidated balance sheets at outstanding principal adjusted for doubtful account. The accrued interests are also included in the loan receivable balance, which was immaterial. JD Finance agreed to purchase the receivables past due over certain agreed period of time from us at carrying values to absorb the risks and obtain the returns from such business, and no provision for the doubtful account was recorded for the years ended December 31, 2016 and 2017. As of December 31, 2016 and 2017, the loan receivables with the collection period over one year in the amount of RMB174 million and RMB244 million (US\$37 million) were classified into other non-current assets in our consolidated balance sheets. We periodically securitize loan receivables arising from its consumer financing businesses through the transfer of those assets to securitization vehicles. Please refer to Item 5.A Operating and Financial Review and Prospects Operating Results Critical Accounting Policies Non-recourse Securitization Debt and Transfer of Financial Assets for further information.

### ***Investment Securities***

We invest in marketable equity securities to meet business objectives. These marketable securities are reported at fair value, classified and accounted for as available-for-sale securities in investment securities. The treatment of a decline in the fair value of an individual security is based on whether the decline is other-than-temporary. We assess our available-for-sale securities for other-than-temporary impairment by considering factors including, but not limited to, our ability and intent to hold the individual security, severity of the impairment, expected duration of the impairment and forecasted recovery of fair value. Investments classified as available-for-sale securities are reported at fair value with unrealized gains or losses, if any, recorded in accumulated other comprehensive income or loss as a component of shareholders' equity. If we determine a decline in fair value is other-than-temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss charged in our consolidated statement of operations and comprehensive loss. The fair value of the investment would not be adjusted for subsequent recoveries in fair value.

### ***Revenue***

We engage primarily in the sale of electronics products and general merchandise products sourced from manufacturers, distributors and publishers in China on the internet through our websites, mainly *www.jd.com*, and mobile apps. We offer an online marketplace that enables third-party sellers to sell their products to consumers. We provide logistics services to third parties, including third-party sellers on our marketplace and merchants that do not sell products on our online marketplace. We also offered financial services to our suppliers, third-party sellers and qualified individual customers, and the finance business was deconsolidated from our financial statements since June 30, 2017 as a result of the reorganization of JD Finance. Customers place their orders for products or services primarily through our websites and mobile apps. Payment for the purchased products or services is generally made either before delivery or upon delivery.

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Consistent with the criteria of ASC 605, Revenue Recognition, we recognize revenues when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

In accordance with ASC 605, Revenue Recognition, we evaluate whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When we are primarily obligated in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenues should be recorded on a gross basis. When we are not the primary obligor, don't bear the inventory risk and don't have the ability to establish the price, revenues are recorded on a net basis.

Revenue arrangements with multiple deliverables are divided into separate units of accounting and arrangement consideration is allocated using estimated selling prices if we do not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables.

We recognize revenue net of discounts and return allowances when the products are delivered and title passes to customers. Return allowances, which reduce net revenues, are estimated based on historical experiences.

### ***Rebates and Subsidies***

We periodically receive consideration from certain suppliers, representing rebates for products sold and subsidies for the sales of the suppliers' products over a period of time. The rebates are not sufficiently separable from our purchase of the suppliers' products and they do not represent a reimbursement of costs incurred by us to sell vendors' products. We account for the rebates received from our suppliers as a reduction to the price we pay for the products purchased and therefore we record such amounts as a reduction of cost of revenues when recognized in our consolidated financial statements. Rebates are earned based on reaching minimum purchase thresholds for a specified period. When volume rebates can be reasonably estimated based on our past experiences and current forecasts, a portion of the rebate is recognized as we make progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through us and are recorded as a reduction of cost of revenues when the sales have been completed and the amount is determinable.

### ***Inventories***

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventory is primarily accounted for using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. We take ownership, risks and returns of the products purchased, but have arrangements to return unsold goods with certain vendors. Write-downs are recorded in cost of revenues in our consolidated statements of operations and comprehensive loss. As a measure of sensitivity, for every 1% of additional inventory valuation allowance as of December 31, 2017, we would have recorded an additional cost of sales of approximately RMB422 million (US\$65 million).

***Goodwill***

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. Our annual testing date is December 31. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions. Certain estimates of discounted cash flows involve businesses with limited financial history and developing revenue models. Changes in these forecasts could significantly change the amount of impairment recorded, if any.

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During the years ended December 31, 2015, 2016 and 2017, management monitored the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test. In November 2015 we decided to terminate the C2C business of Paipai.com acquired from Tencent, combating the marketing and sales of counterfeit products. As a result, we decided that the goodwill arising from the acquisition of the Paipai and QQ Wanggou combined platform business was fully impaired and an impairment charge of RMB2.6 billion was recorded in the fourth quarter of 2015. There was no goodwill impairment during the years ended December 31, 2016 and 2017.

***Non-recourse Securitization Debt and Transfer of Financial Assets***

We periodically securitize accounts receivables and loan receivables arising from consumer financing businesses through the transfer of those assets to securitization vehicles. The securitization vehicles then issue debt securities to third-party investors and JD Finance, collateralized by the transferred assets. The asset-backed debt securities issued by the securitization vehicles are nonrecourse to us and are payable only out of collections on their respective underlying collateralized assets.

The securitization vehicles are considered variable interest entities pursuant to ASC 810. We will consolidate the securitization vehicles when economic interests are retained in the form of subordinated interests, and we act as the servicer of securitization vehicles. Accordingly, we are precluded from recording the related transfers of assets in securitization transactions as sales. Asset-backed debt securities issued by the consolidated securitization vehicles are accounted for as the financing type transactions.

We will not consolidate the securitization vehicles when no economic interests are retained by us, and we have no continuing involvements, including being the servicer of the securitization vehicles. Transfers are accounted for as sale and the corresponding transferred accounts receivables are de-recognized in our consolidated balance sheets pursuant to ASC 860 only if they meet all of the three criteria: (i) the transferred financial assets have been isolated from the transferor and its creditors, (ii) each transferee has the right to pledge or exchange the transferred assets, or the transferor has no continuing involvement with the transferred financial assets, and (iii) the transferor does not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets. Otherwise, the transfer of the assets will be accounted for as a financing type transaction if the conditions in ASC 860-10-40-5 were not met. The under common control relationship of the transferor and transferee should be disregarded when applying ASC 860 as long as the transferee will not be consolidated by the transferor.

Due to our continuing involvement right in securitization vehicles prior to October 2017, we cannot derecognize the existing receivables through the transfer of the receivables to securitization vehicles. The proceeds from the financing-type transactions are reported as current and non-current nonrecourse securitization debt in our consolidated balance sheets based on their respective expected repayment dates pursuant to ASC 860. While the contractual maturities of the asset-backed debt securities are from 2018 to 2019, the securities are repaid as collections on the underlying collateralized assets occur. As of December 31, 2016 and 2017, the collateralized accounts receivables were RMB10,746 million and RMB11,702 million (US\$1,799 million), respectively, and the collateralized loans receivables were RMB2,757 million and RMB4,513 million (US\$694 million), respectively. The weighted average interest rate for the outstanding nonrecourse securitization debt as of December 31, 2016 and 2017 was approximately 4.49% and 5.33%, respectively. The interest expenses in relation to the nonrecourse securitization debt were charged back to JD Finance.

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Beginning October 2017, we revised certain structural arrangements to relinquish our continuing involvement right when setting up the new securitization vehicles, then we derecognized RMB8,000 million of consumer credit receivables financial assets (including the accounts receivables of RMB5,693 million and loan receivables of RMB2,307 million) through the sales type arrangements, with the proceeds of RMB8,000 million in 2017 (2015 and 2016 nil), where JD Finance acted as the servicer and purchased the subordinate tranche of the securitization vehicles. The gain/loss recorded upon the sale accounting was immaterial in 2017.

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***Unsecured Senior Notes***

Unsecured senior notes are recognized initially at fair value, net of debt discounts or premiums and debt issuance costs. Debt discount or premium and debt issuance costs are recorded as a reduction of the principal amount and the related accretion is recorded as interest expense in our consolidated statements of operations and comprehensive loss over the maturities of the notes using the effective interest method.

***Share-Based Compensation***

We grant non-vested ordinary shares, restricted share units and share options of our company and our subsidiaries to eligible employees and non-employee consultants and account for these share-based awards in accordance with ASC 718 *Compensation – Stock Compensation* and ASC 505-50 *Equity-Based Payments to Non-Employees*.

Employees' share-based awards are measured at the grant date fair value of the awards and recognized as expenses (a) immediately at grant date if no vesting conditions are required, or (b) using graded vesting method, net of estimated forfeitures, over the requisite service period, which is the vesting period.

All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

Non-employees' share-based awards are measured at fair value at the earlier of the commitment date or the date the services are completed. Awards granted to non-employees are re-measured at each reporting date using the fair value as at each period end until the measurement date, generally when the services are completed and awards are vested. Changes in fair value between the reporting dates are recognized by graded vesting method.

***Non-vested ordinary shares and restricted share units***

Prior to our initial public offering, the fair value of the non-vested ordinary shares and restricted share units were assessed using the income approach / discounted cash flow method, with a discount for lack of marketability given that the shares underlying the award were not publicly traded at the time of grant, and was determined partly in reliance on a valuation determined with the assistance of an independent valuation firm using our estimates and assumptions. This assessment required complex and subjective judgments regarding our projected financial and operating results, our unique business risks, the liquidity of our ordinary shares and our operating history and prospects at the time the grants were made.

After our initial public offering, in determining the fair value of the restricted share units granted, the closing market price of the underlying shares on the last trading date prior to the grant dates is applied. In determining the fair value of the restricted share units granted on May 22, 2014, the date when our ADSs first commenced trading on NASDAQ, the per share equivalent of our initial public offering price is applied.

*Share options*

Management is responsible for determining the fair value of options granted to employees and our founder and considered a number of factors including valuations.

In determining the fair value of our stock options, the binomial option pricing model was applied, which requires inputs such as the fair value of our ordinary shares, expected volatility, risk-free interest rate, exercise multiple, expected dividend yield and expected term based on the following assumptions:

1. Fair value of our ordinary shares. Prior to our initial public offering on May 22, 2014, the fair value was determined based on management estimates, as discussed under Fair Value of Our Ordinary Shares. Subsequent to our initial public offering, the market price of our publicly traded ADSs is used as an indicator of fair value for our ordinary shares.

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2. Expected volatility. We estimate expected volatility based on the implied volatility of our own and the historical share prices volatility of comparable companies with a time horizon close to the expected term of the share options.

3. Risk-free interest rate. We estimate risk-free interest rate based on the yield to maturity of U.S. treasury bonds with a maturity similar to the expected life of the share options.

4. Exercise multiple. The exercise multiple is estimated as the ratio of fair value of underlying shares over the exercise price as at the time the option is exercised, based on a consideration of research study regarding exercise pattern based on historical statistical data.

5. Expected dividend yield. We have never declared or paid any cash dividends on our capital stock, and we do not anticipate any dividend payments on our ordinary shares in the foreseeable future.

6. Expected term. Expected term is the contract life of the option.

Changes in these assumptions could significantly affect the fair value of stock options and hence the amount of compensation expenses we recognize in our consolidated financial statements.

***Fair Value of Our Ordinary Shares***

Prior to our initial public offering, we were a private company with no quoted market prices for our ordinary shares. We therefore needed to make estimates of the fair value of our ordinary shares at various dates for the following purposes:

- determining the fair value of our ordinary shares at the date of issuance of convertible instruments as one of the inputs into determining the intrinsic value of the beneficial conversion feature, if any; and
- determining the fair value of our ordinary shares at the date of the grant of a share-based compensation award to our employees or non-employees as one of the inputs into determining the grant date fair value of the award.

In determining the fair value of our ordinary shares, we applied the income approach/discounted cash flow analysis based on our projected cash flow using our best estimate as of the valuation date with the assistance from an independent valuation firm. The determination of the fair value of our ordinary shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair value of ordinary shares include:

*Discount rates.* The discount rates were based on the weighted average cost of capital, which was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systemic risk factors.

*Comparable companies.* In deriving the weighted average cost of capital used as the discount rates under the income approach, seven publicly traded companies were selected for reference as our guideline companies. The guideline companies were selected based on the following criteria: (i) they operate in the e-commerce industry and (ii) their shares are publicly traded in developed capital markets, including the United States, the UK and Japan.

*Discount for lack of marketability, or DLOM.* DLOM was quantified by the Black-Scholes option pricing model. Under this option-pricing method, the cost of the put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the DLOM. This option pricing method is one of the methods commonly used in estimating DLOM as it can take into consideration factors like timing of a liquidity event (such as an IPO) and estimated volatility of our shares. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM. The lower DLOM is used for the valuation, the higher is the determined fair value of the ordinary shares.

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The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. Our revenues and earnings growth rates, as well as major milestones that we have achieved, contributed to the increase in the fair value of our ordinary shares. However, these fair values are inherently uncertain and highly subjective. The assumptions used in deriving the fair values are consistent with our business plan. These assumptions include: no material changes in the existing political, legal and economic conditions in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts. These assumptions are inherently uncertain.

The option-pricing method was used to allocate enterprise value to preferred and ordinary shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid, Valuation of Privately Held Company Equity Securities Issued as Compensation. The method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred stock.

The option-pricing method involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of our company or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board of directors and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. Had we used different estimates of volatility, the allocations between preferred and ordinary shares would have been different.

The fair value of our ordinary shares on May 22, 2014 was US\$9.50, which was based on our initial public offering price.

***Income Taxes***

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. We follow the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in our consolidated financial statements in the period of change.

In accordance with the provisions of ASC 740, we recognize in our financial statements the benefit of a tax position if the tax position is more likely than not to prevail based on the facts and technical merits of the position. Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. We estimate our liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are recorded in our financial statements in the period in which the audit is concluded. Additionally, in future periods, changes in facts, circumstances and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. As of December 31, 2015, 2016 and 2017, we did not have any significant unrecognized uncertain tax positions.



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***Recent Accounting Pronouncements***

See Item 17 of Part III, Financial Statements Note 2 Summary of significant accounting policies Recent accounting pronouncements.

**B. Liquidity and Capital Resources**

Our primary sources of liquidity have been proceeds from operating activities, private issuances of ordinary and preferred shares, our initial public offering, our notes offering and our term and revolving credit facilities.

In May 2014, we completed our initial public offering in which we issued and sold an aggregate of 83,060,200 ADSs, representing 166,120,400 Class A ordinary shares resulting in net proceeds to us of approximately US\$1.5 billion. Concurrently with our initial public offering, we also raised US\$1.3 billion from Huang River Investment Limited, our existing shareholder, by selling 139,493,960 Class A ordinary shares to Huang River via private placement.

In April 2016, we issued an aggregate of US\$500 million unsecured senior notes due in 2021, with stated annual interest rate of 3.125%, and an aggregate of US\$500 million unsecured senior notes due in 2026, with stated annual interest rate of 3.875%. The net proceeds from the sale of the notes were used for general corporate purposes. As of December 31, 2017, the total carrying value and estimated fair value were US\$496 million and US\$500 million, respectively, with respect to the notes due in 2021, and US\$490 million and US\$500 million, respectively, with respect to the notes due in 2026. The estimated fair values were based on quoted prices for our publicly traded debt securities as of December 31, 2017. The unsecured senior notes contain covenants including, among others, limitation on liens, and restriction on consolidation, merger and sale of all or substantially all of our assets. We are in compliance with all covenants. During 2017, we paid an aggregate of US\$35 million in interest payments related to these notes.

In December 2017, we entered into a five-year US\$1.0 billion term and revolving credit facilities agreement with a group of 24 arrangers. The facilities were priced at 115 basis points over LIBOR. The use of proceeds of the facilities were intended for general corporate purposes. As of December 31, 2017, we had an undrawn balance of US\$1.0 billion under the credit facilities agreement, US\$450 million of which will expire at the date falling 6 months after the date of this credit facilities agreement if remained undrawn, and US\$550 million of which will expire one month prior to the final maturity date, which is sixty months after the date of this credit facilities agreement.

As of December 31, 2017, we had a total of RMB38 billion (US\$6 billion) in cash and cash equivalents, restricted cash and short-term investments. This included primarily RMB28 billion (US\$4 billion) and US\$652 million in China, RMB7 billion (US\$1 billion), HK\$12 million (US\$2 million) and US\$7 billion in Hong Kong and US\$10 million in Singapore. Our cash and cash equivalents generally consist of bank deposits and liquid investments with maturities of three months or less. As of December 31, 2017, we had one-year revolving lines of credit for an aggregate amount of RMB40 billion (US\$6 billion) from several Chinese commercial banks. We had RMB19 billion (US\$3 billion) outstanding under these revolving lines of credit as of December 31, 2017.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand, we may seek to issue debt or equity securities or obtain additional credit facilities.

Our net inventories have increased significantly in recent periods, from RMB20.5 billion as of December 31, 2015 to RMB28.9 billion as of December 31, 2016 and further to RMB41.7 billion (US\$6.4 billion) as of December 31, 2017. These increases reflected the additional inventory required to support our substantially expanded sales volumes. Our annual inventory turnover days were 36.4 days in 2015, 37.6 days in 2016 and 38.1 days in 2017. Annual inventory turnover days are the quotient of average inventory over five quarter ends to total cost of revenues and then multiplied by 360 days. Our inventory balances will fluctuate over time due to a number of factors, including expansion in our product selection and changes in our product mix. Our inventory balances typically increase when we prepare for special promotion events, such as the anniversary of the founding of our company on June 18 and China's new online shopping festival on November 11.

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Our accounts payable primarily include accounts payable to suppliers associated with our direct sales business and those to third-party sellers on our online marketplace. As of December 31, 2015, 2016 and 2017, our accounts payable amounted to RMB31.2 billion, RMB46.0 billion and RMB74.3 billion (US\$11.4 billion), respectively. These increases reflected a significant growth in our sales volumes and scale of operations for our direct sales business and the related increase in products sourced from our suppliers, as well as the growth in the scale of operations of our online marketplace. Our annual accounts payable turnover days for direct sales business were 44.0 days in 2015, 52.0 days in 2016 and 59.1 in 2017. Annual accounts payable turnover days are the quotient of average accounts payable for direct sales business over five quarter ends to total cost of revenues and then multiplied by 360 days.

Our accounts receivable primarily include amounts due from customers and online payment channels. As of December 31, 2015, 2016 and 2017, our accounts receivable amounted to RMB7.4 billion, RMB16.1 billion and RMB16.4 billion (US\$2.5 billion), respectively. These increases were primarily due to a significant growth in our sales volumes as well as the credit we extended for the financial products offered by JD Finance. From early 2014, JD Finance started to provide consumer financing to our customers. As of December 31, 2015, 2016 and 2017, the balances of current portion of financing provided to our customers that affected accounts receivable balances amounted to RMB6.9 billion, RMB14.8 billion and RMB14.3 billion (US\$2.2 billion), respectively. Our accounts receivable turnover days excluding the impact from consumer financing were 1.4 days in 2015, 1.3 days in 2016 and 1.4 days in 2017. Annual accounts receivable turnover days are the quotient of average accounts receivable over five quarter ends to total net revenues and then multiplied by 360 days.

Although we consolidate the results of our consolidated variable interest entities, we only have access to cash balances or future earnings of our consolidated variable interest entities through our contractual arrangements with them. See Item 4.C. Information on the Company Organizational Structure. For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see Holding Company Structure.

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our wholly foreign-owned subsidiaries in China only through loans or capital contributions, subject to the approval of government authorities and limits on the amount of capital contributions and loans. In addition, our wholly foreign-owned subsidiaries in China may provide Renminbi funding to their respective subsidiaries through capital contributions and entrusted loans, and to our consolidated variable interest entities only through entrusted loans. See Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries and consolidated variable interest entities or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Renminbi may be converted into foreign exchange for current account items, including interest and trade- and service-related transactions. As a result, our PRC subsidiaries and our consolidated variable interest entities in China may purchase foreign exchange for the payment of license, content or other royalty fees and expenses to offshore licensors and content partners, for example.

Our wholly foreign-owned subsidiaries may convert Renminbi amounts that they generate in their own business activities, including technical consulting and related service fees pursuant to their contracts with the consolidated variable interest entities, as well as dividends they receive from their own subsidiaries, into foreign exchange and pay them to their non-PRC parent companies in the form of dividends. However, current PRC regulations permit our wholly foreign-owned subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Each of our wholly foreign-owned subsidiaries is required to set aside at least 10% of its after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE and its local branches.



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The following table sets forth a summary of our cash flows for the periods indicated:

|                                                                     | 2015<br>RMB | For the Year Ended December 31,<br>2016<br>RMB | 2017<br>RMB | US\$    |
|---------------------------------------------------------------------|-------------|------------------------------------------------|-------------|---------|
|                                                                     |             | (in millions)                                  |             |         |
| <b>Summary Consolidated Cash Flows Data:</b>                        |             |                                                |             |         |
| Net cash provided by continuing operating activities                | 3,038       | 9,994                                          | 27,307      | 4,197   |
| Net cash used in discontinued operating activities                  | (1,342)     | (1,227)                                        | (2,486)     | (382)   |
| Net cash provided by operating activities                           | 1,696       | 8,767                                          | 24,821      | 3,815   |
| Net cash used in continuing investing activities                    | (7,809)     | (17,758)                                       | (21,725)    | (3,339) |
| Net cash provided by/(used in) discontinued investing activities    | 2,018       | (30,511)                                       | (15,773)    | (2,424) |
| Net cash used in investing activities                               | (5,791)     | (48,269)                                       | (37,498)    | (5,763) |
| Net cash provided by continuing financing activities                | 3,835       | 8,649                                          | 5,180       | 796     |
| Net cash provided by discontinued financing activities              | 865         | 32,050                                         | 14,055      | 2,160   |
| Net cash provided by financing activities                           | 4,700       | 40,699                                         | 19,235      | 2,956   |
| Effect of exchange rate changes on cash and cash equivalents        | 344         | 711                                            | (642)       | (99)    |
| Net increase in cash and cash equivalents                           | 949         | 1,908                                          | 5,916       | 909     |
| Cash and cash equivalents at beginning of year                      | 16,915      | 17,864                                         | 19,772      | 3,039   |
| Cash and cash equivalents at end of year                            | 17,864      | 19,772                                         | 25,688      | 3,948   |
| Less: Cash and cash equivalents of held for sale                    | 3,882       | 4,205                                          |             |         |
| Cash and cash equivalents of continuing operations at end of period | 13,982      | 15,567                                         | 25,688      | 3,948   |

***Continuing Operating Activities***

Net cash provided by operating activities in 2017 was RMB27,307 million (US\$4,197 million). In 2017, the principal items accounting for the difference between our net cash provided by operating activities and our net loss were certain non-cash expenses, principally depreciation and amortization of RMB4,193 million (US\$644 million), share of results of equity investees of RMB1,927 million (US\$296 million), share-based compensation of RMB2,780 million (US\$427 million), and changes in certain working capital accounts, principally an increase in accounts payable of RMB26,106 million (US\$4,012 million), an increase in advance from customers of RMB2,139 million (US\$329 million), an increase in accrued expenses and other current liabilities of RMB4,624 million (US\$711 million) and a decrease in amount due from related parties of RMB2,457 million (US\$378 million), partially offset by an increase in inventories of RMB12,788 million (US\$1,966 million). The increase in our accounts payable was due to the growth of our business. The increase in our accrued expenses and other current liabilities was primarily due to the growth in payroll and related accruals primarily associated with the increase in our headcount and the growth in our online marketplace business which resulted in the increase of vendor deposits. The increase in our advance from customers was due to the increase in our sales of prepaid cards. The increase in our inventories was due to the growth of our business.

Net cash provided by operating activities in 2016 was RMB9,994 million. In 2016, the principal items accounting for the difference between our net cash provided by operating activities and our net loss were certain non-cash expenses, principally depreciation and amortization of RMB3,420 million, share of results of equity investees of RMB2,782 million, share-based compensation of RMB2,061 million and gain from business and investment dispositions of RMB1,233 million, and changes in certain working capital accounts, principally an increase in accounts payable of RMB14,519 million, an increase in advance from customers of RMB4,365 million and an increase in accrued expenses and other

current liabilities of RMB3,710 million, partially offset by an increase in accounts receivable of RMB8,703 million, an increase in inventories of RMB8,373 million and an increase in amount due from related parties of RMB1,496 million. The increase in our accounts payable was due to the growth of our business. The increase in our accrued expenses and other current liabilities was primarily due to the growth in payroll and related accruals primarily associated with the increase in our headcount, the growth in our online marketplace business which resulted in the increase of vendor deposits, partially offset by the decrease in the payable to employees in relation to the exercise of options or pursuant to other awards. The increase in our advance from customers was due to the increase in advance from customers related to the sales on our online marketplace, since third-party sellers tend to take longer to complete deliveries to the extent that they do not use our fulfillment services, as well as the increase in our sales of prepaid cards. The increase in our inventories was due to the growth of our business. The increase in accounts receivable was due to the growth of our business as well as the credit we extended for the financial products offered by JD Finance.

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Net cash provided by operating activities in 2015 was RMB3,038 million. In 2015, the principal items accounting for the difference between our net cash used in operating activities and our net loss were certain non-cash expenses, principally share of results of equity investees of RMB2,852 million, impairment of goodwill and intangible assets of RMB2,750 million, depreciation and amortization of RMB2,507 million and share-based compensation of RMB1,077 million, and changes in certain working capital accounts, principally an increase in accounts payable of RMB14,187 million, an increase in accrued expenses and other current liabilities of RMB1,852 million and an increase in advance from customers of RMB2,462 million, partially offset by an increase in inventories of RMB8,346 million, an increase in accounts receivable of RMB5,665 million and an increase in amount due from related parties of RMB1,343 million. The increase in our accounts payable was due to the growth of our business. The increase in our accrued expenses and other current liabilities was primarily due to the growth in payroll and related accruals primarily associated with the increase in our headcount, the growth in our online marketplace business which resulted in the increase of vendor deposits, partially offset by the decrease in the payable to employees in relation to the exercise of options or pursuant to other awards. The increase in our advance from customers was due to the increase in advance from customers related to the sales on our online marketplace, since third-party sellers tend to take longer to complete deliveries to the extent that they do not use our fulfillment services, as well as the increase in our sales of prepaid cards. The increase in our inventories was due to the growth of our business. The increase in accounts receivable was due to the growth of our business as well as the credit we extended for the financial products offered by JD Finance.

*Continuing Investing Activities*

Net cash used in investing activities in 2017 was RMB21,725 million (US\$3,339 million), consisting primarily of the purchase of short-term investments, investment in equity investees and investment securities, purchases of property, equipment and software, cash paid for construction in progress and land use rights, cash paid for loan originations offered by JD Finance, and increase in loans to JD Finance, partially offset by the maturity of short-term investments, cash received from loan repayments, and cash consideration received with respect to the reorganization of JD Finance.

Net cash used in investing activities in 2016 was RMB17,758 million, consisting primarily of the purchase of short-term investments, investment in equity investees, purchases of property, equipment and software, cash paid for construction in progress and land use rights, cash paid for loan originations offered by JD Finance and cash paid for business combinations, partially offset by the maturity of short-term investments, cash received from loan repayments and decrease in loans to JD Finance.

Net cash used in investing activities in 2015 was RMB7,809 million, consisting primarily of the purchase of short-term investments, investment in equity investees and investment securities, purchases of property, equipment and software, cash paid for construction in progress and land use rights, cash paid for loan originations offered by JD Finance and cash paid for business combinations and increase in loans to JD Finance, partially offset by the maturity of short-term investments and cash received from loan repayment.

*Continuing Financing Activities*

Net cash provided by financing activities in 2017 was RMB5,180 million (US\$796 million), consisting primarily of proceeds from short-term borrowings and nonrecourse securitization debt, partially offset by the repayment of short-term borrowings and nonrecourse securitization debt.



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Net cash provided by financing activities in 2016 was RMB8,649 million, consisting primarily of proceeds from our unsecured senior notes offering in April 2016, proceeds from short-term borrowings and nonrecourse securitization debt, partially offset by the repayment of short-term borrowings and nonrecourse securitization debt and our repurchase of ADSs.

Net cash provided by financing activities in 2015 was RMB3,835 million, consisting primarily of proceeds from short-term bank loans and nonrecourse securitization debt partially offset by the repayment of short-term bank loans.

***Holding Company Structure***

JD.com, Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our subsidiaries and consolidated variable interest entities in China. As a result, JD.com, Inc.'s ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our consolidated variable interest entities in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our wholly foreign-owned subsidiaries in China may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion fund and staff bonus and welfare fund at its discretion. Each of the other PRC subsidiaries and our consolidated variable interest entities may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. As of December 31, 2017, the amount restricted, including paid-in capital and statutory reserve funds, as determined in accordance with PRC accounting standards and regulations, was approximately RMB23,083 million (US\$3,548 million). Our PRC subsidiaries have never paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

**Capital Expenditures**

We made capital expenditures of RMB5,024 million, RMB4,229 million and RMB11,356 million (US\$1,745 million) in 2015, 2016 and 2017, respectively. Our capital expenditures for 2015, 2016 and 2017 consisted primarily of expenditures related to the expansion of our fulfillment infrastructure, technology platform, logistics equipment as well as our new office buildings. Our capital expenditures will continue to be significant in the foreseeable future as we expand and improve our fulfillment infrastructure and technology platform to meet the needs of our anticipated growth.

**C. Research and Development**

We have built our technology platform relying primarily on software and systems that we have developed in-house and to a lesser extent on third-party software that we have modified and incorporated. We employed 11,938 IT professionals to design, develop and operate our technology platform as of December 31, 2017.

In the three years ended December 31, 2015, 2016 and 2017, our technology and content expenses, including share-based compensation expenses for research and development staff, were RMB2,902 million, RMB4,453 million and RMB6,652 million (US\$1,022 million), respectively. Our technology and content expenses consist primarily of payroll and related expenses for IT professionals involved in developing and maintaining our technology platform and websites, server and other equipment depreciation, bandwidth and data center costs, and rental expenses. We expect spending in technology and content to increase over time as we add more experienced IT professionals and continue to invest in our technology platform to enhance customer experience and provide value-added services to suppliers and third-party sellers.

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Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2017 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

**E. Off-Balance Sheet Arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated 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. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

**F. Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2017:

|                                | Total      | Less than<br>1 year | Payment Due by Period           |           | More than<br>5 years |
|--------------------------------|------------|---------------------|---------------------------------|-----------|----------------------|
|                                |            |                     | 1-3 years<br>(in RMB thousands) | 3-5 years |                      |
| Operating lease commitments(1) |            |                     |                                 |           |                      |
| Rental expenses                | 7,975,196  | 2,845,163           | 3,290,762                       | 1,149,783 | 689,488              |
| Bandwidth leasing              | 642,482    | 438,499             | 191,345                         | 7,442     | 5,196                |
| Capital commitments(2)         | 2,658,773  | 2,658,773           |                                 |           |                      |
| Long-term debt obligations(3)  | 23,694,319 | 12,684,881          | 4,475,238                       | 3,267,100 | 3,267,100            |
| Total                          | 34,970,770 | 18,627,316          | 7,957,345                       | 4,424,325 | 3,961,784            |

(1) Our operating lease obligations relate to our leases of offices and fulfillment infrastructures and our lease of bandwidth and data centers.

(2) Our capital commitments primarily relate to commitments on construction of office buildings and warehouses, and are to be paid in the following years according to the construction progress.

(3) Our long-term debt obligations are mainly unsecured senior notes, and nonrecourse securitization debt consisting primarily of debt securities issued in connection with securitization of certain financial assets. The amounts exclude the corresponding interest payable.

**Item 6. Directors, Senior Management and Employees**

**A. Directors and Senior Management**

The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

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| Directors and Executive Officers | Age | Position/Title                                                 |
|----------------------------------|-----|----------------------------------------------------------------|
| Richard Qiangdong Liu            | 45  | Chairman of the Board of Directors and Chief Executive Officer |
| Martin Chiping Lau               | 45  | Director                                                       |
| Ming Huang                       | 54  | Independent Director                                           |
| Louis T. Hsieh                   | 53  | Independent Director                                           |
| David Daokui Li                  | 54  | Independent Director                                           |
| Ye Lan                           | 48  | Chief Public Affairs Officer                                   |
| Yu Long                          | 42  | Chief Human Resources Officer and General Counsel              |
| Sidney Xuande Huang              | 52  | Chief Financial Officer                                        |
| Chen Zhang                       | 54  | Chief Technology Officer                                       |

*Richard Qiangdong Liu* has been our chairman and chief executive officer since our inception. Mr. Liu has over 15 years of experience in the retail and e-commerce industries. In June 1998, Mr. Liu started his own business in Beijing, which was mainly engaged in the distribution of magneto-optical products. In January 2004, Mr. Liu launched his first online retail website. He founded our business later that year and has guided our development and growth since then. In December 2011, Mr. Liu received the prestigious award “2011 China Economic Person of the Year” from CCTV, China’s largest nationwide television network. Mr. Liu has received numerous other awards for his achievements in the e-commerce industry in China, such as “2011 Chinese Business Leader” and Fortune China’s “2012 Chinese Businessman.” Mr. Liu received a bachelor’s degree in sociology from Renmin University of China in Beijing and an EMBA degree from the China Europe International Business School.

*Martin Chiping Lau* has served as our director since March 2014. Mr. Lau is president and executive director of Tencent Holdings Limited, a provider of comprehensive internet services serving the largest online community in China and listed on Hong Kong Stock Exchange. In December 2017, Mr. Lau was appointed as a director of Vipshop Holdings Limited, an online discount retailer listed on the NYSE. In 2007, Mr. Lau was appointed as an executive director of Tencent. In 2006, Mr. Lau was promoted as the president of Tencent to manage the day-to-day operation of Tencent. In February 2005, he joined Tencent as the chief strategy and investment officer, and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. Prior to joining Tencent, Mr. Lau was an executive director at Goldman Sachs (Asia) L.L.C.’s investment banking division and the chief operating officer of its telecom, media and technology group. Prior to that, he worked at McKinsey & Company, Inc. as a management consultant. Mr. Lau also serves as a non-executive director of Kingsoft Corporation Limited, an internet based software developer, distributor and software service provider listed on Hong Kong Stock Exchange, and a director of Leju Holdings Limited, an online-to-offline real estate services provider in China listed on the NYSE. Mr. Lau received a bachelor of science degree in electrical engineering from the University of Michigan, a master of science degree in electrical engineering from Stanford University and an MBA degree from Kellogg Graduate School of Management, Northwestern University.

*Ming Huang* has served as our independent director since March 2014. Mr. Huang has been a professor of finance at the Johnson Graduate School of Management at Cornell University since July 2005 and a professor of finance at China Europe International Business School (CEIBS) since July 2010. Mr. Huang also served as a professor of finance at Cheung Kong Graduate School of Business in China from July 2008 to June 2010 and Dean of the School of Finance at Shanghai University of Finance and Economics from April 2006 to March 2009. Prior to 2005, he was an associate professor of finance at the Graduate School of Business at Stanford University from September 2002 to June 2005 and an associate dean and visiting professor of finance at Cheung Kong Graduate School of Business from July 2004 to

June 2005. Professor Huang's academic research primarily focuses on behavioral finance, credit risk and derivatives. In recent years, his research has focused on Chinese capital market and public companies. Professor Huang serves as an independent director of Yingli Green Energy Holding Company Limited, a company listed on the NYSE. Mr. Huang is also an independent non-executive director of several companies listed on the Hong Kong Stock Exchange including WH Group Limited, Fantasia Holdings Group Co., Ltd. and an independent director of 360 Security Technology Inc., a company listed on the Shanghai Stock Exchange. Professor Huang received his bachelor's degree in physics from Peking University, a Ph.D. in theoretical physics from Cornell University and a Ph.D. in finance from Stanford University.

*Louis T. Hsieh* has served as our independent director since May 2014. Mr. Hsieh has been the group chief financial officer for NIO Inc., an electric and autonomous car designer and manufacturer since May 2017. Mr. Hsieh has served as the director of New Oriental Education & Technology Group Inc., the largest provider of private educational services in China listed on the NYSE (NYSE: EDU), since March 2007, and served as its chief financial officer from December 2005 to April 2015 and its president from May 2009 to January 2016. He also has served as an independent director and chairman of audit committee of YUM China Holdings, Inc., an NYSE-listed fast food restaurant (NYSE: YUMC), since 2016. Mr. Hsieh was an independent director and chairman of audit committee of Nord Anglia Education, Inc. from 2016 to 2017 and assumed the same position with Perfect World Inc. from 2007 to 2010. He was also the chief financial officer of ARIOT Data Networks, Inc. in San Jose, California from 2003 to 2005. Prior to that, Mr. Hsieh was a managing director for the private equity firm of Darby Asia Investors (HK) Limited from 2002 to 2003. From 2000 to 2002, Mr. Hsieh was the managing director and the Asia-Pacific tech/media/telecoms head of UBS Capital Asia Pacific, the private equity division of UBS AG. From 1997 to 2000, Mr. Hsieh was a technology investment banker at JP Morgan in San Francisco, California, where he was a vice president, and Credit Suisse First Boston in Palo Alto, California, where he was an associate. From 1990 to 1996, Mr. Hsieh was a corporate and securities attorney at White & Case LLP in Los Angeles. Mr. Hsieh holds a bachelor's degree in industrial engineering and engineering management from Stanford University, an MBA degree from the Harvard Business School, and a J.D. degree from the University of California at Berkeley.

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*David Daokui Li* has served as our independent director since May 2014. Mr. Li is currently the Mansfield Freeman Chair Professor of the School of Economics and Management of Tsinghua University. He was also the director of the Schwarzman Scholars Program at Tsinghua University, and the director of Center for China in the World Economy (CCWE) at the School of Economics and Management of Tsinghua University. Before joining Tsinghua University in 2004, Mr. Li was on the faculty of Hong Kong University of Science and Technology from 1999 to 2004 and the University of Michigan from 1992 to 1999. From 1997 to 1998, he was a National Fellow of Hoover Institution at Stanford University. Professor Li is currently a delegate to the Beijing People's Congress and a member of the Chinese People's Political Consultative Committee (CPPCC). He is now a member of the Global Agenda Councils and a Rapporteur of the International Financial Institutions Reform Cluster of the Global Redesign Initiative (GRI) of the World Economic Forum based in Davos, Switzerland. Professor Li received a Ph.D. in economics from Harvard University and a bachelor's degree in management information systems from Tsinghua University as one of the first undergraduate class of the School of Economics and Management, where he is now serving as a faculty member.

*Ye Lan* has served as our chief public affairs officer since August 2015, and is in charge of overseeing a number of key operational areas, including our public affairs team. Prior to this role, he was our chief marketing officer from February 2012, and was in charge of our procurement, sales, marketing and public relationships functions. Mr. Lan has over 18 years of experience in sales and marketing in the Greater China region. Prior to joining us, Mr. Lan was an executive vice president for the China region at Acer Group, a Taiwan-based electronics company, from October 2010 to February 2012. Mr. Lan was the president and the chief executive officer of Founder Technology Group Corporation, a China-based computer producer listed on the Shanghai Stock Exchange, from October 2008 to September 2010. From 1993 to October 2008, Mr. Lan was at Lenovo Group, where he became the vice president responsible for the sales in the Greater China region. Mr. Lan received an EMBA degree from Tsinghua University in Beijing.

*Yu Long (also known as Rain Long)* has served as our chief human resources officer and general counsel since August 2012. Ms. Long has extensive experience in handling the legal affairs of U.S. listed companies and managing multinational companies. Prior to joining us, Ms. Long served as the general counsel and chief compliance officer of UTStarcom Holdings Corp., a provider of interactive, IP-based network solutions listed on NASDAQ, from November 2010 to July 2012. Prior to that, Ms. Long worked for several Chinese and multinational telecommunication companies, and last served as the APAC Legal Affairs Director for the Swiss stock market listed Myriad Group AG and was appointed by its head office to be the key member of its China Executive Management Team. Ms. Long received her bachelor's degree in economic law from China Southwest Political and Law University in Chongqing and an EMBA from the China Europe International Business School. Ms. Long is a qualified attorney in the PRC.

*Sidney Xuande Huang* has served as our chief financial officer since September 2013. Prior to joining us, Mr. Huang was the chief financial officer of VanceInfo Technologies Inc., an NYSE-listed IT services provider, and its successor company, Pactera Technology International Ltd., from July 2006 to September 2013. He was also the co-president of VanceInfo Technologies Inc. from 2011 to 2012 and its chief operating officer from 2008 to 2010. Prior to VanceInfo Technologies Inc., he was the chief financial officer with two other China-based companies in technology and internet sectors between 2004 and 2006. Mr. Huang was an investment banker with Citigroup Global Markets Inc. in New York from 2002 to 2004. He served as an audit manager of KPMG LLP from 1996 to 2000 and was a Certified Public

Accountant in the State of New York. Mr. Huang is currently a director of Bitauto, an internet company listed on the NYSE. Mr. Huang obtained his masters of business administration with distinction from the Kellogg School of Management at Northwestern University as an Austin Scholar. He received his bachelor's degree in accounting from Bernard M. Baruch College, where he graduated as class valedictorian.

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*Chen Zhang* has served as our chief technology officer since November 2015. Mr. Zhang joined us in April 2015 as senior vice president in charge of JD Mall's research and development system. Prior to joining us, he was the president of Yahoo global research and development center in Beijing, responsible for the development of Yahoo's global core platforms, such as its science driven advertising and personalization platforms, mobile and cloud platforms. He worked at Yahoo for 18 years, during which he was also responsible for the development of Yahoo Messenger. Mr. Zhang is currently a non-executive director of Kingdee International Software Group Company Limited, a company listed on the Hong Kong Stock Exchange. Mr. Zhang received a bachelor's degree in computer science from East China Normal University and a master's degree in computer science from Indiana University Bloomington.

**B. Compensation**

In 2017, we paid an aggregate of approximately RMB11.5 million (US\$1.8 million) in cash to our executive officers, and approximately US\$0.2 million in cash to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and consolidated variable interest entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

**Employment Agreements and Indemnification Agreements**

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause upon three-month advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for two years following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or

otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

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We have also entered into indemnification agreements with our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

**Share Incentive Plan**

We adopted a 2008 stock issuance plan in June 2008, a 2009 employee stock incentive plan in February 2009, a 2010 employee stock incentive plan in March 2010, a 2011 employee stock incentive plan in April 2011 and a 2011 special employee stock incentive plan in April 2011, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. We refer to these plans collectively as the Original Plans. Pursuant to the Original Plans, we issued a total of 106,850,910 ordinary shares to Fortune Rising Holdings Limited. Fortune Rising Holdings Limited holds these ordinary shares for the purpose of transferring such shares to the plan participants according to our awards under our Original Plans, which were replaced by the 2013 Plan as described below, and administers the awards and acts according to our instruction, and is therefore treated as our consolidated variable interest entity under U.S. GAAP.

On December 20, 2013, we adopted a 2013 Share Incentive Plan, or the 2013 Plan, which replaced all of the Original Plans in their entirety, and the Original Plans are no longer effective. The awards granted and outstanding under the Original Plans survive the termination of the Original Plans and remain effective and binding under the 2013 Plan, subject to certain amendments to the original award agreements. We amended and restated the 2013 Plan on March 6, 2014, increasing the number of shares reserved for future awards under the 2013 Plan. In November 2014, the 2013 Plan was replaced by a share incentive plan entitled Share Incentive Plan containing substantially the same terms as the 2013 Plan.

The maximum aggregate number of our shares which may be issued pursuant to all awards under the Share Incentive Plan is 468,133,012 shares as of the date of this annual report, consisting of 106,850,910 shares that have been issued to and reserved with Fortune Rising Holdings Limited under the Original Plans, and 361,282,102 shares that are reserved under the Share Incentive Plan. The number of shares reserved for future issuances under the Share Incentive Plan will be increased by a number equal to 1% of the total number of outstanding shares as of the last day of the immediately preceding fiscal year, on the first day of each fiscal year during the term of the Share Incentive Plan commencing with the fiscal year ended December 31, 2018, the sixth fiscal year that occurs after the date when the 2013 Plan was adopted.

The following paragraphs describe the principal terms of the Share Incentive Plan.

*Types of Awards.* The Plan permits the awards of options, restricted shares, restricted share units or any other type of awards that the committee or the board decides.

*Plan Administration.* Our board of directors, our compensation committee or a sub-committee designated by our board will administer the Share Incentive Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant. Fortune Rising Holdings Limited is the holder on record of the original award pool of 106,850,910 shares and will grant awards to plan participants and execute the award agreements and other related

agreements with plan participants based on the instructions of the committee or the full board of directors who administers the Share Incentive Plan.

*Award Agreement.* Awards granted under the Share Incentive Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

*Eligibility.* We may grant awards to our employees, directors and consultants. However, we may grant options that are intended to qualify as incentive share options only to our employees.

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*Acceleration of Awards upon Change in Control.* If a change in control of our company occurs, the plan administrator may, in its sole discretion, provide for (i) all awards outstanding to terminate at a specific time in the future and give each participant the right to exercise the vested portion of such awards during a specific period of time, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion, or (iv) payment of award in cash based on the value of ordinary shares on the date of the change-in-control transaction plus reasonable interest.

*Vesting Schedule.* In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

*Exercise of Options.* The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is the tenth anniversary after the date of a grant.

*Transfer Restrictions.* Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

*Termination of the Share Incentive Plan.* Unless terminated earlier, the Share Incentive Plan will terminate automatically on December 20, 2023. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary and desirable to comply with applicable law. Shareholder approval is required for any amendment to the Share Incentive Plan that (i) increases the number of shares available under the Share Incentive Plan, or (ii) permits the plan administrator to extend the term of the Share Incentive Plan or the exercise period for an option beyond ten years from the date of grant.

As of December 31, 2017, the awards that had been granted to our directors, officers, employees and consultants and remained outstanding included (i) restricted share units to receive an aggregate of 106,259,378 ordinary shares, excluding restricted share units that were forfeited, cancelled, or vested after the relevant grant date, and (ii) options to purchase an aggregate of 43,110,108 ordinary shares, excluding options that were forfeited, cancelled, or exercised after the relevant grant date.

In May 2015, the board of directors approved a 10-year compensation plan for Mr. Richard Qiangdong Liu, under which, Mr. Liu will receive RMB1.00 per year in cash salary and zero cash bonus during the 10-year period and in the meantime, Mr. Liu was granted an option to acquire a total of 26,000,000 Class A ordinary shares of our company, at an exercise price of US\$16.70 per share or US\$33.40 per ADS, subject to a 10-year vesting schedule with 10% of the award vested on each anniversary of the grant date. We will not grant any additional equity incentive to Mr. Liu during the 10-year period. The number of restricted shares, restricted share units and options granted to each of our other directors and executive officers represents less than 1% of our total outstanding ordinary shares on an as-converted basis as of the date of this annual

report. The awards to our other directors and executive officers have two-year, four-year, five-year or six-year vesting schedule, with an equal installment vesting at the end of each calendar year following the grant or on the anniversary of the grant date. Starting from the year ended December 31, 2016, certain awards have multiple tranches with tiered vesting commencement dates from 2016 to 2020, and each of the tranches is subject to a six-year vesting schedule.

**C. Board Practices**

**Board of Directors**

Our board of directors consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company must declare the nature of his interest at a meeting of the directors. Subject to the NASDAQ Rules and disqualification by the chairman of the relevant board meeting, a director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that he may be interested therein, and if he does so his vote will be counted and he may be counted in the quorum at the relevant board meeting at which such contract or transaction or proposed contract or transaction is considered. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

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Under our current memorandum and articles of association, our board of directors will not be able to form a quorum without Mr. Richard Qiangdong Liu for so long as Mr. Liu remains a director.

**Committees of the Board of Directors**

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees.

***Audit Committee***

Our audit committee consists of Louis T. Hsieh, Ming Huang and David Daokui Li. Mr. Hsieh is the chairman of our audit committee. We have determined that Mr. Hsieh, Mr. Huang and Mr. Li satisfy the independence requirements of NASDAQ and Rule 10A-3 under the Securities Exchange Act of 1934. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and

- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

*Compensation Committee*

Our compensation committee consists of Ming Huang and Martin Chiping Lau. Mr. Huang is the chairman of our compensation committee. We have determined that Mr. Huang and Mr. Lau satisfy the independence requirements of NASDAQ. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;

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- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee consists of David Daokui Li and Louis T. Hsieh. Mr. Li is the chairperson of our nominating and corporate governance committee. Mr. Li and Mr. Hsieh satisfy the independence requirements of NASDAQ. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

**Terms of Directors and Executive Officers**

Our officers are elected by and serve at the discretion of the board of directors. Our directors are appointed either by an ordinary resolution of our shareholders, or by a resolution of our board of directors (including the affirmative vote of Mr. Richard Qiangdong Liu for so long as he is a director). Our non-independent directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders. Our independent directors are subject to a contractual one-year term, which may be renewed for one

additional year, unless either party provides a prior written notice to the other party before the initial term expires indicating the intention not to renew. A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind; (iii) resigns his office by notice in writing to our company; or (iv) without special leave of absence from our board of directors, is absent from meetings of our board of directors for three consecutive meetings and the board resolves that his office be vacated.

#### **D. Employees**

As of December 31, 2017, we had a total of 157,831 full-time employees. We had a total of 116,343 employees as of December 31, 2016 and 101,875 employees as of December 31, 2015.

The following tables give breakdowns of our employees as of December 31, 2017, by function and by region:

| <b>Function</b>            | <b>Number</b>  |
|----------------------------|----------------|
| Procurement                | 5,385          |
| Warehouses                 | 33,153         |
| Delivery                   | 84,790         |
| Customer Service           | 12,760         |
| Technology                 | 11,938         |
| Sales and Marketing        | 5,453          |
| General and Administrative | 4,352          |
| <b>TOTAL</b>               | <b>157,831</b> |

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With so many employees, we place great emphasis on our corporate culture to ensure that we maintain consistently high standards everywhere we operate. We believe that our corporate culture and core philosophy will help us to realize our goal of becoming the largest e-commerce company in the world.

We invest significant resources in the recruitment of employees in support of our fast-growing business operations. In 2017, we recruited additional employees in connection with the expansion of our fulfillment infrastructure and additional research and development personnel in connection with the expansion of our technology platform. We have established comprehensive training programs that cover such topics as our corporate culture, employee rights and responsibilities, team-building, professional behavior, job performance, management skills, leadership and executive decision-making. We have a special dedicated training facility, JD Corporate University, to further strengthen our internal training programs. As of December 31, 2017, over 530 management trainees had undergone our dedicated management training program. We also sponsored selected senior and mid-level managers to participate in part-time EMBA programs. In addition, we launched “Go to college in JD” program in association with well-known universities in November 2013. All employees are eligible to join the program voluntarily and get scholarship from us once they obtain their bachelor’s or master’s degree. To boost our strategy of exploring oversea markets, we also have been recruiting international management trainees from top universities in the United States.

As required by regulations in China, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund. We are required under PRC law to contribute to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time. We also provide entrusted loans with commercial banks as intermediaries to qualified employees to assist them in purchasing houses and cars.

We enter into standard labor contracts with our employees. We also enter into standard confidentiality and non-compete agreements with our senior management. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

**E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of February 28, 2018 by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our total outstanding shares.

The calculations in the table below are based on 2,868,606,683 ordinary shares outstanding as of February 28, 2018, comprising of (i) 2,407,975,132 Class A ordinary shares, excluding the 70,102,216 Class A ordinary shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plan, and (ii) 460,631,551 Class B ordinary shares.

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Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership and voting power percentage of that person, we have included shares and associated votes that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares and associated votes, however, are not included in the computation of the percentage ownership of any other person. Ordinary shares held by a shareholder are determined in accordance with our register of members.

|                                                 | Class A<br>Ordinary<br>Shares | Class B<br>Ordinary<br>Shares | Total<br>Ordinary<br>Shares | %       | % of<br>Aggregate<br>Voting<br>Power |
|-------------------------------------------------|-------------------------------|-------------------------------|-----------------------------|---------|--------------------------------------|
| <b>Directors and Executive Officers:</b>        |                               |                               |                             |         |                                      |
| Richard Qiangdong Liu                           | 25,200,000(1)                 | 421,507,423(1)                | 446,707,423(1)              | 15.5(1) | 79.5(2)                              |
| Martin Chiping Lau(3)                           |                               |                               |                             |         |                                      |
| Ming Huang(4)                                   | *                             |                               | *                           | *       | *                                    |
| Louis T. Hsieh(5)                               | *                             |                               | *                           | *       | *                                    |
| David Daokui Li(6)                              | *                             |                               | *                           | *       | *                                    |
| Ye Lan                                          | *                             |                               | *                           | *       | *                                    |
| Rain Yu Long                                    | *                             |                               | *                           | *       | *                                    |
| Sidney Xuande Huang                             | *                             |                               | *                           | *       | *                                    |
| Chen Zhang                                      | *                             |                               | *                           | *       | *                                    |
| All Directors and Executive Officers as a Group | 32,127,864                    | 421,507,423                   | 453,635,287                 | 15.8    | 79.5(2)                              |
| <b>Principal Shareholders:</b>                  |                               |                               |                             |         |                                      |
| Max Smart Limited(7)                            | 20,000,000                    | 421,507,423                   | 441,507,423                 | 15.4    | 72.7                                 |
| Huang River Investment Limited(8)               | 517,065,413                   |                               | 517,065,413                 | 18.0    | 4.4                                  |
| Walmart(9)                                      | 289,053,746                   |                               | 289,053,746                 | 10.1    | 2.5                                  |
| Fortune Rising Holdings Limited(10)             |                               | 39,124,128                    | 39,124,128                  | 1.4     | 6.7                                  |

\* Less than 1% of our total outstanding ordinary shares.

\*\* Except for Mr. Martin Chiping Lau, Mr. Ming Huang, Mr. Louis T. Hsieh, and Mr. Daokui Li, the business address of our directors and executive officers is JD national headquarters at No. 18 Kechuang 11 Street, Yizhuang Economic and Technological Development Zone, Daxing District, Beijing 101111, P.R. China.

(1) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited, (ii) 10,000,000 restricted ADSs, representing 20,000,000 Class A ordinary shares, owned by Max Smart Limited, and (iii) 5,200,000 class A ordinary shares Mr. Liu had the right to acquire upon exercise of options that shall have become vested within 60 days after February 28, 2018. Max Smart Limited is a British Virgin Islands company beneficially owned by Mr. Richard Qiangdong Liu through a trust and of which Mr. Richard Qiangdong Liu is the sole director, as described in footnote (7) below. The ordinary shares beneficially owned by Mr. Liu do not include 39,124,128 Class B ordinary shares held by Fortune Rising Holdings Limited, a British Virgin Islands company, as described in footnote (10) below.

(2) The aggregate voting power includes the voting power with respect to the 39,124,128 Class B ordinary shares held by Fortune Rising Holdings Limited. Mr. Richard Qiangdong Liu is the sole shareholder and the sole director of Fortune Rising Holdings Limited and he may be deemed to beneficially own the voting power with respect to all of the ordinary shares held by Fortune Rising Holdings Limited in accordance with the rules and regulations of the SEC, notwithstanding the facts described in footnote (10) below.

(3) Mr. Lau was appointed by Huang River Investment Limited. The business address of Mr. Lau is 39/F, Tencent Building, Kejizhongyi Avenue, Hi-Tech Park, Nanshan District, Shenzhen 518057, P.R. China.

(4) The business address of Mr. Huang is China Europe International Business School, 699 Hongfeng Road, Pudong District, Shanghai 201206, China.

(5) The business address of Mr. Hsieh is No. 6 Hai Dian Zhong Street, Haidian District, Beijing 100080, P.R. China.

(6) The business address of Professor Li is School of Economics and Management, Tsinghua University, Beijing 100084, China.

(7) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited and (ii) 10,000,000 restricted ADSs, representing 20,000,000 Class A ordinary shares, owned by Max Smart Limited. Max Smart Limited is a British Virgin Islands company beneficially owned by Mr. Richard Qiangdong Liu through a trust and of which Mr. Richard Qiangdong Liu is the sole director. The registered address of Max Smart Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

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(8) Represents (i) 486,245,393 Class A ordinary shares held by Huang River Investment Limited, and (ii) 15,410,010 restricted ADSs, representing 30,820,020 Class A ordinary shares owned by Huang River Investment Limited or its affiliate. Huang River Investment Limited is a company incorporated in the British Virgin Islands, and is wholly owned by Tencent Holdings Limited, a company listed on Hong Kong Stock Exchange. The registered address of Huang River Investment Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(9) Based on an amendment to the statement on Schedule 13G filed on February 3, 2017 jointly by (i) Walmart, a corporation organized under the laws of the State of Delaware, (ii) Newheight Holdings Ltd., or Newheight, a company organized under the laws of the Cayman Islands, and (iii) Qomolangma Holdings Ltd., or Qomolangma, a company organized under the laws of the Cayman Islands. According to the Schedule 13G, as amended, Walmart wholly owns each of Qomolangma and Newheight indirectly through a number of other wholly owned subsidiaries. Newheight is a wholly owned subsidiary of Qomolangma. The address of the principal business office of Walmart is 702 S.W. Eighth Street, Bentonville, Arkansas 72716. The address of the principal business office of Newheight is PO Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands. The address of the principal business office of Qomolangma is 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

(10) Represents 39,124,128 Class B ordinary shares held by Fortune Rising Holdings Limited. Fortune Rising Holdings Limited holds these Class B ordinary shares for the purpose of transferring such shares to the plan participants according to our awards under our Share Incentive Plan, and administers the awards and acts according to our instruction, and is therefore treated as our consolidated variable interest entity under U.S. GAAP. Fortune Rising Holdings Limited exercises the voting power with respect to these shares according to our instruction. Fortune Rising Holdings Limited is a company incorporated in the British Virgin Islands. Mr. Richard Qiangdong Liu is the sole shareholder and the sole director of Fortune Rising Holdings Limited. The registered address of Fortune Rising Holdings Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

To our knowledge, as of February 28, 2018, a total of 1,846,879,689 class A ordinary shares were held by five record holders in the United States, representing approximately 62.8% of our total outstanding shares on an as-converted basis (including the 70,102,216 Class A ordinary shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plan). One of these holders is Deutsche Bank Trust Company Americas, the depositary of our ADS program, which held 74.5% Class A ordinary shares on record, representing approximately 62.8% of our total outstanding shares on record as of February 28, 2018 (including the 70,102,216 Class A ordinary shares issued to it for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our Share Incentive Plan). The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to twenty votes per share. Holders of Class A and Class B ordinary shares vote together as one class on all matters subject to a shareholders' vote. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstance. See Item 10.B. Additional Information Memorandum and Articles of Association for a more detailed description of our Class A ordinary shares

and Class B ordinary shares.

Except for the above, we are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

**Item 7. Major Shareholders and Related Party Transactions**

**A. Major Shareholders**

Please refer to Item 6.E. Directors, Senior Management and Employees Share Ownership.

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**B. Related Party Transactions**

**Contractual Arrangements with Our Variable Interest Entities and Their Shareholders**

PRC laws and regulations currently limit foreign ownership of companies that engage in businesses such as value-added telecommunications service business, the distribution of media products and the provision of air freight transport agency services in China. Due to these restrictions, we operate our relevant business through contractual arrangements with our variable interest entities. For a description of these contractual arrangements, see Item 4.C. Information on the Company Organizational Structure.

**Shareholders Agreements and Registration Rights**

We entered into our thirteenth amended and restated shareholders agreement on March 10, 2014 with the then-existing shareholders. Pursuant to our thirteenth amended and restated shareholders agreement, we granted certain demand registration rights, piggyback registration rights and F-3 registration rights to holders of our registrable securities, which include our ordinary shares issued or issuable pursuant to conversion of our preferred shares, except those held by Mr. Richard Qiangdong Liu, Max Smart Limited and Mr. Richard Qiangdong Liu's associate as defined in the agreement.

We have ceased to have any obligation to effect any demand, piggyback or Form F-3 registration since May 28, 2016, the second anniversary after the completion of our initial public offering, except that Huang River Investment Limited has the right to demand on one occasion registration of its shares during the two-year period following March 10, 2017.

**Agreements and Business Cooperation with Tencent**

*Strategic Cooperation Agreement.* On March 10, 2014, we entered into a strategic cooperation agreement and formed a strategic partnership with Tencent. As part of the strategic partnership, Tencent agreed to offer us prominent level 1 access points in its mobile apps Weixin and Mobile QQ and provide internet traffic and other support from other key platforms to us. The two parties agreed to cooperate in a number of areas including mobile-related products, social networking services, membership systems and payment solutions. The strategic cooperation agreement has a term of five years and applies within the territory of the Greater China. Under the strategic cooperation agreement, we are Tencent's preferred partner for all physical goods e-commerce businesses, and Tencent agrees not to engage in any direct sales or managed marketplace business model in physical goods e-commerce businesses in the Greater China and a few selected international markets for a period of eight years, other than through its controlled affiliate Shanghai Icsen.

*Business Cooperation with Tencent.* Huang River Investment Limited, a wholly owned subsidiary of Tencent, has been a principal shareholder of us since March 2014. In 2015, we generated a total amount of RMB140 million commission services revenues from cooperation on advertising business with Tencent, and also purchased a total amount of RMB196 million advertising resources from Tencent and also generated a total amount of RMB0.1 million commission services revenues from online marketplace services provided to Tencent. In 2016, we generated a total amount of RMB184 million commission services revenues from cooperation on advertising business with Tencent, and also purchased a total amount of RMB245 million advertising resources and processing payment services from Tencent and also generated a total amount of RMB52 thousand commission services revenues from online marketplace services provided to Tencent. In 2017, we generated a total amount of RMB261 million (US\$40 million) commission services revenues from cooperation on advertising business with Tencent, and also purchased a total amount of RMB675 million (US\$104 million) advertising resources and processing payment services from Tencent and also generated a total amount of RMB32 million (US\$5 million) fulfillment and commission services revenues from logistics and online marketplace services provided to Tencent. As of December 31, 2017, we had a total amount of RMB595 million (US\$91 million) due from Tencent.

#### **Agreements and Transactions Relating to JD Finance**

On March 1, 2017, we entered into a framework agreement, or the Framework Agreement, and an intellectual property license and software technology services agreement, or the JD Finance IPLA, with JD Finance, and certain entities controlled by Mr. Richard Qiangdong Liu, our chairman and chief executive officer, including Suqian Linghang Fangyuan Equity Investment Center, or Suqian Linghang, and Suqian Dongtai Jinrong Investment Management Center, or Suqian Dongtai. As of June 30, 2017, the reorganization of JD Finance had been completed, and we disposed of all of our 68.6% equity interest in JD Finance, as a result of which JD Finance was deconsolidated from us. Please see Item 4. Information on the Company A. History and Development of the Company for further information.

#### **Framework Agreement**

##### *Liquidity Event Payment*

Under the Framework Agreement, in the event of a liquidity event of JD Finance, if our total ownership of equity interests in JD Finance, if any, acquired as described under Potential Equity Interest below, has not reached 40%, which we refer to as the full 40% equity interest, we would be entitled, at our election, to receive a one-time payment up to 40% of the equity value, immediately prior to such liquidity event of JD Finance. If we acquire equity interests in JD Finance in an aggregate amount less than the full 40% equity interest, then the percentage of JD Finance's equity value used to calculate the liquidity event payment will be reduced proportionately. The above-mentioned maximum percentage of JD Finance's equity interest that may be issued to us and JD Finance's equity value in the form of liquidity payment to us at our election are subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance.

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In lieu of receiving the liquidity event payment, we may elect to receive payments under the profit sharing provision of the JD Finance IPLA described below in perpetuity, subject to the receipt of regulatory approvals, including under applicable stock exchange listing rules, required to permit continuation of the profit share following a liquidity event of JD Finance. If we so elect, in connection with such a liquidity event, JD Finance must use its commercially reasonable efforts to obtain such regulatory approvals. If such approvals are not obtained, then JD Finance will pay us the liquidity event payment described above.

A liquidity event as defined in the Framework Agreement includes (i) a qualified initial public offering of JD Finance, (ii) a change of control transaction, (iii) an issuance of 40% or more of the securities of JD Finance (excluding issuance to Mr. Richard Qiangdong Liu, us and the respective controlled affiliates), (iv) a sale of all or substantially all of the assets of JD Finance, and (v) a liquidation, dissolution or winding up of JD Finance.

*Potential Equity Interest*

The Framework Agreement provides for future potential equity issuances to us by JD Finance. Under the Framework Agreement, in the event that JD Finance applies for and receives certain PRC regulatory approvals in the future, JD Finance will issue and we will purchase newly issued equity interests in JD Finance, up to the full 40% equity interest, or such lesser equity interest as may be permitted by the applicable regulatory approvals. This maximum percentage of potential equity interest that may be issued to us upon receipt of PRC regulatory approvals is subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance.

If we were to acquire any of such newly issued equity interests, we will have a pre-emptive right prior to the time of a qualified IPO of JD Finance, in the event JD Finance issues additional equity interests to third parties, that will entitle us to acquire additional equity interests in order to maintain the equity ownership percentage we hold in JD Finance immediately prior to such third-party issuances.

If the liquidity event payment described above under Liquidity Event Payment has not become payable upon a liquidity event of JD Finance, then our right to acquire up to the full 40% equity interest (subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance) will continue after such liquidity event.

The consideration to be paid by us to acquire any equity interest in JD Finance up to the full 40% equity interest (subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance) will be fully funded by payments from JD Finance in respect of certain intellectual property and software technology services we will provide to JD Finance.

To the extent we acquire the full 40% equity interest (subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance) pursuant to the provisions of the Framework Agreement, the liquidity event payment and the profit sharing arrangement under the JD Finance IPLA described in JD Finance Intellectual Property License and Software Technology Services Agreement below will automatically terminate. If we acquire less than the full 40% equity interest (subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance) in JD Finance pursuant to the provisions of the Framework Agreement, the liquidity event payment amount and the profit sharing arrangement under the JD Finance IPLA will be proportionately reduced based on the amount of equity interests acquired by us.

We believe that under applicable regulatory rules and practices currently in effect, the relevant PRC approvals necessary for us to own any equity interest in JD Finance would be difficult to obtain. There can be no assurance that such applicable regulatory rules and practices will change in the near future.

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*Certain Restrictions on the Transfer of JD Finance Equity Interests*

Pursuant to the Framework Agreement, certain parties thereto, including in some cases our company, are subject to restrictions on the transfer of equity interests in JD Finance, including:

- prior to our acquisition of the full 40% equity interest (subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance), none of Suqian Linghang, Suqian Dongtai or JD Finance may transfer or issue, as applicable, any equity interest in JD Finance to a non-PRC person or entity, and JD Finance shall cause its other shareholders not to do so; and
- in the event that we acquire any equity interest in JD Finance, any transfer of equity interest in JD Finance by Suqian Linghang or Suqian Dongtai, on the one hand, or our company, on the other hand, will be subject to a right of first refusal by the other party.

*Non-competition Undertakings*

Under the Framework Agreement, we and JD Finance have each agreed to certain limitations on our respective ability to enter into or participate in the same line of business as the other party. The Framework Agreement provides that JD Finance may not engage in the e-commerce business conducted by us from time to time, or the logical extensions thereof, and we are restricted from engaging in financial, financial derivatives and other finance-related business conducted by JD Finance and its subsidiaries from time to time, including consumer finance, supply chain finance, third-party payment, factoring, insurance brokerage and agency, crowdfunding, wealth management, securities brokerage, banking, financial leasing, asset management and credit reference businesses, except for insurance business and certain other permitted shared businesses. Each party may, however, make passive investments in competing businesses which such party does not control.

*Corporate Governance Provisions*

Pursuant to the Framework Agreement, we and JD Finance mutually recommended one person who JD Finance nominated as a member of its board of directors.

In addition, prior to our acquisition of the full 40% equity interest (subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance), without the prior written consent of the audit committee of our board, JD Finance will not:

- issue any equity securities other than in a qualified IPO, unless the pre-money valuation of JD Finance on a consolidated basis implied by such issuance of equity securities is not less than the valuation of JD Finance implied by its issuance of equity securities to the investors as contemplated under the Framework Agreement;
- undertake or consummate, and neither Suqian Linghang nor Suqian Dongtai will otherwise permit, an initial public offering of JD Finance other than a qualified IPO; or
- undertake or consummate, and neither Suqian Linghang nor Suqian Dongtai will otherwise permit, any liquidity event of JD Finance involving a related party as a counter-party.

***JD Finance Intellectual Property License and Software Technology Services Agreement***

Under the terms of the JD Finance IPLA, we have agreed to license to JD Finance certain intellectual property rights and provide various software technology services to JD Finance.

Under the JD Finance IPLA, we will receive, in addition to a service fee, royalty streams related to JD Finance and its subsidiaries, which we refer to collectively as the profit sharing payments. The profit sharing payments will be paid annually and will equal the sum of an expense reimbursement plus 40% of the consolidated pre-tax income of JD Finance on a cumulative basis (subject to certain adjustments). The percentage of the consolidated pre-tax income of JD Finance payable to us in the form of the profit sharing payments is also subject to potential proportional dilution as a result of any future equity financings or ESOP pool increases of JD Finance.

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In addition, if we acquire any equity interest in JD Finance as described above under Framework Agreement Potential Equity Interest, the profit sharing payments will be reduced in proportion to such equity issuance and, at or prior to the time of such equity issuance, JD Finance will make a payment to us in consideration for the reduction in profit sharing payments. This payment by JD Finance will effectively fund our subscription for equity interest of JD Finance, and will result in our acquiring equity interests in JD Finance with effectively no cash impact to us, subject to applicable taxes.

The JD Finance IPLA will terminate (i) after our total equity interest ownership in JD Finance has reached the full 40%, when a qualified IPO of JD Finance occurs; (ii) after a qualified IPO of JD Finance has occurred, when our total equity interest ownership in JD Finance reaches the full 40%, each percentage above being subject to potential dilution as a result of any future equity financings or ESOP pool increases of JD Finance; or (iii) when the liquidity event payment as described above under Framework Agreement Liquidity Event Payment becomes payable.

**Business Transactions with JD Finance and Its Subsidiaries**

JD Finance is a related party controlled by the founder of JD.com, Inc., Mr. Richard Qiangdong Liu, through his equity stake and voting arrangements in JD Finance. In 2015, 2016 and 2017, we provided services and sold goods to JD Finance in a total amount of RMB69 million, RMB192 million and RMB181 million (US\$28 million), respectively. During the same periods, we provided traffic support, marketing and promotion services to JD Finance in a total amount of RMB169 million, RMB101 million and RMB91 million (US\$14 million), respectively. In 2015, 2016 and 2017, we received payment and other services provided by JD Finance in the amount of RMB986 million, RMB1,670 million and RMB2,936 million (US\$451 million), respectively. In 2015, 2016 and 2017, interest income in the amount of RMB112 million, RMB533 million and RMB871 million (US\$134 million) was recognized in relation to the financial support provided to JD Finance by us. Based on a series of agreements signed on January 1, 2016, JD Finance will perform the credit risk assessment services and earn fees for providing such services, and JD Finance will purchase the consumer financing receivables past due over certain agreed period of time from us at carrying values without recourse and also agree to bear other cost directly related to the consumer financing business to absorb the risks. In connection with the agreements, the total amount of over-due receivables related to the consumer financing business transferred from us to JD Finance were nil, RMB423 million and RMB497 million (US\$76 million) for the years ended December 31, 2015, 2016 and 2017, respectively.

In 2017, we also transferred certain financial assets to JD Finance with or without recourse at fair value. The accounts receivables transferred with recourse was RMB168 million (US\$26 million) and was not derecognized, while the accounts receivables transferred without recourse was RMB1,584 million (US\$243 million), and was derecognized.

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As of December 31, 2017, we had a total amount of RMB12,076 million (US\$1,856 million) due from JD Finance. As of June 30, 2017, the reorganization of JD Finance had been completed, and we disposed all of our equity interest in JD Finance. As part of the transaction, we received approximately RMB14.3 billion (US\$2.2 billion) in cash with an economic gain of RMB14.2 billion (US\$2.2 billion) in 2017. As JD Finance is under the common control of Mr. Richard Qiangdong Liu through his equity stake and voting arrangements, the gain of RMB14.2 billion was recorded directly to additional paid-in capital in shareholders' equity. We also retained the right to receive 40% of future pre-tax profit of JD Finance when JD Finance has a positive pre-tax income on a cumulative basis.

**Transactions with Our Equity Investees**

*Business Transactions with Shanghai Icfon and its subsidiaries, or Shanghai Icfon Group.* As part of our transactions with Tencent in March 2014, we acquired a 9.9% stake in Shanghai Icfon. In 2015 and 2016, we provided service in a total amount of RMB6 thousand and nil, respectively, to Shanghai Icfon Group, and in the same periods, we also had purchases and received services from Shanghai Icfon Group in a total amount of RMB169 million, RMB21 million, respectively. As we acquired the remaining equity interest in Shanghai Icfon from Tencent in April 2016, we have consolidated its financial results since then.

*Services Provided and Goods Sold to LexinFintech Holdings Ltd. (formerly named Staging Finance Holding Ltd.) and its subsidiaries, or Lexin Group.* Lexin Group is an equity investee of us. In 2015, 2016 and 2017, we provided services and sold goods to Lexin Group in a total amount of RMB1,016 million, RMB667 million and RMB543 million (US\$84 million), respectively. As of December 31, 2017, we had a total amount of RMB1 million (US\$0.2 million) due to Lexin Group.

*Traffic Support, Marketing and Promotion Services Provided to Bitauto and its subsidiaries, or Bitauto Group.* Bitauto Group is an equity investee of us. In February 2015, we invested a combination of US\$400 million in cash and certain resources valued at US\$497 million as consideration for the newly issued ordinary shares of Bitauto. On the completion date of the transaction, the traffic support, marketing and promotion services to be provided to Bitauto which had a fair value of US\$497 million were recorded as deferred revenues and would be recognized as net service revenues over the cooperation period of five years on a straight line basis starting from April 2015. In 2015, 2016 and 2017, net service revenues in the amount of RMB446 million, RMB611 million and RMB609 million (US\$94 million) had been recognized, respectively. In June 2016, we subscribed for 2,471,577 of newly issued ordinary shares from Bitauto for a consideration of US\$50 million. As of December 31, 2017, we had a total amount of RMB1,380 million (US\$212 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Bitauto Group.

*Traffic Support, Marketing and Promotion Services Provided to Tuniu and its subsidiaries, or Tuniu Group.* Tuniu Group is an equity investee of us. In May 2015, we invested in Tuniu with a combination of US\$250 million in cash and certain resources valued at US\$108 million as consideration for the newly issued ordinary shares of Tuniu. On the completion date of the transaction, the traffic support, marketing and promotion services to be provided to Tuniu which had a fair value of US\$108 million were recorded as deferred revenues and would be recognized as net service revenues over the

cooperation period of five years on a straight line basis starting from August 2015. In 2015, 2016 and 2017, net service revenues in the amount of RMB49 million, RMB132 million and RMB132 (US\$20 million) had been recognized, respectively. As of December 31, 2017, we had a total amount of RMB347 million (US\$53 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Tuniu Group. As of December 31, 2017, we had an amount of RMB5 million (US\$0.8 million) due to Tuniu Group.

*Traffic Support, Marketing and Promotion Services Provided to and Non-compete Obligation with Dada and its subsidiaries, or Dada Group.* Dada Group is an equity investee of us. In April 2016, we contributed certain resources and US\$200 million in cash in exchange for newly issued equity interest in Dada. On the completion date of the transaction, the traffic support, marketing and promotion services to be provided to Dada which had a fair value of approximately US\$67 million were recorded as deferred revenues and would be recognized as net service revenues, and the non-compete obligation with Dada Group which had a fair value of approximately US\$83 million were recorded as other liabilities and would be recognized as other income over a period of seven years on a straight line basis starting from May 2016. In 2016 and 2017, net service revenues in the amount of RMB41 million and RMB62 million (US\$10 million) and other income in the amount of RMB53 million and RMB80 million (US\$12 million) had been recognized, respectively. As of December 31, 2017, we had a total amount of RMB331 million (US\$51 million) deferred revenues in relation to traffic support, marketing and promotion services to be provided to Dada Group and a total amount of RMB415 million (US\$64 million) other liabilities in relation to non-compete obligation with Dada Group.

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*Business Transactions with Dada and its subsidiaries, or Dada Group.* In 2016 and 2017, we provided services and sold goods to Dada Group in a total amount of RMB124 million and RMB38 million (US\$6 million), respectively, and in the same period, we also received services from Dada Group in a total amount of RMB137 million and RMB694 million (US\$107 million), respectively. As of December 31, 2017, we had a total amount of RMB7 million (US\$1 million) due to Dada Group.

*Bridge Financing to Yixin and its subsidiaries, or Yixin Group.* On October 27, 2017, to provide a temporary bridge financing to Yixin Group, we entered into an entrusted loan agreement with Yixin Group and an independent third-party PRC commercial bank whereby we lent a total of RMB1,000 million (US\$154 million) to Yixin Group. The commercial terms of the bridge loan were comparable to the terms in arms length transactions with third-party borrowers. Yixin Group repaid the bridge loan and associated interest before December 31, 2017.

Our transactions with equity investees other than those discussed above were insignificant, individually or in the aggregate, in each of the past three fiscal years.

In addition, Mr. Richard Qiangdong Liu, our chairman and chief executive officer, has purchased his own aircraft for both business and personal use. The use of the aircraft in connection with the performance of his duty as employee is free of charge to us, and we have agreed to assume the cost of maintenance, crew and operations of the aircraft relating to the use of the aircraft. Such maintenance and incidental costs were insignificant for the years ended December 31, 2016 and 2017.

**Employment Agreements and Indemnification Agreements**

See Item 6.B. Directors, Senior Management and Employees Compensation.

**Share Incentives**

See Item 6.B. Directors, Senior Management and Employees Compensation.

**C. Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information**

**A. Consolidated Statements and Other Financial Information**

We have appended consolidated financial statements filed as part of this annual report.

**Legal Proceedings**

From time to time, we may be involved in legal proceedings in the ordinary course of our business. We are currently not a party to any material legal or administrative proceedings.

**Dividend Policy**

Our board of directors has complete discretion on whether to distribute dividends subject to our memorandum and articles of association and certain restrictions under Cayman Islands law. Our shareholders may by ordinary resolution declare dividends, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

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We have not declared or paid any dividends on our ordinary shares, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company registered by way of continuation under the laws of the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary will then pay such amounts to our ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

**B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Item 9. The Offer and Listing**

**A. Offering and Listing Details**

Our ADSs, each representing two of our Class A ordinary shares, have been listed on NASDAQ since May 22, 2014. Our ADSs trade under the symbol JD. The following table provides the high and low trading prices for our ADSs on NASDAQ since the date of our initial public offering.

|                                 | Trading Price |       |
|---------------------------------|---------------|-------|
|                                 | High          | Low   |
| <b>Annual Highs and Lows</b>    |               |       |
| 2014 (Since May 22, 2014)       | 33.10         | 19.94 |
| 2015                            | 38.00         | 21.55 |
| 2016                            | 30.66         | 19.51 |
| 2017                            | 48.99         | 25.59 |
| <b>Quarterly Highs and Lows</b> |               |       |

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|                                     |       |       |
|-------------------------------------|-------|-------|
| First Quarter 2016                  | 30.66 | 22.14 |
| Second Quarter 2016                 | 30.01 | 19.51 |
| Third Quarter 2016                  | 27.29 | 20.04 |
| Fourth Quarter 2016                 | 29.24 | 23.38 |
| First Quarter 2017                  | 32.47 | 25.59 |
| Second Quarter 2017                 | 44.18 | 31.23 |
| Third Quarter 2017                  | 48.99 | 37.82 |
| Fourth Quarter 2017                 | 43.48 | 35.79 |
| <b>Monthly Highs and Lows</b>       |       |       |
| November 2017                       | 42.77 | 37.10 |
| December 2017                       | 43.48 | 35.81 |
| January 2018                        | 50.68 | 41.90 |
| February 2018                       | 49.25 | 40.93 |
| March 2018                          | 47.65 | 39.12 |
| April 2018 (through April 26, 2018) | 41.30 | 34.88 |

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**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ADSs have been listed on NASDAQ since May 22, 2014 under the symbol JD.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Law (2018 Revision) of the Cayman Islands, which is referred to as the Companies Law below, and the common law of the Cayman Islands.

The following are summaries of material provisions of our current amended and restated memorandum and articles of association that became effective immediately prior to the completion of our initial public offering in May 2014, insofar as they relate to the material terms of our ordinary shares.

**Registered Office and Objects**

Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other location within the Cayman Islands as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law, as amended from time to time, or any other law of the Cayman Islands.

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**Board of Directors**

See Item 6.C. Directors, Senior Management and Employees Board Practices.

**Ordinary Shares**

*General.* All of our issued and outstanding ordinary shares are fully paid and non-assessable. Our ordinary shares are issued in registered form, and are issued when registered in our register of members. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares. Our company will issue only non-negotiable shares, and will not issue bearer or negotiable shares.

*Ordinary Shares.* Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

*Conversion.* Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon (i) any transfer of Class B ordinary shares or the voting power attached to Class B ordinary shares by a holder thereof to any person or entity that is not an Affiliate (as defined in our memorandum and articles of association) of such holder, or (ii) the transfer of a majority of the issued and outstanding voting securities or the voting power attached to such voting securities or the sale of all or substantially all of the assets of a holder of Class B ordinary shares that is an entity to any person or entity that is not an Affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares. All Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares when Mr. Richard Qiangdong Liu ceases to be a director and the chief executive officer of our company, or in some other specified situations.

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or our share premium account, and provided further that a dividend may not be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Dividends received by each Class B ordinary share and Class A ordinary share in any dividend distribution shall be the same.

*Voting Rights.* Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law or provided for in our memorandum and articles of association. In respect of matters requiring shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to twenty votes. Voting at any shareholders meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder holding not less than 10% of the votes of the outstanding voting shares in our company present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders present and holding shares which represent, in aggregate, not less than one-third of the votes attaching to the issued and outstanding voting shares in our company entitled to vote at general meeting. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholders meetings may be convened by our board of directors on its own initiative or by our chairman or upon a request to the directors by one or more shareholders holding shares which represent, in aggregate, no less than one-third of the votes attaching to our voting share capital. Advance notice of at least seven days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Holders of the ordinary shares may, among other things, divide or consolidate their shares by ordinary resolution. A special resolution requires the affirmative vote of no less than two-thirds of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to our memorandum and articles of association. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law and our memorandum and articles of association.

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Under our memorandum and articles of association, so long as the total issued and outstanding Class B ordinary shares constitute a majority of our aggregate voting rights and a majority of the total issued and outstanding Class A ordinary shares are held by the persons (exclusive of Max Smart Limited, Fortune Rising Holdings Limited, Mr. Richard Qiangdong Liu and their Affiliates) that were our shareholders immediately prior to the completion of our initial public offering, any amendments to our memorandum and articles of association and certain related party transactions between Mr. Richard Qiangdong Liu or any of his immediate family members or Affiliates, on one hand, and us on the other hand, require approval by both (i) holders of a majority of the total issued and outstanding Class A ordinary shares (exclusive of Max Smart Limited, Fortune Rising Holdings Limited, Mr. Richard Qiangdong Liu and their Affiliates) and (ii) holders of a majority of our aggregate voting rights.

*Liquidation.* On a winding up of our company, if the assets available for distribution among our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus will be distributed among our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them.

*Calls on Shares and Forfeiture of Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares. The shares that have been called upon and remain unpaid are subject to forfeiture.

*Redemption, Repurchase and Surrender of Shares.* We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our memorandum and articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

*Variations of Rights of Shares.* The rights attached to any class or series of shares (unless otherwise provided by the terms of issue of the shares of that class or series), whether or not our company is being wound-up, may only be varied with the consent in writing of the holders of a majority of the issued shares of that class or series or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class or series.

*Anti-Takeover Provisions.* Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

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- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*General Meetings of Shareholders and Shareholder Proposals.* Our shareholders' general meetings may be held in such place within or outside the Cayman Islands as our board of directors considers appropriate.

As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting.

Shareholders' annual general meetings and any other general meetings of our shareholders may be convened by a majority of our board of directors or our chairman. Our board of directors shall give not less than seven days' written notice of a shareholders' meeting to those persons whose names appear as members in our register of members on the date the notice is given (or on any other date determined by our directors to be the record date for such meeting) and who are entitled to vote at the meeting.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association allow one or more of our shareholders holding shares representing in aggregate not less than one-third of the votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings, to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

*Limitations on the Right to Own Shares.* There are no limitations on the right to own our shares.

*Transfer of Shares.* Any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

However, our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which our company has a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- the ordinary shares transferred are free of any lien in favor of us;
- any fee related to the transfer has been paid to us; or
- in the case of a transfer to joint holders, the transfer is not to more than four joint holders.

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If our directors refuse to register a transfer they are required, within three months after the date on which the instrument of transfer was lodged, to send to each of the transferor and the transferee notice of such refusal.

*Directors Power to Issue Shares.* Our memorandum and articles of association authorize our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our memorandum and articles of association also authorize our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent of available authorized but unissued shares. Issuance of these shares may dilute the voting power of holders of ordinary shares.

*Exempted Company.* We are an exempted company with limited liability under the Companies Law. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;

- an exempted company's register of members is not required to be open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value, negotiable or bearer shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

Limited liability means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder's shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil). We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. Except as otherwise disclosed in this annual report, we currently intend to comply with the NASDAQ rules in lieu of following home country practice.

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*Register of Members.* Under the Companies Law, we must keep a register of members and there should be entered therein:

- the names and addresses of our members, a statement of the shares held by each member, and of the amount paid or agreed to be considered as paid, on the shares of each member;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e. the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a member registered in the register of members is deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Grand Court of the Cayman Islands for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

**C. Material Contracts**

Other than in the ordinary course of business and other than those described under this item, Item 4. Information on the Company or Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions or elsewhere in this annual report, we have not entered into any material contract during the two years immediately preceding the date of this annual report.

**Certain Agreements with Walmart**

In June 2016, we entered into a series of agreements with Walmart in relation to our strategic alliance with Walmart. Set forth below is a summary of certain of the agreements.

*Share Subscription Agreement.* On June 20, 2016, we entered into a share subscription agreement with Newheight, a wholly owned subsidiary of Walmart, pursuant to which Newheight subscribed for 144,952,250 of our newly issued Class A ordinary shares, which amounted to approximately 5% of our total outstanding shares as of the date of the agreement. In return, Walmart transferred to us Yihaodian marketplace platform assets, including the Yihaodian brand, websites and mobile apps, and entered into business cooperation arrangements with us.

*Investor Rights Agreement.* On June 20, 2016, we entered into an investor rights agreement with Newheight. Pursuant to the investor rights agreement:

- *Observer right.* So long as Newheight and certain other wholly owned subsidiaries of Walmart hold no less than 289,053,746 shares of our Class A ordinary shares (including ADSs representing Class A ordinary shares), Newheight has the right to designate one of its senior executives to attend all meetings of our board of directors in a non-voting observer capacity;
- *Registration rights.* After the expiration of a period of 60 months following June 20, 2016, Walmart has certain demand registration rights, piggyback registration rights and F-3 registration rights under the investor rights agreement with respect to their registrable securities, including ordinary shares issued under the share subscription agreement;
- *Preemptive rights with respect to share issuance.* Within the first 24 months after June 20, 2016 (and regardless of Newheight's percentage of ownership of our share capital) and, after such period, for so long as Newheight holds at least 10% of our then outstanding share capital on a fully diluted basis, if we propose to issue certain new securities, Newheight or a wholly owned subsidiary of Walmart designated by Newheight has the right to purchase such number of new securities under the same terms and conditions at its election so as to enable Newheight to hold a pro rata portion of the new securities equal to the percentage of our share capital on a fully diluted basis then held by Newheight.

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- *Transfer restrictions.* Walmart agreed to certain lock-up, standstill, rights of first refusal and other transfer restrictions provided in the investor rights agreement.

**D. Exchange Controls**

See Item 4.B. Information on the Company Business Overview Regulation Regulations Relating to Foreign Exchange.

**E. Taxation**

The following summary of the principal Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People's Republic of China and the United States.

**Cayman Islands Taxation**

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

There is no income tax treaty or convention currently in effect between the United States and the Cayman Islands.

**People's Republic of China Taxation**

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with de facto management body within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term de facto management body as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the de facto management body of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the

circular may reflect the State Administration of Taxation's general position on how the de facto management body text should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its de facto management body in China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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We believe that none of JD.com, Inc. and its subsidiaries outside of China is a PRC resident enterprise for PRC tax purposes. JD.com, Inc. is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that JD.com, Inc. meets all of the conditions above. JD.com, Inc. is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other subsidiaries outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term *de facto* management body.

If the PRC tax authorities determine that JD.com, Inc. is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC withholding tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. In addition, gains derived by our non-PRC individual shareholders from the sale of our shares and ADSs may be subject to a 20% PRC withholding tax. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to dividends realized by non-PRC individuals, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of JD.com, Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that JD.com, Inc. is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, JD.com, Inc., is not deemed to be a PRC resident enterprise, holders of our ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. SAT Circular 7 further clarifies that, if a non-resident enterprise derives income by acquiring and selling shares in an offshore listed enterprise in the public market, such income will not be subject to PRC tax. In addition, SAT Public Notice 37 provided certain key changes to the current withholding regime, such as (i) the withholding obligation for a non-resident enterprise deriving dividend arises on the date on which the payment is actually made rather than on the date of the resolution that declared the dividends, (ii) non-resident enterprises are not obligated to report tax to relevant authorities if their withholding agents fail to perform the withholding obligation is removed. However, there is uncertainty as to the application of SAT Public Notice 37 and SAT Circular 7, we and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Public Notice 37 and SAT Circular 7 and we may be required to expend valuable resources to comply with SAT Public Notice 37 and SAT Circular 7 or to establish that we should not be taxed under SAT Public Notice 37 and SAT Circular 7. See Item 3.D. Key Information Risk Factors Risks Related to Doing Business in China We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies, and heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

## **United States Federal Income Tax Considerations**

The following discussion is a summary of United States federal income tax considerations relating to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that holds our ADSs or ordinary shares as capital assets (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the *Code*). This discussion is based on the tax laws of the United States as in effect on the date of this annual report on Form 20-F and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report on Form 20-F, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax considerations described below. No ruling has been sought from the United States Internal Revenue Service (the *IRS*) with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules (for example, banks, certain financial institutions, insurance companies, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships and their partners, tax-exempt entities

(including private foundations), investors who are not U.S. Holders, investors liable for the alternative minimum tax, investors who acquired their ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation, investors who own (directly, indirectly, or constructively) 10% or more of our stock (by vote or value), investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for United States federal income tax purposes, investors subject to the 3.8% Medicare tax on their net investment income, or investors that have a functional currency other than the United States dollar), all of whom may be subject to tax rules that differ significantly from those summarized below.

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In addition, this discussion does not address any state, local or non-United States tax considerations (other than the discussion below relating to certain withholding rules and the United States-PRC income tax treaty). Each U.S. Holder is urged to consult its tax advisor regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

***General***

For purposes of this discussion, a U.S. Holder is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the law of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) owns our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and their partners are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with their terms. U.S. Holders who hold ADSs will be treated as the holder of the underlying ordinary shares represented by those ADSs for US. Federal income tax purposes.

***Passive Foreign Investment Company Considerations***

A non-United States corporation, such as our company, will be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, if either (i) 75% or more of its gross income for such year consists of certain types of passive income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. For this purpose, cash is categorized as a passive asset and the company's unbooked intangibles associated with active business activity are taken into account as a non-passive asset. The average percentage of a corporation's assets that produce or are held for the production of passive income generally is determined on the basis of the fair market value of the corporation's assets at the end of each quarter. This determination is based on the adjusted tax basis of the corporation's assets.

In addition, we will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock. Although the law in this regard is unclear, we treat our VIEs as being owned by us for United States federal income tax purposes because we control their management decisions and we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate their results of operations in our U.S. GAAP financial statements and treat them as being owned by us for United States federal income tax purposes. If it were determined, however, that we are not the owner of our VIEs for United States federal income tax purposes, we may be treated as a PFIC for our taxable year

ended December 31, 2017 and in future taxable years.

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Subject to the foregoing uncertainties, based on our current income and assets and the value of our ADSs and outstanding ordinary shares, we do not expect to be classified as a PFIC for our taxable year ended December 31, 2017 or in the foreseeable future. While we do not anticipate becoming a PFIC, changes in the nature of our income or assets, or fluctuations in the market price of our ADSs or ordinary shares, may cause us to become a PFIC for future taxable years. In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our market capitalization, which may fluctuate over time. Among other factors, if our market capitalization subsequently declines, we may be or become classified as a PFIC for the current or future taxable years. Under circumstances where revenues from activities that produce passive income significantly increase relative to our revenues from activities that produce non-passive income or where we determine not to deploy significant amounts of cash for working capital or other purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;
- amounts allocated to the current taxable year and any taxable years in a U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC (a pre-PFIC year) will be taxable as ordinary income; and
- amounts allocated to each prior taxable year, other than the current taxable year or a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to such U.S. Holder for that year, and such amounts will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to such years.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if such ADSs or ordinary shares are held as capital assets.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC and would be subject to the rules described above on certain distributions by a lower-tier PFIC and a disposition of shares of a lower-tier PFIC even though such U.S. Holders would not receive the proceeds of those distributions or dispositions. U.S. Holders should consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. Holder of marketable stock (as defined below) in a PFIC may make a mark-to-market election with respect to our ADSs, but not our ordinary shares, provided that our ADSs remained listed on NASDAQ and that the ADSs are regularly

traded. The mark-to-market election is available only for marketable stock, which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter, or regularly traded on a qualified exchange or other market, as defined in applicable Treasury regulations. We anticipate that our ADSs should qualify as being regularly traded, but no assurances may be given in this regard. If a U.S. Holder makes this election, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of our ADSs and we cease to be a PFIC, the holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election. In the case of a U.S. Holder who has held ADSs during any taxable year in respect of which we were classified as a PFIC and continues to hold such ADSs (or any portion thereof) and has not previously determined to make a mark-to-market election and who is now considering making a mark-to-market election, special tax rules may apply relating to purging the PFIC taint of such ADSs.

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Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the general PFIC rules described above with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

A U.S. Holder that holds ADSs or ordinary shares in any year in which we are classified as a PFIC may make a deemed sale election with respect to such ADSs or ordinary shares in a subsequent taxable year in which we are not classified as a PFIC. If a U.S. Holder makes a valid deemed sale election with respect to such ADSs or ordinary shares, such U.S. Holder will be treated as having sold all of its ADSs or ordinary shares for their fair market value on the last day of the last taxable year in which we were a PFIC and such ADSs or ordinary shares will no longer be treated as PFIC stock. A U.S. Holder will recognize gain (but not loss), which will be subject to tax as an excess distribution received on the last day of the last taxable year in which we were a PFIC. A U.S. Holder's basis in the ADSs or ordinary shares would be increased to reflect gain recognized, and such U.S. Holder's holding period would begin on the day after we ceased to be a PFIC.

The deemed sale election is only relevant to U.S. Holders that hold the ADSs or ordinary shares during a taxable year in which we cease to be a PFIC. U.S. Holders are urged to consult their tax advisors regarding the advisability of making a deemed sale election and the consequences thereof in light of the U.S. Holder's individual circumstances.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from the tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must file an annual Internal Revenue Service Form 8621.

Each U.S. Holder is urged to consult its tax advisor concerning the United States federal income tax consequences of purchasing, holding, and disposing of ADSs or ordinary shares if we are or become classified as a PFIC, including the possibility of making a mark-to-market election and the unavailability of the qualified electing fund election.

***Dividends***

Any cash distributions (including any amount of any PRC tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution we pay will generally be reported as a dividend for United States federal income tax purposes. Dividends received on our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations under the Code.

Individuals and other non-corporate recipients will be subject to tax at the lower capital gain tax rate applicable to qualified dividend income on dividends paid on our ADSs, provided that certain conditions are satisfied, including that (i) our ADSs are readily tradable on an established

securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we are eligible for the benefit of the United States-PRC income tax treaty (the Treaty ), (ii) we are neither a passive foreign investment company nor treated as such with respect to a U.S. Holder (as discussed above) for the taxable year in which the dividend was paid and the preceding taxable year, and (iii) certain holding period requirements are met. Because (i) U.S. Treasury guidance indicates that ADSs representing ordinary shares, such as ours, listed on the NASDAQ Global Select Market are considered to be readily tradable on an established securities market in the United States, and (ii) we believe that we were not a PFIC for United States federal income tax purposes for our taxable year ended December 31, 2016 and we do not expect to be a PFIC in subsequent years, we believe that we are a qualified foreign corporation with respect to dividends paid on the ADSs, but not with respect to dividends paid on our ordinary shares. In the event that we are deemed to be a PRC resident enterprise under PRC tax law, we believe that we would be eligible for the benefits under the Treaty and that we should be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares or ADSs. U.S. Holders should consult their tax advisors regarding the availability of the reduced tax rate on dividends in their particular circumstances.

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For United States foreign tax credit purposes, dividends generally will be treated as income from foreign sources and generally will constitute passive category income. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit not in excess of any applicable treaty rate in respect of any nonrefundable foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

***Sale or Other Disposition of ADSs or Ordinary Shares***

Subject to the PFIC discussion above, a U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the sale or other disposition and the holder's adjusted tax basis in such ADSs or ordinary shares. The gain or loss will generally be capital gain or loss. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year. An individual U.S. Holder or other non-corporate U.S. Holder who has held the ADSs or ordinary shares for more than one year will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss recognized by a U.S. Holder will generally be treated as U.S. source income or loss for foreign tax credit purposes, which will generally limit the availability of foreign tax credits. However, in the event we are deemed to be a PRC resident enterprise under PRC tax law, we may be eligible for the benefits of the Treaty. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the Treaty may elect to treat such gain as PRC source income. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

***Backup Withholding and Information Reporting***

Individual U.S. Holders and certain entities may be required to submit to the IRS certain information with respect to his or her beneficial ownership of the ADSs or ordinary shares, if such ADSs or ordinary shares are not held on his or her behalf by a financial institution. If an individual U.S. Holder is required to submit such information to the IRS and fails to do so, such U.S. Holder may be subject to penalties.

Proceeds from the sale, exchange or other disposition of, or a distribution on, the ADSs or ordinary shares may be subject to information reporting to the IRS and possible backup withholding. Backup withholding generally will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9.

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Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's United States federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the IRS. Each U.S. Holder is encouraged to consult its tax advisor regarding the application of the information reporting and backup withholding rules.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers, and are required to file reports and other information with the SEC. Specifically, we are required to file annually an annual report on Form 20-F within four months after the end of each fiscal year, which is December 31. All information filed with the SEC can be obtained over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov) or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, upon payment of a duplicating fee, by writing to the SEC. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depositary of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

In accordance with NASDAQ Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at <http://ir.jd.com>. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

**I. Subsidiary Information**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

**Interest Rate Risk**

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

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**Foreign Exchange Risk**

All of our revenues and substantially all of our expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. The depreciation of the Renminbi against the U.S. dollar was approximately 4.4% and 7.2% in 2015 and 2016, respectively, while the Renminbi appreciated 6.9% against the U.S. dollar in 2017. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

As of December 31, 2017, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB28.3 billion, and U.S. dollar-denominated cash, cash equivalents and short-term investments of US\$1.5 billion. Assuming we had converted RMB28.3 billion into U.S. dollars at the exchange rate of RMB6.5063 for US\$1.00 as of December 29, 2017, our U.S. dollar cash balance would have been US\$5.9 billion. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$5.4 billion instead. Assuming we had converted US\$1.5 billion into RMB at the exchange rate of RMB6.5063 for US\$1.00 as of December 29, 2017, our RMB cash balance would have been RMB38.3 billion. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash balance would have been RMB39.4 billion instead.

**Inflation**

Inflation in China has not affected our results of operations in recent years. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2015, 2016 and 2017 were increases of 1.6%, 2.1% and 1.8%, respectively. Although we have not been affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

**Item 12. Description of Securities Other than Equity Securities**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

Table of Contents**D. American Depositary Shares****Fees and Charges Our ADS holders May Have to Pay**

An ADS holder will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs):

| Service                                                                                                                                                                                                                                                                             | Fees                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| • to any person to whom ADSs are issued or to any person to whom a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash) | Up to US\$0.05 per ADS issued                                                                   |
| • Surrendering ADSs for cancellation and withdrawal of deposited securities                                                                                                                                                                                                         | Up to US\$0.05 per ADS surrendered                                                              |
| • Distribution of cash dividends                                                                                                                                                                                                                                                    | Up to US\$0.05 per ADS held                                                                     |
| • Distribution of cash entitlements (other than cash dividends) and/or cash proceeds, including proceeds from the sale of rights, securities and other entitlements                                                                                                                 | Up to US\$0.05 per ADS held                                                                     |
| • Distribution of ADSs pursuant to exercise of rights                                                                                                                                                                                                                               | Up to US\$0.05 per ADS held                                                                     |
| • Operation and maintenance costs                                                                                                                                                                                                                                                   | Up to US\$0.05 per ADS held on the applicable record date(s) established by the depositary bank |

An ADS holder will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs) such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex, fax and electronic transmissions and for delivery of securities.

- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery of ordinary shares on deposit or the servicing of ordinary shares, deposited securities and/or ADSs.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

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The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

**Fees and Other Payments Made by the Depositary to Us**

Deutsche Bank Trust Company Americas, as depositary, has agreed to reimburse us for a portion of certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. Further, the depositary has agreed to reimburse us certain fees payable to the depositary by holders of ADSs. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of service fees to be charged to holders of ADSs and (iii) our reimbursable expenses related to the program are not known at this time. In 2017, we received approximately US\$11.0 million reimbursement from the depositary for our expenses incurred in connection with investor relationship programs related to the ADS facility and the travel expense of our key personnel in connection with such programs.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

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

None.

**Item 15. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2017, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management including our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of internal control over financial reporting as of December 31, 2017 using the criteria set forth in the report *Internal Control Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, has audited the effectiveness of our company's internal control over financial reporting as of December 31, 2017, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Mr. Louis T. Hsieh, an independent director (under the standards set forth in NASDAQ Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

**Item 16B. Code of Ethics**

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in April 2014. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.jd.com>.

**Item 16C. Principal Accountant Fees and Services**

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The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, for the periods indicated.

|                       | <b>2016</b> |           | <b>2017</b> |           |
|-----------------------|-------------|-----------|-------------|-----------|
| Audit fees(1)         | US\$        | 3,871,127 | US\$        | 4,291,709 |
| Audit-related fees(2) | US\$        | 129,083   | US\$        | 41,324    |
| All other fees(3)     | US\$        | 304,180   | US\$        | 228,015   |

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(1) Audit fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements and assistance with and review of documents filed with the SEC. In 2016 and 2017, the audit refers to financial audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

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(2) Audit-related fees means fees billed in each of the fiscal years listed for the issue of comfort letter, rendering of listing advice and other audit-related services.

(3) All other fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors associated with certain financial due diligence projects, permissible services to review and comment on internal control design over financial reporting and other advisory services.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by PricewaterhouseCoopers Zhong Tian LLP, including audit services, audit-related services, tax services and other services as described above, other than those for de minimis services which are approved by the audit committee prior to the completion of the audit.

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

Not applicable.

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

In September 2015, our board of directors authorized a share repurchase program, whereby our company may repurchase up to US\$1.0 billion of ADSs over the next 24 months. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by our management, including through Rule 10b5-1 share repurchase plans.

In 2016, we repurchased approximately 31 million ADSs for US\$800 million on the open market, at a weighted average price of US\$25.75 per ADS. We did not make any repurchase on the open market in 2017. As of December 31, 2017, we had repurchased approximately 31 million ADSs.

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**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

As a Cayman Islands company listed on NASDAQ, we are subject to the NASDAQ corporate governance listing standards. However, NASDAQ 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 corporate governance listing standards. Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholders meetings every year. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2017. We will, however, hold annual shareholders meetings in the future if there are matters that require shareholders' approval.

Other than the annual meeting practice described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under NASDAQ Stock Market Rules.

However, if we choose to follow other home country practice in the future, our shareholders may be afforded less protection than they otherwise would under the NASDAQ corporate governance listing standards applicable to U.S. domestic issuers. See Item 3.D. Key Information Risk Factors Risks Related to Our ADSs. 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 U.S. domestic public companies.

**Item 16H. Mine Safety Disclosure**

Not applicable.

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**PART III**

**Item 17. Financial Statements**

We have elected to provide financial statements pursuant to Item 18.

**Item 18. Financial Statements**

The consolidated financial statements of JD.com, Inc., its subsidiaries and its consolidated variable interest entities are included at the end of this annual report.

**Item 19. Exhibits**

| <b>Exhibit Number</b> | <b>Description of Document</b>                                                                                                                                                                                                                                                                                                                     |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1                   | <u>Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                                |
| 2.1                   | <u>Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)</u>                                                                                                                                                                                                                                                                 |
| 2.2                   | <u>Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                                                |
| 2.3                   | <u>Deposit Agreement dated May 21, 2014 among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-198578), filed with the Securities and Exchange Commission on September 5, 2014)</u>                          |
| 2.4                   | <u>Thirteenth Amended and Restated Shareholders Agreement between the Registrant and other parties therein dated March 10, 2014 (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u> |
| 2.5                   | <u>Form of Indenture between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the registration statement on Form F-3 (File No. 333-210795) filed with the Securities and Exchange Commission on April 18, 2016)</u>                                                                         |
| 2.6                   | <u>First Supplemental Indenture dated April 29, 2016 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the current report on Form 6-K (File No. 001-36450) furnished to the Securities and Exchange Commission on April 29, 2016)</u>                                                |
| 2.7                   | <u>Form of 3.125% Notes Due 2021 (included in Exhibit 2.6)</u>                                                                                                                                                                                                                                                                                     |
| 2.8                   | <u>Form of 3.875% Notes Due 2026 (included in Exhibit 2.6)</u>                                                                                                                                                                                                                                                                                     |
| 4.1                   | <u>Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-200450), as amended, initially filed with the Securities and Exchange Commission on November 21, 2014)</u>                                                                                                       |
| 4.2                   | <u>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                           |

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- 4.3 Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)
- 4.4\* English translation of the Amended and Restated Loan Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated November 20, 2017
- 4.5 English translation of the Amended and Restated Equity Pledge Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.5 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)

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| <b>Exhibit Number</b> | <b>Description of Document</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.6                   | <u>English translation of the Power of Attorney by the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.6 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                                                                                                                                                  |
| 4.7                   | <u>English translation of the Amended and Restated Exclusive Technology Consulting and Service Agreement between Beijing Jingdong Century Trade Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated May 29, 2012 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                 |
| 4.8                   | <u>English translation of the Amended and Restated Intellectual Property Rights License Agreement between Beijing Jingdong Century Trade Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated December 25, 2013 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                   |
| 4.9                   | <u>English translation of the Amended and Restated Business Cooperation Agreement between Beijing Jingdong Century Trade Co., Ltd., Shanghai Shengdayuan Information Technology Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated May 29, 2012 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u> |
| 4.10                  | <u>English translation of the Amended and Restated Exclusive Purchase Option Agreement between Beijing Jingdong Century Trade Co., Ltd., Beijing Jingdong 360 Degree E-Commerce Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.10 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                      |
| 4.11*                 | <u>English translation of the Business Operations Agreement between Beijing Jingdong Century Trade Co., Ltd., Beijing Jingdong 360 Degree E-Commerce Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated November 20, 2017</u>                                                                                                                                                                                                                   |
| 4.12                  | <u>English translation of the Amended and Restated Loan Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.12 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                                                                                        |
| 4.13                  | <u>English translation of the Amended and Restated Equity Pledge Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.13 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                                                                               |
| 4.14                  | <u>English translation of the Power of Attorney by the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.14 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                                                                                                                                                            |
| 4.15                  | <u>English translation of the Amended and Restated Exclusive Technology Consulting and Service Agreement between Beijing Jingdong Century Trade Co., Ltd. and Jiangsu Yuanzhou E-Commerce Co., Ltd. dated May 29, 2012 (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                           |
| 4.16                  | <u>English translation of the Amended and Restated Intellectual Property Rights License Agreement between Beijing Jingdong Century Trade Co., Ltd. and Jiangsu Yuanzhou E-Commerce Co., Ltd. dated December 18, 2013 (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                             |
| 4.17                  | <u>English translation of the Amended and Restated Exclusive Purchase Option Agreement between Beijing Jingdong Century Trade Co., Ltd., Jiangsu Yuanzhou E-Commerce Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.17 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                            |

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| <b>Exhibit Number</b> | <b>Description of Document</b>                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.18                  | <u>English translation of the Business Operations Agreement between Beijing Jingdong Century Trade Co., Ltd., Jiangsu Yuanzhou E-Commerce Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.18 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                         |
| 4.19                  | <u>Strategic Cooperation Agreement by and between the Registrant and Tencent Holdings Limited dated March 10, 2014 (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                                                                                                 |
| 4.20                  | <u>Subscription Agreement by and among Bitauto Holdings Limited, JD.com Global Investment Limited, JD.com, Inc. and Dongting Lake Investment Limited dated January 9, 2015 (incorporated herein by reference to Exhibit 99.2 to Schedule 13D (File No. 005-85981) filed with the Securities and Exchange Commission on February 26, 2015)</u>                                                                                                           |
| 4.21                  | <u>English translation of Business Cooperation Agreement between the Registrant and Bitauto Holdings Limited, dated January 9, 2015 (incorporated herein by reference to Exhibit 99.3 to Schedule 13D (File No. 005-85981) filed with the Securities and Exchange Commission on February 26, 2015)</u>                                                                                                                                                  |
| 4.22                  | <u>Amended and Restated Investor Rights Agreement by and among Bitauto Holdings Limited, JD.com Global Investment Limited, Dongting Lake Investment Limited, Morespark Limited and Baidu Holdings Limited dated June 17, 2016 (incorporated herein by reference to Exhibit 99.6 to Schedule 13D/A (File No. 005-85981) filed with the Securities and Exchange Commission on June 21, 2016)</u>                                                          |
| 4.23*                 | <u>English translation of Executed Form of the Equity Pledge Agreement between a wholly owned subsidiary of the Registrant and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u>                                                                                                                                                                                                                   |
| 4.24*                 | <u>English translation of Executed Form of the Power of Attorney by the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u>                                                                                                                                                                                                                                                                              |
| 4.25*                 | <u>English translation of Executed Form of the Exclusive Technology Consulting and Service Agreement between a wholly owned subsidiary of the Registrant and a Chinese variable interest entity of the Registrant, as currently in effect</u>                                                                                                                                                                                                           |
| 4.26*                 | <u>English translation of Executed Form of the Business Operations Agreement between a wholly owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u>                                                                                                                                                      |
| 4.27*                 | <u>English translation of Executed Form of the Exclusive Purchase Option Agreement between a wholly owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u>                                                                                                                                                |
| 4.28*                 | <u>English translation of Executed Form of the Loan Agreement between a wholly owned subsidiary of the Registrant and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u>                                                                                                                                                                                                                            |
| 4.29                  | <u>English translation of Executed Form of the Termination Agreement between a wholly owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the former shareholders of a Chinese variable interest entity, as currently in effect (incorporated herein by reference to Exhibit 4.29 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                     |
| 4.30                  | <u>English translation of Executed Form of the Subscription Agreement between a Chinese variable interest entity of the Registrant and Yonghui, dated August 7, 2015 (incorporated herein by reference to Exhibit 4.29 to the annual report on Form 20-F (File No. 001-36450) filed with the Securities and Exchange Commission on April 18, 2016)</u>                                                                                                  |
| 4.31                  | <u>English translation of Subscription Agreement of Beijing Jingdong Shangboguanyu Investment Management Co., Ltd. by and among Beijing Jingdong Shangboguanyu Investment Management Co., Ltd., the investors and other parties listed therein, dated January 8, 2016 (incorporated herein by reference to Exhibit 4.30 to the annual report on Form 20-F (File No. 001-36450) filed with the Securities and Exchange Commission on April 18, 2016)</u> |
| 4.32                  | <u>English translation of Executed Form of Commitment by the investors relating to investment in Beijing Jingdong Shangboguanyu Investment Management Co., Ltd., dated January 2016 (incorporated herein by reference to Exhibit 4.31 to the annual report on Form 20-F (File No. 001-36450) filed with the Securities and Exchange Commission on April 18, 2016)</u>                                                                                   |

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| <b>Exhibit<br/>Number</b> | <b>Description of Document</b>                                                                                                                                                                                                                                                                                                                                               |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.33                      | <u>Share Purchase Agreement by and among the Registrant, Dada Nexus Limited and other parties listed therein, dated April 15, 2016 (incorporated herein by reference to Exhibit 4.32 to the annual report on Form 20-F (File No. 001-36450) filed with the Securities and Exchange Commission on April 18, 2016)</u>                                                         |
| 4.34                      | <u>Subscription Agreement between the Registrant and Newheight Holdings Ltd., dated June 20, 2016 (incorporated herein by reference to Exhibit 4.34 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                                                                                  |
| 4.35                      | <u>Investor Rights Agreement between the Registrant and Newheight Holdings Ltd., dated June 20, 2016 (incorporated herein by reference to Exhibit 4.35 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                                                                               |
| 4.36                      | <u>Framework Agreement by and among the Registrant, Beijing Jingdong Financial Technology Holding Co., Ltd. and other parties listed therein, dated March 1, 2017 (incorporated herein by reference to Exhibit 4.36 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                                  |
| 4.37                      | <u>Intellectual Property License and Software Technology Services Agreement between the Registrant and Beijing Jingdong Financial Technology Holding Co., Ltd., dated March 1, 2017 (incorporated herein by reference to Exhibit 4.37 to our annual report on Form 20-F filed with the Securities and Exchange Commission on May 1, 2017)</u>                                |
| 4.38*                     | <u>English translation of Conditional Share Subscription Agreement by and between Suqian Jingdong Sanhong Enterprise Management Center (Limited Partnership) and China United Network Communications Limited, dated August 16, 2017</u>                                                                                                                                      |
| 4.39                      | <u>Subscription Agreement by and among Vipshop Holdings Limited, Windcreek Limited, and Tencent Mobility Limited, dated December 17, 2017 (incorporated herein by reference to Exhibit 99.2 to our report on Schedule 13D filed with the Securities and Exchange Commission with respect to Vipshop Holdings Limited on January 8, 2018)</u>                                 |
| 4.40                      | <u>Investor Rights Agreement by and among Vipshop Holdings Limited, Windcreek Limited, Tencent Mobility Limited and other parties listed therein, dated December 29, 2017 (incorporated herein by reference to Exhibit 99.4 to our report on Schedule 13D filed with the Securities and Exchange Commission with respect to Vipshop Holdings Limited on January 8, 2018)</u> |
| 4.41*                     | <u>English summary of Strategic Partnership Agreement regarding Dalian Wanda Commercial Properties Co., Ltd. by and among Dalian Wanda Group Co., Ltd., Dalian Wanda Commercial Properties Co., Ltd., Tencent Technology (Shenzhen) Co., Ltd. and Beijing Jingdong Century Trading Co., Ltd., dated January 27, 2018</u>                                                     |
| 4.42*                     | <u>Series A Preference Shares Subscription Agreement by and between Jingdong Express Group Corporation and purchasers listed therein, dated February 14, 2018</u>                                                                                                                                                                                                            |
| 4.43*                     | <u>Shareholders Agreement of Jingdong Express Group Corporation, dated March 7, 2018</u>                                                                                                                                                                                                                                                                                     |
| 4.44*                     | <u>US\$1,000,000,000 Term and Revolving Credit Facilities Agreement dated between the Registrant and other parties thereto, dated December 21, 2017</u>                                                                                                                                                                                                                      |
| 8.1*                      | <u>List of Principal Subsidiaries and Consolidated Variable Interest Entities</u>                                                                                                                                                                                                                                                                                            |
| 11.1                      | <u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u>                                                                                                 |
| 12.1*                     | <u>Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                |
| 12.2*                     | <u>Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                |
| 13.1**                    | <u>Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                |
| 13.2**                    | <u>Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                                                                                                                |
| 15.1*                     | <u>Consent of PricewaterhouseCoopers Zhong Tian LLP</u>                                                                                                                                                                                                                                                                                                                      |

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| Exhibit<br>Number | Description of Document                                                                                                                          |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 15.2*             | <u>Consent of Zhong Lun Law Firm</u>                                                                                                             |
| 99.1***           | Consolidated Financial Statements of Dada Nexus Limited as of December 31, 2016 and 2017 and for the year ended December 31, 2016 and 2017       |
| 99.2***           | Consolidated Financial Statements of Bitauto Holdings Limited as of December 31, 2016 and 2017 and for the year ended December 31, 2016 and 2017 |
| 99.3***           | Consolidated Financial Statements of Tuniu Corporation as of December 31, 2016 and 2017 and for the year ended December 31, 2016 and 2017        |
| 101.INS*          | XBRL Instance Document                                                                                                                           |
| 101.SCH*          | XBRL Taxonomy Extension Schema Document                                                                                                          |
| 101.CAL*          | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                            |
| 101.DEF*          | XBRL Taxonomy Extension Definition Linkbase Document                                                                                             |
| 101.LAB*          | XBRL Taxonomy Extension Label Linkbase Document                                                                                                  |
| 101.PRE*          | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                           |

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\* Filed herewith

\*\* Furnished herewith

\*\*\* To be filed by amendment within six months of December 31, 2017

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**SIGNATURES**

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

JD.com, Inc.

|        |                                      |
|--------|--------------------------------------|
| By:    | /s/ Richard Qiangdong Liu            |
| Name:  | Richard Qiangdong Liu                |
| Title: | Chairman and Chief Executive Officer |

Date: April 27, 2018

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**JD.com, Inc.**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of JD.com, Inc.:

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of JD.com, Inc. and its subsidiaries (the Company) as of December 31, 2017 and December 31, 2016, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Beijing, the People's Republic of China

April 27, 2018

We have served as the Company's auditor since 2010.

Table of Contents**JD.com, Inc.****Consolidated Balance Sheets**

(All amounts in thousands, except for share and per share data)

|                                       | 2016<br>RMB        | As of December 31,<br>RMB | 2017<br>US\$<br>Note 2(g) |
|---------------------------------------|--------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                         |                    |                           |                           |
| <b>Current assets</b>                 |                    |                           |                           |
| Cash and cash equivalents             | 15,567,036         | 25,688,327                | 3,948,224                 |
| Restricted cash                       | 2,293,640          | 4,110,210                 | 631,728                   |
| Short-term investments                | 6,548,001          | 8,587,852                 | 1,319,929                 |
| Accounts receivable, net              | 16,141,007         | 16,359,147                | 2,514,355                 |
| Advance to suppliers                  | 257,117            | 394,574                   | 60,645                    |
| Inventories, net                      | 28,909,425         | 41,700,379                | 6,409,231                 |
| Loan receivables, net                 | 4,016,323          | 5,132,698                 | 788,881                   |
| Prepayments and other current assets  | 1,970,780          | 2,258,904                 | 347,185                   |
| Amount due from related parties       | 9,074,275          | 10,796,561                | 1,659,401                 |
| Assets held for sale                  | 22,154,494         |                           |                           |
| <b>Total current assets</b>           | <b>106,932,098</b> | <b>115,028,652</b>        | <b>17,679,579</b>         |
| <b>Non-current assets</b>             |                    |                           |                           |
| Property, equipment and software, net | 7,023,409          | 12,574,178                | 1,932,616                 |
| Construction in progress              | 1,992,123          | 3,196,516                 | 491,296                   |
| Intangible assets, net                | 8,310,657          | 6,692,717                 | 1,028,652                 |
| Land use rights, net                  | 2,447,511          | 7,050,809                 | 1,083,690                 |
| Goodwill                              | 6,527,019          | 6,650,570                 | 1,022,174                 |
| Investment in equity investees        | 14,628,786         | 18,551,319                | 2,851,286                 |
| Investment securities                 | 1,059,632          | 10,027,813                | 1,541,247                 |
| Deferred tax assets                   |                    | 158,250                   | 24,323                    |
| Other non-current assets              | 2,223,672          | 2,227,942                 | 342,428                   |
| Amount due from related parties       | 1,896,200          | 1,896,200                 | 291,441                   |
| Assets held for sale                  | 7,332,411          |                           |                           |
| <b>Total non-current assets</b>       | <b>53,441,420</b>  | <b>69,026,314</b>         | <b>10,609,153</b>         |
| <b>Total assets</b>                   | <b>160,373,518</b> | <b>184,054,966</b>        | <b>28,288,732</b>         |

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

Table of Contents**JD.com, Inc.****Consolidated Balance Sheets**

(All amounts in thousands, except for share and per share data)

|                                                                                                                                                                                                                                    | 2016<br>RMB        | As of December 31,<br>RMB | 2017<br>US\$<br>Note 2(g) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------|---------------------------|
| <b>LIABILITIES</b>                                                                                                                                                                                                                 |                    |                           |                           |
| <b>Current liabilities</b> (including amounts of the consolidated VIEs and VIEs subsidiaries without recourse to the primary beneficiaries of RMB2,165,164 and RMB7,577,086 as of December 31, 2016 and 2017 respectively. Note 1) |                    |                           |                           |
| Short-term borrowings                                                                                                                                                                                                              | 1,878,286          | 200,000                   | 30,739                    |
| Nonrecourse securitization debt                                                                                                                                                                                                    | 9,231,101          | 12,684,881                | 1,949,631                 |
| Accounts payable                                                                                                                                                                                                                   | 46,035,884         | 74,337,708                | 11,425,497                |
| Advance from customers                                                                                                                                                                                                             | 11,466,334         | 13,605,298                | 2,091,096                 |
| Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB813,525 as of December 31, 2016 and 2017, respectively)                              | 1,138,426          | 1,592,332                 | 244,737                   |
| Taxes payable                                                                                                                                                                                                                      | 565,288            | 658,220                   | 101,167                   |
| Amount due to related parties                                                                                                                                                                                                      | 154,924            | 54,342                    | 8,352                     |
| Accrued expenses and other current liabilities                                                                                                                                                                                     | 10,512,590         | 15,117,840                | 2,323,570                 |
| Liabilities held for sale                                                                                                                                                                                                          | 23,757,402         |                           |                           |
| <b>Total current liabilities</b>                                                                                                                                                                                                   | <b>104,740,235</b> | <b>118,250,621</b>        | <b>18,174,789</b>         |
| <b>Non-current liabilities</b>                                                                                                                                                                                                     |                    |                           |                           |
| Deferred revenues (including amounts in relation to traffic support, marketing and promotion services to be provided to related parties of RMB2,087,137 and RMB1,273,545 as of December 31, 2016 and 2017, respectively)           | 2,104,461          | 1,273,545                 | 195,740                   |
| Nonrecourse securitization debt                                                                                                                                                                                                    | 2,318,389          | 4,475,238                 | 687,831                   |
| Unsecured senior notes                                                                                                                                                                                                             | 6,831,012          | 6,447,357                 | 990,941                   |
| Deferred tax liabilities                                                                                                                                                                                                           | 907,356            | 882,248                   | 135,599                   |
| Other non-current liabilities                                                                                                                                                                                                      | 440,670            | 337,254                   | 51,835                    |
| Liabilities held for sale                                                                                                                                                                                                          | 1,811,612          |                           |                           |
| <b>Total non-current liabilities</b>                                                                                                                                                                                               | <b>14,413,500</b>  | <b>13,415,642</b>         | <b>2,061,946</b>          |
| <b>Total liabilities</b>                                                                                                                                                                                                           | <b>119,153,735</b> | <b>131,666,263</b>        | <b>20,236,735</b>         |

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

Table of Contents**JD.com, Inc.****Consolidated Balance Sheets**

(All amounts in thousands, except for share and per share data)

|                                                                                                                                                                                                                                                                                                                                                                                                                                     | 2016<br>RMB        | As of December 31,<br>RMB | 2017<br>US\$<br>Note 2(g) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------|---------------------------|
| <b>Commitments and contingencies (Note 32)</b>                                                                                                                                                                                                                                                                                                                                                                                      |                    |                           |                           |
| <b>MEZZANINE EQUITY</b>                                                                                                                                                                                                                                                                                                                                                                                                             |                    |                           |                           |
| Redeemable non-controlling interests held for sale                                                                                                                                                                                                                                                                                                                                                                                  | 7,056,921          |                           |                           |
| <b>SHAREHOLDERS' EQUITY:</b>                                                                                                                                                                                                                                                                                                                                                                                                        |                    |                           |                           |
| <b>JD.com, Inc. shareholders' equity</b>                                                                                                                                                                                                                                                                                                                                                                                            |                    |                           |                           |
| Ordinary shares (US\$0.00002 par value; 100,000,000,000 shares authorized; 2,467,134,904 Class A ordinary shares issued and 2,384,954,010 outstanding, 471,573,995 Class B ordinary shares issued and 451,490,387 outstanding as of December 31, 2016; 2,477,346,590 Class A ordinary shares issued and 2,406,652,132 outstanding, 461,362,309 Class B ordinary shares issued and 446,011,297 outstanding as of December 31, 2017.) | 377                | 377                       | 58                        |
| Additional paid-in capital                                                                                                                                                                                                                                                                                                                                                                                                          | 59,258,417         | 76,254,607                | 11,720,119                |
| Statutory reserves                                                                                                                                                                                                                                                                                                                                                                                                                  | 132,938            | 635,966                   | 97,746                    |
| Treasury stock                                                                                                                                                                                                                                                                                                                                                                                                                      | (5,181,880)        | (4,457,608)               | (685,122)                 |
| Accumulated deficit                                                                                                                                                                                                                                                                                                                                                                                                                 | (21,860,345)       | (22,234,609)              | (3,417,397)               |
| Accumulated other comprehensive income                                                                                                                                                                                                                                                                                                                                                                                              | 1,543,393          | 1,842,081                 | 283,123                   |
| <b>Total JD.com, Inc. shareholders' equity</b>                                                                                                                                                                                                                                                                                                                                                                                      | <b>33,892,900</b>  | <b>52,040,814</b>         | <b>7,998,527</b>          |
| Non-controlling interests                                                                                                                                                                                                                                                                                                                                                                                                           | 269,962            | 347,889                   | 53,470                    |
| <b>Total shareholders' equity</b>                                                                                                                                                                                                                                                                                                                                                                                                   | <b>34,162,862</b>  | <b>52,388,703</b>         | <b>8,051,997</b>          |
| <b>Total liabilities, mezzanine equity and shareholders' equity</b>                                                                                                                                                                                                                                                                                                                                                                 | <b>160,373,518</b> | <b>184,054,966</b>        | <b>28,288,732</b>         |

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

Table of Contents**JD.com, Inc.****Consolidated Statements of Operations and Comprehensive Income/(Loss)**

(All amounts in thousands, except for share and per share data)

|                                                                                                                     | 2015<br>RMB   | For the year ended December 31,<br>2016 |               | 2017              |
|---------------------------------------------------------------------------------------------------------------------|---------------|-----------------------------------------|---------------|-------------------|
|                                                                                                                     |               | RMB                                     | RMB           | US\$<br>Note 2(g) |
| <b>Net revenues</b>                                                                                                 |               |                                         |               |                   |
| Net product revenues (formerly known as online direct sales)                                                        | 167,936,020   | 237,943,632                             | 331,824,410   | 51,000,478        |
| Net service revenues (formerly known as services and others)                                                        | 13,106,280    | 20,346,315                              | 30,507,344    | 4,688,893         |
| <b>Total net revenues</b>                                                                                           | 181,042,300   | 258,289,947                             | 362,331,754   | 55,689,371        |
| <b>Operating expenses</b>                                                                                           |               |                                         |               |                   |
| Cost of revenues                                                                                                    | (158,960,400) | (222,934,637)                           | (311,516,831) | (47,879,260)      |
| Fulfillment                                                                                                         | (12,367,030)  | (18,559,691)                            | (25,865,128)  | (3,975,397)       |
| Marketing                                                                                                           | (7,232,717)   | (10,158,686)                            | (14,918,107)  | (2,292,871)       |
| Technology and content                                                                                              | (2,902,033)   | (4,452,708)                             | (6,652,374)   | (1,022,451)       |
| General and administrative                                                                                          | (2,187,890)   | (3,435,878)                             | (4,214,790)   | (647,801)         |
| Impairment of goodwill and intangible assets                                                                        | (2,750,129)   |                                         |               |                   |
| <b>Total operating expenses</b>                                                                                     | (186,400,199) | (259,541,600)                           | (363,167,230) | (55,817,780)      |
| <b>Loss from operations</b>                                                                                         | (5,357,899)   | (1,251,653)                             | (835,476)     | (128,409)         |
| <b>Other income/(expense)</b>                                                                                       |               |                                         |               |                   |
| Share of results of equity investees                                                                                | (2,852,677)   | (2,781,909)                             | (1,926,720)   | (296,131)         |
| Interest income                                                                                                     | 673,006       | 1,226,852                               | 2,530,490     | 388,929           |
| Interest expense                                                                                                    | (72,595)      | (618,567)                               | (963,742)     | (148,124)         |
| Others, net                                                                                                         | (145,807)     | 1,543,376                               | 1,316,408     | 202,328           |
| <b>Income/(loss) before tax</b>                                                                                     | (7,755,972)   | (1,881,901)                             | 120,960       | 18,593            |
| Income tax benefits/(expenses)                                                                                      | 14,646        | (166,391)                               | (139,593)     | (21,455)          |
| <b>Net loss from continuing operations</b>                                                                          | (7,741,326)   | (2,048,292)                             | (18,633)      | (2,862)           |
| Net income/(loss) from discontinued operations, net of tax                                                          | (1,376,180)   | (1,365,432)                             | 6,915         | 1,063             |
| <b>Net loss</b>                                                                                                     | (9,117,506)   | (3,413,724)                             | (11,718)      | (1,799)           |
| Net loss from continuing operations attributable to non-controlling interests shareholders                          | (9,566)       | (47,848)                                | (135,452)     | (20,819)          |
| Net loss from discontinued operations attributable to non-controlling interests shareholders                        |               | (3,743)                                 | (5,030)       | (773)             |
| Net income from discontinued operations attributable to mezzanine classified non-controlling interests shareholders |               | 444,657                                 | 281,021       | 43,192            |
| <b>Net loss attributable to ordinary shareholders</b>                                                               | (9,107,940)   | (3,806,790)                             | (152,257)     | (23,399)          |
| <b>Including: Net loss from discontinued operations attributable to ordinary shareholders</b>                       | (1,376,180)   | (1,806,346)                             | (269,076)     | (41,356)          |
| <b>Net income/(loss) from continuing operations attributable to ordinary shareholders</b>                           | (7,731,760)   | (2,000,444)                             | 116,819       | 17,957            |

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

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Table of Contents**JD.com, Inc.****Consolidated Statements of Operations and Comprehensive Income/(Loss)**

(All amounts in thousands, except for share and per share data)

|                                                                                                        | 2015<br>RMB   | For the year ended December 31,<br>2016<br>RMB | 2017<br>RMB   | US\$<br>Note 2(g) |
|--------------------------------------------------------------------------------------------------------|---------------|------------------------------------------------|---------------|-------------------|
| <b>Net loss</b>                                                                                        | (9,117,506)   | (3,413,724)                                    | (11,718)      | (1,799)           |
| Other comprehensive income:                                                                            |               |                                                |               |                   |
| Foreign currency translation adjustments                                                               | 954,787       | 943,616                                        | (822,052)     | (126,347)         |
| Net change in unrealized gains/(losses) on available-for-sale securities:                              |               |                                                |               |                   |
| Unrealized gains/(losses), nil of tax                                                                  | (238,852)     | (78,792)                                       | 1,473,014     | 226,398           |
| Reclassification adjustment for (gains)/losses recorded in net income, nil of tax                      | 216,230       | 123,743                                        | (352,274)     | (54,144)          |
| Net unrealized gains/(losses) on available-for-sale securities                                         | (22,622)      | 44,951                                         | 1,120,740     | 172,254           |
| Total other comprehensive income                                                                       | 932,165       | 988,567                                        | 298,688       | 45,907            |
| <b>Total comprehensive income/(loss)</b>                                                               | (8,185,341)   | (2,425,157)                                    | 286,970       | 44,108            |
| Total comprehensive loss attributable to non-controlling interests shareholders                        | (8,352)       | (51,591)                                       | (140,482)     | (21,592)          |
| Total comprehensive income attributable to mezzanine classified non-controlling interests shareholders |               | 444,657                                        | 281,021       | 43,192            |
| <b>Total comprehensive income/(loss) attributable to ordinary shareholders</b>                         | (8,176,989)   | (2,818,223)                                    | 146,431       | 22,508            |
| <b>Net income/(loss) per share</b>                                                                     |               |                                                |               |                   |
| Basic                                                                                                  |               |                                                |               |                   |
| Continuing operations                                                                                  | (2.83)        | (0.71)                                         | 0.04          | 0.01              |
| Discontinued operations                                                                                | (0.50)        | (0.64)                                         | (0.09)        | (0.01)            |
| Net loss per share                                                                                     | (3.33)        | (1.36)                                         | (0.05)        | (0.01)            |
| Diluted                                                                                                |               |                                                |               |                   |
| Continuing operations                                                                                  | (2.83)        | (0.71)                                         | 0.04          | 0.01              |
| Discontinued operations                                                                                | (0.50)        | (0.64)                                         | (0.09)        | (0.01)            |
| Net loss per share                                                                                     | (3.33)        | (1.36)                                         | (0.05)        | (0.01)            |
| <b>Weighted average number of shares</b>                                                               |               |                                                |               |                   |
| Basic                                                                                                  | 2,735,034,034 | 2,804,767,889                                  | 2,844,826,014 | 2,844,826,014     |
| Diluted                                                                                                | 2,735,034,034 | 2,804,767,889                                  | 2,911,461,817 | 2,911,461,817     |
| <b>Share-based compensation expenses included in:</b>                                                  |               |                                                |               |                   |
| Cost of revenues                                                                                       | (7,529)       | (17,485)                                       | (27,513)      | (4,229)           |
| Fulfillment                                                                                            | (164,162)     | (332,383)                                      | (425,706)     | (65,430)          |
| Marketing                                                                                              | (47,510)      | (87,261)                                       | (135,749)     | (20,864)          |
| Technology and content                                                                                 | (208,898)     | (470,234)                                      | (670,612)     | (103,071)         |
| General and administrative                                                                             | (648,187)     | (1,154,069)                                    | (1,520,482)   | (233,694)         |

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

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Table of Contents**JD.com, Inc.****Consolidated Statements of Cash Flows**

(All amounts in thousands, except for share and per share data)

|                                                                                             | 2015<br>RMB        | For the year ended December 31,<br>2016<br>RMB | RMB                | 2017<br>US\$<br>Note2(g) |
|---------------------------------------------------------------------------------------------|--------------------|------------------------------------------------|--------------------|--------------------------|
| <b>Cash flows from operating activities:</b>                                                |                    |                                                |                    |                          |
| Net loss                                                                                    | (9,117,506)        | (3,413,724)                                    | (11,718)           | (1,799)                  |
| (Income)/loss from discontinued operation, net of income tax                                | 1,376,180          | 1,365,432                                      | (6,915)            | (1,063)                  |
| Adjustments to reconcile net loss to net cash provided by operating activities:             |                    |                                                |                    |                          |
| Depreciation and amortization                                                               | 2,507,324          | 3,420,289                                      | 4,192,716          | 644,409                  |
| Share-based compensation                                                                    | 1,076,286          | 2,061,432                                      | 2,780,062          | 427,288                  |
| Loss from disposal of property, equipment and software                                      | 7,714              | 18,478                                         | 11,591             | 1,781                    |
| Deferred income tax                                                                         | (42,584)           | (34,782)                                       | (221,010)          | (33,969)                 |
| Amortization of discounts and issuance costs of the unsecured senior notes                  |                    | 8,622                                          | 13,426             | 2,064                    |
| Impairment of goodwill and intangible assets                                                | 2,750,129          |                                                |                    |                          |
| Impairment of investments accounted for under cost method and available-for-sale securities | 611,108            | 542,946                                        | 139,823            | 21,490                   |
| Gain from business and investment disposals                                                 | (1,507)            | (1,232,853)                                    | (74,965)           | (11,522)                 |
| Share of results of equity investees                                                        | 2,852,677          | 2,781,909                                      | 1,926,720          | 296,131                  |
| Foreign exchange (gains)/losses                                                             | 56,992             | 143,125                                        | (213,482)          | (32,812)                 |
| Changes in operating assets and liabilities:                                                |                    |                                                |                    |                          |
| Accounts receivable                                                                         | (5,664,769)        | (8,703,383)                                    | (545,991)          | (83,917)                 |
| Restricted cash                                                                             | (1,084,678)        | 526,646                                        | (2,035,454)        | (312,844)                |
| Inventories                                                                                 | (8,345,617)        | (8,372,953)                                    | (12,788,337)       | (1,965,531)              |
| Advance to suppliers                                                                        | 242,964            | 341,817                                        | (137,457)          | (21,127)                 |
| Prepayments and other current assets                                                        | 295,669            | (472,714)                                      | (328,041)          | (50,419)                 |
| Amount due from related parties                                                             | (1,342,747)        | (1,496,349)                                    | 2,456,933          | 377,624                  |
| Other non-current assets                                                                    | (1,161,731)        | 178,815                                        | (372,576)          | (57,264)                 |
| Accounts payable                                                                            | 14,186,532         | 14,518,806                                     | 26,106,191         | 4,012,448                |
| Advance from customers                                                                      | 2,461,505          | 4,365,280                                      | 2,138,964          | 328,753                  |
| Deferred revenues                                                                           | (456,896)          | (725,788)                                      | (374,042)          | (57,489)                 |
| Taxes payable                                                                               | (91,251)           | 445,585                                        | 92,932             | 14,283                   |
| Accrued expenses and other current liabilities                                              | 1,851,928          | 3,710,000                                      | 4,624,014          | 710,697                  |
| Amount due to related parties                                                               | 69,946             | 16,907                                         | (66,370)           | (10,201)                 |
| <b>Net cash provided by continuing operating activities</b>                                 | <b>3,037,668</b>   | <b>9,993,543</b>                               | <b>27,307,014</b>  | <b>4,197,011</b>         |
| <b>Net cash used in discontinued operating activities</b>                                   | <b>(1,341,346)</b> | <b>(1,226,526)</b>                             | <b>(2,485,741)</b> | <b>(382,051)</b>         |
| <b>Net cash provided by operating activities</b>                                            | <b>1,696,322</b>   | <b>8,767,017</b>                               | <b>24,821,273</b>  | <b>3,814,960</b>         |

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



Table of Contents**JD.com, Inc.****Consolidated Statements of Cash Flows**

(All amounts in thousands, except for share and per share data)

|                                                                         | 2015<br>RMB        | For the year ended December 31,<br>2016<br>RMB | RMB                 | 2017<br>US\$<br>Note2(g) |
|-------------------------------------------------------------------------|--------------------|------------------------------------------------|---------------------|--------------------------|
| <b>Cash flows from investing activities:</b>                            |                    |                                                |                     |                          |
| Purchase of short-term investments                                      | (2,607,000)        | (15,832,188)                                   | (8,288,743)         | (1,273,957)              |
| Maturity of short-term investments                                      | 14,425,621         | 11,828,500                                     | 6,211,608           | 954,707                  |
| Purchases of investment securities                                      | (1,139,386)        | (50,000)                                       | (7,824,277)         | (1,202,569)              |
| Cash received from disposal of investment securities                    |                    | 16,440                                         |                     |                          |
| Prepayments and investments in equity investees                         | (6,871,616)        | (7,146,498)                                    | (6,207,880)         | (954,135)                |
| Cash received from disposal of equity investment                        |                    | 29,558                                         | 202,774             | 31,166                   |
| Changes in restricted cash                                              |                    | (705,372)                                      | 218,884             | 33,642                   |
| Cash paid for loan originations                                         | (3,453,390)        | (14,003,737)                                   | (24,379,691)        | (3,747,090)              |
| Cash received from loan repayments                                      | 2,236,558          | 11,093,692                                     | 23,019,358          | 3,538,011                |
| Purchase of property, equipment and software                            | (2,550,641)        | (2,140,802)                                    | (3,294,286)         | (506,322)                |
| Cash paid for construction in progress                                  | (1,540,615)        | (1,359,364)                                    | (3,267,277)         | (502,171)                |
| Purchase of intangible assets                                           | (6,556)            | (50,438)                                       | (8,774)             | (1,349)                  |
| Purchase of land use rights                                             | (925,758)          | (678,328)                                      | (4,785,538)         | (735,524)                |
| Cash paid for business combination, net of cash acquired (Note 8)       | (290,339)          | (615,849)                                      | (160,658)           | (24,693)                 |
| Loans (provided to)/settled by JD Finance                               | (5,085,864)        | 1,856,144                                      | (6,187,891)         | (951,061)                |
| Proceeds from JD Finance Reorganization (Note 6)                        |                    |                                                | 13,027,155          | 2,002,237                |
| <b>Net cash used in continuing investing activities</b>                 | <b>(7,808,986)</b> | <b>(17,758,242)</b>                            | <b>(21,725,236)</b> | <b>(3,339,108)</b>       |
| <b>Net cash provided by/(used in) discontinued investing activities</b> | <b>2,018,461</b>   | <b>(30,510,335)</b>                            | <b>(15,772,856)</b> | <b>(2,424,243)</b>       |
| <b>Net cash used in investing activities</b>                            | <b>(5,790,525)</b> | <b>(48,268,577)</b>                            | <b>(37,498,092)</b> | <b>(5,763,351)</b>       |

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

Table of Contents**JD.com, Inc.****Consolidated Statements of Cash Flows**

(All amounts in thousands, except for share and per share data)

|                                                                                                        | 2015<br>RMB | For the year ended December 31,<br>2016<br>RMB | RMB          | 2017<br>US\$<br>Note 2(g) |
|--------------------------------------------------------------------------------------------------------|-------------|------------------------------------------------|--------------|---------------------------|
| <b>Cash flows from financing activities:</b>                                                           |             |                                                |              |                           |
| Repurchase of ordinary shares                                                                          |             | (5,338,274)                                    |              |                           |
| Purchase of capped call options                                                                        |             | (2,007,100)                                    |              |                           |
| Proceeds from settlement of capped call options                                                        |             | 1,463,218                                      | 737,501      | 113,352                   |
| Proceeds from issuance of ordinary shares pursuant to stock plans                                      | 75,713      | 82,396                                         | 135,745      | 20,864                    |
| Capital injection from non-controlling interest shareholders                                           | 146,185     | 173,550                                        | 209,725      | 32,234                    |
| Proceeds from short-term borrowings                                                                    | 4,021,004   | 3,029,576                                      | 700,000      | 107,587                   |
| Repayment of short-term borrowings                                                                     | (3,576,171) | (3,491,500)                                    | (2,356,888)  | (362,247)                 |
| Proceeds from unsecured senior notes, net of discount and debt issuance costs                          |             | 6,355,969                                      |              |                           |
| Proceeds from nonrecourse securitization debt                                                          | 3,168,000   | 9,302,000                                      | 16,500,000   | 2,536,004                 |
| Repayment of nonrecourse securitization debt                                                           |             | (920,510)                                      | (10,889,371) | (1,673,666)               |
| Proceeds from other financing activities                                                               |             |                                                | 143,653      | 22,079                    |
| <b>Net cash provided by continuing financing activities</b>                                            | 3,834,731   | 8,649,325                                      | 5,180,365    | 796,207                   |
| <b>Net cash provided by discontinued financing activities</b>                                          | 865,542     | 32,050,146                                     | 14,054,620   | 2,160,156                 |
| <b>Net cash provided by financing activities</b>                                                       | 4,700,273   | 40,699,471                                     | 19,234,985   | 2,956,363                 |
| Effect of exchange rate changes on cash and cash equivalents                                           | 343,147     | 709,916                                        | (641,534)    | (98,602)                  |
| <b>Net increase in cash and cash equivalents</b>                                                       | 949,217     | 1,907,827                                      | 5,916,632    | 909,370                   |
| Cash and cash equivalents at beginning of year                                                         | 16,914,651  | 17,863,868                                     | 19,771,695   | 3,038,854                 |
| Cash and cash equivalents at end of year                                                               | 17,863,868  | 19,771,695                                     | 25,688,327   | 3,948,224                 |
| Less: Cash and cash equivalents of discontinued operations at end of year                              | 3,881,475   | 4,204,659                                      |              |                           |
| <b>Cash and cash equivalents of continuing operations at end of year</b>                               | 13,982,393  | 15,567,036                                     | 25,688,327   | 3,948,224                 |
| <b>Supplemental cash flow disclosures of continuing operations:</b>                                    |             |                                                |              |                           |
| Cash paid for income taxes                                                                             | (21,272)    | (110,498)                                      | (240,899)    | (37,026)                  |
| Cash paid for interest                                                                                 | (56,507)    | (515,234)                                      | (577,306)    | (88,730)                  |
| <b>Supplemental disclosures of non-cash investing and financing activities:</b>                        |             |                                                |              |                           |
| Issuance of ordinary shares in connection with Walmart Transactions, net                               |             | 9,592,258                                      |              |                           |
| Equity investments obtained through commitment of future services and contribution of certain business | 3,821,272   | 2,164,050                                      |              |                           |

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

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Table of Contents**JD.com, Inc.****Consolidated Statements of Changes in Shareholders' Equity**

(All amounts in thousands, except for share and per share data)

|                                                                  | Ordinary shares |               | Treasury stock |               | Additional             | Statutory reserves | Accumulated other                  | Accumulated deficit | Non-controlling  |
|------------------------------------------------------------------|-----------------|---------------|----------------|---------------|------------------------|--------------------|------------------------------------|---------------------|------------------|
|                                                                  | Shares          | Amount<br>RMB | Shares         | Amount<br>RMB | paid-in capital<br>RMB | RMB                | comprehensive income/(loss)<br>RMB | RMB                 | interests<br>RMB |
| <b>Balance as of December 31, 2014</b>                           | 2,793,756,650   | 358           | (62,038,293)   | (4)           | 47,131,172             | 15,009             | (376,125)                          | (9,272,343)         |                  |
| Exercise of share-based awards                                   |                 |               | 2,694,404      | 1             | 68,009                 |                    |                                    |                     |                  |
| Share-based compensation and vesting of share-based awards       |                 |               | 7,577,725      |               | 1,193,945              |                    |                                    |                     |                  |
| Net loss                                                         |                 |               |                |               |                        |                    |                                    | (9,107,940)         |                  |
| Foreign currency translation adjustment                          |                 |               |                |               |                        |                    | 953,573                            |                     |                  |
| Net change in unrealized losses on available for sale securities |                 |               |                |               |                        |                    | (22,622)                           |                     |                  |
| Statutory reserves                                               |                 |               |                |               |                        | 40,551             |                                    | (40,551)            |                  |
| Capital injection from non-controlling interests shareholders    |                 |               |                |               |                        |                    |                                    |                     |                  |
| <b>Balance as of December 31, 2015</b>                           | 2,793,756,650   | 358           | (51,766,164)   | (3)           | 48,393,126             | 55,560             | 554,826                            | (18,420,834)        |                  |
| Issuance of ordinary shares                                      | 144,952,250     | 19            |                |               | 9,592,239              |                    |                                    |                     |                  |
| Repurchase of ordinary shares                                    |                 |               | (62,131,568)   | (5,338,276)   | (543,880)              |                    |                                    |                     |                  |
| Surrender of ordinary shares by certain shareholder              | (1)             |               |                |               |                        |                    |                                    |                     |                  |
| Accretion of redeemable non-controlling interests                |                 |               |                |               | (444,657)              |                    |                                    |                     |                  |
| Exercise of share-based awards                                   |                 |               | 2,820,648      | 77,496        | (3,293)                |                    |                                    |                     |                  |
| Share-based compensation and vesting of share-based              |                 |               | 8,812,582      | 78,903        | 2,264,882              |                    |                                    |                     |                  |

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|                                                                 |               |     |               |             |            |           |           |              |
|-----------------------------------------------------------------|---------------|-----|---------------|-------------|------------|-----------|-----------|--------------|
| awards                                                          |               |     |               |             |            |           |           |              |
| Net loss                                                        |               |     |               |             |            |           |           | (3,362,133)  |
| Foreign currency translation adjustment                         |               |     |               |             |            | 943,616   |           |              |
| Net change in unrealized gains on available for sale securities |               |     |               |             |            | 44,951    |           |              |
| Statutory reserves                                              |               |     |               |             | 77,378     |           |           | (77,378)     |
| Capital injection from non-controlling interests shareholders   |               |     |               |             |            |           |           |              |
| <b>Balance as of December 31, 2016</b>                          | 2,938,708,899 | 377 | (102,264,502) | (5,181,880) | 59,258,417 | 132,938   | 1,543,393 | (21,860,345) |
| Repurchase of ordinary shares                                   |               |     |               |             | 737,501    |           |           |              |
| Accretion of redeemable non-controlling interests               |               |     |               |             | (281,021)  |           |           |              |
| Exercise of share-based awards                                  |               |     | 4,116,816     | 259,583     | (114,556)  |           |           |              |
| Share-based compensation and vesting of share-based awards      |               |     | 12,102,216    | 464,689     | 2,460,785  |           |           |              |
| Net loss                                                        |               |     |               |             |            |           |           | 128,764      |
| Foreign currency translation adjustment                         |               |     |               |             |            | (822,052) |           |              |
| Net change in unrealized gains on available for sale securities |               |     |               |             |            | 1,120,740 |           |              |
| Statutory reserves                                              |               |     |               |             | 503,028    |           |           | (503,028)    |
| Capital injection from non-controlling interests shareholders   |               |     |               |             |            |           |           |              |
| Gain from JD Finance reorganization                             |               |     |               |             | 14,193,481 |           |           |              |
| <b>Balance as of December 31, 2017</b>                          | 2,938,708,899 | 377 | (86,045,470)  | (4,457,608) | 76,254,607 | 635,966   | 1,842,081 | (22,234,609) |

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

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****1. Principal activities and organization**

JD.com, Inc. (the Company), through its wholly-owned subsidiaries, consolidated variable interest entities (VIEs) and VIEs' subsidiaries (collectively, the Group) serves consumers through its retail websites mainly www.jd.com and mobile apps, focuses on selection, price and convenience, offers programs that enable third party sellers to sell their products on its websites and to fulfill the orders either by the sellers or through the Group (known as online marketplace), provides comprehensive supply chain solutions, including warehousing, transportation, delivery to third-party sellers on its online marketplace and merchants that do not sell products on its online marketplace through the Group's logistics business (JD Logistics), and also offered financial services to its suppliers, third party sellers and qualified individual customers through the Group's finance business (JD Finance), which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Finance (Note 6). The Group's principal operations and geographic markets are in the People's Republic of China (PRC). The accompanying consolidated financial statements include the financial statements of the Company, its subsidiaries, consolidated VIEs and VIEs' subsidiaries.

As of December 31, 2017, the Company's major subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

|                                                                              | <b>Equity<br/>interest held</b> | <b>Place and date of incorporation</b> |
|------------------------------------------------------------------------------|---------------------------------|----------------------------------------|
| <b><u>Subsidiaries</u></b>                                                   |                                 |                                        |
| Beijing Jingdong Century Trade Co., Ltd. (Jingdong Century)                  | 100%                            | Beijing, China, April 2007             |
| Jiangsu Jingdong Information Technology Co., Ltd.                            | 100%                            | Jiangsu, China, June 2009              |
| Shanghai Shengdayuan Information Technology Co., Ltd. (Shanghai Shengdayuan) | 100%                            | Shanghai, China, April 2011            |
| Jingdong E-Commerce (Express) Hong Kong Co., Ltd.                            | 100%                            | Hong Kong, China, August 2011          |
| Jingdong Technology Group Corporation                                        | 100%                            | Cayman Islands, November 2011          |
| Jingdong Logistics Group Corporation                                         | 100%                            | Cayman Islands, January 2012           |
| Jingdong Express Group Corporation                                           | 100%                            | Cayman Islands, January 2012           |
| Jingdong E-Commerce (Logistics) Hong Kong Co., Ltd.                          | 100%                            | Hong Kong, China, February 2012        |
| Jingdong E-Commerce (Trade) Hong Kong Co., Ltd.                              | 100%                            | Hong Kong, China, February 2012        |
| JD.com International Limited                                                 | 100%                            | Hong Kong, China, February 2012        |
| Beijing Jingdong Shangke Information Technology Co., Ltd. (Beijing Shangke)  | 100%                            | Beijing, China, March 2012             |
| Tianjin Star East Co., Ltd.                                                  | 100%                            | Tianjin, China, April 2012             |
| JD.com E-Commerce (Investment) Hong Kong Corporation Limited                 | 100%                            | Hong Kong, China, July 2013            |
| Chongqing Jingdong Haijia E-commerce Co., Ltd. (Chongqing Haijia)            | 100%                            | Chongqing, China, June 2014            |
| JD.com Investment Limited                                                    | 100%                            | British Virgin Islands, January 2015   |
| JD.com International (Singapore) Pte. Ltd.                                   | 100%                            | Singapore, November 2014               |
| Xi'an Jingxundi Supply Chain Technology Co., Ltd. (Xi'an Jingxundi)          | 100%                            | Xi'an, China, May 2017                 |
|                                                                              |                                 | <b>Place and date of incorporation</b> |
| <b><u>Consolidated VIEs</u></b>                                              |                                 |                                        |

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|                                                                                      |                                  |
|--------------------------------------------------------------------------------------|----------------------------------|
| Beijing Jingdong 360 Degree E-commerce Co., Ltd. ( Jingdong 360 )                    | Beijing, China, April 2007       |
| Fortune Rising Holdings Ltd. ( Fortune Rising )                                      | British Virgin Islands, May 2008 |
| Jiangsu Yuanzhou E-commerce Co., Ltd. ( Jiangsu Yuanzhou )                           | Jiangsu, China, September 2010   |
| Jiangsu Jingdong Bangneng Investment Management Co., Ltd.                            | Jiangsu, China, August 2015      |
| Xi an Jingdong Xincheng Information Technology Co., Ltd. ( Xi an Jingdong Xincheng ) | Xi an, China, June 2017          |

## Consolidated VIEs Subsidiaries

|                                                                                             |                             |
|---------------------------------------------------------------------------------------------|-----------------------------|
| Beijing Jingbangda Trade Co., Ltd. ( Beijing Jingbangda )                                   | Beijing, China, August 2012 |
| Suqian Jingdong Sanhong Enterprise Management Center(limited partnership)( Suqian Sanhong ) | Jiangsu, China, August 2017 |

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**1. Principal activities and organization (Continued)**

**• Organization**

The Company was incorporated in the British Virgin Islands ( BVI ) in November 2006 and was re-domiciled in the Cayman Islands in January 2014 as an exempted company registered under the laws of the Cayman Islands.

In April 2007 and May 2017, the Company established Jingdong Century and Xi'an Jingxundi as wholly foreign-owned enterprises in the PRC, respectively. In April 2007, September 2010 and June 2017, Jingdong 360, Jiangsu Yuanzhou and Xi'an Jingdong Xincheng were incorporated in the PRC, respectively. The paid-in capital of each of these entities was funded by the Company, and they were established to facilitate the Group's operation and business expansion plans and comply with the PRC laws and regulations which prohibit or restrict foreign ownership of the companies where the PRC operating licenses are required. By entering into a series of agreements, Jingdong 360 and Jiangsu Yuanzhou became VIEs of Jingdong Century and Xi'an Jingdong Xincheng became a VIE of Xi'an Jingxundi. Consequently, Jingdong Century became the primary beneficiary of Jingdong 360 and Jiangsu Yuanzhou, and Xi'an Jingxundi became the primary beneficiary of Xi'an Jingdong Xincheng. Beijing Jingbangda became the subsidiary of Xi'an Jingdong Xincheng and changed from the Company's subsidiary to the Company's consolidated VIE's subsidiary.

In May 2008, Fortune Rising, a BVI incorporated company and a consolidated variable interest entity of the Group, was established by the Group to facilitate the adoption of the Company's stock incentive plans.

**• Consolidated variable interest entities**

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its websites and other restricted businesses in the PRC through certain PRC domestic companies, whose equity interests are held by certain management members of the Group ( Nominee Shareholders ). The Group obtained control over these PRC domestic companies by entering into a series of Contractual Arrangements with these PRC domestic companies and their respective Nominee Shareholders. These contractual agreements include loan agreements, exclusive purchase option agreements, exclusive technology consulting and services agreements, intellectual property rights license agreement, equity pledge agreements, powers of attorney, business cooperation agreements and business operation agreements. These contractual agreements can be extended at the Group's relevant PRC subsidiaries' options prior to the expiration date. Management concluded that these PRC domestic companies are consolidated VIEs of the Group, of which the Group is the ultimate primary beneficiary. As such, the Group consolidated the financial results of these PRC domestic companies and their subsidiaries in the Group's consolidated financial statements. Refer to Note 2(b) to the consolidated financial statements for

the principles of consolidation.

The following is a summary of the contractual agreements (collectively, *Contractual Agreements* ) that the Group, through its subsidiaries, entered into with the consolidated VIEs and their Nominee Shareholders:

• *Loan agreements*

Pursuant to the relevant loan agreements, the Group's relevant PRC subsidiaries have granted interest-free loans to the relevant Nominee Shareholders of the VIEs with the sole purpose of providing funds necessary for the capital injection to the relevant VIEs. The loans for initial and subsequent capital injections are eliminated with the capital of the relevant VIEs during consolidation. The Group's relevant PRC subsidiaries can require the Nominee Shareholders to settle the loan amount with the equity interests of relevant VIEs, subject to any applicable PRC laws, rules and regulations. The loan agreements are renewable upon expiration.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**1. Principal activities and organization (Continued)**

• ***Exclusive purchase option agreements***

The Nominee Shareholders of the VIEs have granted the Group's relevant PRC subsidiaries the exclusive and irrevocable right to purchase from the Nominee Shareholders, to the extent permitted under PRC laws and regulations, part or all of the equity interests in these entities for a purchase price equal to the lowest price permitted by PRC laws and regulations. The Group's relevant PRC subsidiaries may exercise such option at any time. In addition, the VIEs and their Nominee Shareholders have agreed that without prior written consent of the Group's relevant PRC subsidiaries, they will not transfer or otherwise dispose the equity interests or declare any dividend.

• ***Exclusive technology consulting and services agreements***

The Group's relevant PRC subsidiaries and relevant VIEs entered into exclusive technology consulting and services agreements under which relevant VIEs engage the Group's relevant PRC subsidiaries as their exclusive provider of technical platform and technical support, maintenance and other services. The VIEs shall pay to the Group's relevant PRC subsidiaries service fees determined based on the volume and market price of the service provided. The Group's relevant PRC subsidiaries exclusively own any intellectual property arising from the performance of the agreements. During the term of the agreements, the relevant VIEs may not enter into any agreement with third parties for the provision of identical or similar services without prior consent of the Group's relevant PRC subsidiaries.

• ***Intellectual property rights license agreement***

Pursuant to the intellectual property rights license agreement, Jingdong Century has granted Jingdong 360 non-exclusive rights to use certain software products, trademarks, website, copyrights, and domain names developed or owned by Jingdong Century within the scope of internet information service operation of Jingdong 360 and in the territory of PRC. Jingdong 360 has agreed to pay license fees to Jingdong Century and the amount of the license fee is decided based on the agreed arrangement.

• *Equity pledge agreements*

Pursuant to the relevant equity pledge agreements, the Nominee Shareholders of the VIEs have pledged all of their equity interests in relevant VIEs to the Group's relevant PRC subsidiaries as collateral for all of their payments due to the Group's relevant PRC subsidiaries and to secure their obligations under the above agreements. The Nominee Shareholders may not transfer or assign the equity interests, the rights and obligations in the equity pledge agreements or create or permit to create any pledges which may have an adverse effect on the rights or benefits of the Group's relevant PRC subsidiaries without the Group's relevant PRC subsidiaries' preapproval. The Group's relevant PRC subsidiaries are entitled to transfer or assign in full or in part the equity interests pledged. In the event of default, the Group's relevant PRC subsidiaries as the pledgee, will be entitled to request immediate repayment of the loans or to dispose of the pledged equity interests through transfer or assignment. The equity pledge agreements will expire on the second anniversary of the date when the Nominee Shareholders have completed all their obligations under the above agreements unless otherwise terminated earlier by the Group's relevant PRC subsidiaries.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**1. Principal activities and organization (Continued)**

• ***Powers of attorney***

Pursuant to the irrevocable powers of attorney, each of the Nominee Shareholders appointed any person designated by the Group's relevant PRC subsidiaries as their attorney-in-fact to exercise all shareholder rights under PRC laws and the relevant articles of association, including but not limited to, voting on their behalf on all matters requiring shareholder approval, disposing of all or part of the Nominee Shareholders' equity interests, and electing, appointing or removing directors and the general managers of the VIEs. Each power of attorney will remain in force during the period when the Nominee Shareholders continue to be shareholders of the VIEs. Each of the Nominee Shareholders has waived all the rights which have been authorized to the person designated by the Group's relevant PRC subsidiaries under each power of attorney.

• ***Business cooperation agreement***

Pursuant to the business cooperation agreement, Jingdong 360 has agreed to provide services to Jingdong Century and Shanghai Shengdayuan including operating the Group's website, posting Jingdong Century's and Shanghai Shengdayuan's products and services information on the website, transmitting the users' orders and transactions information to Jingdong Century and Shanghai Shengdayuan, processing user data and transactions in collaboration with banks and payment agents and other services reasonably requested by Jingdong Century and Shanghai Shengdayuan. Jingdong Century and Shanghai Shengdayuan agree to pay service fees to Jingdong 360 on a quarterly basis. The service fee is decided based on Jingdong 360's operating costs incurred.

• ***Business operation agreements***

Pursuant to the business operation agreements, the relevant Nominee Shareholders of the VIEs must appoint the candidates nominated by the Group's relevant PRC subsidiaries to be the directors on their board of directors in accordance with applicable laws and the articles of association of VIEs, and must cause the persons recommended by the Group's relevant PRC subsidiaries to be appointed as their general manager, chief financial officer and other senior executives.



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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**1. Principal activities and organization (Continued)**

**• *Risks in relations to the VIE structure***

In the opinion of management, the Group's relevant PRC subsidiaries' Contractual Arrangements with the VIEs and the Nominee Shareholders are in compliance with PRC laws and regulations and are legally binding and enforceable. The Nominee Shareholders are also shareholders or nominees of shareholders of the Group and therefore have no current interest in seeking to act contrary to the Contractual Arrangements. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations including those that govern the Group's Contractual Arrangements, which could limit the Group's ability to enforce these Contractual Arrangements and if the Nominee Shareholders of the VIEs were to reduce their interests in the Group, their interest may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the Contractual Arrangements. The Group's ability to control the VIEs also depends on the powers of attorney the Group's relevant PRC subsidiaries have to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Group believes these powers of attorney are legally enforceable but may not be as effective as direct equity ownership. In addition, if the Group's corporate structure and the Contractual Arrangements with the VIEs through which the Group conducts its business in PRC were found to be in violation of any existing or future PRC laws and regulations, the Group's relevant PRC regulatory authorities could:

- revoke or refuse to grant or renew the Group's business and operating licenses;
- restrict or prohibit related party transactions between the Group's relevant PRC subsidiaries and their subsidiaries, the VIEs;
- impose fines, confiscate income or other requirements which the Group may find difficult or impossible to comply with;
- require the Group to alter the corporate structure operations; and

- restrict or prohibit the Group's ability to finance its operations.

The imposition of any of these government actions could result in a material adverse effect on the Group's ability to conduct its operations. In such case, the Group may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs in the Group's consolidated financial statements. In the opinion of management, the likelihood for the Group to lose such ability is remote based on current facts and circumstances. The Group's operations depend on the VIEs to honor their contractual agreements with the Group. These agreements are governed by PRC laws and disputes arising out of these agreements are expected to be decided by arbitration in China. The management believes that each of the Contractual Agreements constitutes valid and legally binding obligations of each party to such contractual agreements under PRC Laws. However, the interpretation and implementation of the laws and regulations in the PRC and their application to an effect on the legality, binding effect and enforceability of contracts are subject to the discretion of competent PRC authorities, and therefore there is no assurance that relevant PRC authorities will take the same position as the Group herein in respect of the legality, binding effect and enforceability of each of the Contractual Agreements. Meanwhile, since 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 the Group to enforce the Contractual Arrangements should the VIEs or the Nominee Shareholders of the VIEs fail to perform their obligations under those arrangements.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****1. Principal activities and organization (Continued)**

The following table sets forth the assets, liabilities, results of operations and changes in cash and cash equivalents of the consolidated VIEs and their subsidiaries taken as a whole, which were included in the Group's consolidated financial statements with intercompany transactions eliminated:

|                   | <b>As of December 31,</b> |                     |
|-------------------|---------------------------|---------------------|
|                   | <b>2016<br/>RMB</b>       | <b>2017<br/>RMB</b> |
| Total assets      | 6,729,295                 | 19,281,227          |
| Total liabilities | 6,978,241                 | 19,547,831          |

|                    | <b>For the year ended December 31,</b> |                     |                     |
|--------------------|----------------------------------------|---------------------|---------------------|
|                    | <b>2015<br/>RMB</b>                    | <b>2016<br/>RMB</b> | <b>2017<br/>RMB</b> |
| Total net revenues | 3,100,744                              | 4,338,450           | 15,926,297          |
| Net loss           | (214,011)                              | (8,366)             | (115,318)           |

|                                                      | <b>For the year ended December 31,</b> |                     |                     |
|------------------------------------------------------|----------------------------------------|---------------------|---------------------|
|                                                      | <b>2015<br/>RMB</b>                    | <b>2016<br/>RMB</b> | <b>2017<br/>RMB</b> |
| Net cash provided by/(used in) operating activities  | (445,200)                              | 118,007             | 1,188,220           |
| Net cash used in investing activities                | (58,135)                               | (4,708,901)         | (10,117,516)        |
| Net cash provided by financing activities            | 518,019                                | 4,499,914           | 9,626,497           |
| Net increase/(decrease) in cash and cash equivalents | 14,684                                 | (90,980)            | 697,201             |
| Cash and cash equivalents at beginning of year       | 98,255                                 | 112,939             | 21,959              |
| Cash and cash equivalents at end of year             | 112,939                                | 21,959              | 719,160             |

As of December 31, 2016 and 2017, the total assets of the Group's consolidated VIEs and VIEs' subsidiaries were mainly consisting of cash and cash equivalents, accounts receivable, inventories, prepayments and other current assets, investment securities, investment in equity investees, property, equipment and software and intangible assets. As of December 31, 2016 and 2017, the total liabilities of the consolidated VIEs and VIEs' subsidiaries were mainly consisting of short-term borrowings, accounts payable, advance from customers, accrued expenses and other current liabilities and liabilities to the Group's other subsidiaries. These balances have been reflected in the Group's consolidated financial statements with intercompany transactions eliminated.

In accordance with the Contractual Agreements, the Group's relevant PRC subsidiaries have the power to direct activities of the Group's consolidated VIEs and VIEs' subsidiaries, and can have assets transferred out of the Group's consolidated VIEs and VIEs' subsidiaries. Therefore, the Group's relevant PRC subsidiaries consider that there is no asset in the Group's consolidated VIEs and VIEs' subsidiaries that can be used only

to settle their obligations except for registered capitals and PRC statutory reserves of the Group's consolidated VIEs amounting to RMB1,035,877 as of December 31, 2017. As the Group's consolidated VIEs and VIEs' subsidiaries are incorporated as limited liability companies under the PRC Company Law, the creditors do not have recourse to the general credit of the Group's relevant PRC subsidiaries for all the liabilities of the Group's consolidated VIEs and VIEs' subsidiaries. The total shareholders' deficit of the Group's consolidated VIEs and VIEs' subsidiaries was RMB248,946 and RMB266,604 as of December 31, 2016 and 2017, respectively.

Currently there is no contractual arrangement that could require the Group's relevant PRC subsidiaries or the Group to provide additional financial support to the Group's consolidated VIEs and VIEs' subsidiaries. As the Group is conducting certain businesses in the PRC through the consolidated VIEs and VIEs' subsidiaries, the Group may provide additional financial support on a discretionary basis in the future, which could expose the Group to a loss.

JD Finance which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Finance (Note 6) is a VIE where the Group or any subsidiary has a variable interest but is not the primary beneficiary.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**2. Summary of significant accounting policies**

***a. Basis of presentation***

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America ( U.S. GAAP ). Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

***b. Principles of consolidation***

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the consolidated VIEs and VIEs subsidiaries for which the Company is the ultimate primary beneficiary. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

A VIE is an entity in which the Company, or its subsidiaries, through Contractual Arrangements, bears the risks of, and enjoys the rewards normally associated with, ownership of the entity, and therefore the Company or its subsidiaries are the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries, the consolidated VIEs and VIEs subsidiaries have been eliminated upon consolidation.

***c. Reclassifications***

Certain prior period amounts have been reclassified to conform to the current period presentation to facilitate comparison.

In April 2017, the Company established JD Logistics, a new business group under JD.com, which leverages the Company's advanced technology and logistics expertise to provide logistics services to businesses across a wide range of industries. As JD Logistics has changed from supporting the overall JD platform to an independently operated business unit, cost related to the logistics services provided to merchants and other third parties are reclassified from fulfillment expenses to cost of revenues. The amount of fulfillment expenses that have been reclassified to conform to the current period financial statement presentation were RMB1,663,959 and RMB2,560,688 for the years ended December 31, 2015 and 2016, respectively.

*d. Non-controlling interests*

For the Company's consolidated subsidiaries, VIEs and VIEs' subsidiaries, non-controlling interests are recognized to reflect the portion of their equity that is not attributable, directly or indirectly, to the Company as the controlling shareholder. Non-controlling interests are classified as a separate line item in the equity section of the Group's Consolidated Balance Sheets and have been separately disclosed in the Group's Consolidated Statements of Operations and Comprehensive Income/(Loss) to distinguish the interests from that of the Company.

*e. Use of estimates*

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenues and expenses during the reported period in the consolidated financial statements and accompanying notes. Significant accounting estimates are used for, but not limited to, sales returns, vendor and customer incentives, the valuation and recognition of share-based compensation arrangements, taxation, fair value of assets and liabilities acquired in business combinations, assessment for impairment of long-lived assets, investment in equity investees, investment securities, intangible assets and goodwill, allowance for doubtful accounts, inventory reserve for excess and obsolete inventories, lower of cost and net realizable value of inventories, depreciable lives of property, equipment and software, useful lives of intangible assets and redemption value of the redeemable preferred shares. Actual results may differ materially from those estimates.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***f. Foreign currency translation***

The Group's reporting currency is Renminbi ( RMB ). The functional currency of the Group's entities incorporated in Cayman Islands, British Virgin Islands, Hong Kong ( HK ), Singapore and The United States of America is the United States dollars ( US\$ ). The functional currency of the Group's entities incorporated in The Republic of Indonesia is the Indonesian rupiah ( IDR ). The functional currency of the Group's entities incorporated in Japan is the Japanese yen ( JPY ). The functional currency of the Group's entities incorporated in France is the Euro ( EUR ). The functional currency of the Group's entities incorporated in Australia is the Australian Dollar ( AUD ). The Group's PRC subsidiaries, consolidated VIEs and VIEs' subsidiaries determined their functional currency to be RMB. The determination of the respective functional currency is based on the criteria of ASC 830, *Foreign Currency Matters*.

Transactions denominated in currencies other than functional currency are translated into functional currency at the exchange rates quoted by authoritative banks prevailing at the dates of the transactions. Exchange gains and losses resulting from those foreign currency transactions denominated in a currency other than the functional currency are recorded as a component of others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss). Total exchange gains/(losses) were a loss of RMB56,992, a loss of RMB143,125 and a gain of RMB213,482 for the years ended December 31, 2015, 2016 and 2017, respectively.

The financial statements of the Group are translated from the functional currency into RMB. Assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated into RMB at the appropriate historical rates. Revenues, expenses, gains and losses are translated into RMB using the periodic average exchange rates. The resulting foreign currency translation adjustments are recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. Total foreign currency translation adjustments to the Group's other comprehensive income/(loss) were a gain of RMB954,787, a gain of RMB943,616 and a loss of RMB822,052 for the years ended December 31, 2015, 2016 and 2017, respectively.

***g. Convenience translation***

Translations of the Consolidated Balance Sheets, the Consolidated Statements of Operations and Comprehensive Income/(Loss) and the Consolidated Statements of Cash Flows from RMB into US\$ as of and for the year ended December 31, 2017 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB6.5063, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 29, 2017. No representation is made that the RMB amounts could have been, or could be,

converted, realized or settled into US\$ at that rate on December 31, 2017, or at any other rate.

***h. Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand, money market fund investments, time deposits, as well as highly liquid investments, some of which are subject to certain penalty as to early withdrawal, which have original maturities of three months or less.

***i. Restricted cash***

Cash that is restricted as to withdrawal or for use or pledged as security is reported separately on the face of the Consolidated Balance Sheets, and is not included in the total cash and cash equivalents in the Consolidated Statements of Cash Flows. The Group's restricted cash mainly represents (a) security deposits held in designated bank accounts for issuance of bank acceptance and letter of guarantee; (b) time deposits that are pledged for short-term bank loans; (c) security deposits held in designated bank accounts related to prepaid cards issued to the customers.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***j. Short-term investments***

Short-term investments include wealth management products, which are certain deposits with variable interest rates or principal not-guaranteed with certain financial institutions. The Group classifies the wealth management products as available-for-sale securities. These investments are recorded at fair market value with the unrealized gains or losses recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. Realized gains are reflected as a component of interest income.

In addition, short-term investments are also comprised of time deposits placed with banks with original maturities longer than three months but less than one year.

***k. Accounts receivable, net***

Accounts receivable, net mainly represent amounts due from customers and online payment channels and are recorded net of allowance for doubtful accounts.

When the consumer financing services are provided to the qualified customers in the online direct sales business, such consumer financing receivables are recorded as accounts receivable. Due to the legacy contractual arrangements in relation to the consumer financing business, the Group remained as the legal owner of the consumer financing receivables, where JD Finance performs the related credit assessment.

JD Finance agreed to purchase the consumer financing receivables past due over certain agreed period of time from the Group at carrying values to absorb the risks, no allowance for doubtful accounts in relation to accounts receivable arising from the consumer financing business were provided. The Group periodically securitizes consumer financing receivables through the transfer of those assets to securitization vehicles, please refer to Note 2(v).

Other than the accounts receivable arising from the consumer financing business, the Group considers many factors in assessing the collectability of its accounts receivable, such as the age of the amounts due, the payment history, creditworthiness and financial conditions of the customers and industry trend, to determine the allowance percentage for the overdue balances by age. The Group adjusts the allowance percentage periodically when there are significant differences between estimated bad debts and actual bad debts. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. The Group also makes specific allowance if there is strong evidence indicating that the accounts receivable are likely to be unrecoverable. Accounts receivable balances are written off after all collection efforts have been exhausted.

The accounts receivable with the collection period over one year are classified into other non-current assets in the Consolidated Balance Sheets.

***1. Inventories, net***

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased, but has arrangements to return unsold goods with certain vendors. Write downs are recorded in cost of revenues in the Consolidated Statements of Operations and Comprehensive Income/(Loss).

The Group also provides fulfillment-related services in connection with the Group's online marketplace. Third-party sellers maintain ownership of their inventories and therefore these products are not included in the Group's inventories.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**2. Summary of significant accounting policies (Continued)*****m. Loan receivables, net***

Loan receivables represent the consumer financing business made to qualified individual customers who are the end user in the online marketplace business. Due to the legacy contractual arrangements in relation to the consumer financing business, the Group remained as the legal owner of the consumer finance receivables, including such loan receivables, where JD Finance performs the related credit assessment. The loan periods extended by the Group to the individual customers mainly range from 1 month to 24 months. The loan receivables are measured at amortized cost and reported on the Consolidated Balance Sheets at outstanding principal adjusted for doubtful account. The accrued interests are also included in the loan receivable balance, which was immaterial. JD Finance agreed to purchase the receivables past due over certain agreed period of time from the Group at carrying values to absorb the risks, hence no provision for the doubtful account was recorded for the years ended December 31, 2016 and 2017. As of December 31, 2016 and 2017, the loan receivables with the collection period over one year with the amount of RMB173,930 and RMB243,624 were classified into other non-current assets in the Consolidated Balance Sheets. The Group periodically securitizes loan receivables arising from its consumer financing businesses through the transfer of those assets to securitization vehicles, please refer to Note 2(v).

***n. Property, equipment and software, net***

Property, equipment and software are stated at cost less accumulated depreciation and impairment. Property, equipment and software are depreciated at rates sufficient to write off their costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

| Category                         | Estimated useful lives                                                            |
|----------------------------------|-----------------------------------------------------------------------------------|
| Electronic equipment             | 3-4 years                                                                         |
| Office equipment                 | 5 years                                                                           |
| Vehicles                         | 5 years                                                                           |
| Logistic and warehouse equipment | 5 years                                                                           |
| Leasehold improvement            | Over the shorter of the expected life of leasehold improvements or the lease term |
| Software                         | 3-5 years                                                                         |
| Building                         | 40 years                                                                          |
| Building improvement             | 5-10 years                                                                        |

Repairs and maintenance costs are charged to expenses as incurred, whereas the costs of renewals and betterment that extend the useful lives of property, equipment and software are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the costs, accumulated depreciation and impairment with any resulting gain or loss recognized in the Consolidated Statements of Operations and Comprehensive Income/(Loss).

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**2. Summary of significant accounting policies (Continued)**

***o. Construction in progress***

Direct costs that are related to the construction of property, equipment and software and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property, equipment and software items and the depreciation of these assets commences when the assets are ready for their intended use. As of December 31, 2016 and 2017, the balances of construction in progress were RMB1,992,123 and RMB3,196,516, which were primarily relating to the construction of office buildings and warehouses.

***p. Land use rights, net***

Land use rights are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives which are 34 to 70 years and represent the shorter of the estimated usage periods or the terms of the agreements.

***q. Intangible assets, net***

Intangible assets purchased from third parties are initially recorded at cost and amortized on a straight-line basis over the estimated economic useful lives. The Group performs valuation of the intangible assets arising from business combination to determine the relative fair value to be assigned to each asset acquired. The acquired intangible assets are recognized and measured at fair value and are expensed or amortized using the straight-line approach over the estimated economic useful lives of the assets.

The estimated useful lives of intangible assets are as follows:

Category

Estimated useful lives

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|                             |            |
|-----------------------------|------------|
| Strategic Cooperation       | 5 years    |
| Non-compete                 | 5-8 years  |
| Technology                  | 2-7 years  |
| Domain names and trademarks | 5-20 years |
| Others                      | 2-10 years |

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

**r. *Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired in a business combination.

Goodwill is not depreciated or amortized but is tested for impairment on an annual basis as of December 31, and in between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. In accordance with the FASB guidance on Testing of Goodwill for Impairment, a company first has the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the company decides, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill will be recorded. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

**s. *Investment in equity investees***

Investment in equity investees represents the Group's investments in privately held companies and publicly traded companies. The Group applies the equity method of accounting to account for an equity investment, in common stock or in-substance common stock, according to ASC 323

Investment Equity Method and Joint Ventures, over which it has significant influence but does not own a majority equity interest or otherwise control.

An investment in in-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to that entity's common stock. The Group considers subordination, risks and rewards of ownership and obligation to transfer value when determining whether an investment in an entity is substantially similar to an investment in that entity's common stock.

For other equity investments that are not considered as debt securities or equity securities that have readily determinable fair values and over which the Group has neither significant influence nor control through investments in common stock or in-substance common stock, the cost method of accounting is used.

Under the equity method, the Group's share of the post-acquisition profits or losses of the equity investees are recorded in share of results of equity investees in the Consolidated Statements of Operations and Comprehensive Income/(Loss) and its share of post-acquisition movements are recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. The Group records its share of the results of equity investments in publicly listed companies and certain privately held companies on a one quarter in arrears basis. The excess of the carrying amount of the investment over the underlying equity in net assets of the equity investee represents goodwill and intangible assets acquired. When the Group's share of losses in the equity investee equals or exceeds its interest in the equity investee, the Group does not recognize further losses, unless the Group has incurred obligations or made payments or guarantees on behalf of the equity investee.

Under the cost method, the Group carries the investment at cost and recognizes income to the extent of dividends received from the distribution of the equity investee's post-acquisition profits.

The Group continually reviews its investment in equity investees to determine whether a decline in fair value to below the carrying value is other-than-temporary. The primary factors the Group considers in its determination are the duration and severity of the decline in fair value; the financial condition, operating performance and the prospects of the equity investee; and other company specific information such as recent financing rounds. If the decline in fair value is deemed to be other-than-temporary, the carrying value of the equity investee is written down to fair value.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***t. Investment securities***

The Group invests in marketable equity securities to meet business objectives. These marketable securities are reported at fair value, classified and accounted for as available-for-sale securities in investment securities. The treatment of a decline in the fair value of an individual security is based on whether the decline is other-than-temporary. The Group assesses its available-for-sale securities for other-than-temporary impairment by considering factors including, but not limited to, its ability and intent to hold the individual security, severity of the impairment, expected duration of the impairment and forecasted recovery of fair value. Investments classified as available-for-sale securities are reported at fair value with unrealized gains or losses, if any, recorded in accumulated other comprehensive income/(loss) as a component of shareholders' equity. If the Group determines a decline in fair value is other-than-temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss charged in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss). The fair value of the investment would not be adjusted for subsequent recoveries in fair value.

***u. Impairment of long-lived assets***

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets.

***v. Nonrecourse securitization debt and transfer of financial assets***

The Group periodically securitizes accounts receivable and loan receivables arising from its consumer financing businesses through the transfer of those assets to securitization vehicles. The securitization vehicles then issue debt securities to third party investors and JD Finance, collateralized by the transferred assets. The asset-backed debt securities issued by the securitization vehicles are nonrecourse to the Group and are payable only out of collections on their respective underlying collateralized assets.

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The securitization vehicles are considered variable interest entities pursuant to ASC 810. The Company will consolidate the securitization vehicles when economic interests are retained in the form of subordinated interests, and acting as the servicer of securitization vehicles. Accordingly, the Company are precluded from recording the related transfers of assets in securitization transactions as sales. Asset-backed debt securities issued by the consolidated securitization vehicles are accounted for as the financing type transactions.

The Company will not consolidate the securitization vehicles when no economic interests are retained by the Company, and the Company has no continuing involvements, including the servicer of the securitization vehicles. Transfers are accounted for as sale and corresponding transferred accounts receivables are de-recognized in the Consolidated Balance Sheets pursuant to ASC 860 only if they meet all of the three criteria: (i) the transferred financial assets have been isolated from the transferor and its creditor, (ii) Each transferee has the right to pledge or exchange the transferred assets, or the transferor have no continuing involvement with the transferred financial assets, and (iii) the transferor do not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets. Otherwise, the transfer of the assets will be accounted for as a financing type transaction if the conditions in ASC 860-10-40-5 were not met. The under common control relationship of the transferor and transferee should be ignored when applying ASC 860, as long as the transferee will not be consolidated by the transferor.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

**v. *Nonrecourse securitization debt and transfer of financial assets(Continued)***

Due to the Company's continuing involvement right in securitization vehicles prior to October 2017, the Company cannot derecognize the existing receivables through the transfer the receivables to securitization vehicles. The proceeds from the financing type transactions are reported as current and non-current nonrecourse securitization debt in the Consolidated Balance Sheets based on their respective expected repayment dates pursuant to ASC 860. While the contractual maturities of the asset-backed debt securities are from 2018 to 2019, the securities are repaid as collections on the underlying collateralized assets occur. As of December 31, 2016 and 2017, the collateralized accounts receivable were RMB10,745,565 and RMB11,701,973, respectively, and the collateralized loan receivables were RMB2,756,762 and RMB4,512,764, respectively. The weighted average interest rate for the outstanding nonrecourse securitization debt as of December 31, 2016 and 2017 was approximately 4.49% and 5.33%, respectively. The interest expenses in relation to the nonrecourse securitization debt were charged back to JD Finance.

Beginning October 2017, the Company revised certain structural arrangements to relinquish its continuing involvement right when setting up the new securitization vehicles, then the Company derecognized RMB8,000,000 consumer credit receivables financial assets (including the accounts receivable of RMB5,693,223 and loan receivables of RMB2,306,777) of financial assets through the sales type arrangements, with the proceeds of RMB8,000,000 (2015 and 2016: Nil), where JD Finance acted as the servicer and purchased the subordinate tranche of the securitization vehicles. The gain/loss recorded upon the sale accounting was immaterial in 2017.

**w. *Unsecured senior notes***

Unsecured senior notes are recognized initially at fair value, net of debt discounts or premiums and debt issuance costs. Debt discount or premium and debt issuance costs are recorded as a reduction of the principal amount and the related accretion is recorded as interest expense in the Consolidated Statements of Operations and Comprehensive Income/(Loss) over the maturities of the notes using the effective interest method.

**x. *Fair value***

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The Group measures certain financial assets, including the investments under the cost method and equity method on other-than-temporary basis, intangible assets, goodwill and fixed assets at fair value when an impairment charge is recognized.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

**y. *Revenue***

The Group through its websites mainly www.jd.com and mobile apps, engages primarily in the sale of electronics and home appliance products and general merchandise products (including audio, video products and books) sourced from manufacturers, distributors and publishers in China on the internet, and offers an online marketplace that enables third-party sellers to sell their products to consumers. The Group provides logistics services to third parties, including third-party sellers on its online marketplace and merchants that do not sell products on its online marketplace through the its logistics business. The Group also offered financial services to its suppliers, third party sellers and qualified individual customers, and the finance business was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Finance (Note 6). Customers place their orders for products or services online through the Group's websites. Payment for the purchased products or services is generally made either before delivery or upon delivery.

Consistent with the criteria of ASC 605, *Revenue Recognition*, the Group recognizes revenues when the following four revenue recognition criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the selling price is fixed or determinable, and (iv) collectability is reasonably assured.

In accordance with ASC 605, *Revenue Recognition*, the Group evaluates whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenues should be recorded on a gross basis. When the Group is not the primary obligor, doesn't bear the inventory risk and doesn't have the ability to establish the price, revenues are recorded on a net basis.

Revenue arrangements with multiple deliverables are divided into separate units of accounting and arrangement considerations are allocated using estimated selling prices if the Group does not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables.

The Group recognizes revenue net of discounts and return allowances when the products are delivered and title passes to customers. Return allowances, which reduce net revenues, are estimated based on historical experiences.

The Group also sells prepaid cards which can be redeemed to purchase products sold on the website www.jd.com. The cash collected from the sales of prepaid cards is initially recorded in advance from customers in the Consolidated Balance Sheets and subsequently recognized as revenues upon the sales of the respective products through redemption of prepaid cards are completed.

Revenue is recorded net of value-added taxes, business taxes and related surcharges.

*Net Product Revenues (formerly known as Online Direct Sales)*

The Group primarily sells electronics and home appliance products and general merchandise products through online direct sales. The Group recognizes the product revenues from the online direct sales on a gross basis as the Group is primarily obligated in these transactions, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has met several but not all of these indicators. Revenues from the sales of electronics and home appliance products were RMB134,519,246, RMB179,821,655 and RMB236,268,621, and revenues from the sales of general merchandise products were RMB33,416,774, RMB58,121,977 and RMB95,555,789, for the years ended December 31, 2015, 2016 and 2017, respectively.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

**y. *Revenue (Continued)***

*Net Service Revenues (formerly known as Services and Others)*

The service revenues primarily consist of commission fees charged to third-party sellers for participating in the Group's online marketplace, where the Group generally is not the primary obligor, does not bear the inventory risk, does not have the ability to establish the price or control the related shipping services when utilized by the online marketplace merchants. Upon successful sales at www.jd.com, the Group will charge the third-party sellers a negotiated amount or a fixed rate commission fee based on the sales amount. Commission fee revenues are recognized on a net basis at the point of delivery of products, net of return allowance.

The Group also provides online marketing services to merchants and suppliers on its various website channels and third party marketing affiliate's websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which merchants and suppliers are charged based on effective click on their products or service listings. The Group recognizes revenues from advertising placements ratably over the period during which the advertising services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions, and recognizes revenues from pay for performance marketing services based on effective clicks. Advertising arrangements involving multiple deliverables are allocated into single-element arrangements based on their relative selling price in the absence of both vendor specific objective evidence and third party evidence, and the related revenue is recognized over the period during which the element is provided. Significant assumptions and estimates have been made in estimating the relative selling price of each single-element, and changes in judgments on these assumptions and estimates could materially impact the timing of advertising revenue recognition. The Group did not enter into material advertising-for-advertising barter transactions.

The Group opened its fulfillment infrastructure by offering comprehensive supply chain solutions to third-party sellers on its online marketplace and business customers that do not sell products on its online marketplace through JD Logistics, including transportation, delivery, warehousing. Revenues resulting from these services are recognized when services are performed, such as when goods are arrived at designated place, packages are delivered to the recipients, or based on the storage space and time.

The Group offered consumer financing to individual customers and supply chain financing to suppliers and merchants on the Group's online marketplace through JD Finance. Revenues resulting from these financing services are recognized in accordance with the contractual terms, and were reflected in discontinued operation results as JD Finance was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Finance (Note 6).

The Group offers comprehensive customer services, primarily include 7\*24 hours customer service to respond to customer post-sales requests, return and exchange service to facilitate customer's return, exchange and repair of defective goods. These services are free of charge. The Group also provides return/exchange logistic service to the customers, of which the revenues recognized was not material for the periods presented.

*z. Customer incentives and loyalty programs*

The Group provides two types of discounted coupons, referred to as D Coupons and J Coupons, for free to its customers to incentivize purchase.

- D Coupons are given to a customer upon their current purchase or can be given for free to promote future purchases. This coupon requires the customer to make future purchase of a minimum value in order to enjoy the value provided by the coupon. The right to purchase discounted products in the future is not considered an element of an arrangement within the scope of the multiple-element arrangements guidance in ASC 605, as the right does not represent a significant and incremental discount to the customer. The Group assesses the significance of the discount by considering its percentage of the total future minimum purchase value, historical usage pattern by the customers and relative outstanding volume and monetary value of D Coupons compared to the other discounts offered by the Group. D Coupons are accounted for as a reduction of revenue on the future purchase.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***z. Customer incentives and loyalty programs (Continued)***

- J Coupons are given to a customer upon their qualified purchase or can be given for free to promote future purchases and is to be used on a future purchase, with no limitation as to the minimum value of the future purchase. Accordingly, the Group has determined that J Coupons awarded are considered an element of an arrangement within the scope of ASC 605-25, as the J Coupons represent a significant and incremental discount to the customer. Therefore, the delivered products and the J Coupons awarded are treated as separate unit of accounting. The selling price of the J Coupons awarded is generally determined by management's best estimate of the selling price in the absence of both vendor specific objective evidence and third party evidence. The amount allocated to the J Coupons is deferred and recognized when the J Coupons are redeemed or at the coupon's expiration, whichever occurs first. J Coupons have an expiration of one year after issuance. For the years ended December 31, 2015, 2016 and 2017, the amount of expired J Coupons was not material.

Registered customers may also earn J Beans, which was launched in October 2013 based on certain activities performed on the Group's website by the customers such as purchasing merchandise or reviewing their buying experiences. J Beans can be used as cash to buy any products sold by the Group, which will directly reduce the amount paid by the customer, or redeemed for D Coupons that can be used in certain shops on JD platform. The Group considers J Beans awarded from sales of products and reviewing buying experiences to be part of its revenue generating activities, and such arrangements are considered to have multiple elements. Therefore, the sales consideration is allocated to the products and J Beans based on the relative selling price of the products and J Beans awarded. Consideration allocated to the J Beans is initially recorded as deferred revenues, and recognized as revenues when the D Coupons for which the J Beans are redeemed, or when J Beans are used or expired. J Beans will expire at the subsequent year end after issuance. For the years ended December 31, 2015, 2016 and 2017, the amount of expired J Beans was not material.

***aa. Cost of revenues***

Cost of revenues consists primarily of purchase price of products, inbound shipping charges, write-downs of inventory, traffic acquisition costs related to online marketing services, and cost related to logistics services provided to third parties. Shipping charges to receive products from the suppliers are included in the inventories, and recognized as cost of revenues upon sale of the products to the customers.

***bb. Rebates and subsidies***

The Group periodically receives considerations from certain vendors, representing rebates for products sold and subsidies for the sales of the vendors' products over a period of time. The rebates are not sufficiently separable from the Group's purchase of the vendors' products and they do not represent a reimbursement of costs incurred by the Group to sell vendors' products. The Group accounts for the rebates received from its vendors as a reduction to the prices it pays for the products purchased and therefore the Group records such amounts as a reduction of cost of revenues when recognized in the Consolidated Statements of Operations and Comprehensive Income/(Loss). Rebates are earned upon reaching minimum purchase thresholds for a specified period. When volume rebates can be reasonably estimated based on the Group's past experiences and current forecasts, a portion of the rebates is recognized as the Group makes progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through the Group and are recorded as a reduction of cost of revenues when the sales have been completed and the amount is determinable.

***cc. Fulfillment***

Fulfillment costs represent packaging material costs and those costs incurred in outbound shipping, operating and staffing the Group's fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting and warehousing inventories; picking, packaging and preparing customer orders for shipment; processing payment and related transaction costs and responding to inquiries from customers. Fulfillment costs also contain third party transaction fees, such as credit card processing and debit card processing fees. The cost related to logistics services provided to third parties are classified in cost of revenues in the Consolidated Statements of Operations and Comprehensive Income/(Loss). Shipping cost included in fulfillment costs amounted to RMB5,866,294, RMB9,329,269 and RMB12,691,013 for the years ended December 31, 2015, 2016 and 2017, respectively.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***dd. Marketing***

Marketing expenses consist primarily of advertising costs, public relations expenditures, and payroll and related expenses for employees involved in marketing and business development activities. The Group pays commissions to participants in the associates program when their customer referrals result in successful product sales and records such costs in marketing in the Consolidated Statements of Operations and Comprehensive Income/(Loss). The Group also participates in cooperative advertising arrangements with certain of the Group's vendors and third-party sellers.

Advertising costs, which consist primarily of online advertising, offline television, movie and outdoor advertising, are expensed as incurred, and totaled RMB5,282,375, RMB7,789,906 and RMB12,375,922 for the years ended December 31, 2015, 2016 and 2017, respectively.

***ee. Technology and content***

Technology and content expenses consist primarily of technology infrastructure expenses and payroll and related expenses for employees involved in platform development, category expansion, editorial content, buying and merchandising selection systems support, as well as costs associated with the computing, storage and telecommunications infrastructure for internal use that support the Group's web services.

Technology and content expenses are expensed as incurred. Software development costs are recorded in Technology and content as incurred as the costs qualifying for capitalization have been insignificant.

***ff. General and administrative***

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, including accounting, finance, tax, legal and human relations; costs associated with use by these functions of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

**gg. Share-based compensation**

The Company grants non-vested ordinary shares, restricted share units ( RSUs ) and share options of the Company or its subsidiaries to eligible employees, non-employee consultants and accounts for these share-based awards in accordance with ASC 718 *Compensation – Stock Compensation* and ASC 505-50 *Equity-Based Payments to Non-Employees*.

Employees' share-based awards and the Founder's share-based awards are measured at the grant date fair value of the awards and recognized as expenses a) immediately at grant date if no vesting conditions are required; or b) using graded vesting method, net of estimated forfeitures, over the requisite service period, which is the vesting period.

All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

Non-employees' share-based awards are measured at fair value at the earlier of the commitment date or the date the services are completed. Awards granted to non-employees are re-measured at each reporting date using the fair value as at each period end until the measurement date, generally when the services are completed and awards are vested. Changes in fair value between the reporting dates are recognized by graded vesting method.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***gg. Share-based compensation(Continued)***

Prior to the Company's initial public offering, the fair value of the non-vested ordinary shares and RSUs were assessed using the income approach/discounted cash flow method, with a discount for lack of marketability given that the shares underlying the awards were not publicly traded at the time of grant. This assessment required complex and subjective judgments regarding the Company's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants were made. In addition, the binomial option-pricing model is used to measure the value of share options. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, actual and projected employee and nonemployee share option exercise behavior, risk-free interest rates and expected dividend yield. Binomial option-pricing model incorporates the assumptions about grantees' future exercise patterns. The fair value of these awards was determined with the assistance from an independent valuation firm using management's estimates and assumptions.

After the Company's initial public offering, in determining the fair value of the RSUs granted, the closing market price of the underlying shares on the last trading date prior to the grant dates is applied. In determining the fair value of the RSUs granted on May 22, 2014, the date when the Group's ADSs first commenced trading on Nasdaq Global Select Stock Market ( "Nasdaq" ), the per share equivalent of the Company's initial public offering price is applied.

The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and application of management judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period. Moreover, the estimates of fair value of the awards are not intended to predict actual future events or the value that ultimately will be realized by grantees who receive share-based awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company for accounting purposes.

Forfeitures are estimated at the time of grant and revised in the subsequent periods if actual forfeitures differ from those estimates.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

**hh. *Income tax***

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of existing assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. The Group records a valuation allowance to reduce the amount of deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in the Consolidated Statements of Operations and Comprehensive Income/(Loss) in the period of change. Deferred tax assets and liabilities are classified as non-current in the Consolidated Balance Sheets.

The Group recognizes in its consolidated financial statements the benefit of a tax position if the tax position is more likely than not to prevail based on the facts and technical merits of the position. Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group estimates its liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Group's estimates. As each audit is concluded, adjustments, if any, are recorded in the Group's consolidated financial statements in the period in which the audit is concluded. Additionally, in future periods, changes in facts, circumstances and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. As of December 31, 2015, 2016 and 2017, the Group did not have any significant unrecognized uncertain tax positions.

**ii. *Leases***

Each lease is classified at the inception date as either a capital lease or an operating lease. For the lessee, a lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the leaser at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. Payments made under operating lease are charged to the Consolidated Statements of Operations and Comprehensive Income/(Loss) on a straight-line basis over the terms of underlying lease. The Group has no capital leases for any of the periods presented.

**jj. Comprehensive income/(loss)**

Comprehensive income/(loss) is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments from shareholders and distributions to shareholders. Comprehensive income/(loss) for the periods presented includes net loss, changes in unrealized gains/(losses) on available for sales securities, foreign currency translation adjustments, and share of change in other comprehensive income/(loss) of equity investments.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***kk. Net income/(loss) per share***

Basic net income/(loss) per share is computed by dividing net income/(loss) attributable to holders of ordinary shares, considering the net income attributable to mezzanine classified non-controlling interests shareholders, by the weighted average number of ordinary shares outstanding during the period. Diluted net income/(loss) per share is calculated by dividing net income/(loss) attributable to ordinary shareholders, as adjusted for the allocation of net income related to the mezzanine classified non-controlling interests shareholders, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of unvested restricted shares, restricted share units and ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive.

***ll. Segment reporting***

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ( CODM ), or decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Chief Executive Officer.

The Group historically had only one single reportable segment because the CODM formerly relied on the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group. With the development of the new business initiatives, the CODM started to separately evaluate performance and allocate resources by different business segments, thus the Group changed its reportable segments in 2016. The Group's principal operations are currently organized into two major business segments, the JD Mall segment and the New businesses segment, which are defined based on the products and services provided. JD Mall represents core e-commerce business. New businesses include O2O (deconsolidated since its merger with Dada Nexus on April 26, 2016), insurance, technology initiatives, overseas business as well as logistics services provided to third parties. New businesses also include the business of Paipai.com for the year ended December 31, 2015. JD Finance was previously included in New businesses, which was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Finance (Note 6), accordingly, the Group updated the presentation of segment information for prior years to conform to the current year's presentation in accordance with ASC 280 *Segment Reporting*.

*mm. Statutory reserves*

The Company's subsidiaries, consolidated VIEs and VIEs' subsidiaries established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Group's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their after-tax profits (as determined under generally accepted accounting principles in the PRC ( PRC GAAP )) to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

In addition, in accordance with the PRC Company Laws, the Group's consolidated VIEs and VIEs' subsidiaries, registered as Chinese domestic companies, must make appropriations from their after-tax profits as determined under the PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the respective company.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***mm. Statutory reserves (Continued)***

The use of the general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted to the offsetting of losses or increasing of the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of employees. None of these reserves are allowed to be transferred to the company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2015, 2016 and 2017, profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was approximately RMB40,551, RMB77,378 and RMB503,028 respectively. No appropriation to other reserve funds was made for any of the periods presented.

***nn. Recent accounting pronouncements***

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB deferred the effective date of the revenue recognition guidance to reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. The Group adopted the new revenue standard beginning January 1, 2018 using the modified retrospective transition method that increased retained earnings by approximately RMB0.3 billion rather than retrospectively adjusting prior periods. The Group began to recognize revenue from estimated unredeemed prepaid cards over the expected customer redemption period, rather than waiting until prepaid cards expire or when the likelihood of redemption becomes remote.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted only for certain provisions. The Group would apply this update by a cumulative-effect adjustment to the retained earnings as of the beginning of the fiscal year of adoption. After the adoption of this new accounting update in the first quarter of 2018, the Company will measure long-term investments other than equity method investments at fair value through earnings, which could vary significantly quarter to quarter. For those investments without readily determinable fair values, the Company will elect to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Changes in the basis of these investments will be reported

in current earnings. The Group adopted this ASU beginning January 1, 2018 and RMB1.2 billion of accumulated other comprehensive income for our available-for-sale equity securities that existed as of December 31, 2017 was reclassified into retained earnings upon the adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which introduces a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use ( ROU ) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The ASU will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Group is in the process of implementing changes to its systems and processes in conjunction with the review of existing lease agreements. The Group is currently evaluating the impact, and expects this ASU will have a material impact on the consolidated financial statements, primarily to the consolidated balance sheets and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows; (d) accounting for forfeitures of share-based payments. The ASU will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Group adopted this ASU beginning January 1, 2017 with no material impact on its consolidated financial statements.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***nn. Recent accounting pronouncements (Continued)***

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326) , which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Group is currently evaluating the impact that the standard will have on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ( ASU ) 2016-15, Statement of Cash Flows Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group does not expect the standard to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of cash flows (Topic 230): restricted cash , which requires entities to include restricted cash and restricted cash equivalents in the cash and cash equivalent balances in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Group adopted this ASU beginning January 1, 2018. As of December 31, 2016 and 2017, the balances of restricted cash were RMB2,293,640 and RMB4,110,210, respectively.

In January 2017, the FASB issued ASU 2017-04, Intangibles Goodwill and Other (Topic 350): simplifying the test for goodwill impairment , the guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not the difference between the fair value and carrying amount of goodwill which was the step 2 test before. The ASU should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.



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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**2. Summary of significant accounting policies (Continued)**

***nn. Recent accounting pronouncements (Continued)***

In February 2017, the FASB issued ASU 2017-05, *Other Income Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies that ASC 610-20 applies to the derecognition of nonfinancial assets and in substance nonfinancial assets unless other specific guidance applies. As a result, it will not apply to the derecognition of businesses, nonprofit activities, or financial assets (including equity method investments), or to revenue transactions (contracts with customers). The new guidance also clarifies that an in substance nonfinancial asset is an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. The new guidance will also impact the accounting for partial sales of nonfinancial assets (including in substance real estate). When an entity transfers its controlling interest in a nonfinancial asset, but retains a non-controlling ownership interest, the entity will measure the retained interest at fair value. This is similar to the guidance on the sale of controlling interests in businesses. This will result in full gain/loss recognition upon the sale of a controlling interest in a nonfinancial asset. Current guidance generally prohibits gain recognition on the retained interest. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Group does not expect the adoption to have a material impact on its consolidated financial statements. The Group adopted this ASU beginning January 1, 2018.

In May 2017, the FASB issued ASU 2017-09, *Compensation Stock Compensation (Topic 718): Scope of Modification Accounting*, which amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which the Group would be required to apply modification accounting under ASC 718. The ASU is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Group adopted this ASU beginning January 1, 2018. The Group does not expect the adoption to have a material impact on its consolidated financial statements.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**3. Concentration and risks**

*Concentration of customers and suppliers*

There are no customers or suppliers from whom revenues or purchases individually represent greater than 10% of the total revenues or the total purchases of the Group for the years ended December 31, 2015, 2016 and 2017.

*Concentration of credit risk*

Assets that potentially subject the Group to significant concentrations of credit risk primarily consist of cash and cash equivalents, restricted cash, accounts receivable and short-term investments. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates. As of December 31, 2016 and 2017, all of the Group's cash and cash equivalents, restricted cash and short-term investments were held by major financial institutions located in the PRC and Hong Kong which management believes are of high credit quality. On May 1, 2015, China's new Deposit Insurance Regulation came into effect, pursuant to which banking financial institutions, such as commercial banks, established in China are required to purchase deposit insurance for deposits in RMB and in foreign currency placed with them. Such Deposit Insurance Regulation would not be effective in providing complete protection for the Group's accounts, as its aggregate deposits are much higher than the compensation limit. However, the Group believes that the risk of failure of any of these PRC banks is remote. Bank failure is uncommon in China and the Group believes that those Chinese banks that hold the Group's cash and cash equivalents, restricted cash and short-term investments are financially sound based on public available information. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances.

*Currency convertibility risk*

The PRC government imposes controls on the convertibility of RMB into foreign currencies. The Group's cash and cash equivalents, restricted cash and short-term investments denominated in RMB that are subject to such government controls amounted to RMB9,944,039 and RMB27,566,040 as of December 31, 2016 and 2017, respectively. The value of RMB is subject to changes in the central government policies and to international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the PBOC). Remittances in currencies other than RMB by the Group in the PRC must be processed through PBOC or other Chinese foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

*Foreign currency exchange rate risk*

In July 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the US\$, and the RMB appreciated more than 20% against the US\$ over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the US\$ remained within a narrow band. Since June 2010, the RMB has fluctuated against the US\$, at times significantly and unpredictably. The depreciation of the RMB against the US\$ was approximately 7.2% in 2016. The appreciation of the RMB against the US\$ was approximately 6.3% in 2017. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

**4. Restricted cash and restricted time deposit**

To meet the requirements of specific business operations, primarily including secured deposits held in designated bank accounts for issuance of bank acceptance and for prepaid cards, the Group held restricted cash of RMB2,293,640 and RMB4,110,210 as of December 31, 2016 and 2017, respectively. Changes in the restricted cash balances associated with the bank acceptance are classified as cash flows from operating activities in the Consolidated Statements of Cash Flows as the Group considers restricted cash arising from these activities directly related to the Group's ordinary business operations. Changes in the restricted cash balances associated with prepaid cards are classified as cash flow from investing activities in the Consolidated Statements of Cash Flows as the Group considers restricted cash arising from these activities similar to an investment.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****5. Fair value measurement**

As of December 31, 2016 and 2017, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured or disclosed at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

| Description                | Fair value measurement at reporting date using     |                                                                                |                                                            |                                                           |
|----------------------------|----------------------------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|
|                            | Fair value<br>as of<br>December 31,<br>2016<br>RMB | Quoted Prices in Active<br>Markets for Identical<br>Assets<br>(Level 1)<br>RMB | Significant Other<br>Observable Inputs<br>(Level 2)<br>RMB | Significant<br>Unobservable<br>Inputs<br>(Level 3)<br>RMB |
|                            |                                                    |                                                                                |                                                            |                                                           |
| Assets:                    |                                                    |                                                                                |                                                            |                                                           |
| Cash equivalents           |                                                    |                                                                                |                                                            |                                                           |
| Time deposits              | 4,472,900                                          |                                                                                | 4,472,900                                                  |                                                           |
| Restricted cash            | 2,293,640                                          |                                                                                | 2,293,640                                                  |                                                           |
| Short-term investments     |                                                    |                                                                                |                                                            |                                                           |
| Time deposits              | 3,512,000                                          |                                                                                | 3,512,000                                                  |                                                           |
| Wealth management products | 3,036,001                                          |                                                                                | 3,036,001                                                  |                                                           |
| Investment securities      |                                                    |                                                                                |                                                            |                                                           |
| Listed equity securities   | 1,059,632                                          | 1,059,632                                                                      |                                                            |                                                           |
| Total assets               | 14,374,173                                         | 1,059,632                                                                      | 13,314,541                                                 |                                                           |
|                            |                                                    |                                                                                |                                                            |                                                           |
| Liabilities:               |                                                    |                                                                                |                                                            |                                                           |
| Unsecured senior notes     | (6,750,950)                                        |                                                                                | (6,750,950)                                                |                                                           |

| Description                | Fair value measurement at reporting date using     |                                                                                |                                                            |                                                           |
|----------------------------|----------------------------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|
|                            | Fair value<br>as of<br>December 31,<br>2017<br>RMB | Quoted Prices in Active<br>Markets for Identical<br>Assets<br>(Level 1)<br>RMB | Significant Other<br>Observable Inputs<br>(Level 2)<br>RMB | Significant<br>Unobservable<br>Inputs<br>(Level 3)<br>RMB |
| Assets:                    |                                                    |                                                                                |                                                            |                                                           |
| Cash equivalents           |                                                    |                                                                                |                                                            |                                                           |
| Time deposits              | 5,076,650                                          |                                                                                | 5,076,650                                                  |                                                           |
| Money market funds         | 1,372,182                                          | 1,372,182                                                                      |                                                            |                                                           |
| Restricted cash            | 4,110,210                                          |                                                                                | 4,110,210                                                  |                                                           |
| Short-term investments     |                                                    |                                                                                |                                                            |                                                           |
| Time deposits              | 5,098                                              |                                                                                | 5,098                                                      |                                                           |
| Wealth management products | 8,582,754                                          |                                                                                | 8,582,754                                                  |                                                           |
| Investment securities      |                                                    |                                                                                |                                                            |                                                           |
| Listed equity securities   | 10,027,813                                         | 10,027,813                                                                     |                                                            |                                                           |
| Total assets               | 29,174,707                                         | 11,399,995                                                                     | 17,774,712                                                 |                                                           |

**Liabilities:**

|                        |             |             |
|------------------------|-------------|-------------|
| Unsecured senior notes | (6,527,960) | (6,527,960) |
|------------------------|-------------|-------------|

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates. Following is a description of the valuation techniques that the Group uses to measure the fair value of assets that the Group reports in its Consolidated Balance Sheets at fair value on a recurring basis.

**Cash equivalents**

Time deposits. The Group values its time deposits held in certain bank accounts using quoted prices for securities with similar characteristics and other observable inputs, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2.

Money market funds. The Group values its money market funds using quoted prices in active markets for these investments, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****5. Fair value measurement (Continued)****Restricted cash**

Restricted cash are valued based on the pervasive interest rate in the market, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2.

**Short-term investments**

Wealth management products. The Group values its wealth management products using alternative pricing sources and models utilizing market observable inputs, and accordingly the Group classifies the valuation techniques that use these inputs as Level 2. The wealth management products usually have short original maturities of less than 1 year, the carrying value approximates to fair value.

As of December 31, 2016 and 2017, gross unrealized gains of RMB18,001 and RMB23,755 were recorded on wealth management products, respectively. No impairment charges were recorded for the years ended December 31, 2015, 2016 and 2017, respectively.

**Investment securities**

Listed equity securities. The Group values its listed equity securities using quoted prices for the underlying securities in active markets, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1. The following table summarizes the carrying value and fair value of the investment securities which are accounted for as available-for-sale securities:

|                   | <b>Cost<br/>Basis<br/>RMB</b> | <b>Gross<br/>Unrealized<br/>Gains<br/>RMB</b> | <b>Gross<br/>Unrealized<br/>Losses<br/>RMB</b> | <b>Provision<br/>for decline<br/>in value<br/>RMB</b> | <b>Fair<br/>Value<br/>RMB</b> |
|-------------------|-------------------------------|-----------------------------------------------|------------------------------------------------|-------------------------------------------------------|-------------------------------|
| December 31, 2016 | 1,181,710                     | 116,434                                       | (37,551)                                       | (200,961)                                             | 1,059,632                     |

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|                   |           |           |           |          |            |
|-------------------|-----------|-----------|-----------|----------|------------|
| December 31, 2017 | 9,087,935 | 1,476,834 | (513,047) | (23,909) | 10,027,813 |
|-------------------|-----------|-----------|-----------|----------|------------|

In 2016, the Group invested in Bluefocus Communication Group Co., Ltd. ( BlueFocus ) by subscription of its newly issued ordinary shares, representing approximately 0.8% of the outstanding ordinary shares of BlueFocus. Total cash consideration for the investment in BlueFocus was RMB200,000.

In 2015, the Group invested in LexinFintech Holdings Ltd. ( Lexin , formerly known as Staging Finance Holding Ltd.) with the total consideration of USD33,000 (RMB218,018 as of December 20, 2017). On December 20, 2017, Lexin completed its initial public offering on Nasdaq. Concurrently during Lexin's IPO, the Company purchased additional shares with a total amount of RMB29,730. As of December 31, 2017, the fair value of the Group's investment in Lexin was approximately RMB1,357,229, with unrealized gain of RMB1,109,481.

In 2017, the Company invested in China United Network Communications Limited ( China Unicom ) with a total consideration of RMB5,000,000, and held approximately 2.4% of China Unicom's equity interest. The investment to China Unicom is accounted for as available-for-sale equity securities. As of December 31, 2017, the unrealized loss related to the investment in China Unicom was RMB366,032.

In 2017, the Company also invested in Vipshop Holdings Ltd. ( Vipshop ) with a total consideration of RMB2,794,547 and held approximately 5.5% of Vipshop's equity interest. The investment in Vipshop is accounted for as available-for-sale equity securities. As of December 31, 2017, the unrealized loss related to the investment in Vipshop was RMB37,064.

The Group reviews its available-for-sale securities investments regularly to determine if an investment is other-than-temporarily impaired due to changes in quoted market price or other impairment indicators. Impairment charges of RMB200,961 and RMB23,909 were recorded for the years ended December 31, 2016 and 2017, respectively.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**5. Fair value measurement (Continued)**

**Unsecured senior notes**

The carrying amounts of unsecured senior notes approximate their fair values due to the fact that the related interest rates approximate rates currently offered by financial institutions for similar debt instruments of comparable maturities. The fair value of unsecured senior notes was categorized as Level 2 in the fair value hierarchy.

**Other financial instruments**

The followings are other financial instruments not measured at fair value in the Consolidated Balance Sheets, but for which the fair value is estimated for disclosure purposes.

Short-term receivables and payables. Accounts receivable, loan receivables and prepayments and other current assets are financial assets with carrying values that approximate fair value due to their short-term nature. Accounts payable, accrued expenses and other current liabilities and advance from customers, are financial liabilities with carrying values that approximate fair value due to their short-term nature.

Short-term borrowings. Interest rates under the borrowing agreements with the lending parties were determined based on the prevailing interest rates in the market. The carrying value of short-term borrowing approximates to fair value. The Group classifies the valuation techniques that use these inputs as Level 2 fair value measurement.

Nonrecourse securitization debt. The carrying amounts of nonrecourse securitization debt approximate its fair values due to the fact that the related interest rates approximate rates currently offered by financial institutions for similar debt instruments of comparable maturities. The Group classifies the valuation techniques that use these inputs as Level 2 fair value measurement.

**Assets and liabilities measured at fair value on a nonrecurring basis**

Goodwill. The inputs used to measure the estimated fair value of goodwill are classified as Level 3 fair value measurement due to the significance of unobservable inputs using company-specific information. The valuation methodology used to estimate the fair value of goodwill is discussed in Note 8 Business Combination .

Investment in equity investees. Investments in privately held companies and publicly traded companies included within investment in equity investees in the Consolidated Balance Sheets are reviewed periodically for impairment using fair value measurement. The primary factors that the Group considers include the duration and severity that the fair value of the investment is below its carrying value; post-balance sheet date fair value of the investment; the financial condition, operating performance, strategic collaboration with and the prospects of the investee; the economic or technological environment in which the investee operates; and other entity specific information such as recent financing rounds completed by the investee companies. The investments in privately held companies were measured using significant unobservable inputs (Level 3) as of December 31, 2015, 2016 and 2017, with impairment charges of RMB285,051, RMB341,984 and RMB59,987 were recorded in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss) for the years ended December 31, 2015, 2016 and 2017, respectively. The valuation methodology used to estimate the fair value of investments in publicly traded companies and associated impairment charges are discussed in Note 7 Investment in equity investees .

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**6. JD Finance reorganization**

In the first half of 2017, the Group entered into a series of definitive agreements relating to the reorganization of JD Finance. Pursuant to the definitive agreements, the Group disposed of all its equity stake of 68.6% in JD Finance so that it holds neither legal ownership nor effective control of JD Finance, received RMB14.3 billion in cash and is entitled to a royalty and software technical services fee of 40% of the future pre-tax profit of JD Finance when JD Finance has a positive pre-tax income on a cumulative basis. In addition, the Group would be able to convert its profit sharing right with respect to JD Finance into 40% of JD Finance's equity interest, subject to applicable regulatory approvals. Mr. Richard Qiangdong Liu, the Group's Chairman of the Board and Chief Executive Officer, also participated in the reorganization of JD Finance, and purchased an equity stake of JD Finance at the same price as third-party investors and pursuant to the same set of definitive agreements. Mr. Richard Qiangdong Liu also obtained majority voting rights in JD Finance through his equity stake and act-in-concert arrangement with other investors and ESOP participants. The transaction was completed by June 30, 2017 and all of the cash consideration was received in 2017.

Because the Group is entitled to a royalty and software technical services fee of 40% of the future pre-tax profit of JD Finance when JD Finance has a positive pre-tax income on a cumulative basis, and therefore the Group is considered to have a variable interest in JD Finance even though the Group has no equity interest in JD Finance. As the Group shares a large portion of JD Finance's expected residual returns, it limits the right of holders of the equity investment at risk to receive JD Finance's expected residual returns, hence, JD Finance is a VIE.

Mr. Richard Qiangdong Liu holds a minority equity stake in JD Finance, and obtains majority voting rights in JD Finance through his equity stake and voting arrangements, possesses the power to direct the activities of JD Finance that would most significantly impact its economic performance, and also exposes to benefits and losses of JD Finance. As a result, JD Finance is an unconsolidated VIE of the Group as the Group is not considered the primary beneficiary of JD Finance.

Hence upon the completion of the transaction on June 30, 2017, JD Finance was deconsolidated from the Group as a result of the reorganization. The Group and JD Finance are both controlled by Mr. Richard Qiangdong Liu before and after the transaction, so the disposal of JD Finance was achieved through an under the common control transaction, accordingly, the gain of RMB14,193,481 from the disposal of JD Finance was recorded in equity account as additional paid-in capital. The gain represented the excess of cash consideration, net of taxes, over the net carrying value of the disposed equity stake in JD Finance.

The disposal of JD Finance has met the discontinued operation criteria. However, given the facts that the disposal is achieved through an under common control transaction, and therefore the held-for-sale and discontinued operation presentation can only be adopted upon the disposal date, which is June 30, 2017.

The Group has classified the historical financial results of JD Finance as discontinued operations in the Group's Consolidated Statements of Operations and Comprehensive Income/(Loss) for all periods presented prior to July 1, 2017. Additionally, the related assets and liabilities associated with discontinued operations in the prior year consolidated balance sheets were classified as assets/liabilities held for sale to provide the comparable financial information.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****6. JD Finance reorganization (Continued)**

The following tables set forth the assets, liabilities, redeemable non-controlling interests, results of operations and cash flows of discontinued operations, which were included in the Group's consolidated financial statements:

|                                                           | As of December 31, 2016<br>RMB |
|-----------------------------------------------------------|--------------------------------|
| <b>ASSETS</b>                                             |                                |
| <b>Current assets</b>                                     |                                |
| Cash and cash equivalents                                 | 4,204,659                      |
| Restricted cash                                           | 2,098,315                      |
| Accounts receivable, net                                  | 1,323,401                      |
| Advance to suppliers                                      | 1,166,619                      |
| Loan receivables, net                                     | 8,681,592                      |
| Other investments (*)                                     | 10,766,920                     |
| Other current assets                                      | 1,577,213                      |
| Elimination adjustments (**)                              | (7,664,225)                    |
| <b>Total current assets held for sale</b>                 | <b>22,154,494</b>              |
| <b>Non-current assets</b>                                 |                                |
| Other investments (*)                                     | 6,997,425                      |
| Other non-current assets                                  | 2,231,186                      |
| Elimination adjustments (**)                              | (1,896,200)                    |
| <b>Total non-current assets held for sale</b>             | <b>7,332,411</b>               |
| <b>Total assets held for sale</b>                         | <b>29,486,905</b>              |
| <b>Current liabilities</b>                                |                                |
| Short-term borrowings                                     | 6,455,031                      |
| Nonrecourse securitization debt                           | 158,112                        |
| Other current liabilities                                 | 17,144,259                     |
| <b>Total current liabilities held for sale</b>            | <b>23,757,402</b>              |
| <b>Non-current liabilities</b>                            |                                |
| Nonrecourse securitization debt                           | 1,759,238                      |
| Other non-current liabilities                             | 52,374                         |
| <b>Total non-current liabilities held for sale</b>        | <b>1,811,612</b>               |
| <b>Total liabilities held for sale</b>                    | <b>25,569,014</b>              |
| <b>Redeemable non-controlling interests held for sale</b> | <b>7,056,921</b>               |

(\*) Other investments represent various financial products with variable interest rates or principal non-guaranteed purchased by JD Finance from financial institutions, which are referred to as the issuers, such as commercial banks, insurance companies and trust companies. The underlying assets of the financial products mainly include debt securities, equity securities and loan receivables, and the interest generated from the

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financial products depends on the performance of the underlying assets. The issuers of these products generally attempt to maintain a relatively fixed expected interest rate throughout the terms of such structured products. The financial products are used by JD Finance as underlying assets in designing new financial products that it will in turn offer to third-party investors. These redesigned financial products to be resold to third-party investors have relatively lower yield rates such that JD Finance will earn yield differentials.

(\*\*) The intra-group transactions should be eliminated in full as normal. As the Group will continue provide the financial support to JD Finance, therefore, the elimination entries were recorded in discontinued operations/held for sales assets/liabilities.

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(All amounts in thousands, except for share and per share data)

**6. JD Finance reorganization (Continued)**

|                                                                                                                     | For the year ended December 31, |             |                  |
|---------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------|------------------|
|                                                                                                                     | 2015<br>RMB                     | 2016<br>RMB | 2017(***)<br>RMB |
| <b>Net revenues</b>                                                                                                 | 233,125                         | 1,831,698   | 2,392,903        |
| <b>Operating expenses</b>                                                                                           | (1,346,212)                     | (2,724,942) | (2,067,622)      |
| <b>Income/(Loss) from operations of discontinued operations</b>                                                     | (1,113,087)                     | (893,244)   | 325,281          |
| <b>Other expenses</b>                                                                                               | (262,709)                       | (459,079)   | (316,245)        |
| <b>Income/(Loss) from discontinued operations before tax</b>                                                        | (1,375,796)                     | (1,352,323) | 9,036            |
| Income tax expenses                                                                                                 | (384)                           | (13,109)    | (2,121)          |
| <b>Net income/(loss) from discontinued operations, net of tax</b>                                                   | (1,376,180)                     | (1,365,432) | 6,915            |
| Net loss from discontinued operations attributable to non-controlling interests shareholders                        |                                 | (3,743)     | (5,030)          |
| Net income from discontinued operations attributable to mezzanine classified non-controlling interests shareholders |                                 | 444,657     | 281,021          |
| <b>Net loss from discontinued operations attributable to ordinary shareholders</b>                                  | (1,376,180)                     | (1,806,346) | (269,076)        |

  

|                                                                  | For the year ended December 31, |              |                  |
|------------------------------------------------------------------|---------------------------------|--------------|------------------|
|                                                                  | 2015<br>RMB                     | 2016<br>RMB  | 2017(***)<br>RMB |
| Net cash used in discontinued operating activities               | (1,341,346)                     | (1,226,526)  | (2,485,741)      |
| Net cash provided by/(used in) discontinued investing activities | 2,018,461                       | (30,510,335) | (15,772,856)     |
| Net cash provided by discontinued financing activities           | 865,542                         | 32,050,146   | 14,054,620       |

(\*\*\*) Included financial results of discontinued operations from January 1, 2017 to June 30, 2017.

There were no profit sharing payments recognized in the Group's consolidated financial statements after the JD Finance reorganization as JD Finance was in a loss position on a cumulative basis.

According to the JD Finance reorganization arrangements, upon certain redemption events of JD Finance, and on the premise that JD Finance is the first obligator, the Group and Suqian Dongtai Jinrong Investment Management Center, an entity controlled by Mr. Richard Qiangdong Liu, further has the obligation to make up the remaining gap (if any) of the redemption price to the shareholders of JD Finance when all other means are exhausted, and such amount the Group needs to pay will be capped by the proceeds from the sale of the Group's shares of JD Finance if the Group becomes a shareholder of JD Finance or the liquidity payment the Group would receive upon the liquidity events. As the Group and JD Finance are under common control of Mr. Richard Qiangdong Liu, the Group is therefore exempted from recording a guarantee liability in its

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consolidated financial statements. Based on the Group's assessment, the chance to settle the guarantee obligation by the Group is remote as of December 31, 2017.

As disclosed above, the Group's exposure to pay the redemption price is limited to the proceeds from the sales of the Group's shares of JD Finance or the liquidity event payment the Group received upon the certain liquidity events. And the Group's maximum exposure to loss as a result of its involvement with JD Finance relates to net amounts due from JD Finance were RMB9,560,426 and RMB12,076,035 as of December 31, 2016 and 2017, respectively (Note 28).

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**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**7. Investment in equity investees**

**Cost method**

As of December 31, 2016 and 2017, the carrying values of the Group's cost method investments were RMB5,138,973 and RMB9,750,726, respectively. Investments were accounted for under the cost method if the Group had no significant influence over the investee or if the underlying shares the Group invested in were not considered in-substance common stock and had no readily determinable fair value. For the years ended December 31, 2016 and 2017, the Group invested RMB2,210,552 and RMB6,217,682 in multiple private companies accounted for under cost method respectively, which may have operational synergy with the Group's core business. During the year ended December 31, 2017, investment consideration for the top two investees were RMB2,688,954 and RMB1,029,608, respectively.

**Equity method**

As of December 31, 2017, the Group's investments accounted for under the equity method totaled RMB8,800,593 (as of December 31, 2016: RMB9,489,813), which mainly included the investment in Yonghui Superstores Co., Ltd. (Yonghui) amounting to RMB4,245,001, the investment in Bitauto Holdings Limited (Bitauto) amounting to RMB2,128,409, the investment in Dada Nexus Limited (Dada) amounting to RMB139,147, the investment in Tuniu Corporation (Tuniu) amounting to RMB947,500 and investment in Yixin Group Limited (Yixin) amounting to RMB860,992. The Group applies the equity method of accounting to account for its equity investments, in common stock or in-substance common stock, over which it has significant influence but does not own a majority equity interest or otherwise control.

Investment in Yonghui

On August 11, 2016, the Group completed the investment in Yonghui through the subscription of newly issued ordinary shares representing 10% equity interest in Yonghui. Yonghui is a leading hypermarket and supermarket operator in China and is listed on the Shanghai Stock Exchange. Total consideration for the investment in Yonghui was RMB4,234,929 in cash. Investment in Yonghui is accounted for using the equity method as the Group has obtained

significant influence by the right to nominate two board members out of eleven. On May 2, 2017, Yonghui announced to distribute a cash dividend of RMB0.12 per share to its shareholders, and the Group received dividend of RMB114,845 in total which has been recorded as a reduction to the investment in Yonghui.

Investment in Yonghui is accounted for using the equity method with the cost allocated as follows:

|                                                                                                                     | As of<br>August 11,<br>2016<br>RMB | As of<br>December 31,<br>2016<br>RMB | As of<br>December 31,<br>2017<br>RMB |
|---------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| Carrying value of investment in Yonghui                                                                             | 4,234,929                          | 4,234,845                            | 4,245,001                            |
| Proportionate share of Yonghui's net tangible and intangible assets                                                 | 1,869,905                          | 1,877,196                            | 1,946,349                            |
| Excess of carrying value of the investment over proportionate share of Yonghui's net tangible and intangible assets | 2,365,024                          | 2,357,649                            | 2,298,652                            |
| The excess of carrying value has been primarily assigned to:                                                        |                                    |                                      |                                      |
| Goodwill                                                                                                            | 1,270,190                          | 1,270,190                            | 1,270,190                            |
| Amortizable intangible assets (*)                                                                                   | 1,459,779                          | 1,449,946                            | 1,371,283                            |
| Deferred tax liabilities                                                                                            | (364,945)                          | (362,487)                            | (342,821)                            |
|                                                                                                                     | 2,365,024                          | 2,357,649                            | 2,298,652                            |
| Cumulative gains/(losses) in equity interest in Yonghui                                                             |                                    | (84)                                 | 124,917                              |

(\*) Weighted average life of the intangible assets not included in Yonghui's consolidated financial statements was 17 years.

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As of December 31, 2016 and 2017, the market value of the Group's investment in Yonghui was approximately RMB4,699,097 and RMB9,666,167 based on its quoted closing price, respectively.

The Proportionate share of Yonghui's net income recorded in share of results of equity investees in the Consolidated Statements of Operations and Comprehensive Income/(Loss) was a loss of RMB84, and a gain of RMB122,893 for the years ended December 31, 2016 and 2017, respectively. The following table includes the summarized financial information of Yonghui since the date when it was invested by the Company.

|                                                                       | During the period<br>from August 11, 2016<br>to December 31, 2016<br>RMB | For the year<br>ended December 31,<br>2017<br>RMB |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------|
| Revenue                                                               | 6,248,703                                                                | 55,524,229                                        |
| Gross profit                                                          | 1,230,057                                                                | 11,319,620                                        |
| Income from operations                                                | 95,453                                                                   | 2,065,795                                         |
| Net income                                                            | 71,130                                                                   | 1,721,628                                         |
| Net income attributable to shareholder                                | 72,905                                                                   | 1,818,910                                         |
| Percentage of ownership in Yonghui                                    | 10%                                                                      | 10%                                               |
| Proportionate share of Yonghui's net income, before basis adjustments | 7,291                                                                    | 181,891                                           |
| Basis adjustments                                                     | (7,375)                                                                  | (58,998)                                          |
| Proportionate share of Yonghui's net income                           | (84)                                                                     | 122,893                                           |

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(All amounts in thousands, except for share and per share data)

**7. Investment in equity investees (Continued)**Investment in Bitauto

On February 16, 2015, the Group completed its investment in Bitauto through the subscription of newly issued ordinary shares, representing approximately 25% of the outstanding ordinary shares of Bitauto. Bitauto is a leading provider of internet content and marketing services for China's fast-growing automotive industry that is listed on Nasdaq. Total consideration for the initial investment in Bitauto was RMB5,496,188 with a combination of RMB2,450,920 in cash and RMB3,045,268 in the form of future services, including exclusive access to the new and used car channels on the Group's website and mobile apps and additional support from the Group's key platforms for a period of 5 years. On June 17, 2016, the Group additionally acquired Bitauto's newly issued ordinary shares by paying the cash consideration of RMB328,975. After the subsequent investment in June 2016, the Group held approximately 26% of Bitauto's issued and outstanding shares. Investment in Bitauto is accounted for using the equity method with the investment cost allocated as follows:

|                                                                                                                     | As of<br>February 16,<br>2015<br>RMB | As of<br>December 31,<br>2016<br>RMB | As of<br>December 31,<br>2017<br>RMB |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Carrying value of investment in Bitauto (*)                                                                         | 5,496,188                            | 2,386,118                            | 2,128,409                            |
| Proportionate share of Bitauto's net tangible and intangible assets                                                 | 2,119,109                            | 2,492,056                            | 2,228,925                            |
| Excess of carrying value of the investment over proportionate share of Bitauto's net tangible and intangible assets | 3,377,079                            | (105,938)                            | (100,516)                            |
| The excess of carrying value has been primarily assigned to:                                                        |                                      |                                      |                                      |
| Goodwill (*)                                                                                                        | 2,846,260                            |                                      |                                      |
| Amortizable intangible assets (**)                                                                                  | 707,758                              | (105,938)                            | (100,516)                            |
| Deferred tax liabilities                                                                                            | (176,939)                            |                                      |                                      |
|                                                                                                                     | 3,377,079                            | (105,938)                            | (100,516)                            |
| Cumulative losses in equity interest in Bitauto                                                                     |                                      | (3,439,045)                          | (3,696,754)                          |

(\*) In the fourth quarter of 2015 and 2016, the Group conducted an impairment assessment on its investment in Bitauto considering the duration and severity of the decline of Bitauto's stock price after the investment, as well as the financial condition, operating performance and the prospects of Bitauto, and concluded the decline in fair value of the

investment was other-than-temporary. Accordingly, the Group recorded a charge of RMB2,585,641 and RMB672,886 to write down the carrying value of its investment in Bitauto to the fair value, based on quoted closing price of Bitauto's stock as of December 31, 2015 and 2016, respectively.

(\*\*) Weighted average life of the intangible assets not included in Bitauto's consolidated financial statements was 4 years.

As of December 31, 2016 and 2017, the market value of the Group's investment in Bitauto was approximately RMB2,386,118 and RMB3,773,634 based on its quoted closing price, respectively.

#### Investment in Dada

In April 2016, the Group signed series of agreements with Dada, China's largest crowdsourcing delivery platform. The Group obtained a) the newly issued ordinary shares of Dada which represents approximately 81% of the issued and outstanding ordinary shares, or approximately 41% of the equity interests of Dada on a fully diluted basis, b) the newly issued preferred shares of Dada which represents approximately 7% of the equity interest in Dada on a fully diluted basis, and c) A warrant to purchase additional preferred shares of Dada at a pre-determined price for the next 2 years. Total consideration for the above investments and warrant was RMB3,508,200 with a combination of RMB1,298,700 in cash, the Group's future services, including supply chain support for a period of 10 years, traffic and other additional support for a period of 7 years, non-compete obligation in O2O business for a period of 7 years, and the Group's O2O business, JD Daojia. The Group holds two board seats out of five with the founder of Dada holding the casting vote after the transaction.

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With the assistance of an independent appraiser, the Group estimated the fair value of the assets/investments received as follows:

|                                             | As of<br>April 26,<br>2016<br>RMB |
|---------------------------------------------|-----------------------------------|
| Assets/investments received by the Group    |                                   |
| Dada's ordinary shares                      | 2,164,050                         |
| Dada's preferred shares                     | 1,298,700                         |
| Warrant to purchase Dada's preferred shares | 45,450                            |
|                                             | 3,508,200                         |

As the Group disposed a consolidated business (JD Daojia) in 2016, a disposal gain of RMB1,227,760 was recorded in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss), which equals to the difference between the fair value and carrying value of JD Daojia as of the disposal date of April 26, 2016.

The investment in Dada's preferred shares is accounted for under the cost method as the underlying preferred shares were not considered in-substance common stock and had no readily determinable fair value. The warrant is a freestanding financial instrument and was recorded at fair value of RMB45,450 upon initial recognition. On December 28, 2017, the Company exercised the warrant in entirety in cash and purchased additional preferred shares of Dada, at the a pre-determined price with the total consideration of RMB983,820 (US\$150,404). As of December 31, 2017, the carrying amount of preferred shares of Dada totaled RMB2,335,346.

The investment in Dada's ordinary shares is accounted for using the equity method with the investment cost allocated as follows:

|                                                                  | As of<br>April 26,<br>2016<br>RMB | As of<br>December 31,<br>2016<br>RMB | As of<br>December 31,<br>2017<br>RMB |
|------------------------------------------------------------------|-----------------------------------|--------------------------------------|--------------------------------------|
| Carrying value of investment in Dada's ordinary shares           | 2,164,050                         | 1,443,239                            | 139,147                              |
| Proportionate share of Dada's net tangible and intangible assets | 424,140                           | (290,365)                            | (1,579,323)                          |

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|                                                                                                                  |           |           |             |
|------------------------------------------------------------------------------------------------------------------|-----------|-----------|-------------|
| Excess of carrying value of the investment over proportionate share of Dada's net tangible and intangible assets | 1,739,910 | 1,733,604 | 1,718,470   |
| The excess of carrying value has been primarily assigned to:                                                     |           |           |             |
| Goodwill                                                                                                         | 1,605,891 | 1,605,891 | 1,605,891   |
| Amortizable intangible assets (*)                                                                                | 178,692   | 170,284   | 150,105     |
| Deferred tax liabilities                                                                                         | (44,673)  | (42,571)  | (37,526)    |
|                                                                                                                  | 1,739,910 | 1,733,604 | 1,718,470   |
| Cumulative losses in equity interest in Dada                                                                     |           | (720,811) | (2,024,903) |

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(\*) Weighted average life of the intangible assets not included in Dada's consolidated financial statements was 8 years.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****7. Investment in equity investees (Continued)**Investment in Tuniu

In December 2014, the Group acquired 6.5% equity interest in Tuniu with cash consideration of RMB305,930 ( Initial Investment ). Tuniu is a leading online leisure travel company in China that is listed on the Nasdaq. The Group accounted for the Initial Investment as an available-for-sale security.

On May 22, 2015, the Group additionally acquired Tuniu's newly issued ordinary shares for total consideration of RMB2,188,490 with a combination of RMB1,528,275 in cash and RMB660,215 in the form of future services, including granting Tuniu an exclusive right, for a period of 5 years, to operate the leisure travel channels on the Group's website and mobile apps, and Tuniu becomes the Group's preferred partner for hotel and air ticket booking services. After the subsequent investment in May 2015, the Group held approximately 28% of Tuniu's issued and outstanding shares and had one board seat. Hence, the Group adopted equity method of accounting to account for the investment in Tuniu. In accordance with ASC 323, accumulated unrealized gains of RMB14,395 that were previously recorded for fair value change of the Initial Investment were reversed in the second quarter of 2015, and the cost of Initial Investment balance was adjusted as if the equity method of accounting had been applied since the Initial Investment was made and reclassified from investment securities to investment in equity investees in the Consolidated Balance Sheets. In January 2016, Tuniu issued new shares to HNA Tourism Group, a third party investor, for an aggregate price of approximately US\$500,000 and the Group's interest in Tuniu was diluted to approximately 21% as of January 21, 2016. As the issuance price per share was higher than the Group's average carrying value per share, the Group recorded a gain of RMB108,495 to reflect the deemed disposal.

Investment in Tuniu is accounted for using the equity method with the cost allocated as follows:

|                                                                   | As of<br>May 22,<br>2015<br>RMB | As of<br>December<br>31, 2016<br>RMB | As of<br>December 31,<br>2017<br>RMB |
|-------------------------------------------------------------------|---------------------------------|--------------------------------------|--------------------------------------|
| Carrying value of investment in Tuniu (*)                         | 2,494,145                       | 1,198,405                            | 947,500                              |
| Proportionate share of Tuniu's net tangible and intangible assets | 1,014,296                       | 1,006,763                            | 779,525                              |

|                                                                                                                   |           |             |             |
|-------------------------------------------------------------------------------------------------------------------|-----------|-------------|-------------|
| Excess of carrying value of the investment over proportionate share of Tuniu's net tangible and intangible assets | 1,479,849 | 191,642     | 167,975     |
| The excess of carrying value has been primarily assigned to:                                                      |           |             |             |
| Goodwill (*)                                                                                                      | 1,212,149 | 23,899      | 23,899      |
| Amortizable intangible assets (**)                                                                                | 356,933   | 223,657     | 192,101     |
| Deferred tax liabilities                                                                                          | (89,233)  | (55,914)    | (48,025)    |
|                                                                                                                   | 1,479,849 | 191,642     | 167,975     |
| Cumulative losses in equity interest in Tuniu                                                                     |           | (1,295,740) | (1,546,645) |

(\*) In the second quarter of 2016, the Group conducted an impairment assessment on its investment in Tuniu considering the duration and severity of the decline of Tuniu's stock price after the investment, and concluded the decline in fair value of the investment was other-than-temporary. Accordingly, the Group recorded a charge of RMB721,501 to write down the carrying value of its investment in Tuniu to its then fair value of RMB1,454,578, based on quoted closing price of Tuniu as of June 30, 2016.

(\*\*) Weighted average life of the intangible assets not included in Tuniu's financial statements was 7 years.

As of December 31, 2016 and 2017, the market value of the Group's investment in Tuniu was approximately RMB1,579,417 and RMB1,304,082 based on quoted closing price, respectively.

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## Investment in Yixin

In February 2015 and August 2016, the Group invested US\$100,000 and US\$30,000 in cash, respectively, to acquire Yixin's newly issued series A and series B preferred shares. Yixin, a controlled subsidiary of Bitauto, is a leading online automobile retail transaction platform in China. The investment in Yixin was accounted for under the cost method as the underlying shares the Group invested in were not considered in-substance common stock and had no readily determinable fair value.

On November 16, 2017, Yixin successfully completed the global offering and traded on the Main Board of The Stock Exchange of Hong Kong Limited (HKEX). After the offering, the Group held approximately 10.9% of Yixin's issued and outstanding shares and the investment is accounted for using the equity method, as the preferred shares the Group previously invested in were automatically converted into ordinary shares upon listing and the Group has obtained significant influence through the nomination of one non-executive board member out of nine and the significant influence on its controlling shareholder, Bitauto.

Investment in Yixin is accounted for using the equity method with the cost allocated as follows:

|                                                                   | <b>As of November 16,<br/>2017<br/>RMB</b> |
|-------------------------------------------------------------------|--------------------------------------------|
| Carrying value of investment in Yixin                             | 860,992                                    |
| Proportionate share of Yixin's net tangible and intangible assets | 1,703,448                                  |
| Total negative basis difference                                   | (842,456)                                  |

The negative basis difference will be amortized into net income over the remaining useful lives of the underlying assets, which is 3 years. As of December 31, 2017, the market value of the Group's investment in Yixin was approximately RMB3,586,393 based on quoted closing price.

The Group summarizes the condensed financial information of the Group's equity investments as a group below in accordance with Rule 4-08 of Regulation S-X:

|                                      | For the year ended December 31, |             |             |
|--------------------------------------|---------------------------------|-------------|-------------|
|                                      | 2015<br>RMB                     | 2016<br>RMB | 2017<br>RMB |
| Operating data:                      |                                 |             |             |
| Revenue                              | 9,937,684                       | 37,122,299  | 72,206,753  |
| Gross profit                         | 2,935,620                       | 4,829,228   | 19,162,739  |
| Loss from operations                 | (1,592,094)                     | (3,126,138) | (2,200,140) |
| Net loss                             | (1,572,381)                     | (3,369,075) | (2,549,137) |
| Net loss attributable to shareholder | (1,597,903)                     | (3,729,119) | (2,977,210) |

|                           | As of December 31, |             |             |
|---------------------------|--------------------|-------------|-------------|
|                           | 2015<br>RMB        | 2016<br>RMB | 2017<br>RMB |
| Balance sheet data:       |                    |             |             |
| Current assets            | 13,606,870         | 47,136,935  | 78,125,211  |
| Non-current assets        | 6,838,075          | 26,244,217  | 62,806,104  |
| Current liabilities       | 6,518,096          | 27,103,212  | 58,734,790  |
| Non-current liabilities   | 146,008            | 4,559,231   | 16,703,429  |
| Redeemable stock          |                    | 4,795,473   | 5,877,854   |
| Non-controlling interests | 1,714,021          | 4,072,998   | 717,106     |

The Group recorded its interests in Yonghui, Bitauto, Dada, Tuniu and Yixin one quarter in arrears to enable the Group to provide its financial disclosure independent of the reporting schedule of these equity investees.

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Audited financial statements of Bitauto, Tuniu and Dada for the year ended December 31, 2016 and 2017 will be included in separate filing in accordance with Regulation S-X Rule 3-09.

The Group performs impairment assessment of its investments under the cost method and equity method whenever events or changes in circumstances indicate that the carrying value of the investment may not be fully recoverable. Impairment charges in connection with the cost method investments of RMB285,051, RMB341,984 and RMB59,987 were recorded in others, net in the Consolidated Statements of Operations and Comprehensive Income/(Loss) for the years ended December 31, 2015, 2016 and 2017, respectively. Impairment charges in connection with the equity method investments of RMB2,585,641, RMB1,416,801 and nil were recorded in share of results of equity investees in the Consolidated Statements of Operations and Comprehensive Income/(Loss) for the years ended December 31, 2015, 2016 and 2017, respectively.

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**8. Business Combination**

**Transaction with Tencent**

On March 10, 2014, the Group entered into a Strategic Cooperation Agreement ( Agreement ) with Tencent Holdings Limited ( Tencent ), for a period of 5 years from April 1, 2014 to March 31, 2019. Pursuant to the Agreement, the Group has become Tencent's preferred partner in the development of physical goods e-Commerce business in Greater China and such cooperation was referred as Strategic Cooperation . In addition, for a period of 8 years from April 1, 2014 to March 31, 2022, other than the operation of Shanghai Icsen E-Commerce Development Group Limited ( Shanghai Icsen ), a subsidiary of Tencent, Tencent will not engage in any online direct sales or managed marketplace business model in physical goods e-Commerce businesses in Greater China and a few selected international markets, hereinafter referred to as Non-Compete .

On the same date, the Group also entered into a series of agreements with Tencent and its affiliates, pursuant to which, the Group acquired from Tencent: (i) 100% business operation of two online marketplace platforms, Paipai and QQ Wanggou ( Combined Platform Business ); (ii) 9.9% equity interest in Shanghai Icsen ( Investment in Shanghai Icsen ); (iii) a call option ( Call Option ) to acquire the remaining equity interest of Shanghai Icsen, with a price higher of the fair value of the remaining equity interest or RMB800,000 within three years commencing the closing of the Transaction; (iv) certain logistic workforce; and (v) a land use right. The above (i) to (v), Strategic Cooperation and Non-Compete are collectively referred to as Transaction . In April, 2016, the Group exercised the Call Option by paying RMB800,000 to acquire the remaining equity interest in Shanghai Icsen.

As consideration for the Transaction, the Company issued 351,678,637 ordinary shares to Huang River Investment Limited, a wholly-owned subsidiary of Tencent, representing 15% shares on a fully diluted basis under treasury method upon the closing of the Transaction, on March 10, 2014. The total consideration was RMB11,665,015.

The Group made estimates and judgments in determining the fair value of the assets and business acquired with the assistance from an independent valuation firm. The following table summarizes the goodwill and intangible assets recognized as a result of the Transaction:

|                                    | Amount<br>RMB | Amortization<br>Years |
|------------------------------------|---------------|-----------------------|
| Strategic Cooperation Agreement    | 6,075,289     | 5                     |
| Non-compete Agreement              | 1,442,389     | 8                     |
| Logistic workforce                 | 13,900        | 3                     |
| Technology*                        | 108,800       | 5                     |
| Domain names and trademark*        | 33,100        | 10                    |
| Advertising customer relationship* | 80,400        | 7                     |
| Deferred tax liability             | (41,893)      |                       |
| Goodwill*                          | 2,593,420     |                       |

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\* In November 2015, the Group announced its decision to terminate the consumer-to-consumer (C2C) business of Paipai.com by December 31, 2015 with a transitional period of three months. The shut-down of Paipai.com is to combat the marketing and sales of counterfeit products and to protect the interests of consumers and brands. As a result, the Group decided that the goodwill arisen from the acquisition of the Combined Platform Business was fully impaired and an impairment charge of RMB2,593,420 was recorded in the fourth quarter of 2015. Concurrently, the remaining balance of the intangible assets arisen from the acquisition amounted to RMB156,709 as of December 31, 2015 was also determined to be impaired and the related deferred tax liability of RMB27,796 recorded from the acquisition of the Combined Platform Business was reversed as a tax benefit in the fourth quarter of 2015.

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**8. Business Combination (Continued)**

**Transaction with Walmart**

On June 20, 2016, the Group, Wal-Mart Stores, Inc. ( Walmart ), and Yihaodian ( YHD ), a subsidiary of Walmart, entered into a series of agreements to form a strategic alliance to better serve the consumers across China. Pursuant to the series agreements, (a) the Group acquired the YHD marketplace platform assets, including the YHD brand, websites and mobileapps ( YHD marketplace ). Walmart will continue to operate the YHD direct sales business as one of the merchants on the YHD marketplace; (b) In a period of 8 years commencing from June 20, 2016, Walmart agreed not to engage in or invest in any ecommerce direct sale, e-commerce marketplace or online to offline ( O2O ) platform in China (other than Dada), hereinafter referred to as Non-Compete .

As consideration for the acquisition of YHD marketplace and Non-Compete, the Company issued 144,952,250 Class A ordinary shares to Walmart, representing approximately 5% shares on a fully diluted basis under the treasury method upon the closing of the transaction, on June 20, 2016. In accordance with the agreement, Walmart cannot transfer such shares in a 5 years period starting from June 20, 2016.

In addition, the Group and Walmart also entered into Business Cooperation Agreement ( BCA ) in several strategic areas for a period of 5 years commencing from June 20, 2016. Pursuant to BCA, the Group and Walmart agreed to partner in several strategic areas, including: a) Sam's Club China agreed to open a flagship store on JD.com, expanding the availability of Sam's Club's high-quality imported products across China; b) The Group and Walmart agreed to work together to leverage their supply chains to increase the product selection for customers across China, including a broader range of imported products; c) The Group agreed to give the Sam's flagship store preferential traffic entrance.

The acquisition of YHD marketplace is accounted for as a business combination and the results of operations of the YHD marketplace from the acquisition date have been included in the Group's consolidated financial statements. The acquisition of Non-Compete is considered asset acquisitions separate from the acquisition of YHD marketplace. The identifiable intangible assets acquired are amortized on a straight-line basis over the respective useful lives.

The terms of BCA were negotiated separately and are similar to the terms with third parties, which were based on an arm's-length basis, and the fair value of the BCA are not material to the Group as a whole.

The Group has performed the following steps to estimate the fair value of the assets and business acquired with the assistance from an independent valuation firm: 1) estimate the total fair value of 144,952,250 ordinary shares issued to Walmart as the consideration of the transaction using the quoted closing price on June 20, 2016; 2) estimate the stand-alone fair value of the YHD marketplace and Non-Compete; Additionally, in accordance with the relevant accounting guidance, non-transferability relating to lock-up period associated with the shares issued to Walmart for a period of 5 years commencing from June 20, 2016, is factored in estimating the fair value of shares issued to acquire Non-Compete, but is not factored in estimating the fair value of shares issued to acquire YHD marketplace.

**Non-compete Agreement** In a period of 8 years commencing from June 20, 2016, Walmart agreed not to directly or indirectly engage in or invest in any e-commerce direct sale, e-commerce marketplace or online to offline (O2O) platform in China (other than Dada). The fair value of the Non-Compete was determined based on the with and without method, which takes into consideration the cash flow increments between the scenario where the Non-Compete is not in place and the scenario where the Non-Compete is in place for a period of 8 years commencing from June 20, 2016. The most significant assumption inherent in this approach when valuing the Non-Compete was the amount of economic impact to the Group that would occur from competition during the period when Non-Compete agreement is effective. Based on the CAPM, the Group concluded a discount rate of 17%, reflecting market participants required rate of return for the risks of investing in the Non-Compete, was appropriate for discounting the cash flow attributable to the Non-Compete.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****8. Business Combination (Continued)**

The Group made estimates and judgments in determining the fair value of the assets and business acquired with the assistance from an independent valuation firm. The purchase price allocation is as follows:

|                                           | <b>Amount<br/>RMB</b> |                               |
|-------------------------------------------|-----------------------|-------------------------------|
| Fair value of the Company's shares issued | 9,592,258             |                               |
|                                           |                       |                               |
|                                           | <b>Amount<br/>RMB</b> | <b>Amortization<br/>Years</b> |
| Non-compete Agreement                     | 1,019,816             | 8                             |
| YHD marketplace                           |                       |                               |
| Property, plant and equipment, net        | 65,887                |                               |
| Customer relationship                     | 29,896                | 10                            |
| Technology                                | 537,785               | 7                             |
| Domain names and trademark                | 3,099,958             | 20                            |
| Goodwill                                  | 5,755,826             |                               |
| Deferred tax liability                    | (916,910)             |                               |
| Total Purchase price                      | 9,592,258             |                               |

Goodwill arising from this acquisition was attributable to the synergies expected from the combined business which will increase both product selection and overall user experience.

Based on the assessment on financial performance of the acquired YHD marketplace made by the Group, the acquired business is not considered material to the Group. Thus the presentation of the pro-forma financial information with regard to a summary of the results of operations of the Group for the business combination is not required.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****9. Accounts receivable, net**

Accounts receivable, net, consists of the following:

|                                                        | <b>As of December 31,</b> |                     |
|--------------------------------------------------------|---------------------------|---------------------|
|                                                        | <b>2016<br/>RMB</b>       | <b>2017<br/>RMB</b> |
| Online direct sales and online marketplace receivables | 15,636,019                | 14,819,862          |
| Advertising receivables                                | 179,498                   | 572,495             |
| Logistics receivables                                  | 362,483                   | 1,020,771           |
| Accounts receivable                                    | 16,178,000                | 16,413,128          |
| Allowance for doubtful accounts                        | (36,993)                  | (53,981)            |
| Accounts receivable, net                               | 16,141,007                | 16,359,147          |

The movements in the allowance for doubtful accounts were as follows:

|                                  | <b>For the year ended December 31,</b> |                     |                     |
|----------------------------------|----------------------------------------|---------------------|---------------------|
|                                  | <b>2015<br/>RMB</b>                    | <b>2016<br/>RMB</b> | <b>2017<br/>RMB</b> |
| Balance at beginning of the year | (27,108)                               | (38,633)            | (36,993)            |
| Additions                        | (11,525)                               |                     | (16,988)            |
| Reverse                          |                                        | 1,640               |                     |
| Balance at end of the year       | (38,633)                               | (36,993)            | (53,981)            |

The value-added tax receivables due from customers are recorded in online direct sales and online marketplace receivables.

For the account receivables in relation to consumer financing business, as JD Finance performs credit risk assessment services for the individuals and purchases the over-due receivables from the Group at carrying values to absorb the risks and obtain the rewards from such business, no allowance for doubtful accounts in relation to consumer financing receivables were provided.

**10. Inventories, net**

Inventories, net, consist of the following:

|                               | As of December 31, |             |
|-------------------------------|--------------------|-------------|
|                               | 2016<br>RMB        | 2017<br>RMB |
| Products                      | 29,191,782         | 41,840,945  |
| Packing materials and others  | 130,897            | 358,207     |
| Inventories                   | 29,322,679         | 42,199,152  |
| Inventory valuation allowance | (413,254)          | (498,773)   |
| Inventories, net              | 28,909,425         | 41,700,379  |

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****11. Property, equipment and software, net**

Property, equipment and software, net, consist of the following:

|                                   | <b>As of December 31,</b> |             |
|-----------------------------------|---------------------------|-------------|
|                                   | <b>2016</b>               | <b>2017</b> |
|                                   | <b>RMB</b>                | <b>RMB</b>  |
| Electronic equipment              | 3,779,766                 | 7,172,694   |
| Office equipment                  | 265,815                   | 287,282     |
| Vehicles                          | 1,091,556                 | 1,164,376   |
| Logistic and warehouse equipment  | 1,578,653                 | 2,693,969   |
| Leasehold improvement             | 493,765                   | 827,408     |
| Software                          | 175,418                   | 203,848     |
| Building and building improvement | 3,066,343                 | 5,855,920   |
| Total                             | 10,451,316                | 18,205,497  |
| Less: Accumulated depreciation    | (3,427,907)               | (5,631,319) |
| Net book value                    | 7,023,409                 | 12,574,178  |

Depreciation expenses were RMB1,027,312, RMB1,751,086 and RMB2,310,065 for the years ended December 31, 2015, 2016 and 2017, respectively.

**12. Land use rights, net**

Land use rights, net, consist of the following:

|                                | <b>As of December 31,</b> |             |
|--------------------------------|---------------------------|-------------|
|                                | <b>2016</b>               | <b>2017</b> |
|                                | <b>RMB</b>                | <b>RMB</b>  |
| Land use rights                | 2,567,271                 | 7,254,974   |
| Less: Accumulated amortization | (119,760)                 | (204,165)   |
| Net book value                 | 2,447,511                 | 7,050,809   |

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Amortization expenses for land use rights were RMB30,360, RMB48,528 and RMB84,405 for the years ended December 31, 2015, 2016 and 2017, respectively.

As of December 31, 2017, amortization expenses related to the land use rights for future periods are estimated to be as follows:

|                       | For the year ending December 31, |             |             |             |             | 2023 and<br>thereafter |
|-----------------------|----------------------------------|-------------|-------------|-------------|-------------|------------------------|
|                       | 2018<br>RMB                      | 2019<br>RMB | 2020<br>RMB | 2021<br>RMB | 2022<br>RMB | RMB                    |
| Amortization expenses | 146,238                          | 146,238     | 146,238     | 146,238     | 146,238     | 6,319,619              |

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Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**13. Intangible assets, net**

Intangible assets, net, consist of the following:

**As of December 31, 2016**

|                            | <b>Weighted-Average<br/>Amortization<br/>Period<br/>Year</b> | <b>Gross<br/>Carrying<br/>Amount<br/>RMB</b> | <b>Accumulated<br/>Amortization<br/>RMB</b> | <b>Impairment<br/>Amount<br/>RMB</b> | <b>Net<br/>Carrying<br/>Amount<br/>RMB</b> |
|----------------------------|--------------------------------------------------------------|----------------------------------------------|---------------------------------------------|--------------------------------------|--------------------------------------------|
| Strategic Cooperation      | 5.0                                                          | 6,075,289                                    | (3,348,899)                                 |                                      | 2,726,390                                  |
| Non-compete                | 8.0                                                          | 2,467,005                                    | (576,654)                                   |                                      | 1,890,351                                  |
| Technology                 | 6.7                                                          | 682,685                                      | (85,168)                                    | (69,922)                             | 527,595                                    |
| Domain names and trademark | 19.6                                                         | 3,224,832                                    | (112,173)                                   | (27,124)                             | 3,085,535                                  |
| Others                     | 6.2                                                          | 203,634                                      | (63,185)                                    | (59,663)                             | 80,786                                     |
| Total                      | 9.4                                                          | 12,653,445                                   | (4,186,079)                                 | (156,709)                            | 8,310,657                                  |

**As of December 31, 2017**

|                            | <b>Weighted-Average<br/>Amortization<br/>Period<br/>Year</b> | <b>Gross<br/>Carrying<br/>Amount<br/>RMB</b> | <b>Accumulated<br/>Amortization<br/>RMB</b> | <b>Impairment<br/>Amount<br/>RMB</b> | <b>Net<br/>Carrying<br/>Amount<br/>RMB</b> |
|----------------------------|--------------------------------------------------------------|----------------------------------------------|---------------------------------------------|--------------------------------------|--------------------------------------------|
| Strategic Cooperation      | 5.0                                                          | 6,075,289                                    | (4,563,957)                                 |                                      | 1,511,332                                  |
| Non-compete                | 8.0                                                          | 2,467,005                                    | (885,390)                                   |                                      | 1,581,615                                  |
| Technology                 | 6.5                                                          | 754,560                                      | (168,051)                                   | (69,922)                             | 516,587                                    |
| Domain names and trademark | 19.5                                                         | 3,250,789                                    | (278,372)                                   | (27,124)                             | 2,945,293                                  |
| Others                     | 5.6                                                          | 286,108                                      | (88,555)                                    | (59,663)                             | 137,890                                    |
| Total                      | 9.3                                                          | 12,833,751                                   | (5,984,325)                                 | (156,709)                            | 6,692,717                                  |

Amortization expenses for intangible assets were RMB1,449,652, RMB1,620,675 and RMB1,798,246 for the years ended December 31, 2015, 2016 and 2017, respectively. The Group recorded an impairment charge of RMB156,709, nil and nil for the years ended December 31, 2015, 2016 and 2017, respectively. Please refer to Note 8 for details.

As of December 31, 2017, amortization expenses related to the intangible assets for future periods are estimated to be as follows:

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For the year ending December 31,

|                       | 2018<br>RMB | 2019<br>RMB | 2020<br>RMB | 2021<br>RMB | 2022<br>RMB | 2023 and<br>thereafter<br>RMB |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------------------------|
| Amortization expenses | 1,823,387   | 903,045     | 599,535     | 595,022     | 439,736     | 2,331,992                     |

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Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****14. Goodwill**

The changes in the carrying amount of goodwill were as follows:

|                                 | <b>JD Mall<br/>RMB</b> | <b>New Businesses<br/>RMB</b> | <b>Total<br/>RMB</b> |
|---------------------------------|------------------------|-------------------------------|----------------------|
| Balance as of December 31, 2014 |                        |                               |                      |
| Goodwill                        | 14,401                 | 2,593,420                     | 2,607,821            |
| Accumulated impairment loss     |                        |                               |                      |
|                                 | 14,401                 | 2,593,420                     | 2,607,821            |
| Transaction in 2015             |                        |                               |                      |
| Impairment                      |                        | (2,593,420)                   | (2,593,420)          |
| Balance as of December 31, 2015 |                        |                               |                      |
| Goodwill                        | 14,401                 | 2,593,420                     | 2,607,821            |
| Accumulated impairment loss     |                        | (2,593,420)                   | (2,593,420)          |
|                                 | 14,401                 |                               | 14,401               |
| Transaction in 2016             |                        |                               |                      |
| Additions                       | 6,512,618              |                               | 6,512,618            |
| Balance as of December 31, 2016 |                        |                               |                      |
| Goodwill                        | 6,527,019              | 2,593,420                     | 9,120,439            |
| Accumulated impairment loss     |                        | (2,593,420)                   | (2,593,420)          |
|                                 | 6,527,019              |                               | 6,527,019            |
| Transaction in 2017             |                        |                               |                      |
| Additions                       | 123,551                |                               | 123,551              |
| Balance as of December 31, 2017 |                        |                               |                      |
| Goodwill                        | 6,650,570              | 2,593,420                     | 9,243,990            |
| Accumulated impairment loss     |                        | (2,593,420)                   | (2,593,420)          |
|                                 | 6,650,570              |                               | 6,650,570            |

The Group recorded an impairment charge of RMB2,593,420, nil and nil for the years ended December 31, 2015, 2016 and 2017, respectively. Please refer to Note 8 for details.

**15. Short-term borrowings**

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Short-term borrowings as of December 31, 2016 and 2017 amounted to RMB1,878,286 and RMB200,000, respectively, which consisted of borrowings from financial institutions. All of these borrowings were repayable within one year, and secured by account receivables that approximate to the borrowing amount. The weighted average interest rate for the outstanding borrowings as of December 31, 2016 and 2017 was approximately 5.45% and 7.00%, respectively.

### 16. Accounts payable

Accounts payable consists of the following:

|                                     | As of December 31, |             |
|-------------------------------------|--------------------|-------------|
|                                     | 2016<br>RMB        | 2017<br>RMB |
| Vendor payable                      | 38,216,484         | 62,548,717  |
| Shipping charges payable and others | 7,819,400          | 11,788,991  |
| Total                               | 46,035,884         | 74,337,708  |

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****17. Accrued expenses and other current liabilities**

Accrued expenses and other current liabilities consist of the following:

|                                                              | <b>As of December 31,</b> |                     |
|--------------------------------------------------------------|---------------------------|---------------------|
|                                                              | <b>2016<br/>RMB</b>       | <b>2017<br/>RMB</b> |
| Salary and welfare payables                                  | 1,995,315                 | 3,131,752           |
| Deposits                                                     | 6,816,340                 | 9,787,387           |
| Payable related to employees' exercise of share-based awards | 74,119                    | 152,177             |
| Rental fee payables                                          | 250,154                   | 400,632             |
| Professional fee accruals                                    | 62,181                    | 59,802              |
| Others                                                       | 1,314,481                 | 1,586,090           |
| <b>Total</b>                                                 | <b>10,512,590</b>         | <b>15,117,840</b>   |

**18. Unsecured senior notes**

In April 2016, the Company issued unsecured senior notes with two maturity dates for an aggregate principal amount of US\$1,000,000. Listed on the Singapore Stock Exchange, these notes are both fixed rate notes and senior unsecured obligations, with interest payable semi-annually in arrears on and of each year, beginning on October 29, 2016.

The following table provides a summary of the Company's unsecured senior notes as of December 31, 2017:

|                                                          | <b>Amounts<br/>RMB</b> | <b>Effective<br/>interest rate</b> |
|----------------------------------------------------------|------------------------|------------------------------------|
| US\$500,000 3.125% notes due 2021                        | 3,242,565              | 3.37%                              |
| US\$500,000 3.875% notes due 2026                        | 3,204,792              | 4.15%                              |
| Carrying value                                           | 6,447,357              |                                    |
| Unamortized discount and debt issuance costs             | 86,843                 |                                    |
| <b>Total principal amounts of unsecured senior notes</b> | <b>6,534,200</b>       |                                    |

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The unsecured senior notes were issued at a discount amounting to RMB79,289. The debt issuance costs of RMB35,727 were presented as a direct deduction from the principal amount of the unsecured senior notes on the Consolidated Balance Sheets. The effective interest rates for the unsecured senior notes include the interest charged on the notes as well as amortization of the debt discounts and debt issuance costs.

The unsecured senior notes contain covenants including, among others, limitation on liens, consolidation, merger and sale all or substantially all of the Company's assets. The Company is in compliance with all covenants. The notes will rank senior in right of payment to all of the Company's existing and future obligations expressly subordinated in right of payment to the notes and rank at least equal in right of payment with all of the Company's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law).

The proceeds from issuance of the unsecured senior notes were used for general corporate purposes.

As of December 31, 2017, the principal of the unsecured senior notes of RMB3,267,100 and RMB3,267,100 will be due in 2021 and 2026, respectively.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****19. Interest income and interest expense**

Interest income and interest expense consist of the following:

|                                                                                      | 2015<br>RMB     | For the year ended December 31,<br>2016<br>RMB | 2017<br>RMB      |
|--------------------------------------------------------------------------------------|-----------------|------------------------------------------------|------------------|
| <b>Interest income:</b>                                                              |                 |                                                |                  |
| Interest income in relation to nonrecourse securitization debt charged to JD Finance | 26,024          | 371,579                                        | 702,147          |
| Interest income in relation to loans provided to JD Finance                          | 85,699          | 161,601                                        | 569,395          |
| Interest income in relation to bank deposits, wealth management products and others  | 561,283         | 693,672                                        | 1,258,948        |
| <b>Total</b>                                                                         | <b>673,006</b>  | <b>1,226,852</b>                               | <b>2,530,490</b> |
| <b>Interest expense:</b>                                                             |                 |                                                |                  |
| Interest expense in relation to nonrecourse securitization debt                      | (26,024)        | (371,579)                                      | (702,147)        |
| Others                                                                               | (46,571)        | (246,988)                                      | (261,595)        |
| <b>Total</b>                                                                         | <b>(72,595)</b> | <b>(618,567)</b>                               | <b>(963,742)</b> |

**20. Others, net**

Others, net, consist of the following:

|                                             | 2015<br>RMB      | For the year ended December 31,<br>2016<br>RMB | 2017<br>RMB      |
|---------------------------------------------|------------------|------------------------------------------------|------------------|
| Foreign exchange gains/(losses), net        | (56,992)         | (143,125)                                      | 213,482          |
| Government financial incentives             | 387,774          | 721,564                                        | 843,447          |
| Impairment of investments                   | (611,108)        | (542,946)                                      | (139,823)        |
| Gain from business and investment disposals | 1,507            | 1,232,853                                      | 74,965           |
| Others                                      | 133,012          | 275,030                                        | 324,337          |
| <b>Total</b>                                | <b>(145,807)</b> | <b>1,543,376</b>                               | <b>1,316,408</b> |

Government financial incentives represent rewards provided by the relevant PRC municipal government authorities to the Group for business achievements made by the Group. As there is no further obligation for the Group to perform,

government financial incentives are recognized as other income when received. The amounts of such government financial incentives are determined solely at the discretion of the relevant government authorities and there is no assurance that the Group will continue to receive these government financial incentives in the future.

## 21. Taxation

### a) *Value added tax*

The Group is subject to statutory VAT rate of 13% prior to July 1, 2017 and 11% since July 1, 2017 for revenues from sales of audio, video products and books, and 17% for sales of other products, respectively, in the PRC. The Group is exempted from VAT for revenues from sales of books from January 1, 2014 to December 31, 2017.

The Group is subject to VAT at the rate of 6% and 11% for the revenues from logistics services and 6% for the revenues from online advertising and other services.

The Group is also subject to cultural undertaking development fees at the rate of 3% on revenues from online advertising services in the PRC.

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**JD.com, Inc.**

**Notes to the Consolidated Financial Statements**

**(All amounts in thousands, except for share and per share data)**

**21. Taxation (Continued)**

**b) *Income tax***

*Cayman Islands*

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

*British Virgin Islands*

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

*Indonesia*

Under the current laws of The Republic of Indonesia, the Group's subsidiaries in Indonesia are subject to 25% income tax on its taxable income generated from operations in Indonesia.

*Hong Kong*

Under the current Hong Kong Inland Revenue Ordinance, the Group's subsidiaries in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

*China*

On March 16, 2007, the National People's Congress of PRC enacted a new Corporate Income Tax Law ( new CIT law ), under which Foreign Investment Enterprises ( FIEs ) and domestic companies would be subject to corporate income tax at a uniform rate of 25%. The new CIT law became effective on January 1, 2008. Under the new CIT law, preferential tax treatments will continue to be granted to entities which conduct businesses in certain encouraged sectors and to entities otherwise classified as high and new technology enterprises .

Beijing Shangke has been entitled to an exemption from income tax for first two years and 50% reduction for the next three years from its first profitable year as a software enterprise . It has also been qualified as high and new technology enterprise and enjoys a preferential income tax rate of 15% from 2013 to 2018. The privileges cannot be applied simultaneously. Beijing Shangke applied the privilege of software enterprise and was exempted from income tax in 2016 and 2017.

Chongqing Haijia and Chengdu Century have been recognized as encouraged industries in the Western Regions of China and enjoyed a preferential income tax rate of 15% from 2015 to 2017.

The Group's other PRC subsidiaries, consolidated VIEs and VIEs' subsidiaries are subject to the statutory income tax rate of 25%.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****21. Taxation (Continued)****b) Income tax (Continued)***Withholding tax on undistributed dividends*

The new CIT Law also provides that an enterprise established under the laws of a foreign country or region but whose de facto management body is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the de facto management body as the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, property, etc., of a non-PRC company is located. Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC should be considered a resident enterprise for PRC tax purposes.

The new CIT law also imposes a withholding income tax of 10% on dividends distributed by an FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The Company did not record any dividend withholding tax, as it has no retained earnings for any of the periods presented.

The components of income/(loss) before tax are as follows:

|                                     | For the year ended December 31, |             |             |
|-------------------------------------|---------------------------------|-------------|-------------|
|                                     | 2015<br>RMB                     | 2016<br>RMB | 2017<br>RMB |
| Income/(loss) before tax            |                                 |             |             |
| Income/(loss) from China operations | (3,329,238)                     | 1,730,549   | 3,681,735   |
| Loss from non-China operations      | (4,426,734)                     | (3,612,450) | (3,560,775) |
| Total income/(loss) before tax      | (7,755,972)                     | (1,881,901) | 120,960     |

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|                                                                        |          |           |           |
|------------------------------------------------------------------------|----------|-----------|-----------|
| Income tax benefits/(expenses) applicable to China operations          |          |           |           |
| Current income tax expenses                                            | (27,938) | (201,173) | (360,603) |
| Deferred tax benefits                                                  | 42,584   | 34,782    | 221,010   |
| Subtotal income tax benefits/(expenses) applicable to China operations | 14,646   | (166,391) | (139,593) |
| Total income tax benefits/(expenses)                                   | 14,646   | (166,391) | (139,593) |

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Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements**

(All amounts in thousands, except for share and per share data)

**21. Taxation (Continued)****b) *Income tax (Continued)***

Reconciliation of difference between PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2015, 2016 and 2017 is as follows:

|                                                   | 2015   | For the year ended December 31,<br>2016 | 2017    |
|---------------------------------------------------|--------|-----------------------------------------|---------|
| Statutory income tax rate                         | 25.0%  | 25.0%                                   | 25.0%   |
| Tax effect of preferential tax treatments         | 1.0%   | 45.3%                                   | -942.7% |
| Tax effect of tax-exempt entities                 | -13.5% | -36.1%                                  | 588.6%  |
| Effect on tax rates in different tax jurisdiction | -0.3%  | -3.6%                                   | 30.5%   |
| Tax effect of non-deductible expenses             | -10.8% | -28.1%                                  | 536.0%  |
| Tax effect of non-taxable income                  | 0.2%   | 0.1%                                    | -14.0%  |
| Changes in valuation allowance                    | -0.9%  | -11.4%                                  | -120.8% |
| Expiration of loss carry forwards                 | -0.5%  | 0.0%                                    | 12.8%   |
| Effective tax rates                               | 0.2%   | -8.8%                                   | 115.4%  |

The following table set forth the effect of tax holiday:

|                                                     | 2015   | For the year ended December 31,<br>2016 | 2017      |
|-----------------------------------------------------|--------|-----------------------------------------|-----------|
| Tax holiday effect                                  | 80,892 | 852,776                                 | 1,140,251 |
| Effect of tax holiday on basic net loss per share   | 0.03   | 0.30                                    | 0.40      |
| Effect of tax holiday on diluted net loss per share | 0.03   | 0.30                                    | 0.39      |

**c) *Deferred tax assets and deferred tax liabilities***

As of December 31,

|                                                      | 2016<br>RMB | 2017<br>RMB |
|------------------------------------------------------|-------------|-------------|
| Deferred tax assets                                  |             |             |
| - Allowance for doubtful accounts                    | 54,116      | 52,117      |
| - Deferred revenues                                  | 186,291     | 299,723     |
| - Net operating loss carry forwards                  | 1,386,273   | 1,286,980   |
| Less: valuation allowance                            | (1,626,680) | (1,480,570) |
| Net deferred tax assets                              |             | 158,250     |
| Deferred tax liabilities                             |             |             |
| - Intangible assets arisen from business combination | 907,356     | 882,248     |
| Total deferred tax liabilities                       | 907,356     | 882,248     |

As of December 31, 2017, the Group had net operating loss carry forwards of approximately RMB5,159,379 which mainly arose from the subsidiaries, consolidated VIEs and VIEs subsidiaries established in the PRC. The loss carry forwards from PRC entities will expire during the period from 2018 to 2022.

A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's entities operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

The Group has incurred net accumulated operating losses for income tax purposes since its inception. The Group believes that it is more likely than not that these net accumulated operating losses (except for the net operating loss generated by certain entities in 2017) and other deferred tax assets will not be utilized in the future based on its estimate of the operation performance of these PRC entities. The Group has provided full valuation allowances for the deferred tax assets as of December 31, 2015 and 2016, and RMB1,480,570 in deferred tax assets were offset by a valuation allowance as of December 31, 2017.

Table of Contents**JD.com, Inc.****Notes to the Consolidated Financial Statements****(All amounts in thousands, except for share and per share data)****21. Taxation (Continued)****c) *Deferred tax assets and deferred tax liabilities (Continued)****Movement of valuation allowance*

|                                    | <b>As of December 31,</b> |             |             |
|------------------------------------|---------------------------|-------------|-------------|
|                                    | <b>2015</b>               | <b>2016</b> | <b>2017</b> |
|                                    | <b>RMB</b>                | <b>RMB</b>  | <b>RMB</b>  |
| Balance at beginning of the period | 931,458                   | 1,299,200   | 1,626,680   |
| Additions                          | 1,148,265                 | 1,324,793   | 807,558     |
| Reversals                          | (780,523)                 | (997,313)   | (953,668)   |
| Balance at end of the period       | 1,299,200                 | 1,626,680   | 1,480,570   |

**22. Redeemable non-controlling interests held for sale**

In January 2016, JD Finance, its founding shareholders and certain investors entered into a share subscription and purchase agreement (the "SPA") and certain co-investment agreements to issue ordinary shares with preferential rights to certain investors mainly including Sequoia Capital China, China Harvest Investments and China Taiping Insurance, etc. (collectively, the "Investors") for RMB6,650,000. JD Finance, as a privately owned company registered in China, is not allowed to issue legal form preferred shares or a separate class of ordinary shares under China regulations. Therefore, the shares issued by JD Finance to the Investors are, in legal form, ordinary shares. However, due to the preferential rights as specified in the SPA, these shares are considered in substance a separate class of shares other than the ordinary shares held by the founding shareholders. Here and then after, they are referred to as JD Finance Preferred Shares. The issuance was closed in March, 2016. After the issuance of the JD Finance Preferred Shares, the Group still held approximately 86% equity interests in JD Finance on a fully-diluted, post-investment basis.

The JD Preferred Shares were entitled to certain preferences with respect to redemption and preemption. The Group determined that the preferred shares should be classified as mezzanine equity since they are contingently redeemable within 60 months after the closing of the issuance by the holders in the event that (i) a qualified initial public offering ("Qualified IPO") has not occurred, or (ii) any significant noncompliance with laws, cancellation of significant business license, which causes a substantial obstacle to the Qualified IPO, or (iii) a change in control in JD Finance. These matters are not certain to occur, and they are not solely within the control of JD Finance.

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The Group accreted the JD Finance Preferred Shares to their redemption value, which is purchase price plus 8% compound interest per year over the period since issuance to the redemption date. The Group recorded net income attributable to mezzanine classified non-controlling interests shareholders of nil, RMB444,657 and RMB281,021 for the years ended December 31, 2015, 2016 and 2017, respectively. As JD Finance was deconsolidated from the Group since June 30, 2017 as a result of the reorganization of JD Finance, the redeemable non-controlling interests was deconsolidated from the Group's Consolidated Balance Sheets since June 30, 2017, refer to Note 6 for details.

### 23. Ordinary shares

Upon inception, 1 ordinary share was issued at a par value of US\$0.00002 per share.

In March 2014, the Company issued 351,678,637 ordinary shares to Huang River Investment Limited, a wholly owned subsidiary of Tencent, in connection with Tencent Transaction (Note 8). Additionally, upon the initial public offering in May 2014, the Company issued 166,120,400 Class A ordinary shares. Concurrently, the Company issued 139,493,960 Class A ordinary shares in a private placement to Huang River Investment Limited.

In June 2016, the Company issued 144,952,250 Class A ordinary shares to Newheight Holdings Ltd., a wholly owned subsidiary of Walmart, in connection with Walmart Transaction (Note 8).

The ordinary shares reserved for future exercise of the RSUs and share options were 130,816,834 and 149,369,486 as of December 31, 2016 and 2017, respectively.

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**(All amounts in thousands, except for share and per share data)**

**24. Share repurchase program**

In September 2015, the Company's Board of Directors authorized a share repurchase program under which the Company may repurchase up to US\$1,000,000 worth of its ADSs over the following 24 months. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management. The Company had no activity related to share repurchase program during the year ended December 31, 2015.

During the year ended December 31, 2016, the Company had repurchased 31,065,784 ADSs for US\$800,000 on the open market, at a weighted average price of US\$25.75 per ADS. The Company accounts for repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

Additionally, in order to lower the average cost of acquiring shares in the ongoing share repurchase program, the Company entered into structured repurchase agreements involving the use of capped call options for the purchase of shares. The Company paid a fixed sum of cash upon execution of the agreements. Upon expiration of the agreements, if the closing market price of the Company's common stock is at or above the pre-determined price (the "Strike Price"), the Company will have its initial investment returned with a premium in either cash or shares at the Company's election. If the closing market price is below the Strike Price, the Company will receive the number of shares specified in the agreements. As the outcome of these arrangements is based entirely on the Company's stock price and does not require the Company to deliver either shares or cash, other than the initial investment, the entire transaction is recorded in equity. During the year ended December 31, 2016, the aggregate price that the Company paid to enter into these agreements was US\$300,000. For those agreements that settled during the year ended December 31, 2016 and December 31, 2017, the Company received approximately US\$216,220 (RMB1,463,218) and US\$107,239 (RMB737,501) of cash respectively.

No repurchase activity was incurred in 2017.

**25. Other comprehensive income/(loss)**

Changes in the composition of accumulated other comprehensive income/(loss) for the years ended December 31, 2015, 2016 and 2017 are as follows:

**Total**

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|                                   | Foreign currency<br>translation<br>adjustments | Net unrealized<br>gains/(losses) on<br>available-for-sale<br>securities |           |
|-----------------------------------|------------------------------------------------|-------------------------------------------------------------------------|-----------|
|                                   | RMB                                            | RMB                                                                     | RMB       |
| Balances as of December 31, 2014  | (413,452)                                      | 37,327                                                                  | (376,125) |
| Other comprehensive income/(loss) | 953,573                                        | (22,622)                                                                | 930,951   |
| Balances as of December 31, 2015  | 540,121                                        | 14,705                                                                  | 554,826   |
| Other comprehensive income        | 943,616                                        | 44,951                                                                  | 988,567   |
| Balances as of December 31, 2016  | 1,483,737                                      | 59,656                                                                  | 1,543,393 |
| Other comprehensive income/(loss) | (822,052)                                      | 1,120,740                                                               | 298,688   |
| Balances as of December 31, 2017  | 661,685                                        | 1,180,396                                                               | 1,842,081 |

Amounts included in accumulated other comprehensive loss are recorded net of their related income tax effects.

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**26. Share-based Compensation**

For the years ended December 31, 2015, 2016 and 2017, total share-based compensation expenses recognized were RMB1,076,286, RMB2,061,432 and RMB2,780,062, respectively.

**Share incentive plan**

The Company granted share-based awards to eligible employees and non-employees pursuant to the 2008, 2009, 2010, 2011 stock incentive plans and 2011 special stock incentive plan (collectively, the Plans), which govern the terms of the awards. On December 20, 2013, the Company adopted a 2013 Share Incentive Plan (2013 Plan), which was approved by the Board of Directors of the Company, to replace the Plans. The awards granted and outstanding under the Plans will survive and remain effective and binding under the 2013 Plan, subject to certain amendments to the original award agreements. The adoption of 2013 Plan did not result in any significant incremental share-based compensation expenses. The 2013 Plan was replaced by a share incentive plan entitled Share Incentive Plan containing substantially the same terms as the 2013 Plan on November 13, 2014.

As of December 31, 2017, the Group had reserved 112,408,197 ordinary shares available to be granted as share-based awards under the Share Incentive Plan.

**(1) Employee and non-employee awards**

The RSUs and share options are generally scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of the Plans, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years. Starting from the year ended December 31, 2016, certain awards had multiple tranches with tiered vesting commencement dates from 2016 to 2025, and each of the tranches is subject to a six-year vesting schedule.

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Upon JD Finance reorganization, the employees' status of JD Finance changed from the employee of the Company's subsidiary to non-employee of the Company. Share-based awards granted by the Company to employees of JD Finance and share-based awards granted by JD Finance to employees of the Company are insignificant for the all years presented.

### *RSUs*

#### *a) Service-based RSUs*

A summary of activities of the service-based RSUs for the years ended December 31, 2015, 2016 and 2017 is presented below:

|                               | Number of RSUs | Weighted-Average<br>Grant-Date Fair Value |
|-------------------------------|----------------|-------------------------------------------|
| Unvested at January 1, 2015   | 32,118,491     | 5.80                                      |
| Granted                       | 18,595,642     | 14.35                                     |
| Vested                        | (7,368,335)    | 5.05                                      |
| Forfeited                     | (3,934,276)    | 9.73                                      |
| Unvested at December 31, 2015 | 39,411,522     | 9.58                                      |
| Granted                       | 59,254,734     | 12.82                                     |
| Vested                        | (8,692,792)    | 7.98                                      |
| Forfeited                     | (7,125,648)    | 10.66                                     |
| Unvested at December 31, 2016 | 82,847,816     | 11.97                                     |
| Granted                       | 41,450,212     | 16.27                                     |
| Vested                        | (12,005,700)   | 10.14                                     |
| Forfeited                     | (6,246,436)    | 13.42                                     |
| Unvested at December 31, 2017 | 106,045,892    | 13.77                                     |

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**26. Share-based Compensation (Continued)**

**(1) Employee and non-employee awards (Continued)**

As of December 31, 2016 and 2017, 1,052,398 and 5,719,884 outstanding RSUs were held by non-employees including employees of JD Finance, respectively.

For the years ended December 31, 2015, 2016 and 2017, total share-based compensation expenses recognized by the Group for the service-based RSUs granted were RMB714,047, RMB1,613,204 and RMB2,462,881, respectively.

As of December 31, 2017, there were RMB5,840,090 of unrecognized share-based compensation expenses related to the service-based RSUs granted. The expenses are expected to be recognized over a weighted-average period of 5.8 years.

The total fair value and intrinsic value of RSUs vested was US\$116,799, US\$111,956 and US\$213,155 during the years ended December 31, 2015, 2016 and 2017, respectively.

*b) Performance-based RSUs*

A summary of activities of the performance-based RSUs for the years ended December 31, 2015, 2016 and 2017 is presented below:

|                               | <b>Number of RSUs</b> | <b>Weighted-Average<br/>Grant-Date Fair Value</b> |
|-------------------------------|-----------------------|---------------------------------------------------|
| Unvested at January 1, 2015   | 1,466,658             | 6.33                                              |
| Granted                       |                       |                                                   |
| Vested                        | (188,936)             | 6.33                                              |
| Forfeited                     | (401,358)             | 6.33                                              |
| Unvested at December 31, 2015 | 876,364               | 6.33                                              |

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|                               |           |      |
|-------------------------------|-----------|------|
| Granted                       |           |      |
| Vested                        | (118,540) | 6.33 |
| Forfeited                     | (447,822) | 6.33 |
| Unvested at December 31, 2016 | 310,002   | 6.33 |
| Granted                       |           |      |
| Vested                        | (96,516)  | 6.33 |
| Forfeited                     |           |      |
| Unvested at December 31, 2017 | 213,486   | 6.33 |

For the years ended December 31, 2015, 2016 and 2017, total share-based compensation expenses recognized by the Group for the performance-based RSUs granted were RMB4,630, RMB4,334 and RMB1,157, respectively.

As of December 31, 2017, there were RMB1,095 of unrecognized share-based compensation expenses related to the performance-based RSUs granted. The expenses are expected to be recognized over a weighted-average period of 1.1 years.

The total fair value and intrinsic value of RSUs vested was US\$2,347, US\$1,524 and US\$1,371 during the years ended December 31, 2015, 2016 and 2017, respectively.

## *Share options*

A summary of activities of the service-based share options for the years ended December 31, 2015, 2016 and 2017 is presented below:

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## 26. Share-based Compensation (Continued)

(1) **Employee and non-employee awards (Continued)**

| Share options | Number of share options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---------------|-------------------------|---------------------------------|---------------------------------------------|---------------------------|
|---------------|-------------------------|---------------------------------|---------------------------------------------|---------------------------|